

SPREAD TRADING MADE EASY

SPREAD TRADING SECRETS



**INVEST
FOR IT**

SPREAD TRADING MADE EASY

Spread trading is a powerful strategy that involves the simultaneous buying and selling of option contracts with different strike prices and expiration dates.

There are two key types of spread trades:

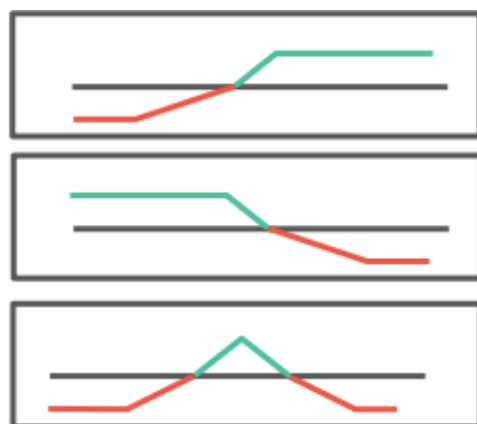
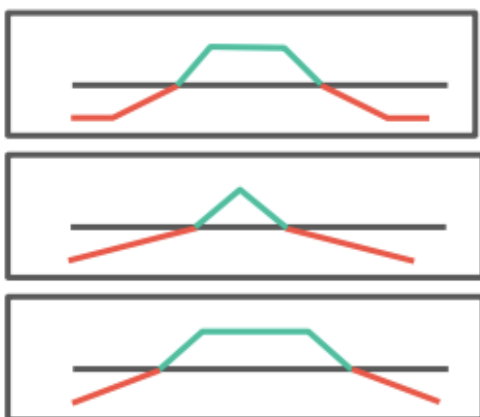


Debit Spreads: This strategy involves buying a more expensive option (In the Money or At the Money) and selling a cheaper option (Out of the Money), resulting in a net debit to your account.



Credit Spreads: Here, you sell a more expensive option (In the Money or At the Money) and buy a less expensive one (Out of the Money), leading to a net credit to your account.

Let's dive into some of the most common and effective spread trades!



BUYING CALLS

BUY CALL | VERY BULLISH

Buy a Call Option

Premium: Pay

Margin: No

WHEN TO DO:

- When you expect quick, big, up moves
- Ideally when Implied Volatility is low
- Not for small moves or slow up moves

PROS:

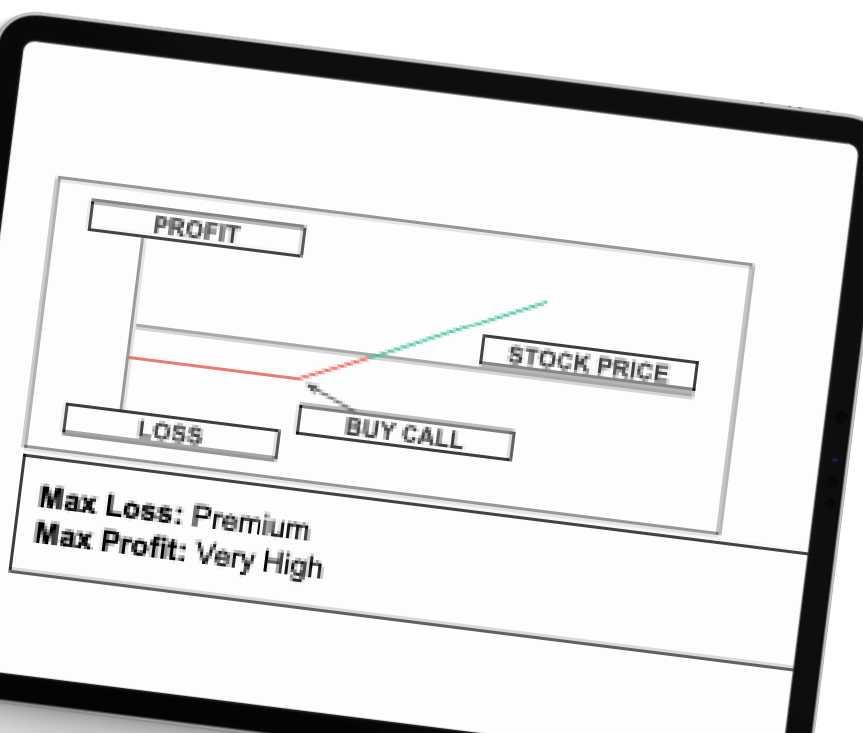
- Limited Loss

CONS:

- Most options, especially Out of the Money options do not make money.

TIME AND VOLATILITY:

- Gains if Implied Volatility (IV) goes up
- Loses time value every day



BUYING CALLS

BUY PUT | VERY BEARISH

Buy a Put Option

Premium: Pay

Margin: No

WHEN TO DO:

- When you expect very quick, very big, down moves
- Ideally when IV is low
- Not for small moves or slow down moves

PROS:

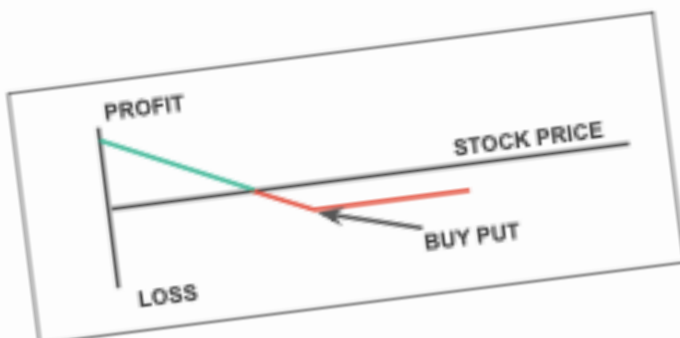
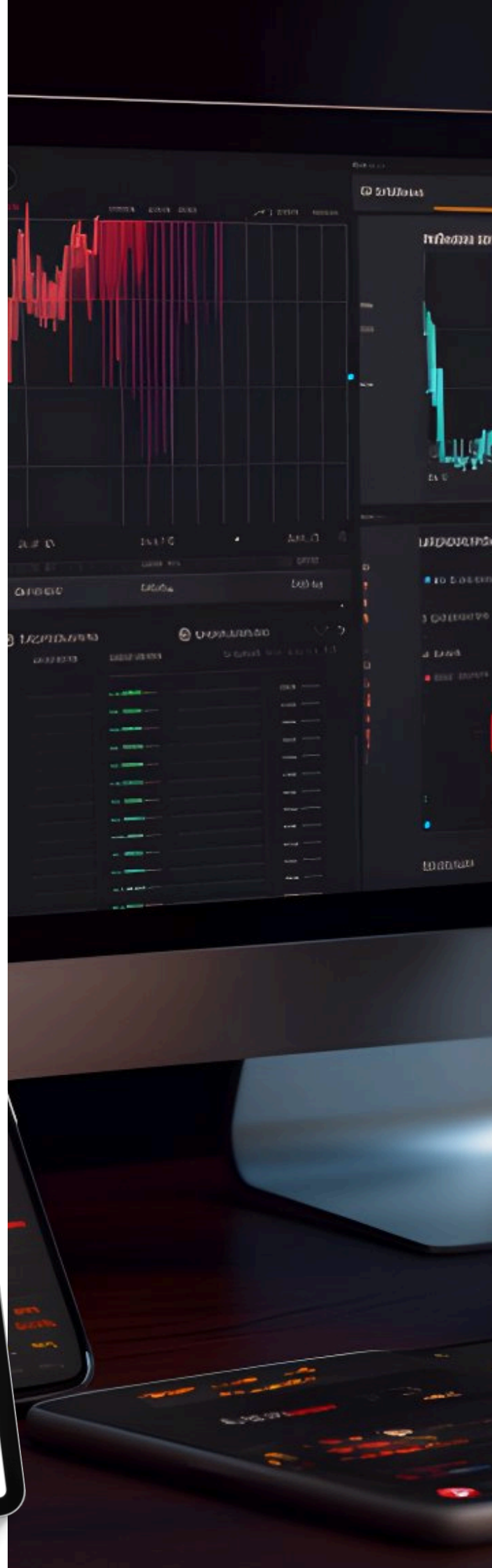
- Limited Loss

CONS:

- Most options, especially Out of the Money options do not make money.

