How to Fix Losing Options Trades

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Introduction

Unlike traditional stock trading, options provide the flexibility to profit in various market conditions; however, what sets apart successful traders is their ability manage and mitigate these risks.

By learning how to fix losing options trades, traders can protect their capital, enhance their trading skills, and improve their overall performance in the market.

This e-book aims to provide you with the knowledge and tools needed to turn around losing trades and develop a resilient, disciplined approach to options trading.

Purpose of the E-Book

The primary goal of this e-book is to equip you with practical strategies and techniques to manage and recover from losing options trades.

Whether you're a beginner who has just started exploring the world of options or an intermediate trader looking to refine your skills, this e-book will offer valuable insights to help you navigate the complexities of options trading.

By understanding how to analyze, adjust, and improve your trades, you can build a solid foundation for long-term success.

Let's embark on this journey together and transform your approach to options trading, turning potential losses into valuable learning opportunities and future successes.

Understanding Losing Trades

A losing trade occurs when the price action on the underlying stock causes the value of option(s) contracts to decrease to a point where closing the trade would result in a financial loss.

In most cases, this occurs when the underlying stock price moves in a direction opposite to what the trade thesis outlines.

A sharp decline or increase in implied volatility can also have an adverse effect on the price of the options.

Losses may also be derived from our own practices or lacking a disciplined approach.

For example, entering a trade without a well-defined strategy or incomplete market analysis can lead to losses, particularly when the market sentiment changes swiftly.

Over-leveraging your portfolio may increase earning potential, but also amplifies losses when the trade(s) go against you.

Failing to abide by some common risk management practices, such as setting stop-loss limits to exit a trade, limiting your trade size, and managing delta exposure, can lead to further losses and increase emotional trading.

Making decisions based on emotions rather than analysis can lead to poor outcomes.

It's important to understand that sometimes the best decision for a trader is to accept the loss, learn from the process and move forward.

Analyzing your Trades

The post-trade analysis is a valuable step in refining your trading strategy and minimizing future losses.

An effectively post-trade analysis starts with good documentation practices.

A detailed log of all the trades, including entry and exit points, trade size, and reasons for entering the trade are helpful to reflect upon when a trade goes south.

Journaling your thoughts and emotions during the trade is another helpful tool to identify when trades are being influenced by emotional biases.

Review entry and exit points to determine if it was based on solid analysis (e.g. technical analysis) with a predetermined plan or was the trade entry/exits based on impulse.

Technical analysis involves studying price charts and using various indicators to make informed trading decisions.

Evaluating the trade through fundamental analysis can also be helpful to reveal where a trade might have gone wrong.

A post-analysis can include a review of the underlying asset's financial health and market positions, as well as an analysis of the underlying Company's revenue, net income, and cash flows trends.

Compare the forecasts and trends of the company's financials and how that aligned with the trade thesis or bias.

Also look back at broader economic data, such as inflation rates and GDP growth to see how this may have impacted the trade.

When key events or data is released, it can change to market sentiment and traders need to pay attention and adjust their trades accordingly if warranted.

Failing to heed signals from technical indicators or overlooking important fundamental data or news are common mistakes that occur, but with good documentation and a post-trade analyze process, you can be use those losses as opportunities to improve your own trading practices.

Adjusting your Trading Strategy

Rolling options is an effective way to manage a losing trade.

Rolling options involves closing your current position and opening a new one with a different strike price or expiration date.

This can help you buy more time for the trade to become profitable or by adjusting the strike price to a more favorable level.

Suppose you have a call on XYZ stock with a strike price of $50, expiring in one month.

The stock is currently trading at $45, and you believe it will eventually rise above $50, but it needs more time.

You can roll the options by selling the current call and buying a new call with a later expiration date the next month or two out, giving the stock more time to move in your favor.

If the underlying asset's price has moved significantly, you might consider changing the strike price of your option.

This can help you align your position with the current market conditions.

For example, you sold a put options on ABC stock price of $30, but the stock drops sharply to $25.

