



OptionsLinebacker Welcome Guide

How to Use the OptionsLinebacker Newsletter,
Strategies, and Website

Second Edition

By Craig Severson

The OptionsLinebacker Welcome Guide

Second Edition

By Craig Severson

Additional images courtesy of QCharts™.

© Copyright 2008 by Craig Severson

All Rights Reserved

No duplication or transmission of the material included within except through express written permission from the author, craig@optionslinebacker.com.

OptionsLinebacker is neither a registered Investment Advisor nor a Broker/Dealer. Readers are advised that all information is issued solely for informational purposes and is not to be construed as an offer to sell or the solicitation of an offer to buy, nor is it to be construed as a recommendation to buy, hold or sell (short or otherwise) any security. All opinions, analyses and information included herein are based on sources believed to be reliable and written in good faith, but no representation or warranty of any kind, expressed or implied, is made including but not limited to any representation or warranty concerning accuracy, completeness, correctness, timeliness or appropriateness. In addition, we do not necessarily update such opinions, analysis or information. Writers may have long or short positions in the securities that are discussed.

Readers are urged to consult with their own independent financial advisors with respect to any investment. All information contained in this report and on our website should be independently verified.

OptionsLinebacker.com is a division of Hampshire & Holloway LLC, an Ohio Limited Liability Company.

Table of Contents

Welcome Aboard!	4
Getting Started	5
What's in the Newsletter.....	6
Additional Resources	8
Frequently Asked Questions	10

Welcome Aboard!

Congratulations for making a great decision and joining us at OptionsLinebacker, your connection for Index-based Iron Condors!

When I started options trading in 2004, I was frustrated by my performance. I traded puts/calls/straddles/strangles/calendar spreads/diagonals - YOU NAME IT - and at the end of this frantic activity my account balance was smaller than before. Sound familiar? I heard about the Iron Condor and decided to give it a try. I won a few trades. I took some losses and then figured out how to prevent those the next time. And then I won more trades. I built a system and became consistent. I started wondering why I was expending energy looking for trades on a daily basis when the same one was in front of me, month after month.

Something else that I noticed was that by following the same chart, and looking at the same technical indicators day after day, I started to see things in them that I normally wouldn't see if I was playing a much larger watch list. Trailing indicators began to give me leading indicators, showing where the chart was going next. As T. Harv Eker so eloquently says, "What you focus on, expands". Once I began to consistently make money, it was only a matter of time before making the leap to trading for a living.

I never meant for this to turn into a newsletter; it sort of *happened*. I found out that when I made myself accountable to others, my results improved immensely. So thank you in advance for helping to improve my trading results; my sincere hope is that the same happens for you. Make yourself accountable to someone else for your results and they will improve.

I've subscribed to several newsletters in the past, and one thing that always bugged me about most newsletters is that they do an excellent job justifying the trade at the beginning, only to hang you out once you enter the trade. *Anyone* can enter a trade; a *professional* knows how to exit and make money. So my purpose in this newsletter was to not only show you how and why the trades are set up, but also to show you exactly how and why I intend to exit, whether or not action is required. I do these trades right along with you.

I'll know that I was successful in this venture if I can teach you this strategy - it usually doesn't take more than a few months - and then you go teach someone that you care about.

I wish you all the success in the world.

Craig Severson

Getting Started

If you're like most investors, you want to dive right in and start leveraging some profits in your account. Slow down! Let's cover the basics of what it takes to be successful with this strategy:

Learning Advanced Options

You will need to understand how to enter and exit index-based credit spreads. I would recommend a live training program to accomplish this, instead of heading down to Barnes & Noble to pick up a book.

Setting up a Brokerage Account

Make sure that you set up a relationship with a broker who specializes in options trading. Some are far better at this than others. Online brokers who I've had good results with are optionsXpress® and thinkorswim.

