

# How to Ditch the PDT Rule



Presented by: Megan Marlow

# Megan Marlow

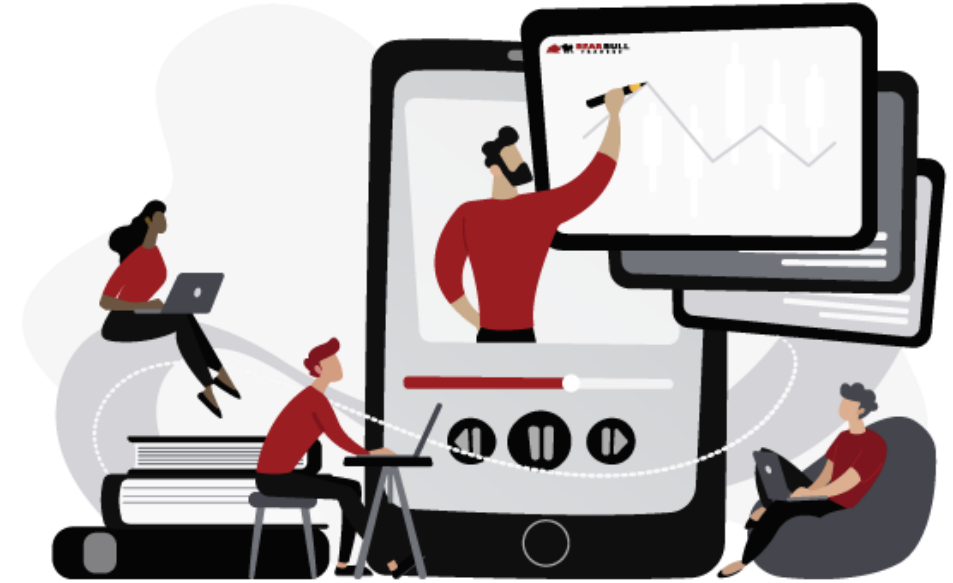
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- History Prior to Trading
  - Professional Chef (Plant-Based)
  - Certified in Sports Nutrition
  - Product Manager @ Record Label
- Trading History
  - ~ 3.5 years full time (dabbled before)
- Trading Edges
  - Higher time frame levels
  - Ranges
  - Intraday options
- Hobbies
  - Trail running
  - Biohacking
  - Nerdy non-fiction books
  - Ice baths/cold plunges



# Overview

- Small Account Challenge: Initial Plan & Why
- What Are Options?
- Options vs. Equities: Capital Required
- Small Options Account Advantages
- Risk & Position Management: Using % / Thinking in Rs
- Best Strategies for Intraday Directional Options Positions
- Main Takeaway w/ Intraday Options
- Small Account Challenge: Results
- Final Notes: Transitioning from Equities to Options



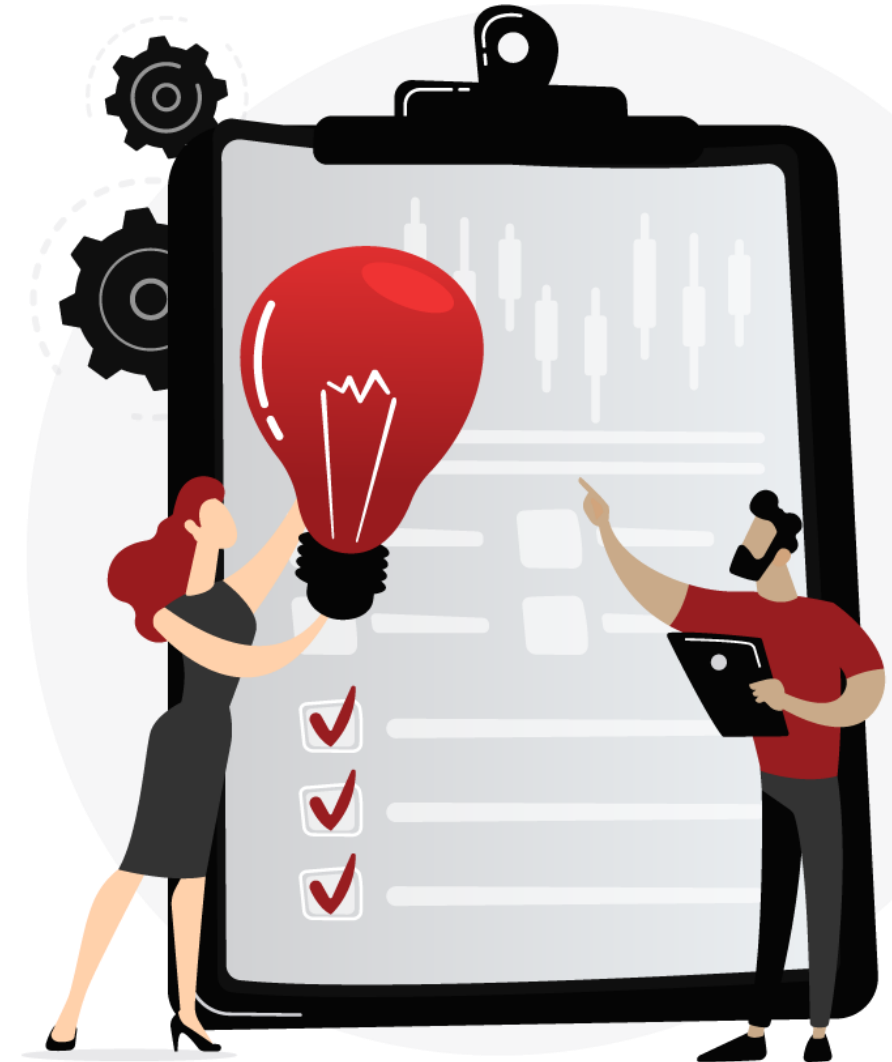
# Small Account Challenge: Initial Plan & Why

