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Aeromir Corporation
Diagonal Spread Strategies

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As with all investments, your capital is at risk

The Complete Diagonal Spread Course

with Mark Fenton

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What Is a Diagonal Spread?

It is an options strategy established by simultaneously entering a long and short position in two options of the same type—two call options or two put options—but with different strike prices and different expiration dates

Source- https://www.investopedia.com/terms/d/diagonalspread.asp

Multiple leg strategies, including spreads, will incur multiple transaction costs.

Diagonal and Double Diagonal Concepts

- How does this strategy work?
- Distance between short and long expiration considerations
- Duration considerations
- Risk/Reward considerations
- Placing trade
- Risk management and adjustment
- Macro market considerations

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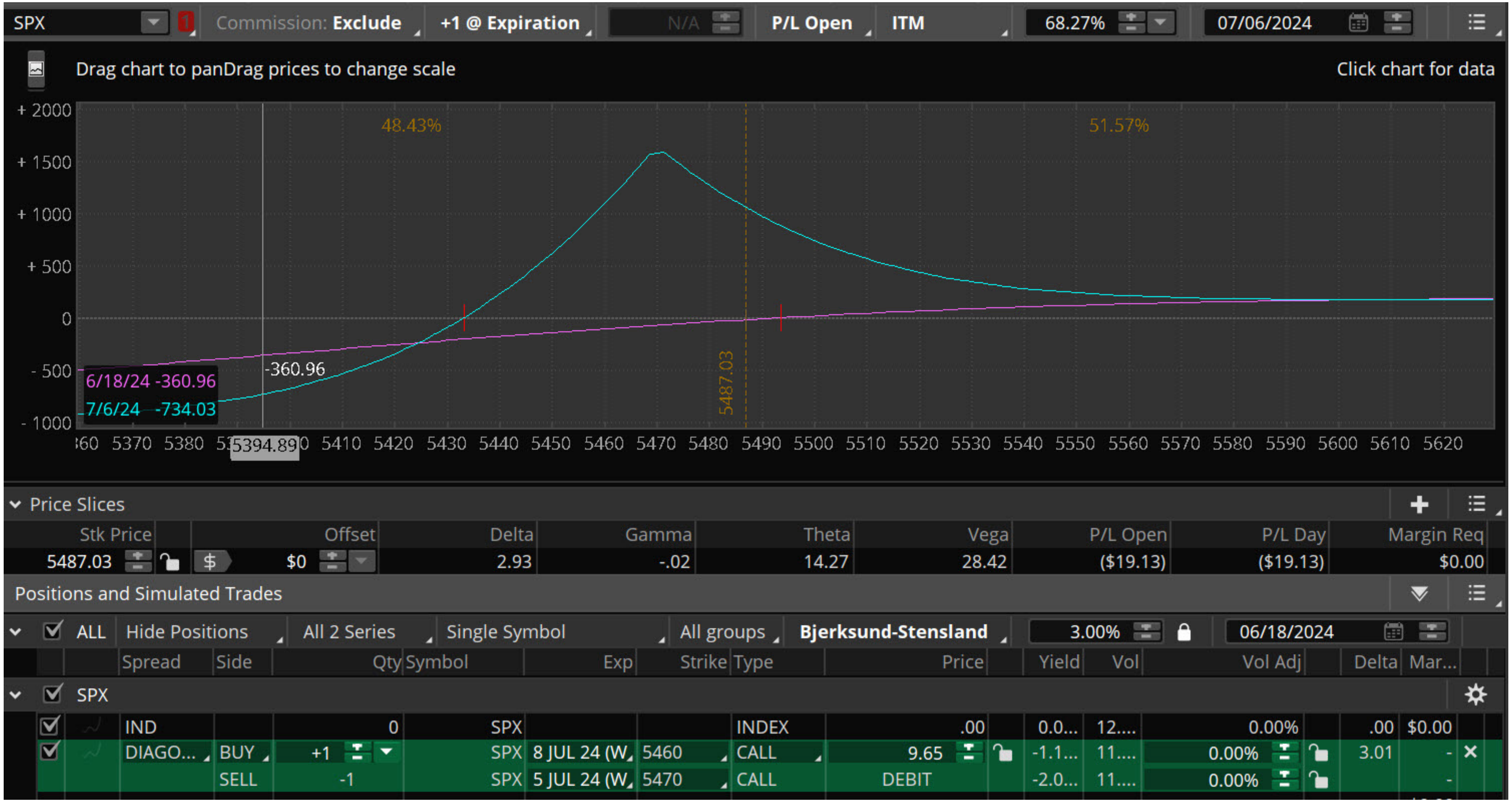
Long vs Short Diagonal

