

# EARN 4-5% PER MONTH

## TRADING SPX CREDIT SPREADS

This is NOT your typical "Get Rich Quick" scheme or marketing crap you see in your spam email so often.

This is a well-documented and fully explained strategy that anyone with a trading account and ability to trade credit spreads can implement with relative ease.

Don't know what a credit spread is? No problem - it's fully explained in this document.

This strategy covers everything from entry rules, timing, account size and positioning, exit strategy, and trade execution.

Basically, this strategy involves selling bull put spreads on the SPX (S&P Index), using \$10K of capital to earn \$400 every trade.

Obviously the ROI is low but the probability of profit is very high. Expectation and management of losses is fully explained.

Wonder how this strategy would've performed when Covid-19 hit the markets in Feb 2020? Fully explained in this document.

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## **EARN ~4% PER MONTH BY SELLING CREDIT SPREADS ON THE SPX**

(actually, closer to 5% per month)

So many symbols to trade; so many strategies; so many strikes; so many indicators; so many chart studies.  
So many trading gurus; so many seminars; so many videos; so many courses; so many advisory and subscription services.  
And all of them will make you fabulously rich - just pay the monthly fee and trade the way all those gurus do.

### **OMG - SERIOUSLY ??**

How about a REALISTIC strategy for a change. For NO fee. Without requiring any complicated charts. That takes no more than 5 minutes a week to execute.  
This involves trading one of the largest and most liquid markets where performance history and price action are consistent, relatively simple, and incontrovertible.  
It will be boring but that's PERFECT. Boring is uncomplicated. Boring makes money. Boring means you get to keep your shirt.  
Are good results guaranteed ?  
NO...of course not! If you execute badly, you'll get bad results. If you make a mistake, you can lose money.

This strategy is based purely on the probabilities of profit and risk which are a statistical function of market sentiment and volatility - plain and simple.  
If you are uncomfortable with, or don't believe in the universally-accepted option pricing model, then stop reading right now and move on.  
If you are unfamiliar with selling credit spreads (mostly bull put spreads), then it's highly recommended you research this completely and execute some trades until you are comfortable with the concept, including assessing risk and profit expectations. Click the icon to learn about Bull Put spreads >

**BPS**

**STRATEGY OBJECTIVE - using the 'SPX Plan' worksheet**

The 'SPX plan' worksheet will approximate likely Profit & Loss (P&L) scenarios based on a given set of parameters as shown on that sheet.

The user makes selections for DTE and SPREAD WIDTH (the pink cell dropdowns) and the sheet will show total P&L for any # of trades per year as entered in cell F3.

Calculations as shown are based on a trade-by-trade basis.

User may also enter values into any green cell. Each field is documented with notes (just hover the mouse over the corresponding cell in col B to read note.)

Selections for parameters are currently limited as follows: DTE: 3, 30, 45; WIDTH: 25, 50, 100; DELTA: 10

It was felt that Delta 10 was far enough out-of-the-money to yield high success rate while generating worthwhile premiums.

**STRATEGY ATTRIBUTES**

1. set-it-and-forget-it; rules-based, mechanical
2. SPX index - US tax advantages (Section 1256 treatment); cash-settled; no risk of assignment; no dividends; high volume and liquidity  
(no assignment risk means you can't be assigned 100 shares per contract should your position expire ITM (in-the-money) because everything is cash-settled; therefore, you won't have to worry about holding and/or selling those shares, as you would with most other options)
3. if SPX too expensive, can use SPY ETF (1/10 size of SPX)
4. vertical credit spreads; mostly Bull Put spreads but can combine Bear Calls when appropriate to increase credits
5. DTE = 3, 30, or 45 (most common choices by users)
6. short strike = 10 delta (theoretical win rate = 90%; POP (prob of profit) = 96% - these depend on credits received)
7. Width = 25, 50, or 100
8. best combination of DTE and Width is up to the trader
9. actual credits will rise and fall with market volatility (VIX)

**LOSSES**

How this strategy would've worked when COVID-19 hit the markets in Feb 2020

The ability to make a decent return from this strategy hinges on limiting losses.

To illustrate, let's use the strategy: selling 30 dte, 10 delta, 100-wide put spreads.

(Average over time) expected premium = \$4.00 (i.e. \$400/contract); max risk = \$96 (\$9600/contract)

A short 10 delta put strike translates roughly to 10% of expiring in-the-money (ITM), therefore, 90% of expiring out-of-the-money (OTM), i.e. a winning trade.

However, POP (probability-of-profit) takes the credit received into account since the breakeven is past the short strike. Therefore, POP will be slightly higher than the % determined by Delta. POP is calculated as:  $100 - [(the\ credit\ received / strike\ price\ width) * 100] = 100 - (4/100)*100 = 100 - 4 = 96\%$

(let's use 95% for win rate) Therefore, the expectancy formula may work out to:  $95\% \text{ wins} * \$400 \text{ minus } 5\% \text{ losses} * \$9600 = \$380 - \$480 = \$-100$

*"Huh?! What's so good about a strategy that is expected to lose \$100 per trade?"*

There's no reason why those 5% losses should lose as much as \$9600; that's just the max loss.

Barring the earth exploding (in which case you'll have other things to worry about besides the stock market), even in a major crash the market would not drop so suddenly as to realize that max loss immediately; it will take some time.

When Covid hit in late Feb/2020, the market dropped 30% in 30 days, but then recovered completely in 5 months.

Since that time, the next worst drop was 10% from late Aug/2020 to late Sep/2020, again about 30 days.

After a comprehensive analysis of SPX price drops for various dte's over the past 30 years (see SPX ANALYSIS and/or Charts),

significant price drops are rare and even when they do occur, the loss can easily be mitigated by simply closing the trade early.

It would take a price drop of about 11-13% to reach the point where ~75% max loss would be realized. If I have an open spread position and I see the market dropping significantly over a short period of time, I'm going to EXIT my position well before I hit that max loss.

The "4%/month return" is based on exiting at no worse than 75% max loss.

I use alerts at the price level when price has dropped towards that 75% max loss level.