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- Grow a \$1k account to \$5k in approx. 3 months
- Utilize options
- Trade the same setup used in equities account
- Keep it simple

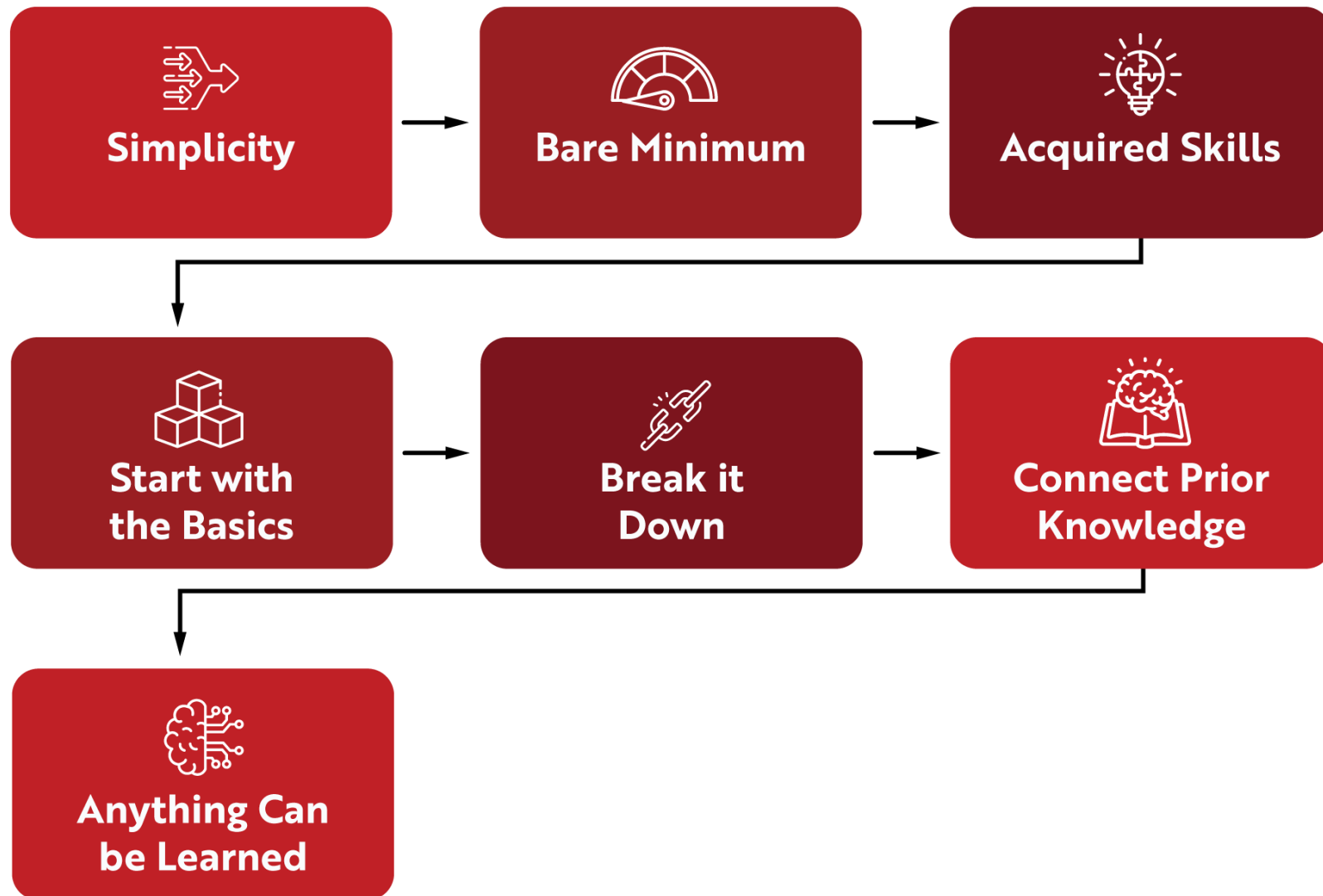
## Why This Challenge?

