



Dan Sheridan

Income Series #1: Iron Condors

September 7, 2011

Sheridan Options Mentoring, Inc.
www.SheridanMentoring.com



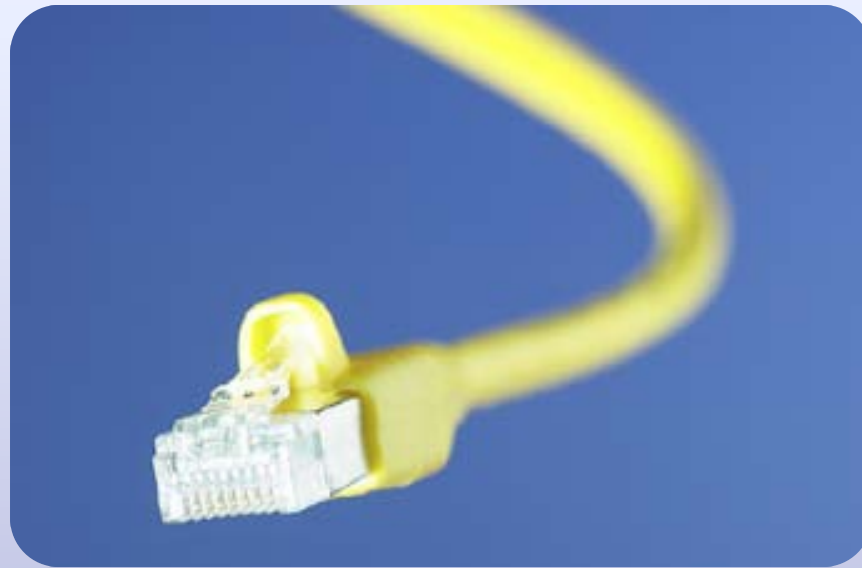
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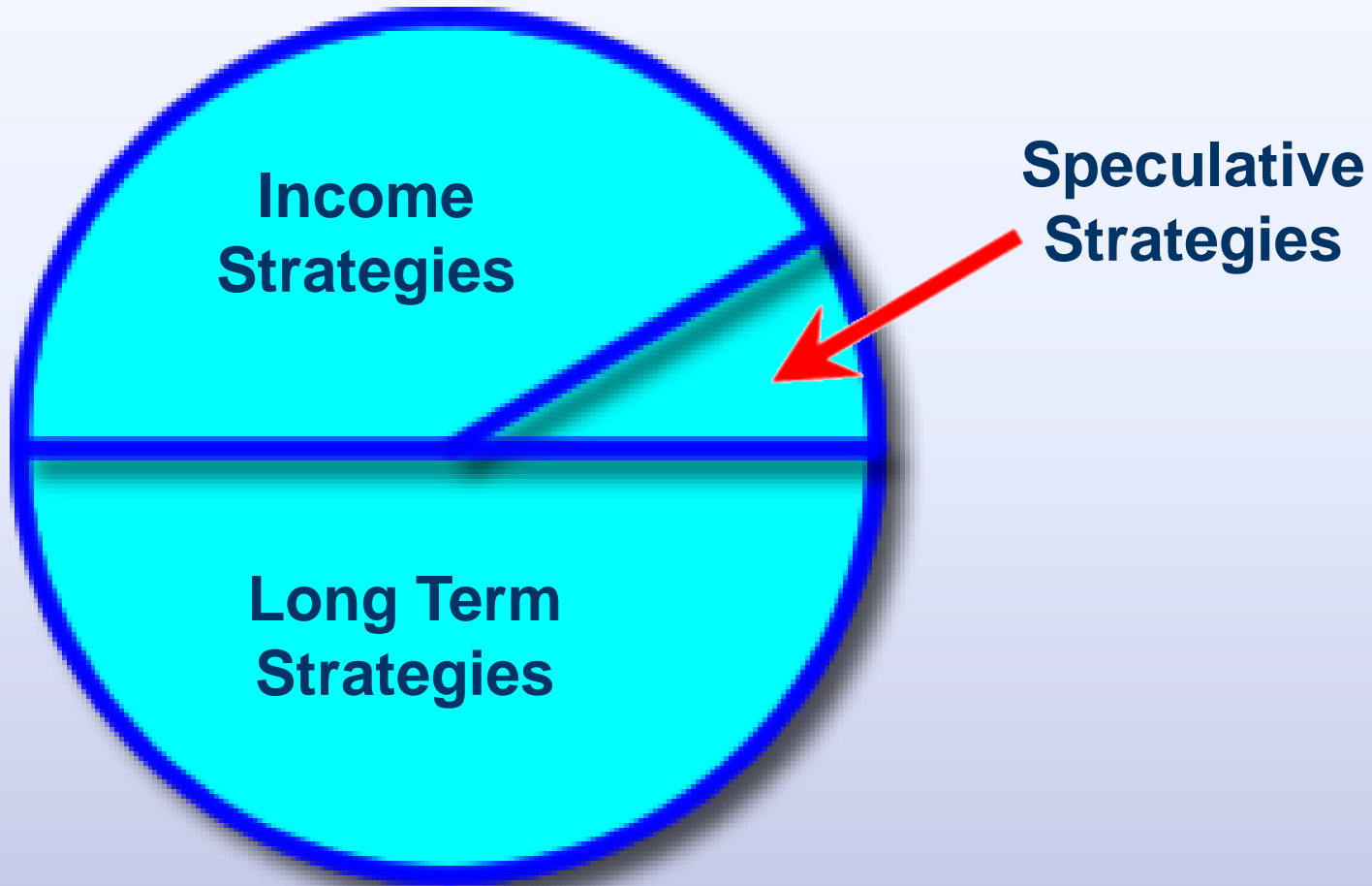
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Outline

1. **What is an Iron Condor?**
2. **Why do an Iron Condor?**
3. **3 Different types of Iron Condors?**
4. **Iron Condor versus plain credit spread?**
5. **Greeks of an Iron Condor**
6. **Setting a plan for your Iron Condor**
7. **Entering the Iron Condor trade**
8. **Adjustments**

Portfolio Plan



Portfolio Plan



Long Calls/Puts,
Diagonal Spreads
OTM Butterflies
Vertical Spreads
Directional Calendars
Long Straddles

#1: What is an Iron Condor?

Date: 5/20/2011

SPX Price: \$1330.30

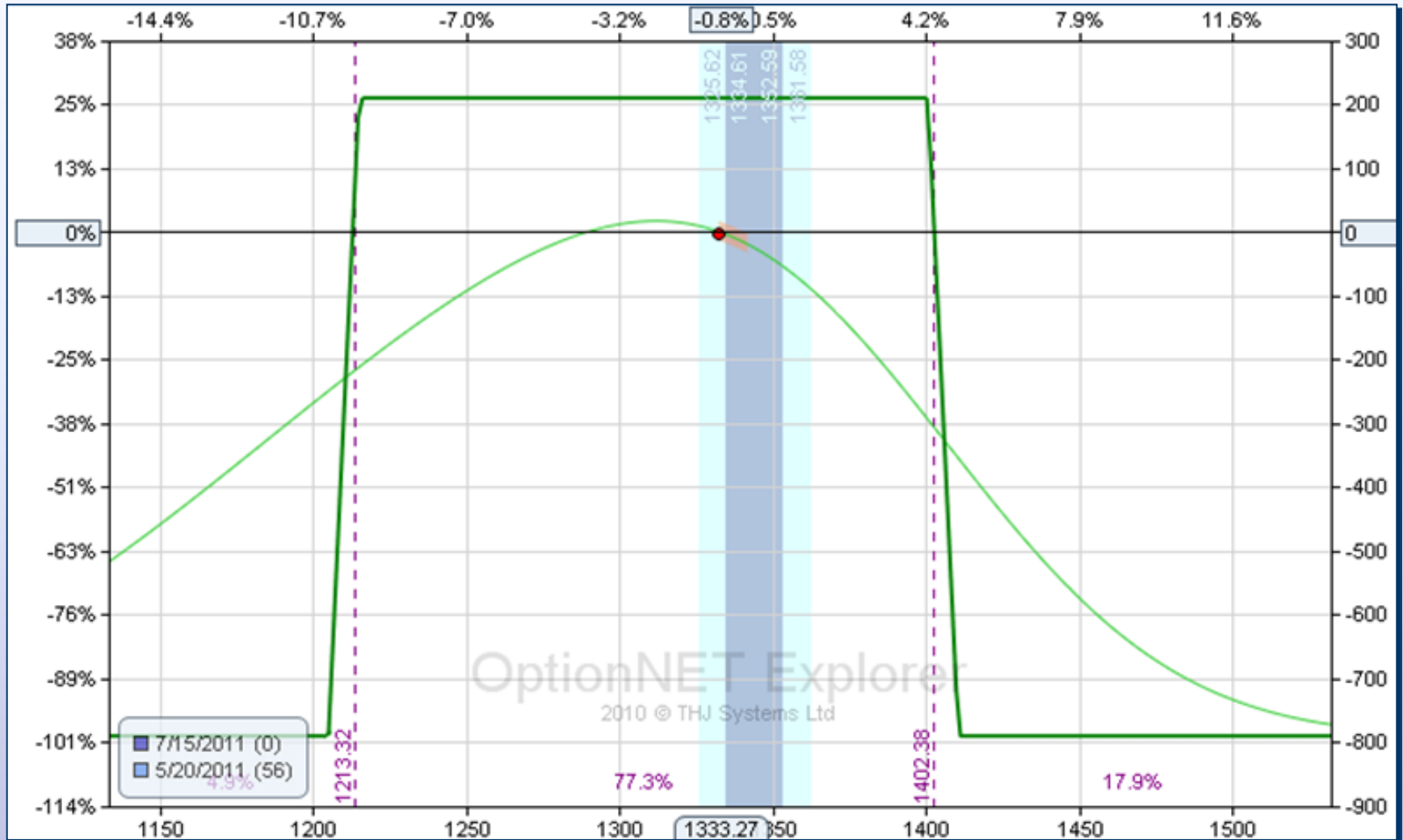
	JUL(56)		
Options	Price	IV	Trade
1410 Calls	\$2.60	10.8%	+1
1400 Calls	\$3.70	10.9%	-1
1215 Puts	\$8.15	22.3%	-1
1205 Puts	\$7.15	22.8%	+1

