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VERTICAL SPREAD TRADER

Leveraging The Power Of Options



Issue #461, January 6, 2022 - By Lee Lowell

Market & Position Update

Hello Vertical Spread Traders,

Between yesterday & today, we're seeing a decent sell-off in the market, especially in the tech stocks.

Why is that?

It's all about interest rates.

Here's what I just wrote to my Smart Option Seller newsletter readers about the situation:

Why so much in the tech stocks? Because they're more sensitive to moves in interest rates, as debt can be a bigger portion of their balance sheet.

As we know, the U.S. Federal Reserve has indicated that they will be raising interest rates this year, and we have already seen it start to happen in the treasury market.

The 10-year treasury note has been steadily rising since this past summer, and looks to be taking out the 1-year highs near 1.75% that was last hit back in March 2021.

This benchmark rate has really ramped up over just the last few sessions, so that is part of the reason why tech stocks are getting hit a bit harder than the S&P 500 and the Dow Jones components.

Does that mean it's time to sell all tech stocks? Of course not. But, we might be in for a bit of a bumpy ride in the near-term.

Many of the spread trades we take here at Vertical Spread Trader involves tech stocks, especially expensive tech stocks.

Case in point - our Netflix (NFLX) position.

NFLX stock is trading near \$550 per share, down roughly \$100 per share from one month ago. As you can tell, NFLX has the capability to move large distances in a very short period of time.

That's why it's extremely smart to use option spreads when trading stocks like these.

At the same time, it doesn't mean we won't be met with potential scary moments, or even losses during stretches like this.

So here's where we stand with the NFLX position, and why we're sort of in a gray area on taking action.

With NFLX stock near \$550, our short strike of the spread is at \$510, which still gives us near 7% cushion.

The trade expires in 15 days, and their earnings come out on January 20, which is the day before expiration. We don't like to hold trades over an earnings announcement.

We have also reached the upper end of our risk mitigation/defensive action plan, as the spread has widened out to 3x the original premium.

We officially sold the spread for \$.25 per, and now it's worth roughly \$1.00 per spread. That would yield a loss of \$.75 per spread, which is 3x the original premium of \$.25.

So, we're caught in a situation in which we need to decide, do we close out the trade and take the loss?

Do we "sweat it out" for the next two weeks to see if the stock rallies and the spread collapses?

Do we roll the trade to a further-out expiration, knowing that if earnings are a dud, we could end up with even bigger losses.

Do we bank on time decay helping us as the days dwindle?

These are all the decisions that need to be considered when playing the game.

Is one better than the other? Not necessarily.

If we truly want to be mechanical and follow our trading rules, then we should buy back the spread today as it has reached the stop-loss point of 3x. This would lock in a loss.

But, the market is getting oversold on a very short-term basis, so a bounce could be imminent. This could allow us to hang on for a bit longer, or even close it out for a smaller loss than 3x.

So what do we do?

I'm inclined to hold just a bit longer, as we can rely on time decay to help us during these last few weeks before expiration. And, even a small bounce in an oversold stock like NFLX can help us greatly.

Let's see how the rest of today plays out, and if the market drops again tomorrow and we need to shut it down, we will. I'm here for you!

Ok, that's all for now.

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>
NFLX Jan 21, '22 \$510/\$505 put sp	11/9/2021	\$0.25	\$1.00	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	N/A	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	N/A	Closed. 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	N/A	Closed. BTC for \$.06 per spread See instructions from 1/3/22 alert
NVDA Feb 18, '22 \$185/\$180 put sp	12/14/2021	\$0.27	\$0.15	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	\$0.08	See instructions from 10/29/21 alert
NFLX Jan 21, '22 \$655/\$650 put sp	11/9/2021	\$2.40	\$4.60	See instructions from 11/9/21 alert
QQQ Jan 21, '22 \$395/\$394 put sp	11/23/2021	\$0.40	\$0.65	See instructions from 11/23/21 alert
DIS Feb 18, '22 \$150/\$145 put sp	12/2/2021	\$2.65	\$1.32	See instructions from 12/2/21 alert
AMD Jan 28, '22 \$138/\$133 put sp	12/14/2021	\$2.50	\$2.65	See instructions from 12/14/21 alert
NVDA Feb 18, '22 \$280/\$275 put sp	12/14/2021	\$2.45	\$2.45	See instructions from 12/14/21 alert
STO = Sell-To-Open/Sold-To-Open				
BTC = Buy-To-Close/Bought-To-Close				