- Started wondering about all of the "meme" traders.
- Stuck In position longer than desired
- Play price levels without needing perfection
- Liked the idea of more defined risk



# How to Learn Something New

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# Options Strategies

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Albatross Spread  
Bear Butterfly Spread  
Bear Call Spread  
Bear Put Ladder Spread  
Bear Put Spread  
Bear Ratio Spread  
Box Spread  
Conversion & Reversal Arbitrage  
Strike Arbitrage  
Bull Butterfly Spread  
Bull Call Ladder Spread  
Bull Call Spread  
Bull Condor Spread  
Bull Put Spread  
Bull Ratio Spread  
Butterfly Spread

Calendar Call Spread  
Calendar Put Spread  
Calendar Straddle  
Calendar Strangle  
Call Ratio Backspread  
Call Ratio Spread  
Condor Spread  
Covered Call Collar  
Covered Call  
Covered Put  
Iron Albatross Spread  
Iron Butterfly Spread  
Iron Condor Spread

Reverse Iron Condor Spread  
Short Albatross Spread  
Short Bear Ratio Spread  
Short Bull Ratio Spread  
Long Call  
Long Gut  
Long Put  
Long Straddle  
Long Strangle  
Naked Call Write  
Naked Put Write  
Put Ratio Backspread  
Put Ratio Spread  
Reverse Iron Albatross Spread  
Reverse Iron Butterfly Spread

Short Butterfly Spread  
Short Calendar Call Spread  
Short Calendar Put Spread  
Short Call  
Short Condor Spread  
Short Gut  
Short Put  
Short Straddle  
Short Strangle  
Strap Straddle  
Strap Strangle  
Strip Straddle  
Strip Strangle  
Synthetic Covered Call, Short Straddle, and Straddle





# What Are Options?

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- Contracts
  - 1 contract = 100 shares
  - Allow you to buy or sell a stock at a specific price (i.e. the strike price)
- Two types of options:
  - Calls
    - Gives you the right (but not the obligation) to buy a stock at the strike price
    - Buy a call = bullish
  - Puts
    - Gives you the right (but not the obligation) to sell a stock at the strike price
    - Buy a put = bearish
- Options have an expiration date when the contract is no longer valid





