

60/40/20 Diversification by adding Crude Oil Futures Options, and Trend-Following

Raleigh-Durham Traders Meetup

4/05/2018

Copyright © 2018 Don Brady

Note: I have included very brief excerpts from other sites. I believe that so doing is proper, and will be welcomed by authors, but if any system developer or publisher objects, please contact me at dbrady@pobox.com and I will attempt to accommodate them via a correction.

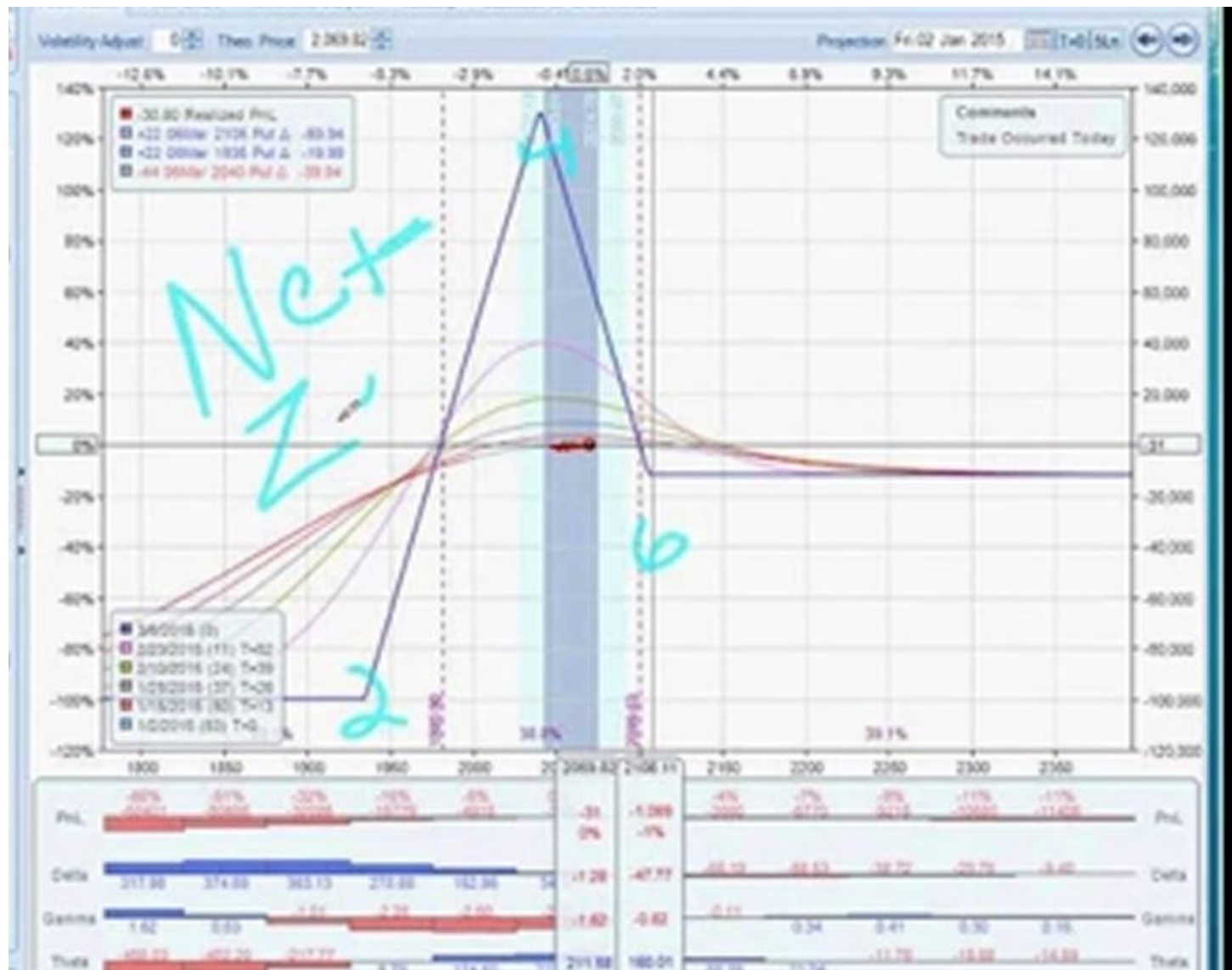
Netzero 60-40-20 Background

- Options Income Strategies
- Broken Wing Butterflies
- Andrew Falde: Net-Zero-Delta (60-40-20)
<http://www.smbtraining.com/blog/systems-testing>
- SMB Capital Options Tribe
<http://www.smbtraining.com/blog/options-tribe>
- 60-40-20 in this Group

