

# Managing the Iron Condor

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# Iron Condor Overview

- Two credit spreads on the same underlying.
- Indexes.....SPX(SPXPM), RUT, OEX (XEO), MID
- Take in between \$1.00 and \$2.00 total credit.
- Place spread orders one at a time (no IC order screens)

Buy 870 calls  
Sell 860 calls \$.60

Underlying at 800

Sell 720 puts  
Buy 710 puts \$.60

Buy 870 calls \$.30

Sell 860 calls \$.60

Underlying at 770

Sell 720 puts \$2.50 (BTC)

Buy 710 puts \$1.50 (STC)

Buy 870 calls \$.15

Sell 860 calls \$.30

Underlying at 750

Sell 720 puts \$4.50 (BTC)

Buy 710 puts \$2.50 (STC)

## RUT at 817 – Put Options 6 weeks out

- 830 put 30.50
- 820 put 25.70
- 810 put 21.50
- 800 put 18.10
- 790 put 15.10
- 780 put 12.60
- 770 put 10.50
- 760 put 8.70
- 750 put 7.30
- 740 put 6.00
- 730 put 5.00
- 720 put 4.10
- 710 put 3.40
- 700put 2.80
- 690 put 2.40

- 830 put 30.50
- 820 put 25.70
- 810 put 21.50
- **800 put 18.10**
- **790 put 15.10**
- 780 put 12.60
- 770 put 10.50
- 760 put 8.70
- 750 put 7.30
- 740 put 6.00
- 730 put 5.00
- **720 put 4.10**
- **710 put 3.40**
- 700put 2.80
- 690 put 2.40

Market falls 80 points

720/710 put spread that was trading for \$.70 is now trading for \$2.00-720/710 now looks like the 800/790 put spread



- 830 put 30.50
- 820 put 25.70
- 810 put 21.50
- 800 put 18.10
- 790 put 15.10
- 780 put 12.60
- **770 put 10.50**
- **760 put 8.70**
- 750 put 7.30
- 740 put 6.00
- 730 put 5.00
- **720 put 4.10**
- **710 put 3.40**
- 700put 2.80
- 690 put 2.40

Market falls 50 points

720/710 put spread that was trading for \$.70 is now trading for \$1.80-720/710 now looks like 770/760 put spread

- 830 put 30.50
- 820 put 25.70
- 810 put 21.50
- 800 put 18.10
- 790 put 15.10
- 780 put 12.60
- 770 put 10.50
- 760 put 8.70
- **750 put 7.30**
- **740 put 6.00**
- 730 put 5.00
- 720 put 4.10
- 710 put 3.40
- **700put 2.80**
- **690 put 2.40**

Market rises 50 points

750/740 put spread that was trading for \$.70 is now trading for \$.40-  
750/740 now looks like the 700/690 put spread

# Debit Spread Structure

- Buy option closer to market and sell option at further strike.
- Index at 800
- 760/750 put debit spread (buy 760/sell 750) for \$1.00 cost
- 760/750 put credit spread (sell 760/buy 750) for \$1.00 credit

# Debit Spread Structure

- If a 760/750 put debit spread were purchased for \$1.00 the max risk is the \$1.00 cost.
- Max profit is \$9.00 ( $10 - 1$ ) and is achieved only if underlying is below both strikes at expiration

# Debit Spread Structure

- Since debit spread hedges are bought closer to the money as compared to the out of the money credit spread, they will be bought at a higher cost than credit received from original credit spread being hedged.
- Must balance total spread/iron condor credit against debit spread cost.

- 830 put 30.50
- 820 put 25.70
- 810 put 21.50
- 800 put 18.10
- 790 put 15.10
- **780 put 12.60**
- **770 put 10.50**
- 760 put 8.70
- 750 put 7.30
- **740 put 6.00**
- **730 put 5.00**
- 720 put 4.10
- 710 put 3.40
- 700put 2.80
- 690 put 2.40

IC total credit of \$1.20(\$1200 on 10 contracts)

Debit spread hedge for \$2.10  
Can buy 6 contracts for \$1260

Original put spread of IC

- 830 put 30.50
- 820 put 25.70
- **810 put 21.50**
- **800 put 18.10**
- 790 put 15.10
- **780 put 12.60**
- **770 put 10.50**
- **760 put 8.70**
- 750 put 7.30
- **740 put 6.00**
- **730 put 5.00**
- 720 put 4.10
- 710 put 3.40
- 700put 2.80
- 690 put 2.40

Market falls 30 points

\$2.10 debit sold for \$3.40 -  
\$1.30 gain x 6 cts = \$780

Original put spread now  
trading for \$1.80 cost  
\$1.80 - \$1.20 IC credit= \$.60  
loss (\$600 loss on 10cts)

- **830 put 30.50**
- **820 put 25.70**
- 810 put 21.50
- 800 put 18.10
- **790 put 15.10**
- **780 put 12.60**
- **770 put 10.50**
- 760 put 8.70
- 750 put 7.30
- **740 put 6.00**
- **730 put 5.00**
- 720 put 4.10
- 710 put 3.40
- 700put 2.80
- 690 put 2.40

Market falls 50 points

\$2.10 debit sold for \$4.80-  
\$2.70 gain x 6 cts= \$1620

Original put spread now  
trading for \$2.50 cost.  
\$2.50 – \$1.20 IC credit= \$1.30  
loss (\$1300 on 10 cts)



