



# Investing Using Bull Call or Bull Put Spreads

How I trade options as an equities investor and directional trader

I use options to take long positions in equities that I believe will sell for more in the future than today. Covered calls are a good way to take advantage of the capital appreciation of the underlying and get income in the form of premium. Covered synthetic stock and covered stock replacements are more capital efficient forms of the covered call. I think of a call debit spread in the same way I view a covered call. The long call is my underlying capital investment and the short call is the income portion of the trade; they just happen to be in the same expiration month. Still, call debit spreads are a very specific trade that I use only in a very specific set of circumstances which are explained below.

## **Pick the underlying stock:**

Before entering a position, I need enough information to give me confidence that the underlying product will move favorably for me over the term of the trade. I first check a source of Discounted Cashflow Analysis. I would like to trade a product selling for less than its FV. If the underlying is trading over its Fair Value and I feel that there is a good reason to believe that the underlying can still do better for the foreseeable future, fine; I'll enter a position.

I then check a two-year daily chart of candles. On the chart I plot the 50 day EMA and the 100 day EMA. I am looking for a product that has been going up and to the right for the last two years or so. Let's look at Red Hat. It is trading above its FV by about 30% but, I believe there is good reason to believe it is worth a little more based on its plans for the future outlined in the DCF analysis. What this chart says to me is that institutional investors are happy to pay up for this stock. Over the past two years or so, the company management has proven their ability to maintain control of their earnings in a good economic environment. The management has been able to do what they said they would do; they have been meeting their guidance estimates for the last couple of years. This track record has convinced institutional investors that the company will continue and meet their projections. As long as management does not cause the institutional investors to lose faith and the economic outlook is stable, I expect the stock to stay where it is or increase in price.



Contrast that notion with SBUX, TSLA, IBM, GILD or even GE. All have a good story. If you look at their charts though, institutional investors are not buying it. Many will say that they will turn around. Life is too short; I am not buying turn around stories. There are plenty of stocks with a two-year chart like RHT. There is simply no need to try to invest long based on a hunch that things will improve. The up-trending stocks have already proven themselves and the investors believe it. Others will say the trending stock has gone up too high and it is going to crash soon. First, the only facts that I have don't tell me that, and second, I am only going to invest in this thing for about 60 days anyway. I won't need the stock to go up another 10% over the next year. I just need the stock to stay where it is for 60 days to make money on the trade. Good economic conditions, management has proven their ability to control their business, institutional investors continue to give high value to the stock; I believe these conditions warrant trading the stock long for sixty days or so even in a market that is making new all-time highs.

### Place the trade:

For years I have traded covered calls, often relying on holding the underlying equity for more than a year for long-term capital gains while selling front month calls and rolling these calls out each month. I often use LEAPS calls as a stock replacement. In an IRA, however, there is no need to hold the position that long for tax reasons. In the IRA I can buy my stock substitute for about 30 to 60 days; I will buy a Deep In the Money (DIM) call at about .90 to .95 delta for the equity substitute. I will sell call at about .80 delta in the same month as the long call. To me this is still a "covered call" since I am thinking like a long stock investor. To the option trader it is a Call Debit Spread, Long Call Vertical or a Bull Call Spread; as a long stock investor I still think of it as a covered call.

The way that the position makes money is not intuitive. I created a spreadsheet to analyze such trades prior to entry; available at [www.terrywalters.com/tools.html](http://www.terrywalters.com/tools.html). Note that this spreadsheet receives live data from Thinkorswim in a Windows environment. The values at time of trade are entered in white area in the top of the sheet. I save the spreadsheet under the name of the account that I have these trades in. I add new tabs as needed by copying one of the existing sheets into the new tab. It is then easy to scroll through the tabs each day to see how these trades are working.