Netzero 60-40-20 Basics

- Can be placed 60 days before expiry
- Sell 2 40 delta puts and buy 1 each 60 and 20 delta put in a spread (broken wing butterfly)
- Take it off when the short legs delta has changed by 20% (or other value)
- “No Touch” – no adjustment
- Replace it immediately with another spread 60 days out if you do take it off

Falde Net-Zero Delta (60-40-20)



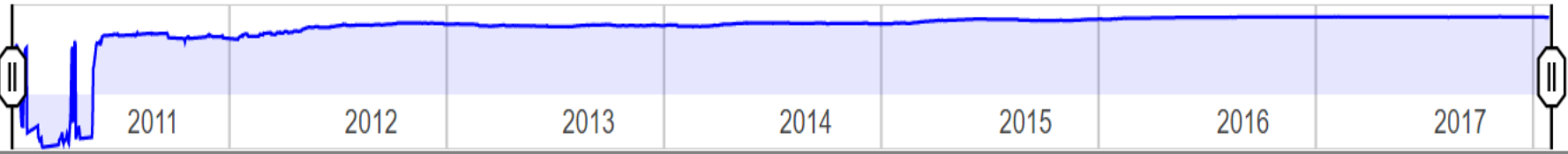
<http://www.smbtraining.com/blog/options-tribe>

<http://www.smbtraining.com/blog/options-strategy-workshops>

Zoom: 1h 1d 5d 1w 1m 3m 6m 1y max

● cumProf40

ES 60-503010
Strategy D40 (40%
tolerance on short
leg delta)



Data: legsUnique[!is.na(QDate2)] • Chart ID: CumProfit • googleVis-0.6.2

R version 3.4.2 (2017-09-28) • [Google Terms of Use](#) • [Documentation and Data Policy](#)

Benefits of Diversification

- Greatly reduce Risk, Drawdown because one will succeed when the other falters
- Can Diversify in many ways, including Time, Vega/Gamma Exposure, etc.
- Diversification to a different Underlying is ideal

Crude Oil

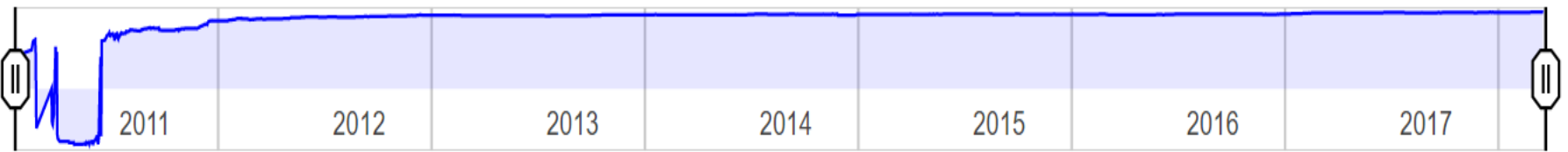
- Futures contract and Futures Options both extremely liquid overall, extend out many years
- Andrew Falde finds profits more profitable and more consistent and has switched the larger part of his Netzero trading to CL
- CL correlated with S&P very short term but subject to different influences overall
- Volatility may be oversold in S&P
- He uses the same rules for trading 60-40-20 Netzero on CL Options as on S&P!

Zoom: 1h 1d 5d 1w 1m 3m 6m 1y max

● cumProf40



CL 60-503010 Strategy D40
(40% tolerance on short leg
delta)



And Now Consider a Completely Different Strategy

- Let's Diversify Further with a Trend-Following Strategy
- One will succeed when the other falters
- Possibility of much larger gains occasionally from Trend Following on large moves
- We can do it more aggressively since it is for diversification

Rules for a very simple Trend Following Strategy

- Credit Andrew Falde
- In the market all the time using a Future
- Reverse to Short on a new 15-day low
- Reverse to Long on a new 15-day high
- “Buy high, sell low”
- Technically using a “Donchian Price Channel”
- Can also other indicators