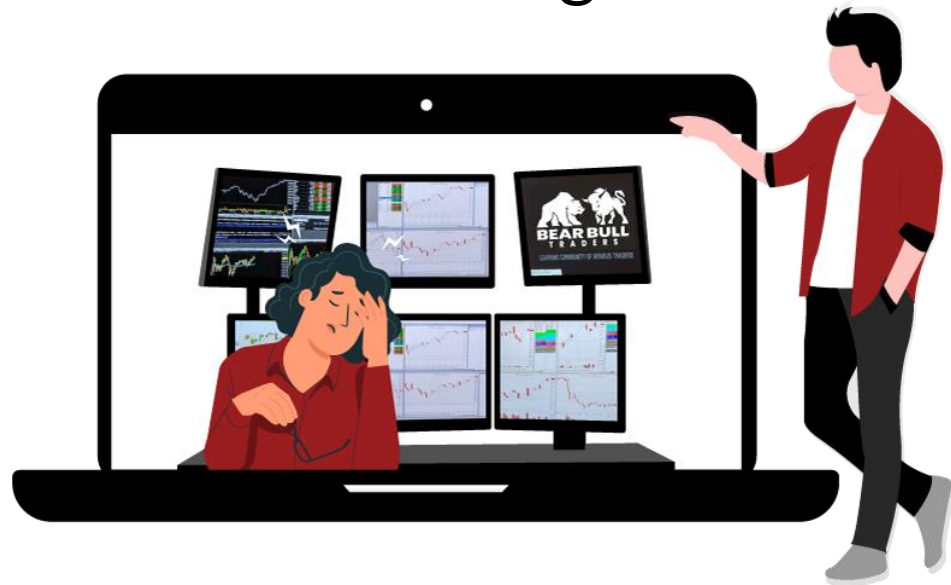
# Option Contracts Explained (w/ NY pizza)

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# What Keeps People From Trading Options

- Complexity (i.e. The Greeks)
- Risk & Volatility
- Lack of Knowledge/Education



## The 5 Options Greeks

$\Delta$  DELTA

$\theta$  THETA

$\Gamma$  GAMMA

$\vee$  VEGA

$\rho$  RHO

# Option Pricing

- The Greeks
  - Mathematical measurements that tell how the price of an options contract might change based on factors like time, stock price movement, and volatility.
- Three Pricing Tiers
  - OTM (out of the money)
  - ATM (at the money)
  - ITM (in the money)

TSLA

184.88 -- 184.9

TSLA

192.96 - 184.63

PCL 188.87

Vol 156,752,817

Lv1 184.88

184.9

Last 184.89

-3.98 (-2.1%)

Calls

Mav26

Jun02

Jun09

Jun16

Jun23

Jun30

Strike	Symbol	Last	BID	ASK	Volume	Strike	open Int
149	+TSLA*D5Q149	0.03	0.02	0.03	299	149	2155
150	+TSLA*D5Q150	0.04	0.02	0.03	1957	150	9479
152.5	+TSLA*D5Q152.5	0.02	0.03	0.04	1232	152.5	3483
155	+TSLA*D5Q155	0.03	0.03	0.04	3312	155	10367
157.5	+TSLA*D5Q157.5	0.05	0.04	0.05	1160	157.5	4386
160	+TSLA*D5Q160	0.06	0.05	0.06	5788	160	19929
162.5	+TSLA*D5Q162.5	0.06	0.06	0.07	2941	162.5	9375
165	+TSLA*D5Q165	0.07	0.08	0.09	15086	165	15846
167.5	+TSLA*D5Q167.5	0.11	0.1	0.11	6573	167.5	15912
170	+TSLA*D5Q170	0.17	0.16	0.17	20787	170	24625
172.5	+TSLA*D5Q172.5	0.27	0.26	0.27	10588	172.5	11317
175	+TSLA*D5Q175	0.43	0.43	0.44	35784	175	28627
177.5	+TSLA*D5Q177.5	0.72	0.71	0.74	28811	177.5	13128
180	+TSLA*D5Q180	1.19	1.15	1.19	93753	180	23800
182.5	+TSLA*D5Q182.5	1.83	1.84	1.88	57524	182.5	17466
185	+TSLA*D5Q185	2.88	2.85	2.88	116096	185	12155
187.5	+TSLA*D5Q187.5	4.2	4.15	4.25	68369	187.5	4244
190	+TSLA*D5Q190	5.8	5.8	5.9	70166	190	4554
192.5	+TSLA*D5Q192.5	7.75	7.65	7.85	10035	192.5	682
195	+TSLA*D5Q195	9.85	9.75	9.9	5260	195	1361
197.5	+TSLA*D5Q197.5	12	11.85	12.3	1075	197.5	373
200	+TSLA*D5Q200	14.28	14.2	14.55	2361	200	2107
202.5	+TSLA*D5Q202.5	16.25	16.6	17	761	202.5	81
205	+TSLA*D5Q205	19.1	19.05	19.5	1090	205	69
207.5	+TSLA*D5Q207.5	21.35	21.5	21.95	214	207.5	29
210	+TSLA*D5Q210	23.79	23.95	24.45	788	210	57
212.5	+TSLA*D5Q212.5	26.52	26.5	26.95	273	212.5	24
215	+TSLA*D5Q215	26.25	29	29.45	19	215	8
220	+TSLA*D5Q220	28.45	33.95	34.45	6	220	4
225	+TSLA*D5Q225	39.1	38.95	39.45	30	225	0
230	+TSLA*D5Q230	42.08	44	44.45	1	230	1
235	+TSLA*D5Q235	49.18	48.9	49.45	1	235	0
240	+TSLA*D5Q240	0	54	54.45	0	240	0

