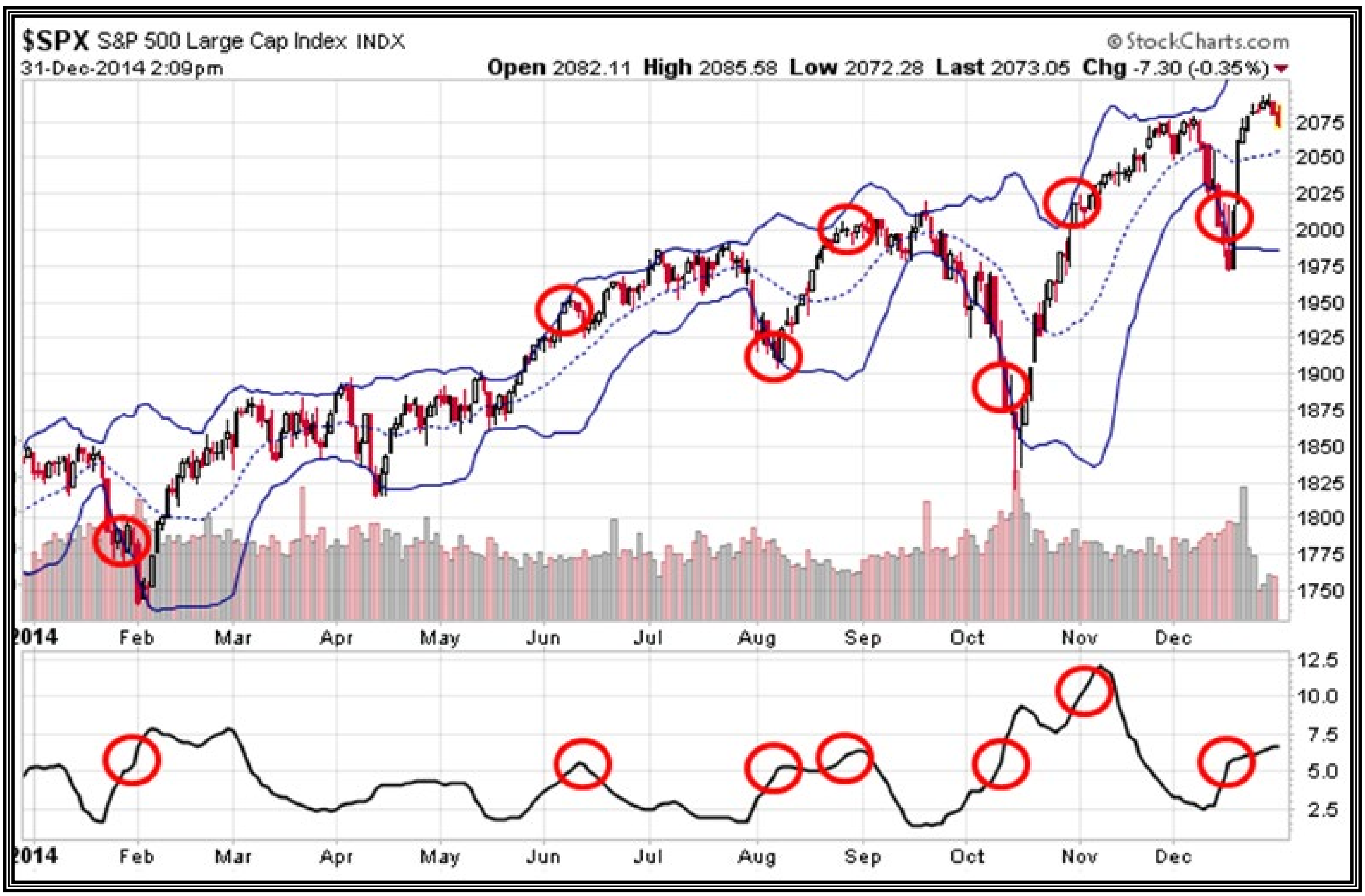
Top 5 Tips for Trading the Karen the Super Trader Method

1. Bollinger Bands

Using Bollinger Bands set at 2 standard deviations and 20 day moving average. Sell calls spreads when the S&P 500 hits the upper Bollinger Band and sell put spreads when it hits the lower Bollinger Band. You can see the signals generated using this methodology in the chart below.

There are 7 total signals in 2014. The signal does not get you in at the exact top or bottom every time, but it is fairly close. By using this signal and placing your spreads far enough out of the money, you should be able to withstand further trend moves. Notice that there are numerous other times when the index touches the Bollinger Bands, but because the bands are too narrow, a signal is not generated.



2. 56 Days To Expiry Is The Sweet Spot

Initiate trades with around 56 days remaining to expiry. This is what is referred to as the "Sweet Spot" for Theta trades. Many other professional traders base their trades around this time frame. Shorter term trades tend to be more adversely affected by large, short-term price moves. Trades with 56 days to expiry are generally able to withstand these moves with less P&L impact.

3. Never Use Stop Losses

Stop losses for stock traders are great, but as an option trader if you use one, you are a muppet. You're not a muppet are you?

After several experiences with stop orders that are filled at prices well off of the stop's "trigger" price, the inexperienced trader discovers there's such a thing as a stop-limit order. The stop-limit order means that if the trigger price is reached, the stop order can only be filled at that trigger price or better.

No more slippage. The problem here is, of course, that if the market is plunging there may not be enough demand at your sell stop trigger price to fill your order, and the market continues to fall with you still in your position.
This is not to say you cannot use stop-limit orders, but be aware that in situations where the market makes a sudden big move, you may not be filled on your protective stop if you specified stop-limit rather than the plain vanilla stop order.

4. Enter Your Trades When Volatility Is High.

Notwithstanding the points above, it is best to open your trades when implied volatility is high. That means you will receive nice juicy premiums for the spreads you are selling. When volatility inevitably drops back down, those spreads will decrease in value at a rapid rate.

5. Have A Plan

Have a plan. The most important thing Karen does is having a plan and following it. That helps take the emotion out of the equation. When markets are going haywire, these types of positions start to really move against you. Karen seems to be able to keep her head, stick to the probabilities and adjust her trades accordingly. Before you open a trade, you should know in advanced when and how you are going to adjust it. Also, keep in mind that sometimes the best trade is one where you take a loos. Know when it is time to cut and run and avoid a small loss turning into a big loss. The graphic below shows just how hard it is to recover from a big drawdown.

I hope you enjoyed these 5 tips! Best of luck with your trading and if you ever need anything feel free to drop me a line at info@optionstradingiq.com