



## ETF Options Trader Settings & Rules

- We use a 5 bar setting for the RSI Indicator.
- We use the indicator on a daily chart.
- We like to see the RSI below 30 for a long signal (buying calls).
- We like to see RSI above 90 for a short signal (buying puts).
- Trades are entered between 3:00-3:45 PM ET using the current day's RSI reading.
- Options Selection:
  - We choose monthly options with at least 2 weeks remaining before expiration. If we are within 2 weeks of the coming monthly expiration date then we simply trade the next month's expiration (roughly 6 weeks away).
  - We then use the Average True Range (ATR) indicator with a length setting of 20 to determine which option strike to buy. The formula is as follows...

$1.5 \text{ ATRs} \times 3.33 = \text{Desired Option Price}$

Example... If ATR = 1.00 then 1.5 ATRs = 1.50

Multiply that by 3.33 and you get 4.99

So we'd be looking for an option priced around \$5.00

This structures the trade so that a 1.5 ATR stock move = 30% on the option.

- Exits:
  - Stop-Loss (Stop-Market Order)

We use a Good-til-Canceled (GTC) stop at -30% from the entry price  
If we enter a trade at \$5.00 then we'll place the stop at \$3.50 (\$1.50 is 30% of the entry price so we subtract that from the entry for our stop level).  
**Quick Calculation**:  $\text{Entry Price} * 0.70 = \text{Stop Level}$  ( $5.00 * 0.70 = 3.50$ )
  - Profit Target (Limit Order)

We use a Good-til-Canceled (GTC) limit at +30% from the entry price  
If we enter a trade at \$5.00 then we'll place the target at \$6.50 (\$1.50 is 30% of the entry price so we add that to the entry for our profit target level).  
**Quick Calculation**:  $\text{Entry Price} * 1.30 = \text{Profit Level}$  ( $5.00 * 1.30 = 6.50$ )
- We don't use a "time-stop" but we will close the trade at 3:00 PM ET on Expiration Friday if we are still holding it at that time.
- We use this method on ETFs such as SPY, IWM, QQQ, DIA, GDX, XLF, XLV, XLK, XLU, XLP, XLI, VTI and more can be added over time.