Delta	-1.8
Gamma	-0.1
Theta	0.6
Vega	3.5
Credit	210
Margin	790

#1: What is an Iron Condor?

Date: 5/20/2011

SPX Price: \$1330.30

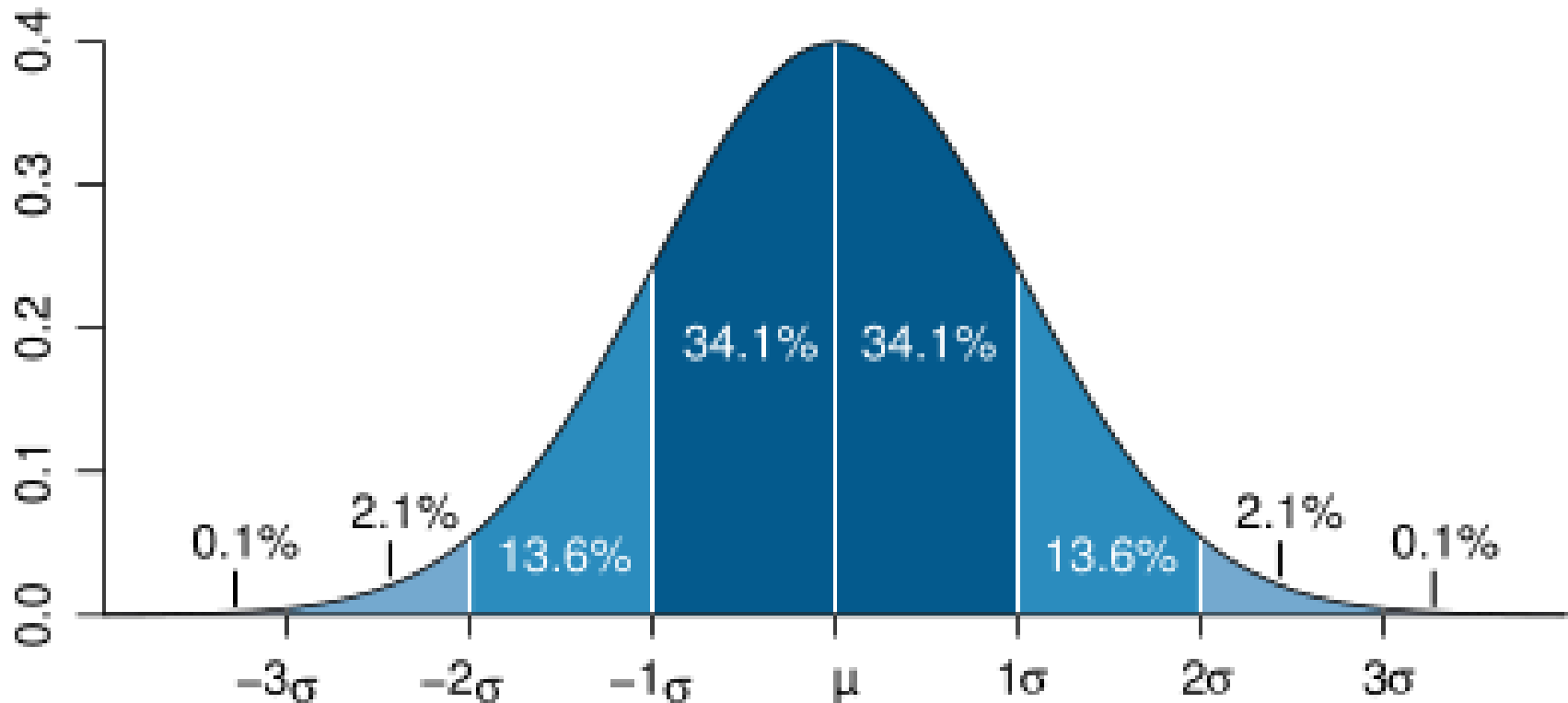


#2: Why do an Iron Condor?

- Probabilities

Normal Distribution Bell Curve

Standard deviation and confidence intervals



FREE STANDARD DEVIATION CALCULATOR AT:
<http://www.sheridanmentoring.com/x/sigma>

Standard Deviations

Dan's Short Cuts

Time	Divide by	Multiply by
1 Day	19.112	0.05232
1 Week	7.223	0.13844
2 Weeks	5.108	0.19578
17 Days	4.635	0.21574
31 days	3.433	0.29133

$$\text{Price} \times \text{Volatility} \times \sqrt{\frac{\text{Calendar days}}{365.25}}$$

\$160 Stock with 16% IV

Time	1 SD	Range
26 Days	\$6.83	\$153.17 - \$166.83
54 days	\$9.84	\$150.16 - \$169.84

Download FREE Standard Deviation Calculator

<http://www.sheridanmentoring.com/x/sigma>

#2: Why do an Iron Condor?

- **Probabilities**
- **Monthly Income**
- **Market Opinion**

#3: Three Types: High Probability: 10 Deltas

Date: 5/20/2011

SPX Price: \$1333.30

	JUL(56)			
Options	Price	IV	Delta	Trade
1420 Calls	\$1.63	10.6%	6.8	+1
1410 Calls	\$2.60	10.8%	9.9	-1
1190 Puts	\$6.25	23.8%	-10.2	-1
1180 Puts	\$5.65	24.4%	-9.2	+1

Delta	-2.1
Gamma	-0.1
Theta	3.3
Vega	-29.2
Credit	157
Margin	843

Low Probability:15-18 Deltas

Date: 5/20/2011

SPX Price: \$1333.30

	JUL(56)			
Options	Price	IV	Delta	Trade
1400 Calls	\$3.70	10.9%	13.2	+1
1390 Calls	\$5.40	11.1%	17.6	-1
1240 Puts	\$10.70	20.9%	-17.5	-1
1230 Puts	\$9.65	21.5%	-15.8	+1

Delta	-2.7
Gamma	-0.1
Theta	3.5
Vega	-32.6
Credit	275
Margin	725

Lower probability: 25 Delta

Date: 5/20/2011

SPX Price: \$1333.30

	JUL(56)			
Options	Price	IV	Delta	Trade
1385 Calls	\$6.45	11.2%	20.1	+1
1375 Calls	\$9.05	11.5%	25.7	-1
1270 Puts	\$15.25	19.3%	-24.6	-1
1260 Puts	\$13.40	19.7%	-21.9	+1

