

# Contents

<b>Acknowledgments</b>	<b>xi</b>
<b>Introduction</b>	<b>xiii</b>
<b>PART 1 The Foundations of Options Trading</b>	<b>1</b>
<b>CHAPTER 1 Option Basics</b>	<b>3</b>
Definitions of Calls and Puts	3
Are You Long or Short?	4
Option Contract Size	4
Is My Option In- or Out-of-the-Money?	5
Option Trade Orders	5
Option Expiration	6
LEAPS Options	7
Option Settlement	7
Options Cycles	8
<b>CHAPTER 2 Probability Distributions</b>	<b>11</b>
The Gaussian Distribution	11
Application to the Real World	12
Risk-Adjusted Returns	15
High-Probability Trading	17
Low-Probability Trading	18
Options Trading Myths	20
What Is a Conservative Trade?	21
Exercises	22
	<b>vii</b>

<b>CHAPTER 3 Options Pricing and Implied Volatility</b>	<b>25</b>
The Black-Scholes Pricing Model	25
The Greeks	26
Implied Volatility	27
Building the Price of an Option	28
A Closer Look at the Greeks	29
How Will We Use the Greeks?	31
Exercises	32
<b>CHAPTER 4 Vertical Spreads</b>	<b>33</b>
Building the Vertical Spread	33
Effects of Implied Volatility	35
Early Exercise	41
Expiration and Exercise	43
Margin Requirements	44
Application of Probability Calculations	45
Risk/Reward and Probability of Success	46
Exercises	47
<b>PART 2 Options Strategies for Income Generation</b>	<b>49</b>
<hr/>	
<b>CHAPTER 5 Using Options to Boost Income in a Stock Portfolio</b>	<b>51</b>
The Classic Covered Call Strategy	52
Strategic Considerations	53
The Notorious Selling Naked Puts Strategy	53
Selling Naked Puts for Income	54
Buying Stocks at a Discount	56
Combining the Covered Call with Selling Naked Puts	56
Early Exercise	58
Risk Management	60
The Achilles' Heel of Directional Strategies	61
Exercises	62

<i>Contents</i>	<b>ix</b>
<b>CHAPTER 6 Calendar and Double Calendar Spreads</b>	<b>63</b>
<b>Vega Risk and Calendar Spreads</b>	<b>66</b>
<b>Volatility Skews</b>	<b>67</b>
<b>Searching for Calendar Candidates</b>	<b>70</b>
<b>Entering and Managing the Trade</b>	<b>71</b>
<b>Early Exercise</b>	<b>71</b>
<b>Adjustments</b>	<b>72</b>
<b>Out-of-the-Money Calendar Spreads</b>	<b>73</b>
<b>Double Calendar Spreads</b>	<b>73</b>
<b>Determining the Optimal Strike Prices</b>	<b>76</b>
<b>Trade Management and Adjustments</b>	<b>82</b>
<b>Multiple Calendar Spread Positions</b>	<b>83</b>
<b>Exercises</b>	<b>83</b>
<b>CHAPTER 7 Double Diagonal Spreads</b>	<b>85</b>
<b>Diagonal Spreads</b>	<b>85</b>
<b>Double Diagonal Spreads</b>	<b>87</b>
<b>Managing the Trade</b>	<b>90</b>
<b>Double Diagonals vs. Double Calendars</b>	<b>91</b>
<b>Exercises</b>	<b>92</b>
<b>CHAPTER 8 Butterfly Spreads</b>	<b>95</b>
<b>At-the-Money and Out-of-the-Money Butterfly Spreads</b>	<b>95</b>
<b>Iron Butterfly Spreads</b>	<b>99</b>
<b>The Broken-Wing Butterfly</b>	<b>99</b>
<b>Margin Requirements</b>	<b>101</b>
<b>Trade Management</b>	<b>103</b>
<b>Closing Butterfly Spreads</b>	<b>106</b>
<b>Butterfly Spreads as Adjustments</b>	<b>111</b>
<b>Exercises</b>	<b>112</b>
<b>CHAPTER 9 Condor Spreads</b>	<b>113</b>
<b>The Basic Condor Spread</b>	<b>113</b>
<b>The Opportunistic Model</b>	<b>116</b>

<b>The Insurance Model</b>	<b>119</b>
<b>Iron Condor Spreads</b>	<b>121</b>
<b>Vega Risk and the Condor</b>	<b>124</b>
<b>The Short-Term Iron Condor</b>	<b>128</b>
<b>The Long-Term Iron Condor</b>	<b>129</b>
<b>Capital Management</b>	<b>131</b>
<b>Risk Management</b>	<b>131</b>
<b>Adjustment Techniques</b>	<b>132</b>
<b>Adjustment Pros and Cons</b>	<b>134</b>
<b>Adjustment Case Studies</b>	<b>135</b>
<b>Managing the Iron Condor with the Greeks</b>	<b>138</b>
<b>Advanced Adjustment Techniques</b>	<b>140</b>
<b>Iron Condor Trading Systems</b>	<b>140</b>
<b>Butterflies and Condors Are Cousins</b>	<b>144</b>
<b>Exercises</b>	<b>146</b>
<b>CHAPTER 10 Delta-Neutral Trading Strategies</b>	<b>149</b>
<b>Risk Management Systems</b>	<b>151</b>
<b>Challenging Markets for the Delta-Neutral Trader</b>	<b>152</b>
<b>Two Distinct Trading Philosophies</b>	<b>153</b>
<b>The “Secret” of Success</b>	<b>155</b>
<b>CHAPTER 11 Make Your Trading a Business</b>	<b>157</b>
<b>Getting Started</b>	<b>157</b>
<b>Managing Losses</b>	<b>159</b>
<b>The Trading Plan</b>	<b>159</b>
<b>Money Management</b>	<b>160</b>
<b>The Psychology of Trading</b>	<b>161</b>
<b>Living with the Two-Headed Monster</b>	<b>163</b>
<b>Required Tools for This Business</b>	<b>164</b>
<b>What’s Next?</b>	<b>165</b>
<b>Appendix: Answers to the Chapter Exercises</b>	<b>169</b>
<b>Glossary</b>	<b>185</b>
<b>Index</b>	<b>193</b>