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-Part 4 – Slide 1-

The Trading Triangle Hawaii
The Art of Becoming a Long Term Successful Trader
Part 4 –BWB Systems and Behavior, Adapting to Market Changes

Combining System, Business and Psychology to Create Outstanding Results.

John Locke

Locke in Your Success, LLC.

"Know what you want, make it happen!"

-Part 4 – Slide 2-

The Latest Perfect Trade

- The broken wing butterfly with an up side risk reduction adjustment
- A new, yet very old trading methodology
- Effectiveness of any fixed rule trade goes in and out of favor with market conditions (True for ALL non adaptive methodologies)
- The "Trade" you think is wonderful today… Remember

  ◦Some variation of that trade has been tried multiple times in the past

  ◦Went through periods of time where it was problematic and was abandoned

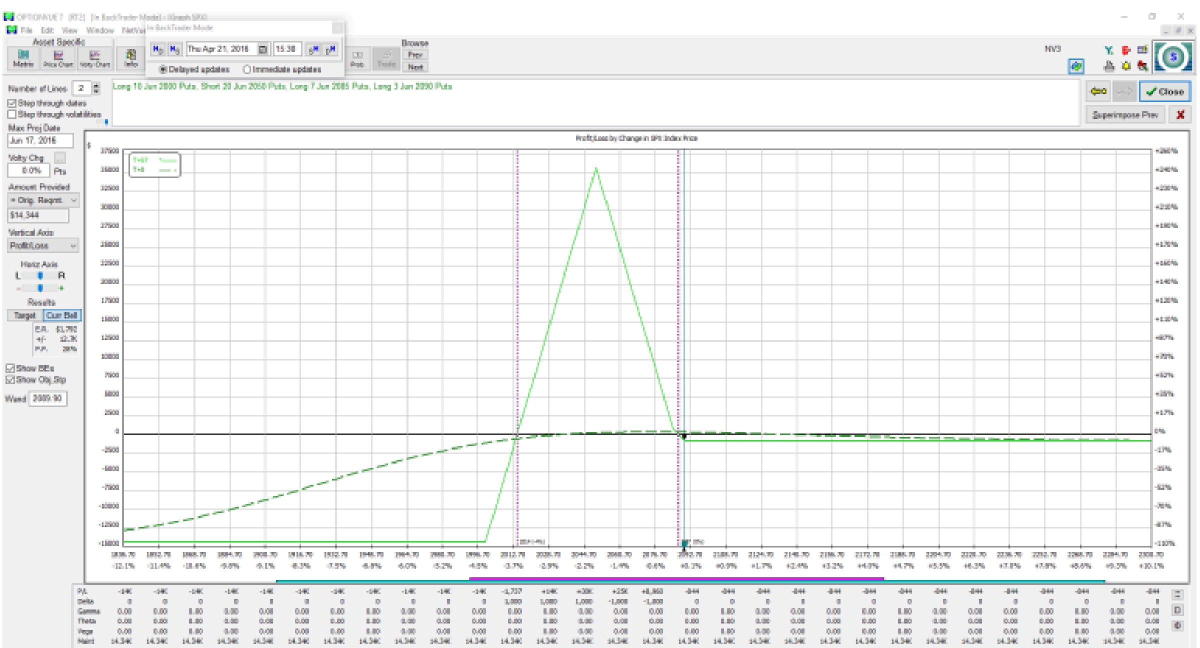
-Part 4 – Slide 3-

Choosing a Strategy

- Do you want maximum profit? OR Do you want maximum smoothness
- P/L fluctuations of maximum profit trades tend to cause people to system hop.
- What is the trade structure the does the best in the widest variety of conditions?

-Part 4 – Slide 4-

BWB T+0 Profile
M3U BWB



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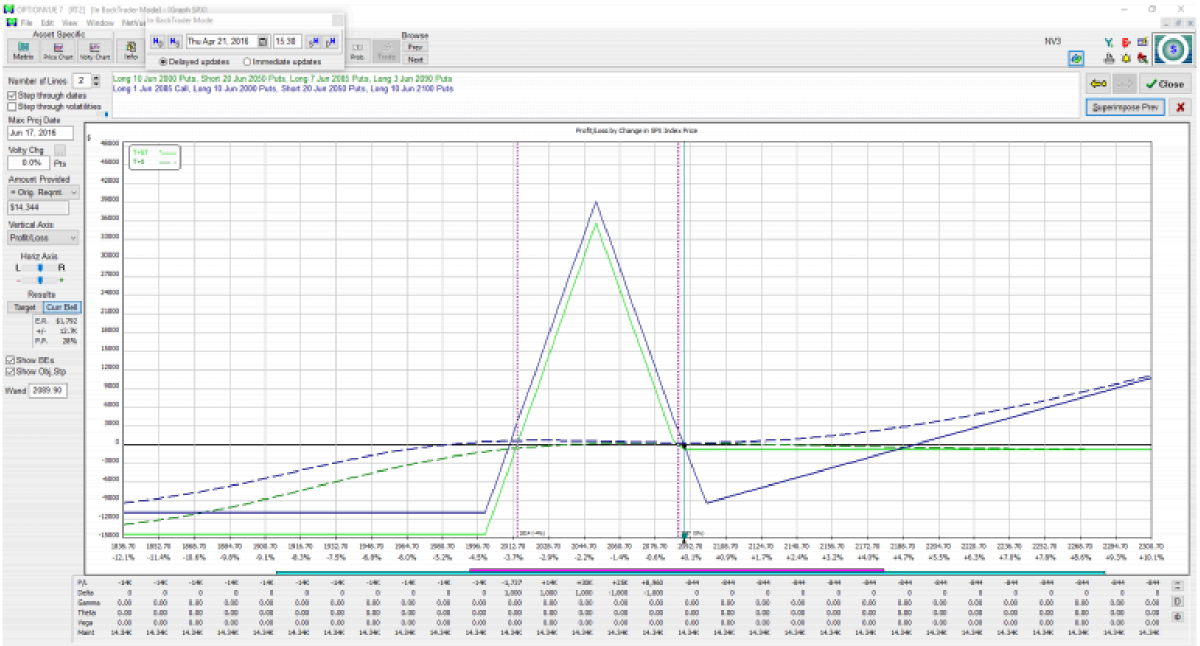
-Part 4 – Slide 5-

