

# SPY Weekly Income Strategy

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## Introduction

Covered calls and cash secured puts, despite their simplicity, are one of the best option income strategies. They provide great long-term returns for the patient investor. Readers are encouraged to visit CBOE website and read about BXM, PUT, and other indexes created specifically to track performance of these types of strategies applied to SPX in a mechanical fashion. The edge in this strategy is provided by the ***systematic sale of near-the-money front expiration options with low to no-leverage position sizing***. Note that each element of the last sentence is a key ingredient in the success of this strategy.

But like any other strategy, covered calls and short puts have their weaknesses. I trade a variation of this strategy in a conservative account that is setup to generate consistent returns over the long-run. The strategy is design to capture the edge in systematic sale of option premium, just like covered calls, while minimizing or in some instances eliminating the negatives.

Why not iron condors, butterflies, etc.? Those can all be good trades with their own strengths and weaknesses and I do trade them. But for the purposes and objectives of this strategy, they don't do the same thing.

The *SPY Weekly Income Strategy* follows a set of concepts and principals for entry and management that would take too long to explain in detail. Therefore, this document is just a high level description of what happened in one particular trade that I closed on 5/6/2016. There is a lot that goes into each part of the strategy: Strike selection, position sizing, hedge selection, adjustment selection, adjustment points, exit points, etc.

In this particular trade example market when down relatively slow. Of course instead of that, it could have gone up, or gone down faster than it did. Therefore, the management would have been different. The trade structure at entry and how it evolves during the trade can vary based on market conditions. The adjustments for this particular trade were made because of what the market was doing at the time.

## Trade Overview

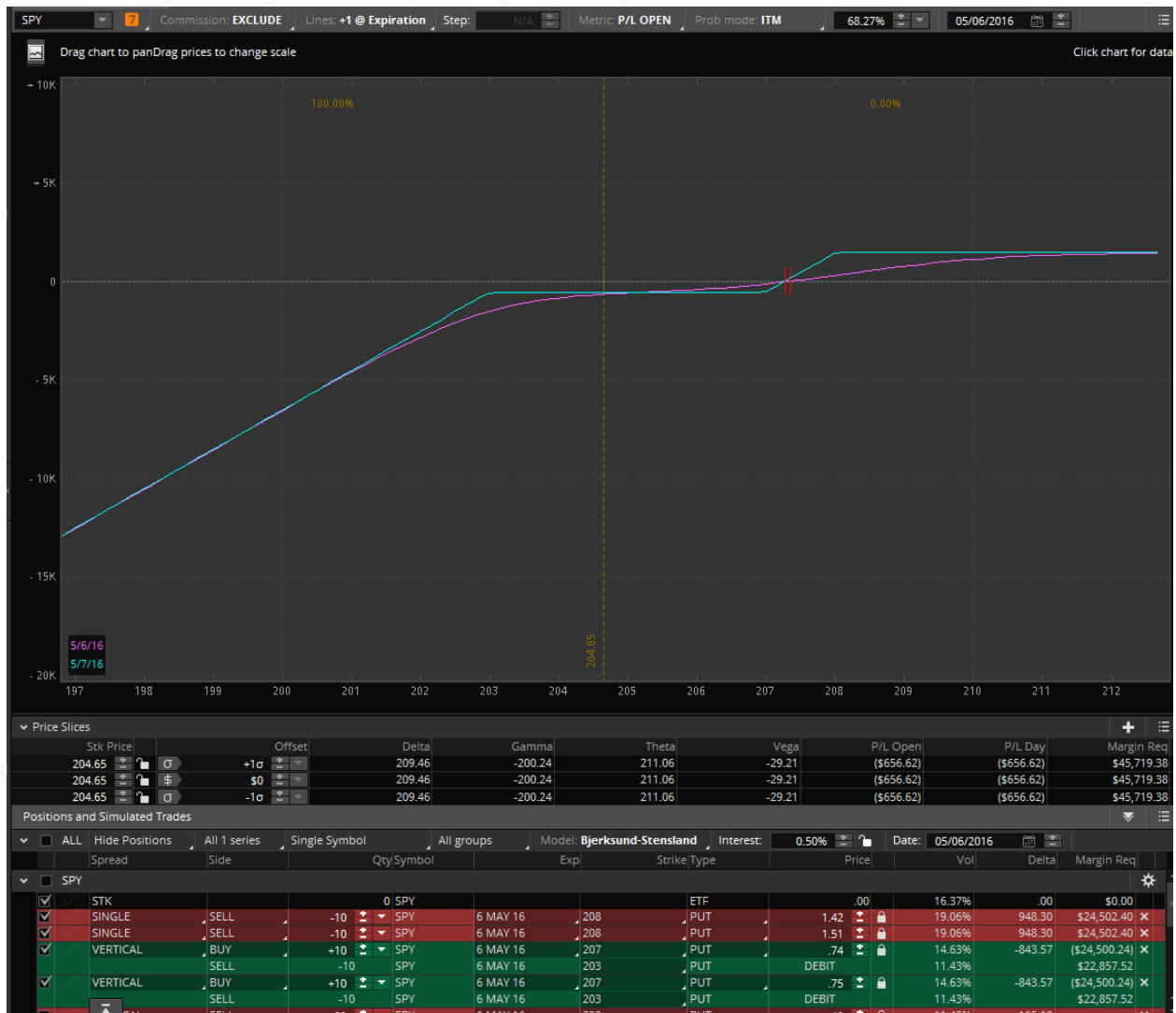
I started with a short 208 weekly puts in SPY, and despite market going down to 204.5 on expiration day when I closed the trade (mid-day), it made money while being long the whole time and never much under water. The profit that was made by the end of the trade was more than initial credit, due to the adjustments and scale-in approach used.

