



Multi-legged Option Spreads: Condors and Butterflies Explained

The screenshot displays a multi-legged spread strategy for XLP. The top table shows the overall spread details, and the bottom table shows the individual legs of the spread.

Symbol	Description	Last	Net Chg	High	Low	Volume	Beta Weighting	Account
XLP	S&P 500 Consum Staples Sub FuCD	77.46	0.19	78.88	77.76	10,142,095	SPY	All Accounts

CALLS										PUTS					
Pos	Vega	Theta	Gamma	Delta	Bid	Ask	Strike	Bid	Ask	Delta	Gamma	Theta	Vega	Pos	
0.06	-0.03	0.039	0.80	1.90	1.90	1.76	74.5	0.17	0.21	-0.12	0.059	-0.01	0.04	0.04	
0.05	-0.02	0.019	0.88	2.00	2.00	1.85	75	0.21	0.24	-0.14	0.070	-0.01	0.05	0.05	
0.07	-0.03	0.015	0.77	2.07	2.07	1.85	75.5	0.24	0.39	-0.18	0.083	-0.01	0.06	0.06	
0.06	-0.02	0.102	0.83	1.90	1.90	1.10	76	0.32	0.41	-0.21	0.097	-0.01	0.06	0.06	
0.07	-0.02	0.110	0.73	2.16	2.16	1.41	76.5	0.36	0.48	-0.25	0.115	-0.01	0.07	0.07	
0.08	-0.02	0.127	0.89	1.92	1.92	1.92	77	0.54	0.60	-0.31	0.128	-0.01	0.08	0.08	
0.08	-0.02	0.138	0.82	1.90	1.90	1.97	77.5	0.69	0.76	-0.38	0.141	-0.01	0.08	0.08	
0.08	-0.02	0.148	0.86	1.98	1.98	1.25	78	1.01	1.06	-0.45	0.149	-0.01	0.09	0.09	
0.08	-0.02	0.152	0.48	0.97	0.97	0.99	78.5	1.13	1.20	-0.52	0.153	-0.01	0.09	0.09	
0.08	-0.02	0.150	0.40	0.89	0.89	0.70	79	1.42	1.51	-0.60	0.148	-0.01	0.09	0.09	
0.08	-0.02	0.143	0.32	0.45	0.45	0.81	79.5	1.80	1.87	-0.68	0.144	-0.01	0.08	0.08	
0.07	-0.02	0.136	0.27	0.30	0.30	0.44	80	1.95	2.77	-0.74	0.128	-0.01	0.07	0.07	
0.06	-0.01	0.111	0.20	0.20	0.20	0.33	80.5	2.01	2.88	-1.00	0.000	0.00	0.00	0.00	
0.05	-0.01	0.080	0.16	0.16	0.16	0.25	81	2.87	3.20	-1.00	0.000	0.00	0.00	0.00	

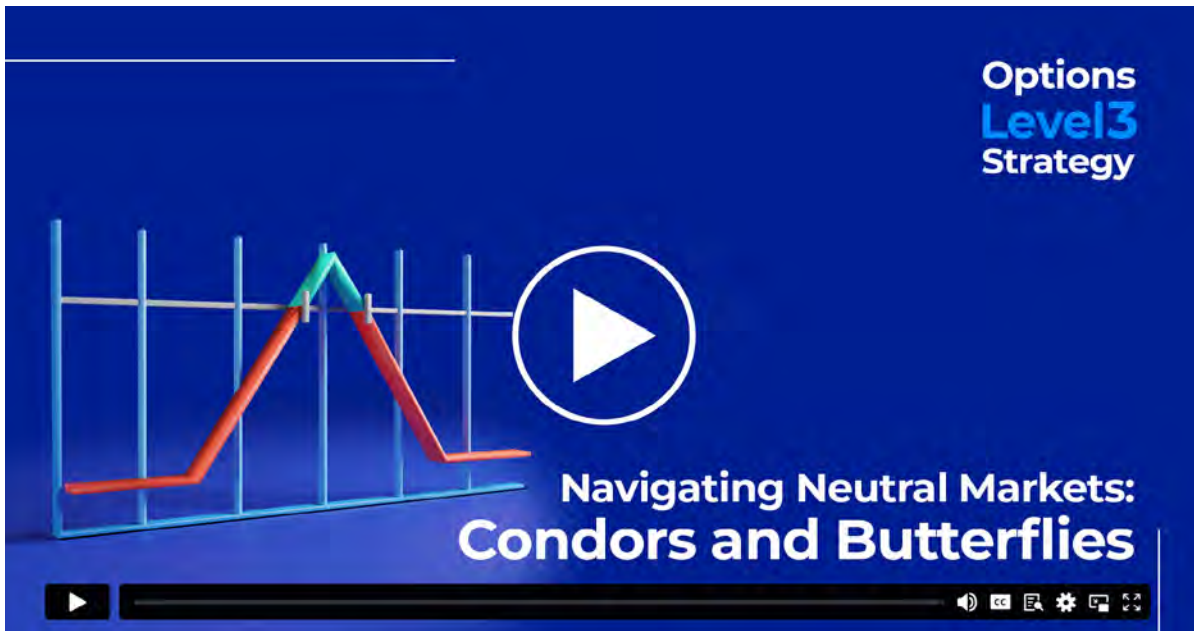
Symbol	Delta	Theta	Max Profit	Max Loss
XLP	-5.65	0.37	96.00	-54.00

Side	Open / Close	Quantity	Symbol	Expiration	Strike	Type
Buy	Open	1	XLP	23 Aug 24	76	Put
Sell	Open	-2	XLP	23 Aug 24	77.5	Put
Buy	Open	1	XLP	23 Aug 24	79	Put

Account Number: SIM1097305M

Delta: 126.42 | Theta: 6.38 | Open P/L: 67.68

Options
Strategies



Introduction

Options trading can seem complex, but with the proper knowledge, it can be a useful tool for investors and traders. This article will explain two popular options strategies: condors and butterflies. We'll cover what they are, why you might use them, and their benefits and risks. We'll also explain how market conditions may help identify when traders might use these strategies.