M3 Over BWB



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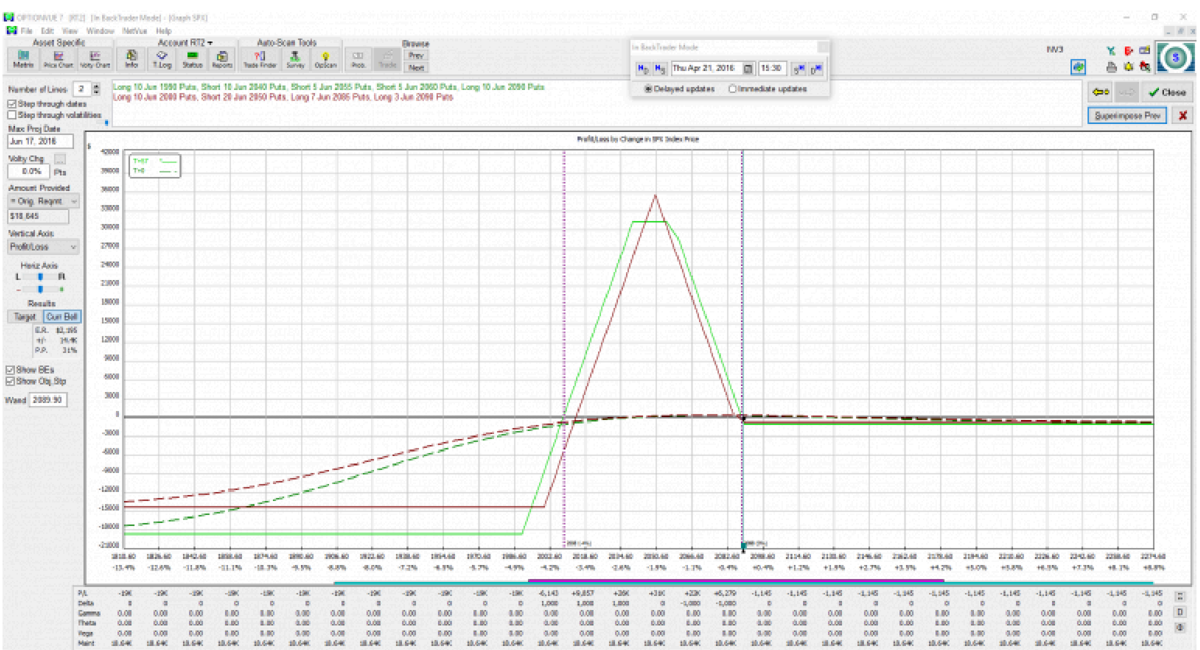
-Part 4 – Slide 6-

M3U BWC over BWB



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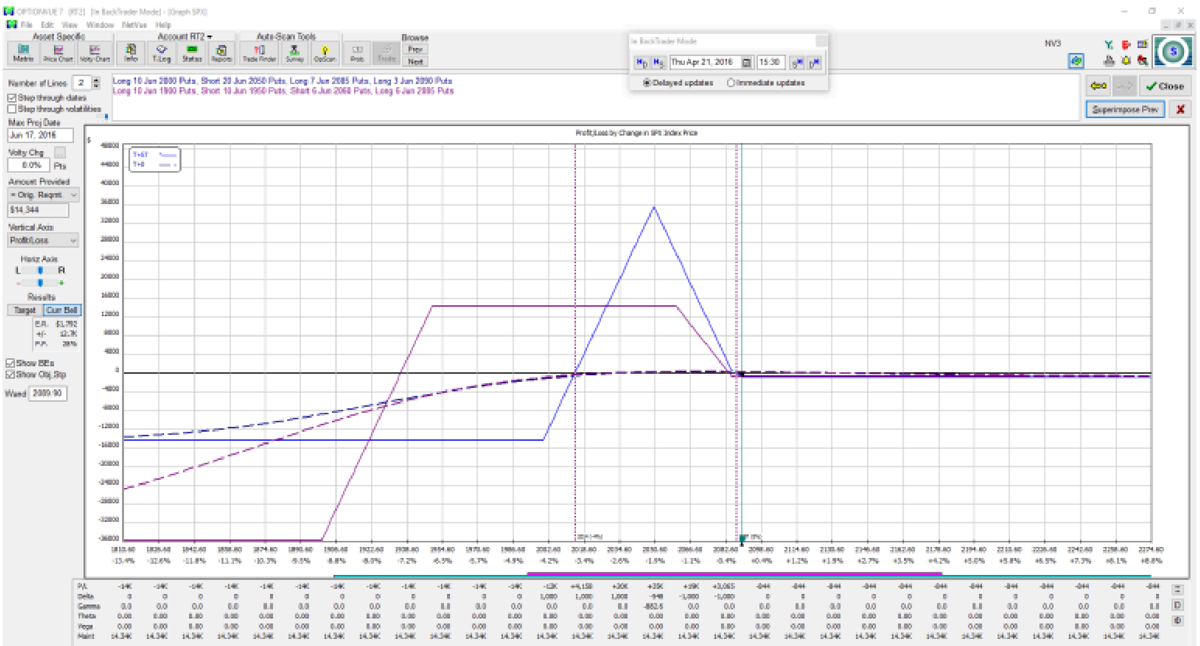
M3Ub



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Major Differences in Strategies

- How far from expiration they’re entered and exited
- Placement of the position relative to the market on entry
- The type upside adjustment strategy that is employed
- The type downside adjustment strategy that is employed
- Exit rules

BWB Strategies

Entry

Assuming all other parameters are the same (Delta, DTE, Lower vs Upper Wing Size in % and PC)

◦Entry DTE

- Further away DTE handles large moves better than closer DTE, at the expense of lower returns in slow markets

◦Entry Location

- Further behind the market handles large moves better than closer to the market, at the expense of lower returns in slow markets and less likely to generate a larger profit with normal market movement

◦Upper Wing Size VS Lower Wing Size

- Equal wing sizes with a call provide the best downside protection

- The larger the lower wing VS the upper wing (either in distance between short strike and long strike or quantity) the worse it will perform in a down move with an IV increase

-Part 4 – Slide 10-

BWB Up Adjustments

- Risk off only

  ◦Roll down long

  ◦Roll up short

- Risk off then roll up -Standard M3/M3U

- Gradual M3 to ROCK transition – BWB into condor/BWC profile

  ◦This transition can be conservative by adding in front of market

    - Gradual M3 to ROCK flat Delta transition / Rock ½ roll back, flat Delta trade

  ◦This transition can be aggressive by adding at or in front of market or in a manner where the T+0 increases negative Delta

- ROCK ½ roll back trade / Bull VS Bear Trade

- Scaling in or layering

-Part 4 – Slide 11-

BWB Strategies
Entry

- Get there edge from higher IV
- Straight BWC **entry** is most influenced with IV shifts

    ◦In high IV with down move is when BWB/BWC have the best entry edge

    ◦BWB/BWC are fastest to lose their edge in low IV and up moves

- Standard M3 **entry** is least sensitive to IV shifts
- When matching entries to adjustment strategies in low IV

    -Using a risk off only adjustment strategy tends to be problematic unless it is aggressive and allows (+) Delta

    - Gradual condor or bull vertical transition type of adjustment strategies tend to be much better in low IV environments than risk off only and risk off/roll up strategies

        - At the expense of having challenges with extreme price moves

-Part 4 – Slide 12-

BWB Strategies
Entry

- Majority of risk needs to be in the direction of greatest perceived risk
- The further back you go away from the asset price on entry, the less likely you are to lose, and the less likely to make, any significant amount

    ◦Unless the market is very accommodating or you utilize a condor transition strategy

- If you can't get the set up where you have negative or flat Delta near with the expiration line near 0 …

◦Opens up vulnerabilities in the trade

-Risk off only adjustment strategy can be problematic

- Best to use a condor transition or scaling in up adjustment strategy in most cases

◦Aggressive traders may start this way on purpose

- Straight BWB/BWC

◦Should open trade more negative Delta than M3 due to its sensitivity to Vega (unless directional)

- Standard M3

◦Less sensitive to Vega increase, can be started flat or even positive Delta very far from expiration

-Part 4 – Slide 13-

BWB Strategies
Entry

- DTE

◦Far from expiration

- Easier to manage
- Handles larger price moves
- Can make $ above the tent
- Risk off only strategy can be effective in gaining profits depending on entry set up

◦Close to expiration

- Trade is more active
- More sensitive to large moves
- Often cannot make $ above the tent
- Risk off only strategy is ineffective for gaining profits but useful in reducing losses and hoping

- Condor transition strategy is most effective for gaining value

-Part 4 – Slide 14-

BWB Strategies
Entry

- Wing Width Selection
- Width between long strikes (starting point)

◦For the width between my long strikes, I use my best estimate of the asset's average large move in one direction in 30 days over last 2 years

