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PRESENTS

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MAY 23RD, 2013

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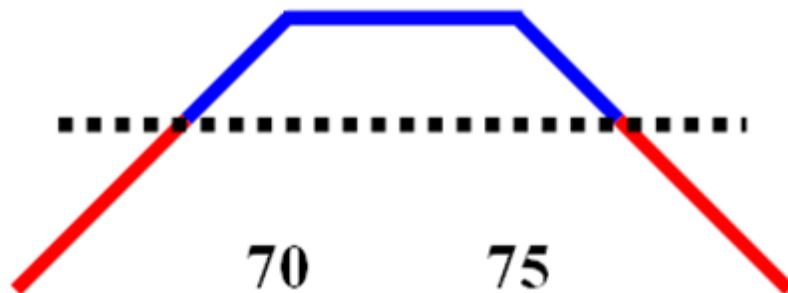
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Introduction:

- Have to be fully aware of the consequences of positions before you trade anything.
- 30 Second Review of Strangles.
- 20 Minute Summary Trading Empress: Expert at Selling Short, Naked Strangles.
- **Warning:** What Karen does, is not for everyone “Walking Time Bombs”.
- Alternatives to add proficiency offered.
- Cool concept from Tony Saliba (Featured in Jack Schwager’s “Market Wizards”).
- Special Offer: For First 248 New Colleagues Before Friday at Midnight.
- Links to the two original Tom Sosnoff Interviews with Karen “Super Trader” (1:16:32).

Quick Review Lesson: Short Strangle

Short Strangle



Short 70/75 Strangle

Short 70s and Short 75s

Short 70 Put / Short 75 Call ($-70p / -75c$)

Short “Guts” Strangle

Short 70 Call / Short 75 Put ($-70c / -75p$)

An option position composed of calls and puts, usually both out-of-the-money (OTM) at two different strikes. The options are on the same stock, futures or index and of the same expiration, and both short with the quantity of calls equal to the quantity of puts (with the exception of a ratioed strangle).

For example, a short 70/75 strangle is short 1*70 put and short 1*75 call. A short strangle performs well during a tight trading range, decreased implied volatility or both.

Summary of Video 1: Karen's Strategy

- Karen initiates Short Strangles with 56 days (8 weeks) to go until expiry.
- She lets the options go worthless or covers them with 21 to 28 days left to go.
- Treats Put and Call distances differently.
- Puts shorted have 5%ProbITM 5% (probability of going ITM).
- Calls shorted have 10%ProbITM.
- Adjustments made if either side call or put reaches 30%ProbITM.
- Sets Bollinger Bands at 2 Standard Deviations.
- Adjustments costs offset by selling more new options with same initiating criteria.

Summary of Video 1 (cont.): Karen's Background

- Fulltime job for 20 years as CFO for small Brick and Mining business.
- Traded at lunch time and monitored her account before and after work.
- Has multiple degrees.
- Started trading in 2002 with \$10,000.
- Had \$100,000 with an advisor at Merrill.
- Took “a PhD Seminar” for \$22,000 that took a year and a half.
- More Failures than Success.
- Learned from Failures.
- Karen Heard: “No one is ever going to watch your money as well as you are...”

Summary of Video 1 (cont.): Karenisms:

- Perseverance -- most people getting into this think it's going to be quick and easy.
- It's not quick and easy. It's difficult. It takes time.
- You have to study it. It's like learning a craft.
- You have to know the ins and outs.
- You have to practice, practice, practice.
- Paper trade.
- Do whatever you have to do.
- Every time something goes wrong, analyze it:
- Why? What did I do wrong? What can I do better next time?

Summary of Video 1 (cont.): Series of Fortunate Events

- In 2007 Karen took her \$100,000 back from Merrill guy.
- Made 50% on her money one year.
- Friends and family asked her to manage their money raising \$600,000.
- Made \$41,000,000 In the next 3 years she as a customer.
- Raised another \$40,000,000.
- Made money trading options in 2008 and 2009 even though very volatile.

Sosnoff: “You are a bigger man than me...how did you do it?”

Summary of Video 1 (cont.): What Karen Stopped / Started:

Stopped:

- Trading Stocks.
- Guessing game -- Up or Down?
- Playing Earning Season Game.

Started:

- Shorting naked premium -- collecting the money.
- Strategies in place to never give money back.
- Assembled Group of 6 consisting of Lawyers and CPAs -- Almost always agree.
- Management style: rarely, rarely lose any money.”
- Flash Crash: “Very nerve racking -- Practiced Spanish” anticipating moving to Mexico.

O'Hare Spread

Summary of Video 1 (cont.): Karen's Process

- Only one 5% to 10% draw-down since inception.
- Did not always have the confidence.
- Every day after work; applied one hour of just concentrated study night after night.
- Dedicated to study and practice and learn craft for a great payoff down the road.
- Learned over time to be patient and work on the emotional process.

Sosnoff: "Karen is proof that anyone can do this."

Summary of Video 1 (cont.): Karen Concludes

- Greed and fear are very strong emotional activators -- makes you do stupid things.
- Need to Build Confidence for Times of Trouble.
- Look at what dealing with – When market is falling, Ask: ‘How can I manage this?’
- See it as ‘OK, the market is falling -- how can I take advantage of this?’
- Step back and look at the big picture.
- Karen: “You can do this – it just takes patience, diligence and a lot of effort.”
- Assembled Team of 5 traders and a “number cruncher”.
- Manage \$160M including about \$60M in profits.
- BTW: The Merrill Lynch Adviser works for Karen now.

Summary of Video 2: Karen Reiterates

- Profits up to \$105M
- 2 Funds -- Managing \$190M.
- Still keeps things super simple:
 - Where to get in.
 - Where to get out.
 - Allocation size to each trade.
 - When to stop trading.
- From legging Iron Condors in 3 stocks to Naked Strangle Shorting in the 3 indexes.
- When She Grew in Size, Switched from SPY, QQQ and IWH to SPX, NDX and RUT.
- Tax Advantage of 1256 Contracts for Max Tax of 28%.

Summary of Video 2: (cont.) Specifics

- Sell Puts 5%ProbITM & Calls 10%ProbITM.
- Withstand 2-Standard Deviation Move
- Trick ourselves / pretend market drops 100.
- Then choose put 12% lower.
- Unbalanced with regard to # of contracts.
- Balance in terms of effect on Net Liq.
- 50% to 70% of capital at work.
- Use a mental stop of 30%ProbITM.
- Recoup equal premium when adjusting.
- Trades with protective bias (lota).
- Flash Crash -- Covered and gave up the opportunity to profit next few months.

