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Market Chameleon

Trading Butterfly Option Spreads

Dmitry Pargamanik
Market Chameleon

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Butterfly Option Spread

Outlook

Payout diagram

Theoretical Value

Screenener

Outlook

Low Volatility- small price swings in the underlying security

You can structure the spread to be non-directional or give it a directional bias by adjusting the strikes

Payout diagram

Risk/Reward Analysis

The payout diagram helps evaluate the potential profit and losses of the butterfly spread across a different range of stock prices

Theoretical Value

We can evaluate the price of the spread with different methods

Using historical stock moves to estimate a theoretical value

Using historical implied volatility to estimate the spread value

Screeener

Create a scan to find potential trade setups

Since there are many different potential butterfly opportunities, a screener helps narrow down the possible candidates