New / Existing Bull Call Spread		
Stock Ticker.....	RHT	
Entry Date.....	6/14/2018	Trade Date
Expiration Date (Friday).....	7/20/2018	
Stock Price - Mark.....	\$175.90	Stock Price on Trade Date
Long Strike (Buy To Open).....	\$150.00	Pick about .90 to .95 Delta
Short Strike (Sell To Open).....	\$165.00	Pick a call just below the ATM strike.
Long Strike Premium - Mark.....	\$27.93	Price paid for this option
Short Strike Premium - Mark.....	\$14.81	Credit received for this option
Long Strike Open Interest	112	
Lot Size % of Open Interest	9%	Prefer less than 10%
Fill Risk	18.6%	(Nat-Mid)/Max Gain
Long Strike Delta	0.87	
Short Strike Delta	0.65	
Probability of Breakeven or Better	66%	Prefer greater than 80%
Days To Expiration	36	
Capital At Risk per 1 Lot	\$1,312.00	Equal to Max Loss
Breakeven Stock Price	\$163.12	Trade breakeven at expiration.
Max Gain, Total \$ per 1 Lot	\$188.00	
Equity Decline % at Max Loss	14.7%	
Equity Decline % at Breakeven	7.3%	Prefer greater than 5%
Max Return On Capital Per Month	11.9%	Prefer greater than 8.4%.
Max Annual Return On Capital	143.3%	
Potential Profits Per Day	\$5.22	

These trades make their money from the theta decay of the ATM short call. This is why I sell the call below the ATM. I am going to pick a long call at about .90 delta which will have a low extrinsic value relative to its strike price. I will sell the short call near the money so it will have a higher extrinsic value; I'll buy it back on the cheap while selling the long call which holds most of its value.

**Max Return on Capital Per Month** - I want to get a good annualized ROC. Consider the case above; if I could place these trades every month and I could close them all for max gain, I could get a 11.9% Return On Capital (ROC) per month. It will help to carefully pick the long strikes so that there will be high potential gains. I would like to get around 8.4% or more per month. Most trades will be closed early and I can't place trades all of the time, so I need a reasonable number to shoot for.

**Equity Decline % at Breakeven** - Additionally, I would not like to lose much in a pullback. If Implied Volatility is higher it is easier to actually show a small gain even when the market declines. In the example above, for the 36 days of the trade, if the stock remains at its current price, the trade will get a **Max Gain** of \$188.00, an 11.9% return per month on **Capital At Risk per 1 Lot** of \$1312.00. The stock could drop 7.3% and still breakeven. The stock would have to drop by 14.7% for the spread to trade for max loss at expiration. To me this is a safe trade.

The trade-offs in setting up the trade will be in the selection of the long call strike. Lower strikes will provide a lower breakeven point, but higher invested capital. I often try higher and lower long strikes to balance the **Max Return On Capital Per Month** versus **Equity Decline % at Breakeven**. Higher short strikes will provide greater ROC but the breakeven percentage will be lower. I would like the **Equity Decline % at Breakeven** to be higher than 5%. Note also that the **Probability of Breakeven or Better** is 74% I would like better, 80% would be great. I would not take a trade with a probability below about 70%. The trades set up better when IV is higher as the short call will have more premium to melt away over the course of the trade.



The graph above shows the progress in this trade. I see that I make maximum profits above the 165 strike (Green line) and if the stock declines to about 163.12 (Yellow line), I will breakeven on the trade at expiration. This graph helps to visualize the trade in relation to the stock's behavior. It is easy to see how long the trade lasts. If the underlying continues to do well, maybe I will trade it again. I don't need the stock to go up to make money and I don't need it to stay up for very long to succeed. Note, the purple cone represents one standard deviation of projected price movement. As of today, our markets are near record highs. I want to be in trades that make their money without the need for markets to go higher. I also want a little downside cushion in case this stratospheric market corrects. To take a Max Loss, RHT would have to decline by 14.7% in the next 36 days. I feel cushioned.

### Trading Near Earnings:

When trading near earnings announcements the IV is inflated and thus option prices increase.

New / Existing Bull Call Spread		
Stock Ticker.....	<b>ANET</b>	
Entry Date.....	2/13/2018	Trade Date
Expiration Date (Friday).....	3/16/2018	
Stock Price - Mark.....	\$288.26	Stock Price on Trade Date
Long Strike (Buy To Open).....	\$200.00	Pick about .90 to .95 Delta
Short Strike (Sell To Open).....	\$260.00	Pick a call just below the ATM strike.
Long Strike Premium - Mark.....	\$89.10	Price paid for this option
Short Strike Premium - Mark.....	\$35.85	Credit received for this option
<b>Long Strike Open Interest</b>		
Lot Size % of Open Interest		
Fill Risk		
Long Strike Delta		
Short Strike Delta		
Probability of Breakeven or Better		
Days To Expiration	31	
Capital At Risk per 1 Lot	\$5,325.00	Equal to Max Loss
Breakeven Stock Price	\$253.25	Trade breakeven at expiration.
Max Gain, Total \$ per 1 Lot	\$675.00	
Equity Decline % at Max Loss	30.6%	
Equity Decline % at Breakeven	12.1%	Prefer greater than 5%
Max Return On Capital Per Month	12.3%	Prefer greater than 8.4%.
Max Annual Return On Capital	147.2%	
Potential Profits Per Day	\$21.77	