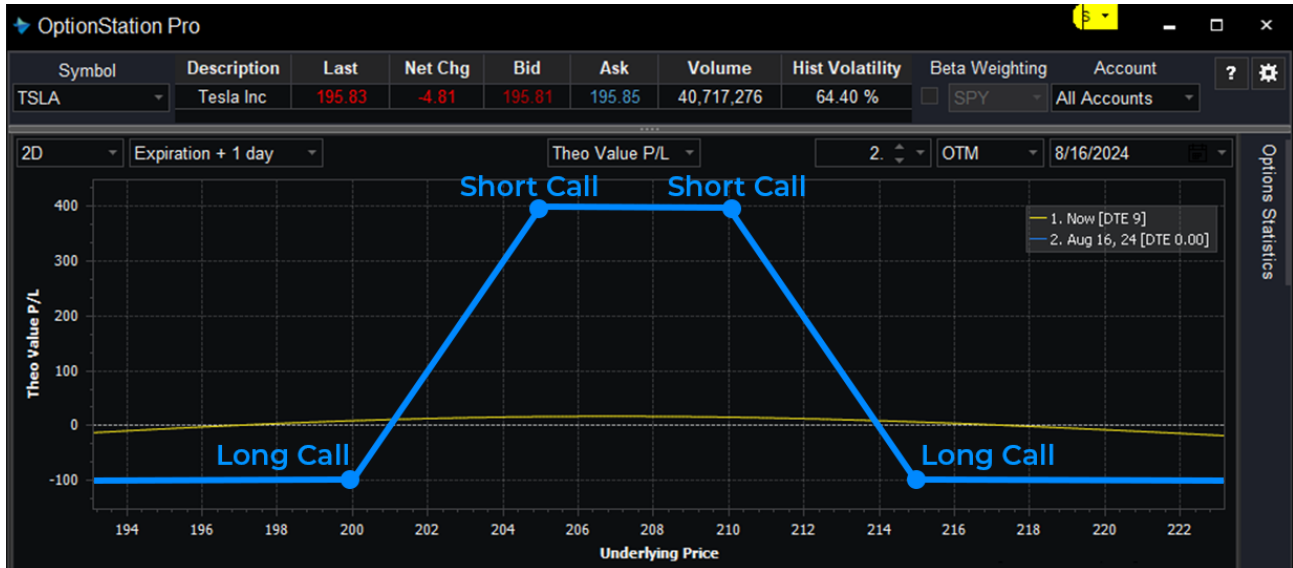
Condors and butterflies are options strategies involving the simultaneous trading of four options legs. In each strategy, all four legs are the same type (all calls or all puts) and share an identical expiration date. The key distinction between the individual legs lies in their strike prices.



Discover options strategies and empower your trading with the knowledge and skills to navigate dynamic market conditions.

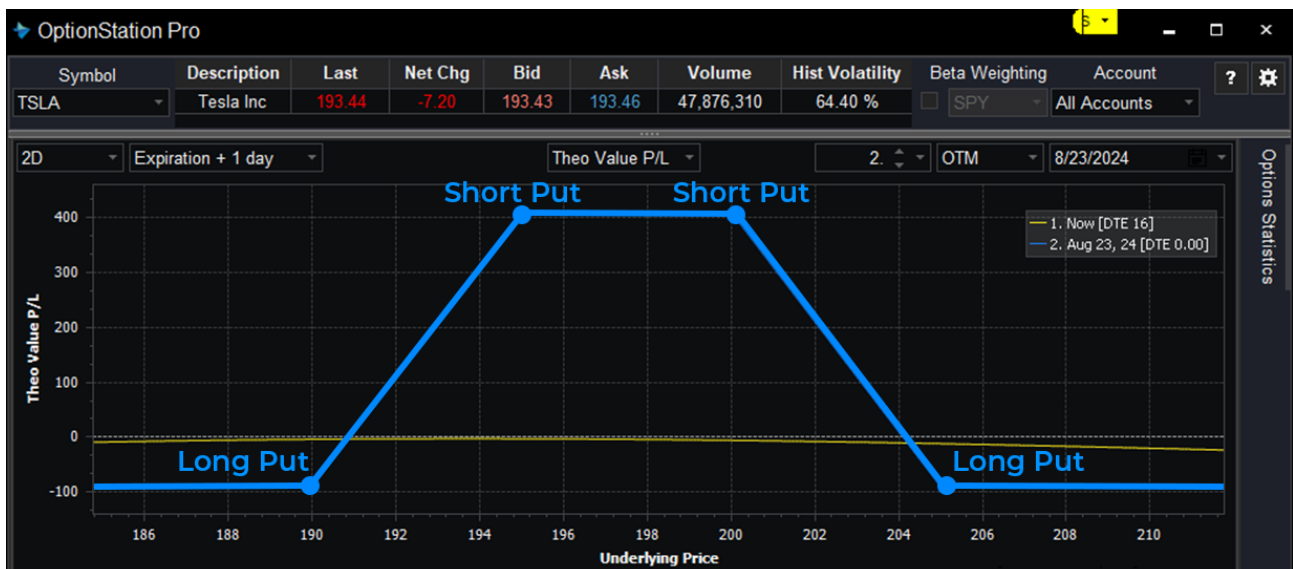
Creating a call condor

To create a call condor, you simultaneously open an in-the-money bull call spread and an out-of-the-money bear call spread with higher strikes. The underlying price is expected to remain between the two short strikes.



