

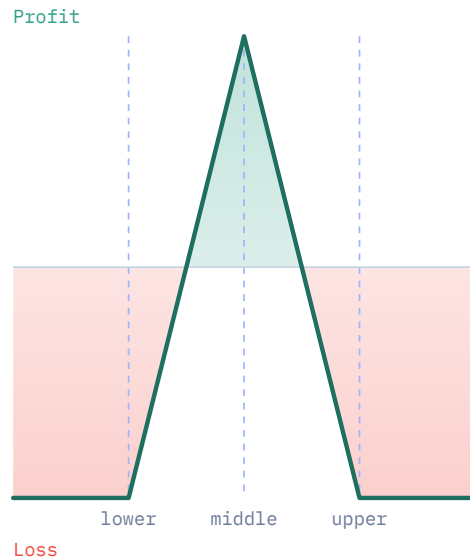
Short Iron Butterfly

A short straddle with protective wings — narrow range, high premium.

also: iron fly · iron butterfly

PAYOFF PROFILE

Profit / loss per contract unit



Schematic, not to scale.

CONSTRUCTION

- +1 Put at the K-W
- -1 Put at the strike
- -1 Call at the strike
- +1 Call at the K+W

KEY FIGURES

Maxprofit	premium received
Maxloss	wing width - premium
Break-even	strike - premium and strike + premium
Profitzone	price between the two break-evens
Capitalrequired	medium
Opening	premium is collected

WHAT HELPS THE POSITION

Direction	Direction barely matters
Movement	Large moves hurt a lot
Time	Time works strongly for you
Volatility	Rising volatility hurts a lot

WHAT PAYS YOU

Time decay Size of the move against you

You get the maximum from time decay - but only if price essentially stands still.

TYPICAL USE

Market phase	sideways range, calming down after a volatility spike
Volatility	high (IV rank > 50)
Goal	Income, Trading volatility
Expiration	20-45 days
Strike choice	Short Legs ~0.50 Delta
Assignment risk	high (both short legs at the money)

EXIT & MANAGEMENT

Take profit	25-40% of the credit
Loss limit	1x the credit
Timerule	manage actively, gamma sensitivity is high

THE ONE QUESTION BEFORE ENTRY

Will price really sit near the strike, or are you just selling expensive premium?

COMMON MISTAKES

- The large credit is tempting, but the profitable range is very narrow



Related: Short Iron Condor · Short Straddle — Opposite: Long Call Butterfly
Figures are per contract unit at expiration, before fees and tax. This is not investment advice — options can lose their entire value.