

Appendix B — The Decision Tree and Pass List

From Trading Butterflies: Pin Risk, Skew, and Defined-Risk Options Management (Hertz Trading Books, Book 4). Educational content only, not investment advice.

Run every candidate through the gates in order. A “no” at any gate is a complete answer: the trade is not made in that form, and the order of the gates does not make a later one less binding.

Table B.1 — The ten gates

Gate	Name	Question	Taught in
1	Thesis	Is there a stated thesis the structure is paid for: a location for a long fly, a move larger than priced for a short fly, a later-dated volatility view for a calendar?	Ch 1, 9
2	Price	Is the tent cheap against a stated distribution, or fairly priced and still wanted as a location bet sized on the debit?	Ch 4
3	Placement	Are the center and width sized to the expected move?	Ch 3
4	Skew	Does skew favor this side and construction?	Ch 4, 5
5	Family	Is this the cheapest family member for the exposure?	Ch 2
6	Size	Is the worst case, at the final authorized entry limit with the fees the exit plan requires, within the per-trade and per-underlying limits, and the broker's requirement within the account?	Ch 10
7	Fill	Can it be filled at or better than the entry limit with round-trip friction inside the 15% budget?	Ch 3, 10
8	Events	Has the event calendar been checked? If an event is inside the window, is its premium in the price, and would a put calendar or a short fly do it better? No event, once checked, is a pass.	Ch 9
9	Exits	Are the target, boundary rule and time stop written down, with what each is keyed to?	Ch 6, 11
10	Expiration	Is there an expiration plan: settlement style, pin and assignment risk, close-by time?	Ch 1, 8

The pass list, by gate

These are the fails that recur. Each is a complete reason to pass.

Gate 1, Thesis

- “It should be quiet.”
- A view the structure is not paid for (a volatility view expressed with a long fly).

Gate 2, Price

- “It’s cheap,” against nothing.
- A low price share mistaken for a low probability; the two are different numbers (Chapter 1).

Gate 3, Placement

- A 10-wide tent on a 34-point one-day move with no reason for the precision.
- A center chosen because it is a round number.

Gate 4, Skew

- An upside fly priced as if skew did not exist.
- A broken-wing credit that comes from a tail the trader has not sized.

Gate 5, Family

- A call fly bought when the put fly at the same strikes is cheaper after quotes and fees.
- An iron fly chosen because it “takes in a credit.”

Gate 6, Size

- One broken wing on a large index in a small account.
- A fourth fly on an underlying already at its limit.
- A call calendar: no cap, so no size fits.

Gate 7, Fill

- A one-day 10-wide fly whose natural eats the edge.
- A small-credit structure whose fees alone use most of the budget.

Gate 8, Events

- A fly bought the morning of a release with no distribution for where the index will land.

Gate 9, Exits

- No exits written, or “I’ll know.”
- A target that cannot fire on the surface and is not recognized as such.

Gate 10, Expiration

- A physically settled fly with no close-by time.
- An AM-settled fly held into the opening print without a plan sized on its full worst case.

After a “no”

- Resize or move the trade (a smaller underlying, a narrower structure, a lower entry limit) only if the new form passes every gate from the top.
- Never argue with a gate, and never shrink a trade below one unit to make it fit (Chapter 5).
- Write the pass in the log, with the gate that failed. A pass is a decision, and it is graded like one.