Creating a put condor

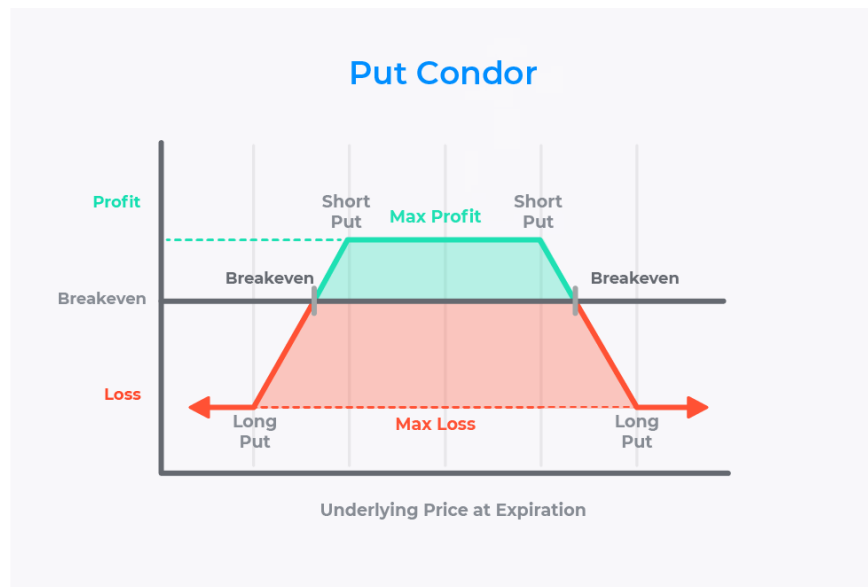
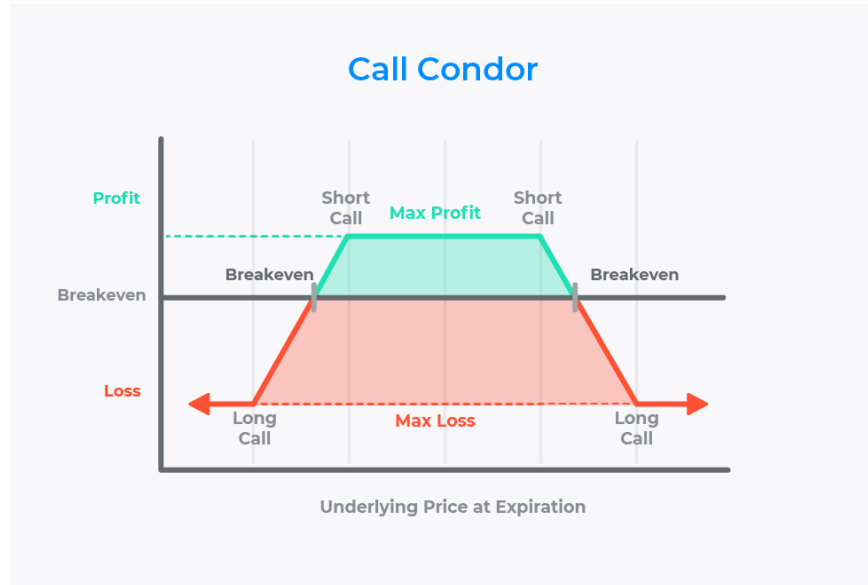
To create a put condor, you simultaneously open an out-of-the-money bull put spread and a higher strike in-the-money bear put spread. The underlying price is expected to remain between the two short strikes.



Characteristics of the call or put condor

- 1 **Maximum profit:** A call or put condor's profit is limited to the premium collected when opening the position. This profit is realized if the underlying price is between the short strikes at the options expiration date.
- 2 **Early exit:** If the call condor's value drops due to time decay or a decline in volatility before expiration, it can be repurchased at a lower cost, provided the short options have not been assigned.
- 3 **Assignment risk:** Selling the options exposes the trader to the risk of early assignment.
 - a. **Short put assignment:** The trader has an obligation to buy underlying shares at the strike price.
 - b. **Short call assignment:** The trader has an obligation to sell underlying shares at the strike price. If they do not own shares, they must buy them in the open market, at the current market price to fulfill the assignment.
 - c. **Fulfilling assignment obligations:** To meet the obligations on the short options, the trader could choose to exercise their long option at its strike price. The loss would be limited to the difference between the strikes of the spread legs minus the initial premium collected.
- 4 **Maximum risk:** The maximum risk of a condor is limited to the difference between the long and short strikes of one leg minus the premium received.
- 5 **Breakeven prices:** A condor has two breakeven prices. A downward breakeven is the lower short strike minus the premium collected. An upward breakeven is the higher short strike plus the premium collected.

6 Risk profiles: The call and put condor risk profiles are identical in shape but will have different prices due to the different premiums on the individual legs.



Choosing between a call or put condor

The choice between a call or put condor depends on market conditions and the trader's outlook on a company or sector. Key factors include:

- 1 Market sentiment:** In a bullish overall market or an underlying security with a slightly bullish trend a trader may favor the call condor. Conversely, the trader may find the put condor advantageous if the market sentiment is bearish.
- 2 Higher implied volatility (IV):** Implied volatility affects an option's premium. In theory, options with higher IV might offer more premium to be collected and a better rate of return.
- 3 Assignment risk:** Selling the options exposes the trader to the risk of early assignment.
- 4 Dividends on the underlying:** Put options are generally more sensitive to dividend payments. When the underlying price drops due to the dividend, the value of the short puts can increase more than the short calls.

What is a call or put butterfly?