Delta	-2.8
Gamma	-0.1
Theta	3.8
Vega	-31.8
Credit	445
Margin	555

Comparison

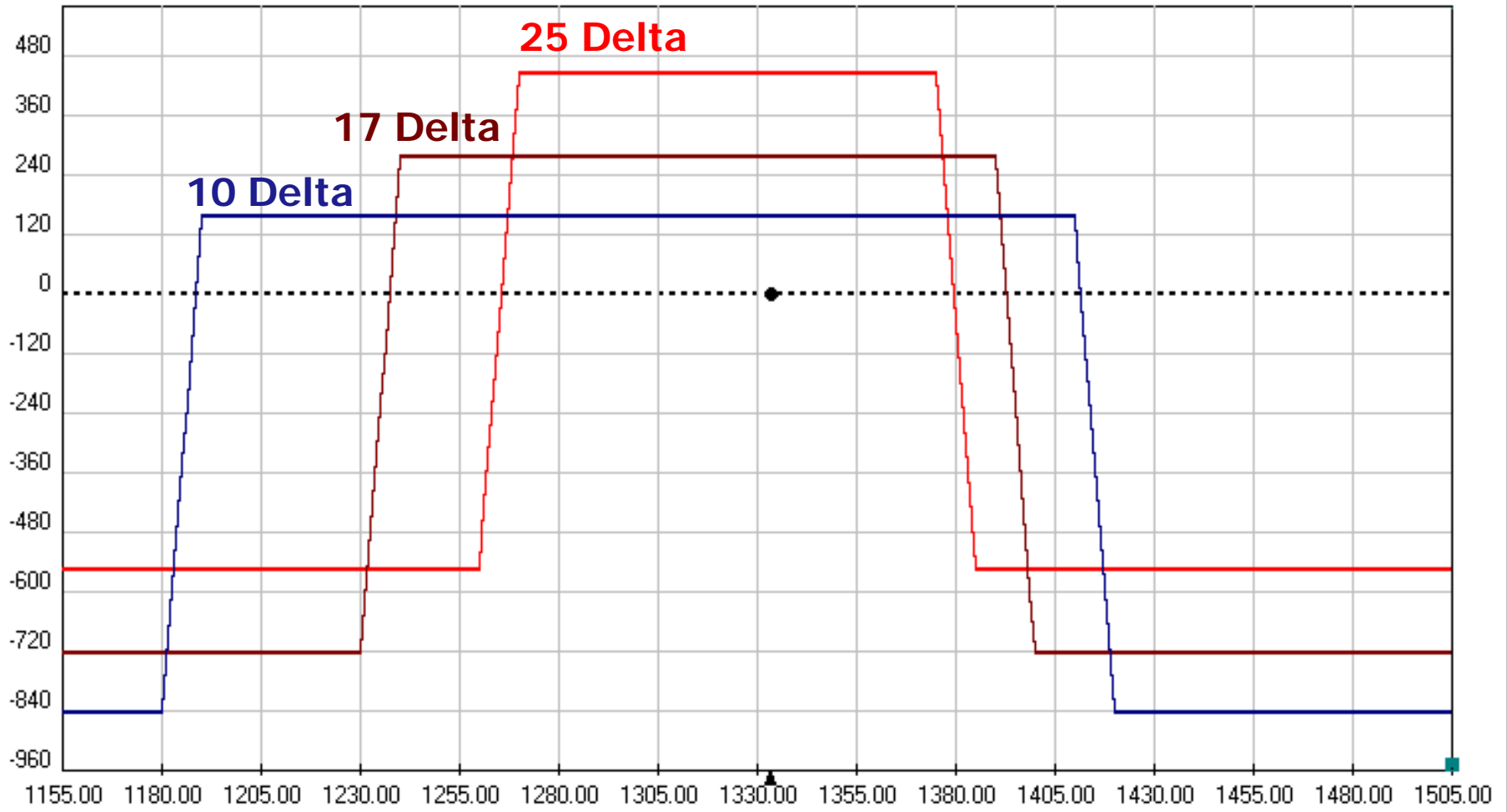
10 Delta	
Delta	-2.1
Gamma	-0.1
Theta	3.3
Vega	-29.2
Credit	157
Margin	843

17 Delta	
Delta	-2.7
Gamma	-0.1
Theta	3.5
Vega	-32.6
Credit	275
Margin	725

25 Delta	
Delta	-2.8
Gamma	-0.1
Theta	3.8
Vega	-31.8
Credit	445
Margin	555

Comparison

Profit/Loss by Change in SPX Index Price



11.4%

#4: Iron Condor VS Plain Credit Spread?

Date: 5/20/2011

SPX Price: \$1333.30

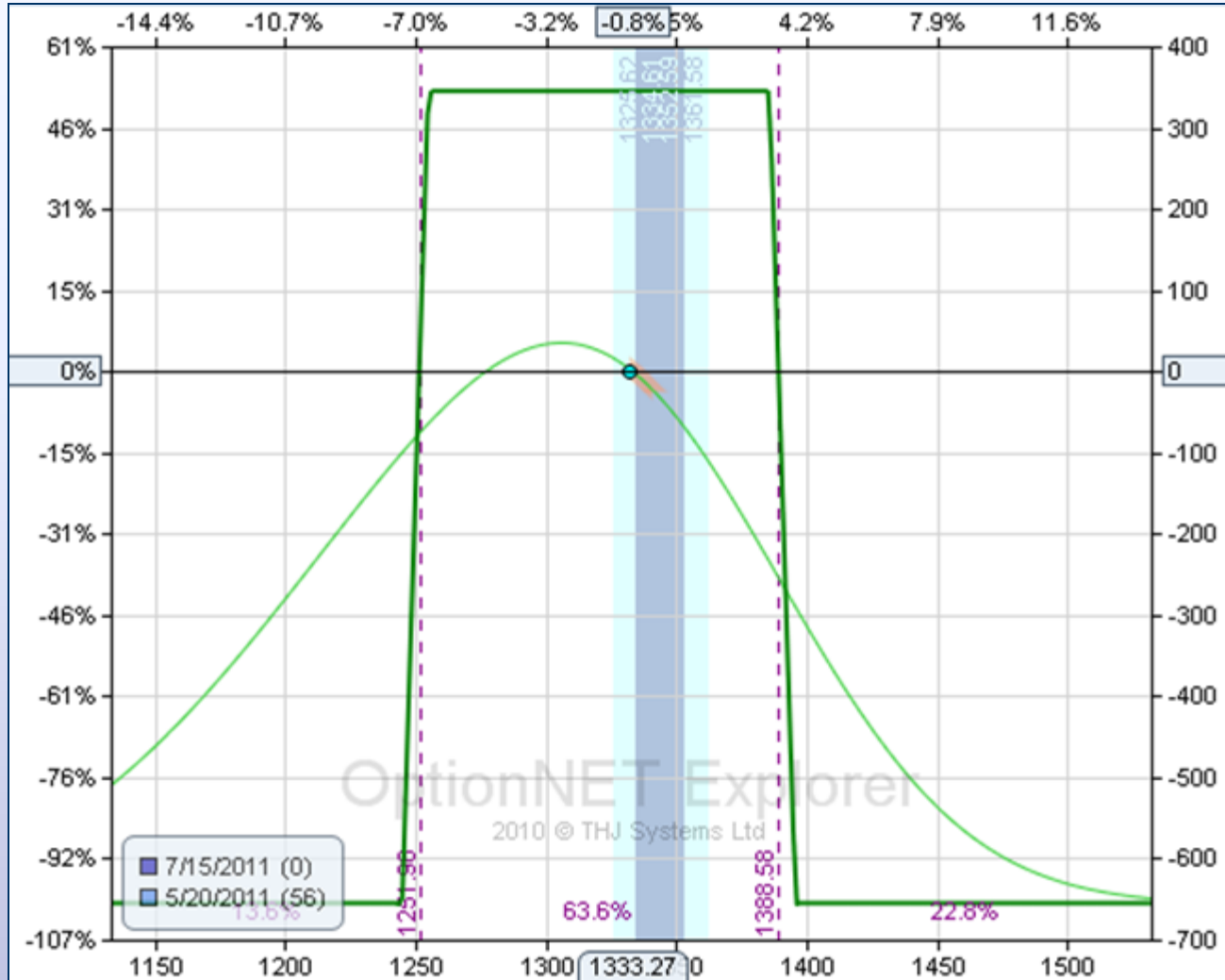
	JUL(56)			
Options	Price	IV	Delta	Trade
1395 Calls	\$4.45	11.0%	15.3	+1
1385 Calls	\$6.45	11.2%	20.1	-1
1255 Puts	\$12.70	20.0%	-20.7	-1
1245 Puts	\$11.25	20.5%	-18.5	+1

Delta	-2.6
Gamma	-0.1
Theta	3.8
Vega	-33.7
Credit	345
Margin	655

#4: Iron Condor VS Plain Credit Spread?