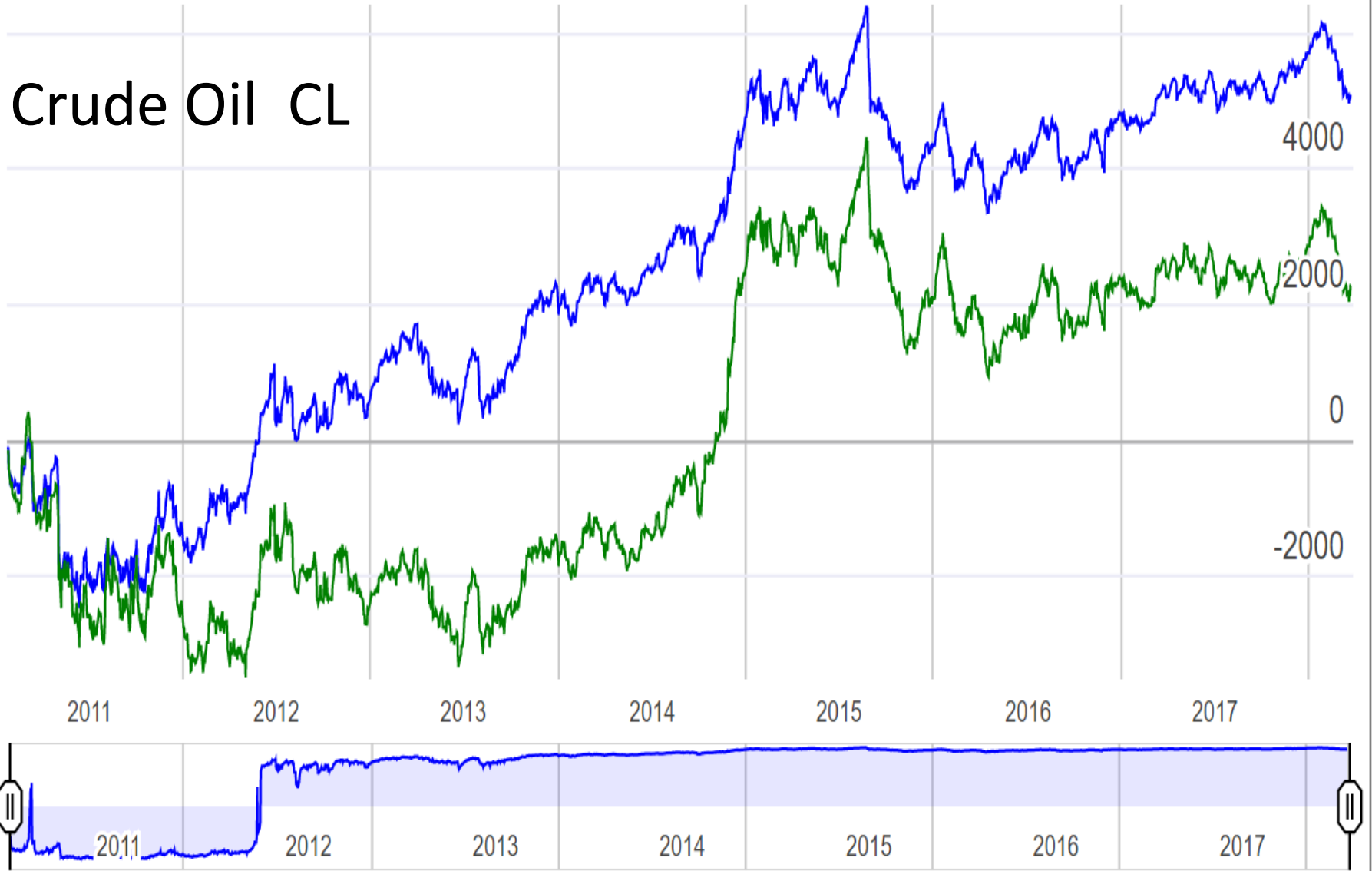
Variants on the Trend Following Strategy

- Again Credit Andrew Falde
- As described above, we used a Future
- Instead, we can sell an Option Spread (
- In my tests, I used a 50-30 delta spread
- Andrew uses different values, more and less conservative
- Following tests are my own

