



Theo**TRADE**

Live @ 7pm Central Time

How to Trade Broken Wing Butterfly's for Income

with Matt Williamson



TheoTRADE

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TheoTrade, LLC

16427 N. Scottsdale Rd. # 410

Telephone: [1-800-256-8876](tel:1-800-256-8876)

Email: support@theotrade.com

About TheoTrade

- TheoTrade Specializes in education for options, futures, and stocks.
- Founded by professional traders and trading educators each with a minimum of 15 years experience, several with many decades
- TheoTrade is here to help you mitigate the risks in the market, while learning a skill set that can last a lifetime.

Matt Williamson



- Market Neutral Option Strategist
- Risk manager for private hedge fund
- Began Paper Trading: Age 9
- Began Investing: 2003
- Began Trading Options: 2010
- Specialize in complex position management, greeks, risk analysis, and wing spreads (butterflies and condors)

What You Will Learn In This Presentation

- The FruitFly Trading Strategy
- The difference between The FruitFly and every other income trade in the trading ether
- The benefits of trading The FruitFly
- The top 3 mistakes novice butterfly traders make
- The only two things necessary to make money in the market

Introduction

- I've been down the path of shiny objects – I know it well.
- I've traded naked puts, strangles, straddles, earnings plays, dividend capture, covered calls, iron condors, double diagonals, triple calendars, and subscribed to an embarrassing number of trade services when I started.
- The trick is to stop chasing the dragon. Marry the ogre.
- My ogre is market neutral trading short vol trading. Sexy? Nope, it's an ogre! Does it work? Yep!
- Trading is SIMPLE, and yet, very challenging.

What is a butterfly spread?

- A butterfly spread is a long vertical spread partially financed by an equal-width short vertical spread.
- ...wait... ...wait, huh? WHAT??

Disclosure!

- We are going to dive right into broken wing spreads here. If you're new to options, this will be the equivalent of trying to pilot a submarine as a newly minted 16-year old car owner.
- In the full 3-hour class, we'll cover ALL the background you need to trade and understand this thing properly. Since time is (literally) a commodity (we're literally selling it here, folks!), we need to move quickly tonight.

The Butterfly Spread

The FruitFly (a broken-wing butterfly)

Common complaints checkpoint:

- What a low-odds trade?
- Why not just FLUSH MONEY DOWN THE TOILET INSTEAD??

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- What a low-odds trade?
- Why not just FLUSH MONEY DOWN THE TOILET INSTEAD??
 - Probability = Risk + Reward
 - Stop looking at the expiration line!

Common complaints checkpoint:

- Why isn't this called the COMMISSION MONSTER???

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- Why isn't this called the COMMISSION MONSTER???
 - Brokers are currently in a race to the bottom on commissions (good for retail traders)
 - If you're making money net-net, who cares???
 - Be patient with executions and you'll make about 100x the money you're losing on commissions.

Common complaints checkpoint:

- TL;DR
- For everyone over the age of 35... this means **too long; didn't read.**
- We have the millennials to thank for that acronym...

Common complaints checkpoint:

- TL;DR
 - Trading ain't paint-by-numbers – it's IKEA furniture baby!
 - “Anything worth doing is difficult.”

Why trade The FruitFly?

- When set up and managed properly, it offers a superior risk/reward/probability setup that has statistical and demonstrable edge

Why trade The FruitFly?

- It is a highly flexible and adjustable trade. (Try salvaging an iron condor!)

Why trade The FruitFly?

- It is a wonderful tool to begin learning to properly manage complex options positions

How is this different from _____?

- We manage the position by the greeks, not price levels and stops. This allows for a more dynamic trade and a better understanding of risk.
- The criteria covers every market scenario, including WHEN, HOW, and WHAT to do for each adjustment. The class itself will provide the WHY.
- It has a statistically high win rate, which is great at building a winning mindset crucial to trading success.

Trigger warning: MATH-ISH stuff!