SPX S&P500INDEX 49.104 10/16/12 1454.92 +14.79

UNDERLYING

Last1454.92

Net Chng+14.79

Volume0

Open1440.31

High1455.51

Low1440.31

OPTION CHAIN

Spread: SingleLayout: Mark, Probability ITM, Theta, Delta, Impl Vol

CALLS

Strikes: 150

PUTS

Mark	Pro	Theta	Delta	Imp	Bid	Ask	Exp	Mark	Pro	Theta	Delta	Imp
DEC 12	(65)	100										
246...	95.8...	-00	96	24.4	245.20	247.50	DEC	1405	14.60	15.70	16.100	27.4
241...	95.6...	-01	96	24.1	240.30	242.60	DEC	1385	15.50	16.70	16.100	27.4
236...	95.4...	-01	96	23.9	235.40	237.70	DEC	1390	16.60	17.60	17.200	28.9
231...	95.0...	-01	96	23.8	230.60	232.90	DEC	1395	17.50	18.70	18.100	30.3
226...	94.8...	-02	95	23.5	225.70	228.00	DEC	1400	18.60	19.80	19.200	31.9
221...	94.4...	-02	95	23.2	220.80	223.10	DEC	1405	19.60	21.00	20.400	33.5
216...	94.0...	-02	95	22.9	215.90	218.20	DEC	1410	21.00	22.30	21.650	35.2
211...	93.6...	-02	95	22.6	211.00	213.30	DEC	1415	22.40	23.60	23.000	37.0
206...	93.2...	-02	95	22.3	206.10	208.40	DEC	1420	23.80	25.00	24.450	38.9
201...	92.8...	-02	95	22.0	201.20	203.50	DEC	1425	25.10	26.60	26.000	40.8
196...	92.4...	-02	95	21.7	196.30	198.60	DEC	1430	26.90	28.20	27.550	42.8
191...	92.0...	-02	95	21.4	191.40	193.70	DEC	1435	28.90	30.00	29.300	44.9
186...	91.6...	-02	95	21.1	186.50	188.80	DEC	1440	30.90	31.80	31.150	47.0
181...	91.2...	-02	95	20.8	181.60	183.90	DEC	1445	33.00	33.70	33.050	49.2
176...	90.8...	-02	95	20.5	176.70	179.00	DEC	1450	34.30	35.80	35.000	51.4
171...	90.4...	-02	95	20.2	171.80	174.10	DEC	1455	36.50	37.90	37.250	53.7
166...	90.0...	-02	95	19.9	166.90	169.20	DEC	1460	38.70	40.30	39.500	56.1
161...	89.6...	-02	95	19.6	162.00	164.30	DEC	1465	41.20	42.80	41.900	58.4
156...	89.2...	-02	95	19.3	157.10	159.40	DEC	1470	43.70	45.30	44.450	60.8
151...	88.8...	-02	95	19.0	152.20	154.50	DEC	1475	46.30	47.90	47.150	63.2
146...	88.4...	-02	95	18.7	147.30	149.60	DEC	1480	48.90	50.50	50.600	65.6
141...	88.0...	-02	95	18.4	142.40	144.70	DEC	1485	51.50	53.10	52.900	68.1
136...	87.6...	-02	95	18.1	137.50	139.80	DEC	1490	55.00	57.00	56.050	70.4
131...	87.2...	-02	95	17.8	132.60	134.90	DEC	1495	58.60	60.20	59.750	72.8
126...	86.8...	-02	95	17.5	127.70	130.00	DEC	1500	62.20	62.80	62.750	75.2
121...	86.4...	-02	95	17.2	122.80	125.10	DEC	1505	65.80	65.80	65.750	77.6
116...	86.0...	-02	95	16.9	117.90	120.20	DEC	1510	69.40	69.40	69.750	80.0
111...	85.6...	-02	95	16.6	113.00	115.30	DEC	1515	73.00	73.00	73.750	82.4
106...	85.2...	-02	95	16.3	108.10	110.40	DEC	1520	76.60	76.60	77.250	84.8
101...	84.8...	-02	95	16.0	103.20	105.50	DEC	1525	80.20	80.20	81.250	87.2
96...	84.4...	-02	95	15.7	98.30	100.60	DEC	1530	83.80	83.80	85.000	89.6
91...	84.0...	-02	95	15.4	93.40	95.70	DEC	1535	87.40	87.40	89.000	92.0
86...	83.6...	-02	95	15.1	88.50	90.80	DEC	1540	91.00	91.00	93.000	94.4
81...	83.2...	-02	95	14.8	83.60	85.90	DEC	1545	94.60	94.60	97.000	96.8
76...	82.8...	-02	95	14.5	78.70	81.00	DEC	1550	98.20	98.20	101.000	99.2
71...	82.4...	-02	95	14.2	73.80	76.10	DEC	1555	101.80	101.80	105.000	101.6
66...	82.0...	-02	95	13.9	68.90	71.20	DEC	1560	105.40	105.40	109.000	104.0
61...	81.6...	-02	95	13.6	64.00	66.30	DEC	1565	109.00	109.00	113.000	106.4
56...	81.2...	-02	95	13.3	59.10	61.40	DEC	1570	112.60	112.60	117.000	108.8
51...	80.8...	-02	95	13.0	54.20	56.50	DEC	1575	116.20	116.20	121.000	111.2
46...	80.4...	-02	95	12.7	49.30	51.60	DEC	1580	119.80	119.80	125.000	113.6
41...	80.0...	-02	95	12.4	44.40	46.70	DEC	1585	123.40	123.40	129.000	116.0
36...	79.6...	-02	95	12.1	39.50	41.80	DEC	1590	127.00	127.00	133.000	118.4
31...	79.2...	-02	95	11.8	34.60	36.90	DEC	1595	130.60	130.60	137.000	120.8
26...	78.8...	-02	95	11.5	29.70	32.00	DEC	1600	134.20	134.20	141.000	123.2
21...	78.4...	-02	95	11.2	24.80	27.10	DEC	1605	137.80	137.80	145.000	125.6
16...	78.0...	-02	95	10.9	19.90	22.20	DEC	1610	141.40	141.40	149.000	128.0
11...	77.6...	-02	95	10.6	15.00	17.30	DEC	1615	145.00	145.00	153.000	130.4
6...	77.2...	-02	95	10.3	10.10	12.40	DEC	1620	148.60	148.60	157.000	132.8
1...	76.8...	-02	95	10.0	5.20	7.50	DEC	1625	152.20	152.20	161.000	135.2

