The “Ultimate” Strategy Guide
About the Author

Kirk Du Plessis is a full-time options trader, real estate investor and entrepreneur.

Before launching Option Alpha more than 8 years ago, he was an Investment Banker for Deutsche Bank in NY with the Mergers & Acquisitions group, a Capital Markets Analyst for BB&T in DC covering REITs and a Senior Loan Officer in the mortgage industry.

His training courses and coaching programs have helped thousands of traders from around the world learn how to make smarter options trades. He was recently featured in Barron’s Magazine as a contributor to the Annual Broker’s Review and is the head trader here at Option Alpha.

Though a long-time resident of Virginia, he currently lives in Pennsylvania with his beautiful wife and daughter.

Published by Option Alpha. All Rights Reserved.
Our “3-Step” Process

Choosing which option strategy to use for a trade is a process of elimination, not selection.

There are good and bad strategies for each market condition – and now can quickly and easily find the right strategy for the right trade.

Step #1 : Market Assumption

The first step to finding the right strategy is to figure out what your directional assumption of the stock is; are you bearish, bullish, or neutral?

Step #2 : Implied Volatility

The next step is to find the current level of IV and determine the current IV rank percentile. Is volatility above or below the 50th percentile?

Step #3 : Narrow Best Strategy

The final step is to choose a strategy from the grid below that fits that particular stock situation and your personal portfolio. Easy peasy right?!
High IV Bullish Options Strategies

If you are bullish on the underlying direction of the stock and implied volatility is over the 50th percentile you’ll choose from the following options strategies.
Put Credit Spread

Bull put credit spreads are strategies that are designed to profit from both a one-way directional move up in the underlying stock and a drop in the underlying implied volatility.

These are high probability strategies where you are a net seller of options below market price and you are looking for those options to decay and value and become worthless at expiration.
Trade Setup:
Sell 1 OTM Put; Buy 1 OTM Put at Lower Strike Price. The combination of options should result in a net credit.

Volatility & Time Decay:
Since we are net sellers of options a drop in implied volatility will generally help this position as well as increasing theta decay as we get closer to expiration.

Targeted Timeline:
You should look to enter these trades between 30-60 days out to give yourself enough time and premium.

Risk Management:
Keeping your position size small from the start should all the risk management you need. Though you are able to sell a corresponding call credit spread should the market challenge your short strike prices.

When To Exit:
If your position shows a profit near 50% of max potential gain you should look to close the position early.
Short Naked Put

A short put is an undefined risk trade where you are selling options below the current market price of the stock anticipating both a drop in IV or the stock to remain above your strike price.

This is one of the key building blocks for income and premium selling strategies because you collect a credit for entering the trade and typically have a very high probability of success.
Trade Setup:
Sell 1 OTM Put below the market for a credit.

Volatility & Time Decay:
Since we are naked sellers of options a drop in implied volatility will help this position as well as increasing theta decay as we get closer to expiration.

Targeted Timeline:
You should look to enter these trades between 30-60 days out to give yourself enough time and premium.

Risk Management:
With undefined risk strategies you want to be a little more cautious. We suggest that you adjust or hedge the position when the short strike reach a 0.30 delta. Risk should also be capped at 2X the credit received to avoid huge losses.

When To Exit:
Again because we have an undefined risk trade we will look to exit these trades earlier around 25% of max potential gain.
Put BWB Butterfly

A put broken-wing spread is an advanced strategy where you take a traditional butterfly spread below the market and skip 1 strike to create an unbalanced spread.

These strategies are typically done for a net credit with the goal of having no risk to the upside. Skipping a strike allows you to do this because you buy a further OTM put option at a cheaper price which reduces the overall cost of the strategy.
**Trade Setup:**
Buy 1 ITM Put; Sell 2 OTM Puts near the ATM options; Skip Strike and Buy 1 OTM Put. If possible the trade is done for a net credit (though not always possible).

**Volatility & Time Decay:**
Since we are net sellers of options a drop in implied volatility will generally help this position though it will be minimal because we are also long 2 options.

**Targeted Timeline:**
You should look to enter these trades between 30-60 days out to give yourself enough time and premium.

**Risk Management:**
Keeping your position size small from the start should all the risk management you need. If the market rallies higher you have the option to buy back the embedded short put credit spread leaving a risk-less butterfly at expiration.

**When To Exit:**
Because we are trying to pin the stock price at the short strikes we will rarely adjust these trades and let them go all the way to the last week of expiration.
Low IV Bullish Options Strategies

If you are bullish on the underlying direction of the stock but implied volatility is under the 50th percentile you’ll choose from the following options strategies.
Bull call debit spreads are strategies that are designed to profit from a one-way directional move in the underlying stock higher. They also might profit (though is not as likely) from increasing implied volatility.

