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# VERTICAL SPREAD TRADER

## Leveraging The Power Of Options



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Issue #707 February 1, 2024 - By Lee Lowell

### **New Trade!**

Hello Vertical Spread Traders,

Quick housekeeping note:

I've been getting messages from my email server that my responses to some of your email questions are being returned to me undeliverable. I'm trying to find out if it's on my end or your end.

In the meantime, if you've sent me an email and haven't heard back from me, please check your spam folder.

Also, I'm trying to send replies to your questions from a back-up Gmail account of mine, so if you receive something from me from a Gmail address, don't worry, it's legit.

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As mentioned yesterday, the U.S. Federal Reserve held its latest policy meeting on interest rates, and as most assumed, they were kept unchanged.

This really didn't do too much to the market action except a little bit of profit-taking from recent highs.

I also mentioned that we're into some of the biggie names for quarterly earnings reports and Apple & Amazon report after the bell today. These big Nasdaq stocks have the ability to move the market as a whole.

But I have a trade today for a company that's already reported, and shouldn't be too affected by Apple & Amazon's results.

So with that, let's get to it!

## **Advanced Micro Devices (AMD)**

Yup, you know I love AMD, and we're going back in. If you've been with us for awhile, we've played AMD successfully many times over the last few years.

We have an opportunity for it today.

AMD recently hit all-time new highs above \$180 just last week.

Here's the current [daily chart](#).

And after their earnings results the other day, it has pulled back to its current

price near \$167, giving us a nice chance to jump back in. This will give us \$42 of downside cushion for the spread we're targeting, which equates to a buffer (room for error) of roughly 25%.

Here's what you can choose to do (official):

**Sell (sell-to-open) the AMD April 19, 2024 \$125/\$120 put option credit spread (\$5-wide) for a limit sell price of \$.25 per spread or higher, GTC, as an opening transaction (sell-to-open).**

Currently, this \$5-wide spread is worth near \$.30 per, so we should have no problem getting filled for better than \$.25 per.

If you don't get filled today, just keep your sell order working "GTC" (good-til-cancelled).

Make sure to check the option prices before entering your trade so you know what to shoot for.

**Do not** sell for anything less than \$.25 per spread.

Here are more details:

When I write up the instructions, I will always place the higher (more expensive) strike first, as it is the one we will be **selling** as part of the spread. The lower (less expensive) strike listed is the one we will be **buying** in the spread.

In this spread trade, you will be **selling** the \$125 put option and **buying** the \$120 put option all within a single transaction. It is also called a "vertical bull-put credit spread".

The difference between the put option prices is what makes up the spread.

It is in your best interests to execute the trade as a single spread transaction instead of executing two separate distinct buy & sell trades.

If you don't understand what that means, please read the Primer (in the Members-Only section) for more details and watch the two videos that are posted on the website (same page as the Primer). You can also ask your broker for help if you need it.

This spread is currently worth about \$.30 per.

When executing the trade as a single spread transaction, it doesn't matter what each "leg" trades for. All that matters is that you sell it for at least \$.25 per spread or higher.

If for whatever reason you cannot, or don't want to enter the trade as a single spread transaction, you are more than welcome to execute two trades independently of each other. This will entail you having to set up your trading platform to buy the \$120 put option first, and then manually get your trading platform set up a second time to sell the \$125 put option.

It takes up precious time and is tedious to do it that way. You also open yourself up to "slippage", which means the stock can jump or fall in price on you unexpectedly while you fumble with your trading platform to get set up to make those individual transactions.

Trust me, please try to learn how to execute these trades as spreads. It will make things a lot easier.

If you still need to execute both trades separately, make sure you sell the \$125 put for at least \$.25 per contract higher than what you pay for the \$120 put.

Since the spread is \$5 wide ( $\$125 - \$120 = \$5$ ), your margin requirement and risk will never be more than \$500 per each transacted spread. If you sell 5 spreads, your

risk and margin requirement will be no more than \$2,500 total.

If this case, if the spread is sold for \$.25 per (\$25 collected), the margin requirement would be \$475 ( $\$500 - \$25$ ), the return on margin (ROM) will be 5.2% ( $\$25/\$475$ ).

Since I'm expecting these trades to last one-to-three months in duration (if we close it early before expiration), annualized ROM gains can be in the ballpark of 15%-20%.

## What Are The Outcomes?

There are 5 scenarios that can occur by expiration:

1. AMD remains above \$125 (the sold strike). If this is the case, both options will expire worthless and full profit will be attained.

The profit will be the initial credit received.

2. AMD finishes below \$120 (the bought strike). If this is the case, both options will be in-the-money and full loss will be attained.

The full loss (risk) is always the width of the spread minus the credit multiplied by 100 ( $(\$5 - \$25) \times \$100$ ). In this case, it's \$475 per spread.

3. AMD finishes somewhere between \$125 and \$120. If this is the case, the spread will yield varying degrees of profit or loss.