You can close the current put and open a new put with a strike price closer to the current market price, such as $25.

This adjustment can make the position more relevant to the current market scenario.

Using technical analysis to study price charts and indicators to forecast future price movements can also help you make more informed decisions about adjusting your positions.

For more experienced traders that deploy complex option strategies, advanced techniques can provide additional tools to fixing lowing trades.

For example, using vertical spreads is a common trade set up that involves buying and selling options of the same type (calls or puts) with different strike prices but the same expiration dates.

If a credit spread is losing, a trader may consider rolling the spread by adjusting the strike price but keeping the same expiration date.

If the expiration date is nearing, and an adjustment is warranted, it may be best for the trader to adjust the strike prices on the spread and push the expiration date to a later time to collect additional premium.

Case Studies

Let’s take a closer look at adjusting a more complex strategy, the iron condor – a strategy that profits if the underlying stock remains within a specified range.

Losses on this type of trade occurs if a sharp move in either direction occurs.

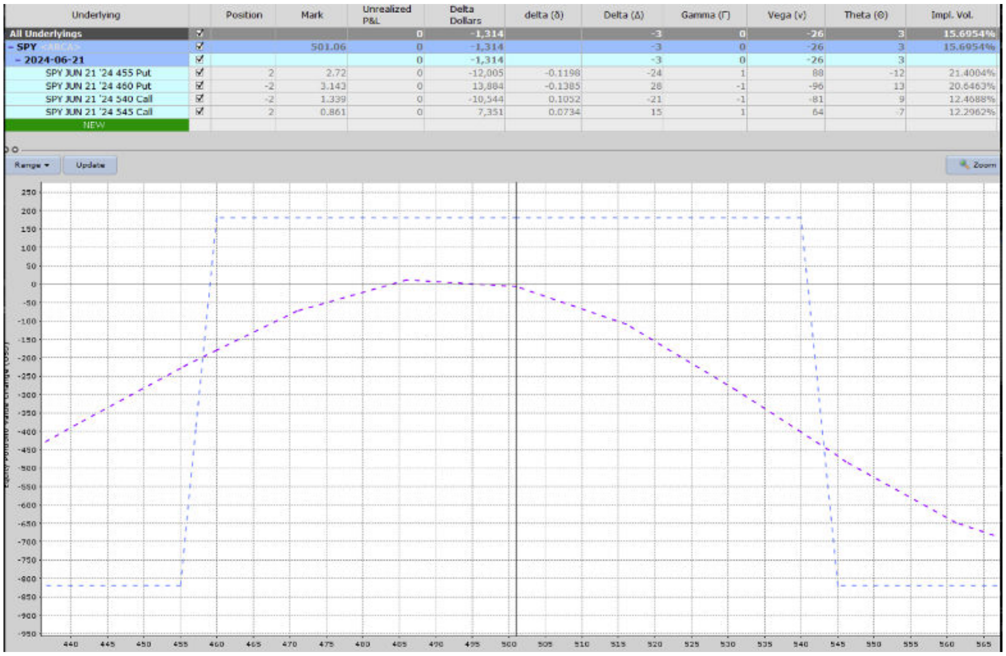
In this case we set up an iron condor on SPY.

To open the position, we sell a bear call spread and a bull put spread simultaneously.

- Sell 460 Put expiring 6/21/24
- Buy 455 Put expiring 6/21/24

- Sell 540 Call expiring 6/21/24
- Buy 545 Call expiring 6/21/24

Net premium received = $90 / contract
Entry Date = 4/17/24
Price of SPY = $501.06



