SIFI TRADING

SET IT & FORGET IT

SPX 7 D.T.E Strategy

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Set It & Forget It Trading

You want to trade the SPX.

First, let me explain what SPX is. SPX is the S&P 500 Index. The S&P 500 tracks the 500 largest companies. This can give you a better idea on how the market is doing overall, on any given day.

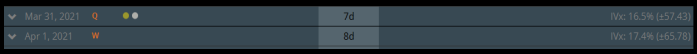
Those familiar with the stock market also know that there is an underlying called SPY. This is an ETF that is directly correlated to the SPX Index. Another almost perfect correlation is the /ES E-Mini Futures, but that is another lesson. SPY and SPX are almost perfectly correlated, with one major difference is the size. SPX is $3,900 index where SPY is just $1/10^{th}$ of that size. This means as SPX moves, SPY will correlate almost perfectly.

A notable difference is that SPX is a cash settled product, which makes it a favorable item to trade. What does this mean? This means that if you were to trade SPX with a long call and it expired in the money (ITM), your account would then be cash settled for its closing price. If you have ever pulled up SPX during market hours, you will notice that it does not physically trade as there is no underlying asset assigned to it. However, if you were to be ITM on a SPY (or any other equity (COF, AMZN, TSLA) long call at expiration, you could wake up Monday morning to an assignment of 100 shares long on that underlying, and a possible margin call.

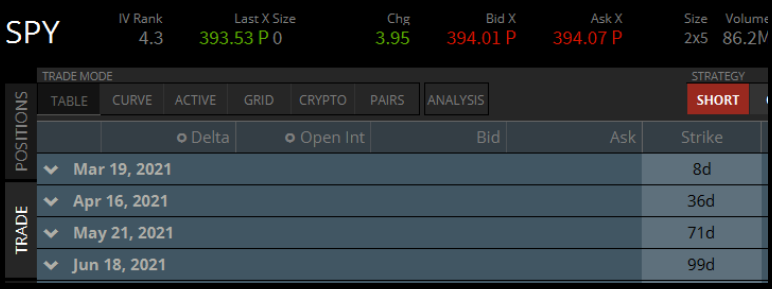
Another difference is that you cannot be assigned early when trading the SPX versus the SPY and other equity options. Since SPX is cash settled, if you were to have a short put that is ITM days prior to expiration, there is no way for anyone to exercise that option. However, if you had a short put on SPY, or again say AMZN, DIS, ETSY, that was ITM a few strikes, the buyer could exercise that short strike prior to expiration and you will find yourself long those 100 shares on that equity the next morning… and if your account can't handle that, a margin call to go along with it.

So what exactly is a 7 D.T.E trade?

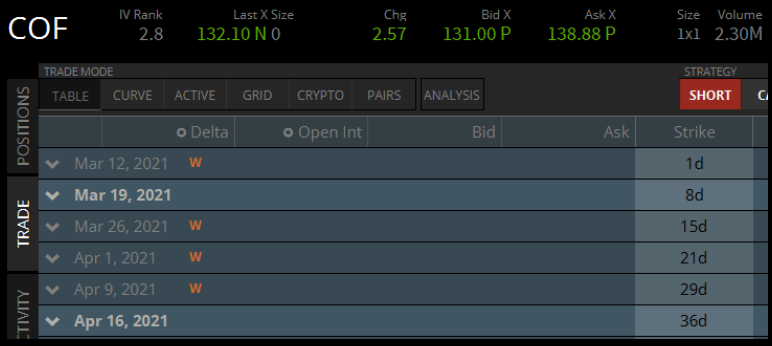
7 D.T.E stands for seven days to expiration, meaning that this is a shorter term play that is put on during a weekly expiration. See below as the Mar 31st expiration has 7 days left in that expiration.



As you see below on SPY, these are monthly expirations expiring on March 19th, April 16th, May 21st, and June 18th. Each of those dates equals to the third Friday of that month.