**EXECUTION**

i.e. how to execute this strategy

1. Determine how much trading capital you can devote to this strategy, e.g. \$25K (ideally, this is no more than 80% of your overall trading capital)
2. As max risk = ~\$9600/contract, it's assumed your broker will require that much in your account.  
That would equate to about 2.6 contracts per trade, or 2.6 trades (if trading just 1 contract) open at the same time.  
Obviously, you would be limited to 2 contracts or trades. If you had \$28.8K trading capital, this would be enough for 3 contracts or trades.
3. Open the option chain for SPX and find the strikes for 30 dte (or as close as possible to 30 dte.)
4. Select the put strike that is at 10 delta; this will become the short strike in your vertical put spread order;  
the long strike (same dte) will be 100 pts lower (deeper Out-of-the-Money DOTM.)  
This is a standard Bull Put Spread order: sell a put OTM, buy a put at a lower strike DOTM - same expiration.
5. Note the VIX (volatility); premiums for your spread order will rise/fall corresponding to volatility.  
Ideally, you are targetting a premium of about \$3.75 - \$4.25
6. If you wait for a downturn in the market, premiums might be a bit better
7. Execute your order and enter it into your trade log when filled
8. Analyze the risk profile for this trade and determine the level of SPX (below the current market) where ~75% of the max loss would be realized, i.e. ~\$7200
9. Set a price alert at that level

## **I DON'T WANT TO READ ALL THE DETAIL ... JUST TELL ME THE BOTTOM-LINE**

1. Use \$10K of trading capital to earn about \$400 every 30 days by selling Put spreads on the SPX (S&P500 index)
2. If the trade "wins", your profit is about \$400; if the trade "loses", you could lose up to \$9600 (don't worry; you're not going to lose that much!)
3. The probability of this trade winning is about 95%; for the 4% of the time the trade loses, the actual loss can be managed to be less than the \$9600 max loss
4. The 4-5% per month return is based on capping these losses to about 75% of the max, i.e. about \$7200; even better returns are possible if capping the loss to less than 75%
5. Each trade requires \$10K of capital as long as the trade is open
6. With \$10K, you can open a 30-day trade every month, i.e. 12 trades per year
7. With \$40-50K, you can open a 30-day trade every week, i.e. 52 trades per year
8. Once a trade is opened, it does not need to be monitored
9. However, price alerts on the SPX should be set in order to signal if and when price drops to a level where you would need to close the trade
10. Now if you DO want the detail (to gain more confidence about the viability of this strategy),

**SPX TRADING PLAN - 4.8% per month**

dte >	30
spread width >	100
delta of ss >	10
# k's >	1
suggested win % >	90%
<b>win % to use &gt;</b>	<b>95%</b>
lose % >	5%
expected prem >	\$4.25
override prem >	\$4.00
overriding? >	yes
profit to use >	\$4.00
max loss/k >	\$96.00
% of max loss to use >	75%
calc'd loss to use >	\$72.00
risk/k >	\$9,600
pop % >	96.0
# winning trades >	49.4
# losing trades >	2.6
lose every trade# >	20.0
override this >	21.0
overriding? >	no
lose every trade# TO USE >	20.0
BPE required/trade >	\$9,600
# trades open at one time >	4.4
Expectancy Formula >	\$43.75

1 trade every > **1** week  
 trades > **52** 52 trades in a yr  
 comm/leg > **1.14**  
 min capital needed > **\$42,400**

trading capital > **\$30,000**  
 max profit > **\$4.00**  
 max loss > **\$96.00 = 32.% of trading capital**

	num	amt	net
wins	50	\$19,886	\$5,477
losses	2	-\$14,409	

Total after a yrs worth of trades > **\$5,477** 57.1% = 4.8% per month  
 Total after 500 trades > **\$8,803**

trade #	profit	cum	risk	ROI	cum gain	cum ROI
1	\$398	\$398	\$9,600	4.1%	398	4.1%
2	\$398	\$795	\$9,600	4.1%	398	4.1%
3	\$398	\$1,193	\$9,600	4.1%	398	4.1%
4	\$398	\$1,591	\$9,600	4.1%	398	4.1%
5	\$398	\$1,989	\$9,600	4.1%	398	4.1%
6	\$398	\$2,386	\$9,600	4.1%	398	4.1%
...	...	...	...	...	...	...
...	...	...	...	...	...	...
47	\$398	\$3,488	\$9,600	4.1%	398	4.1%
48	\$398	\$3,886	\$9,600	4.1%	398	4.1%
49	\$398	\$4,284	\$9,600	4.1%	398	4.1%
50	\$398	\$4,681	\$9,600	4.1%	398	4.1%
51	\$398	\$5,079	\$9,600	4.1%	398	4.1%
52	\$398	\$5,477	\$9,600	4.1%	398	4.1%

ROI/trade = 4.2%

rounding down

# **HOW WOULD THIS STRATEGY HAVE PERFORMED WHEN COVID-19 HIT THE MARKETS ?**

# **HOW WOULD THIS STRATEGY HAVE WORKED WHEN COVID HIT THE MARKETS IN FEB/2020 ?**

**Since limiting any losses to less than the max is the key to the success of this strategy, then how might this strategy perform during a significant market downturn? In other words, what would the likely outcome be when such a downturn is experienced?**

**A reasonable way of answering this is by looking at the worst downturns in recent memory:**

**Covid-19 pandemic - Feb/20: SPX dropped 1198 pts (35%) in 33 days**

**Financial (housing bubble) crisis - 2008: SPX dropped 634 pts (49%) in 6 months**

**Using Covid-19 to illustrate, 3 separate scenarios were reviewed using Thinkorswim's "On Demand" feature which has actual option prices on a minute-by-minute basis going back 10 years.**