- RUT 90 – 120/SPX 100 – 130/NDX 300-350 (Starting point for balanced position) and then narrow the front wing as needed

◦Place upper long strike in desired location, at desired DTE (usually upper long near ATM but will vary depending on adjustment strategy and goals for the trade)

◦Place short strikes high as possible while maintaining negative Delta

◦Roll in upper long strike to produce wanted expiration graph and T+0 line

-Part 4 – Slide 15-

BWB Strategies
Entry

◦If expiration line is too low OR Delta is too (+)

- Delta roll down short strikes one strike and then roll in the longs to create the desired graph

◦Vary DTE, proximity to ATM and distance between long strikes to fit your style and get the desired expiration and t+0 you want

◦Tighten distance between longs if the price drop off between the strikes where lower long is placed

- This will depend on trade goals and adjustment strategy employed

-Part 4 – Slide 16-

BWB Up Adjustments
Risk Off Up Adjustment after profits build or WITH a proper entry!!
(Most resilient against draw down)

- Risk off – Raising the expiration graph in one direction is most commonly accomplished in 3 ways

  ◦Roll in/back upper long

    - Most effective at reducing the potential upside loss while maintaining the most resiliency to a reversal

    - At the expense of reducing the chance of gaining more profit in trade with a normal pull back, a continued up move or a market stall

  ◦Roll out/forward shorts

    - More effective at gaining more profit in the trade with a normal pull back, slower up moves or market stalls

    - At the expense of being somewhat more vulnerable to a reversal and more likely to draw down with a fast up move

  ◦Remove wing (assuming you have a large enough size to be incremental)

    - More effective at gaining more profit in the trade with a normal pull back, slower up moves or market stalls

    - At the expense of being somewhat more vulnerable to a reversal and more likely to draw down with a fast up move

-Part 4 – Slide 17-

Characteristics of Risk Off Only Adjustment Strategy

- Usually win rate is high but profits are low
- Periods of time when cannot get decent entry, periods of time with very good entries

- Bonus months!! However many traders get frustrated and try to force slightly less losses or bigger wins and end up missing out on the big wins that make the strategy worthwhile
- Small relative profits can be overcome by utilizing a price scale-in OR time scale-in strategy

    ◦Much more likely to catch a down cycle – makes trade much more palatable

    ◦At the expense of more activity, watching 4 trades

    ◦Can lose all 4 trades at once and or make less overall, especially if doing a time scale in because all positions could be at same strike level

- Small relative profits can also be overcome with a very aggressive up adjustment strategy but you'll be more likely to take a large downside loss as well

-Part 4 – Slide 18-

BWB Up Adjustments
Characteristics of Standard M3/M3U Adjustment Strategy, Risk off/ Roll up

- Characteristics of Standard M3/M3U Adjustment Strategy
  Risk off/ Roll up .

    ◦Keeps the tent closer to the market price

    ◦More likely to build more profit than risk off only adjustment

    ◦Keeps draw down risk low with a continued up move however it is more likely to draw down with up move than risk off only

    ◦May be more or less vulnerable to strong reversal than risk off adjustments depending on situation

    ◦Requires more adjustments than risk off only

-Part 4 – Slide 19-

Characteristics of Standard Gradual M3/ROCK Transition Adjustment Strategy
Condorizing

- Moving out the upper wing – stretch adjustment

◦Most efficient, fewest moves, biggest Theta increase

◦But also highest Gamma and most sensitive to big moves and IV shifts

- Adding a butterfly, a broken wing butterfly, calendar or diagonal

◦Below the money (Significant increase in negative Delta)

- Extremely good whipsaw resistance with significant gains during a normal reversal… at the expense of draw downs with continued up move

◦ATM (Slight negative Delta increase)

- Decent whipsaw resistance with significant gains in a market stall or mild reversal

◦Above the money (No Delta change or create more positive Delta)

- Does best with grinding up moves

- Can be very vulnerable to hard market reversal (unless close to expiration and lower position has gained value below market

- Depending on location can create a “hole” in the expiration graph that can be problematic heading into expiration

---

BWB Up Adjustments
Note: Do Condor Conversion Example

- Most effective at gaining profit in normal markets at the expense of being more vulnerable to large moves
- Adding structures below the market

◦+ Works best in normal reversal

◦+ Brings tent closer to the money increasing chances of making money in normal market

◦(-) Depending on structure, it will add to the likelihood of draw down with large moves, particularly an up move depending on location

- Adding structures ATM

◦+ Works best in a market stall or small reversal, raises tent ATM increasing chances of making money in normal market

◦(-) Adds to the likelihood of drawdowns with large moves either up, down or both depending on structure of the adjustment

- Adding OTM

◦+ Works best in slow market grind, raises tent above the market price increasing chances of making money in normal market and during grinding up moves

◦(-) Most vulnerable to a reversal down

◦(-) Will add to the likelihood of draw down with large moves either up or down or both depending on structure of the adjustment

-Part 4 – Slide 21-

Summary of Upside Adjustment Strategies Thus Far

- BWB with the risk off adjustment only

◦Small gains/small losses

- BWB with risk off/roll up adjustment

◦Performs better in more normal market conditions at the expense of being more sensitive to a whipsaw down, and slightly more likely to take a larger upside loss with larger than normal moves or constant up markets

- BWB with a condor adjustment

◦Traded effectively produces highest returns over time

◦Most subjective and easiest to screw up

-Part 4 – Slide 22-

BWB Up Adjustment/Entry
Scaling In

- Price Scale In

    ◦Scales in when the market moves up a certain amount (can be same expiration cycle or different cycles)

    ◦Provides additional protection against large price moves particularly early in the trade

    ◦Provides a wider tent closer to the market price which improves chances for additional profits

    ◦If price never moves up you end up trading a smaller position and miss out on profits

- Time Scale In

    ◦Scales in after a certain amount of time has passed (can be same expiration cycle or different cycles)

    ◦Provides some protection against large price moves only if price moves early in the trade when the scale in would be in different strikes

    ◦If position is scaled into at the same strikes it is more vulnerable to large price moves than regular entries and price scale in entries

    ◦If price never moves up you end up entering at less favorable pricing

-Part 4 – Slide 23-

BWB Down Adjustments

- Buy Puts

    ◦ITM Put

    ◦OTM Put

    ◦Front month/week, same month/week or back month/week

- Sell Futures
- Bearish Verticals
- Roll Back
- Scale In

-Part 4 – Slide 24-

BWB Down Adjustments

- Puts/Futures
    - ◦When making down adjustments be very aware of your location in the tent and your Greeks. As you exit the back side of the tent, the stability of the T+0 line becomes more and more dependent on long options. This results in a substantial risk of the T+0 line dropping. In this case one of the other adjustments should be considered to stabilize the T+0
    - ◦To keep characteristics of a BWB, an up adjustment may need to be made with the down adjustment
- Front Month OTM put is best utilized when IV has not risen too much
    - ◦+ Provides downside protection with least amount of risk for a hard reversal
    - ◦+ Best protection for further increases in IV
    - ◦- Drastic impact on Theta
    - ◦- Poor choice if market has come down, IV increased substantially and then stalls or IV drops
- Back Month OTM put is a good option when front month IV has risen significantly but back month IV has not yet been affected
    - ◦+ Provides some volatility protection should we get an extended down move
    - ◦+ Added stability to the T+0 line compared to front month
    - ◦- Has increased risk with a hard reversal

-Part 4 – Slide 25-

BWB Down Adjustments

- ITM Put is better for Delta correction when IV has risen significantly
    - ◦+ Corrects Delta with minimal effect on Theta

