A WAy To Learn Options for Small Accounts

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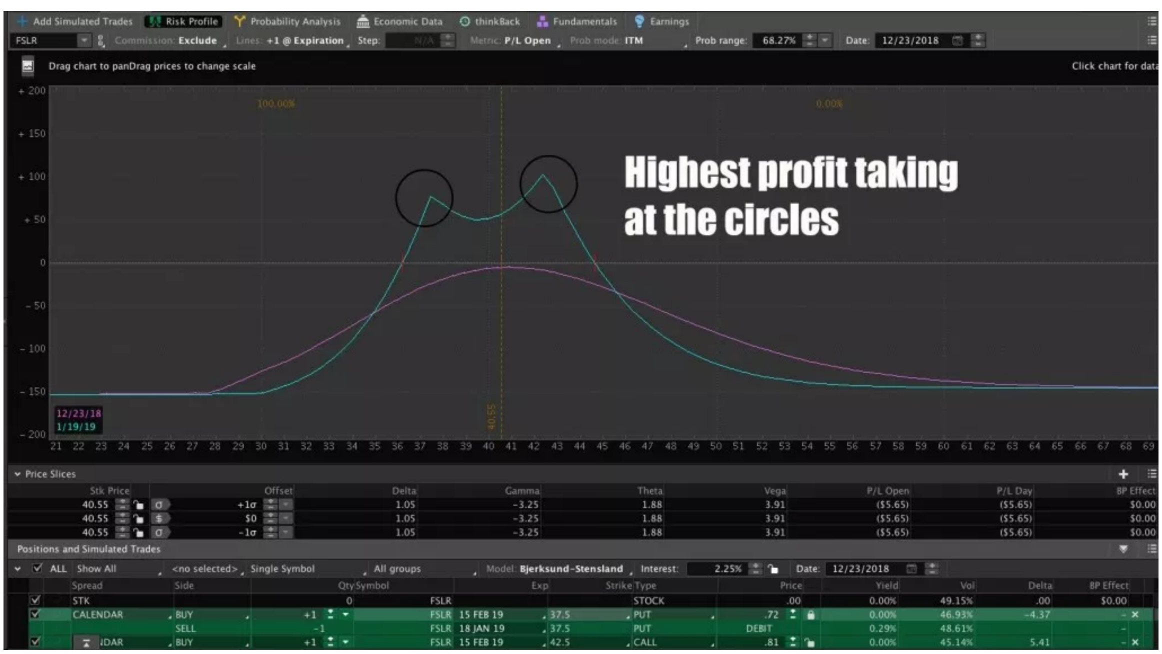

Week 34: Double Calendar Spreads: Know Anything Bout' em?!

Posted on 12/23/2018 by Doptionseller

$NFLX

Weekly trade here, where I opened a 7SEP18 weekly put-credit spread. Looking at the chart, NFLX looked like it hit a bottom and was due for a lower-high. Ever since it made it's true high for the year

Another trade in EWZ, even though I've been burned on this stock a couple times already this year. Looking at the chart, I can tell there was a bottom nearing, just had to find exactly where it was. Took in a credit of $.27 per spread.

$QQQ

Iron condor trade opened here. Higher lows were being made in the Q's, initially making it seem like the direction of the stock was bound for more upward movement. Towards the end of the year, the direction changed (obviously!). Had a $.31 credit per iron-condor.

$NUGT

MY Iron-Butterfly. My fave neutral strategy, since it is more cost-effective and still can have the same effect as an Iron-Condor. This trade was opened on 8/24 for a credit of $1.79. Not too bad of a credit, although I'm going to buy-back these contracts very early, at around a 30% profit level.

$AMD

Last trade opened for the week, AMD was on a meteoric rise, and continued on its nice upward trend. Getting for $.27 per spread was almost a GIMMIE.