# HOW WOULD THIS STRATEGY HAVE WORKED WHEN COVID HIT THE MARKETS IN FEB/2020 ?

**3 SCENARIOS OF SELLING 30dte, 100-wide, 10 delta Put spreads:**  
(see green arrows on following charts)

**ScenarioA – 1 week before the 1<sup>st</sup> major drop (2/12)**

**ScenarioB – 1 week after the 1<sup>st</sup> major drop (2/26)**

**ScenarioC – 1 month after the 1<sup>st</sup> major drop (3/19)**

@8/2/21 daily chart of the SPX for the past 2 years



SPX daily chart: 2/11/20 – 5/4/20



# SCENARIO-A

MENU

Wed 2/12/20 ~3pm

SPX = 3377

VIX = 13.8

30dte chain exp 3/13/20

10 delta put strike = 3160

SELL -1 VERTICAL SPX 100 (Weeklys) 13 MAR 20

3160/3060 PUT @4.00 LMT

Max risk =  $100 - 4 = 96$ /share (1 contract = 100 shares)

75% of max risk =  $9600 * 75\% = \$7200$

Approx SPX price to hit this level:

with 3dte (3/10) = 3056 (pt drop = 321, 9.5%)

with 15dte (2/27) = 2962 (pt drop = 415, 12.3%)

(N.B. Volatility was going wild so prices would be expected to fluctuate.)





# SCENARIO-B

MENU

Wed 2/26/20 ~3pm

SPX = 3119

VIX = 28.4

30dte chain exp 3/27/20

10 delta put strike = 2770

SELL -1 VERTICAL SPX 100 (Weeklys) 27 MAR 20

2770/2670 PUT @5.80 LMT

Max risk =  $100 - 5.8 = 94.2$

75% of max risk =  $94.2 * 75\% = \$7065$

Approx SPX price to hit this level:

with 3dte (3/24) = 2645 (pt drop = 474, 15.2%)

with 15dte (3/13) = 2570 (pt drop = 549, 17.6%)

(N.B. Volatility was going wild so prices would be expected to fluctuate.)



## Price alert would've been set @2645

MENU

That level was hit on 3/12 @9:30am as price gapped below the alert.

Daily and 1m charts shown at right:

SPX = 2549, VIX = 65.7

Based mostly on the daily chart, I would've checked the P/L of my position using the Analyze tab in TOS.

(According to the risk graph, if I had exited at this time, my loss would've been approx \$5503.)

### Actual buyback prices:

**3/12 @9:45 = 60 (VIX = 66); loss = 60 - 5.80 = \$5420**

If waited 1 more day (SPX = 2561):

**3/13 @9:50 = 51 (VIX = 67); loss = 51 - 5.80 = \$4520**



# SCENARIO-C

MENU

Thu 3/19/20 ~3pm

SPX = 2440

VIX = 69.5

29dte chain exp 4/17/20

10 delta put strike = 1825

SELL -1 VERTICAL SPX 100 (Weeklys) 17 APR 20

1825/1725 PUT @10.80 LMT

Max risk =  $100 - 10.8 = 89.2$

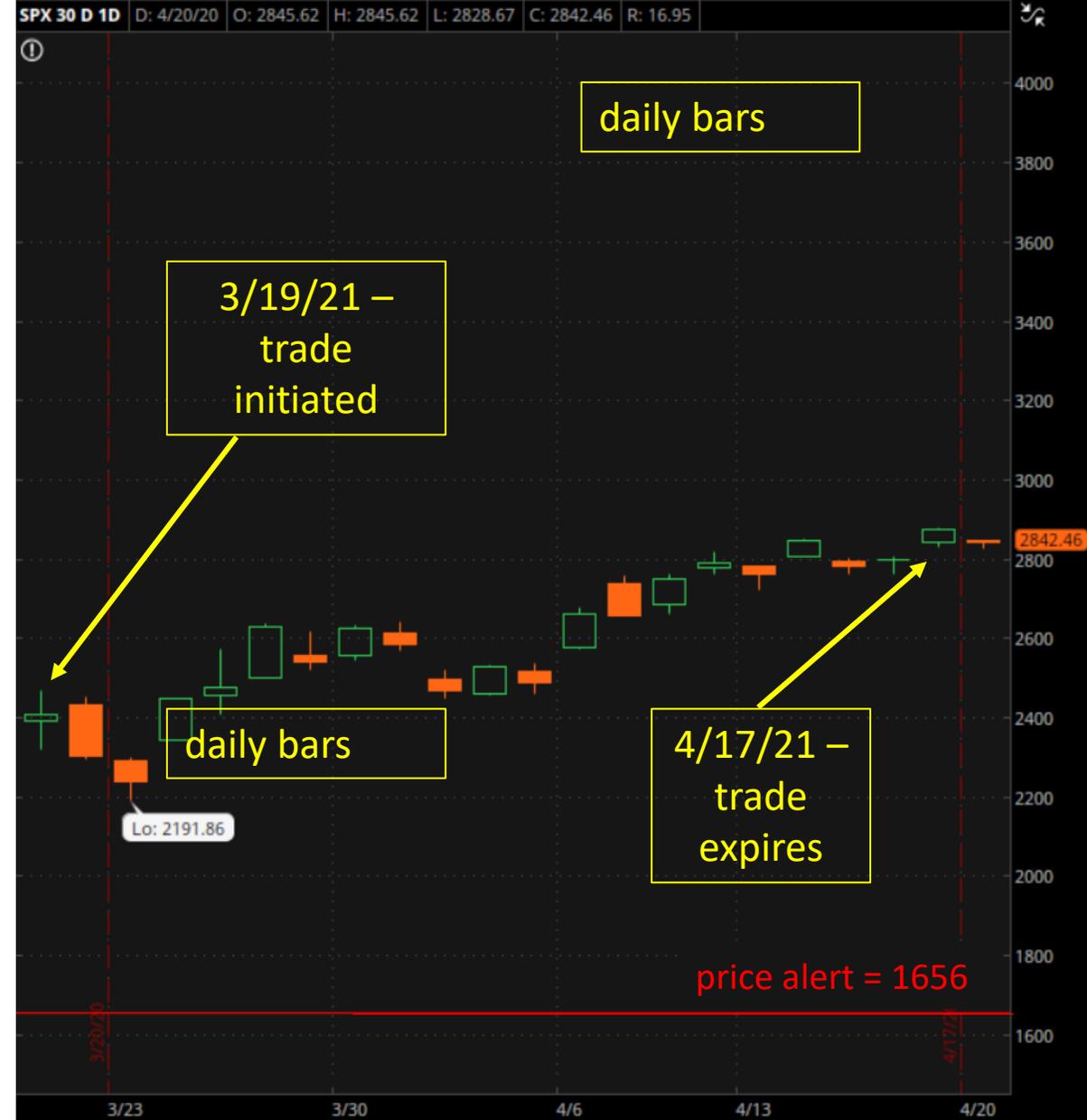
75% of max risk =  $89.2 * 75\% = \$6690$

