

# How to Understand Scott's Trade Alerts

This document is intended as a reference guide to understanding the text alerts that I send out in real-time in the **Time Spread Options Advisory**. For purposes of illustration, I will use actual trades that have been placed in the advisory since inception and also discuss some of the mindset behind the trades so users can understand the trading philosophy and the reasoning behind why these orders are placed. The snapshots below are direct screenshots my phone and also from the thinkorswim platform. If you are a newer trader, my hope is that after reading this document you will have a much better understanding of complex spreads and how and why to enter them.

## Convention:

All text alerts will be presented in the same format every time. Each will always start the same way with a trade number. Every trade is numbered and the number in the text will reference the trade number in the .pdf of the excel spreadsheet which you receive nightly. Let's look at an example:



#29 New trade - BOT +2  
DIAGONAL CRM 100 (Weeklys)  
22 DEC 17/24 NOV 17 105/107  
CALL @1.70 CBOE. a full  
writeup will in the daily update  
-Scott

Let's parse the text to understand what each part means:

**#29 New trade BOT +2 DIAGONAL CRM 100 (Weeklys) 22 DEC 17/24 NOV 17 105/107 CALL @1.70 @ CBOE**

**"#29"** - This is the number of the trade which corresponds to the trade's number in the spreadsheet where all trades are tracked.

**"New" or "New trade"** - This indicates that the trade is a new trade and that the transaction is one to open. This is not an adjustment to or closing of a current trade that is open. *If you were a brand-new signup to the advisory and this was the first text you received, it would be ok to take this trade. If you do not see the word "new" after the trade number, then the trade is an adjustment or closing of a current trade that is already open. If you were a brand-new signup to the advisory and you received such a text, it would not be ok for you to take that trade. Instead you should wait for the next "new" trade to come out and then follow along with the transactions related to that trade.*

**"BOT"** - This indicates that options contracts were bought to open (trade initiated). If they were sold, the text would read "SOLD". Note that these are orders which have already been filled in a live, real-money, thinkorswim account and the texts are cut and pasted directly from the filled orders section of the platform. Traders should make best efforts to place the trade expeditiously so as to get a fill as similar to the advisory as possible. More on that later.

Most trade orders are posted once we are filled on our side. When you see either “SOLD” or “BOT”, this is the case. Sometimes I will work an order at limit either for the day or GTC. Those texts will look different and will say “SELL” or “BUY” rather than “SOLD” or “BOT”. I will show an example of a limit order type trade later on in this document.

**“+2”** - The +2 here refers to the number of contracts that were bought. Note that if contracts are bought, then the number is positive, if they are sold then it would be a negative number and will have a ‘-’ in front of the number. The basic contract sizes in the Time Spread Options Advisory will always be between 2 and 8 contracts. The sizing is based on an account size of between \$10,000 - \$25,000 and traders should adjust their size upwards for every multiple of \$25k in their accounts.

**“DIAGONAL”** – This is the type of trade being placed. In this case a diagonal spread which means that the first strike referenced has been bought and the second has been sold. You will see more on the different trade types as you read through all of the examples in this document.

**“CRM 100 (Weeklys)”** - This is the symbol being traded, in this case **salesforce.com** (CRM). The 100 is rather meaningless and just implies that the options are of the standard series where each contract corresponds to 100 shares of stock. Thinkorswim started adding this once mini-options which control just 10 shares of stock were made available. Finally, Weeklys simply tells you that it is a weekly option as opposed to the regular monthly expiry which are the options that expire on the 3<sup>rd</sup> Friday of each month.

**“22 DEC 17”** - This is referencing the actual option series that is being traded in. The first number is the expiration date, then the month, and the second number is the year. So, in this example we are buying CRM options that are in the December 22nd, 2017 series.

**“24 NOV 17”** - This is referencing the actual option series that is being traded in. The first number is the expiration date, then the month, and the second number is the year. So, in this example we are selling CRM options that are in the November 24<sup>th</sup>, 2017 series.