Date: 5/20/2011

SPX Price: \$1333.30



Plain Put Credit Spread

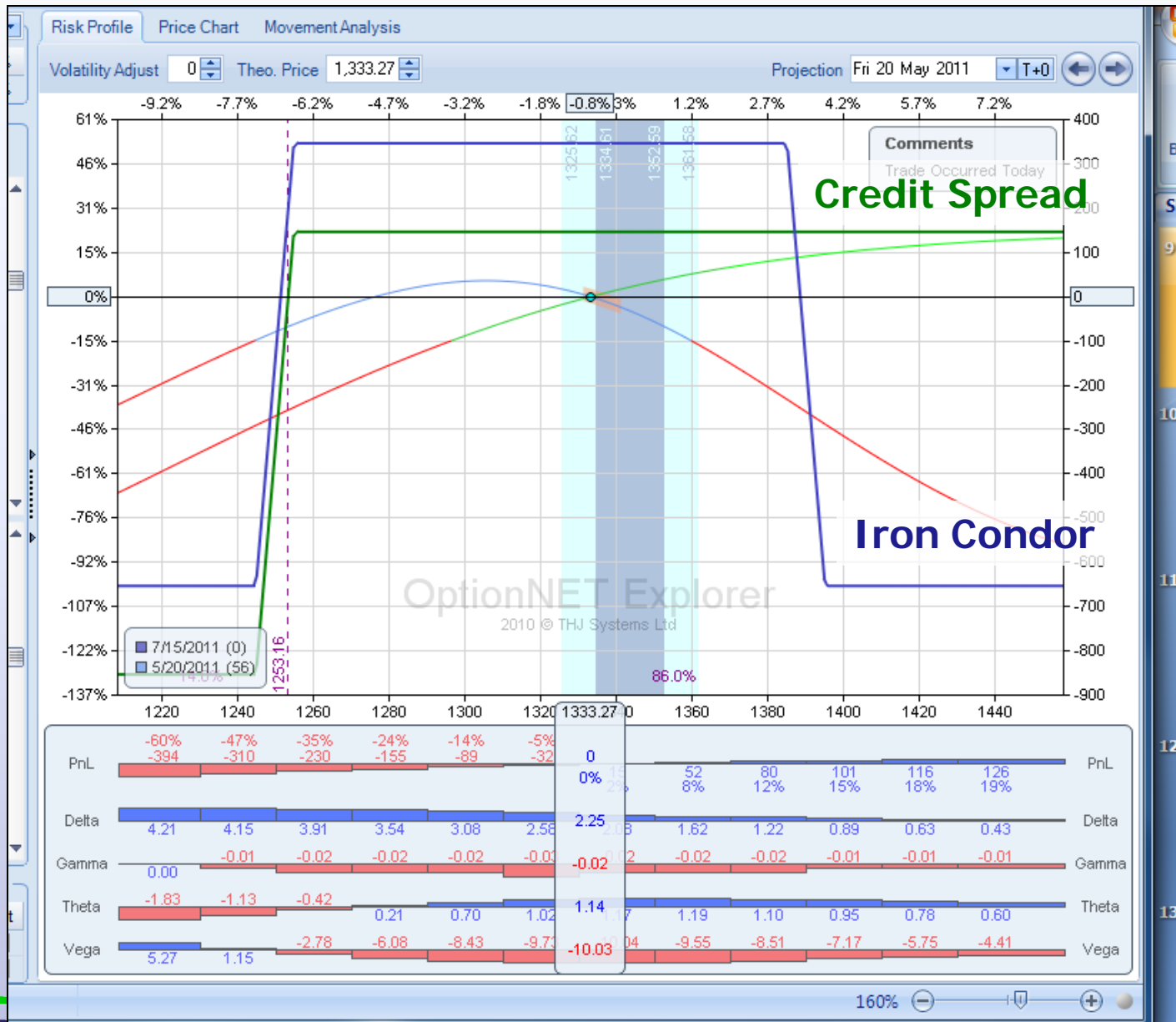
Date: 5/20/2011

SPX Price: \$1333.30

	JUL(56)			
Options	Price	IV	Delta	Trade
1255 Puts	\$12.70	20.0%	-20.7	-1
1245 Puts	\$11.25	20.5%	-18.5	+1

Delta	2.3
Gamma	-0.1
Theta	3.8
Vega	-33.7
Credit	145
Margin	855

Credit Spread versus Iron Condor



#5: Greeks of an Iron Condor

Date: 5/20/2011

SPX Price: \$1333.30

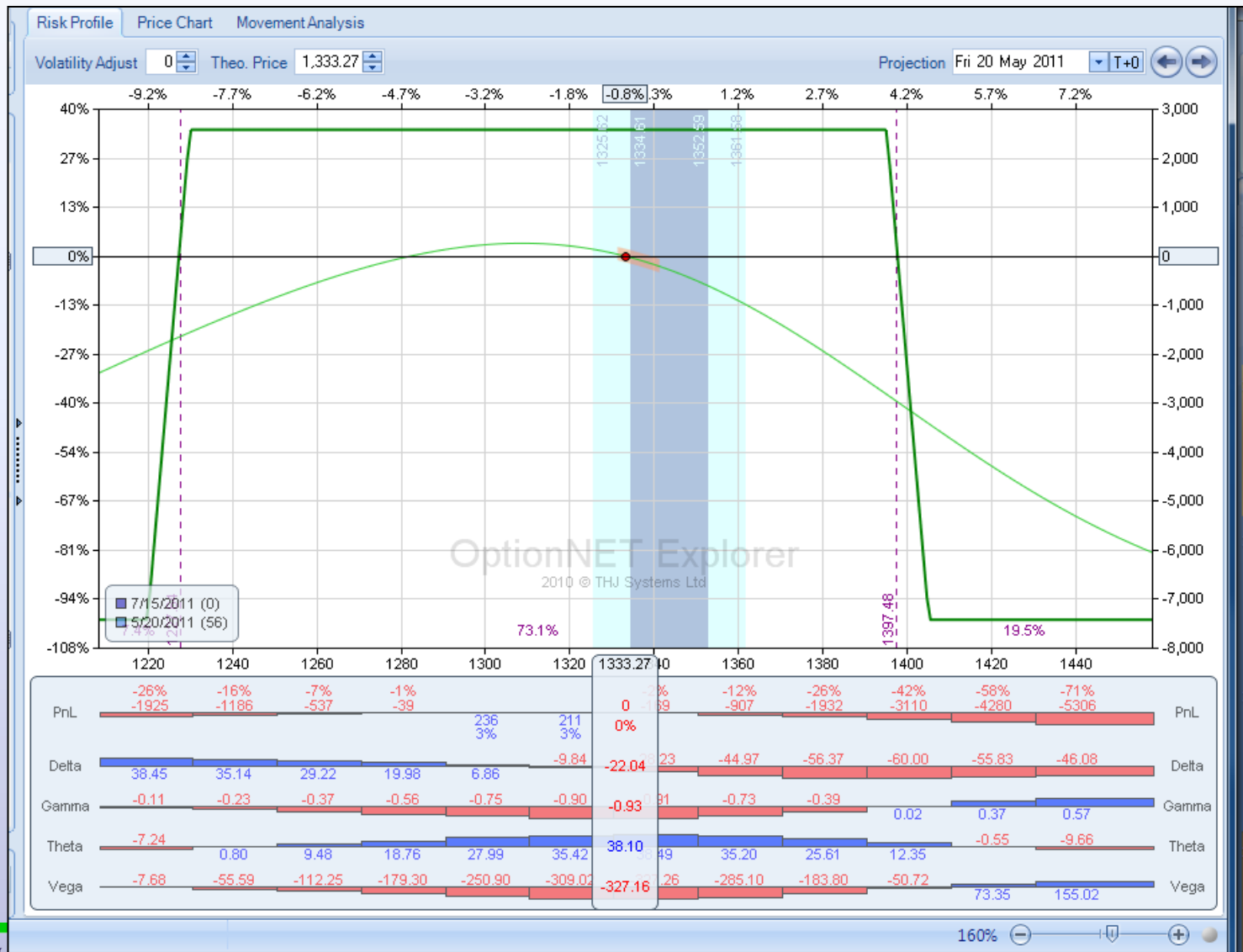
	JUL(56)				
Options	Price	IV	Delta	Vega	Trade
1405 Calls	\$3.03	10.8%	11.3	99.9	+10
1395 Calls	\$4.45	11.0%	15.3	123.1	-10
1230 Puts	\$9.65	21.5%	-15.8	125.8	-10
1220 Puts	\$8.85	22.0%	-14.0	116.2	+10

Delta	-22.0
Gamma	-0.9
Theta	38.1
Vega	-327.2
Credit	2,570
Margin	7,430

Iron Condor

Date: 5/20/2011

SPX Price: \$1333.30



#6: Setting a Plan for the Iron Condor

- Which type of Iron Condor?
- What strike to sell?
- How far out to go?
- Entry? Just call side? Just put side? Scale? All in?
- Profit Target? Maximum Loss?
- Adjustments or no adjustments?
- Adjustments: Which adjustment to employ?
- Insurance at beginning of trade?

#7: Entering the Iron Condor trade

- How to Initiate the Iron Condor?
- Execution?
- Scale?