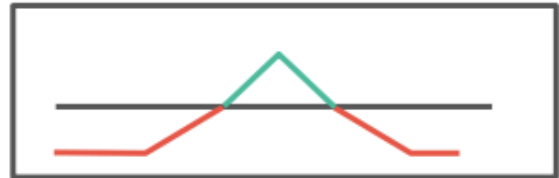
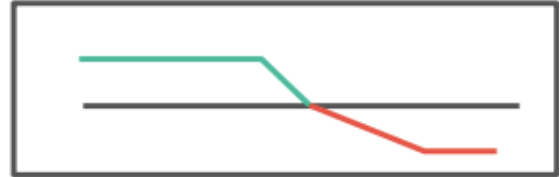
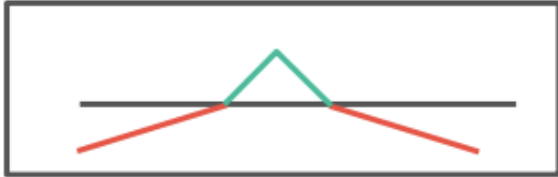
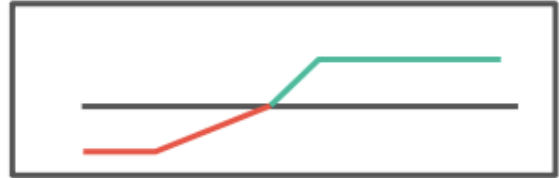
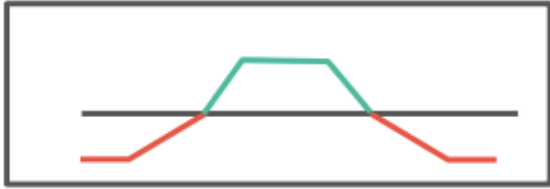
TIME AND VOLATILITY:

- Loses time value everyday
- Gains if IV goes up



Max Loss: Premium
Max Profit: Very High

SPREAD TYPES



BULL CALL SPREAD | MODERATELY BULLISH

Buy a Call and Sell a Higher Strike Cheaper Call to Reduce Premium

Premium: Pay

Margin: Required

WHEN TO DO:

→ When you expect a big but limited up move

PROS:

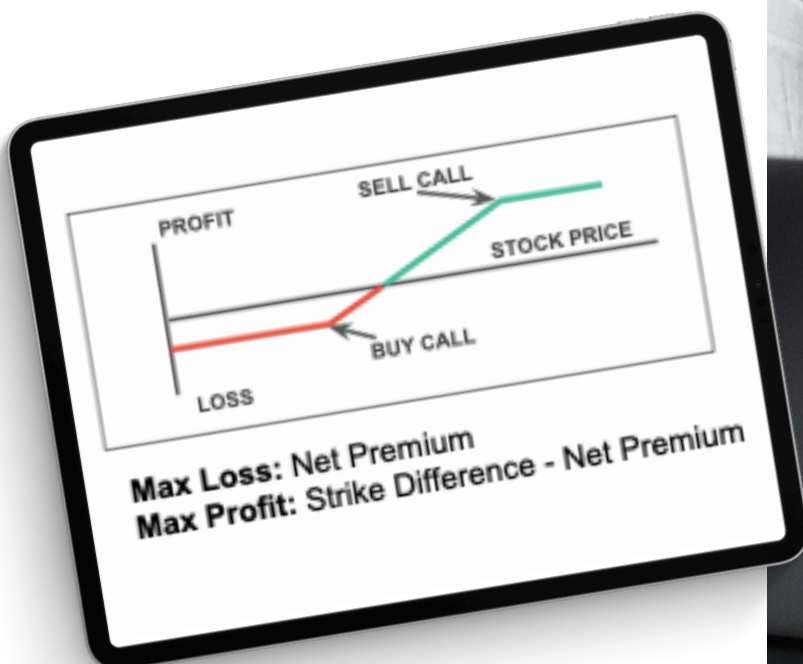
- Cheaper than buying a call
- Pay only for the limited upside you want
- Less Theta and lower IV risk

CONS:

→ Requires margin

TIME AND VOLATILITY:

- Loses a little time value every day
- Gains moderately if IV goes up





BULL PUT SPREAD | MILDLY BULLISH

Sell a Put, and Buy a Lower Strike Cheaper Put for Protection

Premium: Receive

Margin: Required

WHEN TO DO:

→ If the stock will not go up - that is i) stays still, ii) small or big up move or iii) a very small down move

PROS:

→ Make money even if you are slightly wrong, that is the stock moves down a bit.

→ If you are wrong, the lower buy put prevents big losses and acts like a stop loss

CONS:

→ Not much. Max loss is capped.

TIME AND VOLATILITY:

→ Gains a little time value every day

→ Loses slightly if IV goes up

SELL PUT | MILDLY BULLISH

Sell a Put Option

Premium: Received

Margin: Required

WHEN TO DO:

- If the stock will not go down - that is i) stays still, ii) small or big up-move or iii) a very small downmove
- Avoid selling when IV is low

PROS:

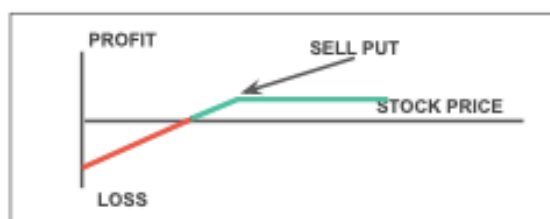
- Make money even if you are slightly wrong, that is the stock moves down a bit

CONS:

- Very high loss if market crashes

TIME AND VOLATILITY:

- Gains time value every day
- Loses if IV goes up



Max Loss: Very High
Max Profit: Premium



BEAR PUT SPREAD | MODERATELY BEARISH

Buy a Put, and Sell a Lower Strike Cheaper Put to Reduce Premium

Premium: Pay

Margin: Required

WHEN TO DO:

→ When you expect a big but limited down move

PROS:

- Cheaper than buying a Put
- Pay only for the limited upside you want
- Less Theta and lower IV risk

CONS:

- None

TIME AND VOLATILITY:

- Loses a little time value everyday
- Gains moderately if IV goes up





BEAR CALL SPREAD | MILDLY BEARISH

Sell a call and buy a higher strike cheaper call for protection

Premium: Receive

Margin: Required

WHEN TO DO:

→ If the stock will not go up - that is i) stays still, ii) small or big down move, or iii) a very small up move.

→ Avoid selling when IV and premium is low

PROS:

→ Make money even if you are slightly wrong, that is the stock moves up a bit

→ If you are wrong the higher buy call acts like a stop loss and prevents big losses

CONS:

→ Not much as Max Loss is capped.

TIME AND VOLATILITY:

→ Gains a little time value everyday

→ Loses slightly if IV goes up



SHORT STRADDLE | RANGE BOUND, NOT MOVING

Sell a Put and Call at the same strike near the stock price. Your view is that the stock will not go up or down

Premium: Receive

Margin: Required

WHEN TO DO:

- When the stock stays still and expires near the sell option strike
- Avoid trending markets
- Avoid selling low IV

PROS:

- Make money if nothing happens
- Delta Neutral - Immune to small moves

CONS:

- High loss if stock moves a lot in one direction

TIME AND VOLATILITY:

- Gains time value everyday
- Loss if IV goes up



Max Loss: Very High

Max Profit: Call Premium + Put Premium



SHORT STRANGLE | RANGE BOUND, NOT MOVING

Sell a Put below stock price and sell a Call above the stock price. Your view is that the stock will not cross the call or put strikes.