Closing Trades

Security	Date Made	Max Profit	BP Effect	Strategy(Strikes)	Closed(Date:win/loss)	# of Contracts
AMZN	8/17/18	68	190.45	PC (-1832.5x/1830)	Win @.32 (8/21/18)	1
NFLX	8/21/18	65	193.45	PC (-325x/322.5x)	Win @.41 (8/22/18)	1

$AMZN

Made this put-credit spread trade in week 33. Looking back at these weekly trades, I consider myself very lucky on how many I actually won. I'm curious to see my win percentage and see if it's something I should visit later on in the future. I opened this credit spread on 8/17, and saw the profit materialize quickly. The stock seemed to be doing the normal pattern of the market at the time, making higher-lows, and continuing up. I wanted to trade in this position due to the pricing being good for the credit spread, taking in a credit of almost $.70. Luckily, AMZN hit its top for the year, and then started to slide after I had already closed the position.

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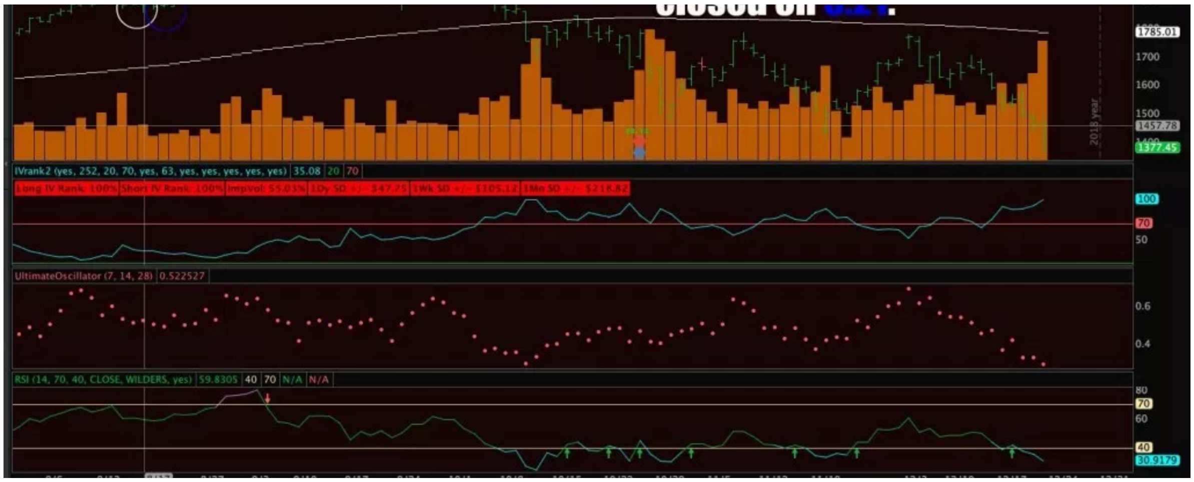

$NFLX

Another one of those, more lucky than smart trades. I opened this trade on 8/21, and closed it the following day, on 8/22. Netflix took a dive after earnings, and I initially thought it would bounce back with a vengeance. Thinking this I went ahead and did a weekly credit spread, taking in a healthy $.65 credit for the spread. Weekly credit spreads are the only way I could play this security, with it being a high-priced stock. The stock did bounce from 8/17-8/27 where afterwards it took a halt, and then decided to shoot back down.

The Interesting Double Calendar Spread

What we're interested in today are these weird, double calendar spreads! Now, let's briefly go over what a calendar spread is first. A calendar spread or "time" spread, is a spread usually playing for volatility to go up in the future, or the stock to stay tranquil near term. A calendar spread involves selling a front-month contract, and BUYING a further out back-month contract, at the same strike