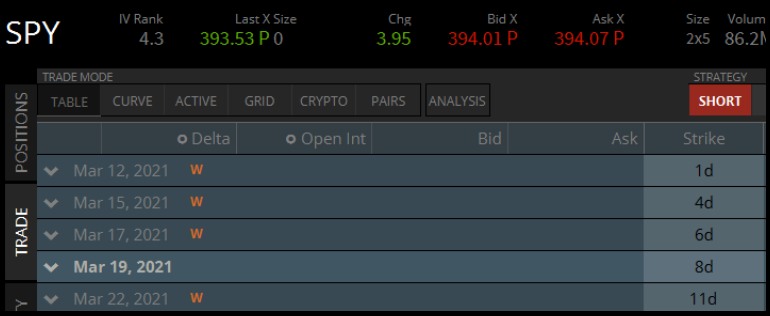


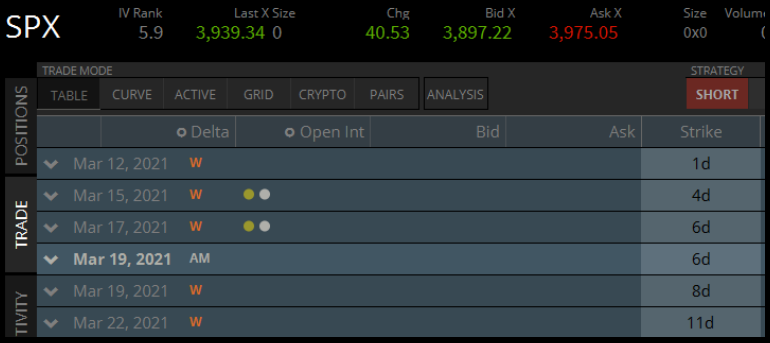
Now, liquid products also can have weekly expirations, meaning they will have expirations on every Friday.

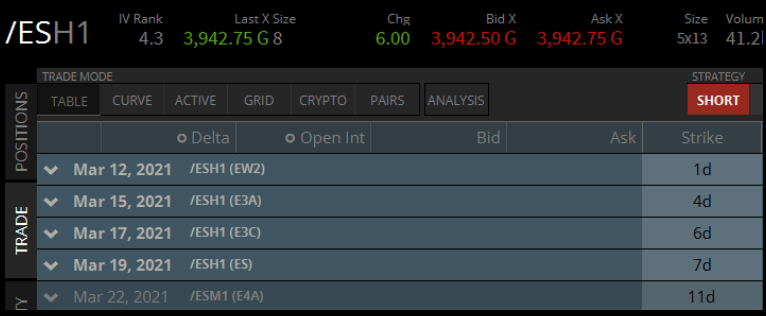


You can see here on COF, there is an expiration on every Friday of the month. The expirations with a W show that they are the weekly expiration. The others, that are not marked, are the monthly expirations.

The S&P 500, on the other hand, has even more "weeklies" and offer's expirations every Monday, Wednesday, and Friday. This goes for both SPY, SPX, and the /ES E-mini Futures.







This is where we take advantage of the 7 D.T.E strategy and can apply it 3x a week for maximum trading.

There are two different strategies that I use for this 7 D.T.E play. First is a Vertical Spread and the other is the Iron Condor.

What is a Vertical Spread? A Vertical Spread is a neutral to directional strategy. There are four different types of vertical spreads that you can put on. A Call Debit Spread (Bullish), a Call Credit Spread (Bearish), a Put Debit Spread (Bearish), and a Put Credit Spread (Bullish). Took keep in line with this strategy, I will only focus on the Call and Put credit spreads.

A vertical spread consists both of buying an option and selling an option. The order in which your do this will determine if it will be a credit or debit spread.

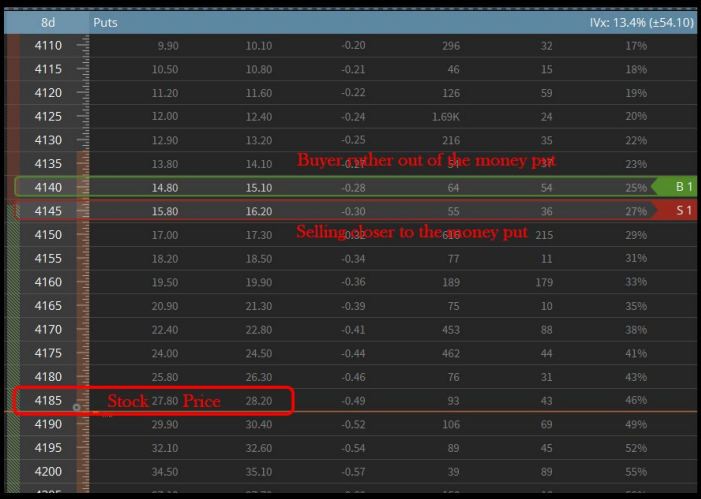
When you sell credit spreads, you are always selling the option closest to the money and then buying an option that is further out of the money (OTM). You get the credit by selling a higher priced option (thus closer to the money) and

then buying an option for less further OTM. Your credit will be more then the debit, and this is what gives you your potential profit.