	FruitFly	Iron Condor	Long Butterfly	ATM Vertical Spreads	OTM Long Options	OTM Short Options
Risk	M	H	L	M	L	H
Reward	L	L	H	M	H	L
Probability	H	H	L	M	L	H

The favorable combination of a high probability with a low reward but low-medium risk allows for plenty of positive expectancy, which is one of the two ingredients needed for profitable trading.

Top 3 Novice Butterfly-Trading Mistakes

- Looking at the expiration graph

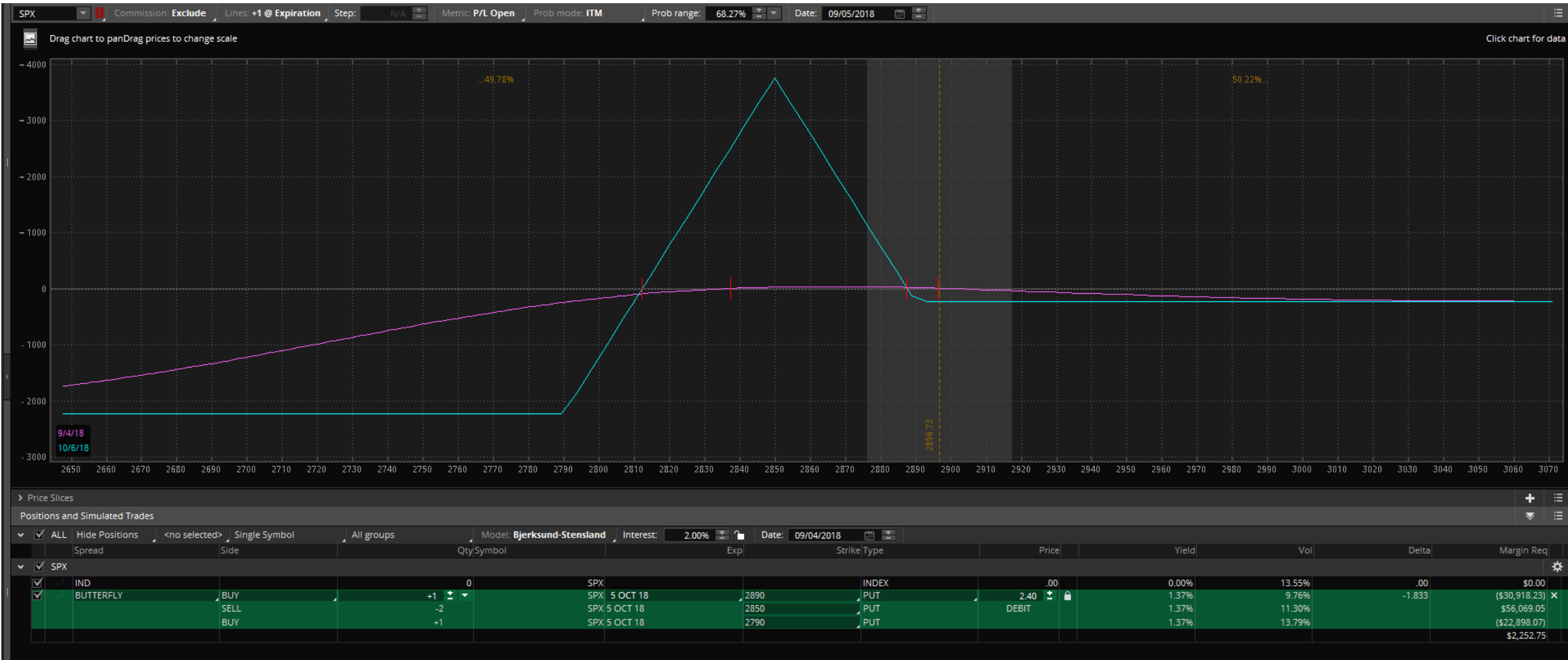
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- Looking at the expiration graph
- Not adjusting the trade