The call and put butterflies are very similar to their related condors. The difference is that the short options have the same strike price, typically at-the-money. Out-of-the-money puts, or calls are bought above and below to create the two spreads and limit risk.

With a butterfly traders ideally want the underlying to trade right at the short strike at expiration. If this occurs, the maximum potential profit, the premium collected from selling the spreads, is realized. Because the probability of this happening is low, traders may elect to close a butterfly spread by buying it back before the short options are assigned or expire.

- 1 Maximum profits:** A call or put butterfly's profit is limited to the premium collected when the spread was opened. This can only be realized if the underlying price is precisely at the short strike at the options expiration. A smaller profit is realized if the underlying price is between the two breakeven prices at the options expiration.

2 Early exit: Because the probability of the underlying trading precisely at the short strike at the options expiration is very low, traders typically buy to close the butterfly before the expiry or assignment of the short options.

a. For a profit: If the trader can buy to close the butterfly for less than the premium they collected when they opened it, the difference is a realized profit.

b. For a loss: If the cost to buy to close the butterfly is greater than the premium collected, the difference represents a realized loss.

3 Assignment risk: The risk of early assignment is the same as the condor.

a. Short put assignment: The trader has an obligation to buy shares at the strike price.

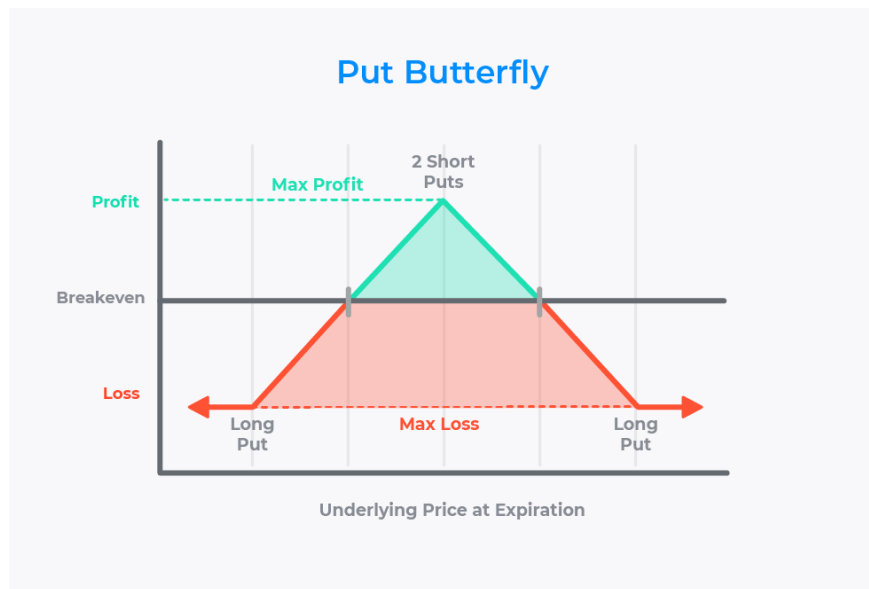
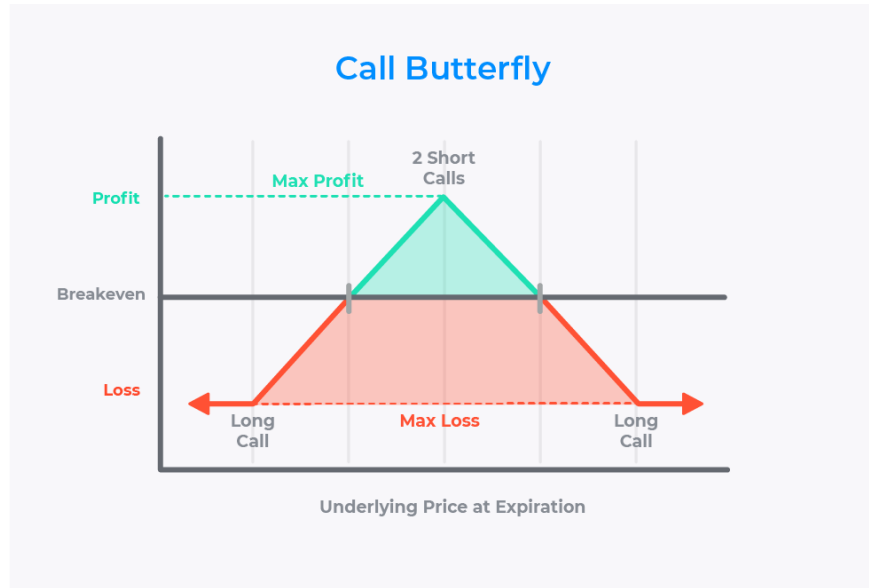
b. Short call assignment: The trader has an obligation to sell underlying shares at the strike price. If they do not own them, they must buy them at the current market price to fulfill the assignment.

c. Fulfilling assignment obligations: To meet the obligations on the short options, the trader could choose to exercise their long option at its strike price. The loss would be limited to the difference between the strikes of the spread leg minus the initial premium collected.

4 Maximum risk: The maximum risk of a butterfly is the difference between the long and short strikes of one leg minus the premium received.

5 Breakeven prices: A butterfly has two breakeven prices. The upside breakeven price is the short strike plus the premium received, and the downward breakeven price is the short strike minus the premium collected.

6 Risk profiles: The call and put butterfly risk profiles are identical in shape but will have dissimilar breakeven prices due to the different premiums on the individual legs.