Premium: Receive

Margin: Required

WHEN TO DO:

- If the stock will stay still and expire between the call and put strike.
- Avoid trending markets
- Avoid selling low IV

PROS:

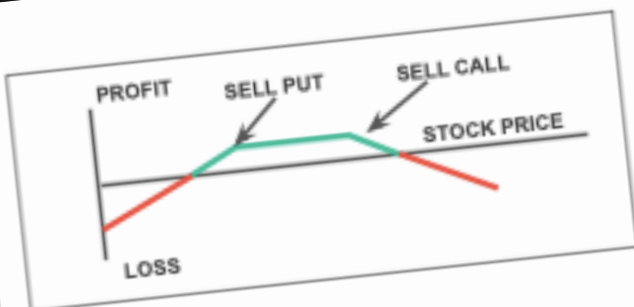
- Make money if nothing happens
- Higher margin of safety compared to straddle
- Delta Neutral - Immune to small moves

CONS:

- High loss if stock moves a lot in one direction

TIME AND VOLATILITY:

- Gains time value decay everyday
- Loss if IV goes up



Max Loss: Very High
Max Profit: Call Premium + Put Premium

SHORT IRON BUTTERFLY | RANGE BOUND, NOT MOVING

Sell a put and call at the same strike near the stock price. Your view is that the stock won't go down or up. Buy a lower Put and a higher call for protection on both sides just in case you're wrong.

Premium: Receive

Margin: Required

WHEN TO DO:

- If the stock will stay still and expire between the call and put strike.
- Avoid trending markets
- Avoid selling low IV

PROS:

- Make money if nothing happens
- Delta Neutral - Immune to small moves
- Limited Loss
- Low Vega risk and Theta risk

CONS:

- None

TIME AND VOLATILITY:

- Gains time value everyday
- Loses moderately if IV goes up

SHORT IRON CONDOR | RANGE BOUND, NOT MOVING

Sell a Put below stock price and sell a Call above the stock price. Your view is that the stock won't cross these strikes. Buy a lower Put and a higher Call for protection on both sides just in case you're wrong.

Premium: Receive

Margin: Required

WHEN TO DO:

- If the stock will stay still and expire between the call and put strike
- Avoid trending markets
- Avoid selling low IV

PROS:

- Make money if nothing happens
- Delta Neutral - Immune to small moves
- Limited Loss

CONS:

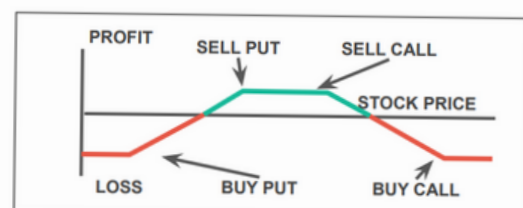
- None

TIME AND VOLATILITY:

- Gains time value everyday
- Loses moderately if IV goes up



Max Loss: Strike Price of Long Call - Strike Price of Short Call - Net Premium
Max Profit: Net Premium



Max Loss: Buy Striker - Sell Strike - Net Premium
Max Profit: Net Premium

LONG STRADDLE | A BIG MOVE UP OR DOWN

Buy a put and call at the same strike near the stock price. Your view is that the stock will either go down or up in a big way.

Premium: Pay

Margin: Required

WHEN TO DO:

→ When the stock is going to move big in one direction

→ Avoid buying high IV

PROS:

→ Big Upside is there with a breakout

CONS:

→ Low probability of success

→ High loss if the stock stays range-bound

→ High Vega and Theta Risk

TIME AND VOLATILITY:

→ Loses time value everyday

→ Gains if IV goes up



LONG STRANGLE | A BIG MOVE UP OR DOWN

Buy a Put below stock price and buy a Call above the strike price. Your view is that if there is a breakout, the stock will cross either of these strikes by a margin

Premium: Pay

Margin: No

WHEN TO DO:

- When the stock is going to move big in one direction
- Avoid buying high IV

PROS:

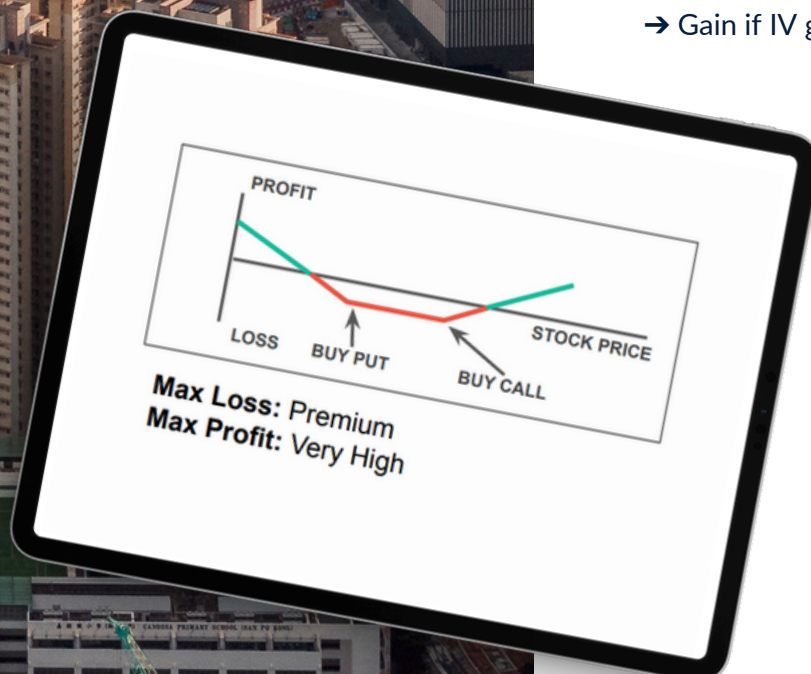
- Big Upside if there is a breakout

CONS:

- Low probability of success
- High loss if the stock stays range-bound
- High Vega and Theta Risk

TIME AND VOLATILITY:

- Loses time value decay everyday
- Gain if IV goes up



LONG IRON BUTTERFLY | A SIGNIFICANT MOVE UP OR DOWN

Buy a put and call at the same strike near the stock price. Your view is that the stock will go down or up. Sell a lower put and a higher call on both sides for reducing premium

Premium: Pay

Margin: Required

WHEN TO DO:

- When the stock is going to move big in one direction
- Avoid buying high IV

PROS:

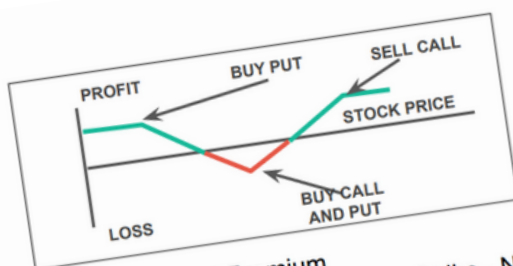
- Lower premium than straddle
- Low Vega risk and Theta risk

CONS:

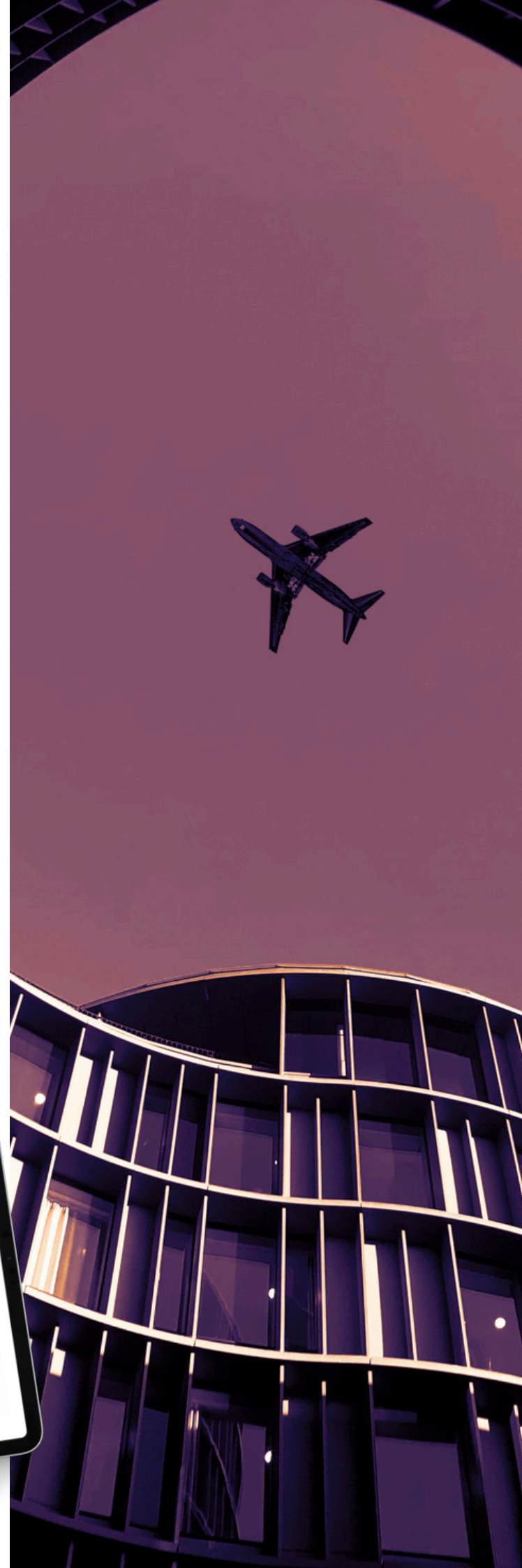
- Low probability of success

TIME AND VOLATILITY:

- Loses time value everyday
- Gains slightly if IV goes up



Max Loss: Net Premium
Max Profit: High Strike - Middle Strike - Net Premium Received



LONG IRON CONDOR | A SIGNIFICANT MOVE UP OR DOWN

Buy a Put below stock price; Buy a Call above the stock price. Your view is that the stock will cross these strikes. Sell a lower put and a higher call for reducing premium

Premium: Pay

Margin: Required

WHEN TO DO:

- When the stock is going to move big in one direction
- Avoid buying high IV

PROS:

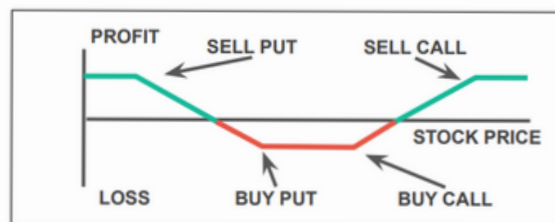
- Lower premium than straddle
- Low Vega risk and Theta risk

CONS:

- Low probability of success

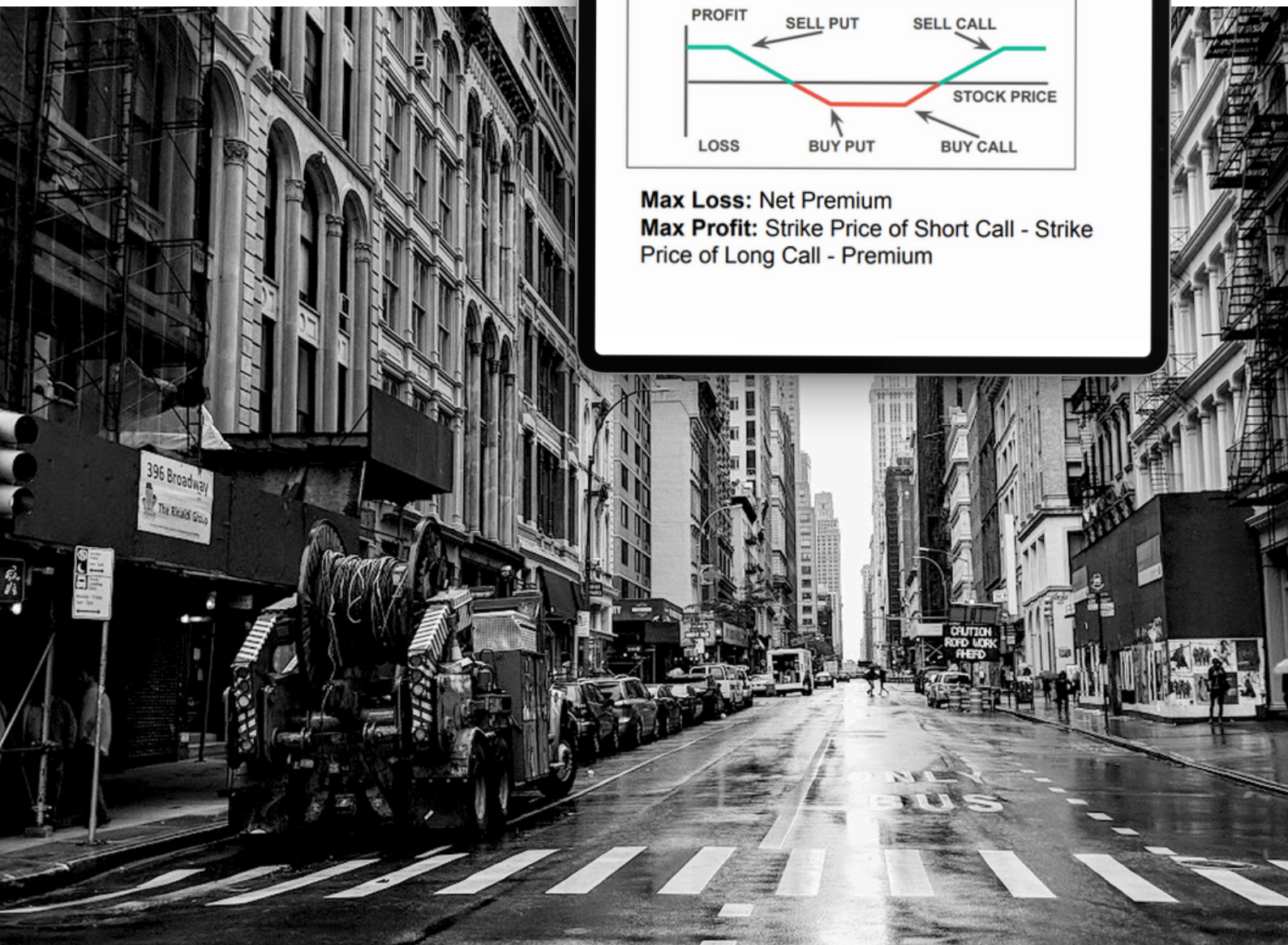
TIME AND VOLATILITY:

- Loses time value everyday
- Gains slightly if IV goes up



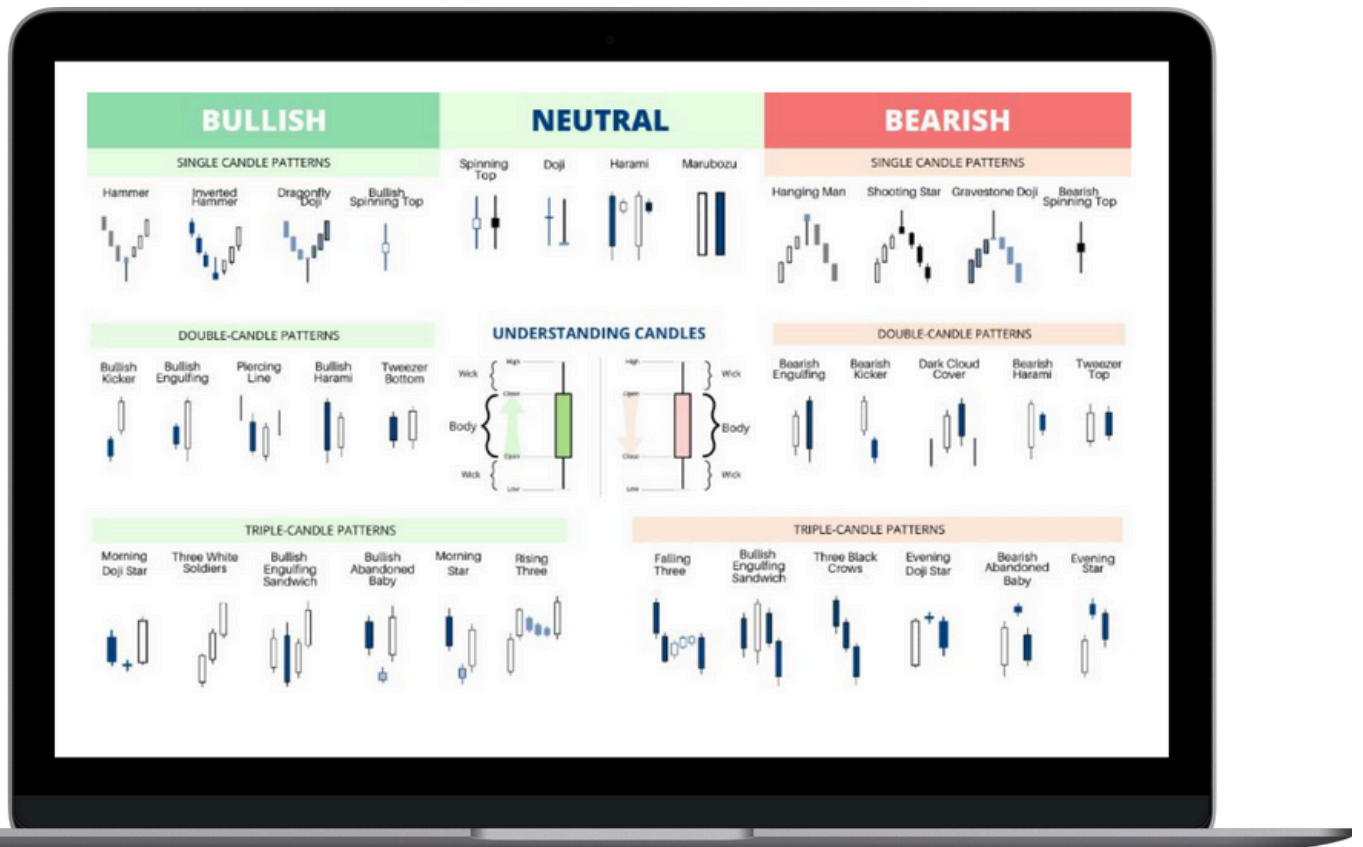
Max Loss: Net Premium

Max Profit: Strike Price of Short Call - Strike Price of Long Call - Premium



JAPANESE CANDLESTICKS

PRICE ACTION NEVER LIES

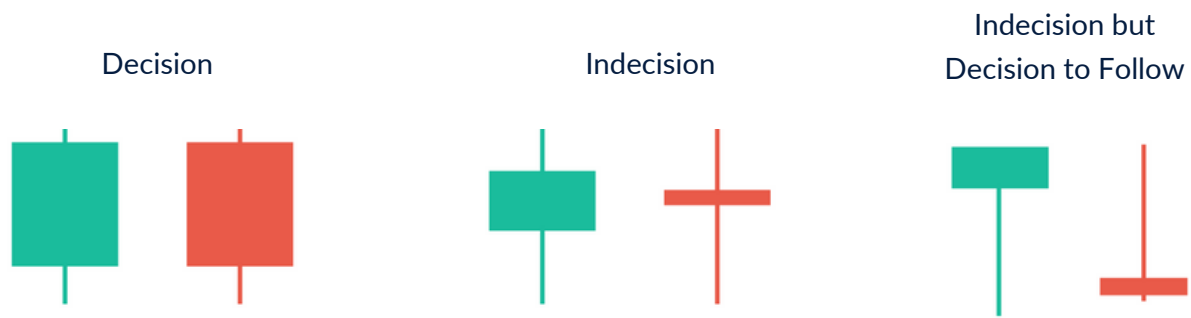


The Anatomy of a Candlestick



A Japanese Candlestick measures the Highest Price, Lowest Price and the Open and Close for a certain time period. Each Candle represents that moment in time. If the Open is lower than the Close, it is a **Bullish Candle** and will commonly appear **Green**. If the Open is higher than the Close, it is a **Bearish Candle** and will commonly appear **Red**.

Decision vs Indecision

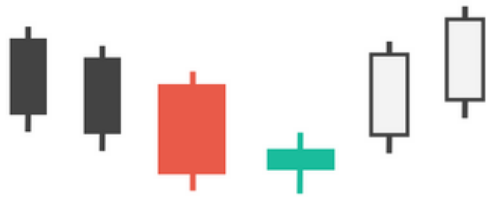


Japanese Candlesticks can also be broken down into three categories: Decision, Indecision, and Indecision but Decision to Follow.

- **Decision** - The Market is moving in a clear direction and the body of the candle (open to close) is the largest portion of the candle.
- **Indecision** - The Bulls and Bears are fighting for control - with long wicks/shadows (Highs and Lows), but the Open and Close are close together (small bodies, large wicks).
- **Indecision with Decision to Follow** - These are Indecision Candles (small bodies, larger wicks) but the wicks are usually to one side - so a long Bullish Wick or Bearish Wick. This means one side was in control for part of the time, but control was wrestled away and a reversal could be on it's way.



SHOOTING STAR | BULLISH



Formation

At the end of a downward trend, there is an exhaustion gap. This gap is followed by a small bodied candle, or Doji, indicating indecisiveness between the Bulls and Bears. The third candle in the formation indicates a decisive move higher as the Bulls establish control.

Signal

The two candle formation that signals a Bullish Reversal.

MORNING STAR | BULLISH



Formation

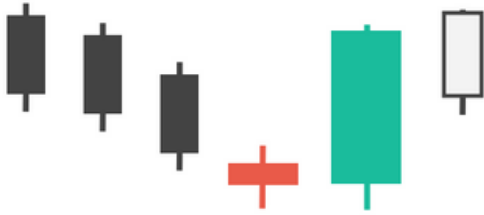
At the end of a downward trend, there is an exhaustion gap. This gap is followed by a small bodied candle, or Doji, indicating indecisiveness between the Bulls and Bears. The third candle in the formation indicates a decisive move higher as the Bulls establish control.

Signal

The three candle formation that signals a Bullish Reversal.



BULLISH ENGULFING | BULLISH



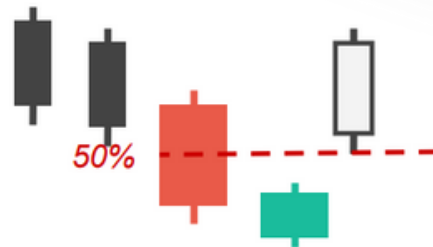
Formation

Following a downtrend, a small dark candle forms. This small candle is followed by a candle that gaps lower as a result of strong selling pressure, but soon loses control to buying pressure from the Bulls. The buying pressure becomes so intense that the current Bullish candle closes higher than the previous day's open.