- 830 put 30.50
- 820 put 25.70
- 810 put 21.50
- 800 put 18.10
- 790 put 15.10
- **780 put 12.60**
- **770 put 10.50**
- 760 put 8.70
- 750 put 7.30
- 740 put 6.00
- 730 put 5.00
- **720 put 4.10**
- **710 put 3.40**
- 700put 2.80
- 690 put 2.40

What if the 720/710 spread was entered for \$.70 on 10cts= \$700 credit and hedged immediately with 4 cts of 780/770 for \$2.10= \$840 cost

- 830 put 30.50
- **820 put 25.70**
- **810 put 21.50**
- 800 put 18.10
- 790 put 15.10
- **780 put 12.60**
- **770 put 10.50**
- **760 put 8.70**
- **750 put 7.30**
- 740 put 6.00
- 730 put 5.00
- **720 put 4.10**
- **710 put 3.40**
- 700put 2.80
- 690 put 2.40

Market falls 40 points

\$2.10 debit is now trading at  
 $\$4.20 = \$2.10 \text{ gain} \times 4\text{cts} = \$840$

\$.70 credit now trading at  
 $\$1.40 \text{ debit} = \$.70 \text{ loss} (\$700 \text{ on } 10 \text{ cts})$

- 830 put 30.50
- 820 put 25.70
- 810 put 21.50
- 800 put 18.10
- 790 put 15.10
- **780 put 12.60**
- **770 put 10.50**
- 760 put 8.70
- 750 put 7.30
- 740 put 6.00
- 730 put 5.00
- **720 put 4.10**
- **710 put 3.40**
- 700put 2.80
- 690 put 2.40

What if index finished between 720 and 770?

\$7.90 (10 spread – 2.10 cost)  
gained x 4 cts = \$3160 gain

Keep \$.70 credit on 10 cts=  
\$700 gain

# Different Time Frames

- In all scenarios, the numbers potentially work out more in trader's favor as expiration day nears.
- For example, gains on debit spreads will further outweigh losses on credit spread exit costs as expiration gets closer in time.
- Buy enough contracts of hedge so that cost doesn't go too far over credit received.

# Call/Put Backspreads

- Sell 1 closer to the money option
- Buy 2 further out of the money options
- Example: Index at 1395
  
- Sell 1 1400 call
- Buy 2 1405 calls - placed at a debit

# SPX at 1395- 6 weeks out

- 1400 call 21.70
- 1405 call 18.80
- 1410 call 16.60
- 1415 call 14.10
- 1420 call 12.40
- 1425 call 10.30
- 1430 call 8.70
- 1435 call 7.30
- **1440 call 5.90**
- **1445 call 4.90**
- 1450 call 4.10
- 1455 call 3.50

1440/1445 call backspread  
\$3.90 or \$390 for 1ct  
Selling 1 1440/Buying 2 1445

- 1400 call 21.70
- 1405 call 18.80
- **1410 call 16.60**
- **1415 call 14.10**
- 1420 call 12.40
- 1425 call 10.30
- 1430 call 8.70
- 1435 call 7.30
- **1440 call 5.90**
- **1445 call 4.90**
- 1450 call 4.10
- 1455 call 3.50

Market rises 30 points

BTC 1ct 1410/STC 2cts 1415  
for \$11.60 - \$3.90=\$7.70 gain  
or \$770 per contract

1440/1445 call backspread  
\$3.90 or \$390 for 1ct  
Selling 1 1440/Buying 2 1445-  
1440/1445 back spread now  
looks like 1410/1415 spread

Long 10 cts1455 calls

Short 10 cts1445 calls

SPX now at 1395 - \$1.20(\$1200) total credit

Short 10 cts1235 puts

Long 10 cts1225 puts



- 1380 call 33.80
- 1385 call 30.50
- 1390 call 27.30
- 1395 call 24.30
- 1400 call 21.70
- 1405 call 18.80
- 1410 call 16.60
- 1415 call 14.10
- 1420 call 12.40
- **1425 call 10.30**
- **1430 call 8.70**
- 1435 call 7.30
- 1440 call 5.90
- **1445 call 4.90**
- 1450 call 4.10
- **1455 call 3.50**

Hedge with 1425/1430 back spread  
 Cost of \$7.10 – Trade 2 cts for every  
 10 of IC. So sell 2 1425/buy 4 1430  
 Total cost of 14.20 or \$1420

Total IC credit was \$1200 so spending  
 \$1420 is \$220 over credit received.

## Market rises 30 points

- 1380 call 33.80
- 1385 call 30.50
- 1390 call 27.30
- **1395 call 24.30**
- **1400 call 21.70**
- 1405 call 18.80
- 1410 call 16.60
- **1415 call 14.10**
- 1420 call 12.40
- **1425 call 10.30**
- **1430 call 8.70**
- 1435 call 7.30
- 1440 call 5.90
- **1445 call 4.90**
- 1450 call 4.10
- **1455 call 3.50**

Sell back spread at  $\$19.10 - \$7.10 =$   
 $\$12.00$  gain  $\times 2 = \$2400$  gain  
1425/1435 back spread now  
looks like 1395/1400 spread

Buy back put spread for  $\$3.80$   
or  $\$3800 - \$1200$  IC credit=  
 $\$2600$  loss on 10 cts -  
1445/1455 put spread now looks  
like 1415/1425 spread

# Thanks for Attending

I'll be putting more credit spread classes on the schedule in the near future.

Keep checking back on [BetterTrades.com](http://BetterTrades.com)

And go ahead and make plans to attend the Traders Super Summit in Orlando, Florida,

May 17-19

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