Sell OTM Puts that have only 5% Probability of going ITM

Adjustment when Probability of going ITM grows to 30%

Sell OTM Calls that have only 10% Probability of going ITM

Alternative Approach 1: Using Karen's Market Reasoning for BrokenWing Condor

Karen's: Short Strangles:

**10 DEC 1170 Puts /1500 Calls
(6.36sh Credit)**

&

**Long Passport &
Standby Tickets to Mexico**

**\$6360ish Credit
(Unlimited Loss Exposure)**

versus

A BrokenWing Iron Condor:

**20 DEC 1110/1170
Put Vertical (1.26ish Credit)**

&

**12 DEC 1500/1560
Call Vertical (3.17ish Credit)**

**\$6324ish Credit
(Maximum Risk: \$113,613)**

Karen has come to dislike Irons.

Call Side Good, Put Side Bad in this Iron.

Alternative Approach 1 (cont.): Using Karen's Market Reasoning for BrokenWing Condor

10 Strangles Short at \$6.36	Both (110) Call Δ plus 40 Put Δ	Short 20 110/1170 Put Verticals Short 12 1500/1560 Call Verticals
40 Contracts	Commissions RT	128 Contracts

\$6,360	Best Case Scenario	\$6,324
Mexico via O'Hare	Worst Case Call Side	(\$69,676)
Government Bail Out	Worst Case Put Side	(\$113,616)

(\$12,470)	Call Side Up 11 Ks Today	(\$11,160)
\$1,260	Put Side Up 11 Ks Today	\$1,260
(\$11,210)	Total Up 11 Ks Today	(\$9,900)

\$3,170	Call Side Down 12 Ks Today	\$3,156
(\$16,020)	Put Side Down 12 Ks Today	(\$29,250)
(\$12,850)	Total Down 12 Ks Today	(\$26,094)

Clearing Firm Insurance is OTM Back (LongMore) Spread for Free

What is the difference between
20 Put Credit Spreads
and
10 Naked Puts?

Answer:
20x10 Back (LongMore) Spread

If Long Put is Half the Price of
Short Put then 2x1 is Zero.
(Even-Money)

	C	D	E	F	G	H	I	J	K	
11			Raw Calls	Total Net Contracts			Raw Puts	10		
12										
13				PivotK	1410					
14			Month	DEC				Inc Adj	y	
15		Raw Position								
16		nC	rC	Adj	Cur	K	Cur	Adj	rP	nP
24						1105				
25						1110	20		20	20
26						1115				
27						1120				
28						1125				
29						1130				
30						1135				
31						1140				
32						1145				
33						1150				
34						1155				
35						1160				
36						1165				
37						1170	(20)	10	(10)	(10)
38						1175				
39						1180				
59						Net		10	10	10

Alternative Approach 1 (cont.): Using Karen's Market Reasoning for BrokenWing Condor

Δ	Prob.ITM	Θ	Impl Vol	Bid	Ask	BflySm	Y-Sm	AdjTV	Off	C-Mark	Y-Mark	BflyMark	Strike
.33	31.58%	(.23)	14.20%	16.20	17.90		1.73	16.18	.87	17.05	2.30		1445
.31	28.94%	(.21)	13.97%	14.30	15.20	.13	1.60	14.45	.30	14.75	1.40	.90	1450
.29	26.82%	(.21)	13.79%	12.60	14.10	.13	1.47	12.85	.50	13.35	1.95	(.55)	1455
.26	24.25%	(.19)	13.61%	11.00	11.80	.13	1.34	11.38	.02	11.40	1.40	.55	1460
.24	22.06%	(.18)	13.45%	9.60	10.40	.12	1.22	10.04	(.04)	10.00	1.10	.30	1465
.22	20.14%	(.17)	13.29%	8.30	9.50	.12	1.10	8.82	.08	8.90	1.20	(.10)	1470
.19	18.10%	(.16)	13.14%	7.10	8.30	.11	0.99	7.72	(.02)	7.70	1.05	.15	1475
.17	16.21%	(.15)	13.02%	6.10	7.20	.10	0.89	6.73	(.08)	6.65	.95	.10	1480
.16	14.41%	(.14)	12.89%	5.10	6.30	.09	0.80	5.84	(.14)	5.70	.80	.15	1485
.14	12.79%	(.13)	12.77%	4.30	5.50	.09	0.71	5.04	(.14)	4.90	.75	.05	1490
.12	11.23%	(.12)	12.67%	3.60	4.70	.08	0.62	4.33	(.18)	4.15	.60	.15	1495
.11	9.89%	(.11)	12.58%	3.00	4.10	.08	0.55	3.71	(.16)	3.55	.55	.05	1500
.09	8.63%	(.10)	12.49%	2.40	3.60	.07	0.47	3.16	(.16)	3.00	.35	.20	1505
.08	7.72%	(.09)	12.40%	2.20	3.10	.06	0.41	2.69	(.04)	2.65	.53	(.18)	1510
.07	6.48%	(.08)	12.31%	1.75	2.50	.06	0.36	2.27	(.15)	2.13	.15	.38	1515
.07	5.98%	(.07)	12.22%	1.65	2.30	.05	0.30	1.92	.06	1.98	.50	(.35)	1520
.05	4.76%	(.06)	12.12%	1.30	1.65	.04	0.26	1.61	(.14)	1.48	.23	.28	1525
.05	4.12%	(.05)	12.12%	0.90	1.60	.04	0.22	1.35	(.10)	1.25	.25	(.02)	1530
.04	3.41%	(.05)	12.12%	0.65	1.35	.04	0.18	1.13	(.13)	1.00	.03	.23	1535
.04	3.25%	(.05)	12.20%	0.70	1.25	.03	0.15	.95	.03	.98	.30	(.28)	1540
.03	2.42%	(.03)	12.28%	0.30	1.05	.03	0.12	.81	(.13)	.68	(.05)	.35	1545
.03	2.48%	(.04)	12.36%	0.55	0.90	.03	0.09	.69	.04	.73	.28	(.33)	1550
.02	1.69%	(.03)	12.44%	0.15	0.75	.03	0.06	.60	(.15)	.45	(.13)	.40	1555
.02	1.97%	(.03)	12.52%	0.50	0.65	.02	0.04	.54	.03	.58	.08	(.20)	1560
.02	1.73%	(.03)	12.60%	0.40	0.60	.02	0.03	.50	.00	.50	.20	(.13)	1565
.01	1.14%	(.02)	12.68%	0.05	0.55	.01	0.02	.48	(.18)	.30	(.10)	.30	1570
.01	1.39%	(.02)	12.76%	0.30	0.50			.46	(.05)	.40			1575
Δ	Prob.ITM	Θ	Impl Vol	Bid	Ask	BflySm	Y-Sm	AdjTV	Off	C-Mark	Y-Mark	BflyMark	Strike