Signal

Potential trend reversal.

PIERCING LINE | BULLISH



Formation

This is a Bullish reversal signal results from the Bulls asserting themselves after a Bearish trend. The Piercing Line formation is a Bearish decision candle that is followed by a Bullish decision candle. The Bullish candle does not engulf the Bearish candle, but does retrace over 50% of the Bearish candle's body.

Signal

The isolated indecision candle signals a potential Bullish reversal.



TWEEZER BOTTOM | BULLISH



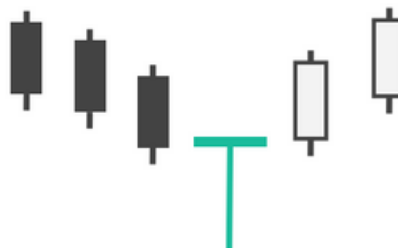
Formation

Following a downtrend, a formation appears that involves two candles with long shadows to the south. These candles can be Dragonfly or Hammer Doji, but the shadows to the south must make up at least 50% of the candle's height and have lows that are similar.

((())) Signal

Potential trend reversal that is based on the inability of the Bears to push to a lower low.

HAMMER | BULLISH



Formation

Following a downtrend, a formation appears that involves a Bullish Candle with a long shadow to the south. This candle will most likely be a Doji, but the shadows to the south must make up at least 75% of the candle's height regardless of the body size.

((())) Signal

Potential trend reversal with a Bullish movement following the candle.



HARAMI | BULLISH



Formation

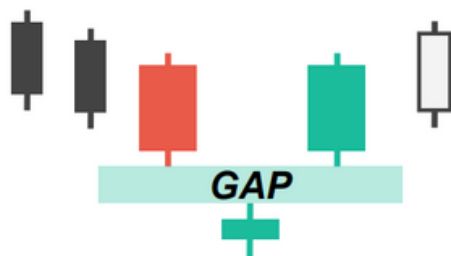
A Harami forms when a small candle develops within the open and close boundaries of the real body of the preceding candle.



Signal

Following a significant move lower, the Bulls and the Bears are now at a standstill. The Harami is an indication that the current Bearish trend is changing and may be reversing.

ABANDONED BABY | BULLISH



Formation

This is a Bullish reversal signal that results from an exhaustion gap being followed by an indecision candle. The lack of continued selling pressure allows the Bulls to step in and move the price higher. This explosive Bullish move creates an additional gap on the right side of the indecision candle. There can be no overlap of the real bodies or the shadows between the three candles.

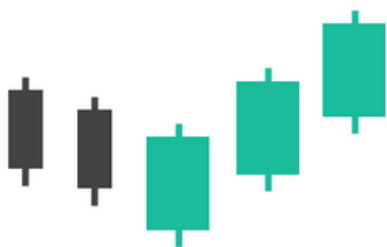


Signal

The isolated indecision candle signals a potential Bullish reversal.



THREE CHARGING BULLS | BULLISH



Formation

Commonly referred to as Three White Soldiers, this formation is three Bullish candlesticks in a row all with longer bodies and short or no wicks.

((())) Signal

The three candles signals Bullish sentiment and a trend. This pattern is commonly preceded by other patterns of indecision like Hammers and Shooting Stars.

SPINNING TOP PUSH | BULLISH



Formation

A Spinning Top pattern forms when the trend slows before changing direction. The Spinning Top will be Bearish followed by a Bullish decision candle.

((())) Signal

The Spinning Top signals indecision with the following decision candle the push in the opposite direction.

TRI STARS | BULLISH



Formation

This is a Bullish reversal signal that results price making a final push downward being followed by a series of doji stars. This shows that multiple periods of fighting for control of the market. The next candle will signal the next directional push.

Signal

The series indecision candles signals a potential Bullish reversal.

RISING WINDOW | BULLISH

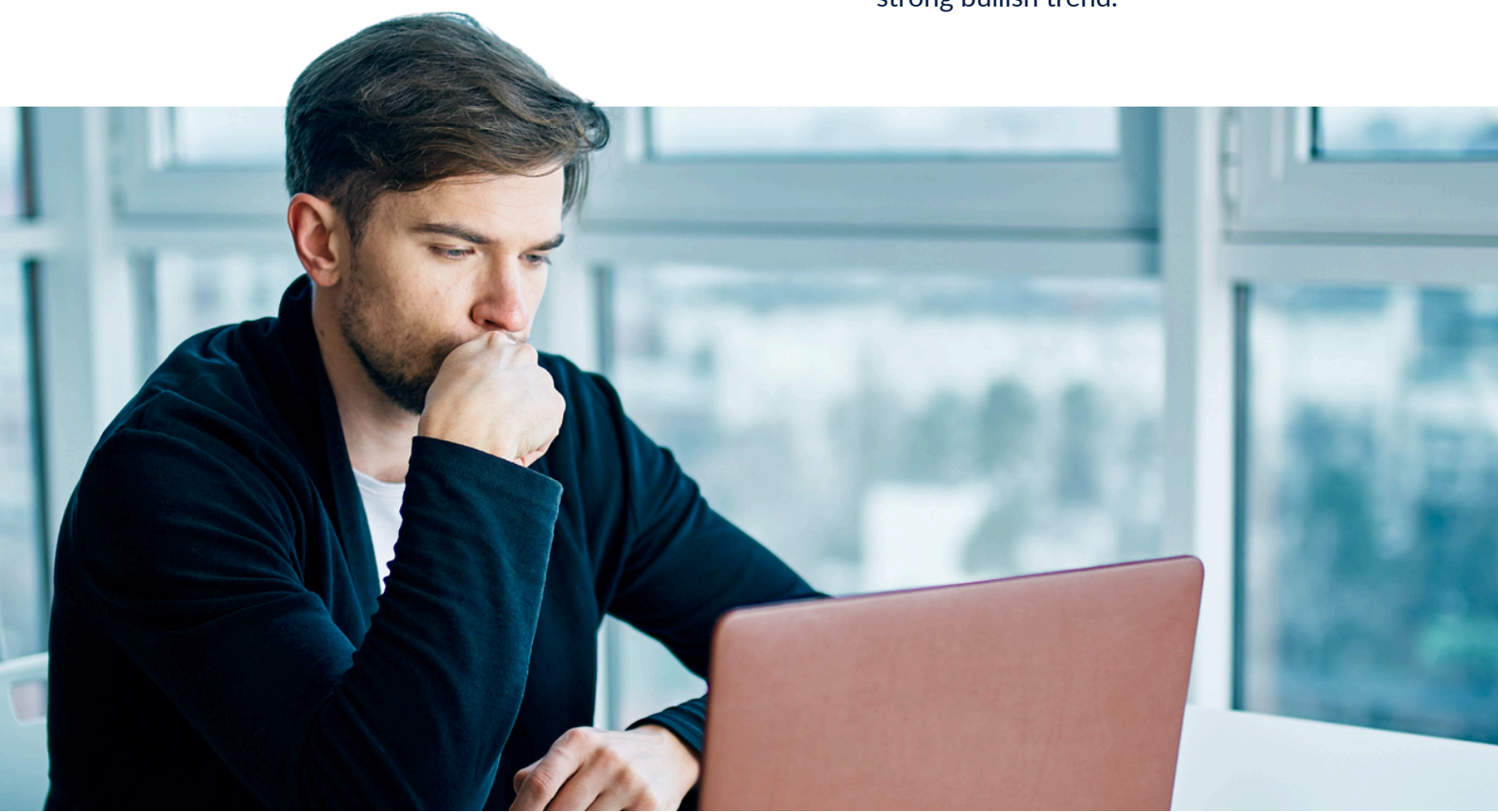


Formation

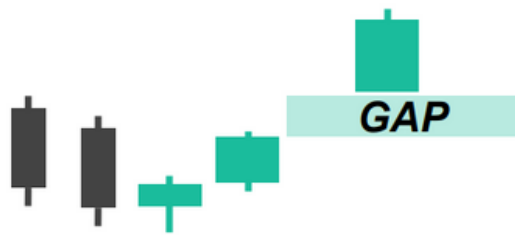
The rising window can be seen as a Bullish reversal or continuation pattern. It is a primarily a two candle move that forms a continuation gap. The market starts to move up, forms a gap and then forms another strong bullish decision candle.