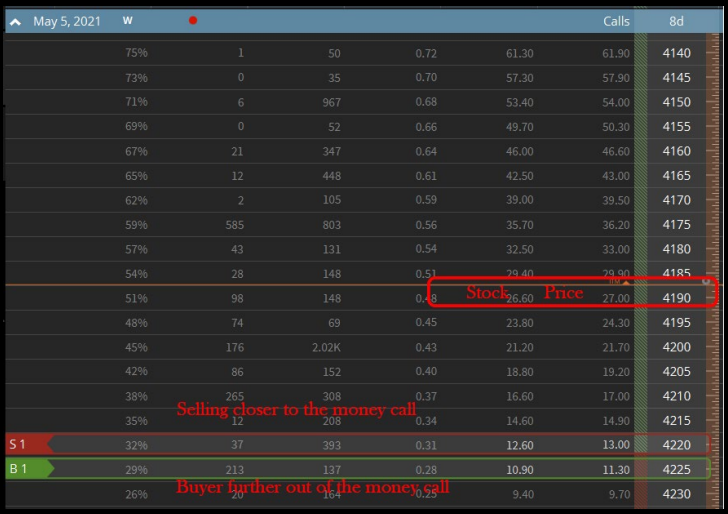
What is an Iron Condor? The simple answer is that an Iron Condor is a neutral strategy that consists of two of the vertical spreads from earlier, one call spread, and one put spread.

First, let us talk about expiration. If you are completely new to option trading, then you may have no idea what I am talking about. Unlike stock, where you would just buy and sell shares, options must be purchased in an expiration cycle. Without getting too deep into this, I can tell you that all options trade on a monthly expiration, which is the third Friday of every month. As shown earlier, others will also have weekly expirations as well.

As I mentioned earlier, a Vertical Spread consists of selling an option and buying an option, see image below.



Above is considered a Vertical Put Spread (vPs) that results in a bullish play and an overall net credit.



And this would be a Vertical Call Spread (vCs) that results in a bearish play and overall net credit.

When talking about the Iron Condor, you just combine the two examples above and you will get something like the example below. This creates the neutral strategy, and you are profitable only if it stays between the two short strikes from both vertical spreads.

And this is what it looks like through the analysis tab:

As you can see from the images above, the green line on the first image and the green box on the second image show you the “zone” in which you would be profitable come expiration. What this means is that if the stock price is inside this green area at the day of expiration, you will achieve 100% max profit. Therefore, it is considered a neutral strategy, since you do not want it to travel too far up or down from the current price.

Now that we have laid out the basics on how to put the trades together, the next question you are asking is “How do I make the money now?”

This is where Theta comes into play. Theta is one of the Greeks involved with option trading that works in our benefit when selling options. If you have been trading long options, then it is possible you have heard the term “Theta is your enemy.” This is absolutely true, if you are buying options. However, when you are a seller of options then Theta becomes your best friend.

You may have noticed that if you have ever held a long option that was out of the money (OTM) longer than you should have, it is now trading at an exceptionally low price. As time gets closer to expiration, you would need a larger and larger move for that option to become profitable again. Which may not even be possible depending on how much time you have left in that expiration and how far OTM you are. If you do not get this move, then by expiration it will expire worthless, and you will have lost all the money you paid for that option.

It is the exact opposite when selling options. When we put on a Vertical Spread or an Iron Condor, the strikes we use are OTM, and we want them to stay this way. As the time passes, Theta will start to come out and the option prices will decay, thus giving us profit. Yes, you can hold out for 100% profit, but that is usually a risky play, so we look to buy back these options for 50% of the credit we received.

Why only 50%? Well, you can only make 100% when selling options. Unlike long call options, where the possibilities are of infinite gain, when you sell an option you can only make 100% of what you sold it for. For instance, if you sold an option for $1.00 then the max you can make on this trade is $1.00 or 100%. Usually, this profit comes fairly quickly, and we can exit a trade for 50% - 75% profit within a few days. It becomes riskier to hold a trade longer than this since all it takes is a quick move in the market to go from a winning trade to it becoming a complete loser. Protect those profits!

