Trade Small

Stay Small

Trading is a journey and we don't want to blow the account in the first few trades.

We are not planning to hit home runs but singles and have a batting average over 80% and it is possible with the help options to be over 90%.

We will not tie over 5% of the account value in any one trade and not have more than 5 open position, leaving 75% of the account value to defend any trade that goes against us. 90% of the time the account will be over 75% in cash which is a very comfortable position.

For very small account: we shall allow up to 10% of account value in a trade but we can't tie more than 25% of the total account value. So we will have to be choosier and take less trades.

Plan what to do

Do what you planned

We can't approach trading without having a solid plan of what to do:

1) We must know **WHEN** to exit or defend the trade.
2) We must know **WHAT** our target is and **take profit** at the targets.

We must execute this plan as it unfolds and not be at the mercy of the market.

I always plan my defense prior to taking the trade so there shall not be any surprises.

Trade Set UP & Defense

Initial Trade:

Place an Iron Condor trade when we hit the 50% retracement of the range as discussed in "market condition & trade location" session. The short strikes of either side should be around the edge of the range otherwise don't take the trade.

Put Credit Spread (PCS): Short side is always Delta 20 and Long side is between Delta 10-15 but closer to Delta 15.

Call Credit Spread (CCS): Short side is always Delta 20 and Long side is between Delta 10-15 but closer to Delta 15.

Note: we are always taking credit spread in order to be able to defend the trade.

Target:

Place good till cancel (GTC) orders to close either side as follows:

- Up to 21 days prior to expiration: 50% profit + commission.
- 14-21 days till expiration: 60% profit + Commission.
- 7-14 days till expiration: 70% profit + Commission.

1st Defense:

1) When the short strike of either side is hit apply 1st defense as follows:
    - Buy back the full short side in trouble.
    - Sell new D30 in the same direction.
    - Buy new D10 in the same direction.

Number of short options must equal numbers of long options.

Total credit received from the 2&3 above should approximately be equal to the value of the troubled short side we bought in 1 above.

e.g. Let's say that the value of the short side in trouble is now 1 contract @ 100, D30=60, D10=10. Then you need to sell 2 D30 and buy 1 D10 for an additional credit of $10 calculated as follows:

(-1*100) + (60*2) – (10*1) = +10

2) The opposite side is probably already bought back for a profit if you placed GTC orders detailed above otherwise buy it back for a profit and sell a new D20-D15; the quantity is equal to the ½ the short opposite quantity. So if put is the trouble side and we sold 2 new puts then sell 1 new D20-D15 CCS.

Target:

Place good till cancel (GTC) orders to close either side as follows:

- Up to 21 days prior to expiration: 50% profit + commission.
- 14-21 days till expiration: 60% profit + Commission.
- 7-14 days till expiration: 70% profit + Commission.

Note: Please be careful with the calculations of the side we defended since a loss was taken when we defended the trade and must be taken into consideration when placing the GTC order.

2nd Defense:

1) When the short strike of either side is hit apply the 2nd defense as follows:
    - Buy back the full short side in trouble.
    - Sell new D30 in the same direction.
    - Buy new D10 in the same direction.

Number of short options must equal numbers of long options.

Total credit received from the 2&3 above should approximately be equal to the value of the troubled short side we bought in 1 above.

e.g. Let's say that the value of the short side in trouble is now 2 contracts @ 100, D30=60, D10=10. Then you need to sell 4 D30 and buy 2 D10 for an additional credit of $20 calculated as follows:

(-2*100) + (60*4) – (10*2) = +20

2) The opposite side is probably already bought back for a profit if you placed GTC orders detailed above otherwise buy it back for a profit. Don't sell anything in the opposite direction.

Target:

Place good till cancel (GTC) orders to close:

- Up to 21 days prior to expiration: 50% profit + commission.
- 14-21 days till expiration: 60% profit + Commission.
- 7-14 days till expiration: 70% profit + Commission.

Note: Please be careful with the calculations of the side we defended since a loss was taken when we defended the trade and must be taken into consideration when placing the GTC order.

3rd, 4th,….etc. Defense:

Repeat 2nd defense detailed above.

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