

Trading the 'tos' Method With Tyler Bellis

Session #2 Entry: iron condors and put calendars

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This course will be:

Six sessions

Every other Thursday, one hour long

- 2 sessions on Entry/Greeks
- 2 sessions on Management
- 2 sessions on Exit

Every session will be structured:

- 30-40 minute presentation
- 20-30 minute Q & A

***please mute your phones to minimize background noise.

Objective: the objective of this six week course is make you more knowledgeable and proficient in the 'tos' trading method. This is not the only way to trade the 'tos' method and is not the Holy Grail. It is just my interpretation based on my instruction, study, and experience trading in this manner.

Bottom line: to become a more consistently profitable trader.

Options involve risk and are not suitable for all investors. Every investor who deals with options should read and understand the publication "Characteristics and Risks of Standardized Options."

There are inherent risks involved in the stock market and these risks should be considered prior to any decision.

Options involve risk and are not suitable for all investors.

This document is for educational purposes and is intended to describe how tos system is used. Nothing written is to be taken as advice, please consult with your broker or financial advisor before placing any trade.

CFTC RULE 4.41 Hypothetical or simulated performance results have certain inherent limitations unlike actual performance record: simulated results do not represent actual trading. Also, since the trades have not actually been executed, the results may have under- or overcompensated of the impact, if any, of certain market factors, such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No presentation is being made that any account will or is likely to achieve profits or losses similar to those predicted or shown.

All examples are for educational purposes only.

Quotation from: Anthony J. D'Angelo, The College Blue Book

Your mind is like a parachute. It only works if it is open.

Random quotation from anthony j dangelo:

In your thirst for knowledge, be sure not to drown in all the information.

Session #2 Entry: iron condors and put calendars

Objective: to learn the tos criteria for putting on iron condors and calendar spreads. Think of this session as the ‘what, when, where, why, and how’ of trading the tos iron condor and put calendar.

Remember the main purpose to put on iron condors and put calendars is to build theta or time premium in a controlled market neutral fashion.

Things to remember:

- We don't 'know' what the market is going to do.
- We trade market neutral as much as we can.
- Trade with as many greeks working in our favor as possible (or neutralize them as much as possible).
- Be a seller of time premium.
- Highly liquid index type products are a good thing (SPY, DIA, IWM, QQQQ)

Iron condors

The TOS Iron Condor:

- sell iron condors when the VIX is high and the market is dropping. When the VIX is high ALL options are more expensive. We want to sell expensive and buy back cheap. This is represented in the negative Vega of iron condors (verticals).
- Since the market typically moves one standard deviation from expiry to expiry, TOS sells the 35% probability because it represents the strike price that is one standard deviation from the current price action.
- They like to skew the IC to the bearish side due to the viciousness of sell offs.
- They put it on 4-6 weeks from expiry and close it out 10-4 days from expiry.
- In this way they put on a market neutral strategy to limit delta exposure, limit their gamma exposure by timing the entry and exit, capture the most time decay, and use VIX to their advantage to get more premium represented by negative Vega.
- Ideal credit for an IC is \$1 which puts the risk to reward at 1:1 with a probability of winning at 65% and breaking even around 80%.

When:

4-6 weeks from expiration or back month

Where:

35% probability of expiring in the money

How:

Placed on down days during the entry window or on a high VIX at 35% probability for 1.00

Put Calendars

- Speculative
- Theta
- Hedge

The TOS Put Calendar:

- sell the short 35%-45% probability
- 4-6 weeks out and look to roll 10-4 days from expiry.
- buy the calendar with one roll opportunity to maximize the long strike bought in the back month.
- They enter when the VIX is low and the price is high.
- In this way, the delta on a calendar is very low. They control their gamma exposure and capture the most time decay. Since the calendar has long Vega the VIX movement up will help the position and so Vega is working for the position.

****A quick word about call calendars. They are not 'bad' but belong more in the speculation category. The long vega would be working against the position as the market moved up to the strike sucking the premium out of the back month and eroding the positions overall profitability.

Caveat: If you understand the risks involved, trade whatever you want.

When:

4-6 weeks from expiration or back month

Where:

35%-45% probability of expiring in the money

How:

Up days. VIX down

Tos likes to add inventory over multiple strikes and over multiple days. In this way the risk is spread around. They position size themselves relatively small per each individual strike, so one 'position' will not kill them. In this way they have a broad profit curve even though the overall position might be substantial.

Asset Allocation:

That is ultimately your decision. 20% - 30% might be good, although at first you will want to keep it small. Divide your asset allocation by the two week entry window and then you will have an idea of how much inventory per day you will need to add.

What to expect:

Tos says "just breaking even the first six months would be great, and then 5% from there." They like to say that this system is more about 'not' losing money than making a bunch of money.

Think conservative at first.

It is all about the management anyway.

Example Time!