◦+ Added stability to T+0 compared to OTM puts

◦- Does not provide Vega protection

◦- Has increased risk with hard reversal

- May need to make upside corrections at the same time to deal with reversal risk

- Short Futures

◦+ Corrects Delta with no effect on Theta or Vega

◦+ Easy to execute

◦+ Added stability to T+0 compared to OTM puts

◦- Provides no Vega protection

◦- Has most risk with hard reversal

- May need to make upside corrections at the same time to deal with reversal risk

---

BWB Down Adjustments

- Bear Vertical

◦+ Corrects Delta while maintaining high Theta and substantial negative Vega

◦+ Best used when market stalls or becomes range bound

◦- More vulnerable to draw down than buying puts if market continues to drop

◦- Puts you into more of a “condor” position creating risk of further draw down with a hard reversal unless an upside correction is made at the same time

- Roll Back

◦+ Corrects Delta while maintaining high Theta and substantial negative Vega

◦+ Best used when market stalls or drifts lower

◦+ Reduces risk of further loss in hard reversal if done properly

◦- More vulnerable to draw down than buying puts if market continues to drop

◦- Almost any reversal puts you outside the tent making it difficult to recover from losses

-Part 4 – Slide 27-

BWB Down Adjustments

- Reverse price point scale in

◦+ Increase position size and adds negative Vega to the position at a time when IV is likely to be elevated

◦+ Works best in a market stall

◦- Position becomes overly vulnerable to a large price move in either direction at a time when a large move is probable……

-Part 4 – Slide 28-

Summary

- If trading completely neutral, and you are new… the straight BWB or M3U entry with a “risk off only” up adjustment strategy is good strategy but the yields tend to be quite low in anything but a higher IV market… unless you happen to get lucky or are extremely aggressive with up adjustments creating down risk
- For a slightly higher yield in more common market environments… then the M3/BWB profile entry with the standard risk off / roll up M3 adjustment strategy works well
- Scaling in or staggering your entries via price movement is very effective at increasing probabilities and yields assuming market is moving enough to scale in
- Scaling in or staggering your entries by time can emulate both price scale in and roll up or roll down adjustment strategies “IF” the price moves enough during that time, but reduces diversification if the price does not move. Time scale ins can also be complicated to manage if using different expiration cycles because you are really managing multiple trades

- For the flattest p/l curve and highest yields in the most common market environments, advanced traders should use an M3, BWB, M3u entry that uses:

    ◦ A risk off adjustment strategy when price has not moved and Delta gets too high

    ◦ Transitions into a condor type of position when price moves up

-Part 4 – Slide 29-

M21Set Ups

- Taking market conditions into account

    ◦Directional Verticals

    ◦Condors

    ◦Bearish Butterflies

    ◦Calendars

    ◦Diagonals

    ◦ROCK Trade Variants

    ◦OR simply **Modify a Neutral BWB Trade** to perform better in the expected conditions

-Part 4 – Slide 30-

M21Set Ups

- Trading for a living, you need to be aware that things change

    ◦Market conditions change, sometimes they're volatile, sometimes they trend, sometimes we have wide ranges, sometimes narrow

    ◦Market structures may change, new laws come out, margining requirements change, market makers get better at pricing things in their favor and as we found out recently, analytical models change

◦Sometimes a strategy that's been working for years, suddenly disappears

◦When trading is your livelihood, you better know how to identify problems and adapt your trading strategies.

-Part 4 – Slide 31-

Important Things to Understand

- Options extrinsic value pricing is critical to how a trade is going to react and perform

    1. How to know when pricing is normal or abnormal for a particular situation

    2. How to identify when particular market moves represent a change in conditions

    3. How these changes will affect your system

    4. What to do about it

- A lot of your edge in an options trade comes directly from the way the options happen to be priced at any particular time.
- And those variations in pricing can either create a fantastic opportunity or set you up in trades that are destined to fail.

-Part 4 – Slide 32-

Pay attention to the following parameters with every trade

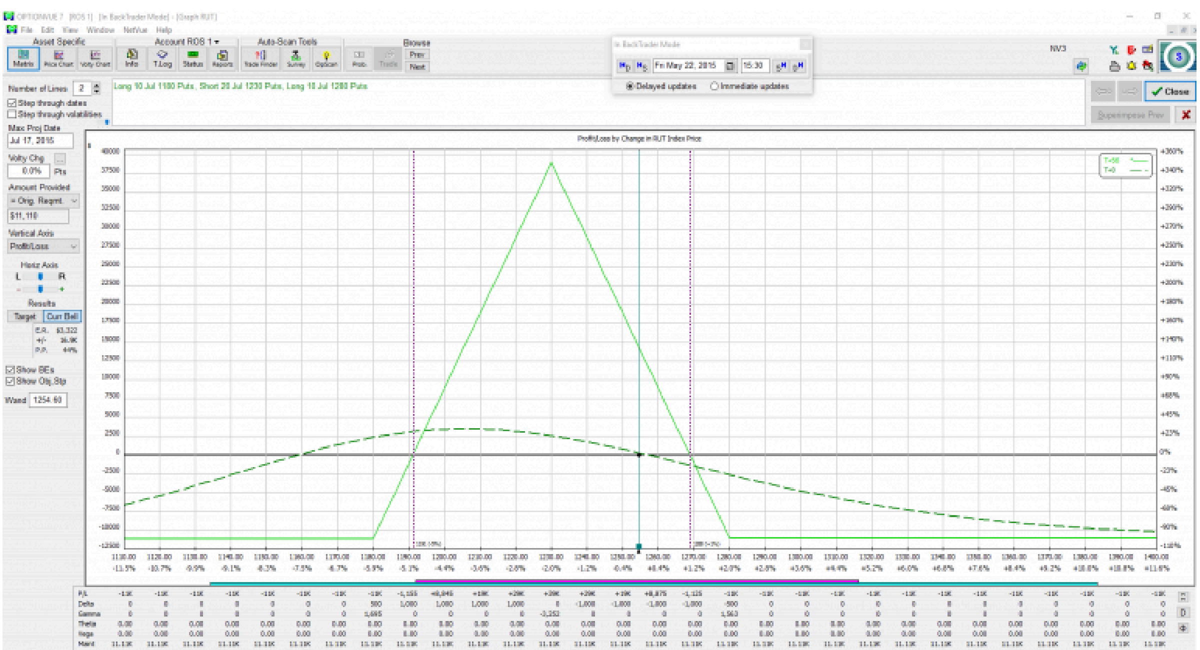
- DTE
- Price of the position (specifically the time value in the options)
- Greeks of the position
- T+0 line profile of the position. And when you look at the T+0 profile, you want to consider how that T+0 profile is likely to change as the market moves, volatility changes and time goes by. Again this tends to come from experience.
- Continued

-Part 4 – Slide 33-

Observe how they interact and look for patterns

- Market volatility level
- Front month vs back month volatility on individual options
- How the market is trending: is it up, down or sideways
- The strength of trend
- The width of channels, price patterns and cycles
- The location of asset price within that trend or channel
- ATR

-Part 4 – Slide 34-



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-Part 4 – Slide 35-

General Tips

- Lower IV and smaller ATR should result in less favorable entry prices
- High market IV should result in more favorable market prices

- Large shifts in the profile of the T+0 indicate markets sentiment changes
- When you see shifts forward in the T+0 at the bottom of a cycle or at a support point, the fear is leaving the market and that's typically bullish, when the same thing happens at the top of a cycle or at a resistance point, that's often over confidence and neutral trades become very risky to remain in or to enter
- If the price starts to shift too far back at a resistance point, that's also bearish. Investors are worried and put protecting their positions