Approx SPX price to hit this level:

with 3dte (4/14) = 1656 (pt drop = 784, 32.1%)

with 15dte (4/3) = 1551 (pt drop = 889, 36.4%)

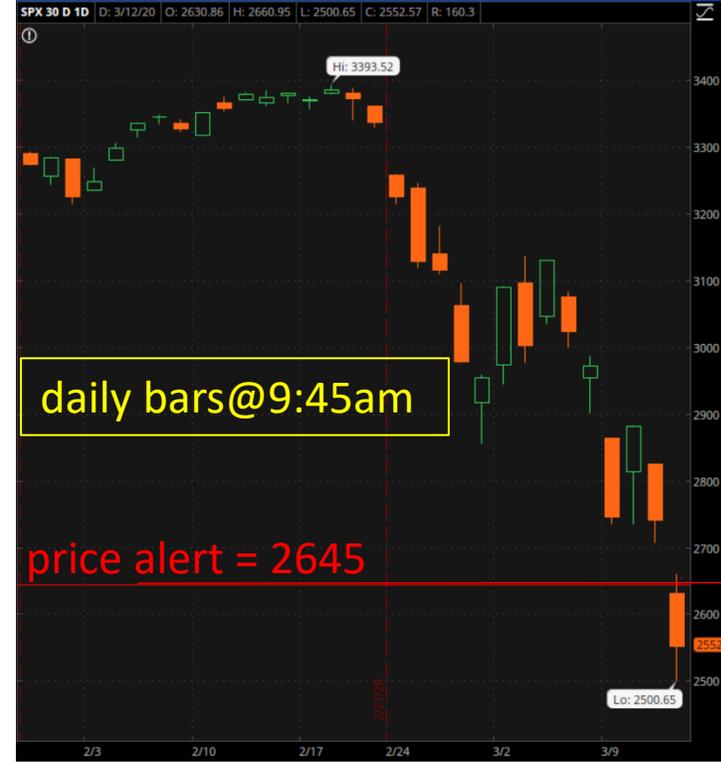
(N.B. Volatility was going wild so prices would be expected to fluctuate.)



# Price alert would've been set @1656

MENU

That level was not hit so the trade would've expired worthless, gaining the max profit of \$1080.



# HOW WOULD THIS STRATEGY HAVE WORKED WHEN COVID HIT THE MARKETS IN FEB/2020 ?

## CONCLUSIONS

### **3 SCENARIOS OF SELLING 30dte, 100-wide, 10 delta Put spreads:**

(price alerts set at the 75% max loss level – with 3dte – as of trade initiation date)

#### **ScenarioA – 1 week before the 1<sup>st</sup> major drop (2/12)**

If exit trade when price alert triggered after SPX dropped ~300 pts (9.8%), trade would've lost \$5000

If waited 1 more day, SPX dropped another 150 pts (14.1% drop overall), trade would've lost \$7000

#### **ScenarioB – 1 week after the 1<sup>st</sup> major drop (2/26)**

If exit trade when price alert triggered after SPX dropped ~570 pts (18.3%), trade would've lost \$5400

If waited 1 more day, SPX rose 22 pts; trade would've lost \$4500

#### **ScenarioC – 1 month after the 1<sup>st</sup> major drop (3/19)**

Price alert wouldn't have triggered, therefore, trade would've expired with max profit = \$1080

