

The **VICif** Trade

Underlying: SPX

Trade Duration: Intraday or 0DTE (Zero days to expiration)

Objective

- Create an Iron Condor (IC) using the same day option chain using credit put spreads (PS) and credit call spreads (CS) where the width of the spread is 5 points wide. (Other widths are beyond scope of this paper, and the reader can apply similar logic.)
- Profit Target: Close the IC for a profit to keep X% of the initial credit or better. (I personally prefer to keep 50% of the credit, so if the IC is sold for \$2, I will close the IC for \$1 and keep \$1 profit.)
- Stop Loss: There is NO stop loss on this trade but we will hedge our trade to minimize loss while still leaving a possibility of profiting from the overall trade. This is the biggest advantage of this trade.

Trade Time:

- Personal preference is to open trade after 10:30 AM Eastern and open no new trade after 3:00 PM Eastern. The first hour between 9:30 AM to 10:30 AM is known as the Initial Balance hour (IBH), where the market is volatile based on price action of overnight and prior day's close and is trying to set tone for the rest of the day. The last hour between 3:00 PM to 4:00 PM is relatively volatile going into the closing. Hence I try to avoid placing a new trade in the first and last hour of the day.

Market Context:

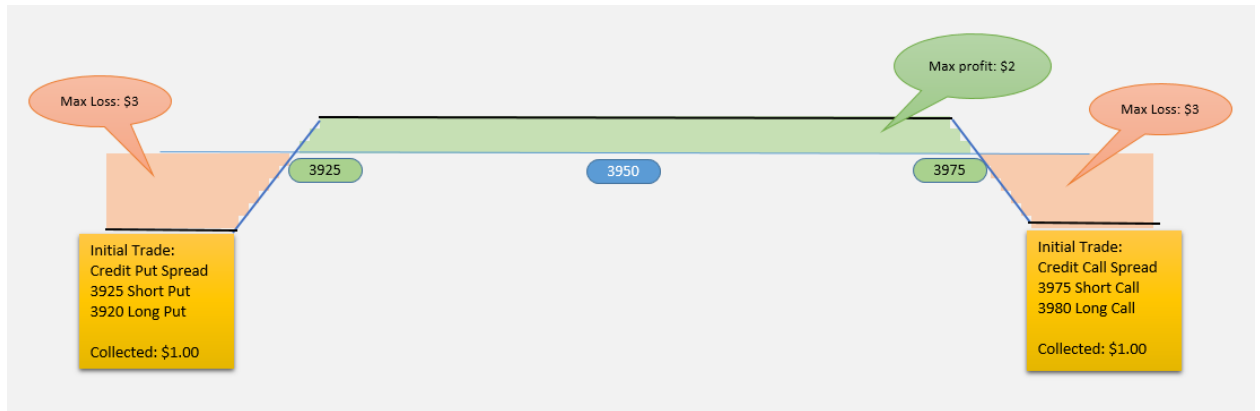
- This trade is not based on any chart action or indicators.
- If you believe option prices are fair and tradable, the volatility, trend, and momentum of that particular day has already been priced into the options.

Trade Mechanics:

- Find 1 standard deviation (SD) distance from the current price. The easiest way of doing intraday is to look at the ATM straddle price and use some multiplier to discount or enhance it. I like to use the ATM straddle as is. Straddle price would have factored in the trend/momentum/volatility of the day at that particular moment. I find it better than the standard VIX which looks more towards a longer dated volatility.

You can skew the trade so that one side is closer/farther from current price in case you are overlaying this trade over another 0DTE trade. This is what I generally do, but this discussion gets a little complex and is beyond the scope of this paper.