Quick Reference Guide: Condor & Butterfly

Market outlook	Neutral and implied volatility is expected to decrease
Position net debit or credit	Credit (premium collected)
Margin required	The difference between one set of short and long strikes, minus the premium collected
Number of legs	Four of the same type, calls or puts with the same expiration date
Location of strikes	<p>Condor:</p> <ul style="list-style-type: none"> • Below the current underlying price: <ul style="list-style-type: none"> • one lower strike long option and • one higher strike short option • Above the current underlying price: <ul style="list-style-type: none"> • one higher strike short option and • one higher strike long option <p>Butterfly:</p> <ul style="list-style-type: none"> • One lower strike long option • Two at-the-money short options • One higher strike long option
Maximum profit	The net premium collected
Profits from	The options expiring with the underlying between the two breakeven points, or from time decay, or volatility dropping
Maximum loss	The difference between the strikes minus the premium collected. This occurs if the underlying price rises above the higher long strike or drops below the lower long strike.
Breakeven	Two: the lower short strike minus the premium received and the higher short strike plus the premium received
Risk from	The underlying price rising to or above the strike of the higher long option strike, dropping to or below the lower short option strike, or assignment on the short options before expiration. The use of margin is required. Review the Margin Disclosure Statement at www.TradeStation.com/DisclosureMargin
Options level required	Level 3 – Click here for additional information

Condor & Butterfly strategy application

Market conditions

The condor and butterfly are neutral market strategies that benefit from the underlying price staying within a range. Higher implied volatility can benefit these strategies by inflating option premiums, which may offer greater potential profits.

Choosing expirations

Longer expirations initially offer higher premiums to collect, but they increase volatility and assignment risk. Shorter-term options may have smaller premiums due to less time value, but they will decay faster. They are also more sensitive to price changes in the underlying, which increases risk. Typically traders select expirations ranging from 30 to 45 days to establish a balance between profit and time decay.

Selecting strikes

Condors

The maximum profit is realized when the options expire with the underlying between the short strikes. To increase this probability, some traders will:

- Sell an out-of-the-money option, one standard deviation below and above the current price
- Consider buying a deeper out-of-the-money option, two standard deviations below and above, to complete the position

Another approach many traders may use is to:

- Sell an option below a support level
- Sell another option above a resistance level
- Choose the strikes of the long options to create the desired risk/reward profile for the position

Considerations:

- A narrower spread width reduces risk but limits potential reward
- Wider spreads have greater profit potential but increased maximum loss
- Ensure account size and risk plan allow for maximum potential loss.
- Consider using a stop-loss to mitigate risk exposure

Butterflies

The maximum profit is realized when the underlying price is at the short strike when the options expire. Traders typically:

- Sell two at-the-money options for the short strike
- May sell slightly out-of-the-money to create a directional bias if desired
- Alternatively, a directional bias can be created using a call butterfly if bullish or a put butterfly if bearish

Like condors:

- Long option strikes are selected to create a risk-reward profile that aligns with the trader's risk tolerance and objectives
- Narrower spreads reduce both the potential risk and reward
- Wider spreads increase potential profit and risk

Risk Management

- Ensure that your account size and risk management strategy can accommodate the maximum potential loss associated with the position
- Because short options involve assignment risk, the trader must maintain an account balance large enough to buy the shares if assigned
- Margin might be available depending on the account type. Check the requirements under TradeStation's Margin Rates, available here:
- <https://www.tradestation.com/pricing/margin-rates/>
- Consider attaching a stop-loss order to the open position to manage risk exposure further

Call Condor strategy example

Target Corp. (TGT) is a stock trading in a channel between \$140 and \$155 during the months of June and July 2024. The implied volatility for all options is above the average, and the implied volatility/historical volatility ratio is relatively high.



The chosen options have 29 days until expiration. They were selected to take advantage of the increased time decay within the last 30 days. The short call strikes are at the upper and lower prices of TGT's range, while the long call strikes create a five-point spread on both sides.

Symbol	Description	Last	Net Chg	High	Low	Volume	Beta Weighting	Account
TGT	Target Corp	147.22	0.77	149.42	146.28	1,922,804	SPY	All Accounts

CALLS										PUTS				
Pos	Vega	Theta	Gamma	Delta	Bid	Ask	Strike	Bid	Ask	Delta	Gamma	Theta	Vega	Pos
16 Aug 24	(22d)													
23 Aug 24	(29d)	Weekly												
	0.10	-0.09	0.015	0.84	13.85	16.15	133	1.82	1.99	-0.18	0.014	-0.08	0.11	
	0.12	-0.11	0.015	0.80	15.05	17.00	134	1.96	2.20	-0.19	0.015	-0.08	0.11	
	0.11	-0.09	0.017	0.81	14.25	15.00	135	2.20	2.45	-0.21	0.016	-0.09	0.12	
	0.12	-0.09	0.018	0.80	13.45	13.70	136	2.15	2.56	-0.22	0.017	-0.09	0.12	
	0.13	-0.11	0.018	0.76	12.65	14.10	137	2.77	2.93	-0.25	0.017	-0.09	0.13	
	0.13	-0.09	0.020	0.77	11.65	12.30	138	3.05	3.25	-0.27	0.018	-0.10	0.14	
	0.14	-0.10	0.021	0.74	10.65	12.15	139	2.86	3.55	-0.28	0.019	-0.09	0.14	
	0.14	-0.11	0.021	0.71	10.55	11.30	140	3.70	3.85	-0.31	0.019	-0.10	0.15	
	0.15	-0.11	0.023	0.69	9.30	10.10	141	4.00	4.25	-0.33	0.020	-0.11	0.15	
	0.15	-0.11	0.024	0.67	9.30	9.45	142	4.45	4.60	-0.35	0.021	-0.11	0.15	
	0.16	-0.11	0.023	0.64	8.65	8.25	143	4.85	5.00	-0.37	0.021	-0.11	0.16	
	0.16	-0.12	0.024	0.62	8.65	8.50	144	5.25	5.40	-0.39	0.021	-0.11	0.16	
	0.16	-0.12	0.025	0.59	7.50	7.85	145	5.70	5.85	-0.41	0.022	-0.11	0.16	
	0.16	-0.12	0.026	0.57	6.95	7.15	146	6.15	6.35	-0.44	0.022	-0.11	0.16	
	0.16	-0.12	0.026	0.54	6.40	6.65	147	6.65	6.85	-0.46	0.022	-0.11	0.16	
	0.17	-0.12	0.026	0.52	5.95	6.25	148	7.20	7.35	-0.48	0.022	-0.11	0.17	
	0.17	-0.12	0.028	0.49	5.50	5.70	149	7.25	7.90	-0.50	0.022	-0.11	0.17	
	0.16	-0.11	0.026	0.46	5.05	5.25	150	8.30	10.45	-0.52	0.022	-0.11	0.17	
	0.16	-0.11	0.025	0.40	4.10	4.25	152.5	8.80	10.40	-0.57	0.021	-0.11	0.16	
	0.15	-0.10	0.024	0.35	3.30	3.45	155	11.35	12.60	-0.62	0.021	-0.11	0.16	
	0.14	-0.10	0.022	0.29	2.55	2.70	157.5	12.75	13.50	-0.68	0.020	-0.09	0.15	
	0.13	-0.09	0.020	0.24	2.00	2.16	160	14.70	16.80	-0.70	0.018	-0.10	0.14	
	0.12	-0.08	0.018	0.20	1.41	1.64	162.5	16.70	17.15	-0.76	0.017	-0.08	0.13	
	0.10	-0.07	0.016	0.16	1.10	1.36	165	18.05	20.25	-0.77	0.015	-0.08	0.13	