#8: When to Adjust? (Guidelines)

- $\frac{1}{2}$ way to Maximum dollar loss
- Delta of short option increases 10-15

Adjustment Example

Date: 4/19/2011

SPX Price: \$1312.62

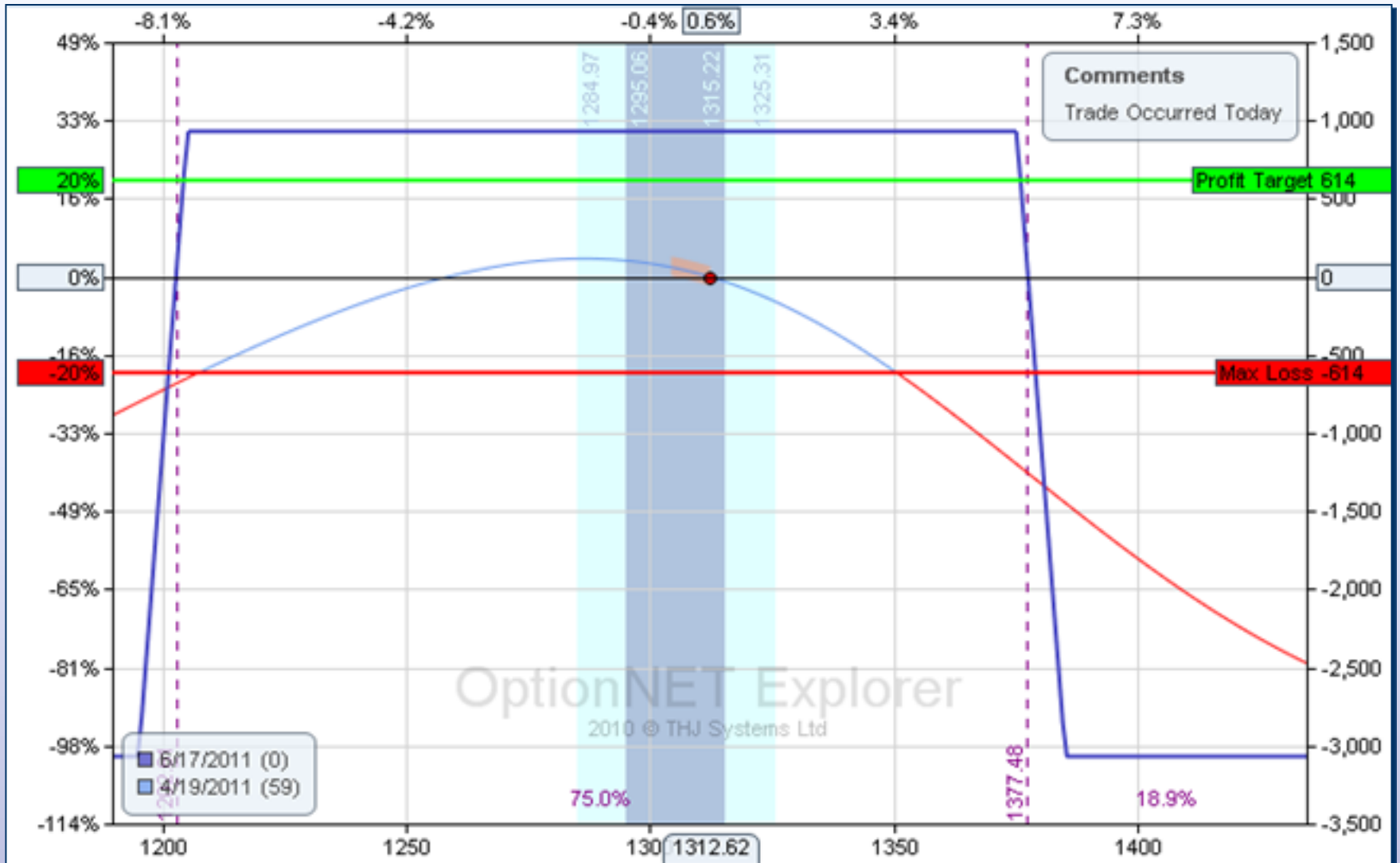
	JUN(59)			
Options	Price	IV	Delta	Trade
1385 Calls	\$2.83	10.5%	10.8	+4
1375 Calls	\$4.20	10.7%	14.7	-4
1205 Puts	\$8.75	21.2%	-14.6	-4
1195 Puts	\$7.80	21.7%	-13.1	+4

Delta	-9.5
Gamma	-0.4
Theta	13.7
Vega	-130.9
Credit	928
Margin	3,072

Adjustment Example

Date: 4/19/2011

SPX Price: \$1312.62



#1 Roll

Date: 4/20/2011

SPX Price: \$1330.36 +17.74

	JUN(58)						
Options	Price	Entry Pr	IV	Delta	Trade	Adjust	New
1395 Calls	\$4.35		11.0%	14.7		+4	+4
1385 Calls	\$6.45	\$4.20	11.4%	19.6	+4	-8	-4
1375 Calls	\$8.95	\$8.75	11.7%	24.9	-4	+4	
1205 Puts	\$6.45	\$7.80	21.4%	-11.3	-4		-4
1195 Puts	\$5.75	\$8.75	21.9%	-10.1	+4		+4

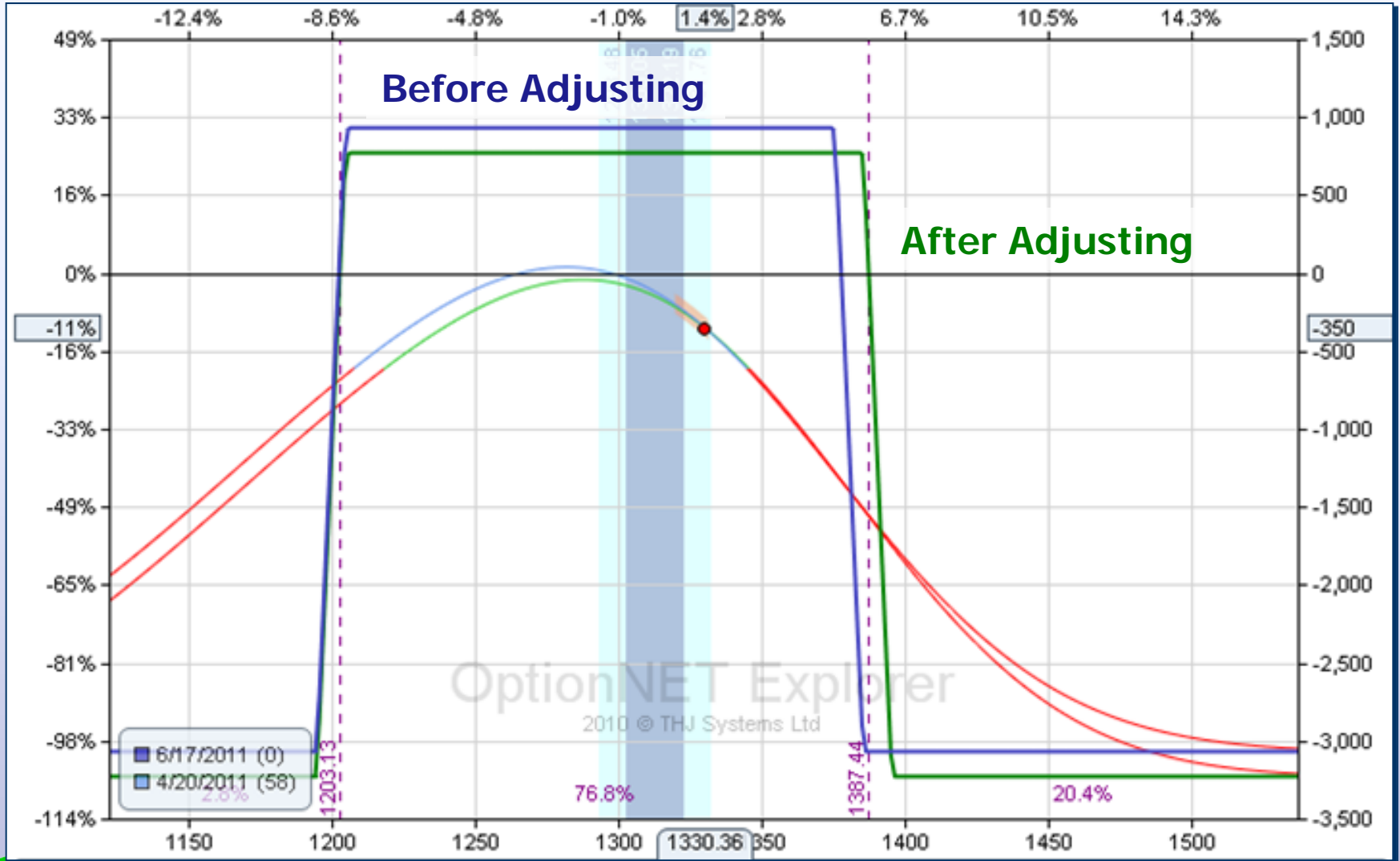
Before Adjusting	
Delta	-16.0
Gamma	-0.3
Theta	14.3
Vega	-117.6
Loss	350
Credit	928
Margin	3,072

