

# Strategy: Butterfly

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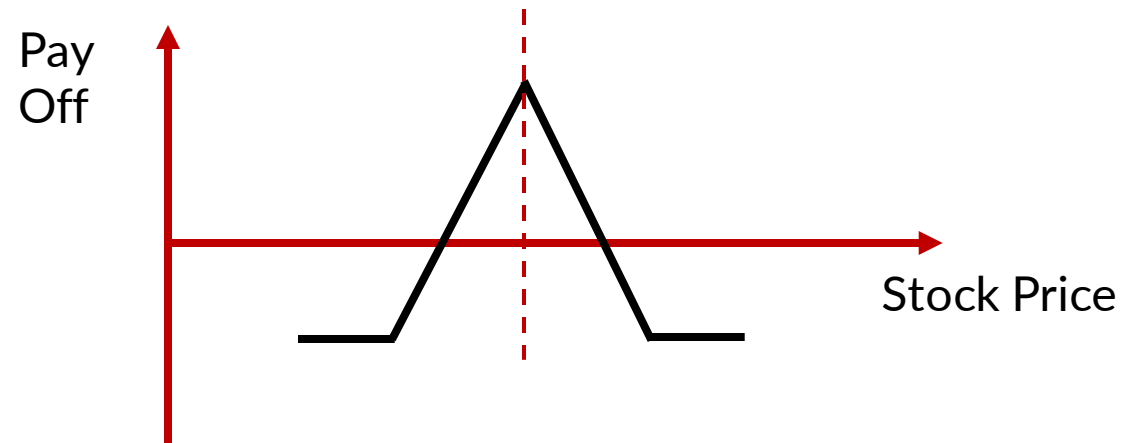
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# What is It?

- Great strategy with a fixed risk and capped profit
- This is a market neutral strategy, i.e. pays the most if the market is not moving as much!
- The strategy is simple: Sell 2 ATM calls and buy one ITM call and one OTM call to form the wings for same expiry

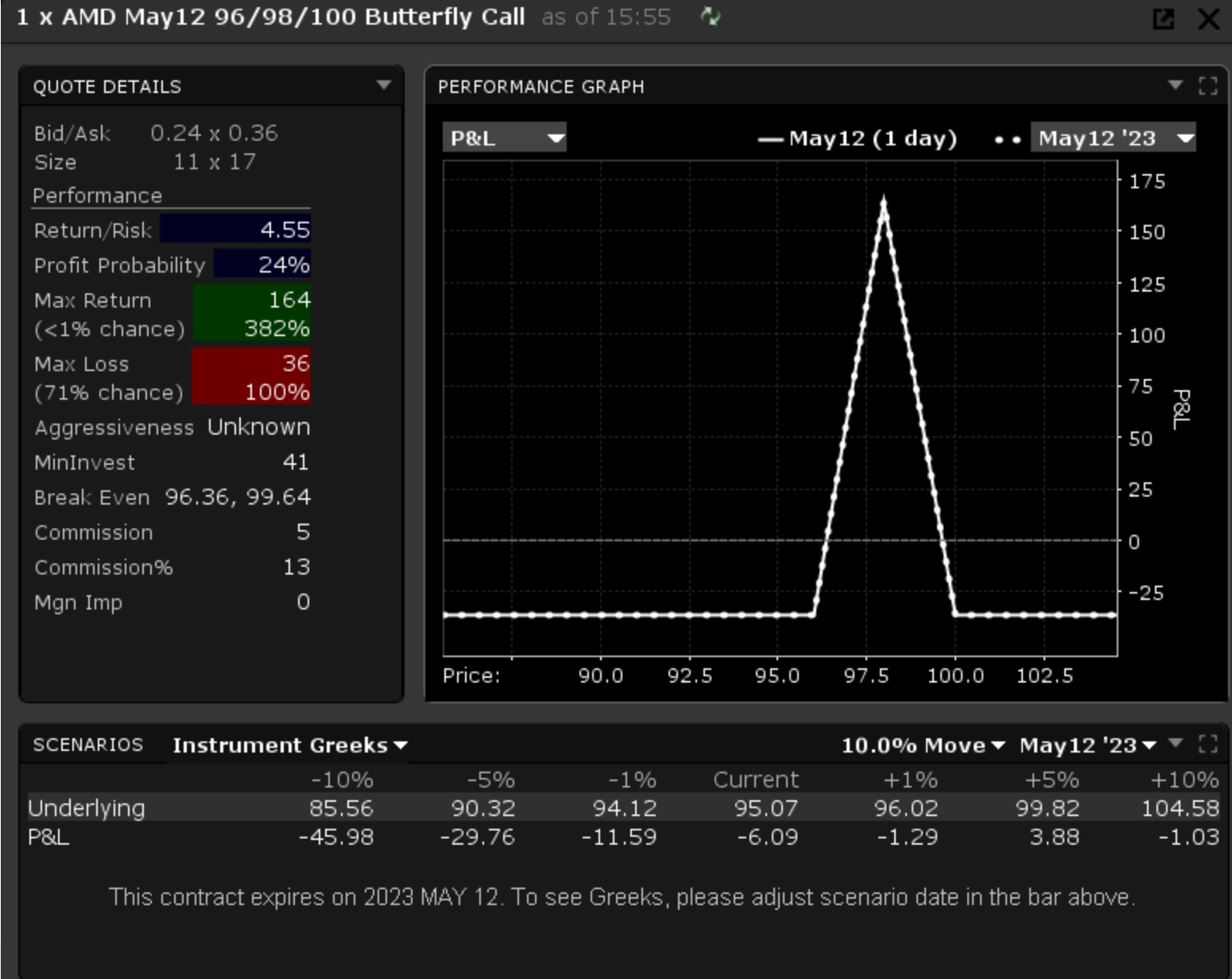


# Where to Use It

- Where you believe volatility is going to dampen and the stock will not move as much
- Market Neutral
- Ideal for pinning, and declining volatility

|                |   |
|----------------|---|
| Max Loss       | Premium spent   |
| Max Upside     | $(\text{ATM call strike price} - \text{ITM call strike price} - \text{total debit paid}) * 100$ |
| Breakeven Up   | $\text{OTM call strike price} - \text{total debit paid}$  |
| Breakeven Down | $\text{ATM call strike price} + \text{total debit paid}$  |

# Risk Profile



- Short Vega
- Great risk to reward
- Low probability trades

Ideal for **pinning** actions