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Neutral Option Strategies
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- Iron Butterfly
- Broken Wing Butterfly
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- Summary
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- All option trades begin with an opinion on the underlying market or stock
- A neutral outlook does not represent a price prediction
- Neutral spreads should benefit from the passage of time

- This is a very popular spread with individual traders
- Maximum profit occurs based on underlying landing within a certain price range at expiration
- Trade is initiated at a credit with higher priced options being sold

XYZ Trading at 47.50

Buy 1 XYZ 40 Put at 0.35

Sell 1 XYZ 45 Put at 1.35

Sell 1 XYZ 50 Call at 1.70

Buy 1 XYZ 55 Call at 0.60

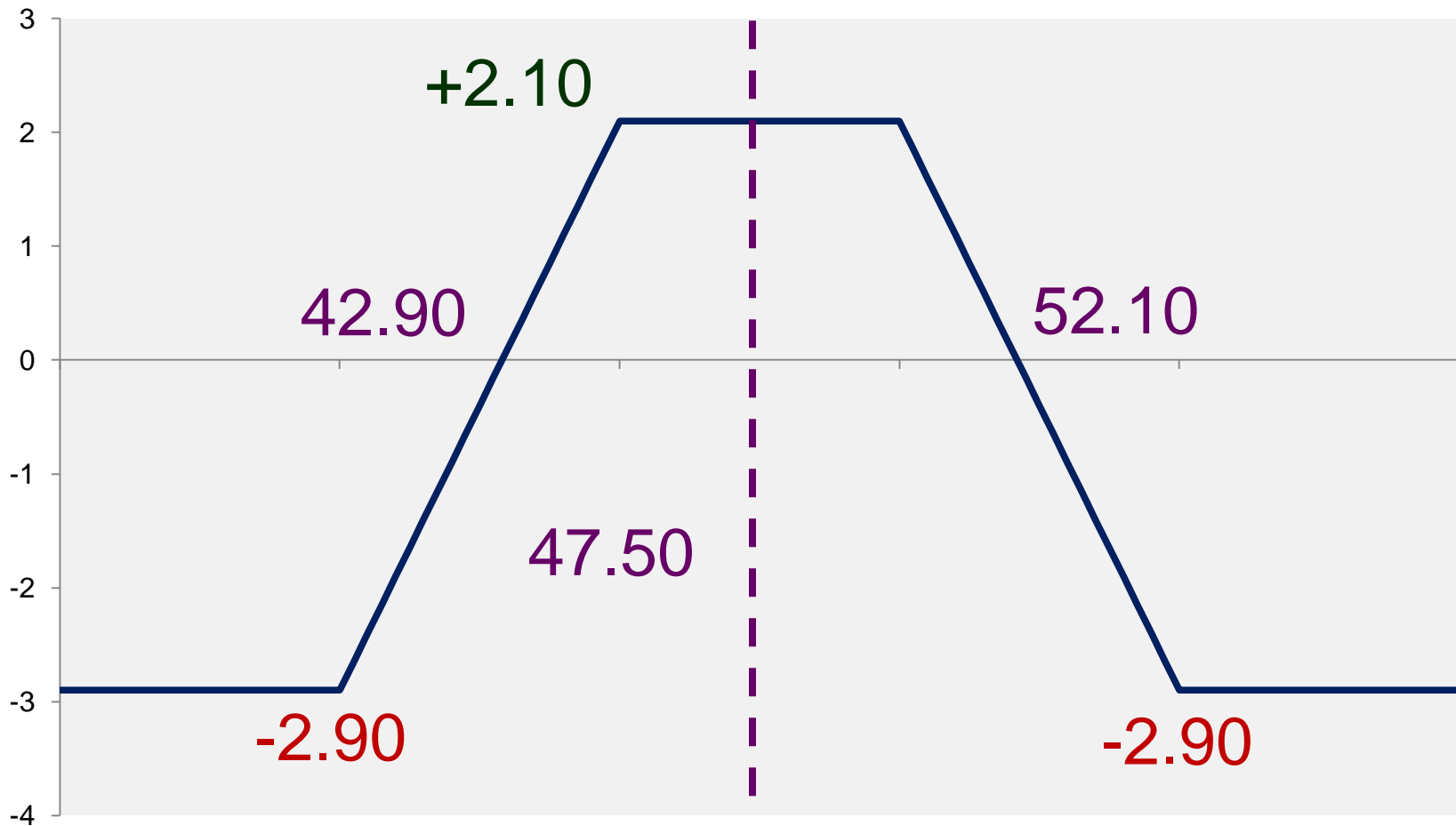
Net Credit = 2.10

Iron Condor

XYZ – 40/45/50/55 Iron Condor Payoff –

XYZ	Long 40 Put	Short 45 Put	Short 50 Call	Long 55 Call	Credit	P/L
35.00	5.00	(10.00)	0.00	0.00	2.10	(2.90)
40.00	0.00	(5.00)	0.00	0.00	2.10	(2.90)
45.00	0.00	0.00	0.00	0.00	2.10	2.10
50.00	0.00	0.00	0.00	0.00	2.10	2.10
55.00	0.00	0.00	(5.00)	0.00	2.10	(2.90)
60.00	0.00	0.00	(10.00)	5.00	2.10	(2.90)

XYZ – 40/45/50/55 Iron Condor Payoff –



- Although not as popular as the Iron Condor this is an excellent neutral strategy
- Maximum profit occurs based on underlying landing at a certain price at expiration
- Trade is initiated at a credit with higher priced options being sold