Signal

The two candles signal a strong push to the north. The bullish candle with a gap upward and another bullish candle with no retracement signal a very strong bullish trend.



RISING WINDOW | BULLISH



Formation

The rising window can be seen as a Bullish reversal or continuation pattern. It is a primarily a two candle move that forms a continuation gap. The market starts to move up, forms a gap and then forms another strong bullish decision candle.

Signal

The two candles signal a strong push to the north. The bullish candle with a gap upward and another bullish candle with no retracement signal a very strong bullish trend.

KICKER | BULLISH

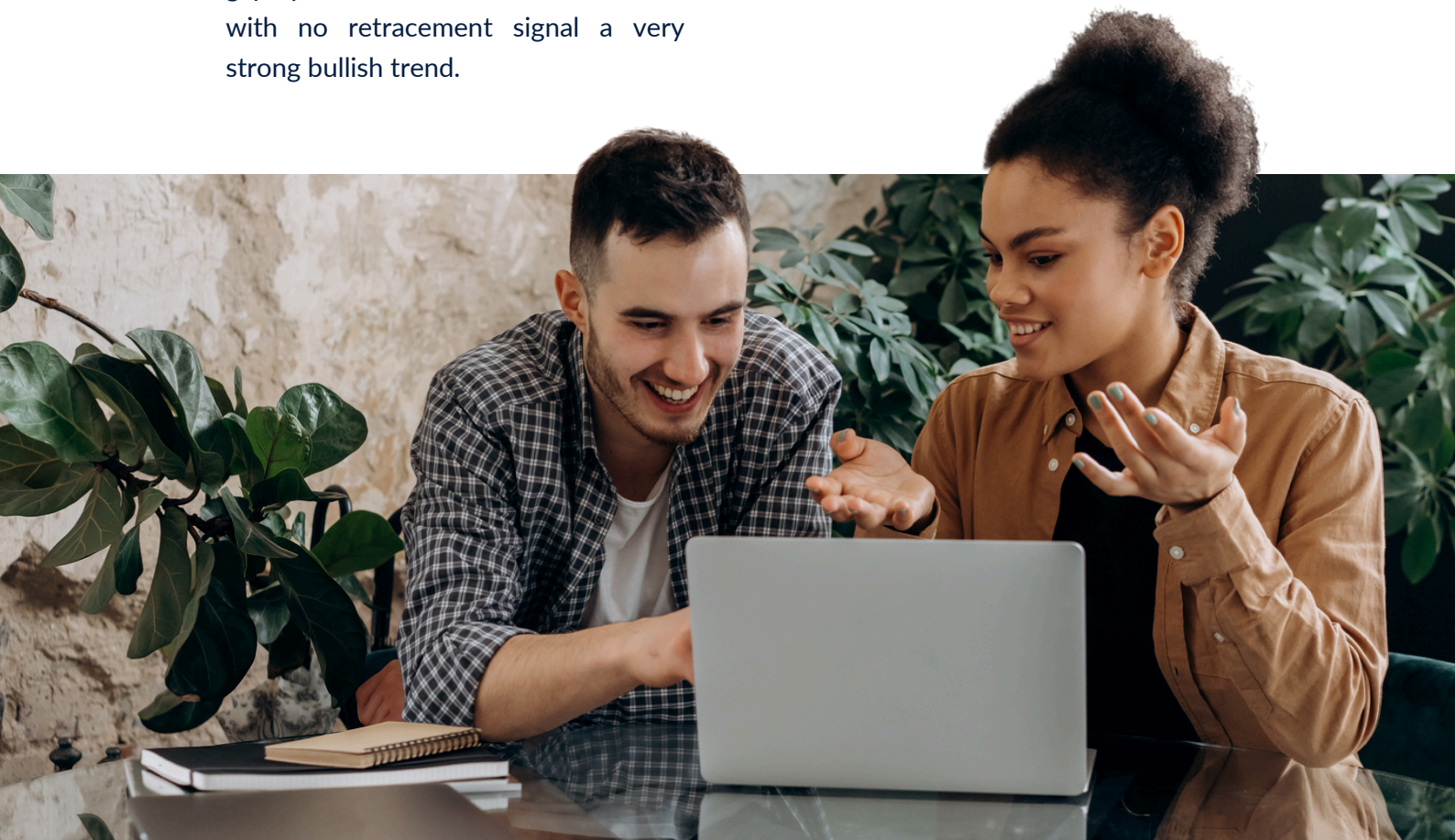


Formation

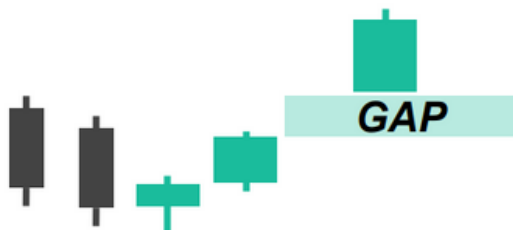
The kicker (or kicking) pattern is a continuation gap pattern where there is a Bearish candle and then a gap to the north with a Bullish candle and the market continue Bullish.

Signal

This rare pattern is strong bullish sentiment indicator and trend reversal



RISING THREE METHODS | BULLISH



Formation

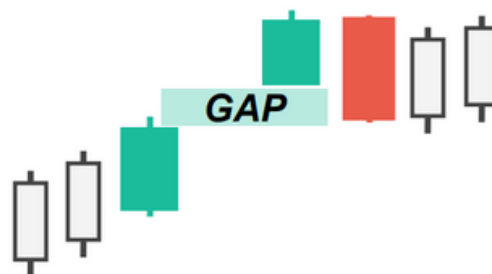
A Bullish continuation pattern that occurs in an uptrend and whose conclusion sees a resumption of that trend.

Signal

A strong Bullish candle followed by a three Bearish candles that do not break the initial candle shows that the bears do not take control and the bulls are maintaining control.



UPSIDE TASUKI GAP | BULLISH



Formation

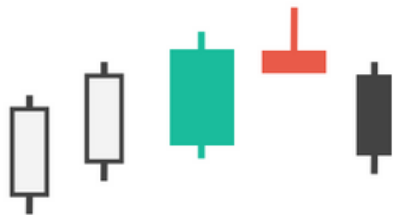
The market is trending bullish and forms a gap. The gap is followed a bullish candle and then a bearish candle that tests the bullish move and gap.

Signal

This continuation pattern for the uptrend shows the strength of the trend even with the testing of the gap.



SHOOTING STAR | BEARISH



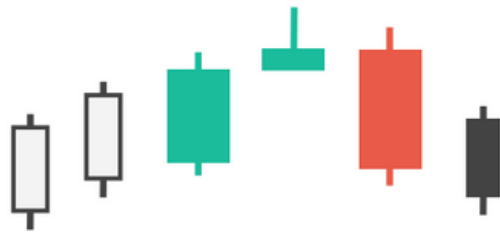
Formation

At the end of an upward trend, there is an exhaustion gap. This gap is followed by a small bodied candle, or Doji, indicating indecisiveness between the Bulls and Bears. The third candle in the formation indicates a decisive move lower as the Bears establish control.

Signal

The two candle formation that signals a Bearish Reversal.