Top 3 Novice Butterfly-Trading Mistakes

- Looking at the expiration graph
- Not adjusting the trade
- Ignoring volatility

Example Trade – opening position



Example Trade – Late June

6/19/18 08:45:21	BUTTERFLY	BUY	TO OPEN	SPX	18 JUL 18	2750	PUT	29.85	2.35	LMT
		SELL	TO OPEN	SPX	18 JUL 18	2710	PUT	18.85	DEBIT	
		BUY	TO OPEN	SPX	18 JUL 18	2650	PUT	10.20		
6/20/18 14:28:14	CUSTOM	SELL	TO OPEN	SPX	18 JUL 18	2720	PUT	14.52	2.25	LMT
		SELL	TO OPEN	SPX	18 JUL 18	2715	PUT	13.67	CREDIT	
		BUY	TO CLOSE	SPX	18 JUL 18	2710	PUT	12.97		
6/21/18 14:30:38	VERTICAL	BUY	TO OPEN	SPX	18 JUL 18	2660	PUT	12.25	1.10	LMT
		SELL	TO CLOSE	SPX	18 JUL 18	2650	PUT	11.15	DEBIT	
		7/6/18 13:17:18	VERTICAL	SELL	TO OPEN	SPX	18 JUL 18	2720	PUT	8.35
BUY	TO CLOSE			SPX	18 JUL 18	2715	PUT	7.60	CREDIT	
7/9/18 14:32:56	VERTICAL			SELL	TO OPEN	SPX	18 JUL 18	2725	PUT	3.50
		BUY	TO CLOSE	SPX	18 JUL 18	2720	PUT	3.20	CREDIT	
		2x quantity								
7/12/18 14:27:05	BUTTERFLY	SELL	TO CLOSE	SPX	18 JUL 18	2750	PUT	2.70	.35	LMT
		BUY	TO CLOSE	SPX	18 JUL 18	2725	PUT	1.40	CREDIT	
		SELL	TO CLOSE	SPX	18 JUL 18	2660	PUT	.45		

Example Trade – Mid-February post vol explosion

2/12/18 13:24:25	BUTTERFLY	BUY	TO OPEN	SPX	14 MAR 18	2660	PUT	57.39	1.40	LMT
		SELL	TO OPEN	SPX	14 MAR 18	2610	PUT	41.48	DEBIT	
		BUY	TO OPEN	SPX	14 MAR 18	2540	PUT	26.97		
2/14/18 13:20:56	VERTICAL	SELL	TO OPEN	SPX	14 MAR 18	2615	PUT	22.85	.80	LMT
		BUY	TO CLOSE	SPX	14 MAR 18	2610	PUT	22.05	CREDIT	
2/15/18 08:46:29	VERTICAL	SELL	TO OPEN	SPX	14 MAR 18	2620	PUT	18.65	1.40	LMT
		BUY	TO CLOSE	SPX	14 MAR 18	2610	PUT	17.25	CREDIT	
2/23/18 14:52:42	VERTICAL	SELL	TO OPEN	SPX	14 MAR 18	2620	PUT	7.65	.30	LMT
		BUY	TO CLOSE	SPX	14 MAR 18	2615	PUT	7.35	CREDIT	
2/26/18 09:38:37	BUTTERFLY	SELL	TO CLOSE	SPX	14 MAR 18	2660	PUT	8.65	.00	LMT
		BUY	TO CLOSE	SPX	14 MAR 18	2620	PUT	5.75		
		SELL	TO CLOSE	SPX	14 MAR 18	2540	PUT	2.85		

Risks and Considerations

- This trade works well if you follow the plan, but there are risks to be aware of as well as other considerations that can enhance profitability and cause losses if not fully understood.

Volatility Risks

- All butterflies are, to some extent, influenced by volatility. In general, the more delta the trade carries relative to capital, the less pronounced the volatility effect will be.
- This strategy carries NO delta, meaning the volatility component is extremely important!
- Ideal timing for the trade is RVX/VIX between 12 & 20

Interest Rate Considerations

- There is a way to earn interest on the capital you have in the trade. NOT doing this is leaving money on the table!