These are generally low probability trades because that end up being 50-50 bets on the underlying direction. As a result we do not trade these types of strategies often in our portfolio and will occasionally use them for rebalancing purposes.
Trade Setup:
Buy 1 ITM Call; Sell 1 OTM Call at Higher Strike Price. The combination of options should result in a net debit.

Volatility & Time Decay:
Since we are net buyers of options increasing implied volatility will generally help this position though theta decay hurts our position each day that expiration nears.

Targeted Timeline:
You should look to enter these trades between 60-90 days out to give yourself ample time for the stock to move.

Risk Management:
Keeping your position size small from the start should all the risk management you need. Since these are typically 50/50 directional bets we can afford to let them go all the way to expiration until they show a profit.

When To Exit:
Given the low probability nature of these spreads you should more aggressively exit the trade when you see a profit of around 25% or less of max potential gain.
Call Calendar Spread

Long call calendar spreads profit from a slightly higher move up in the underlying stock in a given range. Calendar spreads lose if the underlying moves too far in either direction. The maximum loss is the debit paid, up until the option you sold expires.

This trade is best used when implied volatility is low and when there is implied volatility "skew" between the months used, specifically when the near-month sold has a higher implied volatility than the later-month bought.
Trade Setup:
Sell 1 OTM Call in the Front Month; Buy 1 OTM Call in the Back Month at the Same Strike Price. The combination of options should result in a net debit.

Volatility & Time Decay:
Since we are net buyers of options (especially in the back month) increasing implied volatility will generally help this position. Theta will have a bigger impact on the front month options which you are short.

Targeted Timeline:
You should look to target the front month options at least 20+ days out to give yourself enough room for premium decay. Anything shorter should be avoided.

Risk Management:
Keeping your position size small from the start should all the risk management you need. Since these are typically small semi-directional bets we can afford to let them go all the way to front month expiration until they show a profit.

When To Exit:
Given the low probability nature of these spreads you should more aggressively exit the trade when you see a profit of around 25% or less of max potential gain.
Call (Ratio) Backspread

A Bull Call Backspread is similar to a long call option as far as your outlook on the underlying stock but you use the sale and purchase of different ratios of options to protect against a possible move lower.

These are often referred to as “ratio spreads” because you are buying and selling options at intervals of 1:2 or 2:3 etc. With this particular strategy you would sell a call option and then buy 2 higher strike calls making you still a net buyer of options at a ratio of 1:2.
Trade Setup:
Sell 1 ATM Call; Buy 2 OTM Calls at Higher Strike Price. The combination of options should result in a net debit.

Volatility & Time Decay:
Since we are buyers of many more options increasing implied volatility dramatically help this position. Theta will have a bigger impact though since we are long more calls.

Targeted Timeline:
You should look to enter these trades between 60-90 days out to give yourself ample time for the stock to move and minimize the theta decay on your long options.

Risk Management:
Keeping your position size small from the start should all the risk management you need. Since these are typically ultra aggressive directional bets you should trade these sparingly and only in very low IV markets.

When To Exit:
Given the low probability nature of these spreads you should more aggressively exit the trade when you see a profit of around 25% or less of max potential gain.
High IV Neutral Options Strategies

If you are neutral on the underlying direction of the stock and implied volatility is over the 50th percentile you’ll choose from the following options strategies.
Short Straddle

Short straddles are aggressive premium selling strategies that maximizes the credit received and is best used with ultra-high implied volatility stocks.

Because of the undefined risk nature of this strategy it's best to use this sparingly (again only with great setups). We will typically only trade 1 to 2 straddles in our portfolio at a time to conserve margin used by these trades.
**Trade Setup:**
Sell 1 ATM Put; Sell 1 ATM Call at Same Strike Price. The result of both sales is a net credit.

**Volatility & Time Decay:**
Since we are naked sellers of options a drop in implied volatility will dramatically help this position as well as increasing theta decay as we get closer to expiration.

**Targeted Timeline:**
You should look to enter these trades between 30-60 days out to maximize both duration and premium decay.

**Risk Management:**
With undefined risk strategies you want to be a little more cautious. We suggest that you consider adjusting or hedging each side with long option purchases 5-10 strikes out if needed. Risk should also be capped at 2X the credit received to avoid huge losses.

**When To Exit:**
Profit taking on this strategy is much quicker and you'll look to close out winning trades at 25-50% of max profit to conserve capital and reduce the margin requirements.
Short Iron Condor

Iron condors are one of our most reliable and favorite options strategies. A combination of selling a credit put spread and credit call spread these birds profit from the stock remaining range bound and a drop in implied volatility.

