Dan Sheridan

Option Trading for Income

March 17, 2009

Sheridan Options Mentoring, Inc.
www.SheridanMentoring.com
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Acknowledgement

Screen shots of OptionVue 5 or 6 Software courtesy of OptionVue Systems International. www.optionvue.com
Laying the Foundation for Income Trading
Insurance Company

Option Time Decay

Days until expiration

Price
### Normal Distribution Bell Curve

#### Standard deviation and confidence intervals

![Bell Curve Diagram]

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<th>Standard Deviations</th>
<th>Probability</th>
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<tr>
<td>1.5</td>
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<td>98.0%</td>
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<td>2.58</td>
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Standard Deviations (Sigma)

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<th>One Day Standard Deviations</th>
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<td>2 σ $2.00</td>
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<td>3 σ $3.00</td>
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FREE STANDARD DEVIATION CALCULATOR AT:
http://www.sheridanmentoring.com/sigma
Portfolio Plan

Calendar Spreads
Double Calendar Spreads
Double Diagonals
ATM Butterflies
Condors
Collars
LEAPS
Covered Writes/Straddles
Long Stock
Long Term Calendars

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

Calendars and Butterflies focus on **Time decay**

Iron condors focus on **probabilities**
New Era since Sep 30, 2008- VIX 35-40
60% long Vega and 40% short Vega

- $10,000 Portfolio $1000 in cash for adjustments
- $5400 in Calendars and Double Diagonals
- $3600 in Condors, credit spreads and Butterflies
- Maximum 6-7 positions, gets a bit crazy to manage more than 6-7 positions
- Minimum positions 3-4.
- Until economy stabilizes would always have some downside insurance
New Era since Sep 30, VIX 55-60
60% short Vega and 40% long Vega

- $10,000 Portfolio $1000 in cash for adjustments
- $3600 in Calendars and Double Diagonals
- $5400 in Condors, credit spreads and Butterflies
- Maximum 6-7 positions, gets a bit crazy to manage more than 6-7 positions
- Minimum positions 3-4.
- Until economy stabilizes would always have some downside insurance
New Era since Sep 30, VIX 42-53, 55% short Vega, 45% long Vega

- $10,000 Portfolio $1000 in cash for adjustments
- $4050 in Calendars and Double Diagonals
- $4950 in Condors, credit spreads and Butterflies
- Maximum 6-7 positions, gets a bit crazy to manage more than 6-7 positions
- Minimum positions 3-4.
- Until economy stabilizes would always have some downside insurance
Big Picture Portfolio- Sample Portfolio
$500,000 (50%, 40%, 10% Mix)

- $250,000 Long Term Strategies (180 days or longer)- Collars, Covered Writes, Long Stock, Long Term Calendars

- $200,000 Monthly Income Strategies (25-60 days)- Condors, Credit Spreads, Calendars and Multiple Calendars, Butterflies, Double Diagonals

- $50,000 Speculative Strategies (1-90 days)- Straddles, Earnings Plays, Long calls and puts, Debit spreads, Reverse Calendars, Back spreads

How would I make my percentages?
## Condor - Monthly Income

### Options

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<td>MIV 68.2%</td>
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<td>71 puts</td>
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### Summary

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<tr>
<td>67 puts</td>
<td>0.07</td>
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**Summary of Existing Trades:***

- **Net Reqs:** $2,166
- **Cross Reqs:** $3,000
- **Cash Flow:** $+834
- **Cur. Value:** $-920
- **Gain/Loss:** $-10
- **Commis:** $41.00
- **Delta:** -14.88
- **Gamma:** -13.94
- **Theta:** 15.65
- **Vega:** -23.61
- **Volatility Model:** Variable

**Volatility Models:**

- **Calls.IV:** 40.3%
- **Puts.IV:** 48.6%
- **P/C(Vol):** 2.17
| Options | MktPr | MIV | Trade | Ex.Pos | Delta | MktPr | MIV | Trade | Ex.Pos | Delta |
|---------|-------|-----|-------|--------|-------|-------|-----|-------|--------|-------|-------|
| 92 calls| 0.08  |     |       | +1.37  | 36.2% | 0.35  |     |       | +5.85  |        |       |
| 91 calls| 0.11  | +10 |       | 2.02   | 36.6% | 0.43  |     |       | 7.31   |        |       |
| 89 calls| 0.14  |     |       | +2.89  | 37.2% | 0.54  |     |       | 8.99   |        |       |
| 88 calls| 0.19  | 39.8%| +1    | 4.02   | 37.7% | 0.67  |     |       | 10.9   |        |       |
| 87 calls| 0.25  | 40.3%| -10   | 5.68   | 36.1% | 0.80  |     |       | 13.0   |        |       |
| 86 calls| 0.33  | 40.6%|       | 7.59   | 38.7% | 0.98  |     |       | 15.4   |        |       |

| Options | MktPr | MIV | Trade | Ex.Pos | Delta | MktPr | MIV | Trade | Ex.Pos | Delta |
|---------|-------|-----|-------|--------|-------|-------|-----|-------|--------|-------|-------|
| 72 puts | 2.91  | 49.3%|       | -38.9  | 47.0% | 4.30  |     |       | -40.3  |        |       |
| 71 puts | 2.55  | 50.2%|       | -35.0  | 47.7% | 3.93  |     |       | -37.3  |        |       |
| 70 puts | 2.26  | 51.6%| -10   | -31.3  | 48.5% | 3.58  |     |       | -34.4  |        |       |
| 69 puts | 1.99  | 52.8%|       | -27.9  | 49.5% | 3.28  |     |       | -31.7  |        |       |
| 68 puts | 1.75  | 53.9%|       | -24.7  | 50.6% | 3.00  |     |       | -29.2  |        |       |
| 67 puts | 1.50  | 54.5%| +10   | -21.9  | 51.3% | 2.72  |     |       | -26.7  |        |       |