This is especially true when it comes to trading on very short-term expirations. On a 7 DTE you only have 7 days for this play to reach your profit. If you hit 50%-75% within 2-3 days, it is best to take the money and run. As one pullback day in the market can literally turn that winning trade with 3 days to go into a max loser with little to no chance of recovery.

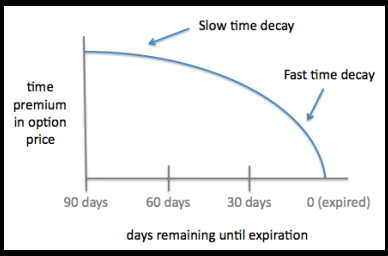
Now when you are playing the normal 30-45 DTE trade, the 50% is still key as this usually happens on average about 9.87 days on average into the trade (for me). When you are putting on a play out 30-45 days and you hit 50% of

your max profit in less than 10 days, it is highly recommended that you protect your profits and move on. Why risk that 50% gain to try for 10%, 20%, or even 30% more when there is so much time left for the trade to go against you.

So now you are probably asking, why should I use the 7 D.T.E weekly expirations and not 30 to 45 D.T.E like you teach in your service?

This is because of the Theta Curve. Options decay slower with expirations that are further out in time and faster as you get closer to expiration. While the 30-45 D.T.E is a good expiration for the typical trades that you plan on holding for the average 5-10+ days, it is not so much for the quick Theta decay and fast profits that we aim for with the SPX strategy.

Example of the Theta Curve:



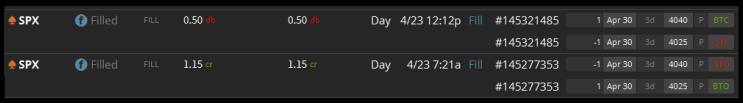
We are looking to turn over these SPX trades in just a couple days, not weeks. By putting it on in a 7-day cycle, we are maximizing the Theta decay as much as possible.

The ultimate time to put this play on is… well, sorry, there is not one. Market conditions will dictate the time when you put this play on. Sometimes you just do not, and you pass. Other times the markets are being favorable, and you can put this on fairly early in the day. And when the market is trending too much in one direction or the other, you will just have to wait for the market to slow down before putting it on. Just remember, you want to be as centered as possible, for the Iron Condor, and not put it on only to have one side tested an hour later and not on the highs or lows of the day for the Vertical Spreads

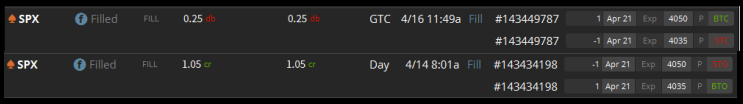
Once the trade is on, I set it with a .50c debit, for Iron Condors, and a .25c debit, for Vertical Spreads, GTC (Good-Till-Canceled) closing order and let it do its thing. Very rarely do we need to manage these trades and can usually expect to see the 50-75% profits in a matter of a few days.

Here are some example trades at the time of this writing.

I want to show this one, though it rarely happens can happen and instead of a 2 day or even 3 day hold, it turns out to be a day trade. This play I put on was early into the market open with a Vertical Put Spread. Then, after a full day of trending markets, I was able to close this spread the same day during the last hour for a gain of 56.52%!!

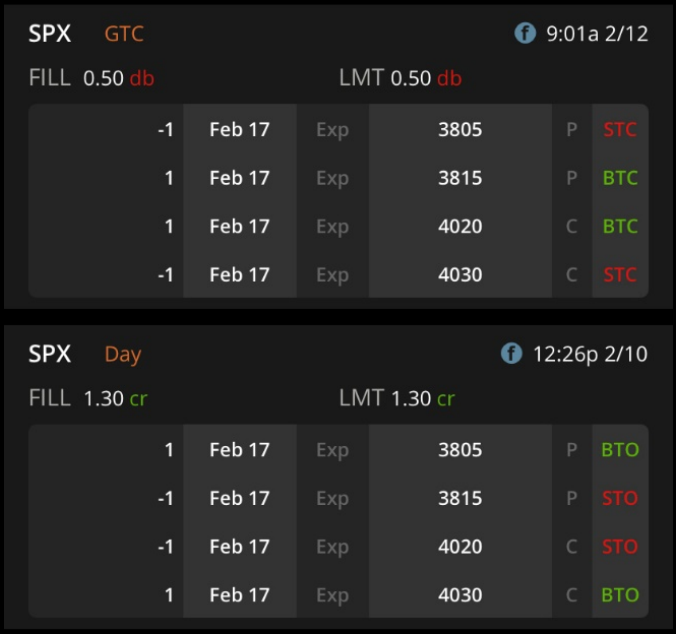


Then there was this play put on a Friday just before lunch hour and was able to take it off that next Monday prior to power hour. A 2 day hold and 76.19% gain!