In order to make these high probability trade we suggest selling the short strikes on either side at the 1 SD level (or 15% prob. ITM level). This will create approximately a 70% chance of success trade long-term.
Trade Setup:
Sell 1 OTM Put; Buy 1 OTM Put at Lower Strike; Sell 1 OTM Call; Buy 1 OTM Call at Higher Strike. The combination of buying and selling should give a net credit.

Volatility & Time Decay:
Since we are net sellers of options a drop in implied volatility will slowly help this position as well as increasing theta decay as we get closer to expiration.

Targeted Timeline:
You should look to enter these trades between 30-60 days out to maximize both duration and premium decay.

Risk Management:
Keeping your position size small from the start should all the risk management you need. We suggest you adjust or hedge the position when one of the short strikes reaches a 0.30 delta by rolling the other side closer.

When To Exit:
Profit taking on this strategy is more conservative and you'll look to close out winning trades around 50% of max profit to improve your win rate.
The short strangle could possibly be the ultimate strategy for options traders. Though it requires more capital in the form of margin with naked options on either side, these strategies offer the highest probability of success of any trade and generally the highest P&L long term.

This trade is best used when implied volatility is high and when you are looking for the stock to move in a defined range over the trading timeline. We can generally place these trade with more than a 70% chance of success.
**Trade Setup:**
Sell 1 OTM Put; Sell 1 OTM Call at Far Out Strike Prices. The result of both sales is a net credit.

**Volatility & Time Decay:**
Since we are naked sellers of options a drop in implied volatility will dramatically help this position as well as increasing theta decay as we get closer to expiration.

**Targeted Timeline:**
You should look to enter these trades between 30-60 days out to maximize both duration and premium decay.

**Risk Management:**
With undefined risk strategies you want to be a little more cautious. We suggest you adjust or hedge the position when one of the short strikes reaches a 0.30 delta by rolling the other side closer. Risk should also be capped at 2X the credit received to avoid huge losses.

**When To Exit:**
Profit taking on this strategy is more conservative and you'll look to close out winning trades around 50% of max profit to improve your win rate and reduce capital usage.
Low IV & Neutral? 
PASS On Trades

If you are neutral on the underlying direction of the stock and implied volatility is below the 50th percentile you’re best to actually NOT make any trade at all since you have very little edge in the market. Not trading is a position.
High IV Bearish Options Strategies

If you are bearish on the underlying direction of the stock and implied volatility is over the 50th percentile you’ll choose from the following options strategies.
Bear call credit spreads are strategies that are designed to profit from both a one-way directional move down in the underlying stock and a drop in the underlying implied volatility.

These are high probability strategies where you are a net seller of options above market price and you are looking for those options to decay and value and become worthless at expiration.
Trade Setup:
Sell 1 OTM Call; Buy 1 OTM Call at Higher Strike Price. The combination of options should result in a net credit.

Volatility & Time Decay:
Since we are net sellers of options a drop in implied volatility will generally help this position as well as increasing theta decay as we get closer to expiration.

Targeted Timeline:
You should look to enter these trades between 30-60 days out to give yourself enough time and premium.

Risk Management:
Keeping your position size small from the start should all the risk management you need. Though you are able to sell a corresponding put credit spread should the market challenge your short strike prices.

When To Exit:
If your position shows a profit near 50% of max potential gain you should look to close the position early.
A short call is an undefined risk trade where you are selling options above the current market price of the stock anticipating both a drop in IV or the stock to remain below your strike price.

This is one of the key building blocks for income and premium selling strategies because you collect a credit for entering the trade and typically have a very high probability of success.
**Trade Setup:**
Sell 1 OTM Call above the market for a credit.

**Volatility & Time Decay:**
Since we are naked sellers of options a drop in implied volatility will help this position as well as increasing theta decay as we get closer to expiration.

**Targeted Timeline:**
You should look to enter these trades between 30-60 days out to give yourself enough time and premium.

**Risk Management:**
With undefined risk strategies you want to be a little more cautious. We suggest that you adjust or hedge the position when the short strike reach a 0.30 delta. Risk should also be capped at 2X the credit received to avoid huge losses.

**When To Exit:**
Again because we have an undefined risk trade we will look to exit these trades earlier around 25% of max potential gain.
Call BWB Butterfly

A call BWB spread is an advanced strategy where you take a traditional butterfly spread above the market and skip 1 strike to create an unbalanced spread.

These strategies are typically done for a net credit with the goal of having no risk to the downside should the stock keep falling. Skipping a strike allows you do to this because you buy a further OTM call option at a cheaper price which reduces the overall cost of the strategy.
Trade Setup:
Buy 1 ITM Call; Sell 2 OTM Calls near the ATM options; Skip Strike and Buy 1 OTM Call. If possible the trade is done for a net credit (though not always possible).