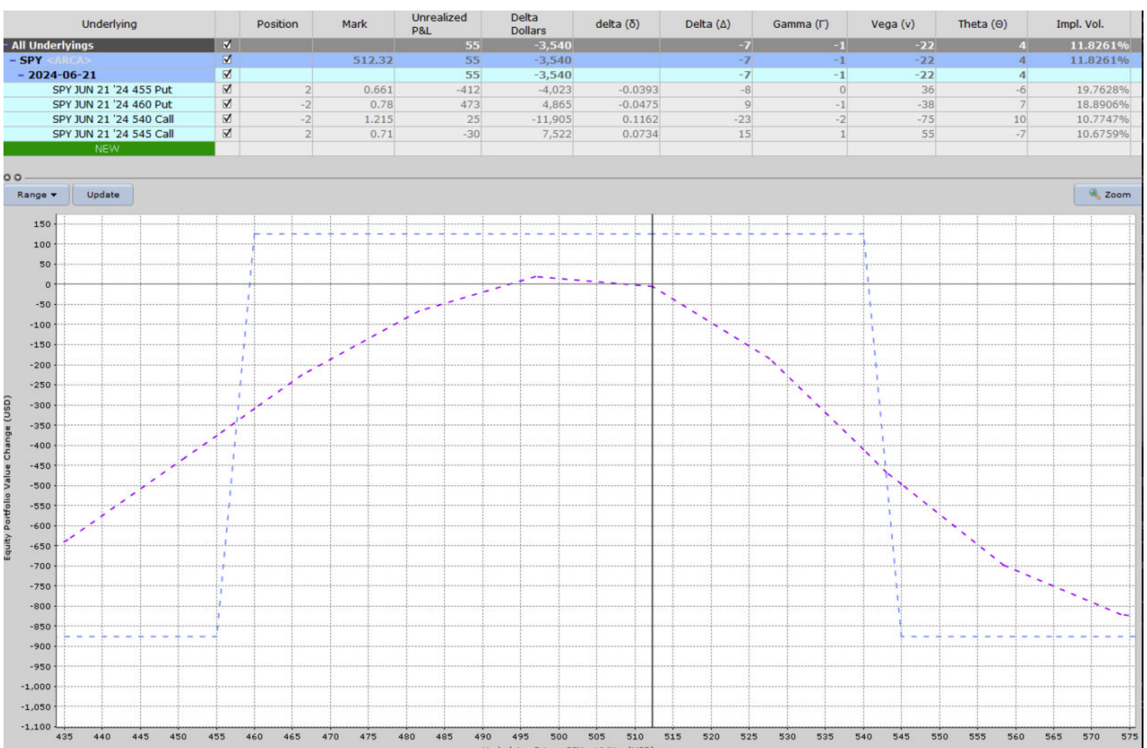
Underlying		Position	Mark	Unrealized P&L	Delta Dollars	delta (δ)	Delta (Δ)	Gamma (Γ)	Vega (ν)	Theta (Θ)	Impl. Vol.
All Underlyings	☑			0	-1,314		-3	0	-26	3	15.6954%
- SPY <ARCA>	☑		501.06	0	-1,314		-3	0	-26	3	15.6954%
- 2024-06-21	☑			0	-1,314		-3	0	-26	3	
SPY JUN 21 '24 455 Put	☑	2	2.72	0	-12,005	-0.1198	-24	1	88	-12	21.4004%
SPY JUN 21 '24 460 Put	☑	-2	3.143	0	13,884	-0.1385	28	-1	-96	13	20.6463%
SPY JUN 21 '24 540 Call	☑	-2	1.339	0	-10,544	0.1052	-21	-1	-81	9	12.4688%
SPY JUN 21 '24 545 Call	☑	2	0.861	0	7,351	0.0734	15	1	64	-7	12.2962%
NEW											

5/5/24: ADJUSTMENT 1 – Roll the untested side up to maintain position.

The price of SPY grinded up to $515, skewing the condor with more risk on the upside, so an "attacking" adjustment was made by rolling in the puts closer.

