Trade Options With Me

For Your Financial Freedom

Strategy Selection Handbook

	Long Stock	Short Stock	Synthetic Long Stock	Synthetic Short Stock
# of Legs	1	1	2	2
Risk	Undefined	Undefined	Undefined	Undefined
Reward	Undefined	Undefined	Undefined	Undefined
Directional Assumption	Bullish	Bearish	Bullish	Bearish
Delta	+	-	+	-
Ideal Volatility				
Vega	0	0	0	0
Theta	0	0	Slightly -	Slightly +
Credit or Debit to Open	Debit	Credit	Credit	Debit

	Call Ratio Back Spread	Put Ratio Back Spread	Call Ratio Front Spread	Put Ratio Front Spread
# of Legs	Min. 3	Min. 3	Min. 3	Min. 3
Risk	Defined	Defined	Undefined	Undefined
Reward	Undefined	Undefined	Defined	Defined
Directional Assumption	Bullish	Bearish	Slightly Bearish	Slightly Bullish
Delta	+	-	+	-
Ideal Volatility	Low	Low	High	High
Vega	+	+	-	-
Theta	-	-	+	+
Credit or Debit to Open	Debit	Debit	Credit	Credit

	Short Iron Condors	Long Iron Condors	Long Butterflies	Short Butterflies
# of Legs	4	4	4	4
Risk	Defined	Defined	Defined	Defined
Reward	Defined	Defined	Defined	Defined
Directional Assumption	Range-Bound	Price Indifferent	Range-Bound	Price Indifferent
Delta	Near 0	Near 0		
Ideal Volatility	High	Low		
Vega	-	+		
Theta	+	-		
Credit or Debit to Open	Credit	Debit		

	Bull Put Credit Spreads	Bear Call Credit Spreads	Bull Call Debit Spreads	Bear Put Debit Spreads
# of Legs	2	2	2	2
Risk	Defined	Defined	Defined	Defined
Reward	Defined	Defined	Defined	Defined
Directional	Slightly Bullish	Slightly Bearish	Slightly Bullish	Slightly Bearish
			+	-
			Low	Low
			+	+
			-	-
			Debit	Debit

	Short Straddles	Long Straddles	Short Strangles	Long Strangles
# of Legs	2	2	2	2
Risk	Undefined	Defined	Undefined	Defined
Reward	Defined	Undefined	Defined	Undefined
Directional Assumption	Range-Bound	Price Indifferent	Range-Bound	Price Indifferent
Delta	Near 0	Near 0	Near 0	Near 0
Ideal Volatility	High	Low	High	Low
Vega	-	+	-	+
Theta	+	-	+	-
Credit or Debit to Open	Credit	Debit	Credit	Debit

	Long Call	Long P
# of Legs	1	1
Risk	Defined	Defined
Reward	Undefined	Undefin
Directional Assumption	Bullish	Bearish
Delta	+	-
Ideal Volatility	Low	Low
Vega	+	+
Theta	-	-
Credit or Debit to Open	Debit	Debit

	oken Wing	Covered Call	Covered Put
		2	2
		Undefined	Undefined
		Defined	Defined
Directional Assumption	Slightly Bullish	Slightly Bearish	Slightly Bullish	Slightly Bearish
Delta	+	-	+	-
Ideal Volatility	High	High	High	High
Vega	-	-	-	-
Theta	+	+	+	+
Credit or Debit to Open	Credit	Credit	Debit	Debit

Thanks for claiming this strategy selection handbook. The goal of this handbook is to give you an overview of a variety of different option trading strategies and their purpose.
This guide is not intended to give you in-depth explanations of different option strategies. If you want to learn specifically how different option strategies work, I recommend checking out tradeoptionswithme.com/strategies.

How to use this guide:

This guide compares a multitude of different option trading strategies in nine different aspects.

Trading options successfully requires you to be able to adapt to changing market conditions and assumptions. Option strategies are the tools in your toolbox. The more tools you have, the better.
This guide allows you to find the best trading strategies for the current market and for your assumptions.

An Example:
In my opinion, most things can be understood best with a brief example, so here is an example of how this guide can help you with your options trading.

Let's say, you want to trade options on XYZ. You currently have a **neutral (range-bound)** directional assumption meaning that you don't expect it to move significantly in either direction. This is your first criterion which you can use to filter out all non-neutral option strategies.

Furthermore, XYZ has **high implied volatility** (IV). To profit from a drop in IV, you should find a strategy with a **negative Vega**.
In addition to that, you only have limited buying power available. Therefore, you would prefer a **defined risk** strategy over an undefined risk strategy.
Another criterion that you may want for your strategy is a **positive Theta**. A positive Theta would mean that the strategy profits from time decay.