- For example, if SPX is at 3950 and ATM Straddle is 25, my IC short strikes would be at 3925 and 3975, with the long strikes for each at 5 points away. Assuming we can get \$1 on each side of a \$5 wide IC, we would have collected \$2. The P/L chart for this initial trade would look like:



Trade Scenarios:

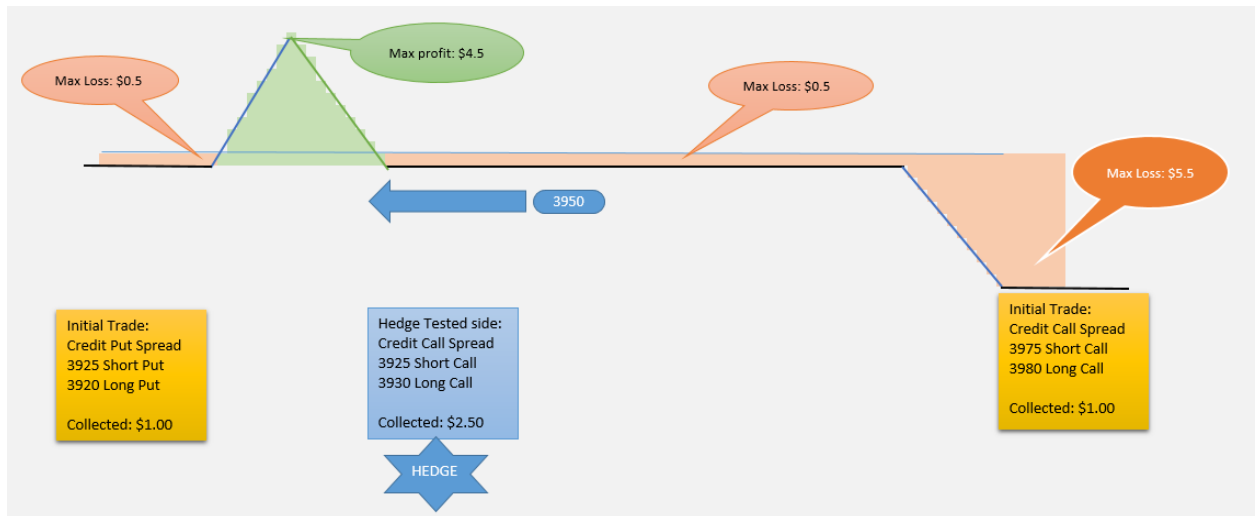
- (A) Close IC on hitting our target profit (say 75% of initial credit)
If we are targeting say 75% premium of initial credit, we will close the trade at 75% of \$2.00 and close the entire IC for a debit of \$0.50

Trade Math:

Max Profit	\$ 2.00	(\$1 from each side)
Max Loss	\$ (3.00)	(\$2 initial credit -5 width)

Theoretical probability of win: 68% if short strikes 1 SD away
R-factor: $=2/3 = 0.67$

- (B) One side tested
As the market moves and one of two sides is tested, we will hedge the trade by converting the **tested** side into an Iron Fly.
Say our 3925 Puts are tested, we will enter a new order of Credit Call Spread of 3925/3930 to convert an IF and we'll ensure that we collect at least \$2.50 or better so our resulting P/L graph looks like:



Pro-tip:

- When you place the initial IC trade, the hedge should be going for something greater than \$4.0. As the market moves towards the tested side the hedge would be reducing in value; just make sure you fill it for no less than \$2.50. Typically any ATM 5 wide spread would be priced at or around \$2.50 (half spread width) so as the market touches your tested side you should ensure a fill of the hedge.
- Watch the price of the non-tested side and try to close it for \$0.10 or \$0.05 to reduce the risk in cases where market can reverse itself and make the non-tested side as the tested side at some later point in the day
- When the price moves slightly towards tested side, if you can (a) close the non-tested side for \$0.10 and place a hedge on tested side for \$3.10, you end with a risk free IF at the tested short strike

Trade Math:

Scenario 1: Trade end anywhere lesser than 3975 Call strike

Max Profit

\$	2.00	(\$2 initial credit)
\$	2.50	(from the hedge trade)
\$	<u>4.50</u>	

Max Loss \$ (0.50) (\$4.50 max profit - 5 width)

Theoretical probability of win: 84%

R-factor: $=4.5/0.5 = 9$

Scenario 2: Trade end anywhere greater than 3975 Call strike

Max Profit

\$ 2.00	(<i>\$1 from each side</i>)
\$ 2.50	(<i>from the hedge trade</i>)
<u>\$ 4.50</u>	