# WHAT ARE BULL PUT SPREADS?

# ANATOMY OF AN OPTIONS TRADE

## WHERE YOU CAN PROFIT NO MATTER WHAT PRICE DOES

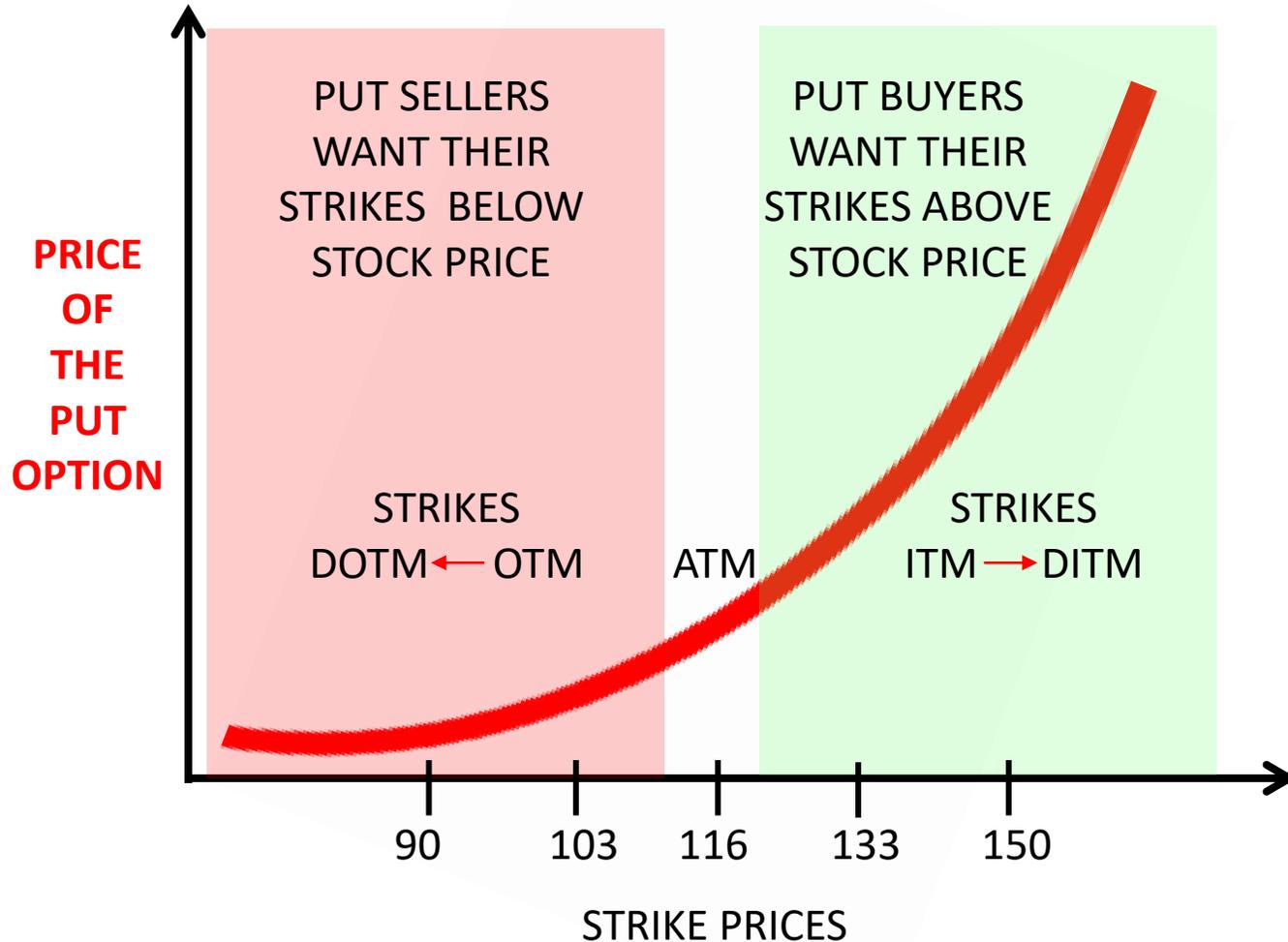
### BULL PUT SPREAD (BPS)



- PROFIT WHEN A STOCK PRICE EITHER RISES OR DROPS A LITTLE  
(within a particular time frame e.g. 30 days)
- PROFIT IF THE MARKET DOES NOT DROP BELOW A PARTICULAR PRICE LEVEL (below the current market)
- MARKET OUTLOOK IS NEUTRAL-to-BULLISH

# MONEYNESS OF A PUT OPTION

e.g. AAPL = 116.61 @10/27/20



DOTM – deep\_out\_of\_the\_money  
OTM – out\_of\_the\_money  
ATM – at\_the\_money  
ITM – in\_the\_money  
DITM – deep\_in\_the\_money

When the current price = \$116, the 133 Put is ITM; if you BOUGHT that Put, you could exercise the option to sell shares @\$133 and make \$17 profit. The 150 Put is DITM (more profit.)

The 103 Put is OTM; if you owned that Put, you wouldn't want to exercise the option to sell shares @\$103 because you could get \$116 in the open market.

However, if you had SOLD the 103 Put, that is to your advantage because the owner would not want to exercise, and you would keep the sale proceeds.

The 90 Put is DOTM (but worth less than the 103 Put.)

# SELLING OR BUYING PUTS

<b>PUT OPTIONS</b>		
The right to sell 100 shares (per contract) for the duration of that contract (e.g. 30 days)		
<b>PUT SELLER</b>		<b>PUT BUYER</b>
SHORT	POSITION	LONG
RECEIVES PREMIUM FOR THE OPTION SOLD	@ TRADE INCEPTION	PAYS PREMIUM FOR THE OPTION PURCHASED
Price will rise Stock price will be above strike @ expiry	MARKET OUTLOOK	Price will fall Stock price will be below strike @ expiry
OTM (strike < price)	MONEYNESS	ITM (strike > price)
OTM option will not be exercised; Put Seller keeps original premium received	MARKET OUTLOOK HOLDS TRUE	ITM option will be exercised; Put Buyer can profit by buying shares @MKT
ITM option will be exercised; Put Seller obligated to buy shares @strike price; will suffer loss if sell shares @MKT	MARKET OUTLOOK DOES NOT HOLD TRUE	OTM option will not be exercised; Put Buyer loses original premium paid

# COMPONENTS OF A BULL PUT SPREAD



- 2 option legs:
  1. Sell a Put (go short) at a strike that is OTM
    - Collect premium from the sale
  2. Buy a Put (go long) at a lower strike DOTM
    - Pay a cheaper premium for the purchase
- Net effect is a credit to your trading account

(less any commissions, e.g. \$1.50/leg/contract, depending on broker)

# TRADING A BULL PUT SPREAD *(illustration using AAPL)*

- This is a 3-month daily chart of AAPL as of 10/27/20

Apple Inc. (AAPL) ☆

NasdaqGS - NasdaqGS Real Time Price. Currency in USD

**116.61** +1.56 (+1.36%)

As of 11:43AM EDT. Market open.

Indicators Comparison Events **P** | Date Range 1D 5D 1M **3M** 6M YTD 1Y 2Y 5Y Max | Interval 1D Candle Draw



# HOW TO CREATE A BULL PUT SPREAD

*(illustration using AAPL chart on prev pg.)*

- CHOOSE TIMEFRAME (e.g. 30 days to expiry)
- SELL A PUT WITH A STRIKE = DESIRED PRICE LEVEL (e.g. 110)
  - strike < current price (116.61), i.e. OTM
  - a level below which you don't think price will go, by expiry
  - this is the short put
- BUY A PUT AT A LOWER STRIKE (e.g. 105)
  - this is the long put
  - acts as a hedge in case price drops; it limits your max loss
- Short put is worth more than the long put so you end up with a NET CREDIT to your account as soon as BPS trade is filled

- Option chain for AAPL as of 10/27/20, using trading platform Thinkorswim
- Choosing the 11/27/20 options - 31 dte (days-to-expiry)
- Selecting the 110 put strike to sell, 105 put strike to buy