Using OptionStation Pro®, we built the call condor by holding the CTRL key on the keyboard and left-clicking on the bids for the option legs to sell and then the asks for the legs to buy. The trade bar will appear and populate with all the option legs selected.

The screenshot shows the 'Trade' window with a 'Condor' order type. The order details are as follows:

Side	Open / Close	Quantity	Symbol	Expiration	Strike	Type
Buy	Open	1	TGT	23 Aug 24	135	Call
Sell	Open	-1	TGT	23 Aug 24	140	Call
Sell	Open	-1	TGT	23 Aug 24	155	Call
Buy	Open	1	TGT	23 Aug 24	160	Call

Summary statistics: Delta: -0.01, Theta: 3.56, Max Profit: 199.00, Max Loss: -301.00. The order type is 'Limit' with a price of 3.01. The account number is SIM2326027M. The current bid is 2.96 and the ask is 2.38. The order is marked as 'DEBIT'.

Placing this order would attempt to sell the 135/140/155/160 call condor, which has 29 days until expiration, for the limit price of 3.01. The maximum profit shows that \$199 of premium would be collected, and the maximum loss of \$301 would be required as a margin deposit. You can review TradeStation's Options Margin Requirements here: <https://www.tradestation.com/pricing/options-margin-requirements/>.

The 'Confirm' dialog box asks: "Would you like to place the following order ?"

Order details shown in the dialog:

- Condor 1 @ 23 Aug, 140/135/155/160 Calls @ 3.01 Limit
- Sell to Open 1 TGT 23 Aug 24 140 Call
- Buy to Open 1 TGT 23 Aug 24 135 Call
- Sell to Open 1 TGT 23 Aug 24 155 Call
- Buy to Open 1 TGT 23 Aug 24 160 Call
- Route : Intelligent
- Duration : Day
- Account : SIM1097305M
- Estimated Max Profit : 199.00
- Estimated Max Loss : -301.00
- Estimated Price : 3.01
- Estimated Cost : 301.00

Buttons: Yes, No

	Target Corp. (TGT) call condor
Trade cost/margin	\$301 (difference between strikes minus premium X 100)
Maximum loss	\$301
Breakeven price down	\$138.01 (short 140 call – 1.99 premium)
Breakeven price up	\$156.99 (short 155 call + 1.99 premium)
Maximum profit	\$199
Rate of return at expiration	66.1% if TGT is between 140 and 155
Drawbacks & risks	1. Options expiring with the underlying below the short 140 call or above the short 155 call 2. Assignment risk on the short options 3. Maximum risk is greater than maximum reward
Features	1. Limited max risk 2. Can profit with little or no price movement 3. High probability of profit with a wide range

When the options expire, the call condor will achieve its maximum profit if TGT trades between \$140 and \$155. The maximum loss occurs if TGT is below \$135 or above \$160 at expiration. If TGT moved below \$140 or above \$155, the position would begin to lose value. Once the breakeven prices are passed, the position starts to lose.

Put Butterfly strategy example

The S&P Select Consumer Staples ETF (XLP) has been trading in a channel between \$76 and \$79 for three months. The implied volatility is above the average, and the implied volatility/historical volatility ratio is very high, suggesting that options premiums may be expensive.



Watch the Webinar – “Navigating Neutral Markets: Condors and Butterflies in Options Trading”. Gain valuable insights into how Condors and Butterflies can be used to trade sideways-moving markets with defined risk.



We are selling two 77.50 puts, the closest strike to the middle of the range and near the money. To limit the risk, we are buying the 76 put and 79 put. This creates a \$1.5-wide spread on both sides.

