

Using Greeks to Determine Maximum Time to Hold an Iron Condor

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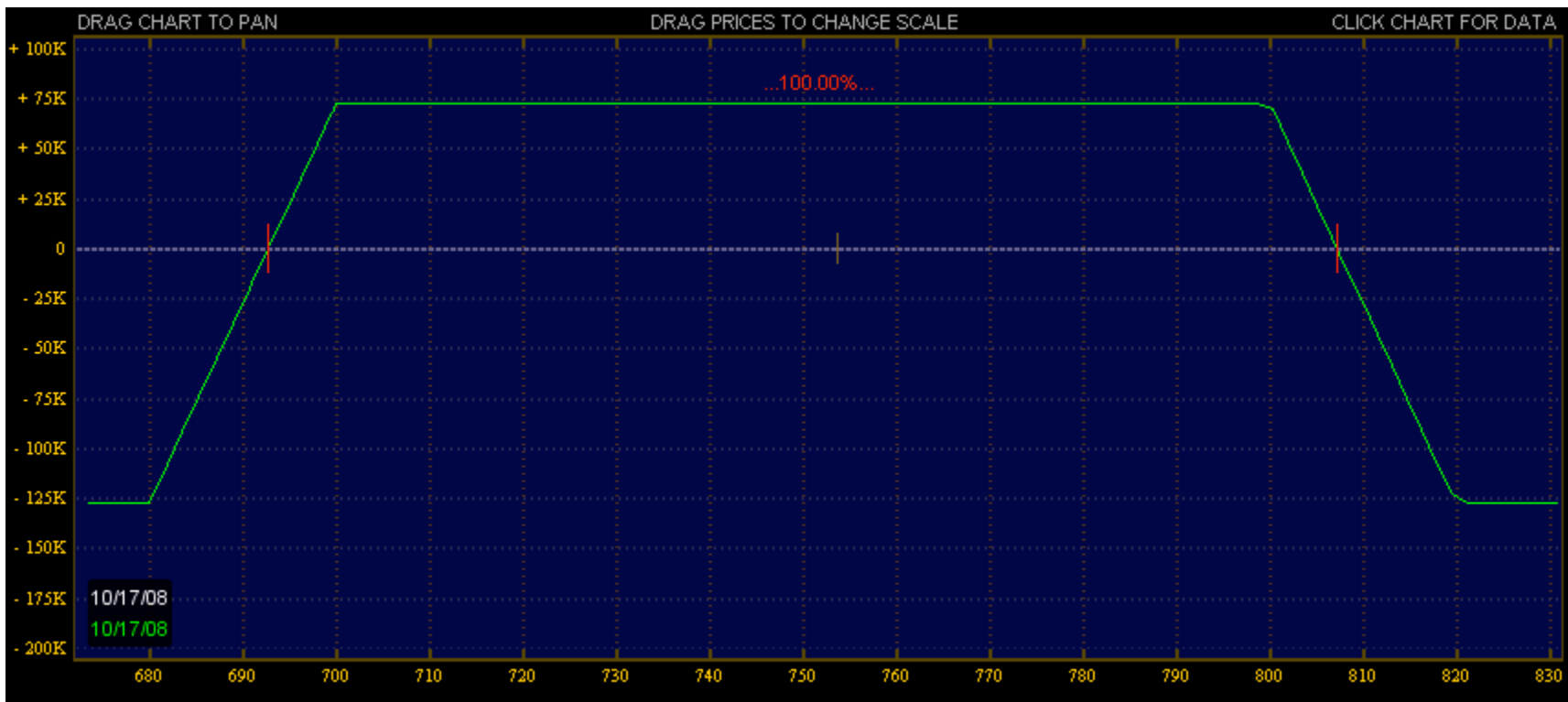
Questions?