CALLS										Strikes: 33	PUTS									
Mark	Open....	Volume	Delta	Prob....	Prob....	Bid X	Ask X	Exp	Strike	Bid X	Ask X	Mark	Open....	Volume	Delta					
>	30 OCT 20	(3)	100	(Weeklys)																
>	6 NOV 20	(10)	100	(Weeklys)																
>	13 NOV 20	(17)	100	(Weeklys)																
>	20 NOV 20	(24)	100	(Weeklys)																
>	27 NOV 20	(31)	100	(Weeklys)																
			17.125	6	1	.87	16.03%	30.90%	17.00 M	17.25 B		27 NOV 20	101	1.12 Q	1.14 E	1.130	281	0	-.13	
			16.200	24	0	.86	17.07%	32.91%	16.10 Q	16.30 B		27 NOV 20	102	1.25 Q	1.27 W	1.260	321	30	-.14	
			15.375	24	0	.84	18.90%	36.41%	15.20 C	15.55 C		27 NOV 20	103	1.40 Q	1.42 W	1.410	189	41	-.16	
			14.525	16	0	.83	20.55%	39.57%	14.40 C	14.65 M		27 NOV 20	104	1.57 Q	1.59 W	1.580	165	21	-.17	
			13.725	169	3	.81	22.55%	43.37%	13.65 B	13.80 B		27 NOV 20	105	1.76 Z	1.78 Z	1.770	1,107	58	-.19	
			12.950	53	10	.79	24.68%	47.43%	12.85 M	13.05 M		27 NOV 20	106	1.97 Z	1.99 W	1.980	318	16	-.21	
			12.175	70	1	.77	26.80%	51.46%	12.10 B	12.25 B		27 NOV 20	107	2.21 W	2.23 Z	2.220	268	81	-.23	
			11.425	52	1	.75	29.04%	55.72%	11.35 M	11.50 B		27 NOV 20	108	2.46 Z	2.48 Z	2.470	188	27	-.25	
			10.700	91	0	.73	31.39%	60.17%	10.60 M	10.80 M		27 NOV 20	109	2.74 Z	2.76 Z	2.750	320	14	-.27	
			10.000	18,596	329	.71	33.83%	64.78%	9.95 B	10.05 Q		27 NOV 20	110	3.00 Z	3.10 C	3.050	2,183	282	-.29	
			9.300	255	45	.68	36.44%	69.68%	9.30 B	9.40 Z		27 NOV 20	111	3.35 E	3.40 W	3.375	229	9	-.32	

105 1.76 Z 1.78 Z 1.770

Purchase price of long 105 put = 1.77

110 3.00 Z 3.10 C 3.050

Sale price of short 110 put = 3.05

Net Credit = 3.05 - 1.77 = 1.28

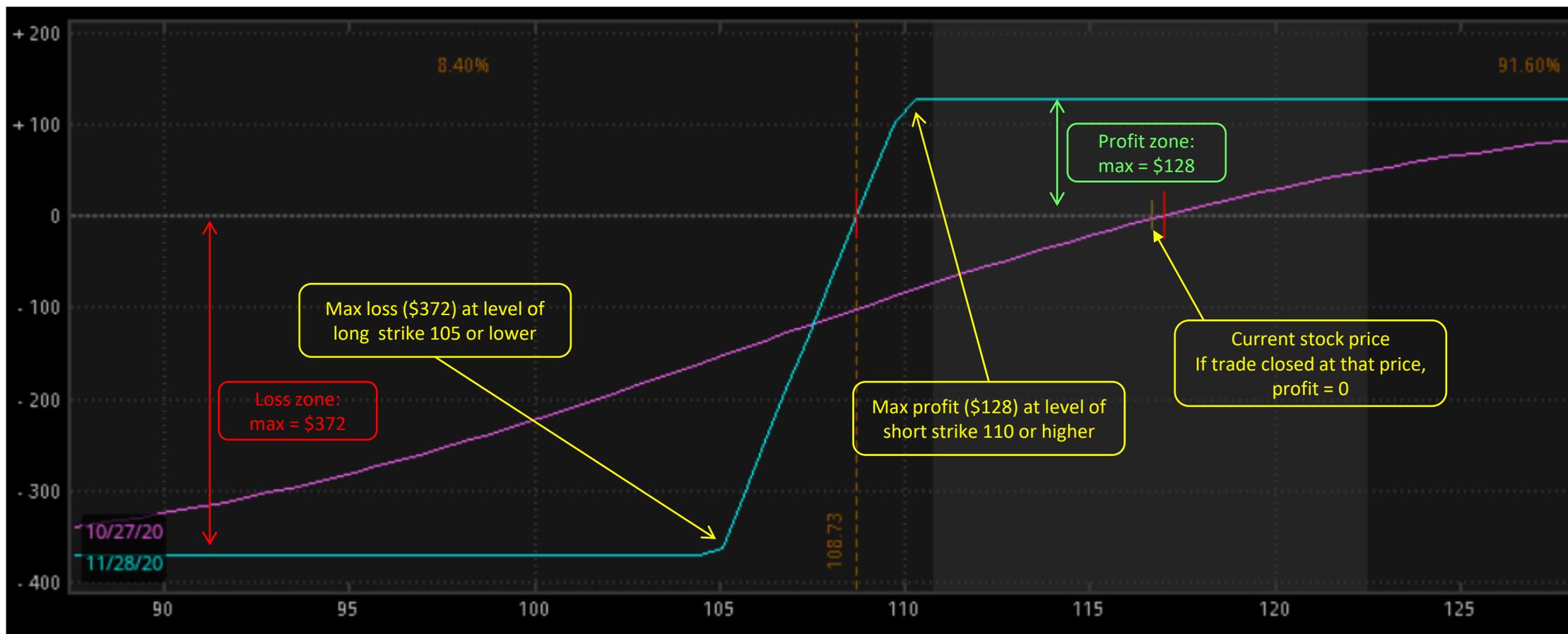
Delta of the 100 put = .29 meaning there is approx. a 29% chance of this put being ITM @expiry, or a 71% of expiring OTM, i.e. 71% chance of SUCCESS