- A long diagonal places the long option(the one you are buying) closer to where the SPX is trading and the short option(the one you are selling) is sold further away
- A short diagonal places the short option closer to where the SPX is trading, and the long option is purchased further away
- I have done many “short diagonal” trades in the past but *no longer* trade short diagonals because I have found them very difficult to adjust compared with the long diagonals
- This course covers only SPX long diagonals

Single Diagonal vs Double Diagonal

- Single diagonal involves buying one diagonal spread, either puts or calls
- Double diagonal spread involves buying both:
  - A put diagonal spread below where SPX is trading
  - A call diagonal above where SPX is trading to create a two spread trade or double diagonal

Long Call Diagonal Example



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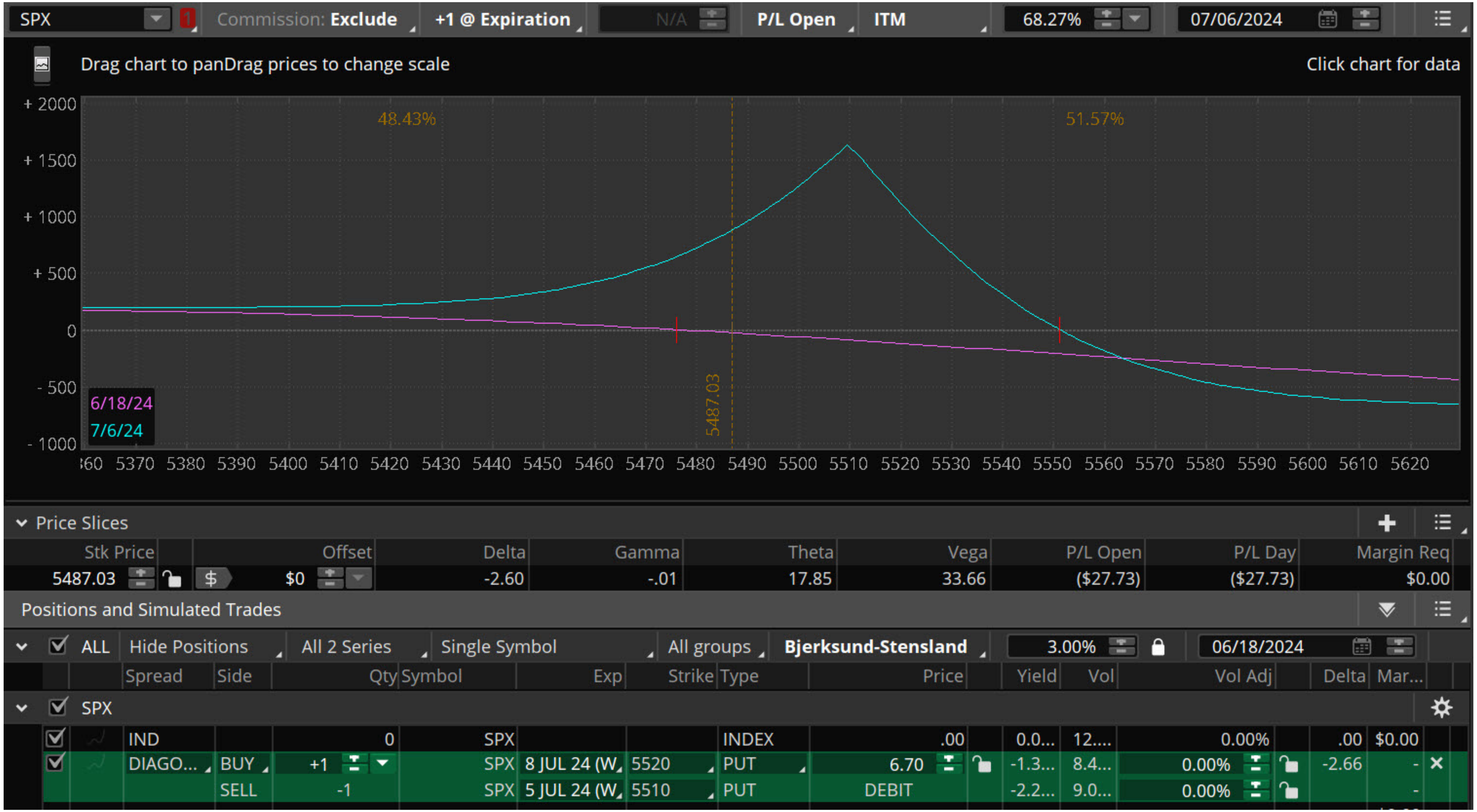
Long Put Diagonal Example