**“105/107 CALL”** - These are referencing the actual strikes being traded. As we mentioned above, the trade is a diagonal which has been bought. Thus, we bought 2 contracts of the 105 calls and sold 2 contracts of the 107 calls. This makes us long the 105/107 call diagonal.

**“@ 1.70 CBOE”** – This is simply the price that we got filled at and the exchange where the order was executed. ISE, PHLX, CBOE are typical exchange codes you will see.

**“full writeup in the daily update – Scott”** – If space permits, I may or may not add a note to the text giving some extra clarity to what is being done. Some trades will have these notes and some will not. Yet, all new trades will include a trade analysis that will outline the setup, greeks, exits (both primary and secondary). I make best efforts to add comments below each text in the nightly *ShadowTrader time Spreads Options Advisory Daily Update* email which you should be receiving nightly between 4 and 4:30pm EST.

**\*\*An important note.** For brevity and cost (messages are charged to us in multiples of segments which are 160 characters), some texts will have certain parts deleted which are not important to the trade and don't affect the spirit of the idea at all or what is being conveyed. If you have already read through the above, then you can already imagine which portions those may be. Parts such as "100" or "Weeklies", or the exchange code at the end are sometimes deleted from the text before sending in order to get the text smaller and into a more manageable size. The important parts of the text that are completely necessary will always be there.

## Different Trade Types

Let's look at an example from actual trades and learn how to place them using the thinkorswim platform...

### Diagonal Spread

```
#28 - NEW : BOT +2  
DIAGONAL MSFT 100  
(Weeklys) 22 DEC 17/24 NOV  
17 84/86 CALL @1.64 ISE -  
Scott
```

In this text I am buying a diagonal spread that is a new trade. We know this because it says "NEW". Diagonal spreads can be either long or short. They are initiated long in order to capture a move in a certain direction as well as benefit from theta decay in the short option. Diagonals typically are used for issues that are expected to consistently rise to the short expiry strike price. The maximum profit is attained at the short call expiry at the strike price. Should the price move faster than anticipated before the short call expiry, the profit potential will begin to decline. We can monitor this visually in the risk profile tab in thinkorswim's platform or by looking at the greeks. Net position delta will become neutral and then flip while net position theta will decline to near zero and possibly go negative. At that point a determination of whether to close the trade or adjust the short option to a more appropriate strike will be made if a financial advantage can be obtained thus taking advantage of the price move.

To place this trade:

From the Trade tab on your thinkorswim platform, right click on the first strike in the trade text (in this case 150) and mouse over “Analyze Buy...” and then click “Calendar” from the second pop up list that will appear.

The trade will appear at the bottom of your screen. Make whatever changes to strikes, price, time in force, etc. as per the instructions above and click the green “Confirm and Send” button.