XYZ Trading at 50.00

Buy 1 XYZ 45 Put at 0.90

Sell 1 XYZ 50 Put at 2.80

Sell 1 XYZ 50 Call at 2.90

Buy 1 XYZ 55 Call at 1.00

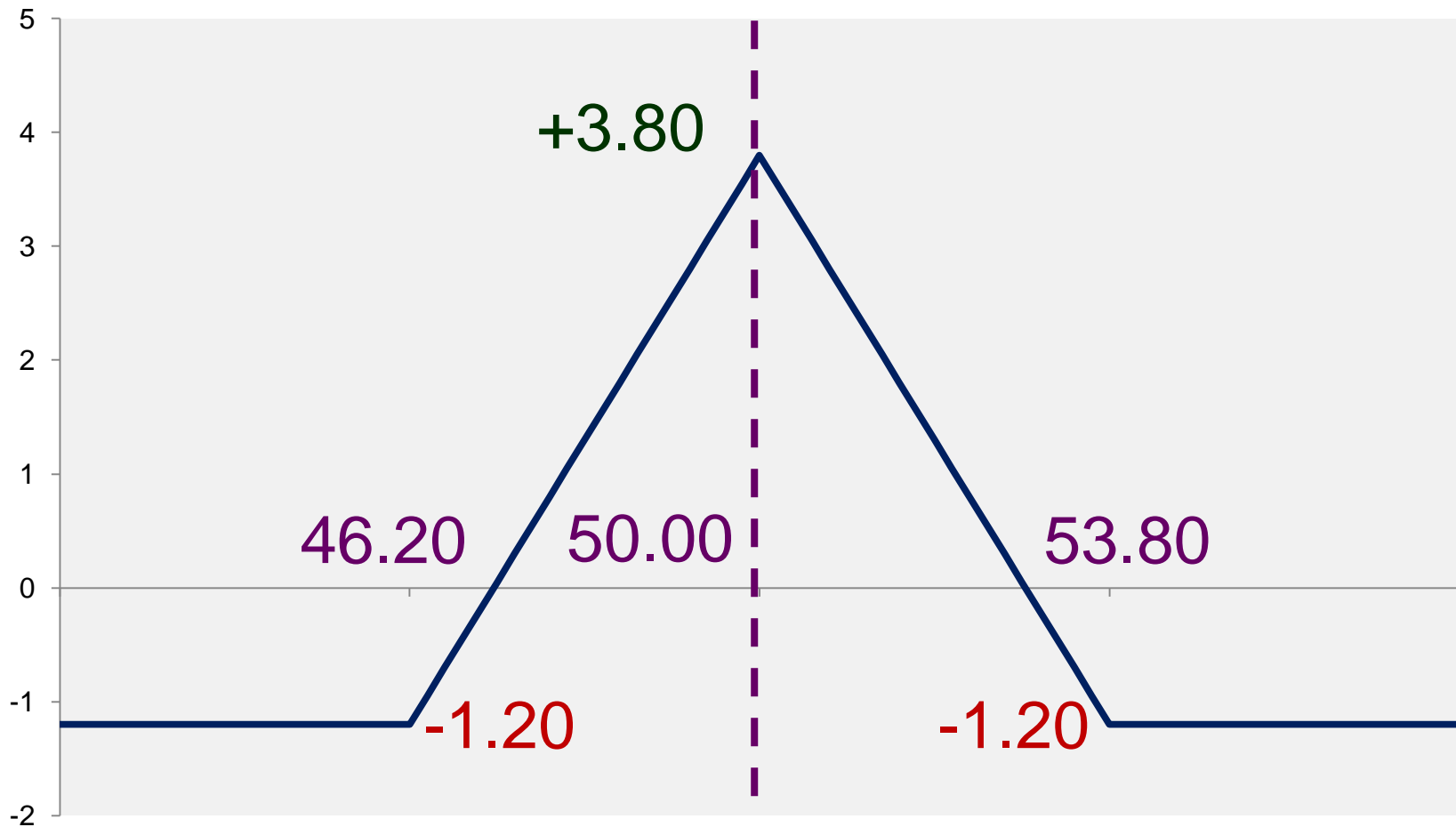
Net Credit = 3.80

Iron Butterfly

XYZ – 45/50/55 Iron Butterfly Payoff –

XYZ	Long 45 Put	Short 50 Put	Short 50 Call	Long 55 Call	Credit	P/L
40.00	5.00	(10.00)	0.00	0.00	3.80	(1.20)
45.00	0.00	(5.00)	0.00	0.00	3.80	(1.20)
50.00	0.00	0.00	0.00	0.00	3.80	3.80
55.00	0.00	0.00	(5.00)	0.00	3.80	(1.20)
60.00	0.00	0.00	(10.00)	5.00	3.80	(1.20)