In the case of ANET above this means that I have more premium to work with. This trade exhibits an excellent **Max Return On Capital Per Month** and **Equity Decline % at Max Loss**. Note also that the **Equity Decline % at Breakeven** is 12.1%. This means that ANET can move down by 12.1% by expiration and the trade still is at Breakeven. The reason for such good ROI with excellent downside protection is that earnings will be out in the next 48 hours. I don't trade earnings announcements per se, but I would put this trade on because I am a long investor in ANET. I have researched the Discounted Cash Flow, the trend is up and to the right, their business plans are solid and the general economy is good. Thus, I am happy to trade ANET long and this trade has a terrific return with excellent downside protection ahead of the earnings announcement. Will the stock go up or down at earnings; I have no idea. But if it does go down I have a 12% cushion.

Note also how far down the short strike is from the Mark; 260 versus \$288.25. The long strike is still placed at about .95 delta, but that short strike is about .78 delta. I find that to get better downside protection the short strike can be farther from the ATM call. It is well worth the extra time to test several combinations of long and short strikes to find a balance between ROI and downside protection.

Consider if I have many such trades in an account. If each of the equities declined by a few percentage points, the account does not lose money. Yet, the account makes a considerable return if the market goes up or even does nothing. There is a natural hedge of sorts in these trades. It is then easier to hedge a basket of these trades when hedging the overall account.

#### **Exit for cause, exit mechanically, exit near expiration:**

An exit for cause is when I believe the underlying has changed fundamentally and/or institutional investors have changed their collective opinions. The first consideration is the moving average. Is the 50 day EMA converging on the 100 day EMA or even crossing below? Second consideration, if there is a significant fundamental reason for the 50 day EMA to move lower, for example, a corporate accounting irregularity or missing an FDA trial milestone, then it is time to close the trade and move on to a different product which is trending up and to the right. If the dip appears to be for a change unrelated to the underlying, for example Greece is going back into debt, then I would stay in the trade. If the 50 day EMA is below the 100 day EMA when I exit the trade, I would not place a new trade in that equity. The cross of the 50 day EMA below the 100 day EMA means to me that institutional investors no longer believe the fundamental story. There are plenty of examples of companies which have "good numbers"; i.e. low P/E ratios, etc. but institutional investors are moving out of their positions and the stock price drops. I am sure other traders can make money on declining stocks with other trading strategies, but that is not what I do.

Some traders just get out mechanically; that is, they place a GTC order to close the trade when it has made 50% of max gain for example. They might roll the trade at that point, or if the rolling trade is not safe, they could pick a different underlying that sets up better.

Exit near expiration may be the choice if I am not concerned about a price decline. Since this trade makes most of its profits from theta decay I need to exit close to expiration to get the most gain. There is a good probability that the underlying will be trading higher than my short call strike; so, I can't really let the trade expire in a short stock assignment. I will likely need to close the trade in the week of expiration, Wednesday is usually my latest day to close/roll.

## Rolling the Trade:

Gaining experience in how to roll and when to roll has been just as important as picking the original trade entry point. The next question to answer is if I want to continue to trade this underlying. If the underlying has declined so that the 50 day EMA is converging on the 100 EMA I really have to ask myself if I really want to stay in the product. Sometimes I feel that the underlying is “unjustly accused” and forced lower by temporary market forces and it will recover quickly. In that case I will roll the trade out.

Normally I would roll to the next monthly expiration. If the underlying is trading over the short strike of the current trade, that works fine. I adjust the strikes in the new trade until I get a reasonable **Max Return On Capital Per Month** while trying to keep the **Equity Decline % at Breakeven** greater than 5%. If I cannot find strikes that will provide a reasonable return while not declining faster than the market, I might have to move on to a different underlying.

If the underlying declines less than a few percent, I would likely roll the trade out and perhaps even out and down. In a down situation I don't want to lose money, so I would be okay with rolling out for a scratch. Sometimes it is possible to roll out and down for a scratch or a small gain if I am willing to roll 120 days or so.