-Part 4 – Slide 36-

Trade 1
Note: Account Hawaii SS m21 – 9/24/14 Entry

(Click for full size)

-Part 4 – Slide 37-

Trade 1
Note: Account Hawaii SS m21 – 9/24/14 Entry October Expiration

- Current price 1130
- Primary support 1080
- Primary resistance 1215
- Range 135
- Speed from Support to Resistance 30 days
- Average speed 4.5 points per day
- 30 day trade 135 points = 1260 to 990
- 60 day trade 270 points = 1395 to 855
- Breakout target down 945 (1080 Support – 135 Range)
- Breakout target up 1350 (1215 Resistance + 135 Range)
- Short term sentiment bearish to 1080
- Longer term sentiment bullish to 1215

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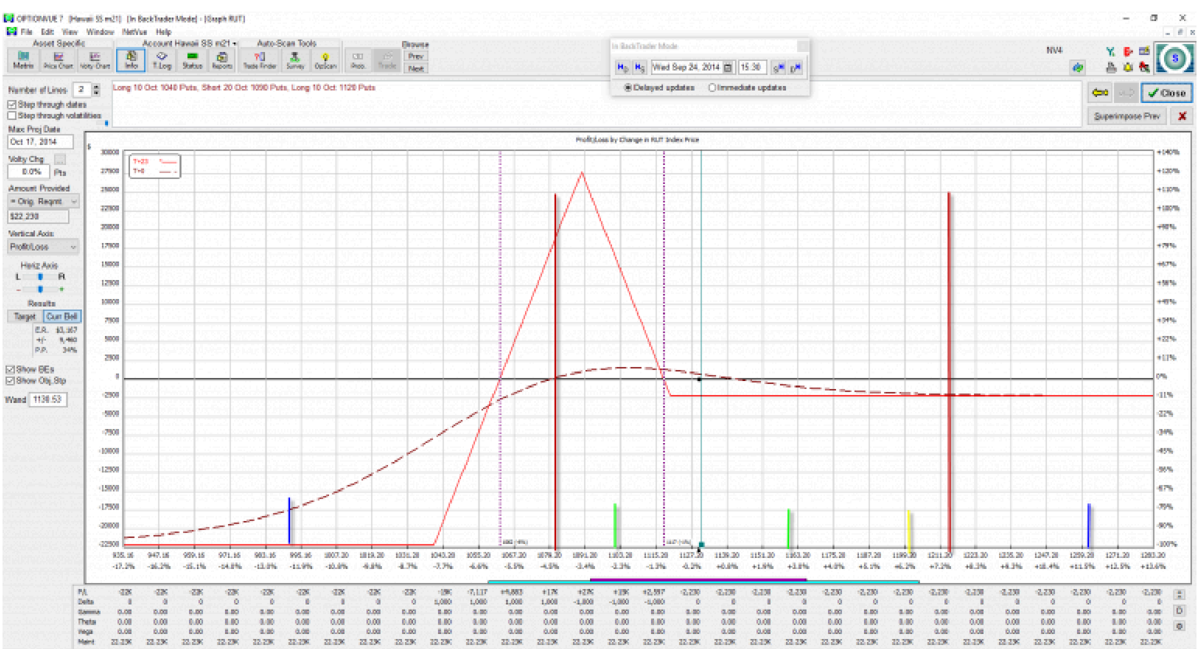
-Part 4 – Slide 38-

Trade 1 Set Up Analysis
October Expiration? (Account: Hawaii SS m21)



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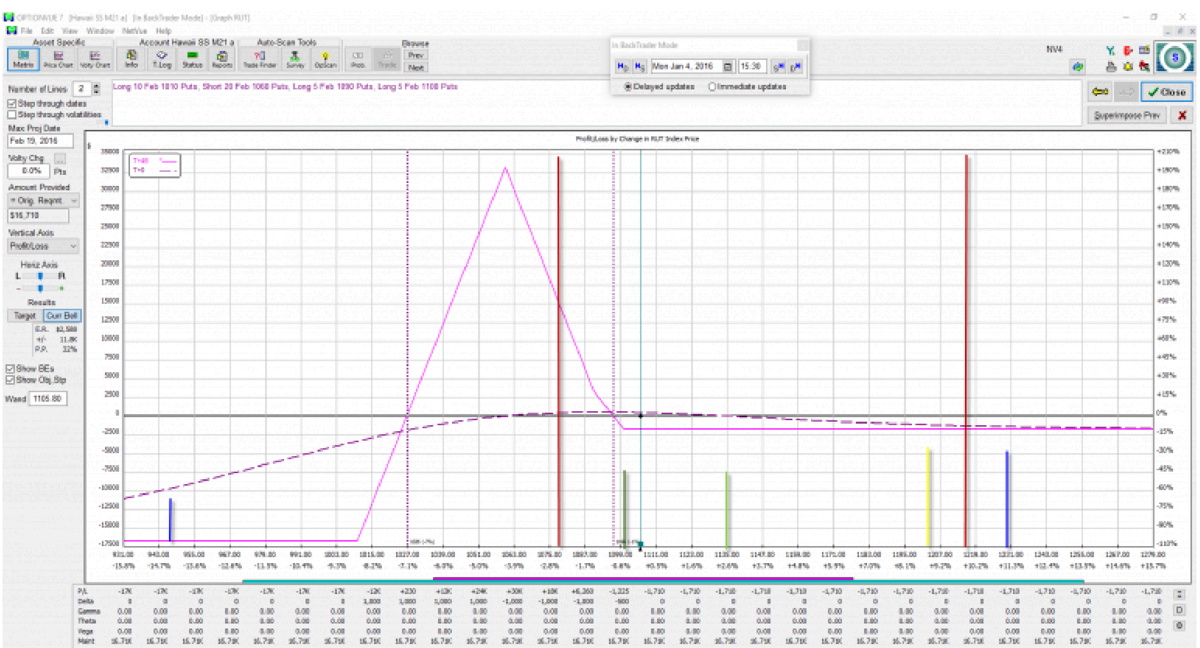
-Part 4 – Slide 39-

Trade 1 Set Up Analysis
October Expiration

- BWB Negative Delta Entry with condorizing scale in adjustment strategy to up side starting at 1160 or D/T/V problem
- Start down hedging at 1100 to deal with support level danger (plan for 40 point down no M/L)
- Down Adjust Strategy: Buy put strategy to optimize Delta/Theta/Vega risk and roll back only as needed to control Greeks
- Start condorizing flat Delta manner at 1160 / negative Delta at 1200 in a manner that stays within ML at 1260
- PC with 10 lot = starting risk times 3 (22,500 x3 approx. 70,000)
- 70K PC
- Likely profit around (1/7 – 1/8th max potential) 3.75K or 5.4% of PC (Market movement is too large to set up high profit trade)
- ML 3.75k

-Part 4 – Slide 40-

Trade 1 Set Up Analysis
October Expiration



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-Part 4 – Slide 41-

Trade 1 Log

- **10/ 1 buy OTM 10 – 980 puts for IV protection in case of support breakdown adjust**
- **10/7 Should exit – At support and large move expected 10 DTE**
- **10/7 if stayed in 10 1010 OTM puts**
- **10/8 Should exit – near target profit 9 DTE**
- **10/9 Should exit – Support break 8 DTE**
- **10/9 if stated in Theta negative and IV is up – sell 1010 puts and correct Delta with 2 1130 puts**
- **10/10 correct Theta buy 10 1090/1070 and sell 1 1130 put for Delta correction**
- **10/13 buy 1 1100 put to protect against down losses wit T+0 collapse**
- **10/14 Exit?? sell 1130 put and buy 2 1100 to deal with t+0 to down side**
- **10/15 exit you idiot sell back 1090/1120 verticals buy 1 1100 put**
- **10/16 close**