Skew Risk

- Because of the nature of our trade, some discussion of skew is warranted. Skew is the variance of implied volatility levels across the option chain. Since we are buying and selling different strikes, the changes in IV will affect us differently than if we were holding single options.

The Trend is Your _____

- This strategy doesn't like trending markets, although it will typically still produce modest profits in a bullish trend, and will often not take too much heat in a moderate bearish trend.
- By using momentum indicators, you can time entries (if you choose to do so).

Assignment/Dividend Risks

- This strategy was designed for euro-style indices (no dividends, cash settled, no early exercise allowed), but can be traded in the SPY or IWM. If using ETFs, beware ex-div dates if using calls lest you get hit with early assignment or wind up short shares in an IRA account (not allowed!)

Fear NOT the FruitFly !!

- You may not know options OR have limited experience in placing options trades.
- We can show you HOW and WHEN to place the FruitFly in a matter of a few hours.
- TheoTrade creates detailed recipes for every strategy including the FruitFly Spread.
- You would not bake a cake without a recipe, so why trade without one?

Why Doesn't Everyone Do This?

- Here is what you NEED to KNOW!
 - ✓ What stocks do I trade this on?
 - ✓ How do I determine bullish or bearish? Wait this is NEUTRAL!
 - ✓ What expiration do I select?
 - ✓ What strikes do I use?
 - ✓ Position sizing?
 - ✓ What is the correct probability for the trade?
 - ✓ How do I execute the trade?
 - ✓ When do I exit?
 - ✓ What to do in a losing position?

THEOTRADE RECIPES IN TRADING

Criteria... it's what we at TheoTrade do!

Trading is about Answering the What Ifs

- What might be a good stock or ETF candidate for FruitFly Spread?
- What is the correct options expiration cycle to buy my FruitFly Spread?
- How much capital do I commit to these FruitFly's?
- What Strike Price Options do I sell and how many?
- What Strike Price Options do I buy?

TheoTrade is the Answer to Your Questions

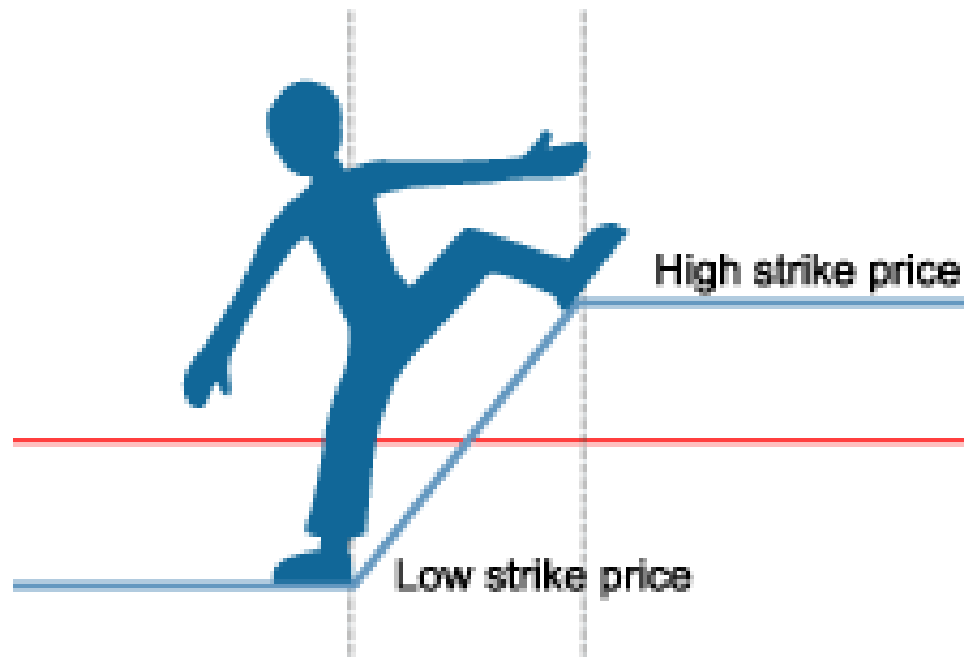
- What is the right probability for my trade?
- How many options contracts do I trade in for my account size?
- When do I close my FruitFly Spread?
- What if the stock sells off big? What is the correct return for the strategy?
- What if the stock rallies massively?
- Can I fix a losing trade?