<table>
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<tr>
<th>Summary</th>
<th>Net Reqmts</th>
<th>Gross Reqmts</th>
<th>Ceiling Flow</th>
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<th>Summary</th>
<th>Volty model: Variable</th>
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<td>Gross Reqmts</td>
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<tr>
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### IBM Calendar - Monthly Income

#### Options

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| 80 calls | 19.45 | 34.60 | 0.56 | 19.45 | 34.60 | 9.56%
| 75 calls | 24.40 | 34.60 | 0.56 | 24.40 | 34.60 | 2.56 |
| 70 calls | 29.45 | 34.60 | 0.56 | 29.45 | 34.60 | 0.56 |
| 65 calls | 34.15 | 34.60 | 0.56 | 34.15 | 34.60 | 0.56 |
| 60 calls | 1.33 | 44.0% | 2.42 | 1.33 | 2.42 | 43.6% |
| 55 calls | 1.33 | 44.0% | 2.42 | 1.33 | 2.42 | 43.6% |
| 80 puts | 1.33 | 44.0% | 2.42 | 1.33 | 2.42 | 43.6% |

#### Summary

<table>
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<tr>
<th>Summary</th>
<th>Net Reqmts</th>
<th>Gross Reqmts</th>
<th>Cash Flow</th>
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<td>2.22</td>
<td>46.2%</td>
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**Summary**

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<th>Init</th>
<th>Gross</th>
<th>Cash Flow</th>
<th>Delta</th>
<th>Avg IV</th>
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<td>22.86</td>
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@ Copyright 2009. All rights reserved.
### Actuals

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<th>Trade</th>
<th>Ex.Pos</th>
<th>T.Prem</th>
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<td>87.06</td>
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### Options

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### Summary

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<th>Gross Reqmts</th>
<th>Cash Flow</th>
<th>Delta</th>
<th>Avg.IV</th>
<th>Calls.IV</th>
<th>Puts.IV</th>
<th>P/C (Vol)</th>
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## Actuals

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<th>Ex.Pos</th>
<th>T.Prem</th>
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<th>Ex.Pos</th>
<th>T.Prem</th>
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## Summary

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<th>Initial</th>
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<th>Cash Flow</th>
<th>Delta</th>
<th>Gamma</th>
<th>Theta</th>
<th>Vega</th>
<th>P/C (Vol)</th>
<th>Avg IV</th>
<th>Calls IV</th>
<th>Puts IV</th>
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SPY Butterfly - Monthly Income

SPDR S&P 500 Chart
Symbol: SPY DVO 64000
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<td>T.Prem</td>
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<td>MIV</td>
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<tr>
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**Summary**

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<th>Gross Reqnts</th>
<th>Cash Flow</th>
<th>Gamma</th>
<th>Delta</th>
<th>Avg.IV</th>
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Volly model: Variable
Long Term- AAPL today  99.66
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<th>AAQL Common</th>
<th>Legend</th>
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<th>Volty model: Variable</th>
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Long 5 Apr75 Cells, Short 5 Apr90 Calls

Yield by Change in AAPL Common Price

Yield: -100% -90% -80% -70% -60% -50% -40% -30% -20% -10% 0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Delta: 0.0 0.5 1.0 1.5 2.0 2.5 3.0 3.5 4.0 4.5 5.0 5.5 6.0 6.5 7.0 7.5 8.0 8.5 9.0 9.5 10.0

Gamma: 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0

Theta: 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0

Vega: 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0

Maint: 6,425 6,425 6,425 6,425 6,425 6,425 6,425 6,425 6,425 6,425 6,425 6,425 6,425 6,425 6,425 6,425 6,425 6,425 6,425

 Apr 18, 2009
 Volty Chg: 0.0%
 Capital: $6,425
 E.R. 2%
 +/- 32%
 B.E. 87.85%
 P.P. 77%

Amount Provided
= Orig. Reqmt.
$6,425
**Speculative - Slightly Bearish Today**

### Options

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<td>Trade</td>
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### Summary

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<th></th>
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<th>Gross Reqmts</th>
<th>Cash Flow</th>
<th>Delta</th>
<th>Gamma</th>
<th>Avg IV</th>
<th>Calls IV</th>
<th>Puts IV</th>
<th>V/C (Vol)</th>
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*Volatility model: Variable*

---

*Sheridan Options Mentoring*
### Spec - Slightly Bullish

#### Actuals

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#### Options

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#### Summary

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Free Standard Deviation Calculator

http://www.sheridanmentoring.com/sigma

How to use: Change the cells with a yellow background. All other values are calculated for you.
Dan Sheridan

+1 678-262-8898

info@SheridanMentoring.com

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http://www.SheridanMentoring.com/