Paper Trade

Instead of just diving into our monthly trades, it's not a bad idea to paper trade for at least a month to understand how we enter, defend, and exit trades..and then set up for the next month. It takes method, money management, and mindset to trade; make sure that you have all elements in place first. You will find that when paper trading these positions, you'll need to lower your expectations for fills since your trades aren't actually going to the floor. So if we ask for \$.60 credit on a live trade, it may help to ask for \$.20 less on your paper trades just to ensure a fill so that you can follow along.

A Daily Discipline

This is truly a 15 minute/day strategy once you get into the groove. Make sure that you can carve out 30 minutes a night to start with to study the chart analysis, your positions, and possible entry/exit trades. If you do have live positions, there may be some time required during the day to monitor a position if you're close to an exit point; make sure that you have the liberty to do so.

Start Small

Start with small trades until you really understand all phases of entering trades, defending trades, and finally exiting trades. Consider trading with just a couple of contracts until you get experience, and trade only Cornerstone trades (when the Market is fully oversold or overbought) at first.

Position Management

For each monthly cycle, I show which orders are currently out with the brokers, which positions that we currently hold, and which potential positions that I'd like to pursue. Each current position is measured in terms of points out-of-the-money, as well as "probability of success". For each current position, I also show at what point I would exit the trade.

As one month winds down to expiration, the next month is just getting started, so for about two weeks a month we will have two different expiration months to manage, and it can get very busy.

Swing Trades

As Iron Condor traders, we generally like to see the Market trade in a flat range every day, but since we're watching the same chart day after day, doesn't it make sense that we would see potential breakout/breakdown opportunities well in advance? To that end I've added a section on swing trades, where I will call out what I think are opportunities to play a futures contract on the chart that we're following to capture a short "swing" in prices, with the goal of increasing my returns for the month. I've found that Iron Condors and Swing Trades are excellent complementary trades; when the Market is trending, we want to be more cautious with the Iron Condors, but it provides opportunity for playing a swing. Likewise, when the Market is flat, that's our time to jump on the Condors and go easy on the swings.

ETFs vs. Larger Index Products

For a long time I traded "smaller" spreads such as \$2 ETF spreads to help those with smaller accounts participate in the Iron Condor trade. Then a funny thing happened; the \$2 ETF spreads started to seriously outperform the larger \$10 index spreads. Month after month, in a head-to-head comparison, I was able to successfully defend large moves with the \$2 ETF spreads...that I was forced to exit with the larger index instrument. (SPX, RUT, etc) It's not what you *make*...it's what you *keep*.

Additional Resources

It's our aim at OptionsLinebacker to provide you with a complete array of products and services specifically aimed at making you a more consistent, profitable trader. To assist with this mission, we offer the following resources:

OptionsLinebacker Iron Condor Trading Guide

This is a 31 page guide that shows you all of the why/where/when of trading the Iron Condor. The manual shows high level strategies, as well as more specific tactics for pulling monthly income from the Market.

The manual can be ordered at www.optionslinebacker.com/guide.html

OptionsLinebacker Probability Calculator

How do we figure out the winning probability of our trades? We let the Market tell us. The OptionsLinebacker Probability calculator is an easy-to-use Excel spreadsheet, accompanied by a 12 page application guide that shows you how to calculate probabilities of your trades, as well as how to optimize your entries for the maximum distance and safety.

The calculator is available to all current subscribers free of charge, upon request.

OptionsLinebacker Video Coaching

Need help understanding the Iron Condor? We offer a comprehensive online Flash video series that goes over the whole spectrum of how to design, enter, defend, and exit these trades profitably, month after month. The videos span 21 chapters and include about 4 hours of instruction.

Read more information about our coaching program at:
www.optionslinebacker.com/vcoaching.html

OptionsLinebacker Live Seminars

Why not get your group together to all learn about the Iron Condor? For a surprisingly affordable price, all of you can go through the OptionsLinebacker Live Coaching program in one day, and walk out with an Iron Condor trading plan! Contact craig@optionslinebacker.com for more details.