- 56 Days to Go
- SPX: 1412.97
- On 10/25/12 Close

Karen Sells OTM Calls @ 3.71
10%ProbITM

Alternatively, Also Buy OTM Calls @ .54
Creating a Short Vertical (1.2X) @ 3.17

Adjustment when
Probability of going ITM grows to 30%

- No-Brainer:
Short 1.2 X Call Verticals
versus
Shorting Naked Calls



Alternative Approach 1 (cont.): Put Side of BrokenWing Condor

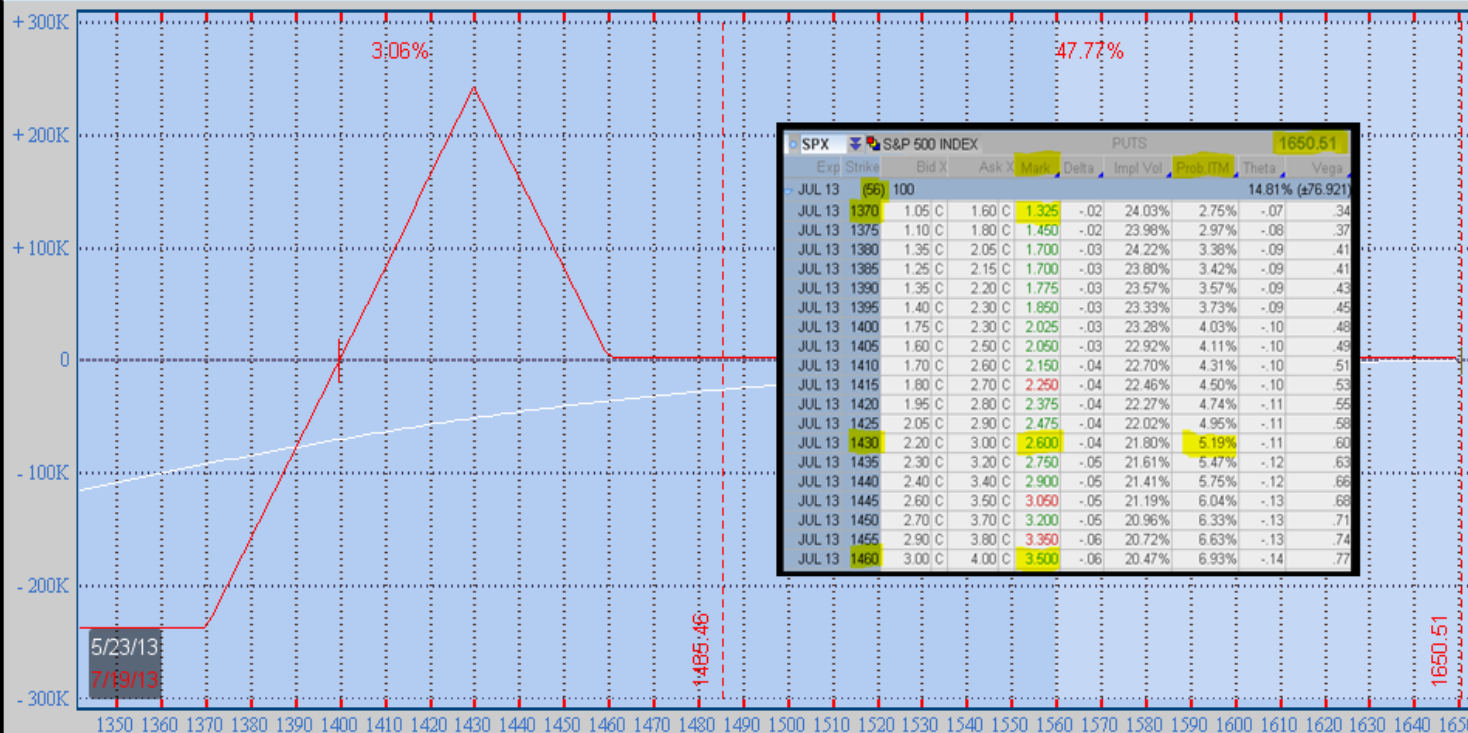
Strike	BflyMark	V-Mark	P-Mark	Off	AdjTV	V-Sm	BflySm	Bid	Ask	Impl Vol	θ	Prob.ITM	Δ
1050			.88	.21	0.67			.85	.90	33.80%	(.06)	1.78%	(.01)
1055	.23	(0.18)	.70	(.02)	0.72	0.05	.00	.40	1.00	33.10%	(.05)	1.51%	(.01)
1060	.00	0.05	.75	(.02)	0.77	0.05	.00	.45	1.05	32.61%	(.05)	1.60%	(.01)
1065	.02	0.05	.80	(.02)	0.82	0.05	.00	.50	1.10	32.43%	(.05)	1.70%	(.01)
1070	(.05)	0.08	.88	.01	0.86	0.05	.00	.55	1.20	32.35%	(.05)	1.84%	(.01)
1075	.05	0.03	.90	(.01)	0.91	0.05	.00	.60	1.20	32.00%	(.06)	1.89%	(.01)
1080	.00	0.08	.98	.02	0.96	0.05	.00	.65	1.30	31.89%	(.06)	2.03%	(.01)
1085	(.08)	0.08	1.05	.04	1.01	0.05	.00	.75	1.35	31.75%	(.06)	2.17%	(.02)
1090	.05	0.00	1.05	(.01)	1.06	0.05	.00	.80	1.30	31.26%	(.06)	2.19%	(.02)
1095	.05	0.05	1.10	(.01)	1.11	0.05	.00	.85	1.35	30.99%	(.07)	2.29%	(.02)
1100	(.07)	0.10	1.20	.05	1.15	0.05	.01	1.10	1.30	30.91%	(.07)	2.47%	(.02)
1105	.00	0.03	1.23	.02	1.21	0.06	.00	.95	1.50	30.52%	(.07)	2.53%	(.02)
1110	.08	0.02	1.25	(.02)	1.27	0.06	.00	1.00	1.50	30.13%	(.07)	2.60%	(.02)
1115	(.08)	0.10	1.35	.02	1.34	0.06	.00	1.05	1.65	30.00%	(.08)	2.78%	(.02)
1120	.00	0.02	1.38	(.02)	1.40	0.06	.01	1.15	1.60	29.59%	(.08)	2.84%	(.02)
1125	.05	0.10	1.48	.00	1.47	0.07	.01	1.25	1.70	29.44%	(.08)	3.03%	(.02)
1130	(.02)	0.15	1.63	.07	1.56	0.08	.01	1.35	1.90	29.41%	(.09)	3.29%	(.03)
1135	(.10)	0.13	1.75	.10	1.65	0.10	.01	1.45	2.05	29.15%	(.09)	3.51%	(.03)
1140	.08	0.02	1.78	.02	1.76	0.11	.01	1.55	2.00	28.85%	(.09)	3.58%	(.03)
1145	.00	0.10	1.88	.00	1.87	0.11	.00	1.60	2.15	28.61%	(.10)	3.77%	(.03)
1150	.25	0.10	1.98	(.01)	1.99	0.12	.01	1.70	2.25	28.60%	(.10)	3.96%	(.03)
1155	(.28)	0.35	2.33	.22	2.11	0.12	.01	1.85	2.80	28.40%	(.11)	4.50%	(.04)
1160	.03	0.07	2.40	.16	2.24	0.13	.01	1.95	2.85	28.22%	(.11)	4.66%	(.04)
1165	(.05)	0.10	2.50	.12	2.39	0.14	.00	2.00	3.00	28.05%	(.12)	4.85%	(.04)
1170	.05	0.05	2.55	.02	2.53	0.15	.00	2.00	3.10	27.64%	(.12)	4.98%	(.04)
1175	.05	0.10	2.65	(.03)	2.68	0.15	.00	2.10	3.20	27.32%	(.12)	5.18%	(.04)
1180	.00	0.15	2.80	(.03)	2.83	0.15	.00	2.30	3.30	27.09%	(.13)	5.45%	(.04)
1185	.05	0.15	2.95	(.03)	2.98	0.15	.01	2.40	3.50	26.84%	(.13)	5.72%	(.05)
1190	(.05)	0.20	3.15	.01	3.14	0.16	.01	2.60	3.70	26.67%	(.14)	6.06%	(.05)