Now you already have enough criteria to filter out the vast majority of option strategies.
The desired strategy should have:

- **A Delta near 0 (range-bound)**
- **A negative Vega (high volatility)**
- **A defined Risk**
- **A positive Theta**

With the help of this guide, you can quickly decrease the size of the huge list of potential option strategies to the following:

- **Short Iron Condors**
- **Long Butterflies**

To choose one of these strategies, you could then compare them in even more aspects.

Hopefully, this example gives you a good idea of how this guide can be of great use for your options trading. Obviously, you can use more or less criteria to filter out unfitting strategies.

How this guide works:

To be able to use this guide fully, here is a brief explanation of each provided comparison factor:

- **# of Legs:** This factor compares the number of options required to open the different option strategies. The maximum is four (e.g. Iron Condors) and the minimum is one (e.g. long call). The smaller this number, the better because more legs usually lead to higher commissions and longer fill times.

- **Risk:** An option strategy either has a defined or undefined risk. Defined risk means that the risk is limited and undefined risk means the opposite. Technically, strategies like short puts aren't undefined risk strategies because the underlying's price can't drop below $0. Nevertheless, I marked them as undefined risk strategies. Obviously, defined risk is more desirable than undefined risk. However, undefined risk strategies often are superior in other aspects.

- **Reward:** Just like the risk, the potential reward can be limited (defined) or unlimited (undefined).

- **Directional Assumption:** The directional assumption is your guess of what the underlying's price will do next. Your directional assumption can either be bullish (you think the price will go up), bearish (you think the price will go down) or neutral. A neutral assumption can be divided into two categories: range-bound and price indifferent. A range-bound assumption means that you think the price will stay in a certain range (won't move a lot) and a price

indifferent assumption means that you think the price will move a lot but you don't know/care in which direction. There isn't a best directional assumption. But usually strategies that require the underlying's price to move a lot have a lower probability of profit (POP) than strategies that don't require a lot of price movement.

- **Delta:** The option Greek Delta is an indicator for directional risk. A positive Delta means that the strategy profits from a move up in the underlying's price, a negative Delta means the opposite and a Delta near 0 means that neither a move up or down will impact the P&L of that strategy significantly. In other words, bullish strategies have a positive Delta, bearish strategies a negative Delta and neutral strategies a Delta near 0.

- **Ideal Volatility:** Implied Volatility (IV) is very important in the world of options trading. Implied volatility is the expected volatility for the underlying asset's price during a certain time frame. It is derived from options prices. In times of high IV, option prices tend to be higher than in times of low IV. Therefore, it is important to adjust your options trading to the current level of IV. Some option strategies profit from decreasing IV and others profit from increasing IV. The ones that profit from increasing IV should be traded in times of low IV and the ones profiting from decreasing IV should be traded in times of high IV. Due to this, it is very important to know if IV is high or low. To find out if IV currently is high or low, you should use IV Rank, an indicator that compares the current level of IV to past levels. IV Rank Displays a number between 0 and 100. If IV Rank is over 50, IV is considered high and if IV Rank is under 50, IV is considered low.

- **Vega:** Vega is the option Greek that measures price changes for changes in implied volatility. A negative Vega means that the option strategy will profit from decreasing IV and a positive Vega means that the option strategy will profit from increasing IV. Some strategies profit more from increasing/decreasing IV than others. But a few strategies that are mentioned in this guide aren't affected by IV.

- **Theta:** Theta is another very important option Greek that every option trader should be aware of. Theta measures time decay. Options have an expiration date and thus lose some of their value every day. In other words, they are decaying assets. The closer an option is to its expiration date, the more that option loses from time decay. So time decay is not linear. Most overall short option strategies profit from time passing by (positive Theta) and long option strategies usually lose some of their value due to time passing by (negative Vega). Once again, some strategies profit/lose more from time decay than others. For example, a naked short option profits more from time decay than a credit spread.

- **Credit or Debit to Open:** The last category compares the opening process of different strategies. Some option strategies take in money and others require you to pay money to open. Option strategies that require a debit to be opened are profitable if they can be sold for more than they were bought for. Option strategies that take in a credit when opening, on the other hand, are profitable if they can be bought back for less than they initially were sold for.

The colors used for the different strategies symbolize the directional assumption option (red for bullish, green for bearish and blue for neutral). For other factors, the colors show if that factor is ‘good or bad’. For example, strategies with defined risk are marked with green because defined risk is better than undefined risk. Nevertheless, this does not mean that all defined risk strategies are better than all undefined risk strategies. They are only better if you compare these strategies in this category without even considering the other aspects.

Obviously, you should not only look at one or two single aspects when comparing strategies. You should compare them as whole strategies.