XYZ – 45/50/55 Iron Butterfly Payoff –



XYZ Trading at 50.00

Buy 1 XYZ 45 Put at 0.90

Sell 1 XYZ 50 Put at 2.80

Sell 1 XYZ 50 Call at 2.90

Buy 1 XYZ 60 Call at 0.30

Net Credit = 4.50

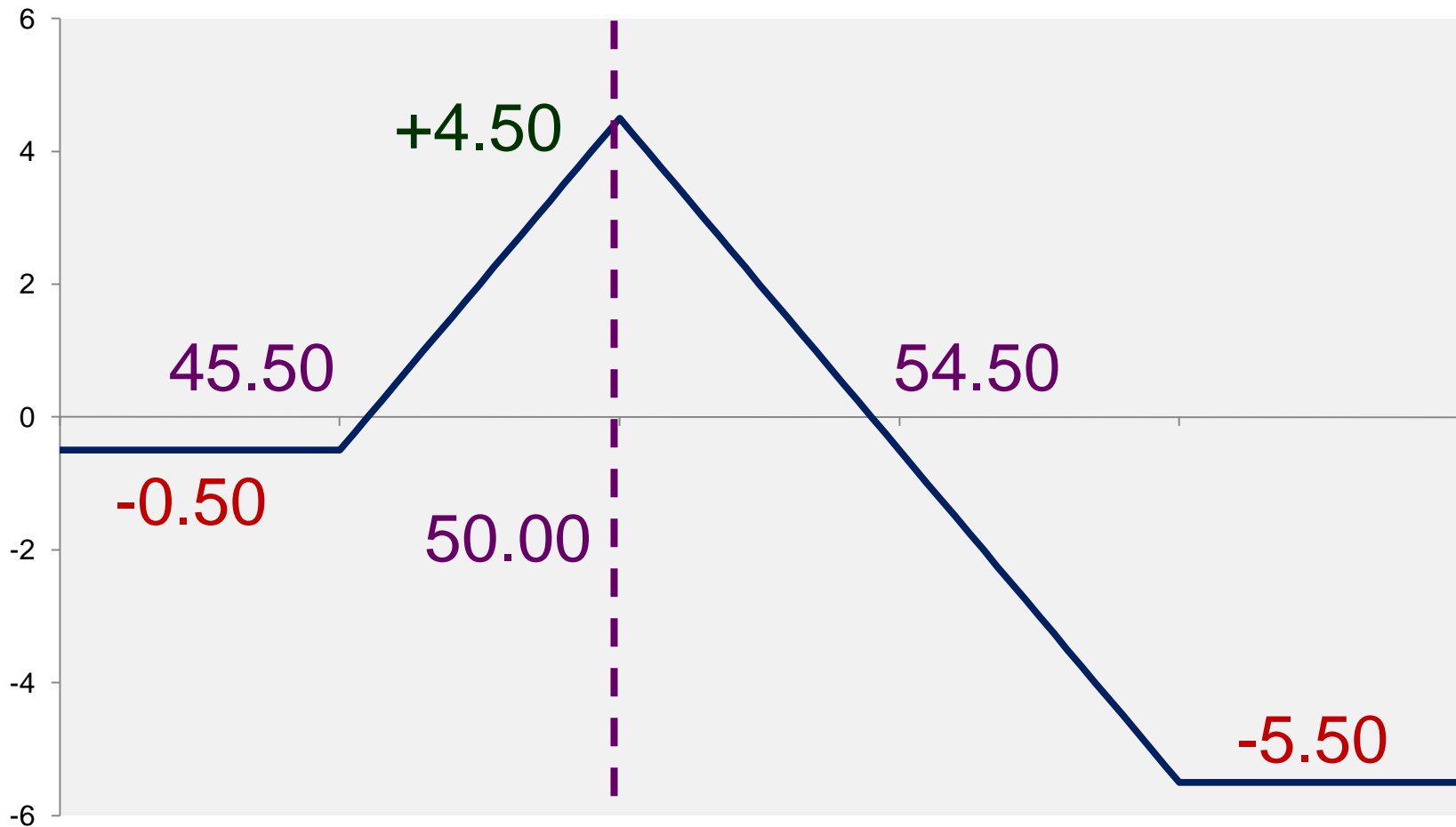
Broken Wing Butterfly

XYZ – 45/50/60 Broken Wing Butterfly Payoff –

XYZ	Long 45 Put	Short 50 Put	Short 50 Call	Long 60 Call	Credit	P/L
40.00	5.00	(10.00)	0.00	0.00	4.50	(0.50)
45.00	0.00	(5.00)	0.00	0.00	4.50	(0.50)
50.00	0.00	0.00	0.00	0.00	4.50	4.50
55.00	0.00	0.00	(5.00)	0.00	4.50	(0.50)
60.00	0.00	0.00	(10.00)	0.00	4.50	(5.50)
65.00	0.00	0.00	(15.00)	5.00	4.50	(5.50)

Broken Wing Butterfly

XYZ – 45/50/60 Broken Wing Butterfly Payoff –



- Neutral outlook on VRM trading @ 44.00
- Considering a neutral position for the next 30 Days
- VRM has dollar strike prices
- Result is multiple potential spread choices

Trade Comparison

VRM @ 44.00 –

	Bid	Ask		Bid	Ask
40 Call	4.10	4.20	40 Put	0.10	0.20
41 Call	3.25	3.35	41 Put	0.20	0.30
42 Call	2.45	2.55	42 Put	0.45	0.55
43 Call	1.80	1.90	43 Put	0.75	0.85
44 Call	1.25	1.35	44 Put	1.20	1.30
45 Call	0.80	0.90	45 Put	1.80	1.90
46 Call	0.50	0.60	46 Put	2.45	2.55
47 Call	0.30	0.40	47 Put	3.25	3.35
48 Call	0.15	0.25	48 Put	4.10	4.20
49 Call	0.05	0.15	49 Put	5.05	5.15
50 Call	0.00	0.05	50 Put	6.00	6.10

