

[Add us to your address book](#)

# VERTICAL SPREAD TRADER

## Leveraging The Power Of Options



---

Issue #702, January 18, 2024 - By Lee Lowell

### **New Trade!**

Hello Vertical Spread Traders,

The market looks strong, and I don't really see any major headwinds in the near future. More all-time highs are about to be broken.

So, time for a new trade.

### **Triple Q's (QQQ)**

The Nasdaq has been the true leader of this rally that started back in October 2022. It has already eclipsed its all-time highs.

It had a slight pull-back yesterday, so let's take advantage before it starts the next upswing.

As a refresher, the QQQ is the ETF that tracks the Nasdaq composite index, similar to the SPY which tracks the S&P 500.

The QQQ is heavily influenced by some of the biggest tech names, so when those individual stocks move, the ETF will move accordingly.

And since it's an ETF made up of lots of stocks, the moves (higher & lower) won't be as dramatic as individual stock moves. This allows us to breathe a little easier when things get panicky.

With the QQQ currently near \$411.30 per share, we'll be playing with a spread that has roughly \$46.30 of downside buffer, which equates to 11.2% of cushion. We typically look for spread trades on individual stocks that have a 20% cushion, but with ETFs like the QQQ, I look for about half that, at 10% cushion, since the diversity of an ETF helps.

With volatility (VIX) getting a little pop over the last few days, we'll be getting a little more downside cushion and a little more expensive option prices, which is nice. As a refresher, when volatility jumps, option prices get more expensive. This helps our cause.

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

We're going to sell a put option credit spread in our usual out-of-the-money format (official), and one that is at-the-money (unofficial). See details below.

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

**Sell (sell-to-open) the QQQ March 15, 2024 \$365/\$360 put**

**option credit spread (\$5-wide) for a limit credit sell price of \$.25 per spread or higher, GTC, as an opening transaction (sell-to-open).**

Currently, this \$5-wide spread is worth roughly \$.25 to \$.27 per, so let's see if we can get filled. The QQQ options are extremely liquid and tight, so that should be helpful.

If you don't get filled today, just keep your sell order working "GTC".

**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 \$365 put option and **buying** the \$360 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 \$.25 to \$.27 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 \$360 put option first, and then manually get your trading platform set up a second time to sell the \$365 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 \$365 put for at least \$.25 per contract higher than what you pay for the \$360 put.

Since the spread is \$5 wide ( $\$365 - \$360 = \$5$ ), 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. QQQ remains above \$365 (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. QQQ finishes below \$360 (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 ( $(\$5 - \$0.25) \times \$100$ ). In this case, it's \$475 per spread.

3. QQQ finishes somewhere between \$365 and \$360. 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.

---

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 the QQQ and think it will move higher from here, there are many trades you can consider using different strike prices and expiration dates. Scanning the option chains can help.

The one issued below is something to consider.

Here what you can choose to do:

**Sell (sell-to-open) the QQQ March 15, 2024 \$410/\$408 put option credit spread (\$2-wide) for a limit sell price of \$.70 per spread or higher, GTC, as an opening transaction (sell-to-open).**

Currently, this \$2-wide spread is worth roughly \$.70 to \$.75 per, so you should be able to get it done. If not, you can adjust your sell price down a penny or two if necessary.

Mind you, this is a \$2-wide spread, so obviously the premium is smaller than if using an at-the-money \$5-wide spread.

In this trade, you will be **selling** the \$410 put, and **buying** the \$408 put (\$2-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 \$.70 per spread, the maximum gain will be \$.70 while the maximum risk will be \$1.30. This is less than the 1:1 risk-to-reward we want to shoot for with unofficial trades, but it will depend on where you personally get filled.
2. If filled at \$.70 per spread, breakeven is at a QQQ stock price of \$409.30. In order to find your own breakeven, subtract the spread price you received from the \$410 strike price.
3. With QQQ currently near \$411.30, the breakeven of \$409.30 leaves a little downside cushion. You need to bullish on QQQ right from this point. As the stock moves higher, the spread will decrease quickly (that's good!).

Any QQQ price below \$409.30 will start to 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.

If you want, you can also choose other width spreads, or even use a different expiration date. Lots of possibilities.

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

---

Ok, that's all for now. Get those new sell orders 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

---

## 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 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 See instructions from 1/12/24 alert
ADBE Feb 16, '24 \$485/\$480 put sp	12/14/2023	\$0.28	\$0.18	STO for \$.25 per spread or better See instructions from 12/15/23 alert
NKE Mar 15, '24 \$95/\$90 put sp	12/22/2023	\$0.34	\$0.76	STO for \$.25 per spread or better See instructions from 12/22/23 alert
<b><u>Unofficial Positions</u></b>				
UNG Jan 19, '24 \$4.00 Call - Buy	4/11/2023	\$3.60	\$1.70	See instructions from 4/11/23 alert
NVDA Feb 16, '24 \$485/\$480 put sp	11/22/2023	\$2.40	\$0.27	See instructions from 11/22/23 alert
META Feb 16, '24 \$330/\$325 put sp	12/8/2023	\$2.25	\$0.65	See instructions from 12/8/23 alert
ADBE Feb 16, '24 \$590/\$585 put sp	12/14/2023	\$2.35	\$2.35	See instructions from 12/15/23 alert
STO = Sell-To-Open/Sold-To-Open				
BTC = Buy-To-Close/Bought-To-Close				