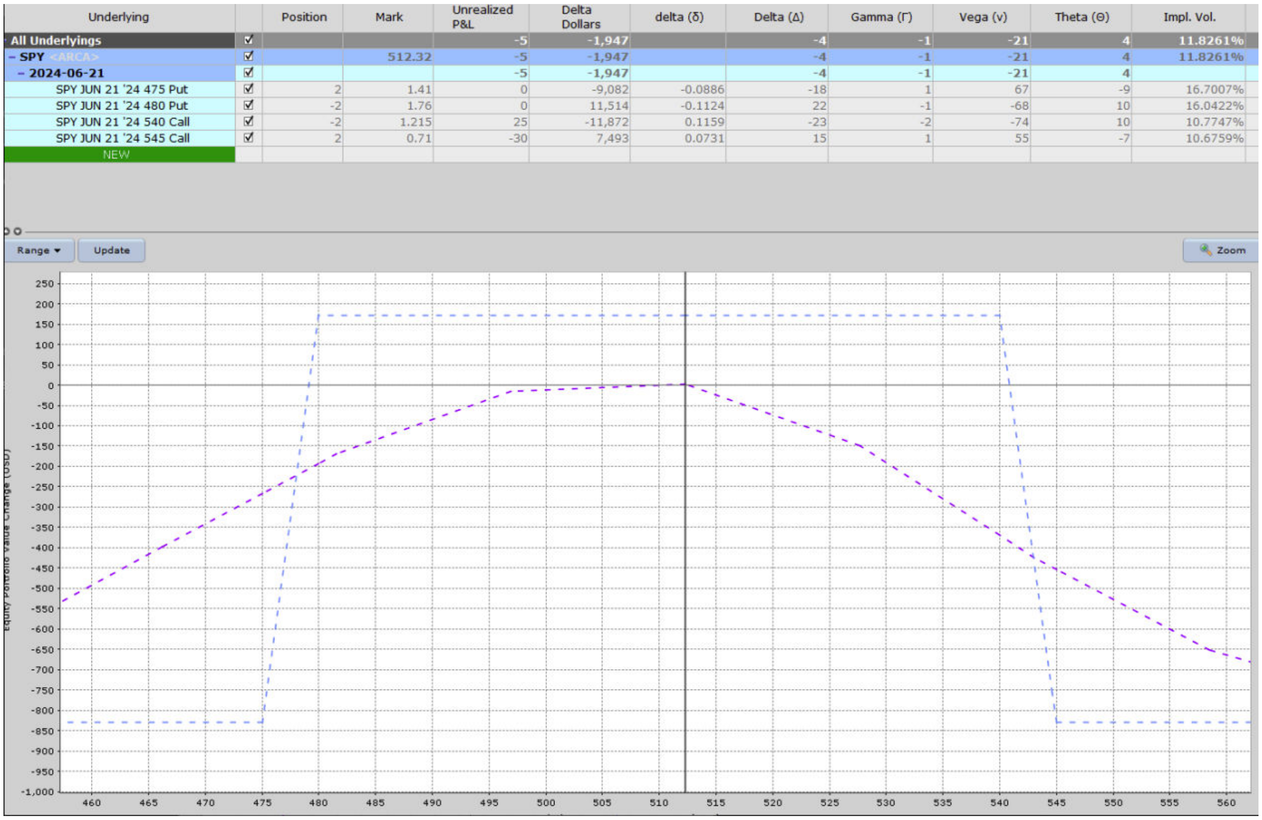
- Buy the 460/455 Put Spread to close and sell the 480/475 Put spread to open to complete the roll.

BEFORE:



Underlying		Position	Mark	Unrealized P&L	Delta Dollars	delta (δ)	Delta (Δ)	Gamma (Γ)	Vega (ν)	Theta (Θ)	Impl. Vol.
All Underlyings	☑			55	-3,540		-7	-1	-22	4	11.8261%
- SPY <ARCA>	☑		512.32	55	-3,540		-7	-1	-22	4	11.8261%
- 2024-06-21	☑			55	-3,540		-7	-1	-22	4	
SPY JUN 21 '24 455 Put	☑	2	0.661	-412	-4,023	-0.0393	-8	0	36	-6	19.7628%
SPY JUN 21 '24 460 Put	☑	-2	0.78	473	4,865	-0.0475	9	-1	-38	7	18.8906%
SPY JUN 21 '24 540 Call	☑	-2	1.215	25	-11,905	0.1162	-23	-2	-75	10	10.7747%
SPY JUN 21 '24 545 Call	☑	2	0.71	-30	7,522	0.0734	15	1	55	-7	10.6759%
NEW											