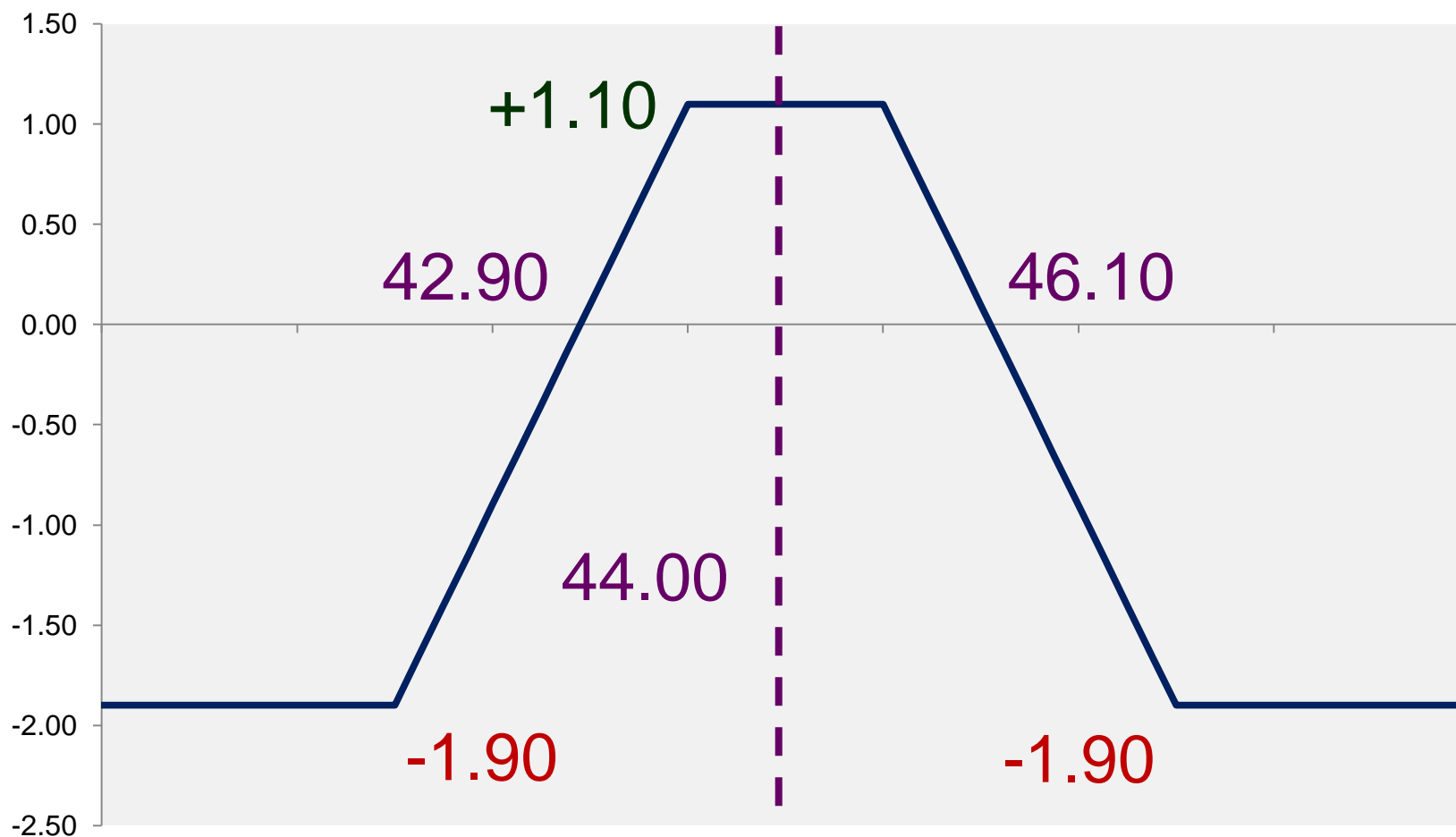
40 – 43 – 45 – 48 Iron Condor @ 1.10 Credit

Trade Comparison

40 – 43 – 45 – 48 Iron Condor Payout –

VRM	Long 40 Put	Short 43 Put	Short 45 Call	Long 48 Call	Credit	P/L
39.00	1.00	(4.00)	0.00	0.00	1.10	(1.90)
40.00	0.00	(3.00)	0.00	0.00	1.10	(1.90)
41.00	0.00	(2.00)	0.00	0.00	1.10	(0.90)
42.00	0.00	(1.00)	0.00	0.00	1.10	0.10
43.00	0.00	0.00	0.00	0.00	1.10	1.10
44.00	0.00	0.00	0.00	0.00	1.10	1.10
45.00	0.00	0.00	0.00	0.00	1.10	1.10
46.00	0.00	0.00	(1.00)	0.00	1.10	0.10
47.00	0.00	0.00	(2.00)	0.00	1.10	(0.90)
48.00	0.00	0.00	(3.00)	0.00	1.10	(1.90)
49.00	0.00	0.00	(4.00)	1.00	1.10	(1.90)

