Private Trader: Rules for Volatility Trades - SUPERCEDED
Effective from April 4, 2014

See the new trading rules here.

Goal
To take advantage of time decay to profit from options spreads having very short lifespans lasting from days to weeks.

Definitions
- Implied volatility: The expectation of future volatility, shown as a one-standard deviation annual figure, often expressed as a percentage.
- Out of the money: Used to describe options that are valueless at expiration.
- Weeklys: Options listed with expirations each week, as distinguished from traditional options that are issued with one expiration per month.

Universe
Stocks and exchange-traded funds expiring 10 days or less from the trading date.

Position Structure
A position is composed of options spreads sold for a credit, *i.e.*, short vertical spreads, double diagonals and iron condors. In practice, I have found iron condors to be the most productive structure.

The goal of a position is to create a position with a zone of profitability at expiration covering all of the one standard deviation range implied by volatility and options pricing, or the 30-day hourly chart support and resistance range, whichever is wider. The one standard deviation range is for the period from the date of the trade until the options expire.

Sizing
A position consists of one-hundredth (1%) of capital designated for this strategy.

Entry
Symbols that most suitable for trading meet one or more of these criteria:
- Implied volatility 2.5 times the VIX or greater.
- Implied volatility in the 60th percentile or greater of the most recent major swing on the 6-month chart. A downtrend from the peak makes the trade more attractive.
- An event such as earnings or an announcement scheduled for the immediate future or a significant reversal in the past day or two into a downtrend.
- An expectation based on past behavior and other available information that the implied volatility will fall.

Exit

Positions are closed if their implied volatility shows a reversal to the upside or if the value of the position falls below 10 cents per contract.

Disclaimer

> *Tim Bovee, Private Trader tracks the analysis and trades of a private trader for his own accounts. Nothing in this blog constitutes a recommendation to buy or sell stocks, options or any other financial instrument. The only purpose of this blog is to provide education and entertainment.*
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> *No trader is ever 100 percent successful in his or her trades. Trading in the stock and option markets is risky and uncertain. Each trader must make trading decision decisions for his or her own account, and take responsibility for the consequences.*

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