How I Sell Options

An internal model built over years of daily options trading and risk engineering

---

The Goal

20-30% annualized. Not from home runs. From showing up every day, selling premium with an edge, managing risk actively, and compounding.

This is my working mental model for selling options. No course taught me this. No textbook. Just years of placing real trades every day, managing real risk, and figuring out what actually matters when your money is on the line.

My day job is condition monitoring and reliability engineering. Pattern recognition under ambiguity. Reading signals, diagnosing risk before something fails, making calls with incomplete data. That's exactly how I trade. This is not a mechanical system. It's discretionary, built on regime awareness.

I trade US options markets from Canada, so this covers both Canadian and US account structures. The strategy is universal. Only the account type changes.

This assumes you know the basics: puts, calls, delta, IV, margin. Realistically you need $25k-$50k to run this across multiple names.

- Alvin Khau

Layer 1: Regime Check

Before you look at a single ticker, check the environment. Regime is the anchor for everything downstream. If the regime doesn't support selling premium, nothing else in this document matters. Stay flat.

Hard Rules

VIX below 15: Don't sell. Premium is too thin for the risk. When vol is this compressed, the risk/reward of being short premium flips against you. Wait.

VVIX: Watch this alongside VIX. VIX tells you the level. VVIX tells you if that level is stable. Elevated VVIX means the market is pricing big swings in vol itself. Expect wider intraday moves and faster regime shifts.

Underlying is parabolic: Stock gone straight up, no pullback, no base. Sell 10-delta puts max. Or just sit it out. Don't sell calls into a parabolic move.

Regime Awareness

- Know what regime you're in: low vol, normal, elevated, crisis. Each one changes what you sell and how aggressive you get.
- Watch sector rotation. Capital flowing out of your sector changes the thesis on every name in it.
- Regime is not just VIX. Monetary policy, credit conditions, geopolitics, market breadth. Read the whole board.

Layer 2: Underlying Selection

> **This is the most important layer.**
>
> Ticker selection is the edge. Everything else is management. Pick the wrong name and no amount of rolling saves you.

Every one of these has to pass before you put on a position:

1. **Tight options liquidity.** Tight bid-ask on the chain. Can't get clean fills? Skip it. Illiquid chains cost you on entry, exit, and every roll.

2. **Higher-priced underlying.** More stability, better premium per contract. Avoid low-priced speculative names where a $2 move is a 10% gap.

3. **US-based.** US-listed only. Better liquidity, transparency, and chain depth.

4. **High IV vs realized vol.** IV should be elevated relative to what the stock has actually done. You're selling the gap between fear and reality.

5. **Conviction thesis.** Why this ticker. Why now. If you can't articulate it, move on. The thesis gives you confidence when managing because you know what would break it.

6. **Pattern recognition.** Know how this name moves. Does it gap on earnings? Trend or mean-revert? How does it handle rotation? Familiarity with a name's personality is edge.

> **The #1 mistake.**
>
> Picking a bad underlying and getting emotionally attached. Then bagholding through a broken thesis because you keep rolling and hoping. If the thesis breaks, cut it. Walking away from a name is what separates profitable sellers from people who blow up.

Layer 3: Position Sizing

Your capital determines which names are available to you. A stock trading at $500/share requires $50,000 in cash to sell one CSP. If that's your whole account, you can't sell it. Simple math.

How to Think About It

Take the share price, multiply by 100. That's the cash needed to secure one put or the shares needed for one covered call. That number has to fit inside your available capital without maxing out your margin or concentrating too heavily in one name.

Share Price	Cash to Secure 1 CSP	Realistic Account Min
$50	$5,000	$25,000+
$150	$15,000	$50,000+
$300	$30,000	$75,000+
$500	$50,000	$100,000+

Scaling Up

Start with 1 contract. One. Learn the name. Learn how it moves. Learn how the rolls feel. Learn what it's like to manage that position through a red day, a gap, a vol spike. Get the reps in before you size up.

Scale contract count with experience, not with account size. Just because you can sell 5 contracts doesn't mean you should. More contracts means more margin, more exposure, and harder rolls when things go wrong. Earn the right to size up by proving you can manage 1 cleanly first.

> **Capital is a filter.**
>
> If a name doesn't fit your account size at 1 contract, it's not available to you yet. Don't force it. There are plenty of names with good liquidity in the $50-$150 range. Trade what fits.

Layer 4: Structure Selection

Your account type tells you what you can sell. Not what you want to sell. Same principle everywhere: know what your account allows, put your most active trading where you have the most flexibility.

Canadian Accounts

Account Type	Allowed Structures	Notes
RRSP	Covered calls, cash-secured puts	CSPs allowed. Full premium selling within RRSP rules.
TFSA	Covered calls, cash-secured puts (lower volume)	CSPs allowed, but keep frequency low. CRA can reclassify gains as business income.
Non-registered or Corporate (CCPC)	Strangles, wheel, naked puts/calls	Full flexibility. Active weekly selling belongs here.

TFSA CRA Risk.

CRA has audited TFSAs with high trading volume. They'll reclassify your gains as business income. Weekly selling belongs in non-reg or corporate. Keep the TFSA for occasional CCs and longer-duration CSPs.

US Accounts

Account Type	Allowed Structures	Notes
IRA (Traditional or Roth)	Covered calls, cash-secured puts	No naked or undefined-risk. Roth is tax-free growth (like TFSA). Keep Roth activity moderate.
Taxable / Margin or LLC / S-Corp	Strangles, wheel, naked puts/calls	Full flexibility with margin. Active weekly selling belongs here.