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Trade 2 (Same Trade, Different Exp Month)
Note: Account Hawaii SS m21a – 9/24/14 Entry

(Click for full size)

-Part 4 – Slide 43-

Trade 2 (Same Trade, Different Exp Month)
Note: Account Hawaii SS m21 a – 9/24/14 Entry Nov Exp

- Primary support 1080
- Primary resistance 1215
- Range 135
- Speed from Support to Resistance 30 days
- Average speed 4.5 points per day
- 30 day trade 135 points = 1260 to 990
- 60 day trade 270 points = 1395 to 855
- Breakout target down 945 (1080 Support – 135 Range)
- Breakout target up 1350 (1215 Resistance + 135 Range)
- Short term sentiment bearish to 1080
- Longer term sentiment bullish to 1215

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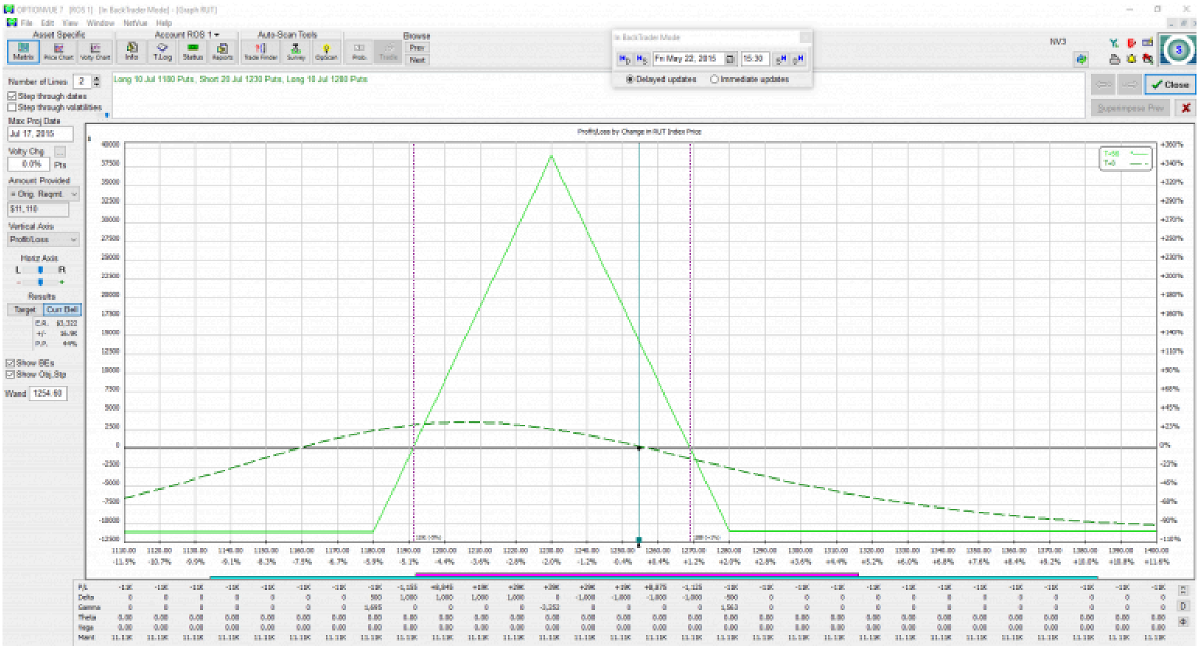
-Part 4 – Slide 44-

Trade 2 Set Up Analysis
November Expiration



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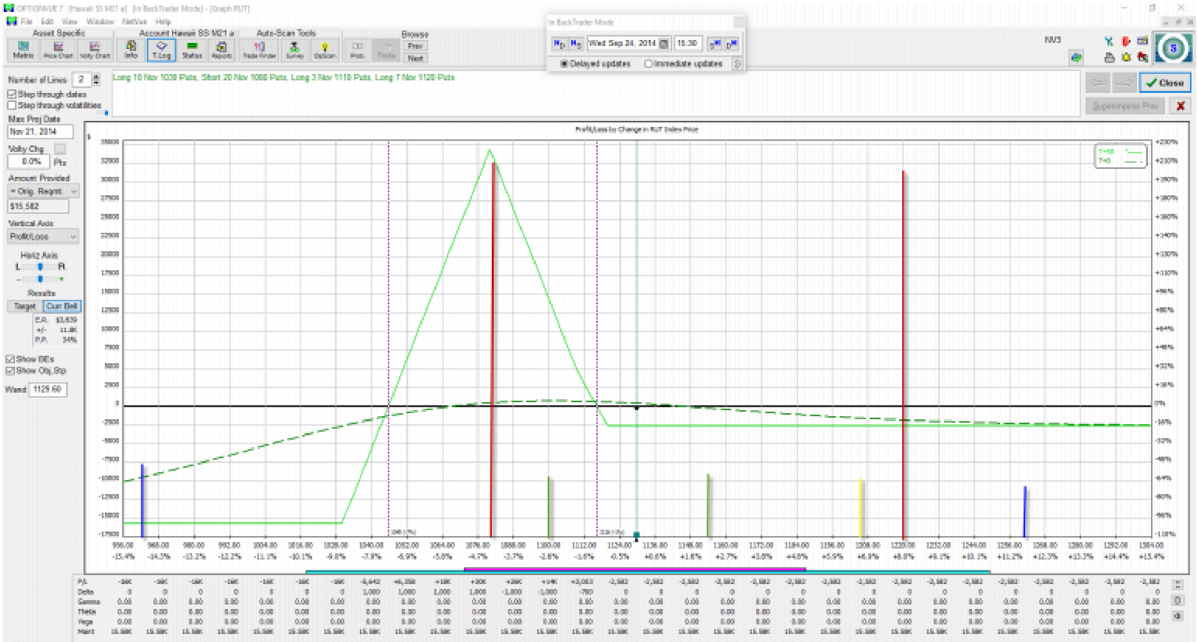
-Part 4 – Slide 45-

Trade 2 Set Up Analysis
November Expiration

- BWB Negative Delta Entry with scale in adjustment strategy to up side starting at 1160 of D/T/V problem
- Start down hedging at 1100 to deal with support level danger (plan for 40 point down no M/L)
- Down Adjust strategy: Buy put strategy to optimize Delta/Theta/Vega risk and roll back only as needed to control Greeks
- Start condorizing flat Delta at 1160 / negative Delta at 1200 in a manner that stays within ML at 1260
- PC with 10 lot start … 3X entry (16,000 X 3 approx. 50K)
- 50K PC
- Likely profit around 5K or 10% PC (Market movement is too large to set up high profit trade)
- ML 5k

-Part 4 – Slide 46-

Trade 2 Set Up Analysis
November Expiration



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-Part 4 – Slide 47-

Trade 2 Log

- **9/24/14 entry 58 DTE long 30.00 and 8.40 short 38.4/2 19.00**
- **10/1 down adjust buy 3 930 OTM long put and sell upper vert 3 1120/1110 IV protect and flatten reversal**
- **10/9 Support break and IV switch (assumed increase) and further roll back of upper longs**
- **10/9 adjustment sell 3 OTM put and sell 4 1120/1100 and buy 1 1120 put**
- **10/16 snap and crack (assumed IV had dropped) position slightly more + Delta with IV protection (Consider Exit if initial plan was for 30 day trade market irrational)**
- **10/16 Sold 1 1080 put and buy 4 940 put for IV protection in case of failure or reversal**
- **10/21 remove ½ put protection – sell 2 940 put**
- **10/23 remove remainder of put protection – sell 2 940 put**

