

**Best  
Practices**

**TRADE MECHANICS FOR  
ENTRY AND MANAGEMENT**





For ideal options trades, we need only concern ourselves with the entry and management mechanics.

Before entering a trade, we like to check the following:

- Liquidity
- Implied Volatility
- Price
- Strategy

## → Liquidity

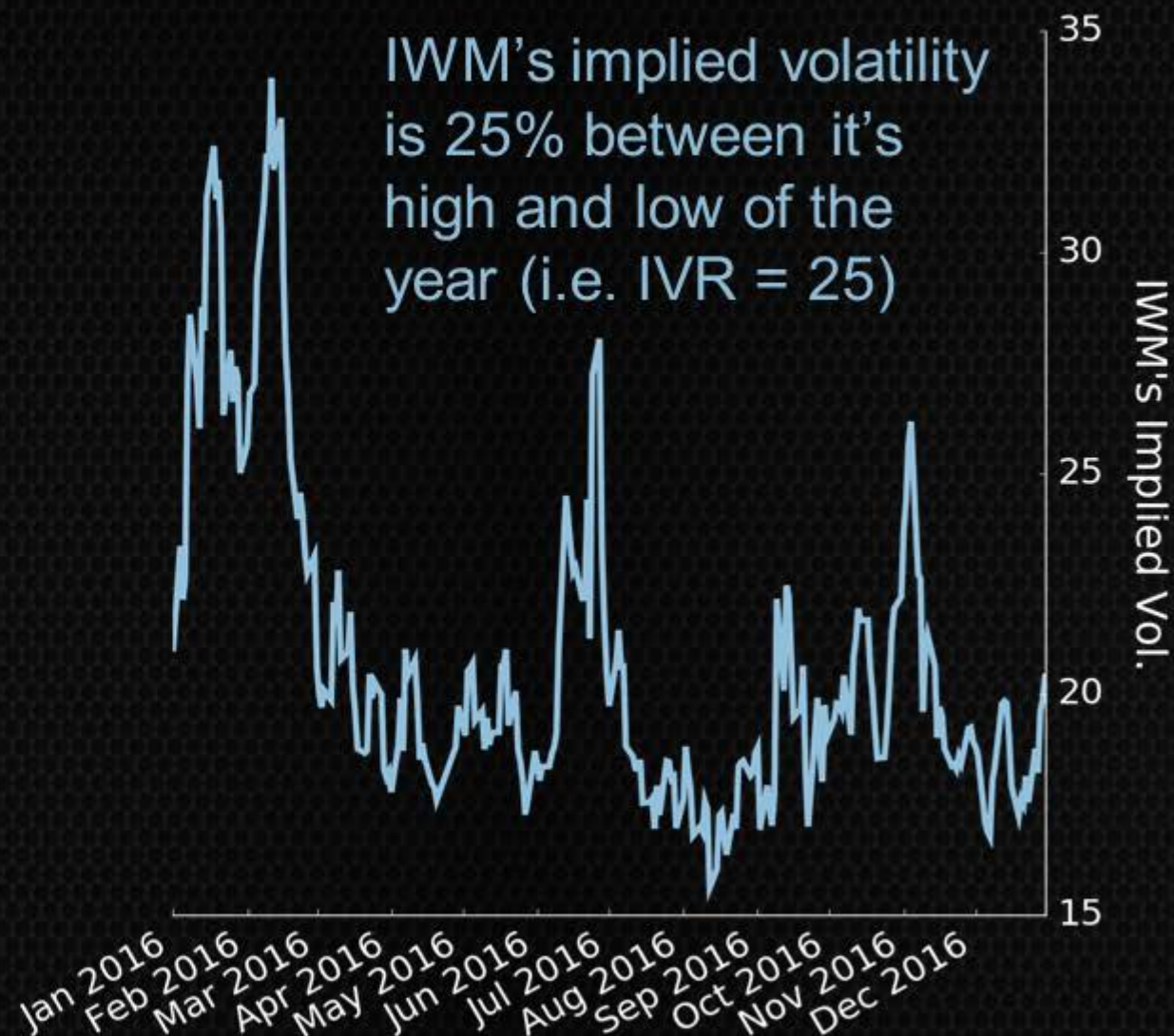
Trading illiquid underlyings institutes a drag on profits both when opening and when managing a position.

45-DTE ATM Put Liquidity	SPY	XME	AAPL	FXB	AGG
Bid	\$3.70	\$1.47	\$2.12	\$1.55	\$0.30
Ask	\$3.71	\$1.48	\$2.14	\$1.65	\$0.50
Bid-Ask Spread	\$0.01	\$0.01	\$0.02	\$0.10	\$0.20



## → Implied Volatility

We use IV Rank as indicators to signal high or low implied volatility (IV) for a given underlying relative to its past IV; we know selling higher IV reaps better profits.





## → Price

The price of a stock dictates:

- **Buying Power Effect** - expensive underlyings can take up a big portion of a portfolio's buying power
- **Directional Bias** - if a stock has had a large run up (down) the outlook may be bearish (bullish), looking for a reversal
  - With no directional bias, a neutral trade is the default



## → Strategy

Strategy	Preferred IVR	Directional Bias	Prob. of Profit	BPR
Straddle/Strangle	High	Neutral	High	High
Credit Spread	High	Neutral to Bullish/Bearish	Medium-High	Medium
Iron Condor	High	Neutral	High	Low
Iron Fly / Butterfly	High	Neutral	Medium	Low
Jade Lizard	High	Neutral	High	High
Calendar/Diagonal	Low	Neutral	Low	Low
Debit Spread	Low	Bullish/Bearish	Low	Low



After entering the trade and time passes, we like to manage winners at the following percentages of the initial credit/debit.

Strategy	Management Target (as % of initial credit/debit)
Straddle	25%
Strangle	50%
Credit/Debit Spread	50%
Iron Condor	50%
Iron Fly / Butterfly	25%
Jade Lizard	50%
Calendar/Diagonal	10-25% (for indices)
	25-50% (for stocks/ETFS)



In conclusion, we like to:

- Use Limit Orders
- Allow for enough time to get a fair fill, i.e. “price discovery”; fill as close to the mid-price as possible
- Use patience to avoid getting caught up in short-term movements

when opening or managing a trade.



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