1195	.10	0.15	3.30	(.01)	3.31	0.17	.00	2.70	3.90	26.39%	(.14)	6.34%	(.05)
1205													
1210	.00	0.20	3.80	(.04)	3.84	0.18	.01	3.20	4.40	25.56%	(.15)	7.27%	(.06)
1215	.00	0.20	4.00	(.03)	4.03	0.19	.01	3.40	4.60	25.35%	(.16)	7.63%	(.06)
1220	.30	0.20	4.20	(.02)	4.23	0.20	.01	3.60	4.80	25.15%	(.16)	7.99%	(.07)
1225	(.50)	0.50	4.70	.27	4.43	0.21	.01	4.40	5.00	24.95%	(.17)	8.72%	(.07)
1230	.20	0.00	4.70	.05	4.65	0.22	.02	4.10	5.30	24.70%	(.17)	8.86%	(.07)
1235	.10	0.20	4.90	.02	4.89	0.24	.02	4.30	5.50	24.40%	(.18)	9.24%	(.08)
1240	.00	0.30	5.20	.06	5.14	0.26	.02	4.60	5.80	24.05%	(.18)	9.75%	(.08)
1245	(.05)	0.30	5.50	.08	5.43	0.28	.02	4.90	6.10	23.82%	(.19)	10.26%	(.09)
1250	.05	0.25	5.75	.02	5.73	0.30	.02	5.10	6.40	23.51%	(.19)	10.72%	(.09)
1255	.00	0.30	6.05	(.00)	6.05	0.33	.02	5.40	6.70	23.24%	(.20)	11.25%	(.10)
1260	.10	0.30	6.35	(.05)	6.40	0.34	.01	5.70	7.00	22.96%	(.21)	11.78%	(.10)
1265	(.05)	0.40	6.75	.00	6.75	0.35	.01	6.10	7.40	22.75%	(.21)	12.44%	(.11)
1270	.00	0.35	7.10	(.01)	7.11	0.36	.01	6.40	7.80	22.48%	(.22)	13.05%	(.11)
1275	(.10)	0.35	7.45	(.04)	7.49	0.38	.02	6.80	8.10	22.19%	(.22)	13.67%	(.12)
1280	.35	0.25	7.70	(.18)	7.88	0.39	.02	7.20	8.20	21.79%	(.23)	14.20%	(.12)
1285	(.30)	0.60	8.30	.01	8.29	0.41	.02	7.60	9.00	21.67%	(.24)	15.10%	(.13)
1290	.40	0.30	8.60	(.12)	8.72	0.43	.03	8.10	9.10	21.40%	(.24)	15.72%	(.14)
1295	(.30)	0.70	9.30	.12	9.18	0.46	.04	8.60	10.00	21.20%	(.25)	16.74%	(.15)
1300	.25	0.40	9.70	.02	9.68	0.50	.05	9.10	10.90	20.84%	(.25)	17.48%	(.15)
1305	.05	0.65	10.35	.12	10.24	0.56	.05	9.60	11.10	20.66%	(.26)	18.48%	(.16)
1310	(.10)	0.70	11.05	.21	10.85	0.61	.05	10.30	11.80	20.48%	(.27)	19.53%	(.17)
1315	.10	0.60	11.65	.15	11.50	0.66	.05	10.90	12.40	20.21%	(.27)	20.50%	(.18)
1320	(.10)	0.70	12.35	.14	12.21	0.71	.05	11.60	13.10	19.97%	(.28)	21.59%	(.19)
1325	.25	0.60	12.95	(.02)	12.97	0.75	.05	12.30	13.60	19.65%	(.29)	22.61%	(.20)
1330	(.05)	0.85	13.80	.04	13.77	0.80	.05	13.00	14.60	19.45%	(.29)	23.85%	(.21)
1335	.10	0.80	14.60	(.01)	14.61	0.84	.05	13.80	15.40	19.20%	(.30)	25.08%	(.23)
1340	.05	0.90	15.50	(.01)	15.51	0.90	.05	14.70	16.30	18.97%	(.30)	26.40%	(.24)
1345	.05	0.95	16.45	(.01)	16.46	0.95	.06	15.60	17.30	18.74%	(.31)	27.78%	(.25)
1350	.10	1.00	17.45	(.02)	17.47	1.01	.07	16.60	18.30	18.51%	(.32)	29.21%	(.27)
1355		1.10	18.55	.00	18.55	1.08		17.7	19.4	18.29%	(.32)	30.74%	(.28)
Strike	BflyMark	V-Mark	P-Mark	Off	AdjTV	V-Sm	BflySm	Bid	Ask	Impl Vol	θ	Prob.ITM	Δ

Put Side Verticals are much cheaper owing to greater Skewed Implied Volatilities.