After Adjusting	
Delta	-14.7
Gamma	-0.3
Theta	15.7
Vega	-131.7
Loss	350
Credit	770
Margin	3,230

#1 Roll

Date: 4/20/2011

SPX Price: \$1330.36 +17.74



#2 No Adjust

Date: 4/20/2011

SPX Price: \$1330.36 +17.74

	JUN(58)				
Options	Price	Entry Pr	IV	Delta	Trade
1385 Calls	\$6.45	\$2.83	11.4%	19.6	+4
1375 Calls	\$8.95	\$4.20	11.7%	24.9	-4
1205 Puts	\$6.45	\$8.75	21.4%	-11.3	-4
1195 Puts	\$5.75	\$7.80	21.9%	-10.1	+4

Delta	-16.0
Gamma	-0.3
Theta	14.3
Vega	-117.6
Loss	350
Credit	928
Margin	3,072

#3 Add a Long

Date: 4/20/2011

SPX Price: \$1330.36 +17.74

	JUN(58)						
Options	Price	Entry Pr	IV	Delta	Trade	Adjust	New
1405 Calls	\$2.63		10.5%	10.2		+1	+1
1385 Calls	\$6.45	\$4.20	11.4%	19.6	+4		+4
1375 Calls	\$8.95	\$8.75	11.7%	24.9	-4		-4
1205 Puts	\$6.45	\$7.80	21.4%	-11.3	-4		-4
1195 Puts	\$5.75	\$8.75	21.9%	-10.1	+4		+4

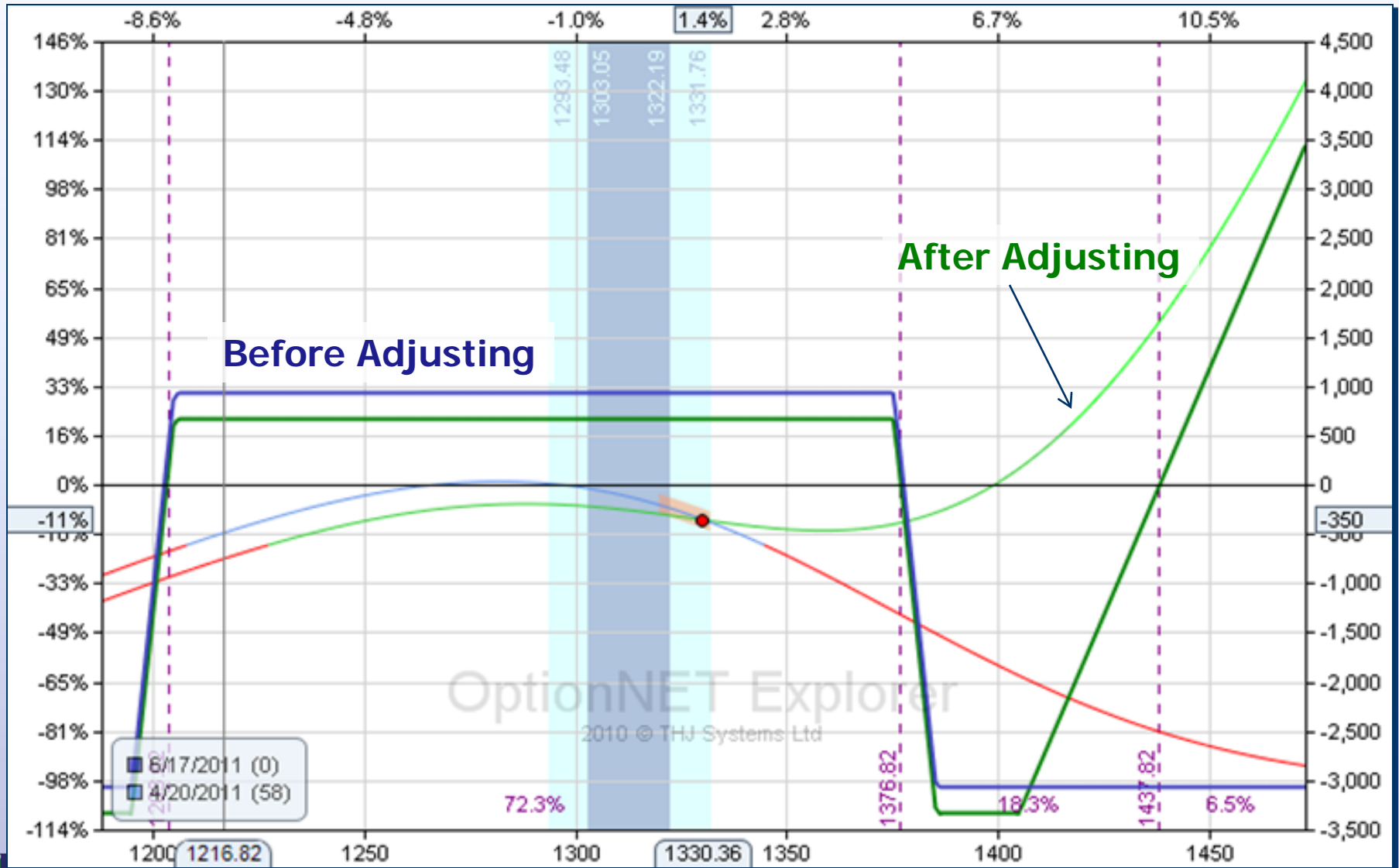
Before Adjusting	
Delta	-16.0
Gamma	-0.3
Theta	14.3
Vega	-117.6
Loss	350
Credit	928
Margin	3,072

After Adjusting	
Delta	-5.9
Gamma	0.0
Theta	5.7
Vega	-23.7
Loss	350
Credit	667
Margin	3,333

#3 Add a Long

Date: 4/20/2011

SPX Price: \$1330.36 +17.74



#4 Debit Spread

Date: 4/20/2011

SPX Price: \$1330.36 +17.74

	JUN(58)						
Options	Price	Entry Pr	IV	Delta	Trade	Adjust	New
1385 Calls	\$6.45	\$4.20	10.5%	10.2	+4		+4
1375 Calls	\$8.95	\$8.75	11.4%	19.6	-4	-1	-5
1365 Calls	\$12.45		12.2%	30.9		+1	+1
1205 Puts	\$6.45	\$7.80	21.4%	-11.3	-4		-4
1195 Puts	\$5.75	\$8.75	21.9%	-10.1	+4		+4

