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VERTICAL SPREAD TRADER

Leveraging The Power Of Options



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New Trade!

Hello Vertical Spread Traders,

Housekeeping note:

We have members join (and sometimes leave) our service at various times during the year. We offer both monthly and annual plans, with Paypal as our payment processor.

Renewals of both plans happen automatically, as you are charged based on your monthly or annual date.

Please, please, PLEASE be aware of your recurring payment date, as there are no advance notices that are sent to remind you that a charge is forthcoming.

If you wish to leave our service and want to avoid unnecessary processing fee charges, please let us and/or Paypal know (if you have a Paypal account) ahead of your renewal date. This saves all of us hassles, headaches, and extra charges. If you notify us after the renewal date, fees will be incurred.

These instructions can also be seen on the newsletter sign-up page on our website.

Thank you!

The market has had some selling come in over the last week or two, and just yesterday, it was given another punch by the stronger-than-expected CPI (Consumer Price Index) report here in the U.S.

The stronger CPI means prices for goods are still holding strong, which is keeping inflation on the higher side. This in turn is met with the expectation that the Fed will keep interest rates higher for longer, which is typically bearish for the stock market. Hence, the selling has come in.

But this morning, we had the PPI (Producer Price Index) numbers come out and they were not as strong as the CPI, so hence, we've had less selling, and even a bit of buying come in.

There's no doubt that the multitude of government reports can push the markets in different directions at times, which makes investing seem so random. But we know in the long run, stock prices will move higher. We just have to grin and bear it sometimes.

In the meantime, I have a new trade today.

Micron Technology (MU)

This might be the first time we're playing MU here at VST.

We've played it before in our put-selling newsletter, but since its share price has risen so much, we need to use spreads now.

MU has really become a great player in the computer chip space, and holding its own against its rivals of AMD, NVDA & INTC.

It recently hit an all-time high near \$130, and has pulled back to the low \$120s. I'd like to get in before it begins the next leg higher.

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

With MU stock near \$124, we'll be using a spread that has \$29 of downside cushion, which equates to a buffer near 23%.

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

Sell (sell-to-open) the MU June 21, 2024 \$95/\$90 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 we should be able to sell it for \$.25 per spread or higher.

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

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 \$95 put option and **buying** the \$90 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 \$90 put option first, and then manually get your trading platform set up a second time to sell the \$95 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 \$95 put for at least \$.25 per contract higher than what you pay for the \$90 put.

Since the spread is \$5 wide ($\$95 - \$90 = \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. MU remains above \$95 (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. MU finishes below \$90 (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. MU finishes somewhere between \$95 and \$90. 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 MU from this point and think it will move higher from here, this is a trade you can consider.

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

Sell (sell-to-open) the MU June 21, 2024 \$125/\$120 (\$5-wide) put option credit spreads for a limit credit sell price of \$2.25 per spread or higher, GTC, as an opening transaction (sell-to-open).

Currently, the spread is worth roughly \$2.40 per, so you should be able to get it done for better than \$2.25 per.

In this trade, you will be **selling** the \$125 put, and **buying** the \$120 put (\$5-wide).

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

Here's some numbers to keep in mind:

1. If filled at \$2.25 per spread, the maximum gain will be \$2.25 while the maximum risk will be \$2.75. This is below 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 \$2.25 per spread, breakeven is at an MU stock price of \$122.75. In order to find your own breakeven, subtract the spread price you received from the \$125 strike price.
3. With MU currently near \$124, the breakeven of \$122.75 leaves a little downside cushion, so you still need to be bullish on MU right from this point.

Any MU price below \$122.75 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, these specific spreads are optional and unofficial.

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>
QQQ Apr 19, '24 \$380/\$375 put sp	2/13/2024	\$0.29	N/A	Closed. BTC for \$.06 per spread See instructions from 3/20/24 alert
QQQ May 17, '24 \$385/\$380 put sp	3/6/2024	\$0.26	\$0.12	STO for \$.25 per spread or better See instructions from 3/6/24 alert
AMD Apr 19, '24 \$155/\$150 put sp	3/13/2024	\$0.30	\$0.26	STO for \$.25 per spread or better See instructions from 3/13/24 alert
QQQ May 17, '24 \$405/\$400 put sp	3/21/2024	\$0.30	\$0.37	STO for \$.25 per spread or better See instructions from 3/21/24 alert
NVDA May 17, '24 \$710/\$705 put sp	4/3/2024	\$0.27	\$0.23	STO for \$.25 per spread or better See instructions from 4/3/24 alert
<u>Unofficial Positions</u>				
AMD Apr 19, '24 \$170/\$165 put sp	2/1/2024	\$1.80	\$2.05	See instructions from 2/1/24 alert
QQQ Apr 19, '24 \$432/\$430 put sp	2/13/2024	\$0.90	\$1.99	See instructions from 2/13/24 alert
QQQ May 17, '24 \$440/\$435 put sp	3/6/2024	\$2.02	\$1.88	See instructions from 3/6/24 alert
AMD Apr 19, '24 \$195/\$190 put sp	3/13/2024	\$2.50	\$4.85	See instructions from 3/13/24 alert
QQQ May 17, '24 \$450/\$445 put sp	3/21/2024	\$2.22	\$2.70	See instructions from 3/21/24 alert
NVDA May 17, '24 \$905/\$900 put sp	4/3/2024	\$2.70	\$2.85	See instructions from 4/3/24 alert
STO = Sell-To-Open/Sold-To-Open				
BTC = Buy-To-Close/Bought-To-Close				