40 – 43 – 45 – 48 Iron Condor Payout –



Trade Comparison

VRM @ 44.00 –

	Bid	Ask		Bid	Ask
40 Call	4.10	4.20	40 Put	0.10	0.20
41 Call	3.25	3.35	41 Put	0.20	0.30
42 Call	2.45	2.55	42 Put	0.45	0.55
43 Call	1.80	1.90	43 Put	0.75	0.85
44 Call	1.25	1.35	44 Put	1.20	1.30
45 Call	0.80	0.90	45 Put	1.80	1.90
46 Call	0.50	0.60	46 Put	2.45	2.55
47 Call	0.30	0.40	47 Put	3.25	3.35
48 Call	0.15	0.25	48 Put	4.10	4.20
49 Call	0.05	0.15	49 Put	5.05	5.15
50 Call	0.00	0.05	50 Put	6.00	6.10

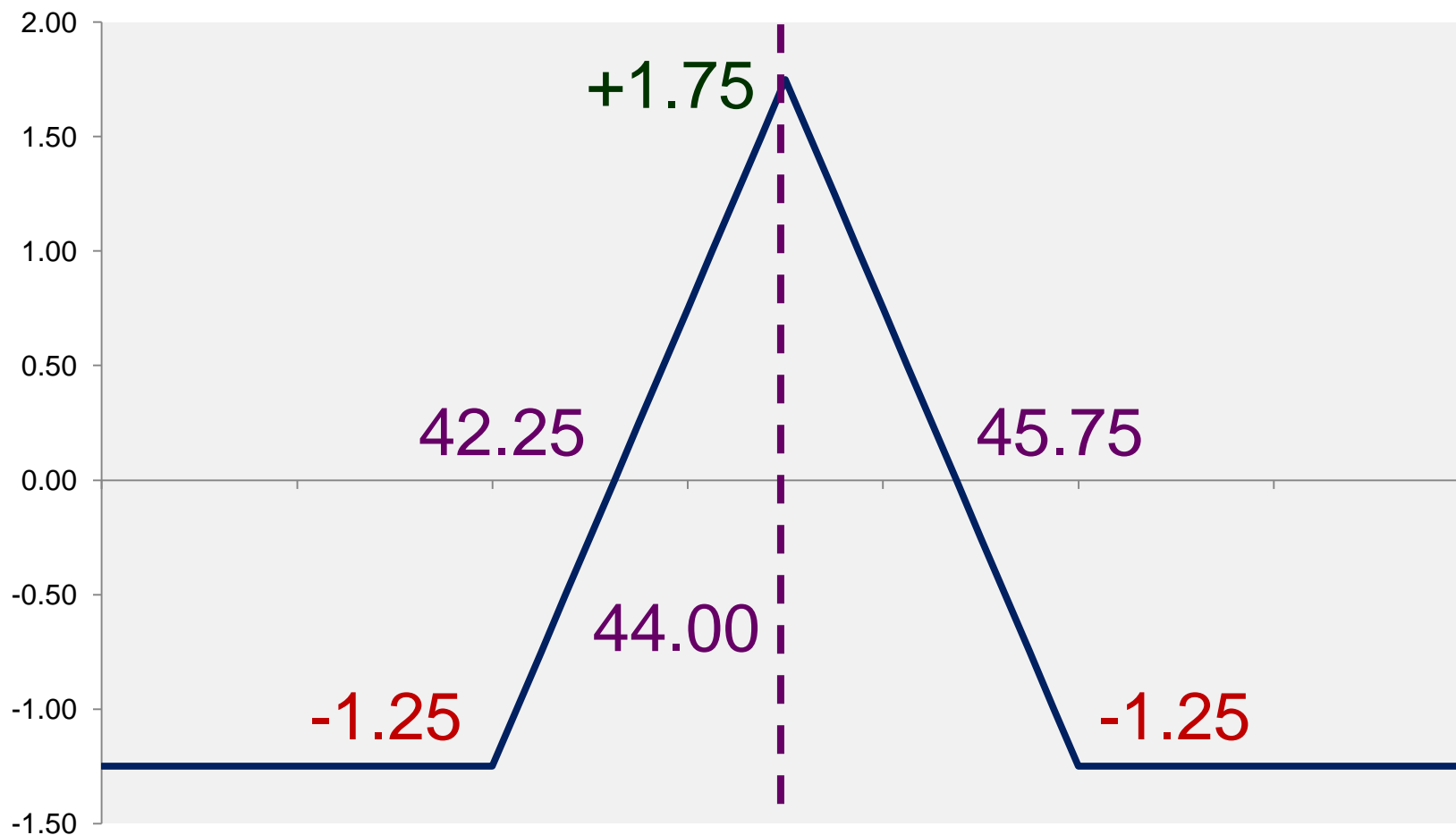
41 – 44 – 47 Iron Butterfly @ 1.75 Credit