Symbol	Description	Last	Net Chg	High	Low	Volume	Beta Weighting	Account
XLP	S&P Sel Consum Staples Spdr Fu(D)	77.98	0.19	78.88	77.76	10,142,095		All Accounts

CALLS										PUTS					
Pos	Vega	Theta	Gamma	Delta	Bid	Ask	Strike	Bid	Ask	Delta	Gamma	Theta	Vega	Pos	
0.06	-0.03	0.059	0.80	0.80	3.90	4.15	74.5	0.17	0.21	-0.12	0.059	-0.01	0.04	0.04	
0.05	-0.02	0.070	0.85	0.85	3.45	3.65	75	0.21	0.24	-0.14	0.070	-0.01	0.05	0.05	
0.07	-0.03	0.075	0.77	0.77	2.67	2.88	75.5	0.24	0.30	-0.18	0.083	-0.01	0.06	0.06	
0.06	-0.02	0.102	0.83	0.83	1.95	2.10	76	0.32	0.41	-0.21	0.097	-0.01	0.06	0.06	
0.07	-0.02	0.110	0.73	0.73	2.18	2.41	76.5	0.36	0.48	-0.25	0.115	-0.01	0.07	0.07	
0.08	-0.02	0.127	0.69	0.69	1.82	1.92	77	0.54	0.60	-0.31	0.128	-0.01	0.08	0.08	
0.08	-0.02	0.139	0.82	0.82	1.49	1.67	77.5	0.69	0.76	-0.38	0.141	-0.01	0.08	0.08	
0.09	-0.02	0.149	0.55	0.55	1.19	1.25	78	0.89	0.96	-0.45	0.149	-0.01	0.09	0.09	
0.09	-0.02	0.152	0.48	0.48	0.91	0.99	78.5	1.09	1.20	-0.52	0.153	-0.01	0.09	0.09	
0.08	-0.02	0.150	0.40	0.40	0.69	0.76	79	1.42	1.51	-0.60	0.148	-0.01	0.08	0.08	
0.08	-0.02	0.143	0.32	0.32	0.43	0.61	79.5	1.66	1.81	-0.68	0.144	-0.01	0.08	0.08	
0.07	-0.02	0.126	0.27	0.27	0.39	0.44	80	1.99	2.17	-0.74	0.128	-0.01	0.07	0.07	
0.06	-0.01	0.111	0.20	0.20	0.22	0.33	80.5	2.01	2.46	-1.00	0.000	0.00	0.00	0.00	
0.05	-0.01	0.093	0.16	0.16	0.18	0.25	81	2.07	3.20	-1.00	0.000	0.00	0.00	0.00	

Using the natural price for simplicity, the 76/77.50/79 put butterfly has a maximum profit of \$96 from the net premium collected and a maximum loss of \$54.

Trade							
Spread				Delta	Theta	Max Profit	Max Loss
Butterfly				-5.65	0.37	96.00	-54.00
Side	Open / Close	Quantity	Symbol	Expiration	Strike	Type	
Buy	Open	1	XLP	23 Aug 24	76	Put	×
Sell	Open	-2	XLP	23 Aug 24	77.5	Put	×
Buy	Open	1	XLP	23 Aug 24	79	Put	×
Order Type	Limit Price	Stop Price	Route	Duration	Account Number		
Limit	0.54	0.26	Intelligent	Day	SIM2326027M		
Natural		Mid					
0.54		0.38		<input type="checkbox"/> Activation Rule ...			
						Analyze	Place Order

An important detail to note is that at expiration if XLP is not trading at exactly \$77.50, one leg of the put butterfly is likely to be assigned. To avoid this, the position can be closed if none of the short options have been assigned. Time decay and a decline in volatility may lower the options premium. The position profits if the cost to close the put butterfly is lower than the premium collected.

	S&P Sel Consumer Staples ETF (XLP) Put Butterfly
Trade cost/margin	\$54.00 (difference between strikes minus premium X 100)
Maximum loss	\$54.00
Breakeven price down	\$76.54 (short 77.50 put – 0.96 premium)
Breakeven price up	\$78.46 (short 77.50 put + 0.96 premium)
Maximum profit	\$96
Rate of return at expiration	177.7% if XLP is at \$77.50
Drawbacks & Risks	1. Options expiring with the underlying below the long 76 put or above the long 79 put 2. Assignment risk on the short options 3. If XLP is above or below \$77.50 at expiration, the realized profit will be less than the maximum 4. May need to be closed before expiration to avoid assignment
Features	1. Limited maximum risk 2. The premium collected is generally higher than a similar condor 3. Has a narrower structure than an condor with less risk 4. Can profit from time and volatility decay with little or no price movement

How to place a condor or butterfly:

1 Select an underlying stock, sector, or index

Identify a stock, ETF, or index expected to stay stable or within a range. Premiums may be higher if the implied volatility is above average and is expected to drop.

2 Choose strike prices and expiration

Decide between the condor and the butterfly.

Condor:

- The condor has a wider profit zone that may be beneficial if the price is expected to move within a range.
- The short strikes define the range the underlying is expected to remain within until options expiration, and the long strikes define the risk and reward.
- A call condor can be ideal for a bullish bias or if dividends are a factor.
- A put condor can be ideal for a bearish bias or if puts offer better pricing and liquidity.

Butterfly:

- The butterfly has a higher maximum profit potential but requires the underlying price to be at the short strike at expiration, which may suit a security expected to remain stable.
- The short strike is the optimal price for the underlying at the options expiration. The two breakeven prices establish the range where the butterfly would profit if the underlying security were trading at expiration.
- The long strikes define the risk and reward. Directional bias can be created with a call butterfly for a bullish outlook or a put butterfly for a bearish outlook.

Expiration:

All options have the same expiration. Shorter expirations will decay faster, and longer expirations carry higher time values.

