Breakthrough Backtesting Results for IV-Based SPX Iron Condor Option Trading System

-Updated To Include Impact of Market Correction of May-June, 2006

Part 2 – Iron Condor 2003 Results – Directional Year

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SPX Iron Condor Trades for 2003

2005 was considered a relatively non-directional year and therefore an 'easy' year to do SPX Iron Condors. I wanted to backtest this system in a directional year to see how robust the system is. I choose 2003 since that year the market was in a relatively steady up trend coming off of the bad year of 2002. The results follow. There is important learning in the comments that discuss how adjustments were dealt with. In Part 3, we will examine the result for the first half of 2006. Part 4 will have a detailed conclusion to include key lessons from each year as well as the expected yearly profit this system currently has.

Remember to visit http://www.breakthroughbacktesting.com to purchase the complete system for only $17.

Table 4. SPX Iron Condor Trades Taken Every Month for 2003 Expirations

Here are the trades taken in backtesting 2003 – which is regarded as an up trending year. Notice how the IV is almost double what it was in 2005. This is due to 2003 following the very down trending year of 2002 – which caused IV to rise.

Expiration	Entry Date	SPX Short Call	SPX Short Put	SPX credit	Credit No shave	SPX Legs	Margin	Profit	Profit No shave	Comments
1/17/2003	12/9/2002	964.7	810.0	350	270.0	995/975, 810/800	3500.0	350.0	270.0	WOW- IV is so high compared to 2005 that you get really good credits
1/17/2003	1/3/2002			475	395.0	975/950, 810/800	3500.0	475	395.0	**ADJUST -**Rolled down 25 points to 950 since it was trending straight down except the end spurt up.
2/21/2003	1/13/2003	996.3	860.7	480	400	995/1025 , 850/825	5500			This closed at 847 on 1/27 - below my 850 short. But I wait 1 day per the rules, it went back up above 850 to 858 next day, then to 864 on the day after. At this point, we may want a rule if it dips down, then up - then adjust anyway when you have the chance! - so adjust on 1/29 - after waiting a day. YES - need to roll down using the rule on 1/28 towards close.

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2/21/2003	1/28/2003									Adjust after waiting 1 day using formula towards close of day when SPX is at 855. Got 85 debit with no shaving. Remember to adjust the days from 40 to 25. This adjustment of waiting a day and resetting the strikes using the formula with shorter days is preferable to the go down 50 points! I still got a credit if shaved!
2/21/2003	1/28/2003	780	930	60	-80	920/940, 800/775	4500	-420	-500	**ADJUST -**Roll down 50 points on top to 950/975 for .50 cents. I'M LISTING a no shave loss of $500 if you decided to exit early (which showed a $500 loss) or if you messed up the rolls or rolled down further when the index came close to the short the second time. This is fair
										Roll down 50 points on bottom 810/800 for .70 cents
										In order to change an adjustment that makes a debit into a credit, we need to increase margin. In this case, it should be on the upside since the down side is the trouble side
										SPX went down to 818 and 817 2 weeks later, but not below the 810 limit
										Again, this really points to following rules of looking at the CLOSE as the intraday spread DID go below 810 - which would scare you to roll down - for MORE debit!

Expiration	Entry Date	SPX Short Call	SPX Short Put	SPX credit	Credit No shave	SPX Legs	Margin	Profit	Profit No shave	Comments
3/22/2003	2/10/2003	927	754	530	440	925/950, 750/725	5000	530	440	Had a low of 800 and a high of 895 - so OK
4/18/2003	3/10/2003	894.8	727.8	525	425	900/920, 725/700	4500	525	425	Notice how these high IV's make the strikes wider, but you have less granular strike choices - i.e., 25 points or $2500 each side
										The wait a day rule really works, on 3/21, closes at 896! Wait a day and it drops 30 points to 865
										The nightmare is when it approaches the short right before expiration
4/18/2003	4/3/2003					900/920, 775/800	4500	600	400	**ADJUST -**Since trending up, roll up the puts on 4/3 - 2 weeks before expiration. Roll up 75 points to 775/800 due to 810/775 strike requiring too much margin
										4/16 had 580/600 profit. Would most likely close out! Weird - there is no data for 4/18 - a Friday?? For any stock? But it shot up on expiration - so that leaving it on 4/17 would have lost some profit - so $400
5/16/2003	4/7/2003	949.3	812	470	400	950/975, 800/775	5000			
						950/975, 850/825	5000			**ADJUST -**On 5/2, roll up puts 50 points after going straight up. This did not do much since IV was decreasing as price increased
5/16/2003	5/14/2003					950/975, 850/825	5000	240	170	On 5/14 - two days before expiration - we're only 10 points from the short - close out for 'only' 240 profit. Same profit if I stayed

Expiration	Entry Date	SPX Short Call	SPX Short Put	SPX credit	Credit No shave	SPX Legs	Margin	Profit	Profit No shave	Comments
										in one more day!
6/20/2003	5/12/2003	998.1	894.8	365	280	1010/1025,895/875	3500			IV really dropped during this rise, so the fat credits are gone!
6/20/2003	6/6/2003					1010/1025, 945/925	3500			**ADJUST -**Straight up - so roll up puts 50 points to 945/925
6/20/2003	6/16/2003					1010/1025, 945/925	3500	**-240**	-325	6/16 - 4 days before exp., spikes up more than 20 pts to 1010. I can exit at $240 loss or roll up both the puts and calls
						NOT COUNTED ====>		-205	-290	Roll puts up to 975/950, and calls up to 1040/1075 for a $105 debit and -$205 loss
										After analyzing the P&L of the roll and seeing just a $35 improvement, it is best to just close the trade and not risk more margin - plus all of the commissions.
7/18/2003	6/9/2003	1041	915	420	330	1050/1075, 920/900	4500	420	330	Stopped climging and traded in a range. Since in a range, did not roll up mid-cycle
8/15/2003	7/7/2003	1061	950	430	370	1075/1100, 950, 925	5000	430	370	Another boring trading range - no rollups
9/19/2003	8/11/2003	1039	924.2	440	370	1040/1060, 975/950	4500			On 9/5 we moved up steadily to 1020 so roll up the puts 50 points to 975/950 - recalculating 1 sigma spread using 14 days and 15% IV gives 990 - we choose 975

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9/19/2003	9/16/2003					**NOT COUNTED ======= ===>**		480	370	On 9/16 - 3 days before expiration, it shot up to 1030 - 10 pts below the short, then dropped on 9/17 3 points so I have a profit of $405 out of a total of $480.
										I would most likely get out with 2 days left on being so close to expiration
9/19/2003	9/18/2003							240	170	If I waited and paniced and sold on 9/18 -1 day before expiration when it peaked at 1040 - the limit - then I would have lost $240 of profit at the worst. I will count this trade so we can show the LEAST return for this system
10/17/2003	9/8/2003	1084	980.7	580	520	1075/1100, 980/960	4500	580	520	Wow - IV low but the credit is really high. This went sideways so no mid-cycle rolling
11/21/2003	10/13/2003	1099	993.4	440	380	1100/1125, 995/975	4500	440	380	Another boring trading range – no rollups
12/19/2003	11/10/2003	1097	999.6	415	335	1100/1125, 995/975	4500			Another boring trading range – no rollups- However, went to about 1185 at expiration
12/19/2003	12/18/2003					1100/1125, 995/975	4500	335	255	However, 1 day before exp on 12/18, it closed at 1090 with a profit of $335 out of $415. Probably would close the trade here and not risk 1 uncontrollable day!
										Our rolls are not symmetric - sometimes - but not this time - we reduced margin