Main Part:

As you now know how to use this guide, we will get into the actual main part of the guide.

	Long Stock	Short Stock	Synthetic Long Stock	Synthetic Short Stock
# of Legs	1	1	2	2
Risk	Undefined	Undefined	Undefined	Undefined
Reward	Undefined	Undefined	Undefined	Undefined
Directional Assumption	Bullish	Bearish	Bullish	Bearish
Delta	+	-	+	-
Ideal Volatility				
Vega	0	0	0	0
Theta	0	0	Slightly -	Slightly +
Credit or Debit to Open	Debit	Credit	Credit	Debit

	Long Call	Long Put	Short Put	Short Call
# of Legs	1	1	1	1
Risk	Defined	Defined	Undefined	Undefined
Reward	Undefined	Undefined	Defined	Defined
Directional Assumption	Bullish	Bearish	Slightly Bullish	Slightly Bearish
Delta	+	-	+	-
Ideal Volatility	Low	Low	High	High
Vega	+	+	-	-
Theta	-	-	+	+
Credit or Debit to Open	Debit	Debit	Credit	Credit

	Bull Put Credit Spreads	Bear Call Credit Spreads	Bull Call Debit Spreads	Bear Put Debit Spreads
# of Legs	2	2	2	2
Risk	Defined	Defined	Defined	Defined
Reward	Defined	Defined	Defined	Defined
Directional Assumption	Slightly Bullish	Slightly Bearish	Slightly Bullish	Slightly Bearish
Delta	+	-	+	-
Ideal Volatility	High	High	Low	Low
Vega	-	-	+	+
Theta	+	+	-	-
Credit or Debit to Open	Credit	Credit	Debit	Debit

	Short Iron Condors	Long Iron Condors	Long Butterflies	Short Butterflies
# of Legs	4	4	4	4
Risk	Defined	Defined	Defined	Defined
Reward	Defined	Defined	Defined	Defined
Directional Assumption	Range-Bound	Price Indifferent	Range-Bound	Price Indifferent
Delta	Near 0	Near 0	Near 0	Near 0
Ideal Volatility	High	Low	High	Low
Vega	-	+	-	+
Theta	+	-	+	-
Credit or Debit to Open	Credit	Debit	Debit	Credit

	Short Straddles	Long Straddles	Short Strangles	Long Strangles
# of Legs	2	2	2	2
Risk	Undefined	Defined	Undefined	Defined
Reward	Defined	Undefined	Defined	Undefined
Directional Assumption	Range-Bound	Price Indifferent	Range-Bound	Price Indifferent
Delta	Near 0	Near 0	Near 0	Near 0
Ideal Volatility	High	Low	High	Low
Vega	-	+	-	+
Theta	+	-	+	-
Credit or Debit to Open	Credit	Debit	Credit	Debit

	Call Ratio Back Spread	Put Ratio Back Spread	Call Ratio Front Spread	Put Ratio Front Spread
# of Legs	Min. 3	Min. 3	Min. 3	Min. 3
Risk	Defined	Defined	Undefined	Undefined
Reward	Undefined	Undefined	Defined	Defined
Directional Assumption	Bullish	Bearish	Slightly Bearish	Slightly Bullish
Delta	+	-	+	-
Ideal Volatility	Low	Low	High	High
Vega	+	+	-	-
Theta	-	-	+	+
Credit or Debit to Open	Debit	Debit	Credit	Credit

	Put Broken Wing Butterfly	Call Broken Wing Butterfly	Covered Call	Covered Put
# of Legs	4	4	2	2
Risk	Defined	Defined	Undefined	Undefined
Reward	Defined	Defined	Defined	Defined
Directional Assumption	Slightly Bullish	Slightly Bearish	Slightly Bullish	Slightly Bearish
Delta	+	-	+	-
Ideal Volatility	High	High	High	High
Vega	-	-	-	-
Theta	+	+	+	+
Credit or Debit to Open	Credit	Credit	Debit	Debit

Conclusion:

Hopefully, this guide is of value for you and your trading. It is designed to help option traders better understand the different option strategies and when to use them. The aim of this guide is to help you with your strategy selection.

When trading options, there is no ‘one strategy fits all’. It is very important to understand this. Together with underlying market conditions (like IV), personal preferences (e.g. account size or directional assumption) should influence your strategy choice.

I truly hope you can use this guide to improve yourself and your trading. If you have any recommendations for how I can improve this guide, please let me know. The same goes for any questions or comments regarding this guide or trading in general. To contact me, visit TradeOptionsWithMe.com/contact-me or leave a comment on one of my articles/videos/social media posts…

To learn more about specific option trading strategies, visit TradeOptionsWithMe.com/strategies.