Alternative Approach 2: Use 1.2 X Call Verticals Plus Put BrokenWing Butterflies

Main@thinkorswim [build 1840.13]



SPX		S&P 500 INDEX		PUTS									
Exp	Strike	Bid	Ask	Mark	Delta	Impl Vol	Puts Trd	Theta	Vega				
JUL 13	1370	1.05	1.60	1.325	-0.02	24.03%	2.75%	-0.07	34				
JUL 13	1375	1.10	1.80	1.450	-0.02	23.98%	2.97%	-0.08	37				
JUL 13	1380	1.35	2.05	1.700	-0.03	24.22%	3.38%	-0.09	41				
JUL 13	1385	1.25	2.15	1.700	-0.03	23.80%	3.42%	-0.09	41				
JUL 13	1390	1.35	2.20	1.775	-0.03	23.57%	3.57%	-0.09	43				
JUL 13	1395	1.40	2.30	1.850	-0.03	23.33%	3.73%	-0.09	45				
JUL 13	1400	1.75	2.30	2.025	-0.03	23.28%	4.03%	-0.10	48				
JUL 13	1405	1.60	2.50	2.050	-0.03	22.92%	4.11%	-0.10	49				
JUL 13	1410	1.70	2.60	2.150	-0.04	22.70%	4.31%	-0.10	51				
JUL 13	1415	1.80	2.70	2.250	-0.04	22.46%	4.50%	-0.10	53				
JUL 13	1420	1.95	2.80	2.375	-0.04	22.27%	4.74%	-0.11	55				
JUL 13	1425	2.05	2.90	2.475	-0.04	22.02%	4.95%	-0.11	58				
JUL 13	1430	2.20	3.00	2.600	-0.04	21.80%	5.19%	-0.11	60				
JUL 13	1435	2.30	3.20	2.750	-0.05	21.61%	5.47%	-0.12	63				
JUL 13	1440	2.40	3.40	2.900	-0.05	21.41%	5.75%	-0.12	66				
JUL 13	1445	2.60	3.50	3.050	-0.05	21.19%	6.04%	-0.13	68				
JUL 13	1450	2.70	3.70	3.200	-0.05	20.96%	6.33%	-0.13	71				
JUL 13	1455	2.90	3.80	3.350	-0.06	20.72%	6.63%	-0.13	74				
JUL 13	1460	3.00	4.00	3.500	-0.06	20.47%	6.93%	-0.14	77				

Compare:

(10) *1430 Puts
@ 2.53

versus

80

Put BrokenWings:

80*1460 Puts

(160)*1430 Puts

80*1370 Puts

@.31 Credit

Totaling

\$2480 Credit

<input checked="" type="checkbox"/>	IND			SPX	1650.51	INDEX	.00	14.09%	.00	
<input checked="" type="checkbox"/>	VERTICAL	BUY	+80	SPX	JUL 13	1460	PUT	.95	20.47%	-126.38
		SELL	-80	SPX	JUL 13	1430	PUT	DEBIT	21.80%	
<input checked="" type="checkbox"/>	VERTICAL	SELL	-80	SPX	JUL 13	1430	PUT	1.26	21.80%	170.69
		BUY	+80	SPX	JUL 13	1370	PUT	CREDIT	24.03%	

Recommendation to Karen: Using Karen's Market Reasoning for Ratio (ShortMore) Spreads

Rather than short the 1170 Puts naked, do a 1 x (2) Ratio (ShortMore) Spread with the 1205 Puts for same credit.