AFTER:



Underlying		Position	Mark	Unrealized P&L	Delta Dollars	delta (δ)	Delta (Δ)	Gamma (Γ)	Vega (ν)	Theta (Θ)	Impl. Vol.
All Underlyings	☑			-5	-1,947		-4	-1	-21	4	11.8261%
– SPY <ARCA>	☑		512.32	-5	-1,947		-4	-1	-21	4	11.8261%
– 2024-06-21	☑			-5	-1,947		-4	-1	-21	4	
SPY JUN 21 '24 475 Put	☑	2	1.41	0	-9,082	-0.0886	-18	1	67	-9	16.7007%
SPY JUN 21 '24 480 Put	☑	-2	1.76	0	11,514	-0.1124	22	-1	-68	10	16.0422%
SPY JUN 21 '24 540 Call	☑	-2	1.215	25	-11,872	0.1159	-23	-2	-74	10	10.7747%
SPY JUN 21 '24 545 Call	☑	2	0.71	-30	7,493	0.0731	15	1	55	-7	10.6759%
NEW											

5/14/24: ADJUSTMENT 2

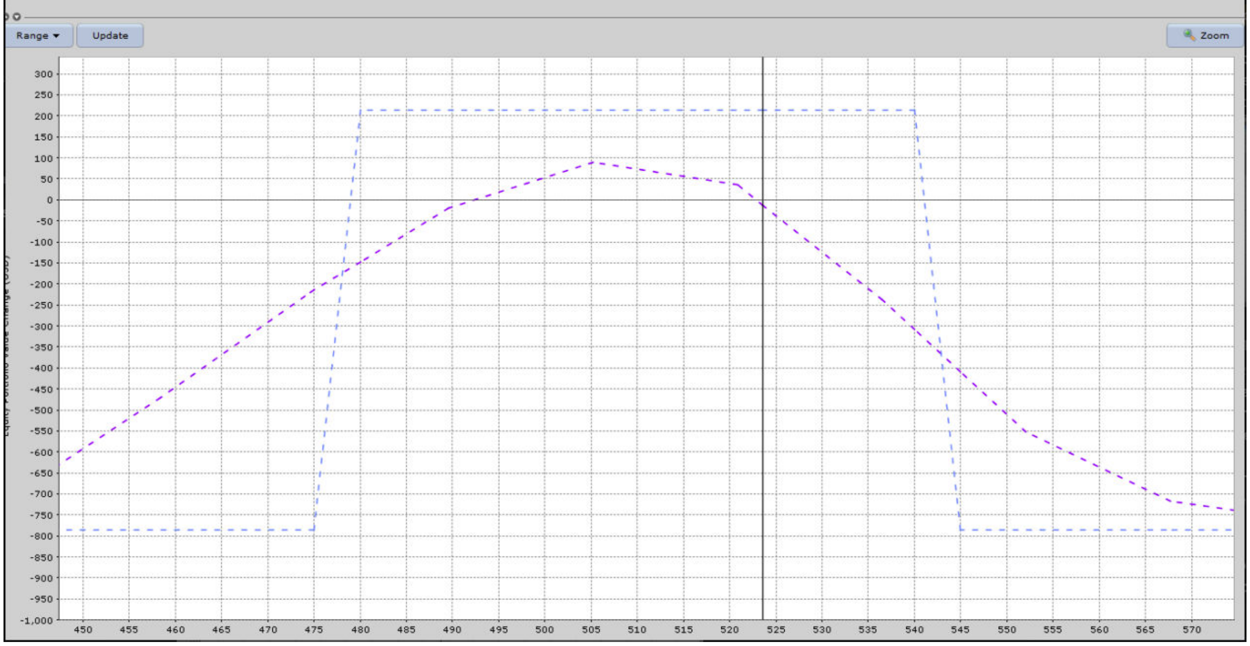
The price of SPY continued to move up, so a second adjustment was made after rolling the puts up on May 5th.