-Part 4 – Slide 48-

Trade 2 Log

- **10/27 exit opportunity #2 large value increase 25 DTE with continued large movements expected – No adjustments**
- **10/28 scale in add 5 1110/1160/1200 BWB and 5 1110/1160/1170/1150 BWC**
- **11/6 Major move Delta/Theta issue**

  ◦**Sell 10 1030/1080/1130 butterflies**

  ◦**Buy 10 1100/1070 verticals**

  ◦**Buy 10 1100/1140/1150/1170 condor**

  ◦**Sell off that extra 1080/1110 put vertical**

- **11/7 exit opportunity**

Trade 2 Log

- **11/10 Delta/ Theta issue sell 14 1100/1120/1140**
- **11/11 Delta/Theta issue**

  ◦**sell 10 1100/1120/1130/1140**

  ◦**sell 5 1110/1120/1130/1150**

- **11/12 Delta/Theta**

  ◦**Buy 2 1150/1190/1220**

- **11/17 Exit Opportunity**
- **11/19 r/r no longer make sense/ exit**

Trade 3 (Nearly identical situation as trade 2)
1/4/16

(Click for full size)

-Part 4 – Slide 51-

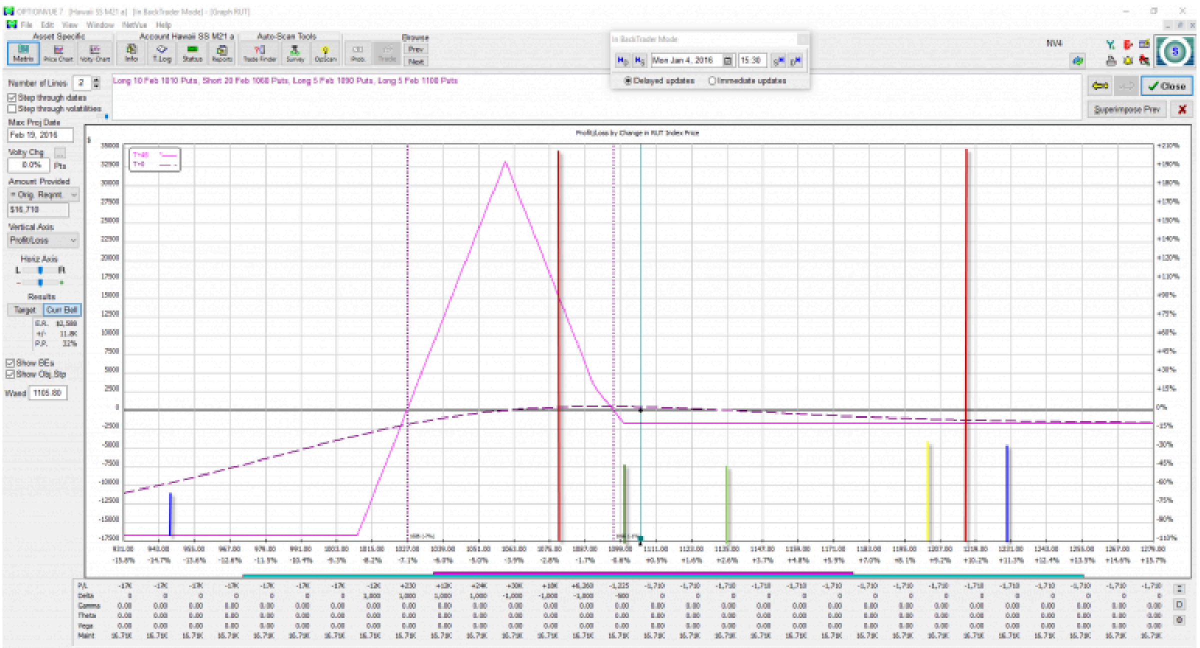
Trade 3 (Nearly identical situation as trade 2)
Note: Account Hawaii SS m21a – 1/4/16 Entry February Expiration

- Current price 1130
- Primary support 1080
- Primary resistance 1215
- Range 135
- Breakout target down 945 (1080 Support – 135 Range)
- Breakout target up 1350 (1215 Resistance + 135 Range)
- Speed from Support to Resistance 30 days
- Average speed 4 points per day
- 30 day trade 120 points = 1230 to 990
- 60 day trade 240 points = 1350 to 870
- Short term sentiment bearish to 1080
- Longer term sentiment bullish to 1215

(Click for full size)

-Part 4 – Slide 52-

Trade 3 Set Up Analysis
February Expiration – 46 DTE



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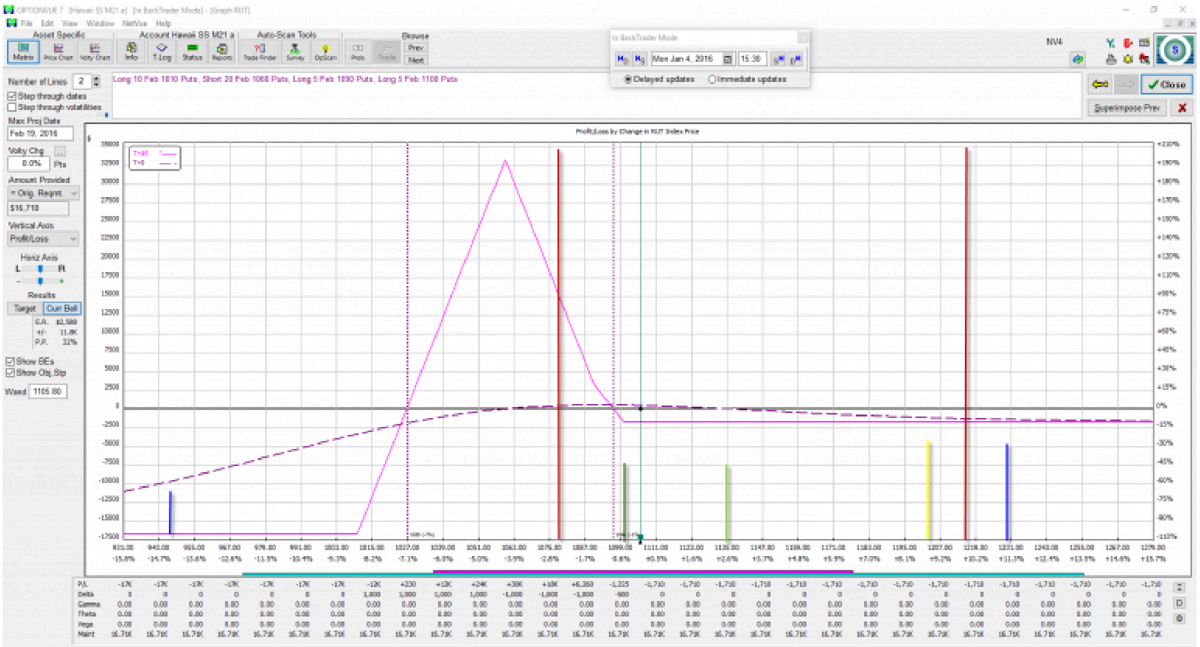
Trade 3 Set Up Analysis
February Expiration