# Options vs Equities: Capital Required

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## TSLA Equity Position

- Stock price: \$100
- Buy 100 shares
- Capital required: \$10,000

## TSLA Option Contract

- Strike price: \$100
- Premium: \$1 (100 shares)
- Buy 1 contract
- Capital required: \$100



# Small Options Account Advantages

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- Less capital required
- Limited/defined risk (for buying)
- Leverage (can control a larger position with smaller amount of capital)
- Less commissions (\*depending on amount of contracts & your broker)
- **No PDT rule** (for cash accounts / cash settled in 1-3 days)



# The PDT Rule

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- Regulation imposed by the SEC (U.S. Securities and Exchange Commission)
- Applies to traders who execute four or more day trades within a rolling five-business-day period
- Day Trade: The opening and closing of a position in the same trading day (includes partialing)
- Must maintain a minimum account balance of \$25,000 in your account (margin)
- Put in place to protect inexperienced traders from excessive risk-taking and potential losses
- Aims to ensure that traders have sufficient capital to absorb potential losses
- Ways around the PDT Rule:
  - Offshore account
  - Cash account
  - Options



# Risk & Position Management: Using % / Thinking in Rs

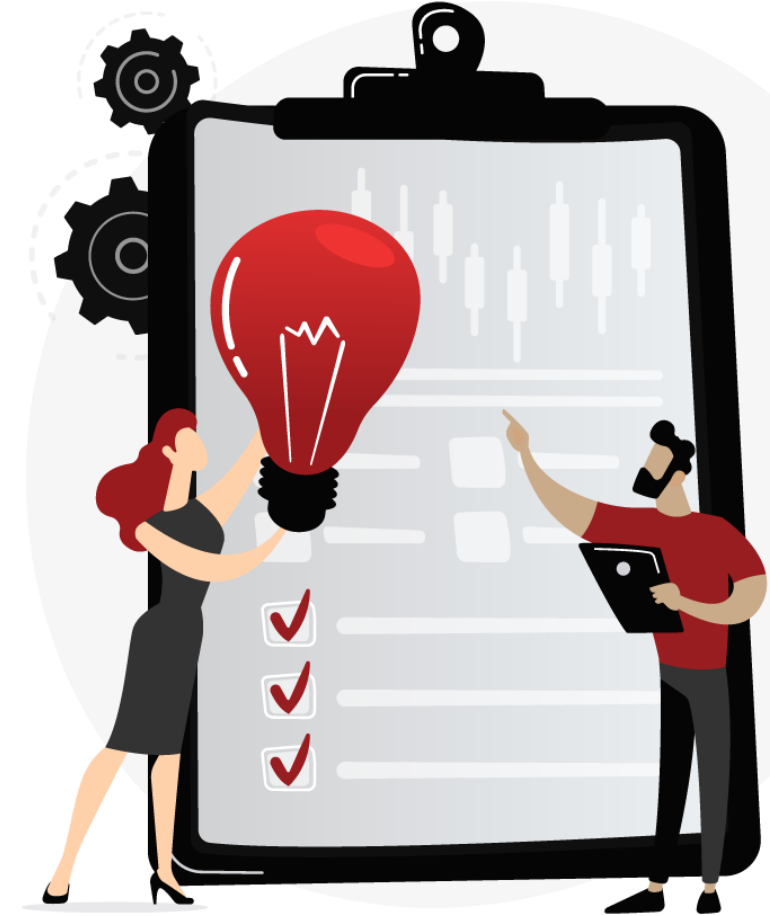
- Amount spent when buying calls or puts = the most you can lose
- Goal is to never lose the amount of capital used for the position
- \$1,000 Cash Account
  - 10% risk = \$100 of buying power for contracts
  - Spend \$100 on 1 AAPL contract
  - -10% stop = -1% of full account / \$10 / 1R
  - 20% gain = 2% of full account / \$20 / 2R
- \$30,000 Margin Account
  - Amount of Capital above PDT = \$5,000
  - Risk based off of \$5,000
  - 10% risk = \$500 of buying power for contracts
  - Spend \$500 on 5 AAPL contracts @ \$100/ea
  - -10% stop = -1% of full account / \$50 / 1R
  - 20% gain = 2% of full account \$100 / 2R
- The Risk
  - High volatility: Price can move up and down much faster than the stock price (underlying asset)
  - Limited time: If it doesn't move quickly, time decay (i.e. theta) begins working against you