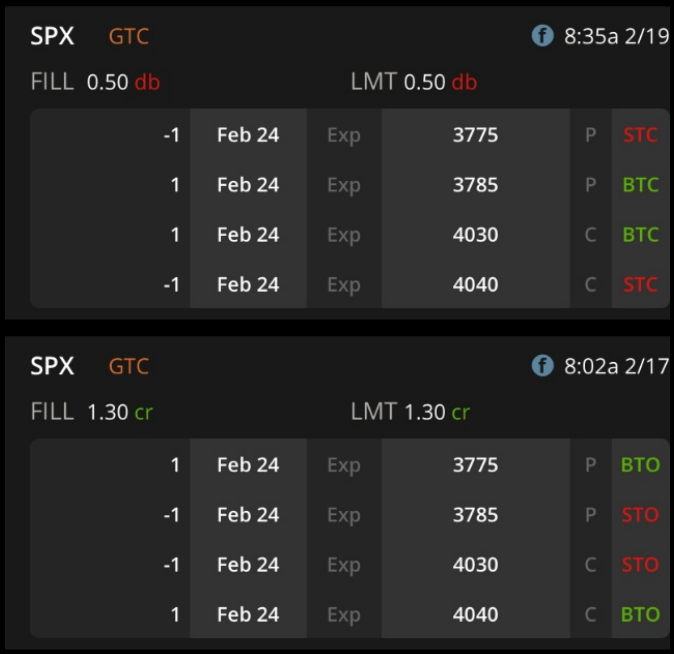


This play was put on 30 minutes before the close on March 12th for the typical $1.30 in credit. Had to hold it slightly longer, 6 days this time, but right at the bell on March 18th I got price improved to a .40c debit and a nice gain of 69.23%

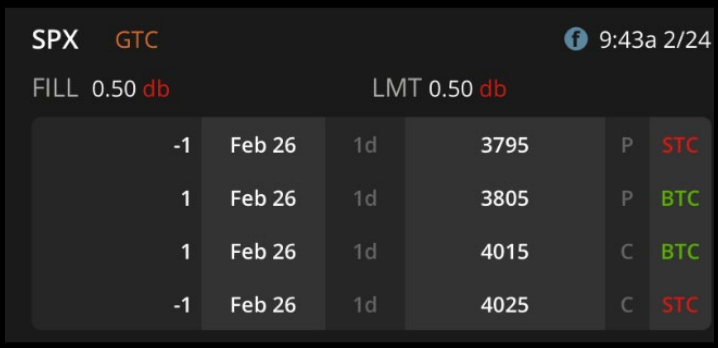
This play was put on February 10th with just 30 minutes left in the trading day, and then 2 days later right at the opening bell, this trade closed for a 61.54% gain.

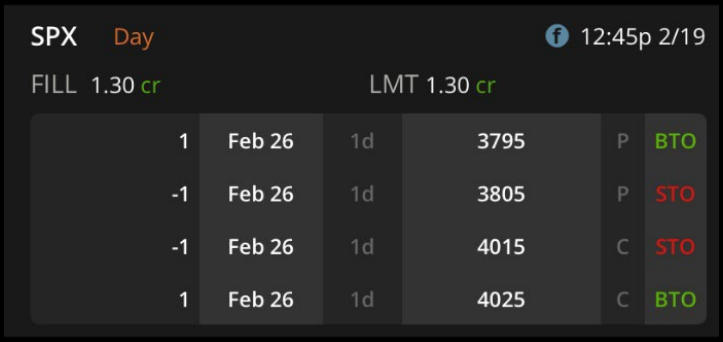


Here is another one, I put it on right before lunch* on February 17th and closed it two days later for another 61.54% gain.



And then there is this one. Held a little longer but same scenario. I put it on February 19th, and closed it five days later for; once again a 61.54% gain.





*Times are PST