3 Considerations

- a.** The strikes of the sold options in a condor should be as close to the current price as possible to collect a premium but beyond the expected price at expiration.
- b.** The strikes of the long options define the position's risk. The potential maximum loss is the difference between strikes minus the premium collected. The premium paid for the long options reduces the premium collected from the shorts.
- c.** Time decay benefits the position as it is a credit spread. Options in a condor can be allowed to expire if they are out of the money. For a butterfly, one side of the spread may be slightly in the money unless the underlying is at the short strike. To experience more significant time decay, expirations that are less than thirty days out could be chosen. Time decay increases exponentially within the last thirty days before options expiration.
- d.** Longer expirations may offer greater premiums but experience slower time decay and increase the possibility of assignment on the short options. Selecting deeper out-of-the-money options can reduce assignment risk but also lower the premium received.
- e.** The butterfly must be closed before expiration to avoid assignment on one side. Automatic assignment can occur if a short option is in the money by at least \$0.01 at expiration.

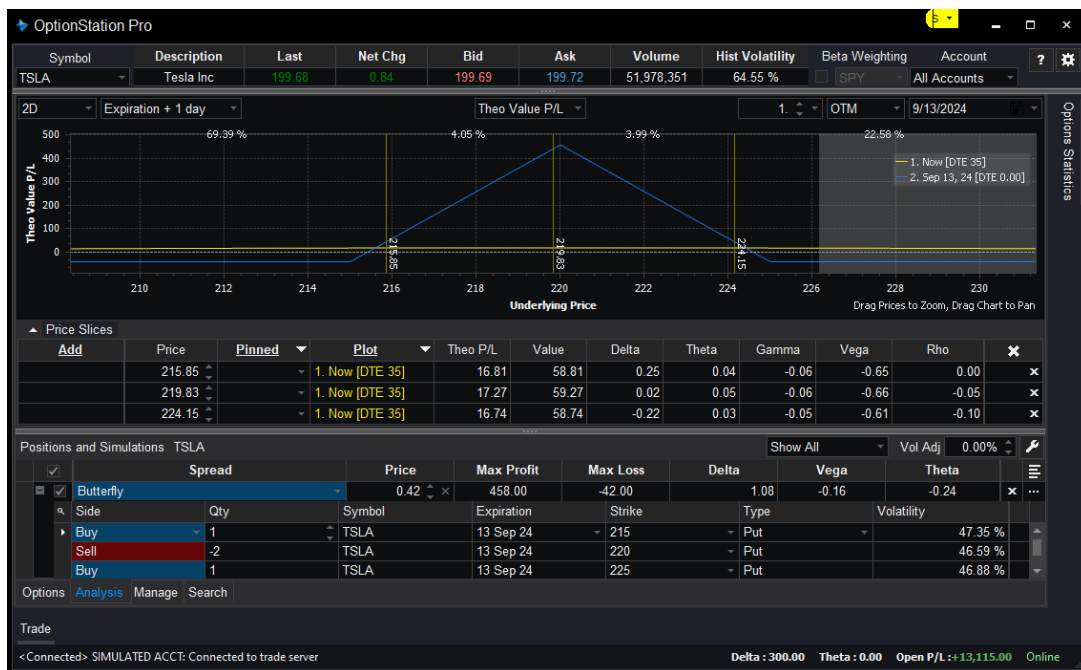
Exiting an condor or butterfly

- 1 Traders typically opt to hold condors until the options expire. If options expire out of the money, the total premium collected at entry becomes profit minus commissions and fees.
- 2 A butterfly should be closed before expiration to avoid the risk of early assignment on one side.
- 3 Close the spread by selling the bought options and buying back the sold options. Profit is realized if this is done at a lower value than the premium collected when the spread was opened.

- 4 Since time decay helps the position's profitability, consider using options with approximately 30 days or less before expiration. Closing the spread before options expiry may result in a smaller profit than the maximum.
- 5 The spread can be closed if the underlying stock or index price is above the short call's strike or below the short put's strike and the short option has not been assigned. This may result in a loss that is potentially less than the maximum.
- 6 A stop loss can be placed on an open condor or butterfly. Refer to the Options Education Center's ["Placing activation rules on options orders"](#) for more information.

Analyzing within OptionStation Pro

The price slices in the Analysis tab of OptionStation Pro allow you to simulate the theoretical prices and potential profit or loss of the condor and butterfly. You can adjust parameters like prices, volatility, and time plots to estimate their effect on the position. This tool can help evaluate a trade before entry and determine when and if a position should be exited before expiration. Remember, the results are theoretical and estimates; actual premiums and pricing may differ.



Test before you trade

Ready to elevate your options trading? Don't just read about condors and butterflies – put them into action! Login to the TradeStation platform in Simulated Trading mode to familiarize yourself with these strategies without risking real capital. As you gain confidence, gradually incorporate them into your live trading, starting with small positions. Remember, mastery comes through practice and experience.

Conclusion

Condor and butterfly options strategies can be useful tools for neutral or range-bound markets. They offer defined risk and the potential for profit in various market conditions. However, they also come with risks and complexities. Please keep in mind that transaction fees can have an impact on expected profits and losses.

These strategies involve simultaneously trading four options of the same type (all calls or all puts) with identical expiration dates but different strike prices. They aim to profit from premium collection while benefiting from time decay and changes in volatility. The maximum potential profit is determined by the net premium received when initiating the position, with the spread between strike prices influencing both profit potential and risk.

By dedicating time to mastering condors and butterflies, you'll expand your ability to tackle neutral markets, manage risk, and pursue your financial objectives. When used judiciously, these strategies can be powerful additions to your trading toolkit. Start exploring condors and butterflies to unlock new possibilities in your trading. With persistence and smart risk management, you can harness these strategies to navigate market complexities and work towards your financial goals more precisely and confidently.



Review options level – Ready to take your options trading to the next level? Learn about your option level and make sure it's right for you. Boost your trading potential!

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