E-mail them to adildastur1@yahoo.com

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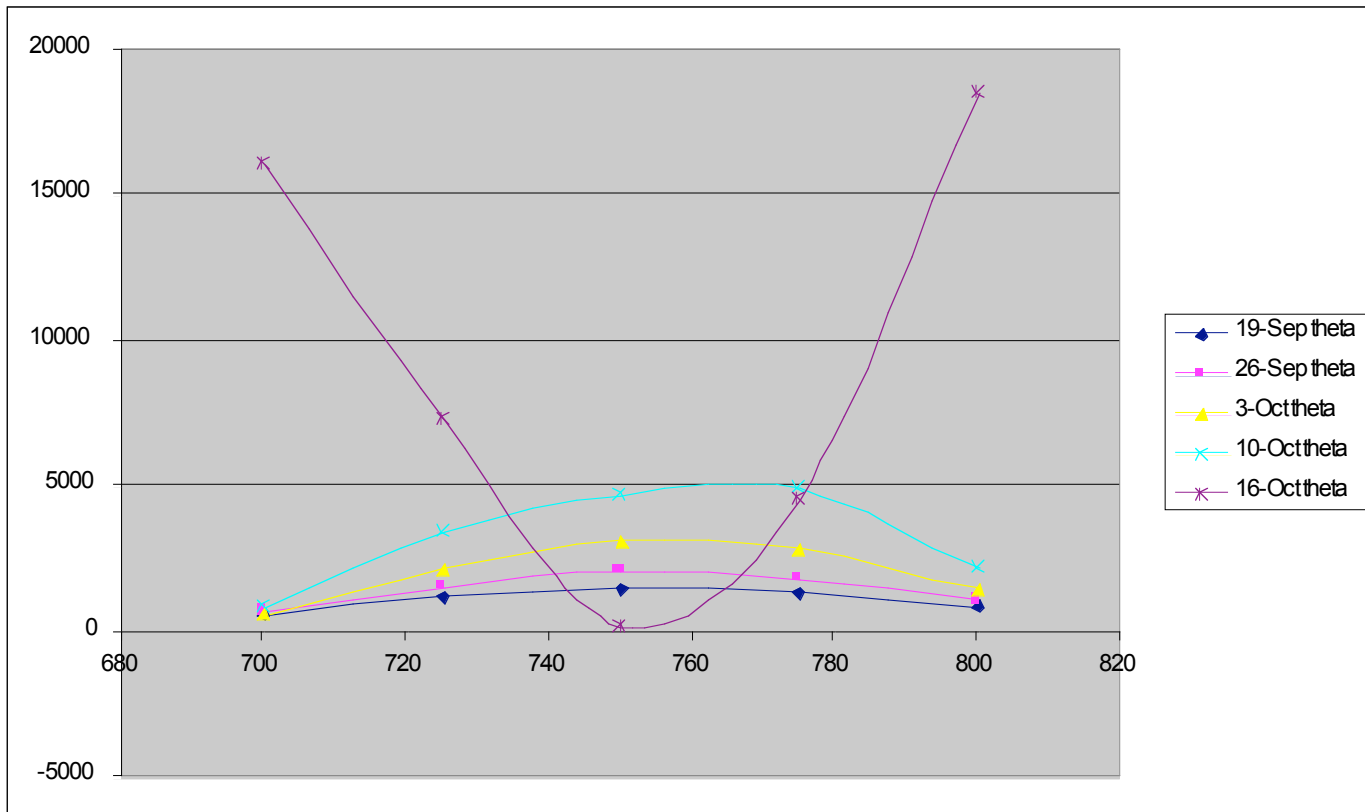
- Many options teachers profess to get out of a short option 4-10 days before expiration. This presentation shows you why and how to precisely determine that time.
- In other words, this presentation shows how to determine the time frame when it gets dangerous to hold an iron condor and the specific time to exit based on theta and gamma.
- There are other guidelines on when to get out based on price (delta) and volatility (vega). But these are not presented in this presentation.