- 10/27/20 Order ticket for AAPL (using Thinkorswim platform – TOS)
- Net credit = 1.28/share = \$128/contract (1 contract controls 100 shares)
- This is a limit order (LMT), i.e. sell @1.28 or better, and is a DAY order
- Expiry = 11/27/20 (31 dte as of 10/27/20)
- Max profit = net credit received = 1.28
- Max loss = diff in strikes less credit =  $(110 - 105) - 1.28 = 5.00 - 1.28 = 3.72$
- Margin req'd by broker = max loss; potential ROI =  $128/372 = 34.4\%$  over 31 days

Side	Qty	Symbol	Exp	Strike	Type	Link	Price	Order
SELL	-1	AAPL	27 NOV 20 (Weeklys)	110	PUT		1.28	LMT
BUY	+1	AAPL	27 NOV 20 (Weeklys)	105	PUT		CREDIT	LIMIT

- PUT: the right to sell shares @ at given price by a certain time
- Selling a Put means you sell this right
- Selling the 105 Put means you sell (to someone else) the right to sell shares @105
- If exercised, those shares will be sold back to YOU, therefore, you must buy shares @105 (regardless of the actual price at that time) to resolve the trade (unless you already own 100 shares, in which case, those shares will be transferred out)
- Therefore, selling the 105 Put obligates you to buy @105 \*only if\* option is exercised

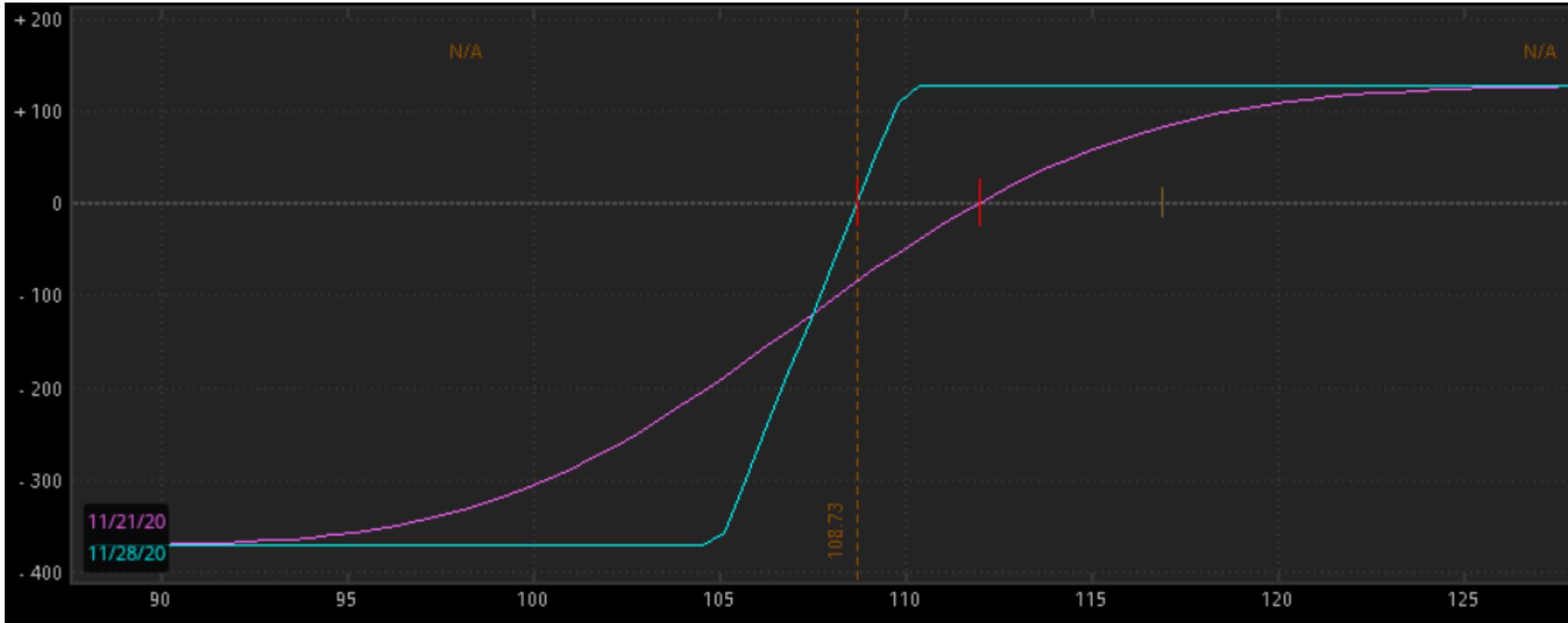
## Risk profile of this trade @10/27/20 (at trade inception)



- Blue line shows profitability @ expiry
- Pink line shows current profitability
- Breakeven (b/e) point is currently at 117
- As time moves towards expiry, pink link will approach shape of blue line – see next pg.

## Risk profile (projected) of this trade @11/21/20 (25 days into the trade)

MENU



- Pink line shows current profitability @11/21/20
- Pink line shape is approaching that of blue line
- Notice how pink line shows b/e point at a lower price level (112.50) than at trade inception

# ALL POSSIBLE SCENARIOS FOR THIS AAPL BPS

SELL -1 VERTICAL AAPL 100 (Weeklys) 27 NOV 20 110/105 PUT @1.28 LMT

(AAPL = 116.61 @10/27/20)