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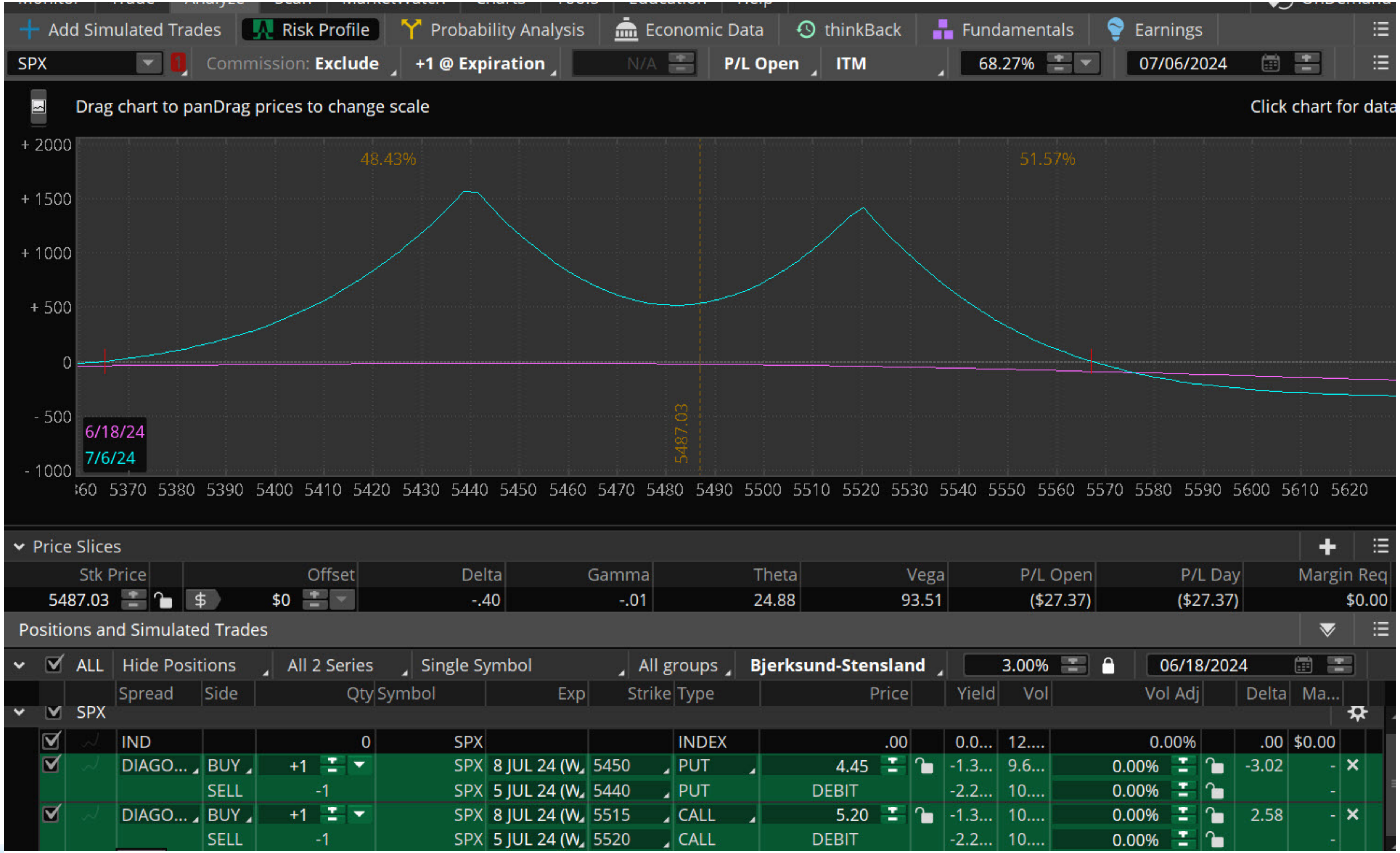
Long Double Diagonal Graph



