

## Trade for the December 2007 Expiration Cycle

The following trade is the December '07 expiration cycle position for our SPX Short Iron Condor strategy.

### Position

The December Expiration cycle is five weeks, so as usual we waited a week before placing the trade. Per our trading guidelines we only like to go out a maximum of four weeks on the SPX Iron Condor.

The price of SPX at the open today (11/26) was roughly 1440. Our chosen range is **300 points. SPX would have to move over 10.4% in either direction over a four week period (24 days) before our position would be in jeopardy of taking a loss.** As always we want to be as neutral as possible when choosing our range. Check out the graph for the December range below.

The 300 point range for the December expiration cycle is enormous. As I stated before, the underlying SPX would have to move over 10% to the upside/downside before the short strikes are in jeopardy of being breached.

I went over a few statistics on the S&P (SPX) and only once has the major market benchmark exceeded a 150 point move during an expiration cycle. That one instance occurred during the September '01 cycle.

According to the Analysis Page on the ThinkorSwim platform the probability of the underlying SPX moving above 1590 is 4.8% and below 1290 is 11.9%. Basically there is an 83% chance that SPX will close between our short strikes of 1290 -1590 at December expiration.

We are ecstatic with the position and with the probability of success for this trade. Hopefully the market will cooperate and we will end the year with our fourth consecutive gain.

**Since we established our new guidelines for the SPX Iron Condor after the August expiration cycle the strategy has experienced three straight months of gains for a cumulative total of 25.1%.**

## The Range

The blue lines below mark our short strikes at 1590 and 1290. SPX closed the day at approximately 1407.



## The Trade

Sell to open SPX Dec07 1590 calls  
Buy to open SPX Dec07 1600 calls

Sell to open SPX Dec07 1290 puts

Buy to open SPX Dec07 1280 puts **for a credit of \$.80**

**Total net credit – (\$.80) per SPX Short Iron Condor**

- Lower break-even = sold put strike – total net credit

$$= 1290 - .80 = \mathbf{1379.20}$$

- Upper break-even = sold call strike + total net credit

$$= 1590 + .80 = \mathbf{1620.80}$$

*Now we can calculate percentage returns, maximum profit, maximum risk, and break-even levels to see if the trade fits our investment objectives.*

1. First let us figure out our margin for the trade. Since we have 10 points between our long and short strikes we can assume the following.

Margin = (difference between the short and long strikes – total net credit)\*100

$$= (10 - .80)*100$$

$$= \mathbf{\$920 \text{ per SPX Short Iron Condor}}$$

2. Now we can go ahead and calculate our maximum profit on the trade including commissions. It is assumed our commission is \$1.50 per contract and since an Iron Condor requires 2 spreads (bull put spread and bear call spread), at least 4 contracts are needed or \$6.00 per Iron Condor. Basically, the maximum profit per trade is the premium that you collect for selling the bear call spread (short call vertical) and bull put spread (short put vertical). The max profit occurs if SPX closes between (1590 - 1290).

**Max Profit** = (total net credit\*100) – commission

$$= (.80*100) - 6.00$$

$$= \mathbf{\$74 \text{ per SPX Short Iron Condor}}$$

3. The next step would be to figure out our maximum loss. The maximum loss occurs if the SPX exceeds the lower or upper breakeven points calculated above.

$$\mathbf{Max Loss} = \text{margin} + \text{commissions}$$

$$= \$920 + 6.00$$

$$= \mathbf{\$926 \text{ per SPX Short Iron Condor}}$$

4. Lastly our percentage return including commissions is:

$$\mathbf{Percentage return} = (\text{max. profit}/\text{max. loss}) * 100$$

$$= (74/926) * 100$$

$$= \mathbf{7.9\% \text{ on the trade}}$$