Sell 100 October Iron Condors
@ 680/700/800/820
price = 750, IV = 38%



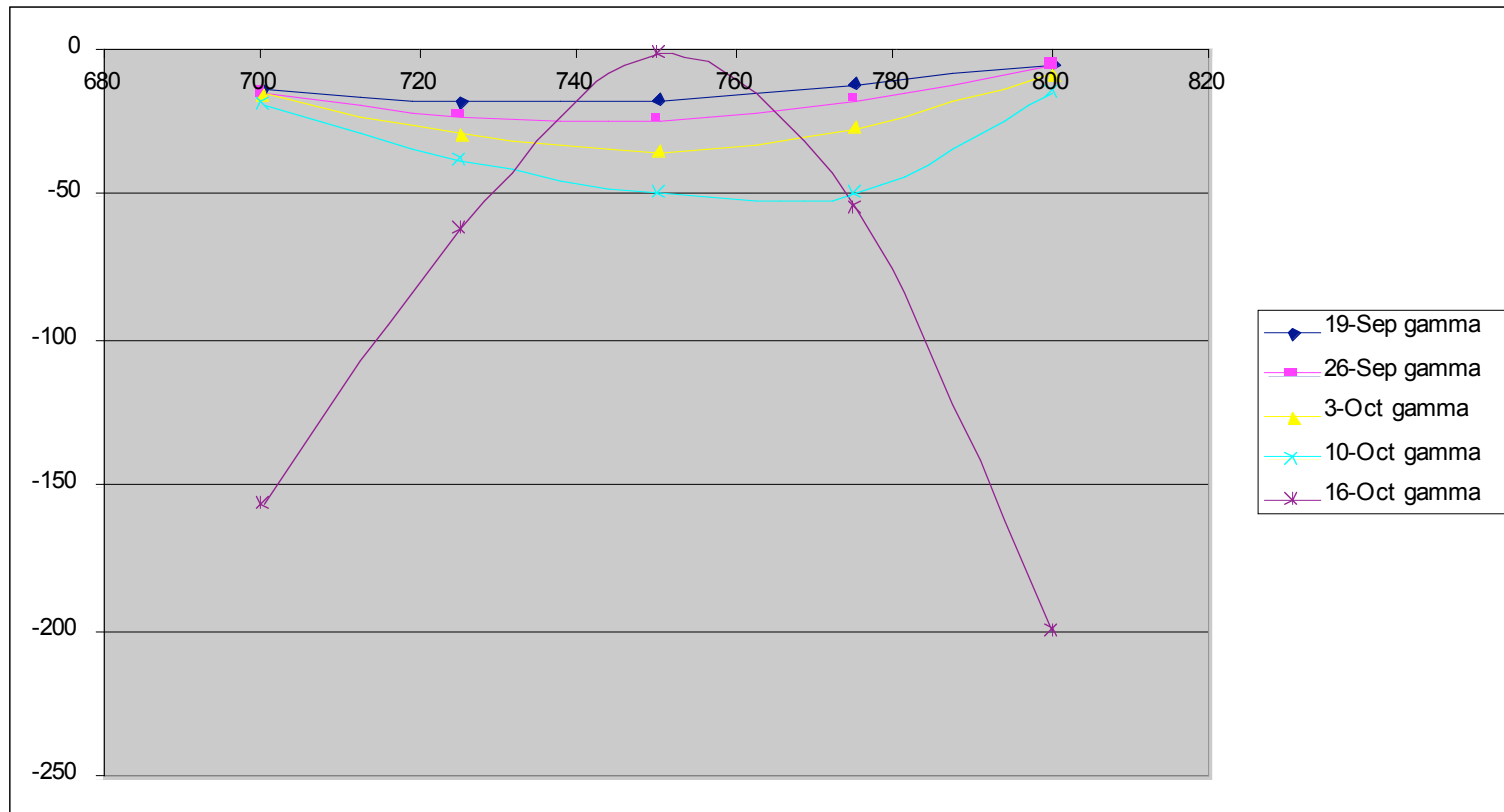
Theta Over Time

When theta is no longer increasing over time, it becomes less lucrative to hold the position and there may be better investments. In this case, theta increases for the first 3 weeks and then decreases going into the 4th week at the center price.