Many trades end up being easier and few others end-up being harder. This one was in the middle. But it does demonstrate a number of techniques, therefore I decided to share this one, for educational purposes.



Below documents how this one trade transpired. The risk profiles screen shots were taken on the last day of the trade, so you'll have to use your imagination for how they looked at time of entry. It wasn't until the last day that I decided to take the screen shots to share them with others.

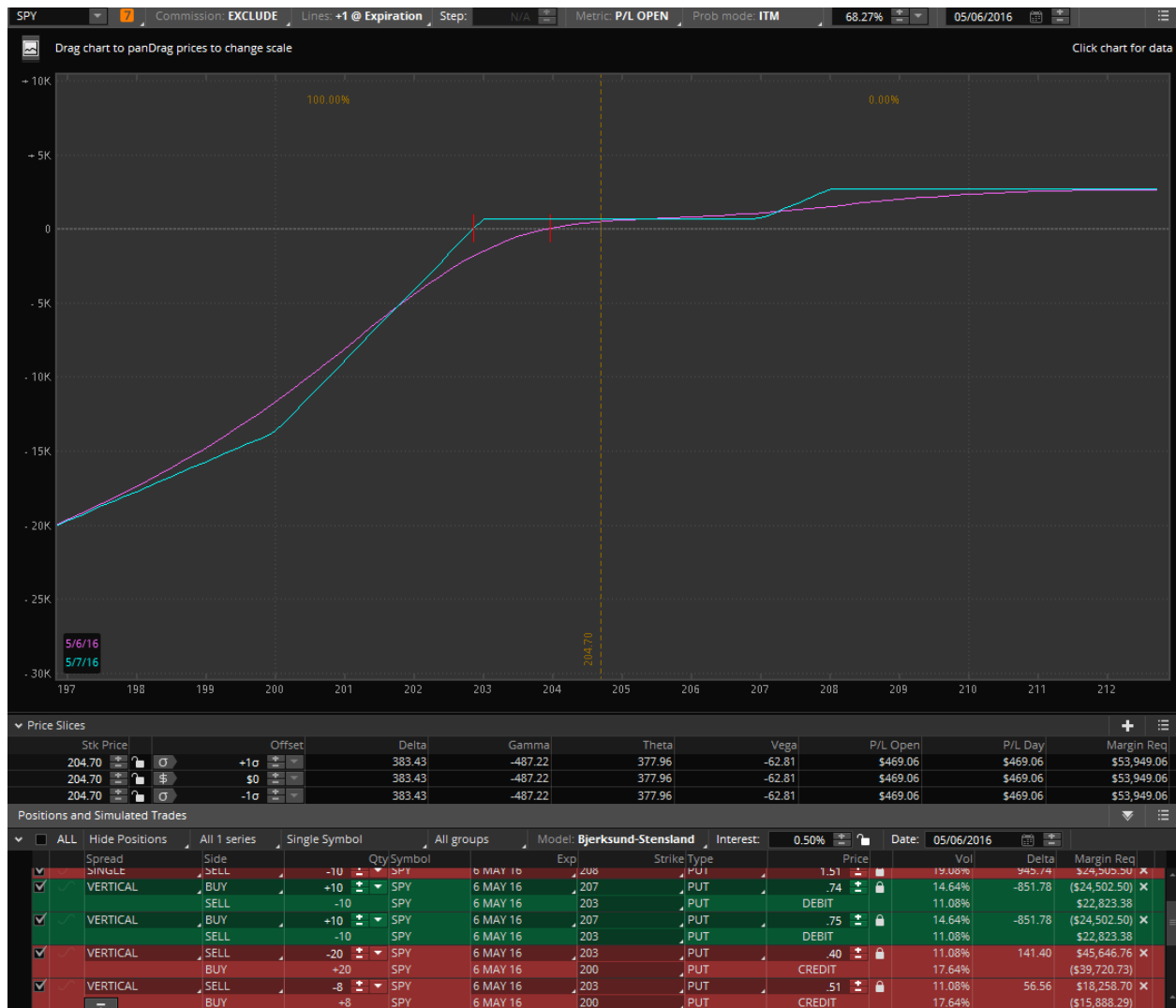
## Trade Details



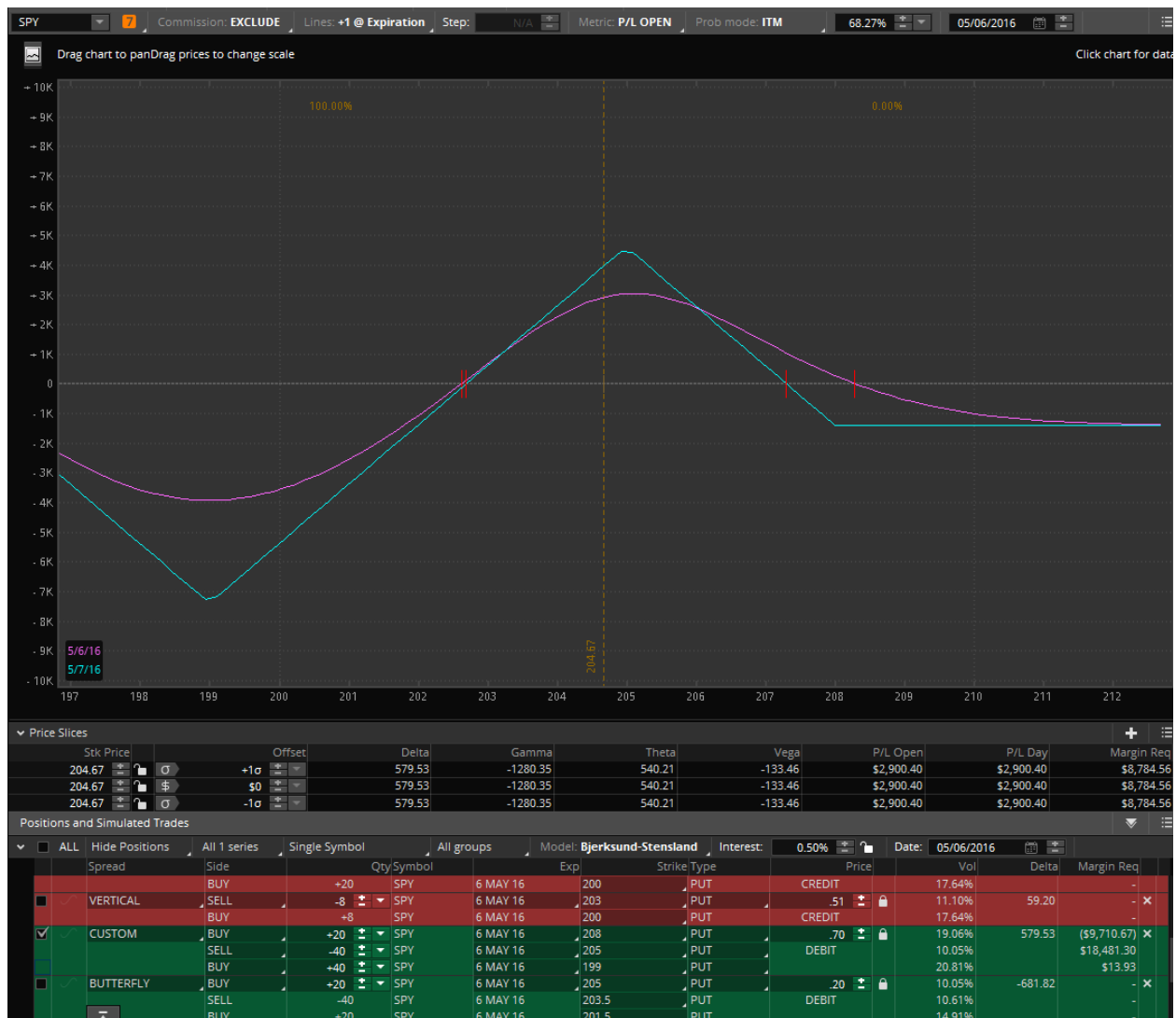
- Started with 20 short puts slightly OTM (it was OTM at time of entry) at 208 strike
- Hedged them with 20 put verticals, same expiration