The rolling trade is to sell the long, buy the short and move one or two months out buying the long strike and selling the near the money call at the same strike width as the original trade in the new month. The math is a lot easier if I keep the width of the strikes the same, but it is not essential to keep the same strike width. These rolls are often done for a credit. I determine the strikes for the new trade (the “rolled to” trade) by using the spreadsheet.

NOTE: The Exit Analysis and The New Trade sections of the spreadsheet depend on using the Thinkorswim (TOS) Real Time Data (RTD) features on a Windows platform. When TOS is running, the data in this spreadsheet will populate automatically so that your analysis can be made with live data from the brokerage. When I need to trade a new ticker, I simply copy a spreadsheet into a new tab and enter the new information. It is a simple matter then to click through the tabs to see how each trade is progressing.

New / Existing Bull Call Spread		Exit Analysis		Rolling Trade	
Stock Ticker.....	AMZN			Today is: 7/10/2018	
Entry Date.....	5/29/2018 Trade Date			Expiration Date (Friday)	8/17/2018
Expiration Date (Friday).....	7/20/2018			Long Strike (Buy To Open)	\$1,500.00 Pick about .90 to .95 Delta
Stock Price - Mark.....	\$1,608.60 Stock Price on Trade Date			Short Strike (Sell To Open)	\$1,600.00 Pick a call just below the ATM strike.
Long Strike (Buy To Open).....	\$1,430.00 Pick about .90 to .95 Delta				
Short Strike (Sell To Open).....	\$1,530.00 Pick a call just below the ATM strike.				
Long Strike Premium - Mark.....	\$192.38 Price paid for this option				
Short Strike Premium - Mark.....	\$108.35 Credit received for this option	Bought Back the Short call For:			
Long Strike Open Interest	153	Current Stock Price - Mark	\$1,733.99	Long Strike Open Interest	204
Lot Size % of Open Interest	1% Prefer less than 10%	Long Call Mark	\$314.700	Lot Size % of Open Interest	1% Prefer less than 10%
Fill Risk	31.3% (Nat-Mid)/Max Gain	Short Call Mark	\$215.050	Fill Risk	9.9% (Nat-Mid)/Max Gain
Long Strike Delta	0.92	Short Call % of Max Gain		Long Strike Delta	0.86
Short Strike Delta	0.89	Days To Expiration		Short Strike Delta	0.77
Probability of Breakeven or Better	72% Prefer greater than 80%	Days To Expiration		Probability of Breakeven or Better	77% Prefer greater than 80%
Days To Expiration	52	Days To Expiration		Days To Expiration	38
Capital At Risk per 1 Lot	\$8,403.00 Equal to Max Loss	Current Price - Credit (Debit)		Capital At Risk per 1 Lot	\$8,707.50 Equal to Max Loss
Breakeven Stock Price	\$1,514.03 Trade breakeven at expiration.	Gain (Loss) Dollars per 1 Lot		Breakeven Stock Price	\$1,587.08 Trade breakeven at expiration.
Max Gain, Total \$ per 1 Lot	\$1,597.00	Gain (Loss) Return On Capital		Max Gain, Total \$ per 1 Lot	\$1,292.50
Equity Decline % at Max Loss	11.1%	Current % of Max Gain -Loss		Equity Decline % at Max Loss	13.5%
Equity Decline % at Breakeven	5.9% Prefer greater than 5%	Remaining Potential Profits/Day		Equity Decline % at Breakeven	8.5% Prefer greater than 5%
Max Return On Capital Per Month	11.0% Prefer greater than 8.4%			Max Return On Capital Per Month	11.7% Prefer greater than 8.4%
Max Annual Return On Capital	131.6%			Max Annual Return On Capital	140.6%
Potential Profits Per Day	\$30.71			Potential Profits Per Day	\$34.01

In the above spreadsheet note that the **Current % of Max Gain – Loss** is 97.8%. This cell background color will be green if the trade has achieved over 85% of its Max Gain; otherwise it will be yellow. When

the trade has made more than 85% Max Gain I would consider rolling the trade either up or up and out. Notice also in this spreadsheet **Potential Profits Per Day** in the **Rolling Trade** is highlighted in green. This cell will be highlighted only when there is more money to be made per day in the new trade versus the existing trade. I can experiment with picking strikes and expiration dates to find what I like. When there is more money to be made in the **Rolling Trade** and there is a good downside cushion I seriously consider rolling.

