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VERTICAL SPREAD TRADER

Leveraging The Power Of Options



Issue #459, January 4, 2022 - By Lee Lowell

More Profit Time!

Hello Vertical Spread Traders,

Our first profit of 2022 is locked in, but before we get to those AMD results, let's lock in even more gains on another position of ours.

Walt Disney (DIS)

DIS stock is moving higher just as we thought it would after it bottomed at oversold levels on December 1, 2021.

Our spread position has reached the "80% Rule" threshold, so let's lock it in!

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

Note: you will only execute this buy-back trade if you already hold the credit spread position in your account. If you don't have the position, you can disregard these instructions.

Buy back (buy-to-close) all of your DIS February 18, 2022 \$115/\$110 put option credit spreads for a limit buy price of \$.05 per spread or cheaper, GTC, as a closing transaction (buy-to-close).

Currently, the spread has a market of \$.04 bid/\$.05 offer, so we should be able to get some done at our price of \$.05 right off the bat.

If it moves away by the time you place your order, just keep your \$.05 buy order working "GTC".

Here are more detailed instructions, which will sound very much like the ones I give when we open the spread.

In the trade instructions above, I will always place the higher (more expensive) strike first, as it is the one we will be **buying** as part of the spread buy-back. The lower (less expensive) strike listed is the one we will be **selling** in the spread.

In this buy-back trade, you will be **buying** the \$115 put option and **selling** the \$110 put option all within a single transaction. This is the exact reverse of how we initially open the spread.

Do not pay more than \$.05 per 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 for more details. You can also ask your broker for help if you need it.

When executing the trade as a single spread transaction, it doesn't matter what each "leg" trades for. All that matters is that you buy it for no more than \$.05 per spread, or lower.

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 \$115 put option first, and then manually get your trading platform set up a second time to sell the \$110 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.

Although, sometimes legging it can make sense.

For example, the \$115 puts can be bought for \$.14 per contract, which can allow you to then quickly sell the \$110 puts for their bid price of \$.09 per contract, making the spread worth \$.05 per.

If you do this, you have to be quick on the trigger, and it might not always work. Up to you to try.

Everyone good?

Do not pay more than \$.05 per spread, either outright or by legging it.

If you're holding any of the unofficial trades, you can look to see if it makes sense to close them out too.

Ok, get those buy-back trades in there now before reading about the AMD results below.

Advanced Micro Devices (AMD)

If you had your buy order in yesterday at \$.06 per spread, then you've been filled.

Some of you got lucky and were able to buy it for \$.05 per spread. We'll take the official mark at \$.06 per.

Here's what we did (official):

Bought back (bought-to-close) all of the AMD January 28, 2022 \$100/\$95 put option credit spreads for an official buy price of \$.06 per spread as a closing transaction (bought-to-close).

If you haven't placed your trade yet, you can still get filled at our limit price of \$.06 per spread.

Here are the profit details:

We originally established (sold-to-open) this put option spread on December 14, 2021 for a sale price of \$.31 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 \$.25 per spread (\$25 for every spread traded) and a return on margin (ROM) of 5.3% ($\$25/\469) in three week's time. If you like to annualize, the return is roughly 92%. What a great trade!

If you are also a Smart Option Seller member, you know we look to close our trades when we hit the "80% Rule" threshold, typically before the expiration date.

In this case, we captured 80.6% of the full profit potential ($\$25 \text{ profit}/\$31 \text{ full potential} = 80.6\%$).

Locking in early wins is just 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 DIS buy-back 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!

<u>Vertical Spread Trader Portfolio</u>				
<u>Position</u>	<u>Entry Date</u>	<u>Entry Sell Price</u>	<u>Current Price</u>	<u>Current Instructions</u>
NFLX Jan 21, '22 \$510/\$505 put sp	11/9/2021	\$0.25	\$0.32	STO for \$.25 per spread See instructions from 11/9/21 alert
QQQ Jan 21, '22 \$330/\$325 put sp	11/23/2021	\$0.26	\$0.05	Closed. BTC for \$.05 per spread See instructions from 12/28/21 alert
DIS Feb 18, '22 \$115/\$110 put sp	12/2/2021	\$0.28	\$0.05	BTC for \$.05 per spread See instructions from 1/4/22 alert
AMD Jan 28, '22 \$100/\$95 put sp	12/14/2021	\$0.31	\$0.06	BTClosed. C for \$.06 per spread See instructions from 1/3/22 alert
NVDA Feb 18, '22 \$185/\$180 put sp	12/14/2021	\$0.27	\$0.08	STO for \$.25 per spread See instructions from 12/14/21 alert
<u>Unofficial Positions</u>				
AAPL Jan 21, '22 \$150/\$145 put sp	10/29/2021	\$2.33	\$0.03	See instructions from 10/29/21 alert
NFLX Jan 21, '22 \$655/\$650 put sp	11/9/2021	\$2.40	\$4.20	See instructions from 11/9/21 alert
QQQ Jan 21, '22 \$395/\$394 put sp	11/23/2021	\$0.40	\$0.28	See instructions from 11/23/21 alert
DIS Feb 18, '22 \$150/\$145 put sp	12/2/2021	\$2.65	\$1.06	See instructions from 12/2/21 alert
AMD Jan 28, '22 \$138/\$133 put sp	12/14/2021	\$2.50	\$1.44	See instructions from 12/14/21 alert
NVDA Feb 18, '22 \$280/\$275 put sp	12/14/2021	\$2.45	\$1.85	See instructions from 12/14/21 alert
STO = Sell-To-Open/Sold-To-Open				
BTC = Buy-To-Close/Bought-To-Close				