OptionsLinebacker Yahoo! Group

OptionsLinebacker maintains a Yahoo! Group at:
<http://finance.groups.yahoo.com/group/optionslinebacker/>

The purpose of this group is two-fold:

- To serve as a repository for OptionsLinebacker Newsletters (archives are kept back to the 2/9/2006 edition) so you can learn from past Market trends and plays that were subsequently made.
- To provide a redundant method of newsletter delivery. The current newsletter can be either downloaded from the Yahoo group site, or you can change your own Group options so that a redundant copy of the newsletter is emailed to you. This helps subscribers who might want alerts emailed to a cell phone, or a business email address different from their personal email.

At this time, open “forum” functionality and dialogue is not supported on the Yahoo group.

Email a Linebacker

Have a question? We can't give out specific trade advice, but we'll be happy to help you master this trading strategy. Email us at:
support@optionslinebacker.com

Frequently Asked Questions

How big of an Account do I need to use this strategy?

You can play this strategy with as little as \$5k in your account. You won't get huge returns with that amount of capital, but you can learn this lifelong skill today and use it later when you have access to more trading capital.

What kind of returns should I expect?

New traders to this strategy should target 2-3% monthly returns on your total account. As you gain experience, you can consider more advanced techniques to raise your returns commensurate with your skills. Experienced traders can earn 10% monthly return on risk with this strategy. Consistency is the key at first.

Why do you watch the same signals day after day? It looks boring.

This is the key to consistency; get good at reading just a few signals and learn to interpret what they're telling you. If you miss signals when you drive your car, bad things happen. Trading is no different.

These trades don't look very exciting. Is there any action?

Playing these trades month after month will get you "in a groove". There is always something going on during the month; weeks 5-3 from expiration are mostly focused on entering new trades for next month...the last two weeks are focused on defending your trades and keeping profits...and then the cycle starts all over again as you enter trades for the next month. In an ideal month, there is little drama. Do you trade for the excitement or the profit?

The key to this strategy is that the Iron Condor should be the FOUNDATION of your trading. You absolutely should take advantage of other directional plays in the Market as they occur. Earning a small but consistent income via the Iron Condor tends to take the pressure off of your other trades, and will reduce your tendency to overtrade - the bane of many a beginner.

Can I play these trades in a trending market? I thought Condors were for flat markets?

The Iron Condor is best played during a neutral, non-trending Market. If you're patient enough to let the Market tell you when it's oversold or overbought, you can still play a volatile Market and use the volatility to help "catapult" your position far out of the money. The greatest risk with this strategy is when the volatility shifts from low to high; without a good defense in place, your positions can get run over.

There is always going to be a concern about another Terrorist or "Black Swan" event. For sure, *something* will happen at some point in the future that will rock the Market, whether or not it's terrorist-related. If you are concerned, then just play the topside positions.

Do you leg in to each "side" of the Iron Condor, or enter both sides at once?

We rarely enter both sides at the same time, as we're not clairvoyant enough to know where the "middle" of the current range is. We use the chart and various technical indicators to tell us when to enter each side, as outlined in the OptionsLinebacker Trading Guide.

You recommend not playing with more than 40% of my account?

Yes. But understand that some brokers will treat your maintenance in a favorable manner, meaning that they understand that you cannot possibly lose both "sides" of the Condor at the same time. That means that a \$100k account could potentially be using 40 contracts of 10 point spreads on "top" and 40 contracts on the "bottom", meaning 80 total contracts are in play. That's a potential 5% monthly return on risk with very conservative 90% probability positions. Higher returns are possible by incurring more risk.

You state that you don't "lose" trades. How is this possible?

We trade for a living; we treat it like a business. Businesses create revenues and pay expenses. We generate credits through our trades and occasionally incur debits. If we have to shut down the first part of a "trade", we just adjust it to a different level on the chart, in the same month if possible. The entire "trade" is not over until we say it is, and always with a profit. Quit thinking of your trading as "wins and losses"; spending time with a loved one is a "win"! Trading is just a business.