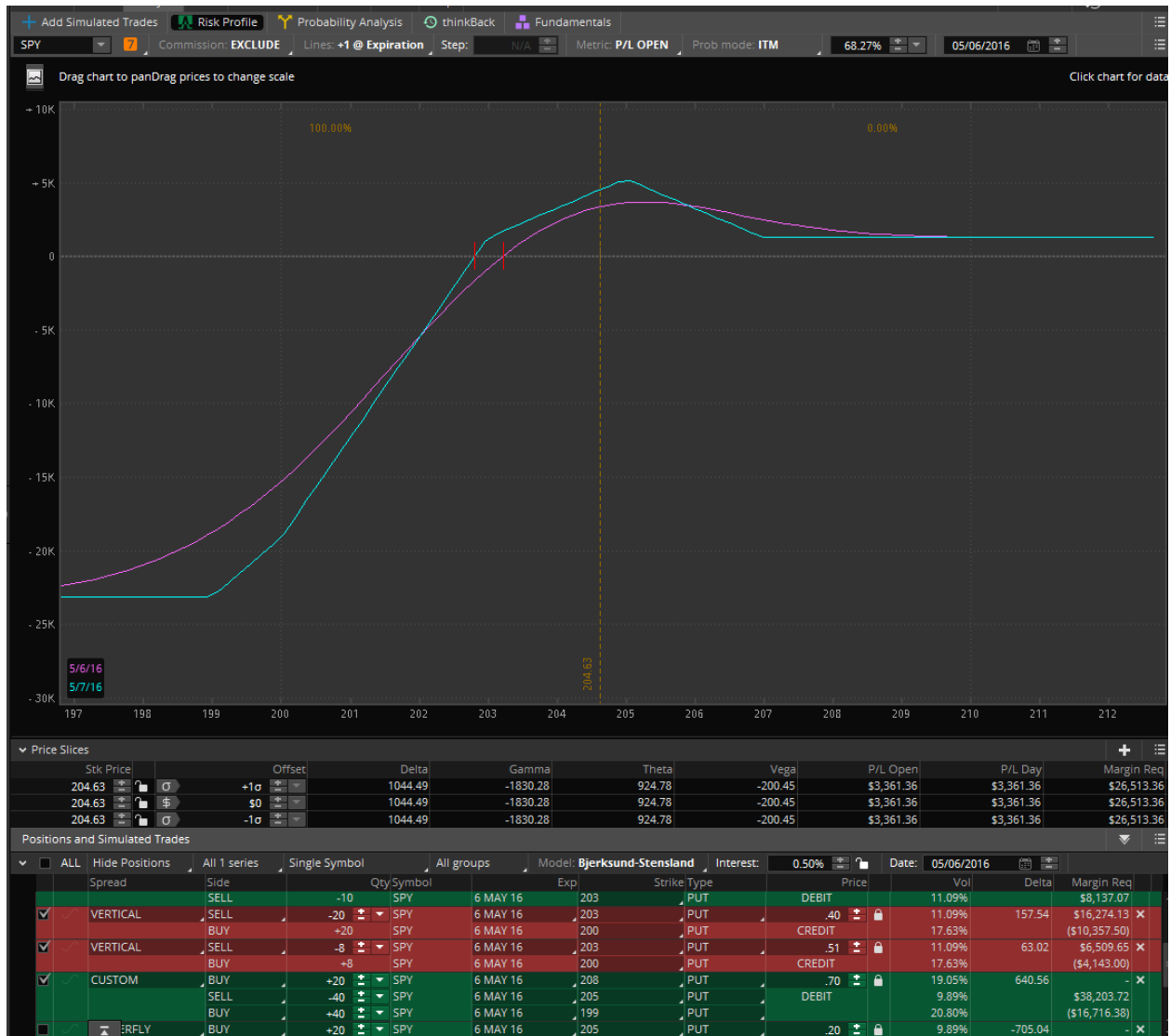
- Market sold off
- I butterflyed off the long put vertical by selling put verticals against them.
- The above is what the butterfly hedge looks like, without the original 208 short puts.



- This is the total resulting position that has the short puts at 208 with the butterfly hedge under it.



- As market went lower, I rolled down the 208 short puts in the following fashion:
  - Rolled the 20 lot 208 puts to 205 strike plus
  - Sold an additional 20 puts at the 205 strike plus
  - Bought 40 puts at 199 to hedge the 40 short puts at 205
- This means that the original 20 x 208 puts were converted to 40 x 199/205 put verticals.
- The total adjustment was done for debit of .70 per lot.