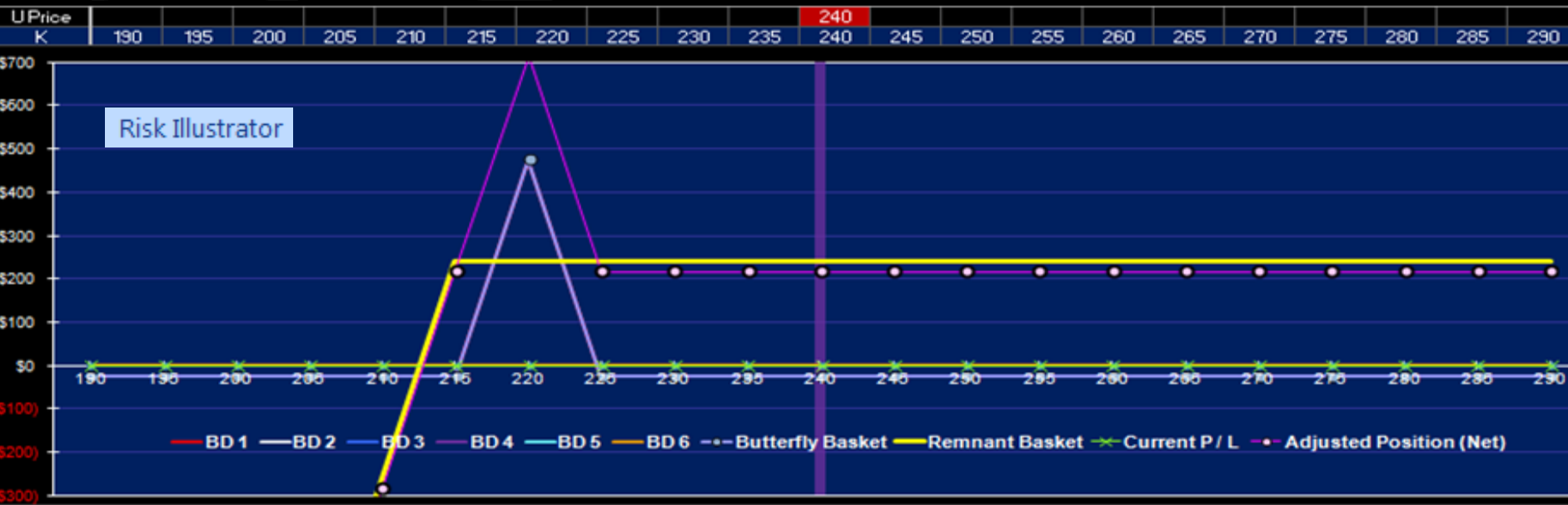
1105	.00	0.03	1.23	.02	1.21	0.06	.00	.95	1.50	30.52%	(.07)	2.53%	(.02)
1110	.08	0.02	1.25	(.02)	1.27	0.06	.00	1.00	1.50	30.13%	(.07)	2.60%	(.02)
1115	(.08)	0.10	1.35	.02	1.34	0.06	.00	1.05	1.65	30.00%	(.08)	2.78%	(.02)
1120	.08	0.02	1.38	(.02)	1.40	0.06	.01	1.15	1.60	29.59%	(.08)	2.84%	(.02)
1125	.05	0.10	1.48	.00	1.47	0.07	.01	1.25	1.70	29.44%	(.08)	3.03%	(.02)
1130	(.02)	0.15	1.63	.07	1.56	0.08	.01	1.35	1.90	29.41%	(.09)	3.29%	(.03)
1135	(.10)	0.13	1.75	.10	1.65	0.10	.01	1.45	2.05	29.15%	(.09)	3.51%	(.03)
1140	.08	0.02	1.78	.02	1.76	0.11	.01	1.55	2.00	28.85%	(.09)	3.58%	(.03)
1145	.00	0.10	1.88	.00	1.87	0.11	.00	1.60	2.15	28.61%	(.10)	3.77%	(.03)
1150	.25	0.10	1.98	(.01)	1.99	0.12	.01	1.70	2.25	28.60%	(.10)	3.96%	(.03)
1155	(.28)	0.35	2.33	.22	2.11	0.12	.01	1.85	2.80	28.40%	(.11)	4.50%	(.04)
1160	.03	0.07	2.40	.16	2.24	0.13	.01	1.95	2.85	28.22%	(.11)	4.66%	(.04)
1165	(.05)	0.10	2.50	.12	2.39	0.14	.00	2.00	3.00	28.05%	(.12)	4.85%	(.04)
1170	.05	0.05	2.55	.02	2.53	0.15	.00	2.00	3.10	27.64%	(.12)	4.98%	(.04)
1175	.05	0.10	2.65	(.03)	2.68	0.15	.00	2.10	3.20	27.32%	(.12)	5.18%	(.04)
1180	.00	0.15	2.80	(.03)	2.83	0.15	.00	2.30	3.30	27.09%	(.13)	5.45%	(.04)
1185	.05	0.15	2.95	(.03)	2.98	0.15	.01	2.40	3.50	26.84%	(.13)	5.72%	(.05)
1190	(.05)	0.20	3.15	.01	3.14	0.16	.01	2.60	3.70	26.67%	(.14)	6.06%	(.05)
1195	.10	0.15	3.30	(.01)	3.31	0.17	.00	2.70	3.90	26.39%	(.14)	6.34%	(.05)
1200	(.20)	0.25	3.55	.07	3.48	0.17	.00	3.20	3.90	26.27%	(.15)	6.75%	(.05)
1205	.15	0.05	3.60	(.06)	3.66	0.18	.00	3.00	4.20	25.80%	(.15)	6.91%	(.06)
1210	.00	0.20	3.80	(.04)	3.84	0.18	.01	3.20	4.40	25.56%	(.15)	7.27%	(.06)
1215	.00	0.20	4.00	(.03)	4.03	0.19	.01	3.40	4.60	25.35%	(.16)	7.63%	(.06)
1220	.30	0.20	4.20	(.02)	4.23	0.20	.01	3.60	4.80	25.15%	(.16)	7.99%	(.07)

Buy 18
1205 Puts
@ 3.66
and
Short 36
1170 Puts
@ 2.53
(18 x (36))
each for
1.40 Credit

Total premium
collected: \$2520.

Rocket2Quality

Cool Lesson: A Ratio (ShortMore) Spread is Simply a Naked Option?



	Net Q	Premium\$	Liq Val\$	215	220	225	K
C		\$214	(\$214)				Net Calls
P	(1)				(2)	1	Net Puts
C			BD1				BD Calls
P	1	\$26			1		BD Puts
C			Remnant Basket				Rem Calls
P	(\$240)			(1)			Rem Puts

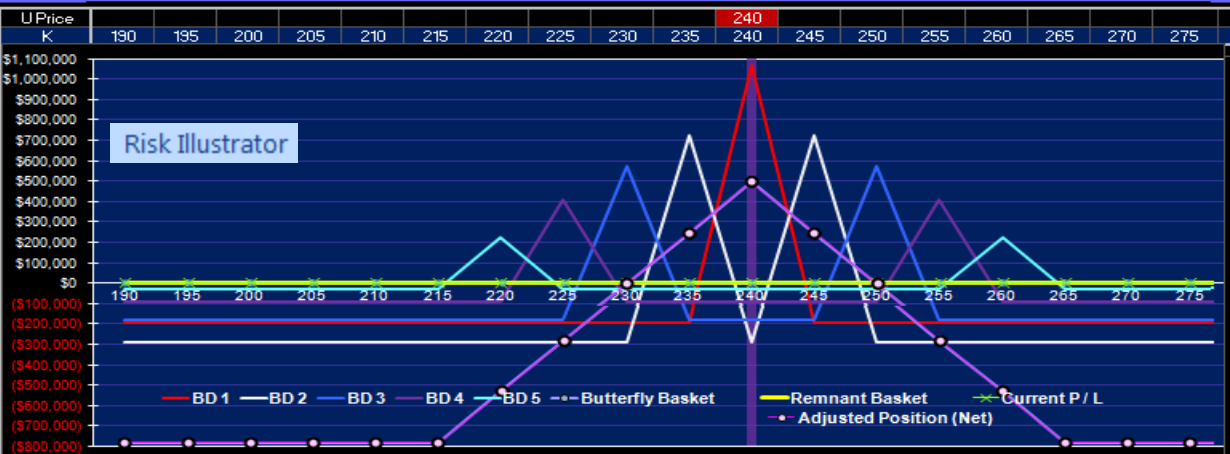
K	215	220	225
Calls	27.37	22.45	17.78
Puts	2.40	2.47	2.80
Butterfly	0.08	0.26	0.44


Cool Lesson: (cont.)

