

Unbalanced Entrance Criteria

TIMING

1- Though one can start these at any time (for the next day) and probably get wider separation or lower prices that at the end of the day, I have less losers placing near the close.

2- The purpose of these Unbalanced Birds is to use time decay as a strong tail wind. For this reason, we start the day prior to expiration.

3- It is not uncommon to be able to start one the same day as expiration; however, this usually requires volatility to be above the mean.

STRIKES

4- The higher the volatility and skew, the better the separation (between the long and short spreads) you will be able to construct.

5- Ideally, there is a large number relatively close by that you can strangle the strikes around, and it meets the other criteria.

5A- Say the SPX is at 4130 and you are bearish, thinking we can get to 4100. Since 4100 is logical support, one could argue that having the long spreads on one side and the shorts on the other side of 4100 would make sense.

5B- Since stop-orders may have the underlying run through the big number a little, it is great if the shorts were not parked at 4100.

5C- This is not a butterfly spread where you want the underlying parked at the short spread strike.

EM

6- Be cognizant of the EM. It is a good tool, but not a solid wall. It only tells you statistically 68% of the time. The stock market is famous for having 2, 4, 4 and 5 sigma moves.

7- Remember that a 1 sigma line is equivalent to about the 16-delta option, but time decay and next day price movement change that.

8- You may want to have the long spread on one side of the EM and the short on the other side.

8A - If you are very concern that the next day might be a larger than normal move, you can move the strikes so that the EM is at the long strike instead of in the center of the profit zone.

COST

9- I rarely pay over \$0.35-\$0.40 for an unbalanced condor or BWB.

9A- If the one I am looking at is much cheaper, I will widen the strikes out and see what that costs. If under \$0.40, that is a good consideration.

9B – Usually, when I can get a very wide unbalanced (\$50 in condor, 25-30 in BWB, etc.) for zero, I will still check to see if I can go wider for under -\$0.40, but this might be good enough at \$0.

10- Keeping it at this price (<\$0.40) allows for a **decent** chance of harvesting back the debit the next day if the market moves in the wrong direction.

EXAMPLE	SPX	Date	B/S	Cts	OPEN				CLOSE	
					Month	Strike	C/P	Price		
Unbalanced Call Condor (1-day)										
35	SPX	A 03/14/23	B	5	March 15	3845	PUT	\$3.24	-\$1,620.00	03/15/23 \$0.00 -\$1,620.00
	SPX	A 03/14/23	S	-5	March 15	3840	PUT	\$2.74	\$1,370.00	03/15/23 \$0.00 \$1,370.00
	SPX	A 03/14/23	S	-10	March 15	3795	PUT	\$0.65	\$650.00	03/15/23 \$0.00 \$650.00
	SPX	A 03/14/23	B	10	March 15	3790	PUT	\$0.55	-\$550.00	03/15/23 \$0.00 -\$550.00
	SPX	A 03/15/23	S	-3	March 15	3835	PUT	\$8.70	\$2,610.00	03/15/23 \$0.00 \$2,610.00
	SPX	A 03/15/23	B	3	March 15	3830	PUT	\$7.55	-\$2,265.00	03/15/23 \$0.00 -\$2,265.00
	SPX	A 03/15/23	B	6	March 15	3795	PUT	\$2.40	-\$1,440.00	03/15/23 \$0.00 -\$1,440.00
	SPX	A 03/15/23	S	-6	March 15	3790	PUT	\$2.00	\$1,200.00	03/15/23 \$0.00 \$1,200.00
	SPX	A 03/15/23	S	-1	March 15	3825	PUT	\$6.05	\$605.00	03/15/23 \$0.00 \$605.00
	SPX	A 03/15/23	B	1	March 15	3820	PUT	\$5.04	-\$504.00	03/15/23 \$0.00 -\$504.00
	SPX	A 03/15/23	B	2	March 15	3795	PUT	\$1.80	-\$360.00	03/15/23 \$0.00 -\$360.00
	SPX	A 03/15/23	S	-2	March 15	3790	PUT	\$1.47	\$294.00	03/15/23 \$0.00 \$294.00
	SPX	A 03/15/23	S	-1	March 15	3815	PUT	\$1.85	\$185.00	03/15/23 \$0.00 \$185.00
	SPX	A 03/15/23	B	1	March 15	3810	PUT	\$1.45	-\$145.00	03/15/23 \$0.00 -\$145.00
	SPX	A 03/15/23	B	2	March 15	3795	PUT	\$0.65	-\$130.00	03/15/23 \$0.00 -\$130.00
	SPX	A 03/15/23	S	-2	March 15	3790	PUT	\$0.50	\$100.00	03/15/23 \$0.00 \$100.00
									\$0.00	\$0.00
										\$0.00

11- This rule will dictate how wide the spread will be.