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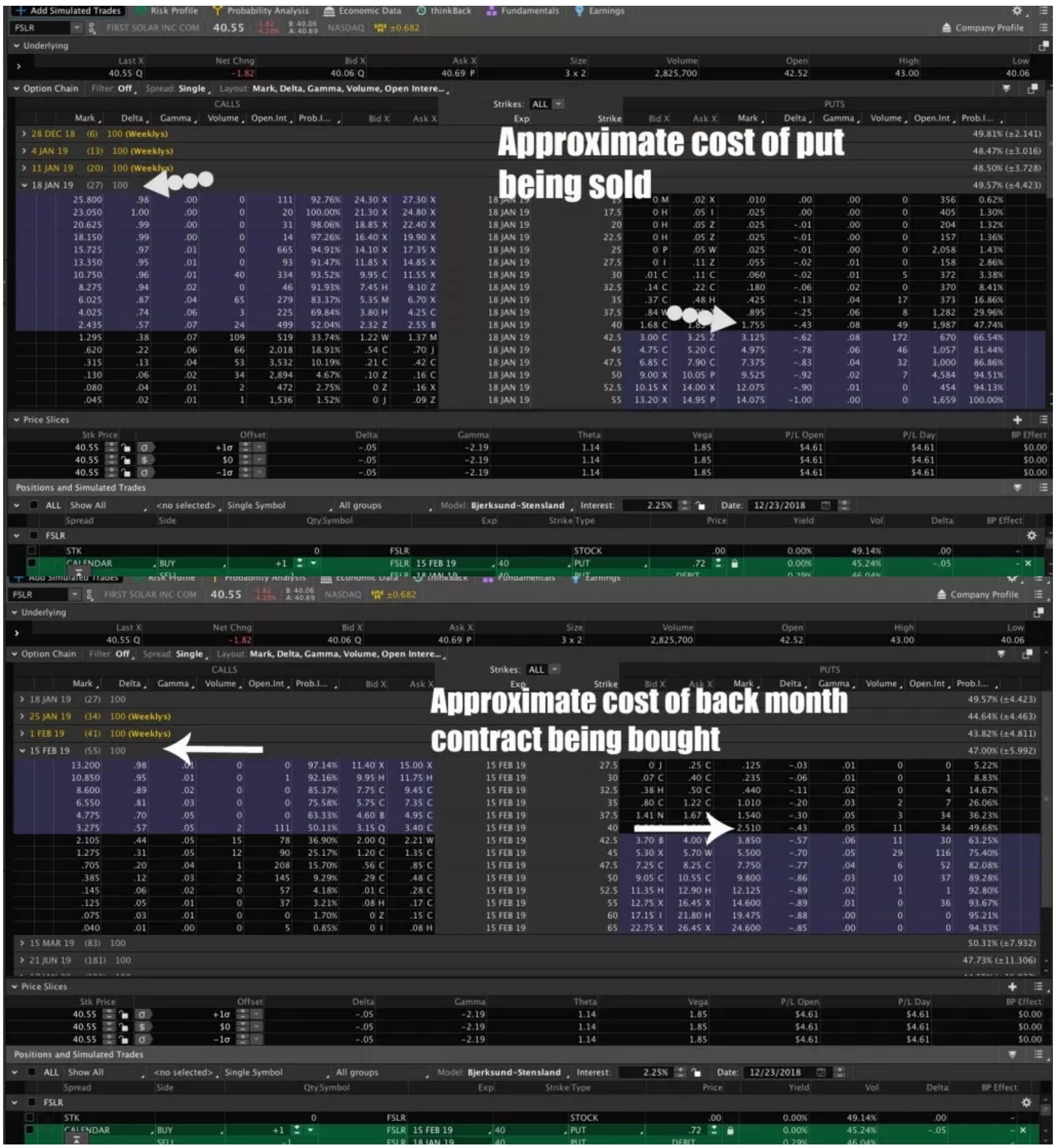
And usually the legs(calls or puts) are bought at a 1:1 ratio.

Usually these are bought for a net-debit. The short, front month contract alleviates some payment from the long, back month contract. Although a contract is sold, the long option is the more expensive contract compared to the front month contract being sold. That is why it ends up being a "net debit."



We're not going over, "short" calendar spreads, because those are rare and expensive plays that turn into naked positions.

Double calendar spreads are slightly more complicated than regular calendar spreads. Instead of involving 2 legs and being somewhat directional with the play, the double calendar can be considered a non-directional play, hoping that volatility goes up in the near future.