Zoom: 1h 1d 5d 1w 1m 3m 6m 1y max

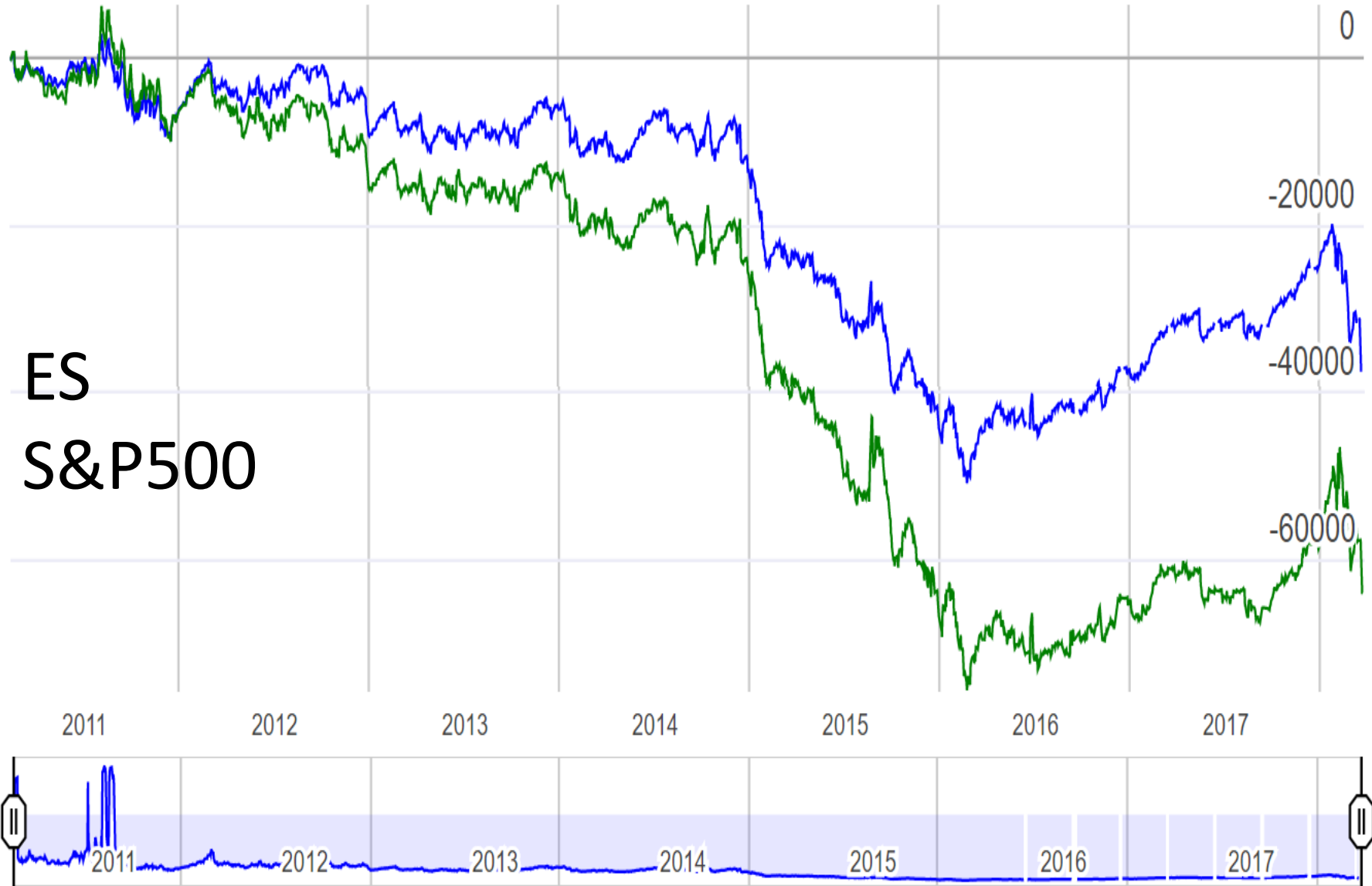
Trend-Opt Trend-Fut

Crude Oil CL



Zoom: 1h 1d 5d 1w 1m 3m 6m 1y max

● Trend-Opt ● Trend-Fut



Data: stratsDailiesByQDateAll[!is.na(QDate2)] • Chart ID: CumProfit • googleVis-0.6.2

R version 3.4.2 (2017-09-28) • [Google Terms of Use](#) • [Documentation and Data Policy](#)

Trade Design Notes

- Focus on minimizing losses and drawdowns
- Beware flawed methodology
- Tradeoffs depending on Goals involving risk versus return