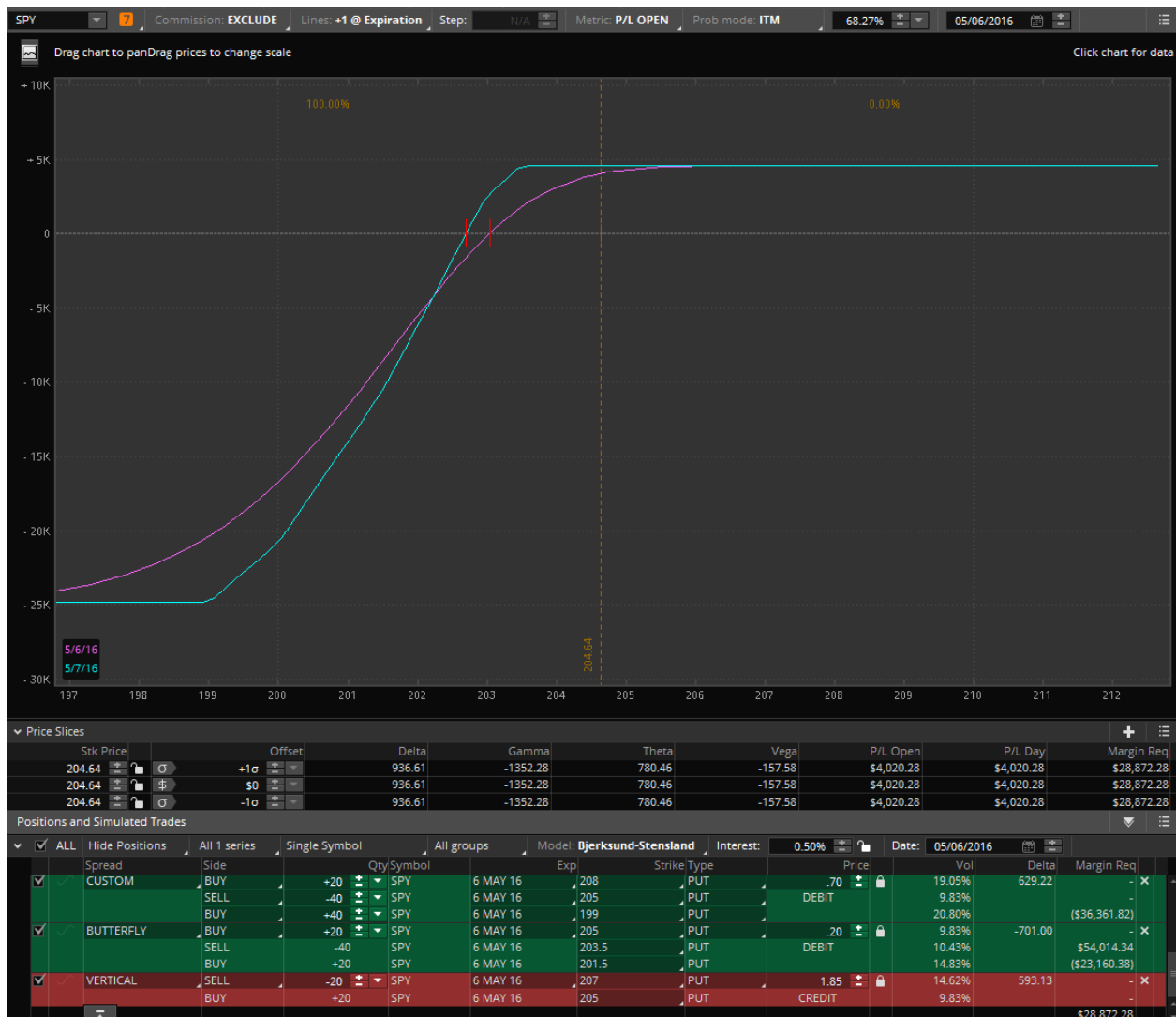


- This is what the new net position looked like after the above adjustment.





- Market continued to look more bearish.
- I added a put butterfly to the trade.
- This had the net effect of rolling ½ of the 40 short puts to 203.5, and added 20 short put verticals at 203.5/201.5 to the position.
- The above is what the net position looks like, after the butterfly roll.



- This is expiration day.
- You don't need to exit the position the way you got in.
- The various adjustments made had me in a bear put vertical at 205/207, which was hedging the lower short puts. (That is one way of looking at it)
- I sold that put vertical for 1.85, which opened the upside, in case market runs up (which it actually did by the end of day, but I didn't know that, and didn't need to know).

NOT shown above in the picture:

- I had order to buy back the 203 puts for .05, and got filled around 12:15 PM.
- The only risk left was the 203.5 puts, since I didn't want to watch the market all afternoon, I bought them back for average price of .10 each.
- That took all the short puts out, leaving the longs to expire worthless.