TheoTrade Has Your Answers

- TheoTrade has the answer to your trade related questions!
- We Build Recipes with definitive criteria and checklists for each strategy and each unique variable you will encounter.

How, When, Why, at What Price?

- This is just the beginning of the many variables you will face while trading FruitFly Spread!



The Secret is in the Sauce

- Now you may be thinking... hey I can read about these spreads anywhere and can do this; well think again...
- The following strategy and corresponding criteria requires the utmost attention to detail.
- We spent YEARS fine tuning this trade setup and criteria, when we approach the section on criteria **FOLLOW the STEPS** to build a trade!
- Would you like the criteria to build a FruitFly?

Fruit Fly For Consistent Income Class: Curriculum

- How you can use the FruitFly to take risk 1 to make 6 trades so you always minimize your risk and maximize your returns
- The full criteria - entry and exit - so that you know exactly step by step how to generate monthly income using the FruitFly
- How to hedge your FruitFly so you never take more risk than you have to
- How to use the FruitFly in any retirement account, small account, or large account to generate consistent monthly returns
- What strikes and what expiration period to select to give you the highest probability of success in your FruitFly
- How to use different kinds of FruitFlies for various market conditions so you can maximize your returns every month
- The proprietary "triggers" used to manage your FruitFly that will give you an edge and turn your account into an ATM

FruitFly For Consistent Income Class

- Trade Instructor: Matt Williamson
- 3 hour course is available immediately with 24/7 access
- Class slide deck that includes entry and exit criteria checklist available immediately for download.

~~\$199~~

Class qualifies you for a reduced commissions rate

You've been there done that...

- Many of you tuning in have been through the gauntlet of paid classes, indicators, secret squirrel black boxes and more...
- Only to find... just BUY this one last thing to make all the difference? But wait there is more!
- We at TheoTRADE have had enough of the educational garbage and sales pitches and we intend to put and end to it!

Disrupt Financial Education!

- TheoTRADE is built by professional traders with a minimum of 15 years experience, not professional salespeople.
- Educating you is our ONLY goal and we will demonstrate it.
- Today we shall forever change the way you view education...

**Introducing TotalTheo® Unlimited Streaming
Monthly Membership!**

TotalTheo Unlimited ONLY \$99 per month

- The Fruit Fly For Consistent Income course is INCLUDED in the TotalTheo® Unlimited Monthly Streaming Membership
- **ACCESS to OVER 72 Trading Classes!** ALL available immediately On-Demand
- New Monthly Classes
- Live Trading Chat Room: Traders Provide Real Trade Ideas and Real-Time Market Insights and Analysis– **broadcasting live 6 hours per day.**
- Indicators – 59 proprietary indicators and scans.
- Emailed Trade Ideas
- Daily Coaching Sessions with Timely Topics on Stocks, Options and Futures
- Instructors directly answer your trading questions via email!

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It's As If We Are Giving You \$100, Take The Money

Fruit Fly For Consistent Income Class

\$199 one time fee

- ✓ FruitFly For Consistent Income Class

TotalTheo® Unlimited Streaming

\$99 per month

- ✓ FruitFly For Consistent Income Class
- ✓ Over 70 classes
- ✓ New monthly classes
- ✓ Daily live trading and chat room
- ✓ Archived 24/7
- ✓ Emailed trade ideas
- ✓ Trading indicators and scans
- ✓ Daily coaching sessions

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