11A- Expanding and contracting the width of the unbalanced birds to get the ideal price (or lower) determines how wide you can go.

STRIKE WIDTH

12- It is obvious that since we are dealing with “risk flies” (a.k.a Unbalanced Birds), we want the widest separation possible.

12A – The magnitude of separation will be determined by volatility and skew under the current condition, and the expectations traders have of the following day's trading range.

12B- Under very volatile conditions (High VIX), we will get a very nice width of separation. Under very low volatility conditions, the amount of separation from our long spread and short spreads may be too close.

12C- As a rule of thumb I will not buy unbalanced worse than the following:

Unbalanced Condor Calls (less than 3 strikes, but usually 4)

Unbalanced Condor Puts (less than 4 strikes, but usually 5)

BWB with calls (12.5 X 17.5)

BWB with puts (15 X 20)

Unbalanced Butterflies with calls (20 wide, but prefer 25)

Unbalanced Butterflies with puts (25 wide) but prefer 30)

Unbalanced Management Criteria

All STEPS

Managing the trades is EXACTLY as taught in the ALCHEMY CLASS. Follow those rules.

This was a 3-day class (including bonus items), so there is no way we could cover that in a 1-day class.



This is probably our best class in years, and was at the most affordable price (because of a pricing error in flier that we honored).

We told people they got a deal, and we were raising the price to the original intended price of \$799. This is still a good deal for the content and number of days (266 per day and a trade that made the price back). I spend \$266 taking my kids and grandchildren out to TGI Fridays. Yuk! It pays to sign up when the mini class is originally offered. 😊

IMPORTANT:

If you have not taken Alchemy, we cannot honor the original price, but we will give you a 25% discount (price \$599) for all recordings and slides. Email the office (admin@stratagemtrade.com) to get this special pricing.

Essentially, this 3-day Alchemy class will be about the same investment as this Unbalanced Birds 1-day class.

Emergency Exit Criteria (and Rolling)

- 1- At the open, ascertain (to the best of your ability) how likely the market is to breach your short spreads.
- 2- Most of the time, especially to the downside, a huge gap open is an over exaggeration and will reverse.
- 3- Once in a great while, and this usually comes from experience (getting hurt enough times), you will identify this day as one of the rare events where the exaggeration was warranted.

3A- A good rule to follow is asking yourself, "*Will this news matter in a day, week, or month?*"? A bad economy number, threat of war, etc. always feels worse in the moment that history remembers a day later. Often, the next day provides a new "headline" and the previous day's headline is forgotten.

If the news is not going to be relevant in a week, the market typically regains its senses shortly. Experienced traders and fund managers have seen everything and are good at taking news for what it is – news – not history.
- 4- If it is one of those rare days where you determine that the market may keep moving despite the existing large move, it is best to quickly follow these steps:
 - 4A- Do a quick look at any possible Alchemy trade to adjust the position, even if you have to create short butterflies (that can be closed later if needed).
 - 4B – Calculate if it is cheaper to protect the trade with a vertical spread to cover half (or all) of the short spreads, or to close the trade down at a small loss.
 - 4C- Do not panic. You will not lose anywhere near full value on the trade unless you do nothing by the close of the day, and the market is through all the strikes.
 - 4D- Once you determine which is the best way to close the trade's risk, do so. If you have second thoughts, you can always put the trade back on.
- 5- You can even start a new unbalanced for that same day at different strikes. If the market is moving that much, you will see skew (and possibly volatility) staying firm. This will often allow you to get into a new trade with the new EM, and with the same width (or better) separation as the previous day provided.
- 6- Another solution, though risky, is to start a new Unbalanced Bird. Instead of closing the original bird, one can start a new bird by buying the short strike (or one strike closer to ATM) half as many times, thus pushing the risk out further.
- 6A- If you do equal number of spreads, you will essentially create a condor and two new short spreads far OTM.

If you do double the original contracts, you will double your risk, but also have a better chance of making money.

WARNING: This is sometimes too much stress for the average personality.

See below:

1 Contract and 1 Roll (calls)			1 Contract and 2 Rolls (calls)		
Original	Single Roll	Result	Original	Double Roll	Result
4240					
4235	2	2			
4230	-2	-2			
4225				4	4
4220				-4	-4
4215					
4210					
4205	2	-1	2	2	2
4200	-2	1	-2	-2	-4
4195			2	2	2
4190					
4185					
4180					
4175					
4170	-1	-1	-1		-1
4165	1	1	1		1
4160					