## Calendar Spread

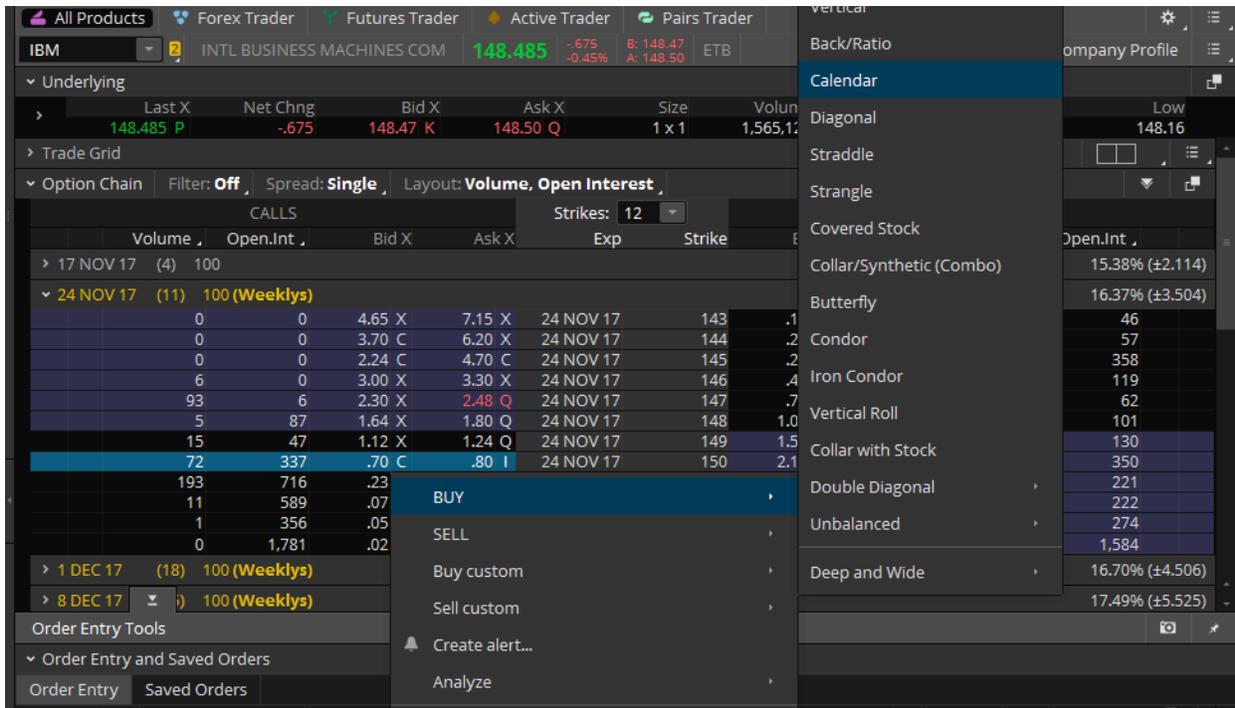
Scott Gillam 10/11/17 @ 1:54pm

NEW Trade - BOT +2 CALENDAR AVGO 100 17 NOV 17/27 OCT 17 260 CALL @2.60 CBOE

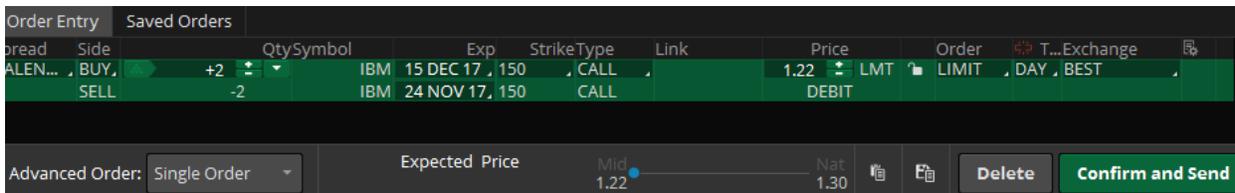
In this text I am buying a calendar spread that is a new trade (this text is old and was before the standard convention of using a trade number). We know this because it says “NEW”. Calendar spreads can be either long or short. They are initiated long in order to capture a move in a certain direction. Calendars typically are used for issues that are expected to slowly rise to the common strike price. The maximum profit is attained at the short call expiry at the strike price. Should the price move faster than

anticipated before the short call expiry, the profit potential will begin to decline. We can monitor this visually in the risk profile tab in thinkorswim's platform or by looking at the greeks. Net position delta will become neutral and then flip while net position theta will decline to near zero and possibly go negative. At that point a determination of whether to close the trade or adjust the short option to a more appropriate strike will be made if a financial advantage can be obtained thus taking advantage of the price move.

To place this trade:



From the Trade tab on your thinkorswim platform, right click on the first strike in the trade text (in this case 150) and mouse over "Analyze Buy..." and then click "Calendar" from the second pop up list that will appear.



The trade will appear at the bottom of your screen. Make whatever changes to strikes, price, time in force, etc. as per the instructions above and click the green "Confirm and Send" button.

This procedure is similar to the Diagonal spread as well. Always make sure that you are selling and buying the correct strikes and expiration dates for your short and long options.