- **Trade 3 1/4/16 entry 46 DTE 31.60 + 9.20 shorts around 20**
- Start down hedging at close under 1100 to deal with support level danger (plan for 40 point down no M/L)
- Buy put / then roll back only as needed
- Start condorizing flat Delta at 1135 neg Delta at 1200 in a manner that stays within ML at 1230
- PC with 10 lot start 3X entry
- 50K PC
- Likely profit around 5K or 10%
- ML 5k

Trade 3 Set Up Analysis
February Expiration



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-Part 4 – Slide 55-

Trade 3 Log

- **Trade 3 1/4/16 entry 46 DTE 31.60 + 9.20 shorts around 20.00**
- **1/6 down adjust Vol is up but will go a lot higher with support break. Want IV protection protection and upside reversal protection. Buy 2 960 put and sell 3 1090/1100 to keep Delta about the same**
- **1/11 Theta is negative and concerned with T+0 stability roll back position**
- **Roll back to 950/1000/1030 BWB**

  ◦**I'm also at a support point so I'll want additional IV protection but the front month is already up so I'll look at the back month and buy 1 890 put**

- **1/29 move put protection back into Feb and sell 890 march and buy 900 Feb**
- **1/15 move IV risk to back month ITM and sell verts for Delta (weekly better choice and more vert?) sell 2 March 960 put and buy 1 March 1040 put**
- **2/1 good exit date**

-Part 4 – Slide 56-

Trade 3 Log

- 2/4 good exit day – no adjustment
- 2/5 buy itm 1060 put Note: getting too close to exp to buy high IV
- 2/8 buy 1050 itm put
- 2/9 sell 900 put and sell 10 990/1000/1020/1030
- 2/10 good exit day
- 2/11 great exit day no stability in t+0 – buy 5 900/950/990 butters and sell 1 1120/1150 and 1 1120/1160
- 2/12 fantastic exit day
- 2/16 should be exited – Sell 10 1000/1010
- 2/17 add 3 980 calls and hope
- 2/ 18 Exit

(Click for full size)

Trade 4 Set Up Analysis

Account Hawaii M21 BWB c– 7/31/10 Entry September Expiration

- Primary support 770
- Primary resistance 870
- Range 100
- Breakout target down 670
- Breakout target up 970
- Speed from Support to Resistance 30 days
- Average speed 3.3 points per day
- 30 day trade 100 points = 690 to 890
- 60 day trade 200 points = 590 to 990
- Short term sentiment bearish to 770
- Longer term sentiment bullish to 870

(Click for full size)

-Part 4 – Slide 59-

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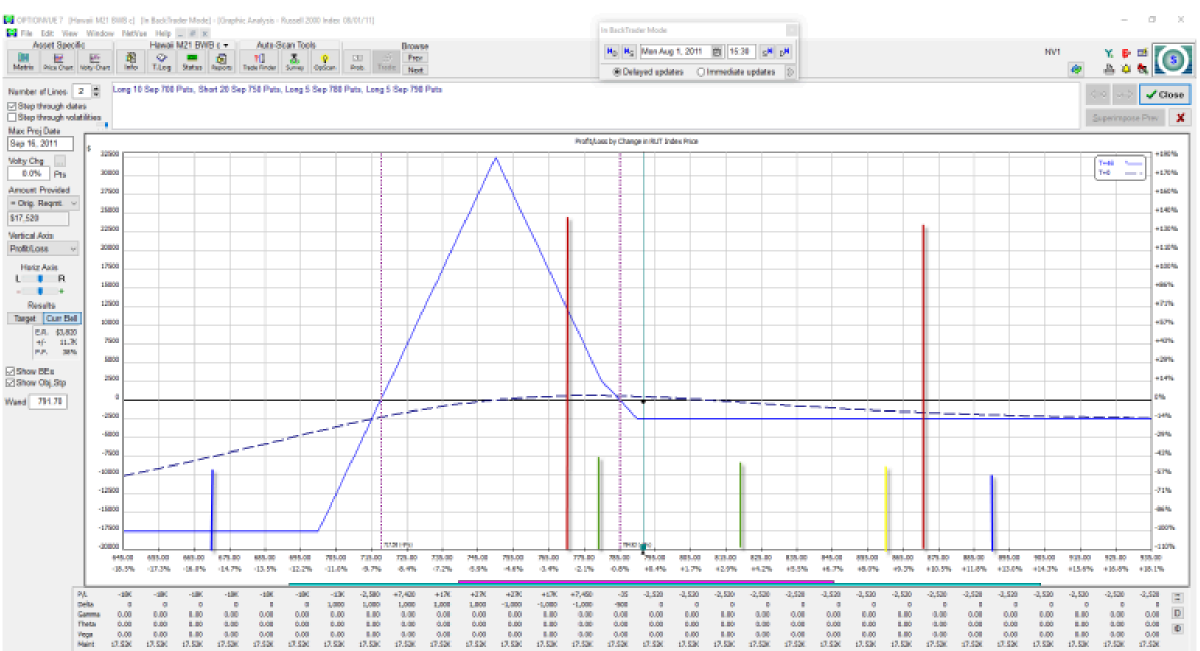
Trade 4 Set Up Analysis



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-Part 4 – Slide 60-

Trade 4
Account Hawaii M21 BWB c– 7/31/10 Entry September Expiration

- **Trade 4 8/1/11 entry 46 DTE 28.60 + 6.40 shorts around 17.00**
- Start down hedging with market under 780 (at checkpoint time) to deal with support level danger (plan for 40 point down no M/L)
- Buy put/ then roll back only as needed
- Start condorizing flat Delta at 820 neg Delta at 860 in a manner that stays within ML at 890 or D/T/V problem
- Scale in entry to up side
- PC with 10 lot start 3X entry
- 50K PC
- Likely profit around 5K or 10%
- ML 5k

-Part 4 – Slide 61-

Trade 4 Log

- **Trade 4 8/1/11 entry 46 DTE 28.60 + 6.40 shorts around 17.00**
- 8/2 Support break = a lot of likely movement. Buy something cheap that will protect against IV
- Bought 3 660 forward month put
- 8/4 switch to front month ITM put 840 – sell 3 660 Put and Buy 1 840 put reduce IV risk
- 8/5 Sell 840 put sell 5 780, sell 5 770, buy 20 750, sell 10 670, sell 10 660, buy 10 610
- 8/16 good exit day – no adjustment
- 8/17 good exit day – no adjustment
- 8/18 IV would by jacked but 41 point down move adjust to help against support break – sell 10 640/660/690/700
- 8/29 Scale in to bring tent closer to expiration – buy 10 630/680/710

-Part 4 – Slide 62-

Trade 4 Log

- 9/2 excellent exit day – no adjustment (exit trade, profit target exceeded – Follow Paper) – no adj but we are at borderline adj due to 40 point down move criterion
- 9/6 Widen and reduce down risk (40 point down move criterion) sell 5 660/680/690/710 and 5 660/690/700/710
- 9/7 widening tent due to DTE – sell 10 640/660
- 9/8 excellent exit day – no adj
- 9/9 doesn't make sense to stay in – sell 10 610/660/680 and sell 10 660/680/690 and sell 5 690/700
- 9/12 great exit day – no adjustments
- 9/13 outside tent near expiration, widen graph sell 10 660/670
- Let expire

-Part 4 – Slide 63-

End of Part 4

This Is Just The Beginning

Enjoy The Journey!

John Locke

Locke in Your Success, LLC.

"Know what you want, make it happen!"

-Part 4 – Slide 64-

I have been working with John for only a few months and he has already helped me become a much better options trader. I have tried a large number of option income strategies with mixed success. John's butterfly trading strategies produce a very good return with managed risk.

Bryan from IL