LT Options Trading System Update

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2019 Options Trading Plan

December 29, 2018

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2019 Options Trading Plan

The time has come to devise a trading plan for 2019. 2018 was a disastrous year for LT Options at -45%. There is no other way to put it, and although there were many issues at the personal level that affected me deeply, I don't like to be complaining and using excuses. Time is more effectively used looking at the problems objectively and defining the proper course of action going forward.

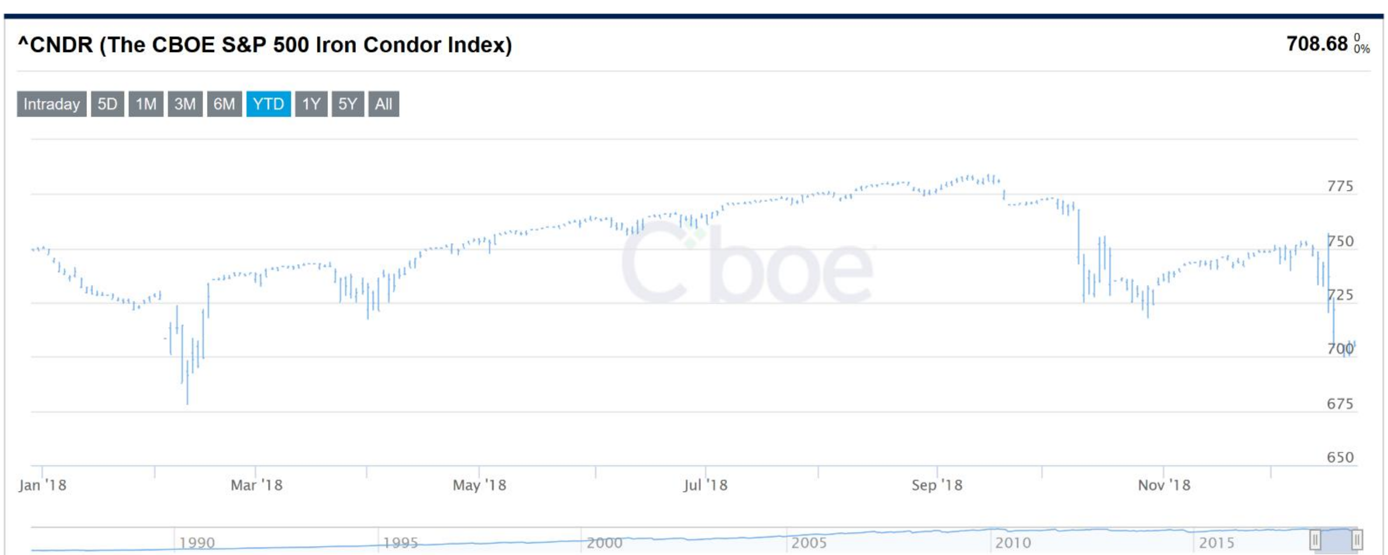
These were the main problems in 2018:

- **Excessive risk concentration**. In February I got to have 5 positions on at the same time and 100% capital committed. At the time I knew it was a mistake but thought that I would have to be extremely unlucky to be affected the one time I have so much exposure, when for years I have always carried 2 – 3 positions. Well, the market works in mysterious ways and seems resolute to punishing every little mistake you make. The February sell-off caught me so exposed, that I found myself defending four positions simultaneously, two of them had to be closed at a loss even without any redeployment attempt for a defense. February alone brought a 15% loss but it also left less than ideal March positions, which later resulted in further losses. The "year" was lost there. It is not wise to follow an approach where the "year" can be gone with just a couple mistakes.

- **Excessive greediness**. Long Call positions as well as long Synthetic stock positions were deployed in February during the market sell-off. At one point later in the year these positions had accumulated gains around $10,000 dollars. Or in other words, +10% for the Portfolio. This, instead of resulting in a near 10% portfolio loss by the end of the year. That alone, (changing a -10% influence by a +10% influence is a 20% swing in the portfolio results). Long options plays should definitely be taken off more actively, as gains can evaporate with market moves and time decay.

I'm not going to say, "if both things above hadn't happened, then,………." I'm not going to go there, because, well, they happened. I also think that even without those big mistakes, it would have been a negative year. Not as bad, but definitely in negative territory.

Looking at the CBOE's CNDR index (a benchmark index that tracks the hypothetical performance of a monthly SPX Iron Condor [short options at 20 deltas, and long options at 5 deltas]) we can see that it was a negative year for the strategy (about -7%).



Going further back, to the beginning of 2012, the CNDR benchmark index is down 5.4% in 7 years:

Of course, not everyone trades this particular approach that CNDR uses. But still, as a benchmark, it is a good indication that tells the world "hey, the Iron Condor strategy was pretty tough to pull off during this period". You may tweak, optimize, change here and there, but the fact remains that the last few years have not been ideal for Iron Condors.

Still, it usually happens that the good times are about to start rolling right before you are about to abandon a strategy. 2019 could be the beginning of a new era where two sideways trading is more handsomely rewarded.

MAIN CHANGES

- The main one is that I'm reducing my capital allocation. Putting more money in long-term investments, as I've learned I'm more of that than an active trader. My LTOptions positions will be around $4K - $5K each.

- I'm back to carrying just two positions in the inventory. No more than that, ever. At around 8 weeks to expiration I will look to deploy a new position in a new expiration cycle, provided no position already exists on that cycle. A Credit Put spread will be used during Oversold Extremes, otherwise an Elephant. I may consider Unbalanced Iron Condors 4:1 ratio of Puts to Calls during overbought markets.

- Another important point will be to take gains off much sooner. During volatile markets, with lots of back and forth price action, strike prices may never actually be penetrated. Yet, they may be reaching 'adjustment/defense' points constantly. As a result, you end up unnecessarily taking many losses. If you are going to cut losses early, then it will also be vital to take gains early as a mechanism to eliminate positions that may become problematic. It is either that or play much smaller positions where you never intend to 'adjust/defend' early, but this would require a much greater number of positions that I honestly can't handle due to my full-time job commitments. So, I will be taking gains off at a little over 50% of max profit. At the same time, I will avoid being in a position at less than 2 weeks to expiration.

- As soon as I close a position. i.e. because I took gains early, I will look to redeploy the capital. I may deploy in the same expiration cycle if it is still 5 or more weeks away from expiration. Otherwise I will go to the next monthly cycle. This means that, in some cases, positions will be initiated at more than 8 weeks to expiration. Maybe 9 or even 10. I expect that in those slightly longer-term plays, the 50% of max profit level will be reached with quite a few days to expiration still, leaving me a chance to eventually deploy a new position in that same cycle.

- For Elephants I will take the Call sides off individually when they reach 70% or so of the max profit on that side. That will give opportunities for potential redeployments on eventual rebounds.

- The rest remains similar in terms of adjustment techniques and not defending the Call side of Elephants.