In the AMZN case above, the Rolling Trade **Max Return On Capital Per Month** is 11.7%; a good return. The **Equity Decline % at Breakeven** is 8.5% and the **Probability of Breakeven or Better** is 77%; a safe trade. There are far more **Remaining Potential Profits/Day** in the Rolling Trade; \$34.01 versus \$3.50. Since the **Existing Trade Current % of Max Gain – Loss** is greater than 85% I would close the existing trade and open the Rolling Trade.

Sometimes the underlying goes up rapidly only a week or two into the trade. In that case I can roll the trade up maybe even a strike or two in the same month for an additional credit. If there is just not much money left to be made in the trade, then it may be time to roll early.

Using the Exit Analysis portion of the spreadsheet helps to get experience trading call debit spreads. The point at which to roll up the trade in the same month or roll up and/or down and out is not an exact process. There are many moving variables in the trade not the least of which are the stock fundamentals and opinions of institutional investors. Running the numbers often is giving me a better feel for how to manage the positions. I started trading many 1 lots for a several months before I felt that I really could manage call debit spreads. There is just a lot to remember regarding these trades and the spreadsheet keeps me from forgetting to check something and keeps me from making math errors in my head. I still always use the calculator to model the trades before entry and after entry to manage the Rolling Trade.

### **In a severe decline:**

Sometimes I am wrong. The stock goes way down. As the stock price declines the short call loses value quickly. (This eventually happened in the RHT example above.) I could then buy the short call back for a small fraction of what I sold it for. The **Short Call % of Max gain** tracks this value. When this percentage reaches about 95%, there simply is not much to be gained by holding onto the short call. So, I buy it back. I enter the price that I **Bought Back the short Call For:** in F9 and the spreadsheet recalculates the current gains or losses. If the underlying stock recovers, the long call will increase in value while there is no short call to decrease in value since I just bought it back. When the underlying has declined I tend to hold on to the long call if my fundamental analysis indicates that the stock is still a reasonable value. If the stock quickly recovers the long call could provide a very good return. However, if there is a fundamental reason that the stock has gone down and the 50 day EMA has crossed below the 100 day EMA, I would likely just close the trade and move on to trade a different equity.

New / Existing Call Debit Spread			Exit Analysis	
Stock Ticker.....	<b>AMAT</b>			
Entry Date.....	4/12/2018	Trade Date		
Expiration Date (Friday).....	5/18/2018			
Stock Price - Mark.....	\$56.61	Stock Price on Trade Date		
Long Strike (Buy To Open).....	\$45.00	Pick about .90 to .95 Delta		
Short Strike (Sell To Open).....	\$55.00	Pick a call just below the ATM strike.		
Long Strike Premium - Mark.....	\$12.04	Price paid for this option		
Short Strike Premium - Mark.....	\$3.90	Credit received for this option	<b>Bought Back the Short call For:</b>	
Long Strike Open Interest			Current Stock Price - Mark	\$52.56
Lot Size % of Open Interest			Long Call Mark	\$7.725
Fill Risk			Short Call Mark	\$0.420
Long Strike Delta			Short Call % of Max Gain	89%
Short Strike Delta			Days To Expiration	13
Probability of Breakeven or Better			Current Price - Credit (Debit)	\$7.31
Days To Expiration	36		Gain (Loss) Dollars per 1 Lot	-\$83.50
Capital At Risk per 1 Lot	\$814.00	Equal to Max Loss	Gain (Loss) Return On Capital	-10.3%
Breakeven Stock Price	\$53.14	Trade breakeven at expiration.	Current % of Max Gain -Loss	0.0%
Max Gain, Total \$ per 1 Lot	\$186.00		Remaining Potential Profits/Day	\$20.73
Equity Decline % at Max Loss	20.5%			
Equity Decline % at Breakeven	6.1%	Prefer greater than 5%		
Max Return On Capital Per Month	19.0%	Prefer greater than 8.4%.		
Max Annual Return On Capital	228.5%			
Potential Profits Per Day	\$5.17			