Max Loss

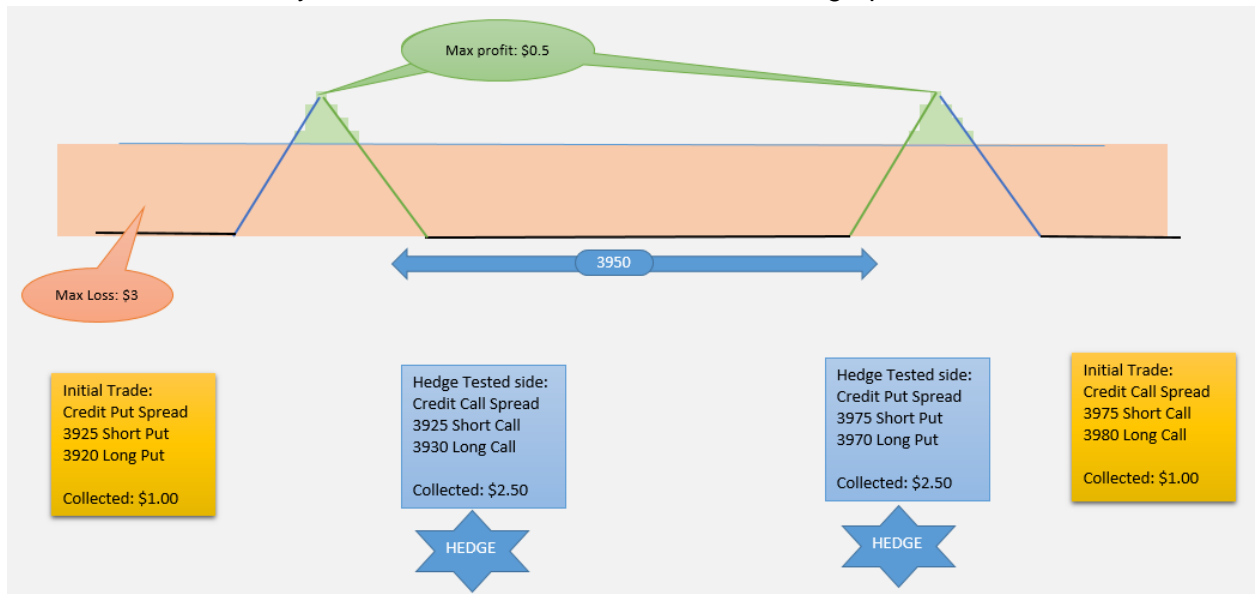
\$ 2.50	(<i>from the hedge trade</i>)
\$ (3.00)	(<i>\$2 initial credit -5 width</i>)
<u>\$ (5.50)</u>	

Theoretical probability of loss: 16%

R-factor: $=4.5/5.5 = 0.82$

- (C) Both side tested

After market tests one side and makes a run for the other (or non-tested side), you'll create a similar Iron Fly at this new tested short strike. The P/L graph would look like:



Trade Math:

Max Profit

\$ 3.50	(all credits: \$5 from 2 hedges and \$1 initial credit on one side)
\$ (1.50)	loss on this one IF
<u>\$ (1.50)</u>	loss on IF second side
<u><u>\$ 0.50</u></u>	Peak gain under one of IF

Max Loss	\$ 2.50	(from one hedge)
	\$ 2.00	(from initial credits)
	<u>\$ (0.50)</u>	(\$2 initial credit -5 width)
	<u>-2.5</u>	(loss from one hedge)
	<u><u>\$ (3.00)</u></u>	

R-factor: $=0.5/3.0 = 0.17$

Pros and Cons of this Trade:

- Pros
 - You control your 'stop loss' via the hedge. Since there is no stop loss based on market action, you don't encounter any slippage.
 - The resulting IF can occasionally land ITM and be a bigger profit than initially expected.
 - There is no dependency on the charts, indicators, signals so to a great extent it's a mechanical strategy.
- Cons
 - As trade is only 5 wide, it can be little closer than your typical bigger width ICs.