# Small Account Challenge: Plan Revised

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- Grow a \$1k account to \$5k in approx. 3 months
- Use options
- Trade the same setup used in equities account
- Only buy
- Use strike prices that are the same (or close to) the equity price when entering
- Use same week expiration
- In and out of position same day
- Use max 10% of account to enter a position
- Partial at 20% gain on position
- Exit at 10% loss on position



# Setups Best for Intraday Directional Option Positions

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- Breakouts
  - HOD/LOD break
  - PDH/PDL break
  - Range break
  - Trend break
  - Channel break
  - Pattern breaks
- Gap Fills
- Heavy bounces / rejections
  - Range extremes (i.e reversals)
  - Supply/demand zones





QQQ 337.96  
▲ 0.08 (0.02%)

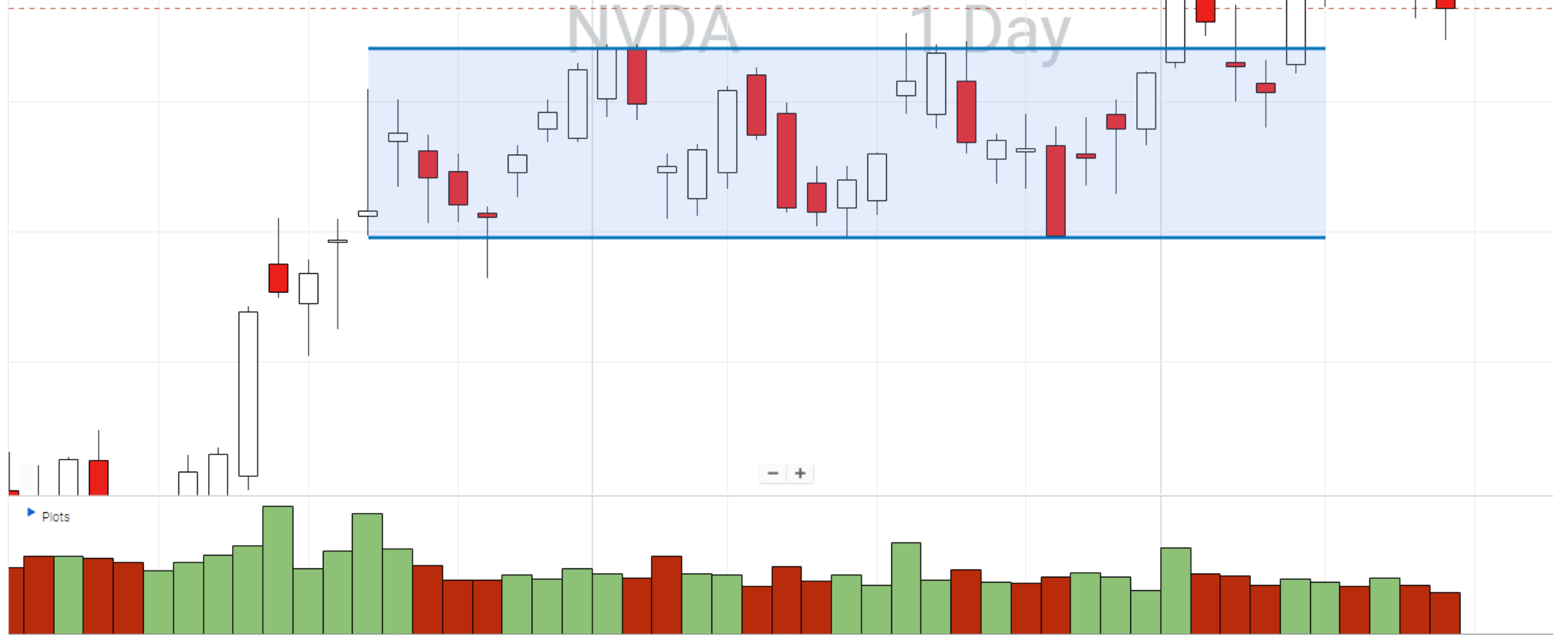


TRADING TERMINAL.COM

QQQ

5 Min







NVDA 282.70  
▲ 0.07 (0.02%)