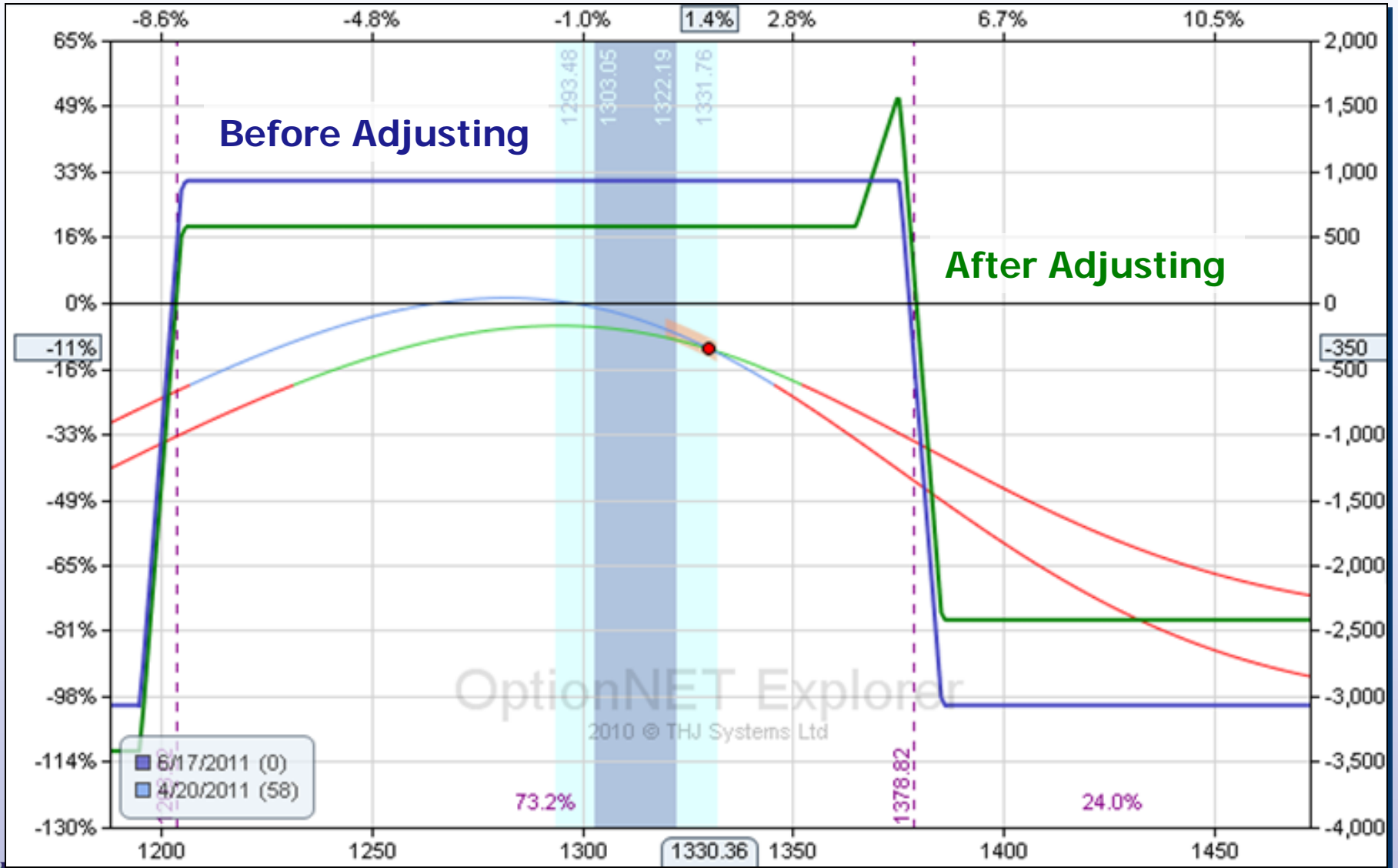
Before Adjusting	
Delta	-16.0
Gamma	-0.3
Theta	14.3
Vega	-117.6
Loss	350
Credit	928
Margin	3,072

After Adjusting	
Delta	-10.0
Gamma	-0.3
Theta	11.5
Vega	-98.8
Loss	350
Credit	580
Margin	3,420

#4 Debit Spread

Date: 4/20/2011

SPX Price: \$1330.36 +17.74



#5 Turn Into a Butterfly

Date: 4/20/2011

SPX Price: \$1330.36 +17.74

	JUN(58)						
Options	Price	Entry Pr	IV	Delta	Trade	Adjust	New
1385 Calls	\$6.45	\$4.20	10.5%	10.2	+4		+4
1375 Calls	\$8.95	\$8.75	11.4%	19.6	-4	-4	-8
1365 Calls	\$12.45		12.2%	30.9		+4	+4
1205 Puts	\$6.45	\$7.80	21.4%	-11.3	-4	+4	
1195 Puts	\$5.75	\$8.75	21.9%	-10.1	+4	-4	

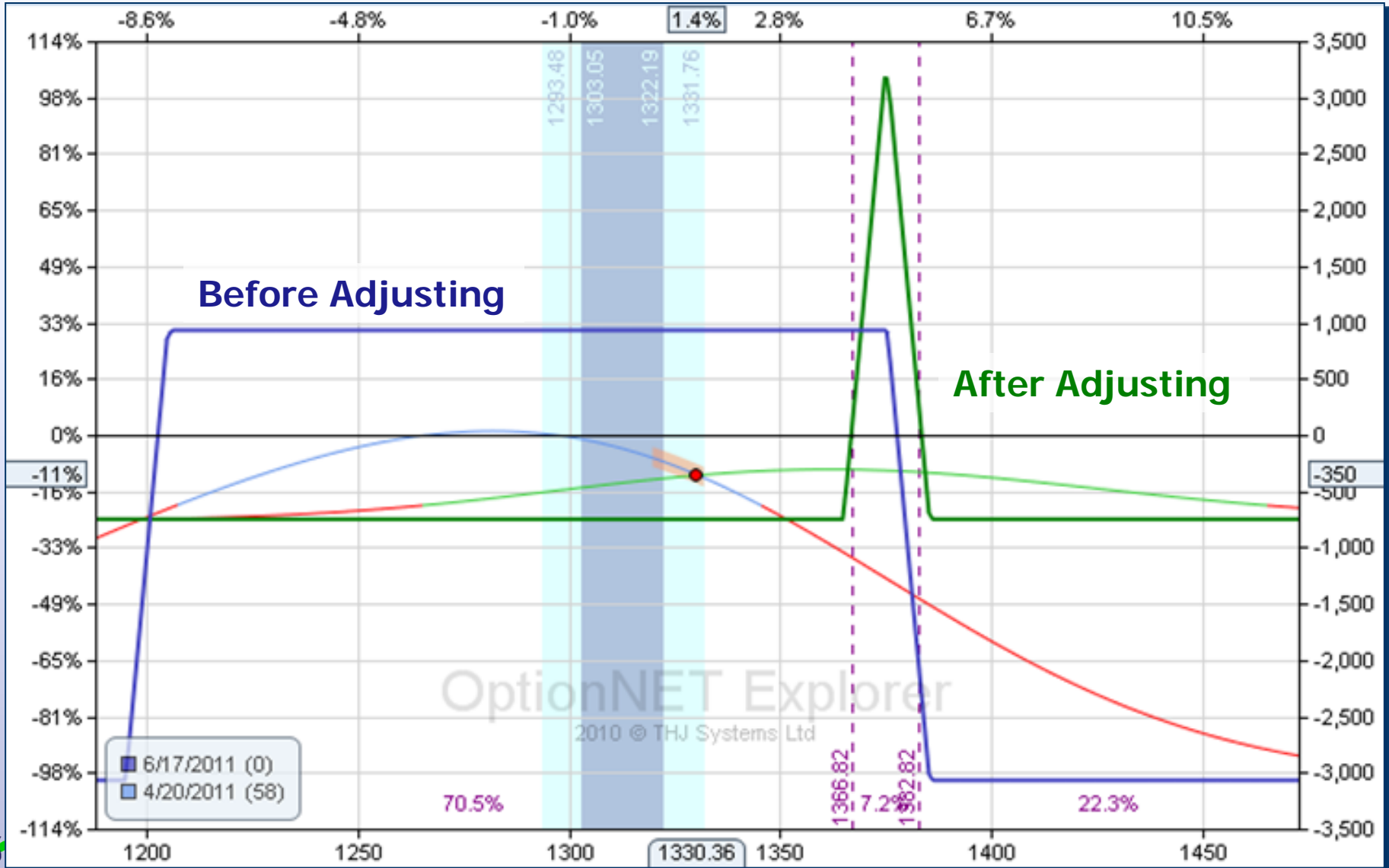
Before Adjusting	
Delta	-16.0
Gamma	-0.3
Theta	14.3
Vega	-117.6
Loss	350
Credit	928
Margin	3,072

After Adjusting	
Delta	3.2
Gamma	-0.1
Theta	-0.9
Vega	-9.8
Loss	350
Debit	750
Margin	750

#5 Turn Into a Butterfly

Date: 4/20/2011

SPX Price: \$1330.36 +17.74



#6 Reduce Deltas and Size

Date: 4/20/2011

SPX Price: \$1330.36 +17.74

	JUN(58)						
Options	Price	Entry Pr	IV	Delta	Trade	Adjust	New
1385 Calls	\$6.45	\$4.20	10.5%	10.2	+4	-2	+2
1375 Calls	\$8.95	\$8.75	11.4%	19.6	-4	+2	-2
1205 Puts	\$6.45	\$7.80	21.4%	-11.3	-4	+2	-2
1195 Puts	\$5.75	\$8.75	21.9%	-10.1	+4	-2	+2

