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VERTICAL SPREAD TRADER

Leveraging The Power Of Options



Issue #723 March 21, 2024 - By Lee Lowell

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!

As mentioned in yesterday's alert - the U.S. Federal Reserve was announcing its current decision on interest rates, and as expected, they held levels as-is.

But the market basically took that message and ran with it, as all-time new highs were hit yet again in the S&P 500.

We placed an order to buy back one of our QQQ positions yesterday, which I'll get to below, but for now, I have a new trade.

Triple Q's (QQQ)

What?

Yes, we're going to milk this uptrend as best we can, as we're jumping right back in to the QQQ.

We closed out a QQQ position yesterday, and we haven another one still open. But we're going to add even more.

The trend is your friend!

With the QQQ now near \$449 per share, we'll be playing with a spread that has \$44 of downside buffer, which equates to 10% cushion. We typically look for spread trades on the indexes/ETFs that have a 10% cushion, so we're right in line.

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

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

Sell (sell-to-open) the QQQ May 17, 2024 \$405/\$400 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 \$.29 per, so we should have no problem getting filled for better than \$.25 per. 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 \$405 put option and **buying** the \$400 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 \$.29 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 \$400 put option first, and then manually get your trading platform set up a second time to sell the \$405 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 \$405 put for at least \$.25 per contract higher than what you pay for the \$400 put.

Since the spread is \$5 wide ($\$405 - \$400 = \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 \$405 (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 \$400 (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. QQQ finishes somewhere between \$405 and \$400. 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 (unofficial):

Sell (sell-to-open) the QQQ May 17, 2024 \$450/\$445 put option credit spread (\$5-wide) for a limit credit sell price of \$2.00 per spread or higher, GTC, as an opening transaction (sell-to-

open).

Currently, this \$5-wide spread is worth roughly \$2.00 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.

In this trade, you will be **selling** the \$450 put, and **buying** the \$445 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 \$2.00 per spread, the maximum gain will be \$2.00 while the maximum risk will be \$3.00. 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 \$2.00 per spread, breakeven is at a QQQ stock price of \$448. In order to find your own breakeven, subtract the spread price you received from the \$450 strike price.
3. With QQQ currently near \$449, the breakeven of \$448 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 \$448 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.

Okay, get this new sell order in before reading about the QQQ buy-back order from yesterday.

Profit Results - Triple Q's (QQQ)

We also closed a QQQ position for profits yesterday.

I didn't want to miss out on our gains in case the Fed hit us with some bearish surprises (they didn't).

Most of the fills went across at our price of \$.06 per contract yesterday, so that'll be our official mark. Some of you might've gotten \$.05 per, depending on if you waited until after the Fed meeting.

Here's what we did (official):

Bought back (bought-to-close) all of the QQQ April 19, 2024 \$380/\$375 (\$5-wide) put option credit spreads for an official debit buy price of \$.06 per spread as a closing transaction (bought-to-close).

Currently, the spread is now offered at \$.04 per, so if you didn't place your order yesterday, you can get filled at even better prices.

Here are the profit details:

We originally established (sold-to-open) this put option spread on February 13, 2024 for a sale price of \$.29 per spread, and now we took gains by buying it back (bought-to-close) for \$.06 per spread.

With the fill at \$.06, it locked in a gain of \$.23 per spread (\$23 for every spread traded) and a return on margin (ROM) of 4.9% ($\$23/\471) in about six week's time. If you like to annualize, the return is roughly 42%.

How do we get the \$471 margin requirement number?

It's the width of the spread (\$5.00) minus the initial credit received (\$.29) multiplied by 100.

$$(\$5.00 - \$.29) \times 100 = \$471. \quad \text{ROM} = \$23/\$471 = 4.9\%$$

We always look to close our trades when we hit the "80% Rule" threshold, typically before the expiration date.

In this case, we captured 79% of the full profit potential (\$23 profit/\$29 full potential = 79%).

The full profit potential is always what you received for the initial credit. In this case, it was \$29.

We like to close trades early before expiration (smart!) when we can capture at least 80% of the full profit potential. Although we captured a hair under 80%, it's still a good win.

Locking in early wins is smart money management and it allows us to free up cash to put towards new trades.

Congratulations to those of you who participated in this trade.

Ok, that's all for now. Get those new QQQ 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	\$0.06	BTC for \$.06 per spread or better See instructions from 3/20/24 alert
QQQ May 17, '24 \$385/\$380 put sp	3/6/2024	\$0.26	\$0.21	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	\$0.46	STO for \$.25 per spread or better See instructions from 3/13/24 alert
<u>Unofficial Positions</u>				
AMD Apr 19, '24 \$170/\$165 put sp	2/1/2024	\$2.50	\$1.38	See instructions from 2/1/24 alert
QQQ Apr 19, '24 \$432/\$430 put sp	2/13/2024	\$0.90	\$0.57	See instructions from 2/13/24 alert
QQQ May 17, '24 \$440/\$435 put sp	3/6/2024	\$2.02	\$1.97	See instructions from 3/6/24 alert
AMD Apr 19, '24 \$195/\$190 put sp	3/13/2024	\$2.50	\$3.50	See instructions from 3/13/24 alert
STO = Sell-To-Open/Sold-To-Open				
BTC = Buy-To-Close/Bought-To-Close				