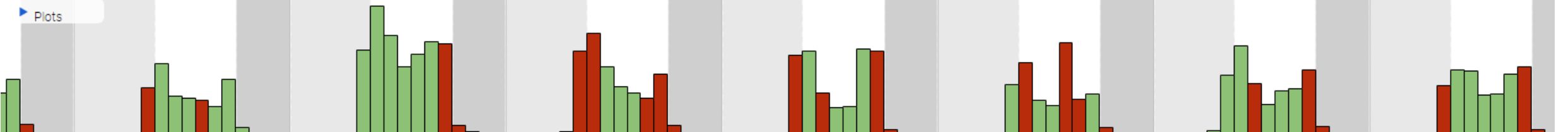
NVDA 30 Min



- +

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Plots



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NVDA - 1 O288.1800 H288.1800 L287.6000 C287.6000 -0.6200 (-0.22%)

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11:00

# NVDA

## \$555.00

NVIDIA CORPORATION

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SIDE	CONTRACT S...	CONTRACT	POSITION	COST	AVG ENTRY PRICE	AVG EXIT PRICE	RETURN/SIZE	RETURN \$	RETURN %	NET RETURN	RESULT
LONG	100	2	0	\$1,124.00	5.62 USD	8.395 USD	\$277.50	\$555.00	49.38%	\$551.48	WIN

R MULTIPLE	EXPECTANCY	POSITION MFE	POSITION MAE	PRICE MFE	PRICE MAE	BEST EXIT \$	BEST EXIT %
0.00	0.00	574.00	36.00	\$8.49	\$5.80		

## HISTORY

<input type="checkbox"/>	ACTION	SPREAD	TYPE	EXPIRE	STRIKE	DATE	TIME	SIZE	POSITION	PRICE	VALUE	
<input type="checkbox"/>	Buy	SINGLE	CALL	May 5, 2023	280.00	May 1, 2023	09:37:28	1.00	1.00	\$5.62	\$562.00	<input type="button" value="-"/>
<input type="checkbox"/>	Buy	SINGLE	CALL	May 5, 2023	280.00	May 1, 2023	09:37:28	1.00	2.00	\$5.62	\$562.00	<input type="button" value="-"/>
<input type="checkbox"/>	Sell	SINGLE	CALL	May 5, 2023	280.00	May 1, 2023	10:46:12	1.00	1.00	\$8.44	\$844.00	<input type="button" value="-"/>
<input type="checkbox"/>	Sell	SINGLE	CALL	May 5, 2023	280.00	May 1, 2023	10:47:04	1.00	0.00	\$8.35	\$835.00	<input type="button" value="-"/>

SIDE	CONTRACT SIZE	CONTRACT	POSITION	COST	AVG ENTRY PRICE	AVG EXIT PRICE	RETURN/SIZE	RETURN \$	RETURN %	NET RETURN	RESULT
SHORT	100	1	0	\$370.00	3.32 USD	3.70 USD	-\$38.00	-\$38.00	-10.27%	-\$40.10	LOSS



SIDE	CONTRACT SIZE	CONTRACT	POSITION	COST	AVG ENTRY PRICE	AVG EXIT PRICE	RETURN/SIZE	RETURN \$	RETURN %	NET RETURN	RESULT
SHORT	100	2	0	\$868.00	5.325 USD	4.34 USD	\$98.50	\$197.00	22.70%	\$193.49	WIN