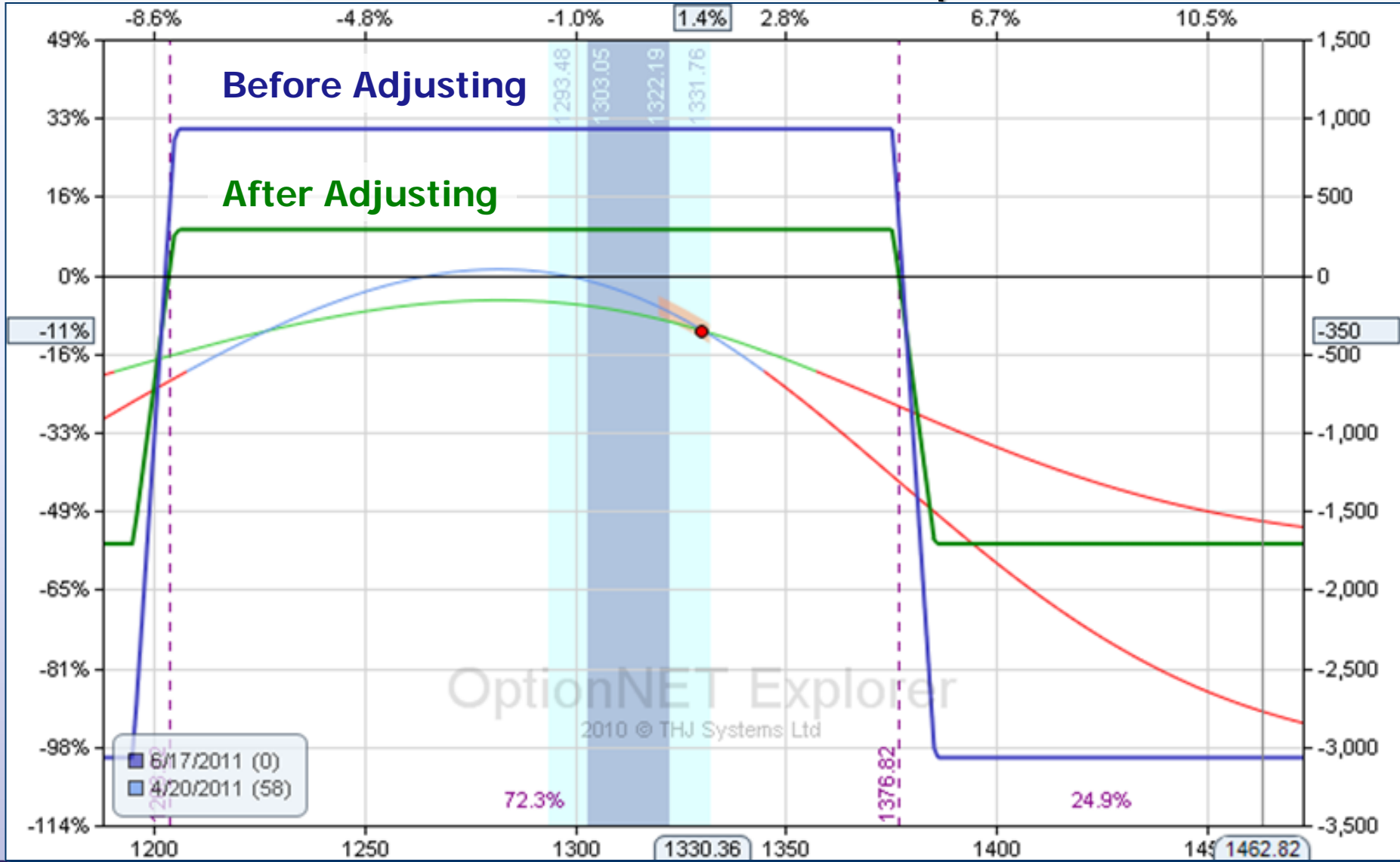
Before Adjusting	
Delta	-16.0
Gamma	-0.3
Theta	14.3
Vega	-117.6
Loss	350
Credit	928
Margin	3,072

After Adjusting	
Delta	8.0
Gamma	-0.1
Theta	7.1
Vega	-58.8
Loss	350
Credit	290
Margin	1,710

#6 Reduce Deltas and Size

Date: 4/20/2011

SPX Price: \$1330.36 +17.74



#7 Time Spread the Bad Side

Date: 4/20/2011

SPX Price: \$1330.36 +17.74

Options	JUN(58)				JUL(86)			
	Price	IV	Trade	Adjust New	Price	IV	Trade	Adjust New
1385 Calls	\$6.45	10.5%	+4	-4				
1375 Calls	\$8.95	11.4%	-4		-4	\$16.20	12.9%	+4 +4
1205 Puts	\$6.45	21.4%	-4	+4				
1195 Puts	\$5.75	21.9%	+4	-4				

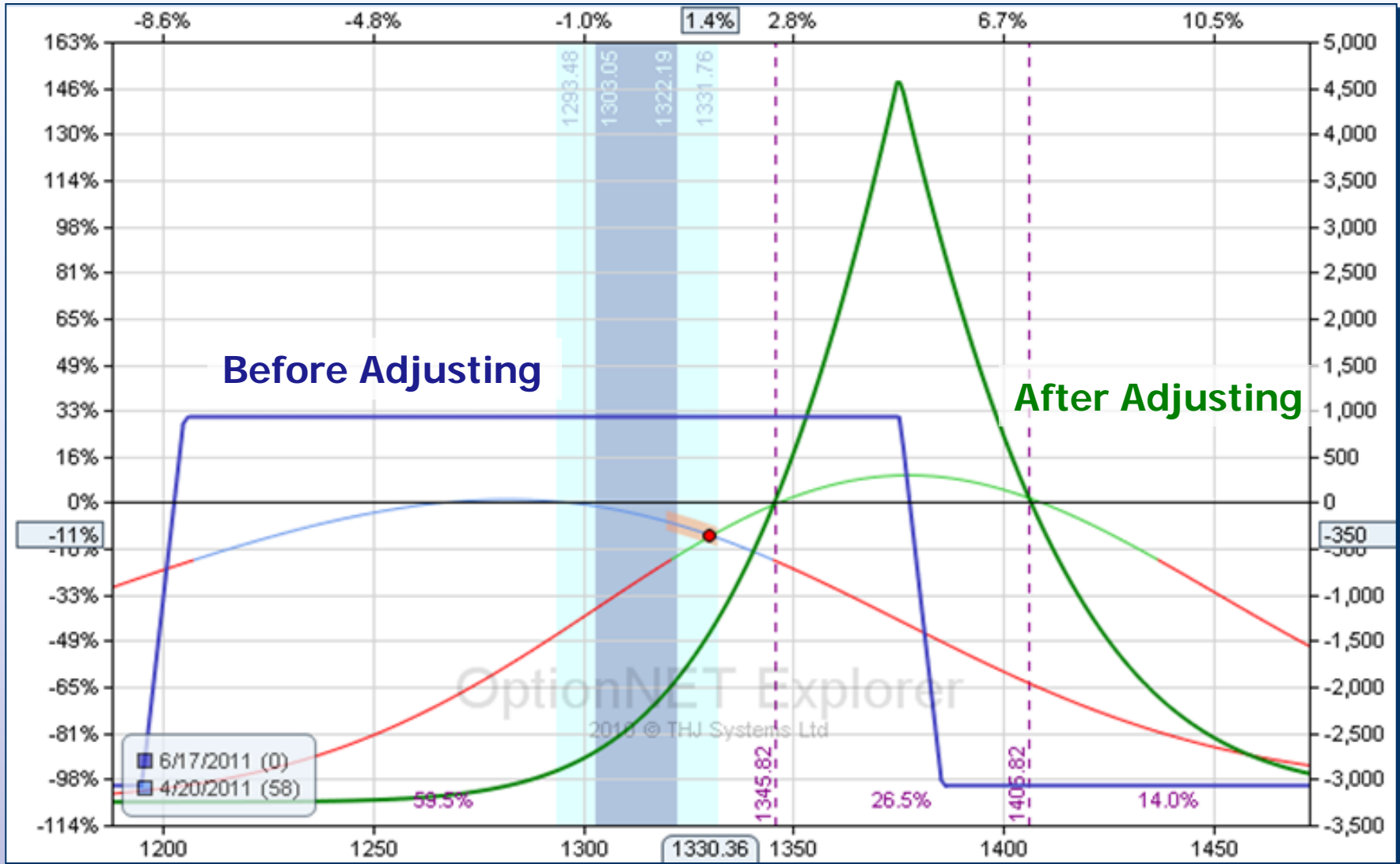
Before Adjusting	
Delta	-16.0
Gamma	-0.3
Theta	14.3
Vega	-117.6
Loss	350
Credit	928
Margin	3,072

After Adjusting	
Delta	25.6
Gamma	-0.4
Theta	-1.1
Vega	242.5
Loss	350
Debit	3,250
Margin	3,250

#7 Time Spread the Bad Side

Date: 4/20/2011

SPX Price: \$1330.36 +17.74



Website Walk Through's

See What's on the Other Side

Let us show you a behind the scenes look at what our mentoring program and what our trading community is like. Dan pioneered option mentoring and has the most robust program with the best support to help you learn and continue to grow as a trader.

Take a few minutes to see for yourself how we can help take your option trading to the next level.

Sign up for your website walk through at
<http://www.sheridanmentoring.com/x/WT>





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