Volatility & Time Decay:
Since we are net sellers of options a drop in implied volatility will generally help this position though it will be minimal because we are also long 2 options.

Targeted Timeline:
You should look to enter these trades between 30-60 days out to give yourself enough time and premium.

Risk Management:
Keeping your position size small from the start should all the risk management you need. If the market rallies higher you have the option to buy back the embedded short call credit spread leaving a risk-less butterfly at expiration.

When To Exit:
Because we are trying to pin the stock price at the short strikes we will rarely adjust these trades and let them go all the way to the last week of expiration.
Low IV Bearish Options Strategies

If you are bearish on the underlying direction of the stock but implied volatility is below the 50th percentile you’ll choose from the following options strategies.
Put Debit Spread

Bear put debit spreads are strategies that are designed to profit from a one-way directional move in the underlying stock lower. They also might profit from increasing implied volatility because you are a net buyer of options.

These are generally low probability trades because that end up being 50-50 bets on the underlying direction. As a result we do not trade these types of strategies often in our portfolio but will occasionally use them for rebalancing purposes and as hedges for other positions.
Trade Setup:
Buy 1 ITM Put; Sell 1 OTM Put at Lower Strike Price. The combination of options should result in a net debit.

Volatility & Time Decay:
Since we are net buyers of options increasing implied volatility will generally help this position though theta decay hurts our position each day that expiration nears.

Targeted Timeline:
You should look to enter these trades between 60-90 days out to give yourself ample time for the stock to move.

Risk Management:
Keeping your position size small from the start should all the risk management you need. Since these are typically 50/50 directional bets we can afford to let them go all the way to expiration until they show a profit.

When To Exit:
Given the low probability nature of these spreads you should more aggressively exit the trade when you see a profit of around 25% or less of max potential gain.
Put Calendar Spread

Long put calendar spreads profit from a slightly lower move down in the underlying stock in a given range. Calendar spreads lose if the underlying moves too far in either direction. The maximum loss is the debit paid, up until the option you sold expires.

This trade is best used when implied volatility is low and when there is implied volatility "skew" between the months used, specifically when the near-month sold has a higher implied volatility than the later-month bought.
Trade Setup:
Sell 1 OTM Put in the Front Month; Buy 1 OTM Put in the Back Month at the Same Strike Price. The combination of options should result in a net debit.

Volatility & Time Decay:
Since we are net buyers of options (especially in the back month) increasing implied volatility will generally help this position. Theta will have a bigger impact on the front month options which you are short.

Targeted Timeline:
You should look to target the front month options at least 20+ days out to give yourself enough room for premium decay. Anything shorter should be avoided.

Risk Management:
Keeping your position size small from the start should all the risk management you need. Since these are typically small semi-directional bets we can afford to let them go all the way to front month expiration until they show a profit.

When To Exit:
Given the low probability nature of these spreads you should more aggressively exit the trade when you see a profit of around 25% or less of max potential gain.
A Bear Put Backspread is similar to a long put option as far as your outlook on the underlying stock but you use the sale and purchase of different ratios of options to protect against a possible move higher in the stock against you.

These are often referred to as “ratio spreads” because you are buying and selling options at intervals of 1:2 or 2:3 etc. With this particular strategy you would sell a put option and then buy 2 lower strike puts making you still a net buyer of options at a ratio of 1:2.
Trade Setup:
Sell 1 ATM Put; Buy 2 OTM Puts at Lower Strike Price. The combination of options should result in a net debit.

Volatility & Time Decay:
Since we are buyers of many more options increasing implied volatility dramatically help this position. Theta will have a bigger impact though since we are long more calls.

Targeted Timeline:
You should look to enter these trades between 60-90 days out to give yourself ample time for the stock to move and minimize the theta decay on your long options.

Risk Management:
Keeping your position size small from the start should all the risk management you need. Since these are typically ultra aggressive directional bets you should trade these sparingly and only in very low IV markets.

When To Exit:
Given the low probability nature of these spreads you should more aggressively exit the trade when you see a profit of around 25% or less of max potential gain.
We help you make “smarter” more profitable trades...

We help educate and coach options traders on all levels: from people just starting out to advanced traders with multi-million dollar portfolios (and everyone in between).

Since 2007 more than 2.3 million people have trusted OptionAlpha.com to bring them the most amazing training on options trading, making us a clear leader in this market.

We believe that there is a huge lack of financial literacy and a gap that we aim to close by delivering the best possible content in multiple formats for you to consume: blog posts, video tutorials, webinars, podcasts, case studies, live events, etc.

Our goal is to pull back the curtain and give you the best online courses and training possible in all the right areas so that you can learn to make decisions for yourself. Because at the end of the day, making smarter trades isn't just our tagline - it's our mission for you.