For this adjustment, we rolled both sides of the condor to reposition the trade.

- Buy the 480/475 Put Spread to close and sell the 500/495 Put Spread to complete the roll
- Buy the 540/545 Call Spread to close and sell the 547/552 Call Spread to complete the roll

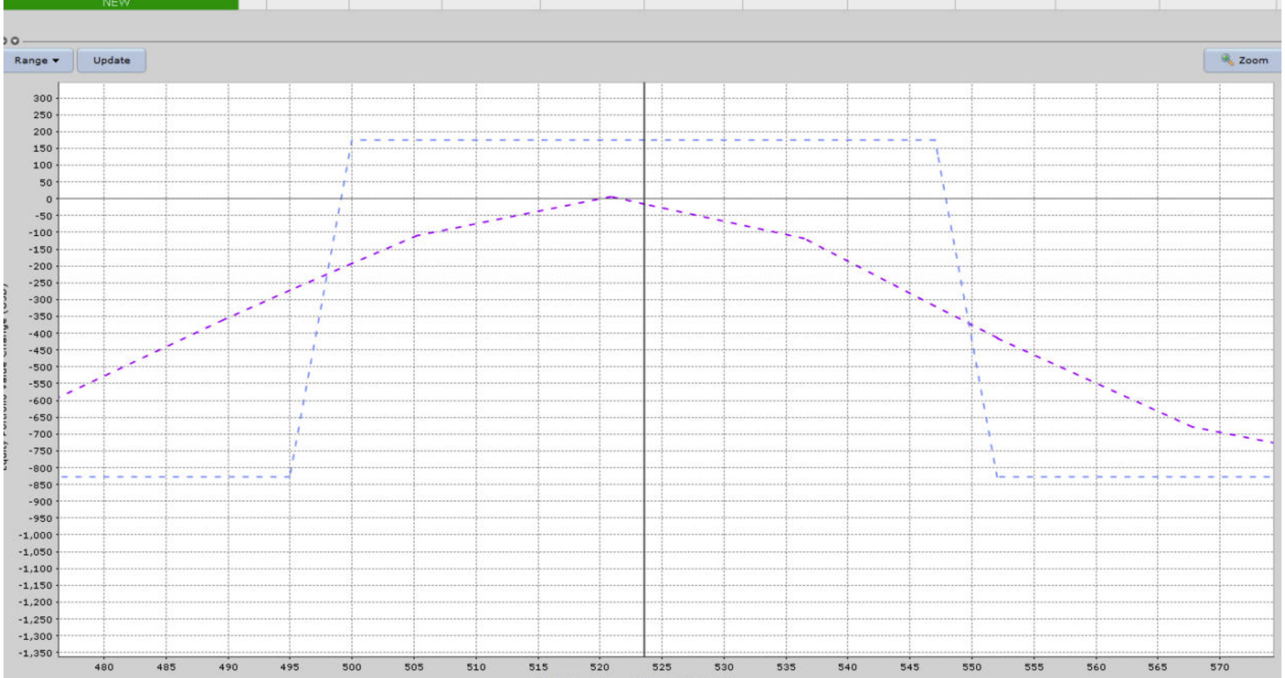
BEFORE:

Underlying		Position	Mark	Unrealized P&L	Delta Dollars	delta (δ)	Delta (Δ)	Gamma (Γ)	Vega (ν)	Theta (Θ)	Impl. Vol.
All Underlyings	☑			-49	-7,168		-14	-1	-27	5	10.9187%
- SPY <ARCA>	☑		523.60	-49	-7,168		-14	-1	-27	5	10.9187%
- 2024-06-21	☑			-49	-7,168		-14	-1	-27	5	
SPY JUN 21 '24 475 Put	☑	2	0.607	-161	-4,793	-0.0458	-9	1	36	-7	18.6171%
SPY JUN 21 '24 480 Put	☑	-2	0.725	207	5,856	-0.0559	11	-1	-39	8	17.6541%
SPY JUN 21 '24 540 Call	☑	-2	2.195	-171	-23,286	0.2224	-44	-3	-103	17	10.3942%
SPY JUN 21 '24 545 Call	☑	2	1.242	76	15,056	0.1438	29	3	79	-13	10.1928%
NEW											



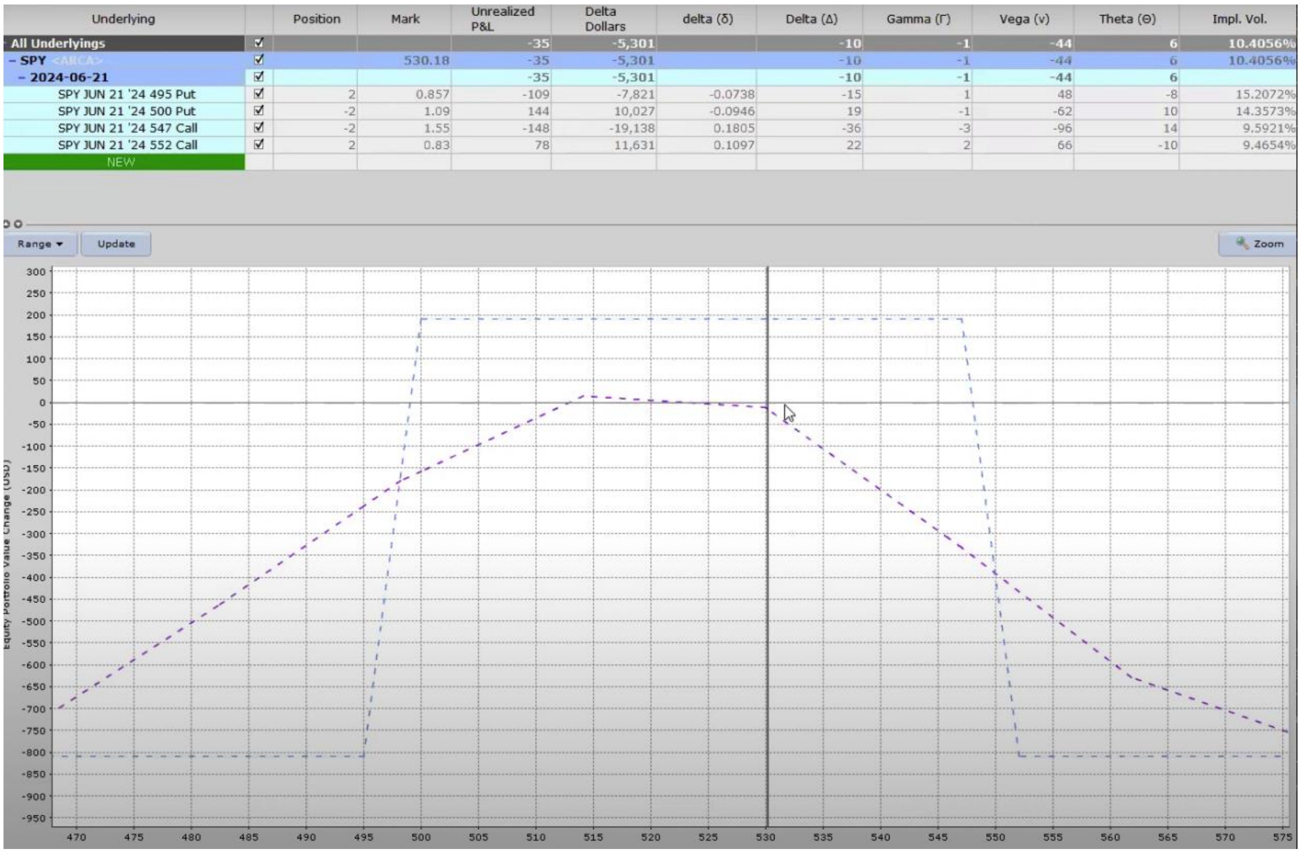
AFTER:

Underlying		Position	Mark	Unrealized P&L	Delta Dollars	delta (δ)	Delta (Δ)	Gamma (Γ)	Vega (ν)	Theta (Θ)	Impl. Vol.
All Underlyings	☑			-18	-1,691		-3	-1	-38	5	10.9187%
- SPY <ARCA>	☑		523.60	-18	-1,691		-3	-1	-38	5	10.9187%
- 2024-06-21	☑			-18	-1,691		-3	-1	-38	5	
SPY JUN 21 '24 495 Put	☑	2	1.401	0	-11,739	-0.1121	-22	2	63	-11	15.0899%
SPY JUN 21 '24 500 Put	☑	-2	1.809	0	15,129	-0.1445	29	-2	-78	12	14.3093%
SPY JUN 21 '24 547 Call	☑	-2	0.973	-33	-12,390	0.1183	-24	-2	-71	11	10.1371%
SPY JUN 21 '24 552 Call	☑	2	0.514	15	7,309	0.0698	14	2	48	-7	10.0692%
NEW											



5/16/24: Closed position with profit of $60.

As the price of SPY continued to move upward, we were able to adjust the Condor twice and exit with a profit.



Underlying		Position	Mark	Unrealized P&L	Delta Dollars	delta (δ)	Delta (Δ)	Gamma (Γ)	Vega (ν)	Theta (Θ)	Impl. Vol.
All Underlyings	☑			-35	-5,301		-10	-1	-44	6	10.4056%
- SPY <ARCA>	☑		530.18	-35	-5,301		-10	-1	-44	6	10.4056%
- 2024-06-21	☑			-35	-5,301		-10	-1	-44	6	
SPY JUN 21 '24 495 Put	☑	2	0.857	-109	-7,821	-0.0738	-15	1	48	-8	15.2072%
SPY JUN 21 '24 500 Put	☑	-2	1.09	144	10,027	-0.0946	19	-1	-62	10	14.3573%
SPY JUN 21 '24 547 Call	☑	-2	1.55	-148	-19,138	0.1805	-36	-3	-96	14	9.5921%
SPY JUN 21 '24 552 Call	☑	2	0.83	78	11,631	0.1097	22	2	66	-10	9.4654%
NEW											

Conclusion

Trading is a journey filled with successes and setbacks.

The key to long-term success lies in continuous learnings, adapting to changing market conditions, and maintaining a disciplined approach.

Every trader faces challenges, but those who preserver, learn from their mistakes, and continuously strive to improve.

We hope this e-book has provided you with value insights and practical strategies to fix losing trades and enhances your trading performance.

Resources and Tools

Thank you for reading "How to Fix Losing Trades."

We wish you the best of luck in your trading endeavor. To learn more and expand your option education – please visit Option Trading IQ.

Our mission is to empower individuals to take control of their financial destinies. We are driven by a deep-rooted conviction that financial freedom is not a distant dream but an achievable reality for everyone.

We have created free tutorials on just about every possible option topic.

Trading is hard work that comes with many ups and down, and we would consider it a privilege to help you on that journey.

For further reading on how to adjust losing trades, see the following articles:

Adjusting Iron Condors

Adjusting the Wings of an Iron Condor

Example of Adjusting an Iron Condor

The Reverse Harvey Butterfly Adjustment

How to Adjust a Losing Credit Spread

GS Condor Example

CSCO Short Straddle Example

OIH Condor Example

DE Bear Call Spread Example

TSLA Iron Condor Example

Layering an Iron Condor

Delta Hedging an Iron Condor