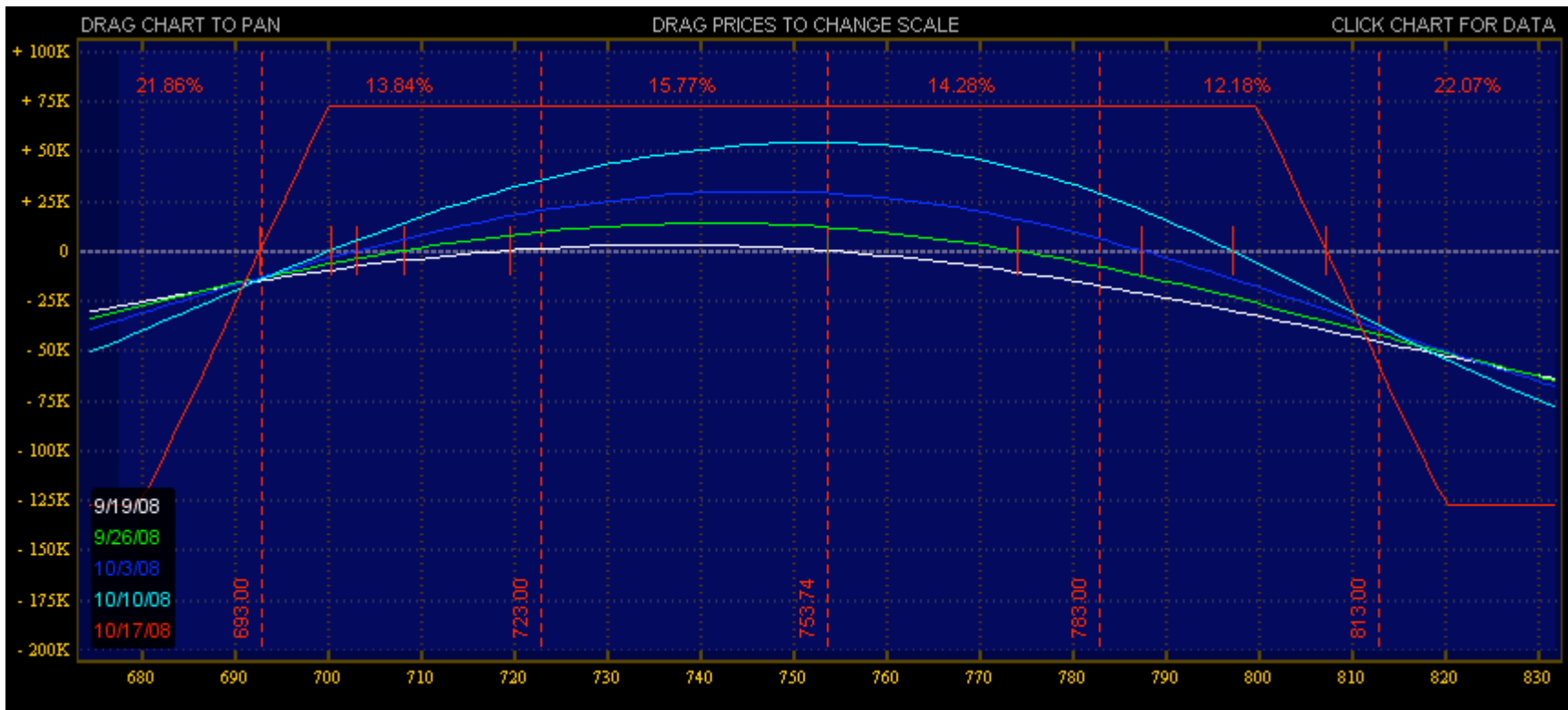
Gamma Over Time

When gamma changes concavity, the “fall off a cliff” potential increases drastically
In this case, gamma changes concavity going into the 4th week. See next page for more details.