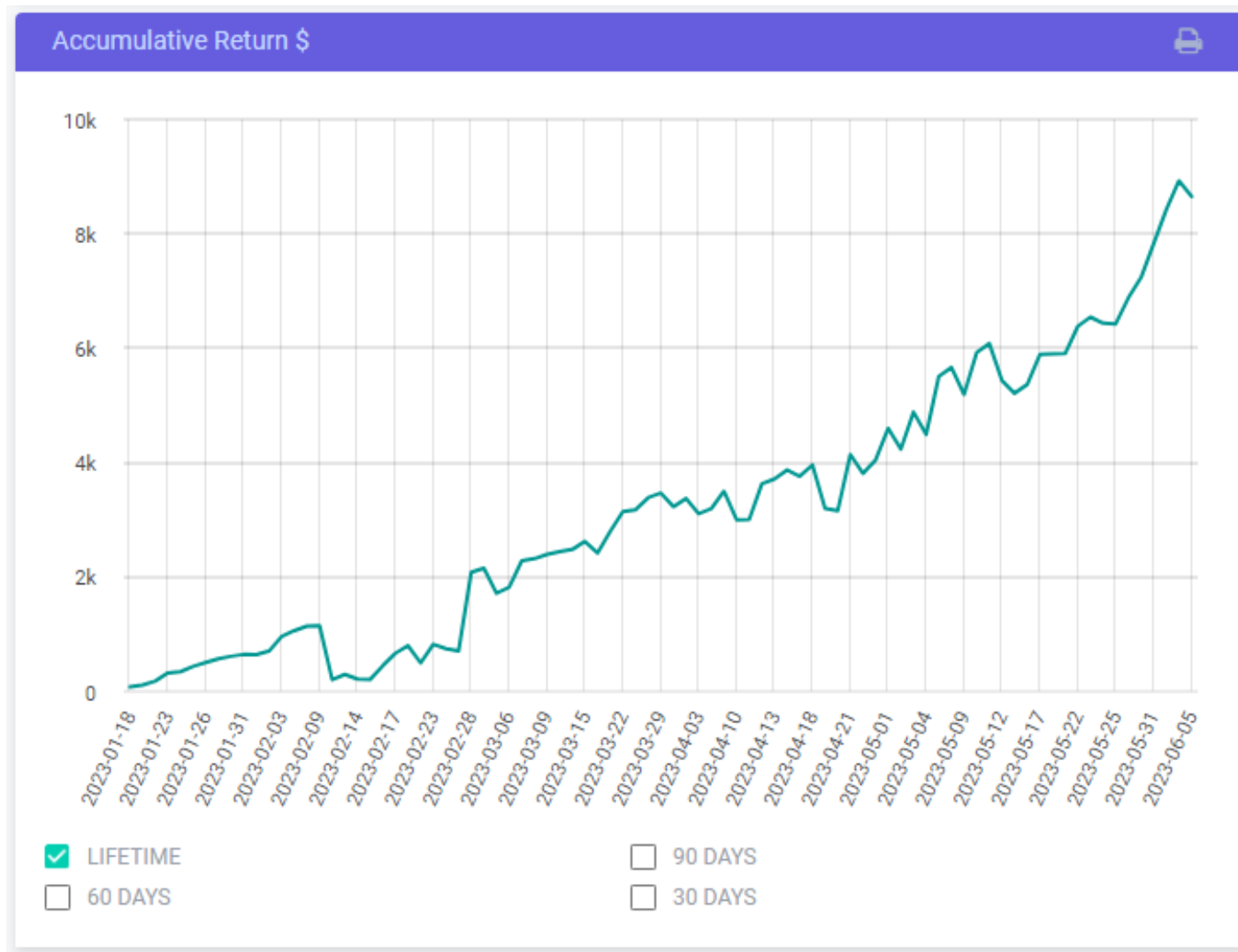
# Main Takeaway w/ Intraday Options

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- ALWAYS drop at least 1 contract at 20%
- Focus on reasonable gains
- If it's not moving in your direction, get out
- Many times you can get back in at the same contract price (or cheaper) for the next leg
- Entering at low volume pullbacks after a break helps protect from volatile price fluctuations in the contract



# Small Account Challenge: Results



Accumulative Return \$  
\$8,651.91



Accumulative Return %  
641.11%



Win %  
45.03%



# Final Notes: Transitioning from Equities to Options

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- Should you switch to options or stick with equities?
  - What is your account size?
  - Are you switching from equities out of frustration or do you have a strategy?
- Learn
  - Understand different types of options, how they work, and the risk/reward involved
  - BBT Options Room (Monday, Wednesday, Friday / 9-11AM ET, 12-1PM ET)
  - Book recommendation – Understanding Options by Michael Sincere
- Start small
- Identify strategies that make sense to you
- Develop a trading plan
- Review and adjust
- Is this the most effective way to use options?
  - Not necessarily
- Is this an easy barrier to entry for getting started?
  - Yes



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