Trade Comparison

41 – 44 – 47 Iron Butterfly Payout –

VRM	Long 41 Put	Short 44 Put	Short 44 Call	Long 47 Call	Credit	P/L
39.00	2.00	(5.00)	0.00	0.00	1.75	(1.25)
40.00	1.00	(4.00)	0.00	0.00	1.75	(1.25)
41.00	0.00	(3.00)	0.00	0.00	1.75	(1.25)
42.00	0.00	(2.00)	0.00	0.00	1.75	(0.25)
43.00	0.00	(1.00)	0.00	0.00	1.75	0.75
44.00	0.00	0.00	0.00	0.00	1.75	1.75
45.00	0.00	0.00	(1.00)	0.00	1.75	0.75
46.00	0.00	0.00	(2.00)	0.00	1.75	(0.25)
47.00	0.00	0.00	(3.00)	0.00	1.75	(1.25)
48.00	0.00	0.00	(4.00)	1.00	1.75	(1.25)
49.00	0.00	0.00	(5.00)	2.00	1.75	(1.25)

41 – 44 – 47 Iron Butterfly Payout –



Trade Comparison

VRM @ 44.00 –

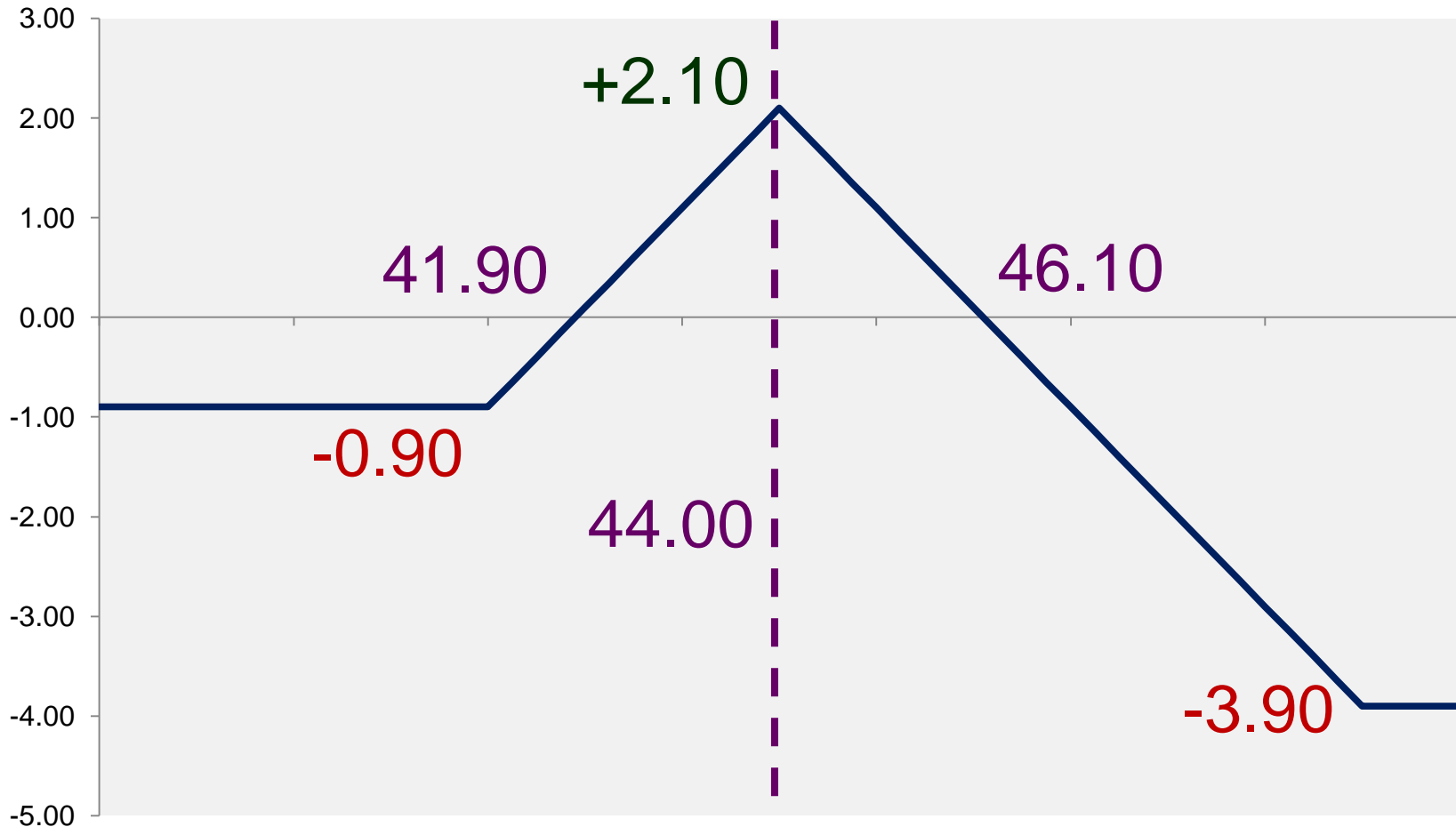
	Bid	Ask		Bid	Ask
40 Call	4.10	4.20	40 Put	0.10	0.20
41 Call	3.25	3.35	41 Put	0.20	0.30
42 Call	2.45	2.55	42 Put	0.45	0.55
43 Call	1.80	1.90	43 Put	0.75	0.85
44 Call	1.25	1.35	44 Put	1.20	1.30
45 Call	0.80	0.90	45 Put	1.80	1.90
46 Call	0.50	0.60	46 Put	2.45	2.55
47 Call	0.30	0.40	47 Put	3.25	3.35
48 Call	0.15	0.25	48 Put	4.10	4.20
49 Call	0.05	0.15	49 Put	5.05	5.15
50 Call	0.00	0.05	50 Put	6.00	6.10

41 – 44 – 50 Broken Wing Butterfly @ 2.10 Credit