## Trade Log

Exec Time	Spread	Side	Qty	Pos Effect	Symbol	Exp	Strike	Type	Price	Net Price
4/22/16 10:01	SINGLE	SELL	-10	TO OPEN	SPY	6-May-16	208	PUT	1.42	1.42
4/22/16 10:03	SINGLE	SELL	-10	TO OPEN	SPY	6-May-16	208	PUT	1.51	1.51
4/22/16 10:04	VERTICAL	BUY	10	TO OPEN	SPY	6-May-16	207	PUT	1.21	0.74
		SELL	-10	TO OPEN	SPY	6-May-16	203	PUT	0.47	DEBIT
4/22/16 10:17	VERTICAL	BUY	10	TO OPEN	SPY	6-May-16	207	PUT	1.23	0.75
		SELL	-10	TO OPEN	SPY	6-May-16	203	PUT	0.48	DEBIT
4/29/16 9:58	VERTICAL	SELL	-20	TO OPEN	SPY	6-May-16	203	PUT	0.68	0.4
		BUY	20	TO OPEN	SPY	6-May-16	200	PUT	0.28	CREDIT
4/29/16 14:31	VERTICAL	SELL	-8	TO OPEN	SPY	6-May-16	203	PUT	0.93	0.51
		BUY	8	TO OPEN	SPY	6-May-16	200	PUT	0.42	CREDIT
4/29/16 15:05	CUSTOM	BUY	20	TO CLOSE	SPY	6-May-16	208	PUT	3.28	0.7
		SELL	-40	TO OPEN	SPY	6-May-16	205	PUT	1.62	DEBIT
		BUY	40	TO OPEN	SPY	6-May-16	199	PUT	0.33	
5/4/16 15:36	BUTTERFLY	BUY	20	TO CLOSE	SPY	6-May-16	205	PUT	1.06	0.2
		SELL	-40	TO OPEN	SPY	6-May-16	203.5	PUT	0.52	DEBIT
		BUY	20	TO OPEN	SPY	6-May-16	201.5	PUT	0.18	
5/6/16 12:07	SINGLE	BUY	2	TO CLOSE	SPY	6-May-16	203	PUT	0.05	0.05
5/6/16 12:11	SINGLE	BUY	20	TO CLOSE	SPY	6-May-16	203	PUT	0.05	0.05
5/6/16 12:12	SINGLE	BUY	26	TO CLOSE	SPY	6-May-16	203	PUT	0.05	0.05
5/6/16 12:20	SINGLE	BUY	2	TO CLOSE	SPY	6-May-16	203.5	PUT	0.1	0.1
5/6/16 12:21	SINGLE	BUY	8	TO CLOSE	SPY	6-May-16	203.5	PUT	0.1	0.1
5/6/16 12:22	SINGLE	BUY	10	TO CLOSE	SPY	6-May-16	203.5	PUT	0.1	0.1
5/6/16 12:25	VERTICAL	SELL	-20	TO CLOSE	SPY	6-May-16	207	PUT	2.57	1.85
		BUY	20	TO CLOSE	SPY	6-May-16	205	PUT	0.72	
5/6/16 12:27	SINGLE	BUY	2	TO CLOSE	SPY	6-May-16	203.5	PUT	0.09	0.09
5/6/16 12:32	SINGLE	BUY	18	TO CLOSE	SPY	6-May-16	203.5	PUT	0.1	0.1

## Adjustment Sequence

Strikes	Entry	Adj-1	Result	Adj-2	Result	Adj-3	Result
	4/22/16	4/29/16	4/29/16	4/29/16	4/29/16	5/4/16	5/4/16
208	-20		-20	20			
207.5							
207	20		20		20		20
206.5							
206							
205.5							
205				-40	-40	20	-20
204.5							
204							
203.5						-40	-40
203	-20	-28	-48		-48		-48
202.5							
202							
201.5						20	20
201							
200.5							
200		28	28		28		28
199.5							
199				40	40		40
198.5							