EVENING STAR | BEARISH



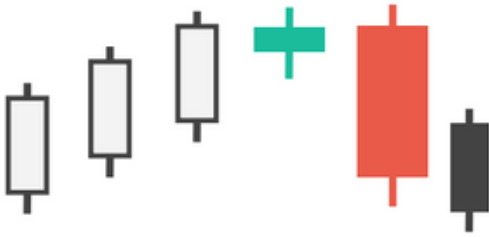
Formation

At the end of an upward trend, there is an exhaustion gap. This gap is followed by a small bodied candle, or Doji, indicating indecisiveness between the Bulls and Bears. The third candle in the formation indicates a decisive move lower as the Bears establish control.

Signal

The three candle formation that signals a Bearish Reversal.

BEARISH ENGULFING | BEARISH



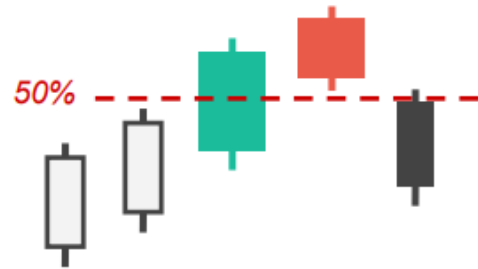
Formation

Following an uptrend, a small light candle forms. This small candle is followed by a candle that gaps higher as a result of strong buying pressure, but soon loses control to selling pressure from the Bears. The selling pressure becomes so intense that the current Bearish candle closes lower than the previous day's open.

Signal

Potential trend reversal.

DARK CLOUD COVER | BULLISH



Formation

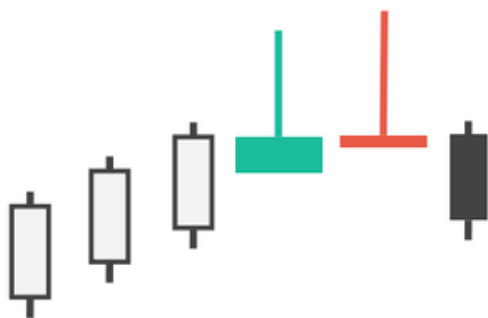
This is a Bearish reversal signal results from the Bears asserting themselves after a Bullish trend. The Dark Cloud Cover formation is a Bullish decision candle that is followed by a Bearish decision candle. The Bearish candle does not engulf the Bullish candle, but does retrace over 50% of the Bullish candle's body.

Signal

The isolated indecision candle signals a potential Bearish reversal.



TWEEZER TOP | BEARISH



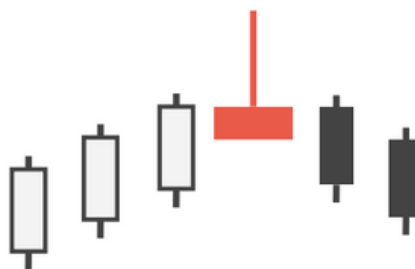
Formation

Following an uptrend, a formation appears that involves two candles with long shadows to the north. These candles can be Dragonfly or Hammer Doji, but the shadows to the north must make up at least 50% of the candle's height and have highs that are similar.

Signal

Potential trend reversal that is based on the inability of the Bulls to push to a higher high.

HANGING MAN | BEARISH



Formation

Following an uptrend, a formation appears that involves a candle with a long shadow to the north. This candle can be a Doji of any type, but the shadow to the north must make up at least 75% of the candle's height regardless of body size.

Signal

Potential trend reversal with a Bearish movement following the candle.



HARAMI | BEARISH



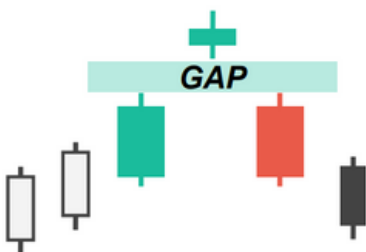
Formation

A Harami forms when a small candle develops within the open and close boundaries of the real body of the preceding candle.

Signal

Following a significant move higher, the Bulls and the Bears are now at a standstill. The Harami is an indication that the current Bullish trend is changing and may be reversing.

ABANDONED BABY | BEARISH



Formation

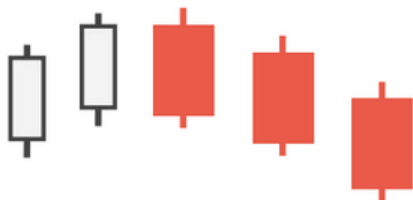
This is a Bearish reversal signal that results from an exhaustion gap being followed by an indecision candle. The lack of continued buying pressure allows the Bears to step in and move the price lower. This explosive Bearish move creates an additional gap on the right side of the indecision candle. There can be no overlap of the real bodies or the shadows between the three candles.

Signal

The isolated indecision candle signals a potential Bearish reversal.



THREE CHARGING BEARS | BEARISH



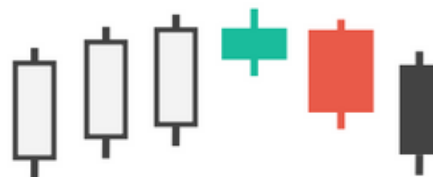
Formation

Commonly referred to as Three Black Crows, this formation is three Bearish candlesticks in a row all with longer bodies and short or no wicks.

((())) Signal

The three candles signals Bearish sentiment and a trend. This pattern is commonly preceded by other patterns of indecision like Hammers and Shooting Stars.

SPINNING TOP PUSH | BEARISH



Formation

A Spinning Top pattern forms when the trend slows before changing direction. The Spinning Top will be Bullish followed by a Bearish decision candle.

((())) Signal

The Spinning Top signals indecision with the following decision candle the push in the opposite direction.

TRI STARS | BEARISH



Formation

This is a Bearish reversal signal that results price making a final push upward being followed by a series of doji stars. This shows that multiple periods of fighting for control of the market. The next candle will signal the next directional push.

Signal

The series indecision candles signals a potential Bearish reversal.

FALLING WINDOW | BEARISH



Formation

The falling window can be seen as a Bearish reversal or continuation pattern. It is a primarily a two candle move that forms a continuation gap. The market starts to move down, forms a gap and then forms another strong Bearish decision candle.

Signal

The two candles signal a strong push to the south. The Bearish candle with a gap downward and another Bearish candle with no retracement signal a very strong Bearish trend.



KICKER | BEARISH



Formation

The kicker (or kicking) pattern is a continuation gap pattern where there is a Bullish candle and then a gap to the south with a Bearish candle and the market continue Bearish.

Signal

This rare pattern is strong Bearish sentiment indicator and trend reversal.

FALLING THREE METHODS | BEARISH



Formation

A Bearish continuation pattern that occurs in a downtrend and whose conclusion sees a resumption of that trend.

Signal

A strong Bearish candle followed by a three Bullish candles that do not break the initial candle shows that the bulls do not take control and the bears are maintaining control.



DOWNSIDE TASUKI GAP | BEARISH



Formation

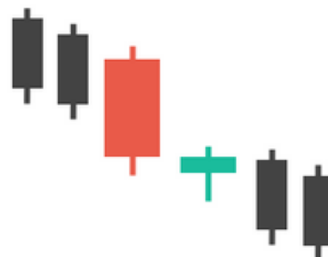
The market is trending Bearish and forms a gap. The gap is followed a Bearish candle and then a Bullish candle that tests the Bearish move and gap.

Signal

This continuation pattern for the downtrend shows the strength of the trend even with the testing of the gap.



ON NECK | BEARISH



Formation

The on neck pattern occurs when a long down candle is followed by a smaller up candle that gaps down on the open but then closes near the prior candle's close.

Signal

The pattern is considered a continuation pattern, indicating that the price will continue lower following the pattern. The pattern also often indicates at least a short-term reversal higher.





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FOR IT**