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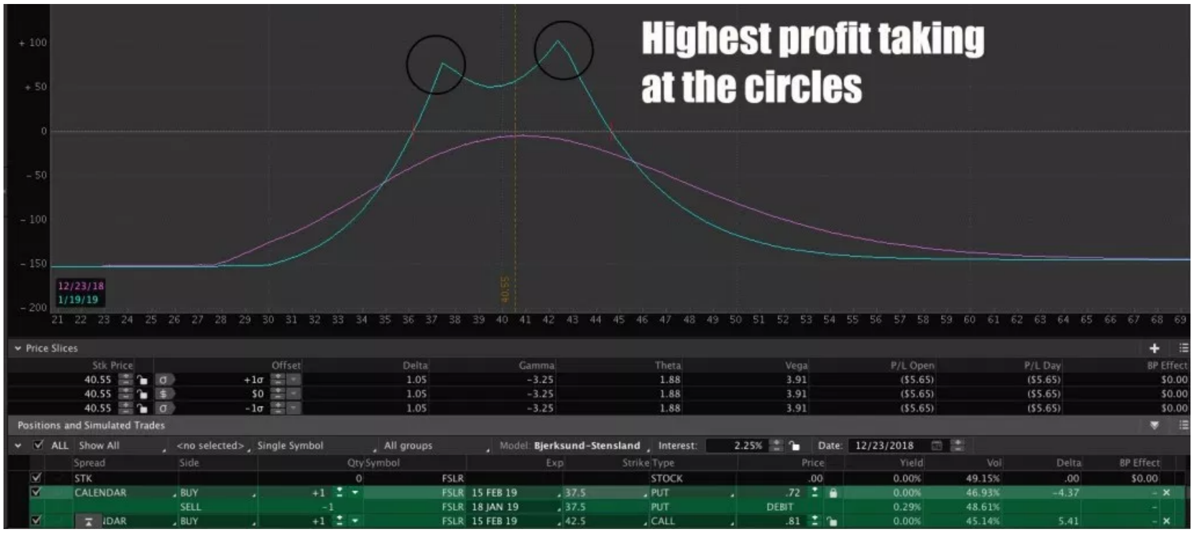

Looking at the example above, in $FSLR we can see that we're short the 42.5x calls and short the 37.5x puts making a pseudo-short strangle, and then long option legs for protection. Even though there could be profit taking in between the short-strikes of the double calendar, the highest profit is made when the security lands on the exact strike price for the double calendar spreads. Now, doing a rough calculation based off the graph, If you we're to close out each of the spreads in between the actual placed strikes of the trade, It would be a 32% ROC ($50/$72+$81). Now, this isn't counting commissions, but this could be a pseudo-strangle, something I'd like to test in the future.

When would we use these?

–Earnings plays(link to page)

-Prediction of higher volatility upcoming in the market

Earnings Plays

I really like using these for earnings plays, especially if the stock's volatility has a tendency to go up before earnings. The hardest part with making these trades is, you guessed it, timing.

Usually stock's volatility goes up 30-45 months prior to earnings, but this can vary between each stock. My best idea is to check websites like earningswhisper.com or google "earnings for $XYZ" stock and see if you can set some alarms to check volatility. 45 days should be enough time to make the trade and see a rise in volatility.

Higher volatile markets, incoming

When are markets calm?

$VVIX:$84-$95 range.

$VIX:$11-$15 range.

If these two securities are sitting around these ranges, it’s a calm time in the market and volatility is

Thoughts

The one thing that I didn’t mention above, pricing! For me, double calendars are not possible, as they are too expensive for my tiny portfolio. Remember, I would have to buy calendar spreads on both sides of the market, paying a net debit for both positions (Edit:look at $FSLR, this isn’t completely true!).

My delta ended for the week at 13.7, not where I want it at all. However, my account seems to be growing. The market at the time was continuing to make new highs, and my initial setup with the $QQQ Iron condor made my portfolio more bearish than needed. My hopes is that I will close out of some trades the following week, and my portfolio will become a bit more neutral.

Hey! GIVE ME FEEDBACK! I need it, and would like to hear what you’re thinking.

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