Same idea in both systems. Tax-sheltered = defined-risk only. Taxable and corporate = full margin access. Put your most active selling where you have the most room. See Appendix for structure definitions.

Timing

- Weeklies by default in taxable and corporate. More decision points, faster theta.
- 45 DTE max. Nothing longer.

Layer 5: Strike Selection

Start at 20 delta. Both sides.

20-delta put = roughly 20% chance of being breached. That's the starting point. Not a rule.

Tilting Strikes

Go wider (lower delta) when risk feels elevated. Binary event, macro uncertainty, sector weakness, underlying extended. More room, less premium. That's the tradeoff.

Go tighter (higher delta) when premium at 20 delta is too thin to justify the margin and attention. Only with higher conviction.

Earnings

Check the implied move. Most brokers show it as the "expected move" or you can eyeball it from the ATM straddle. Sell outside that range. Let the market price the event. Don't be a hero inside the expected range.

Layer 6: Position Management

Active management. Every roll is a new decision. You're not pushing the same trade forward in time. You're asking: does the thesis still hold? Is the regime intact? Is the risk/reward still there?

Core Rules

1. **Roll before the strike is pierced.** Don't wait until you're in trouble. Price approaching your short strike? Roll proactively. Waiting limits your options and worsens your fill.

2. **Roll indefinitely if the regime is intact.** Thesis holds, macro supports it, keep rolling. Adjust strikes each time based on how much hedge you need and what payout you want.

3. **Cut if rotation is required.** Liquidity dries up, better opportunity shows up, thesis breaks. Close it. Don't baghold a broken thesis because you're stubborn.

4. **Hold to expiry as default.** Don't close early because you're anxious. Let theta work. Exception: margin management, or closing near-full-profit to free capital.

5. **Adjust strikes on every roll.** Don't mechanically push the same strikes out. Re-evaluate delta, width, premium for the current setup. Every roll is a re-underwrite.

Cut vs Roll

Condition	Action
Regime intact, thesis intact	Roll
Regime breaking, thesis weakening	Cut or reduce
Better use of capital elsewhere	Cut
Liquidity deteriorating	Cut

Layout 7: Risk and Margin Management

> **Margin is the hard constraint.**
>
> Overrides everything. Know your margin usage at all times. If you don't understand how your broker calculates margin, stop and learn that first.

Freeing Margin in a Vol Spike

Vol spikes. Margin requirements expand across your whole book. You need to move. Not react. Move. Here's the playbook:

1. **Close near-full-profit positions first.** Your release valve. Using margin but almost no premium left. Close them. Free the margin for positions that need room.

2. **Roll remaining positions wider.** Moves strikes further out, reduces margin requirements, keeps the position alive.

3. **Long protection is rare.** Buying hedges eats into the premium model. Manage through sizing and rolling, not adding legs.

Other Risk Rules

Margin collateral: T-bills are ideal. Cash earns a return even when posted as collateral. If not using T-bills, IBKR pays interest on cash above $10,000 USD. Either way, idle capital should be earning. Free edge.

Gap protocol: 5%+ gap open on any position? No changes for 60 minutes. Let it settle. Reactive decisions in the first hour of a gap are almost always wrong. The urge to act immediately is exactly what this rule overrides.

Quick Reference: Decision Tree

```
START
|
VIX below 15?
YES --> Don't sell. Wait.
NO --> Continue.
|
Underlying parabolic?
YES --> 10-delta puts max, or sit out.
NO --> Continue.
|
Pass the filter?
(liquidity, price, US, IV > RV, thesis, regime)
NO --> Skip it.
YES --> Continue.
|
Account type?
RRSP / IRA --> CCs or CSPs, 20-delta baseline
TFSA / Roth --> CCs or CSPs, lower frequency
Non-reg/Corp --> Strangle or wheel, weekly, 20-delta
|
Tilt strikes based on risk and premium.
Earnings? Sell outside the implied move.
|
MANAGE:
Roll before strike is pierced.
Roll if regime intact.
Cut if thesis breaks or capital better deployed.
Hold to expiry unless margin requires action.
|
VOL SPIKE:
Close near-full-profit first.
Roll remaining wider.
No changes 60 min after 5%+ gap.
```

Appendix

What This Model Is

- An active management framework for selling options premium.
- A decision structure for strike selection, rolling, and risk management.
- A way of thinking about regime, conviction, and capital allocation.

What This Model Is NOT

- A mechanical system. No fixed DTE entry, no fixed profit target, no auto-close.
- Tastytrade. No 45 DTE / 50% max profit / 21 DTE management.
- Directional betting or earnings gambling.
- Buying premium or running complex multi-leg spreads.

Definitions

Covered call: Sell a call against shares you own. Upside capped at the strike. You collect premium.

Cash-secured put (CSP): Sell a put with enough cash to buy the shares if assigned. Premium for the obligation to buy at the strike.

Strangle: Sell a put and a call on the same name, different strikes, same expiry. Profit if it stays between the two strikes.

Wheel: Sell CSPs until assigned. Sell CCs on the shares until called away. Repeat.

Delta: How much the option moves per $1 in the underlying. Rough proxy for probability of expiring ITM. 20 delta = ~20% chance of breach.

IV (implied volatility): What the market thinks the stock will do. Higher IV = pricier premiums.

RV (realized volatility): What the stock actually did. IV > RV = market pricing more fear than what's happened.

DTE: Days to expiration.

VIX: Expected 30-day vol on the S&P 500. Broad fear gauge.

VVIX: Vol of the VIX. How much the market expects VIX to move. Elevated = unstable regime.