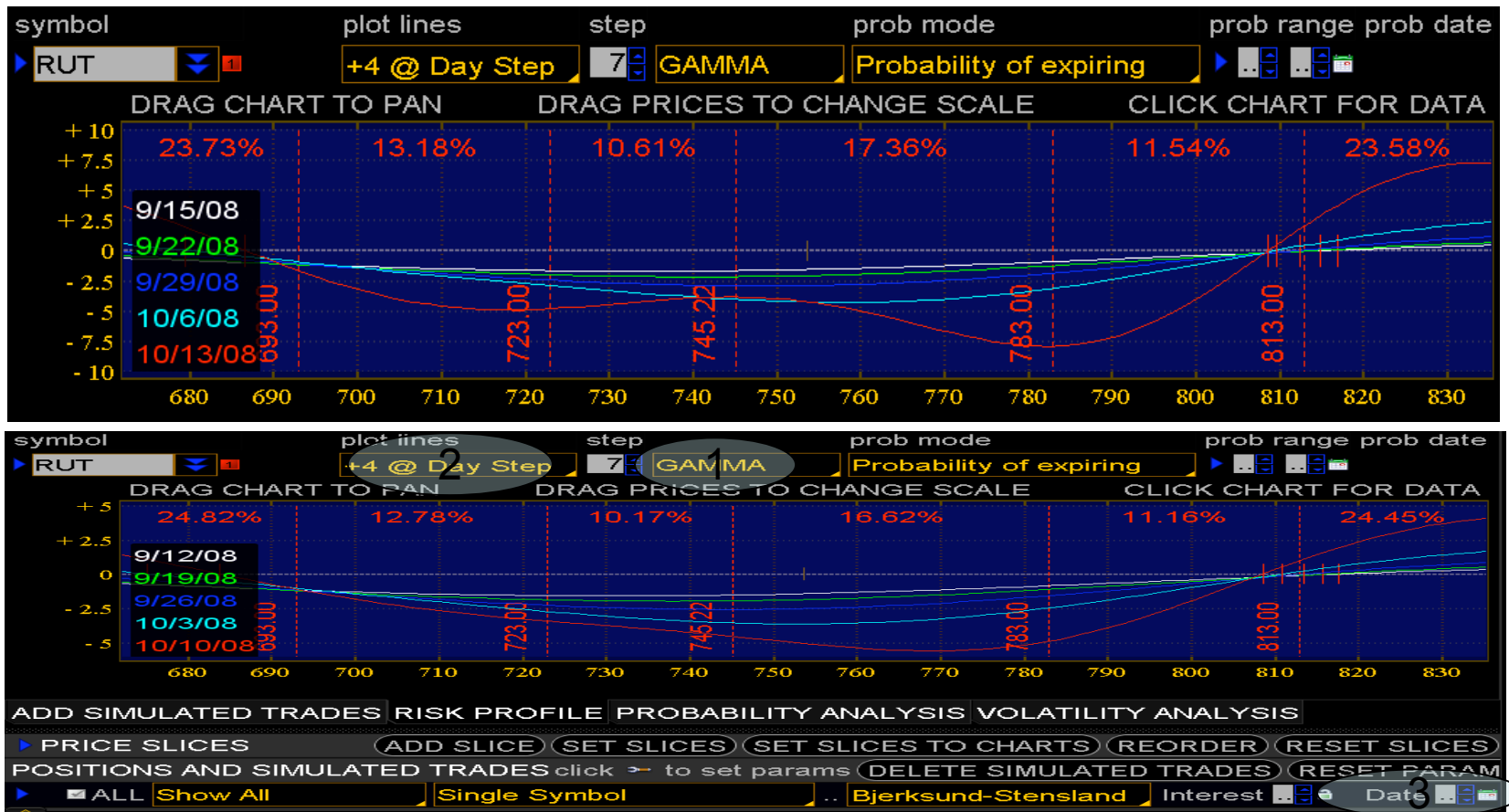
Profit/Loss Change Over Time

The danger for profit to “fall off a cliff” and turn into a loss increases over time. The measure of curvature is gamma (larger gamma = more curvature). The bottom curve has the least curvature (smaller gamma) and the top curve has the greatest curvature (larger gamma). The potential for profits to turn into losses increases with curvature, which makes larger gamma more dangerous because that presents a runaway delta condition (larger gamma results in quicker changes in delta). When delta runs away so do potential losses. Get out before the gamma curve changes concavity! The previous page shows the change in gamma concavity going into the week of options expiration in an excel chart. The next pages show the same data on the analyze tab from which the excel chart was created.



Gamma Over Time

The excel chart on page 5 shows the change in gamma concavity going into the week of options expiration in an excel chart. This page shows the same data on the analyze tab from which the excel chart was created. The red curve on the top chart is gamma on expiration week Monday and the red curve of the bottom chart is gamma on the previous Friday. Gamma concavity changes over the weekend indicating to get out on or before Friday of the week before expiration. The exact time when gamma concavity changes may vary. Use the analyze tab to determine when this actually happens by doing the following: 1) select gamma, 2) select day steps, and 3) advance the date 1 day at a time until you see the gamma concavity change.



Delta over time

This slide is for reference. Getting out of a short option position based on delta will be determined by price not time. Getting out based on price is beyond the scope of this presentation.