4. We buy back the spread before expiration at our "80% Rule" threshold and lock in the profits.

5. We buy back the spread for a smaller loss than the maximum. Since the

market remains fluid, we will mind our stop-loss levels of either 2:1 risk-reward, or 3:1 risk-reward, depending on the market looks. Or, we may choose to roll. I will explain that and send follow-up alerts if/when the time comes.

In the end, you're risking \$475 to make \$25.

Everyone good?

Remember, **do not** sell for anything less than \$.25 per spread.

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Here are the instructions for the unofficial trade. Remember, this one is optional and entails less downside cushion. Please check the stock & option prices at the time of entry as things can change quickly since the writing of this alert.

For more information on the unofficial trades, scroll down to the "Announcements" section of the newsletter below.

If you are very bullish on AMD from this point and think it will move higher from here, here is a trade you can consider.

Here what you can choose to do (unofficial):

**Sell (sell-to-open) the AMD April 19, 2024 \$170/\$165 put option credit spread (\$5-wide) for a limit credit sell price near \$2.50 per spread, GTC, as an opening transaction (sell-to-open).**

Currently, the spread is worth roughly \$2.60 per, so you should be able to get it done near that level, maybe a touch less or touch more.

In this trade, you will be **selling** the \$170 put, and **buying** the \$165 put (\$5-wide).

If you need clarification on how to execute the spread, you can use the instructions given above for the regular spread as guidance.

Here's some numbers to keep in mind:

1. If filled at \$2.50 per spread, the maximum gain will be \$2.50 while the maximum risk will be \$2.50. This is right at the 1:1 risk-to-reward we want to shoot for with unofficial trades.

2. If filled at \$2.50 on the \$170/\$165 spread, breakeven is at an AMD stock price of \$167.50. In order to find your own breakeven, subtract the spread price you received, from the \$170 strike price.

3. With AMD currently near \$167, the breakeven of \$167.50 leaves no downside cushion. You need to be bullish on AMD right from this point. As the stock moves higher, the spread will decrease quickly (that's good!).

Any AMD stock price below \$167.50 at expiration will yield losses. Keep that in mind.

You can always adjust the strikes if you wish to suit your needs.

4. If you are unsure of what to do, please don't make the trade. Send me questions, and I will answer en masse in a future alert. Please refrain from sending personal investment questions about personal positions in your account. I **cannot** answer those. Sorry!

Remember, this specific spread is optional and unofficial.

Check the option prices before placing your order so you know where the fair value is.

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Ok, that's all for now. Get those new sell trades in there and let us know how you do.

Continue to hold all other open positions as-is.

Contact us [here](#) with fills, comments, questions or concerns.

Best,  
Lee

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## Current Portfolio

Continue to work all trades as instructed and continue to hold all other open positions as-is.

See the Current Portfolio below for current prices & instructions.

**Note on the Current Portfolio - if you are a new subscriber and don't have a position yet on any of our trades, make sure you enter your order at the original recommended prices. If you are unsure or have any questions, please ask us!**



## Vertical Spread Trader Portfolio

| <u>Position</u>                     | <u>Entry Date</u> | <u>Entry Sell Price</u> | <u>Current Price</u> | <u>Current Instructions</u>  |
|-------------------------------------|-------------------|-------------------------|----------------------|--|
| NVDA Feb 16, '24 \$360/\$355 put sp | 11/22/2023        | \$0.27                  | N/A                  | Closed. BTC for \$.05 per spread<br>See instructions from 1/7/24 alert     |
| META Feb 16, '24 \$255/\$250 put sp | 12/8/2023         | \$0.26                  | N/A                  | Closed. BTC for \$.04 per spread<br>See instructions from 1/12/24 alert    |
| ADBE Feb 16, '24 \$485/\$480 put sp | 12/14/2023        | \$0.28                  | N/A                  | Closed. BTC for \$.05 per spread<br>See instructions from 1/22/24 alert    |
| NKE Mar 15, '24 \$95/\$90 put sp    | 12/22/2023        | \$0.34                  | \$0.53               | STO for \$.25 per spread or better<br>See instructions from 12/22/23 alert |
| QQQ Mar 15, '24 \$365/\$360 put sp  | 1/18/2024         | \$0.25                  | \$0.11               | STO for \$.25 per spread or better<br>See instructions from 1/18/24 alert  |
| <b><u>Unofficial Positions</u></b>  |                   |                         |                      |  |
| NVDA Feb 16, '24 \$485/\$480 put sp | 11/22/2023        | \$2.40                  | \$0.02               | See instructions from 11/22/23 alert                                       |
| META Feb 16, '24 \$330/\$325 put sp | 12/8/2023         | \$2.25                  | \$0.19               | See instructions from 12/8/23 alert  |
| ADBE Feb 16, '24 \$590/\$585 put sp | 12/14/2023        | \$2.35                  | \$0.85               | See instructions from 12/15/23 alert                                       |
| QQQ Mar 15, '24 \$410/\$408 put sp  | 1/18/2024         | \$0.71                  | \$0.49               | See instructions from 1/18/24 alert  |
| STO = Sell-To-Open/Sold-To-Open     |                   |                         |                      |  |
| BTC = Buy-To-Close Bought-To-Close  |                   |                         |                      |  |