41 – 44 – 50 Broken Wing Butterfly Payout –

VRM	Long 41 Put	Short 44 Put	Short 44 Call	Long 50 Call	Credit	P/L
40.00	1.00	(4.00)	0.00	0.00	2.10	(0.90)
41.00	0.00	(3.00)	0.00	0.00	2.10	(0.90)
42.00	0.00	(2.00)	0.00	0.00	2.10	0.10
43.00	0.00	(1.00)	0.00	0.00	2.10	1.10
44.00	0.00	0.00	0.00	0.00	2.10	2.10
45.00	0.00	0.00	(1.00)	0.00	2.10	1.10
46.00	0.00	0.00	(2.00)	0.00	2.10	0.10
47.00	0.00	0.00	(3.00)	0.00	2.10	(0.90)
48.00	0.00	0.00	(4.00)	0.00	2.10	(1.90)
49.00	0.00	0.00	(5.00)	0.00	2.10	(2.90)
50.00	0.00	0.00	(6.00)	0.00	2.10	(3.90)
51.00	0.00	0.00	(7.00)	1.00	2.10	(3.90)

41 – 44 – 50 Broken Wing Butterfly Payout –



Key Levels –

	Max Gain	Max Loss	Down BE	Up BE
Iron Butterfly	1.75	(1.25)	42.25	45.75
Iron Condor	1.10	(1.90)	41.90	46.10
BW Butterfly	2.10	(3.90)	41.90	46.10

Summary –

- Neutral strategies allow a trader to benefit from predicting a range of price outcomes
- Three alternatives are an Iron Condor, Iron Butterfly and a Broken Wing Butterfly
- These alternatives will result in different risk-reward scenarios

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