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How Does This Strategy Work?

- Strategy takes advantage of the difference of option decay between the long and short option. Because the long is further out in time, it decays slower than the short. That divergence in time decay works in this trade's favor
- Strategy p/l is affected by changes in the implied volatility of the long and short options. In general, you want the long option IV to hold or increase its IV, and you want the short option to lose its IV
- The single diagonal is also affected price movement

Multiple leg strategies, including spreads, will incur multiple transaction costs.

IV and Theta Is Different for Each Option

N/A	N/A	0	0	0	
Strikes: 14		PUTS			
Exp	Strike	Bid X	Ask X	Impl Vol	Theta
					11.71% (±108.163)
5 JUL 24	5510	48.20 C	48.70 C	9.84%	-.87 POS
5 JUL 24	5515	50.60 C	51.10 C	9.78%	-.83
5 JUL 24	5520	53.20 C	53.60 C	9.74%	-.80
					11.33% (±113.912)
8 JUL 24	5455	29.50 C	30.00 C	10.16%	-.91
8 JUL 24	5460	31.00 C	31.50 C	10.10%	-.91
8 JUL 24	5465	32.50 C	33.00 C	10.03%	-.91
8 JUL 24	5470	34.10 C	34.60 C	9.95%	-.90
8 JUL 24	5475	35.80 C	36.40 C	9.90%	-.89
8 JUL 24	5480	37.60 C	38.20 C	9.85%	-.88
8 JUL 24	5485	39.50 C	40.00 C	9.78%	-.87
8 JUL 24	5490	41.40 C	42.00 C	9.73%	-.85
8 JUL 24	5495	43.50 C	43.90 C	9.67%	-.83
8 JUL 24	5500	45.60 C	46.00 C	9.61%	-.81
8 JUL 24	5505	47.80 C	48.40 C	9.57%	-.80
8 JUL 24	5510	50.10 C	50.70 C	9.52%	-.77
8 JUL 24	5515	52.50 C	53.10 C	9.47%	-.75
8 JUL 24	5520	55.00 C	55.50 C	9.42%	-.72 POS

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Trade Set Up and Selecting Strikes – Single Diagonal

- A long put diagonal can be placed above where SPX is trading if your bias in the SPX is sideways to bearish
- For the long put diagonal, select a long strike around 20 to 30 points above the current price and sell the short put 10 points lower. The long is always purchased in an expiration that is 3 days further out than the short.
- For the long call diagonal, the long call is purchased around 20 to 30 points below where SPX is trading and short call is sold 10 points higher. The long is always purchased in an expiration that is 3 days further out than the short.
- The short can be 8 days or more from expiration. For most trades, I place the short 8 to 18 days from expiration
- The diagonal can be calls or puts depending on your sentiment. Puts for bearish to sideways and calls for bullish to sideways

Double Diagonal Strike Placement

- For the double diagonal, I also utilize the time from of 8 to 18 days from expiration for the short and 3 days between shorts and longs
- For theta positive "income" trading, I most often utilize double diagonals
- Place the long put around 20 to 30 points (most often 20 to 25) below current SPX price and sell short put 10 points lower
- Place the long call around 25 to 30 points above current SPX price and sell the short call 5 points higher
  - Using 5 point width (instead of 10, as I do on the put side) gives a more balanced graph in both directions

Macro Market Considerations

- FOMC Announcements
- Non-Farm Payrolls
- Unemployment Claims
- CPI,PPI, and PCE
- Earnings Releases
- Fed Board Member Speaker Events
- Other US Political and Geopolitical Events

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