	K	190	195	200	205	210	215	220	225	230	235	240	245	250	255	260	265	270	K
Calls	51.53	46.91	42.20	37.36	32.40	27.40	22.48	17.83	13.63	10.03	7.13	4.95	3.45	2.53	2.06	1.90	1.91		Calls
Puts	1.58	1.96	2.24	2.40	2.43	2.42	2.50	2.85	3.64	5.03	7.13	9.94	13.44	17.52	22.04	26.88	31.88		Puts
IV%	53.6%	51.9%	49.1%	45.2%	40.5%	35.5%	30.9%	27.3%	24.9%	23.5%	22.8%	22.7%	23.2%	24.4%	26.4%	29.4%	33.0%		IV%
Call Veal	4.59	4.62	4.71	4.84	4.96	5.00	4.91	4.65	4.20	3.60	2.90	2.18	1.50	0.92	0.47	0.16	(0.01)		Call Veal
Put Veal	0.40	0.37	0.28	0.15	0.04	(0.01)	0.08	0.35	0.79	1.39	2.09	2.82	3.50	4.08	4.53	4.83	5.01		Put Veal
Butterfly	0.00	0.00	0.00	0.00	0.00	0.09	0.26	0.45	0.60	0.70	0.72	0.68	0.58	0.45	0.31	0.17	0.07		Butterfly

	K	175	180	185	190	210	215	220	225	230	235	240	245	250	255	260	265	255	K
							500					(1000)					500		
Net Calls																			
Net Puts																			

	K	Liq Val \$	Net Bily	Liq Val \$	210	215	220	225	230	235	240	245	250	255	260	265	270
BD1		\$181,186	2500	\$193,046						2500							BD Calls
BD2		\$275,861	4000	\$291,915					2000		2000						BD Puts
BD3		\$177,315	3000	\$183,520				1500			1500						BD Calls
BD4		\$89,497	2000	\$88,633			1000					1000					BD Puts
BD5		\$28,524	1000	\$25,882		500							500				BD Calls
Total		\$752,384	12500			500	1000	1500	2000	2500	2000	1500	1000	500			Total





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Options Trading Testimonials

“We are great at mathematics but lack your kind of expertise and we are trying to merge both for an automated Market Maker platform acting in milliseconds and exposing OTC options in a new type of electronic market place. We have everything related to our work finished after 9 years of research and development and are left with some bits and pieces. Your knowledge is absolutely the best I have ever come in touch with related to options and especially its hidden realities.”

*by Dejan Shabacker, Chief Quantitative Analyst
Stock Robotics AB
SWEDEN*

“Charles Cottle’s book is required reading for the serious options trader. You’ll never look at options the same way again. Learn to think like a seasoned floor trader. Options Trading: Three Dimensional.”

*by Joseph Sellito, Director, Retail Derivatives, E*Trade Securities LLC (at time of Book release) Now at Susquehanna*

“Charles Cottle, aka the Risk Doctor, is one of the smartest folks in the business. I wish there were more people in our industry as smart as you. It would make my job a lot easier”.

by Alex Jacobson, Vice President, Education, International Securities Exchange (ISE) . Now at Schwab



Options Trading Testimonials (cont.)

“Studying with Charles is a lot like learning from your father: He’ll challenge you constantly, always telling you what you *need* to hear, and all the while you’ll never question whether he’s holding anything back or his commitment to your ultimate success. Short of training on an actual trading floor, there’s simply no better way to learn, and few, if any, more qualified to teach.”

by John D., RiskDoctor Coaching Clinic student

Charles, I must confess, you are awesome. The light bulb has gone on for me and I am humbled and grateful. Thanks for sharing your hard work and knowledge with us.

by Manny E., MA

“I am in the process of reading your book that I found very interesting and surely the best book I have ever had on options. It is exactly what I was searching for; it is so far from the Hull and others “full of formulas” books I have been through . I take so much pleasure while reading it and sometimes so much pain when I realize the mistakes I was doing while trading.”

by Anthony S., FRANCE

“Charles, Just want you to know these RDCC sessions are fantastic! Continually illuminating! Thanks!”

by Dr. Murray W., New York



Options Trading Testimonials (cont.)

“Charles I am at [competitor's event]: It is in events like these that my Respect & Admiration for you Escalates. I become aware, once again, of how far you have taken us. I feel a sense of gratitude for all your efforts.

Thank you Charles. Henry”

by Henry Olivares de Lachica

Hi Charles, I just want to let you know I think your book is great. It has already helped me adjust a trade, albeit simplistically, to capture profit, so in that respect it has paid for itself. Though I first started reading about options sometime back, I did not really start to get an education in them until recently. Your book was a BIG step forward, very enlightening. At some point I would like to take your seminars, but before doing that, I want to work through your book several times and use the material on your forums to get a better understanding of the concepts you present. Thanks for the great site and book.

by Charles W, Pennsylvania

Charles, Your book, Options Trading: The Hidden Reality”, is a book that will accompany me to the heavens some day (hopefully!). I do not exaggerate when I say that the book is an “Options Talmud”. It adds to the inner, the core understanding of the very financial concept in general, not to the usual “whats and whens”, but to the very elusive hows and most importantly – whys.

by Alex C, Nevada, TSAASF Attendee



www.RiskDoctor.com



Options Trading Testimonials (cont.)

I sincerely enjoyed this primer on synthetics and am finally getting how the knowledge could be beneficial. Thanks so much for sharing it with people!

by Daren D, Illinois

I am going through RD2 and up through hour No. 12. I thought I was moderately educated on options but this has improved my knowledge 10 fold. Perhaps add another zero on that. GREAT INFO.

by Greg D, RD2 Customer

‘Since I have been a derivatives trader, there is no one who has given me as many ideas about trading concepts as the author of Options: Perception and Deception. Besides teaching me new ways to scrutinize positions and her risk profiles, Charles Cottle taught me how to learn from the markets. This book provides the reader with deep insights into options trading. It is exciting, inspiring, and far from being dry.’

by Olaf Pilz, West Deutsche Landesbank, Dusseldorf

‘Charles explains strategies and risk in ways that most traders today have never imagined. If you’re managing an options position by deltas, gammas, vegas, and thetas alone, Charles shows that imperfections in the models hide certain risks. A trader must understand his or her position beyond the popular measures of risk’.

by Thomas R Preston, thinkorswim.com





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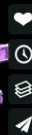
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