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# VERTICAL SPREAD TRADER

## Leveraging The Power Of Options



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Issue #714 February 23, 2024 - By Lee Lowell

### **New Trade!**

Hello Vertical Spread Traders,

It's Friday!

Been a heck of a week for the markets. More all-time new highs, again. This time courtesy of Nvidia (NVDA).

They released earnings after the bell on Wednesday, and they didn't disappoint. Until then, it didn't make sense to stick your neck out on a trade because the general direction of the whole market was going to be dependent on NVDA's earnings.

Everything took off like a rocket afterwards.

Although the market can be seen as getting overheated in certain areas, it doesn't mean that a full-blown bear market is coming up. A pull-back would be quite healthy so we could get ready for the next run higher.

In the mean-time, I've found a play today that you could consider.

Let's hop-to!

## Netflix (NFLX)

We last played NFLX back in July 2023 that gave us a small loss.

Stocks like NFLX can be very volatile, which gives large swings up & down. Had we held on, the trade would've turned into a winner. But, we stick to our risk plan.

NFLX has gone on such a tear higher since last October, jumping from \$350 to just under \$600 last week.

It had a little pull-back last week as well, but I missed getting us in the trade at that point. It's starting to rally again so I want us to jump on it.

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

With NFLX stock currently near \$583, we'll have a downside cushion of \$118 per share, which equates to a buffer of 20%. Exactly meeting our parameters.

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

**Sell (sell-to-open) the NFLX April 19, 2024 \$465/\$460 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 spread is worth right around \$.25 per, so let's see if we can get it done.

It'll be close, especially if the stock stays near current levels. We may not get filled today.

NFLX stock & option prices are a bit volatile (and wide), so if you're not filled right away, keep your sell order working "GTC".

If it runs away from us, I may tweak the strike prices.

If you want to be sure that you can get in, then you can think about going a strike higher by using the \$470/\$465 spread. Officially, we're using the \$465/\$460 spread today.

**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 \$465 put option and **buying** the \$460 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 interest 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 for more details and watch the two new videos I just 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 \$.25 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 \$460 put option first, and then manually get your trading platform set up a second time to sell the \$465 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 \$465 put for at least \$.25 per contract higher than what you pay for the \$460 put.

Since the spread is \$5 wide ( $\$465 - \$460 = \$5$ ), 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 two-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. NFLX remains above \$465 (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. NFLX finishes below \$460 (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. NFLX finishes somewhere between \$465 and \$460. 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.

Everyone good?

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

We won't be issuing an unofficial at-the-money trade on NFLX (too volatile at the moment), but if you want to try one on your own, you are more than welcome to.

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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

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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

Position	Entry Date	Entry Sell Price	Current Price	Current Instructions
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	N/A	Closed. BTC for \$.05 per spread See instructions from 1/22/24 alert
NKE Mar 15, '24 \$95/\$90 put sp	12/22/2023	\$0.34	\$0.09	STO for \$.25 per spread or better See instructions from 12/22/23 alert
QQQ Mar 15, '24 \$365/\$360 put sp	1/18/2024	\$0.25	N/A	Closed. BTC for \$.05 per spread See instructions from 2/7/24 alert
AMD Apr 19, '24 \$125/\$120 put sp	2/1/2024	\$0.28	\$0.13	STO for \$.25 per spread or better See instructions from 2/1/24 alert
QQQ Apr 19, '24 \$380/\$375 put sp	2/13/2024	\$0.29	\$0.14	STO for \$.25 per spread or better See instructions from 2/13/24 alert
<b>Unofficial Positions</b>				
QQQ Mar 15, '24 \$410/\$408 put sp	1/18/2024	\$0.71	\$0.10	See instructions from 1/18/24 alert
AMD Apr 19, '24 \$170/\$165 put sp	2/1/2024	\$2.50	\$2.00	See instructions from 2/1/24 alert
STO = Sell-To-Open/Sold-To-Open				
BTC = Buy-To-Close/Bought-To-Close				