- 1. PRICE GOES UP OR REMAINS FLAT; REMAINS > 116.61 FOR THE DURATION OF THE CONTRACT (31 days)**
  - as the option expires, you keep the \$128 premium
  - the \$372 margin is freed up by your broker
  - this is the MAX profit, even if price rises from \$116.61 to \$500
- 2. PRICE GOES DOWN; FALLS BELOW 105 AT CONTRACT EXPIRY (say, price = 103 @expiry)**
  - the 110 short put is exercised ∴ buyback @103; loss = \$7
  - the 105 long put is exercised ∴ sell @105; gain = \$2
  - this is effectively handled by the broker automatically; net loss = \$5
  - this is the MAX you can lose, even if price drops from \$116.61 to zero
- 3. PRICE GOES DOWN; FALLS IN-BETWEEN 110-105 AT CONTRACT EXPIRY**
  - say, price = 107 @expiry
  - broker resolves trade as above; 110 short put is exercised ∴ buyback @107; loss = \$3
- 4. YOU DON'T HAVE TO WAIT FOR THE BPS TO EXPIRE IN 31 DAYS**
  - the value of the BPS at trade inception was \$1.28 (your sale proceeds)
  - during the life of the spread, this value will fluctuate depending on price, volatility, and time remaining
  - you may BUYBACK this spread at any time (within the 31 days) to realize profit (or loss)

# BEAR CALL SPREAD - BCS

1. BPS HAS A MARKET OUTLOOK THAT IS FLAT-TO-BULLISH
  - SELL OTM PUT
  - BUY DOTM PUT (AT A LOWER STRIKE)
  - RECEIVE NET CREDIT
  - AS LONG AS PRICE REMAINS ABOVE SHORT STRIKE, YOU KEEP THE NET CREDIT
  
2. BCS HAS A MARKET OUTLOOK THAT IS FLAT-TO-BEARISH
  - SELL OTM CALL
  - BUY DOTM CALL (AT A HIGHER STRIKE)
  - RECEIVE NET CREDIT
  - AS LONG AS PRICE REMAINS BELOW SHORT STRIKE, YOU KEEP THE NET CREDIT

## BULL PUT SPREAD - BPS



## BEAR CALL SPREAD - BCS



# COMBINING A BPS AND A BCS

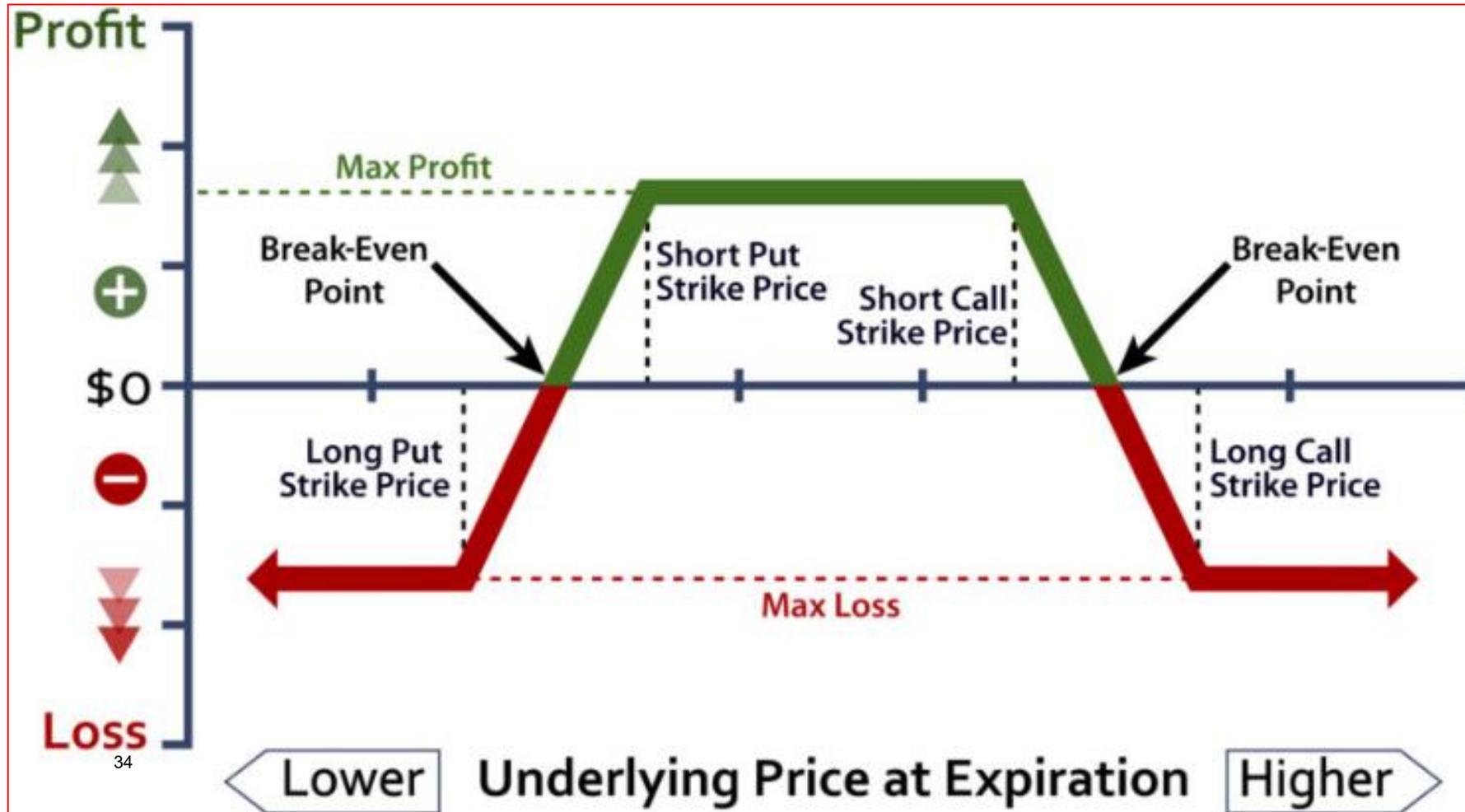


# BPS + BCS = IRON CONDOR

MENU



- ✓ Iron Condor – combine these 2 spreads together
  - Can be entered as a single order (4 legs)
  - You want price to remain in-between the 2 short strikes
  - Potentially better returns **in a ranging market** since there are 2 premiums instead of 1
  - If price moves against you, you're likely only going to lose on 1 side (Put or Call)



THANKS FOR READING



IF YOU HAVE ANY QUESTIONS...

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