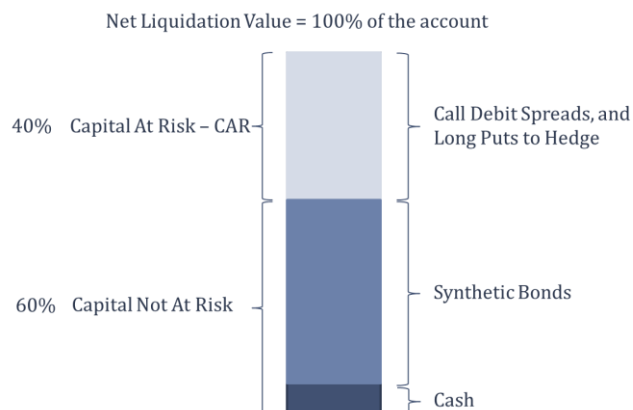
Consider the AMAT case above. When the stock dropped, and the short call traded for 89% of Max Gain, I bought it back. Originally, I sold it for \$3.90, so there is not much to be gained by holding the short call and now I could have an unencumbered gain on the long call.

This strategy has been very useful with recently choppy markets. If I am right on the general direction of the stock it might well increase in value before expiration. Note that in the AMAT case there are two more weeks for the stock to improve. Hey, 'could happen.

### Portfolio Management:

In an IRA I can hold a lot of these positions since they are inherently capital efficient. They are a lot cheaper than owning the shares and the potential ROC is very good. As the trades are successful, cash builds up in the portfolio. But, the trades are highly leveraged. And, in an IRA I can't afford to lose much capital as it is very difficult to transfer more capital into an IRA. Even though I have taken precautions to pick up-trending stocks, when the market turns against me these positions will lose money fast. So, I only risk about 40% of the account assets in these trades. I keep 60% of assets in cash and cash substitutes.





Forty percent represents the total Capital At Risk (CAR) in Call Debit Spreads. If there are 10 positions traded in a \$100,000.00 account, then each position could represent \$4,000.00. I adjust the strikes and the number of contracts so that the total cost of each trade is \$4000.00 for these debit spreads. Additionally, I adjust the trade to get about 8.4% Return On Capital monthly while trying to keep the trade “safe”. By safe, I mean that the Probability of Breakeven or Better should be about 80%. If each of the ten trades were set up this way, I could calculate what I expect from the account. On an annual basis the 8.4% per month yields 100% per year on 40% of the account. From experience, successful trades have closed for 70% of Max Gain. If 80% of the trades succeed, that would be 0.80 times the 70% of Max Gain times the 40% or 22.4% annual return. Of course, if the market crashed, more of the trades would take losses. From experience, the losing trades closed for an average of 2.9% of Max Loss.

I need to keep in mind too that as the call spreads succeed cash goes into the portfolio. Occasionally the account is rebalanced using some of the cash for options trading. This creates a compounding effect on the option trades returns further enhancing upside on the accounts.

I know that the Synthetic Bonds will yield about 4% annually. So, 50% of 4% is 2.0%. I can be reasonably sure that the safe portion of the portfolio will contribute about 2% to the portfolio annually. Even in a bad market the Synthetic Bonds will have gains adding about 2% to the portfolio annually.

Adding the 2% for Synthetic Bonds and the 23.5% in options trades and it is not unreasonable to expect to get a 25% annual return on capital. There are a lot of variables at work here, but actual trades get these kinds of results.

I certainly can't lose more than about 38% of the portfolio considering the gains from “bonds”. I can live with that.

### How many contracts should I trade?

In the **Account Management** section of the spreadsheet below I have entered \$600,000.00 in **Net Liquidation Value**. I only want to risk 40% of the account as the **Percent to Trade**. I will be trading 16 different underlying products as Call Debit Spreads; that is the **No. of Positions**.

The spreadsheet calculates the Capital At Risk for each position by taking 40% of the Net Liq and dividing that among the 16 positions; the **Account Allocation Size**. The spreadsheet then calculates the rough number of contracts of the underlying product to fill the allocation as the **Lot Size Computed**. I then decide to round up or round down and enter the number of contracts that I actually trade in **Lot Size Placed**.

Note that the bottom line in the new trade and the rolling trade shows the actual **Total Capital At Risk** in the trade. I want to keep the same amount of **Total Capital At Risk** in my rolling trade. If I change the width of the strikes in the rolling trade in order to get a higher return with better downside protection, I may have to change the number of contracts to achieve the same **Total Capital At Risk** in the rolling trade that I had in the original trade. In the case below I will have to add \$609.00 in capital to make up the **Capital Cost Difference** to roll this trade up and out.

New / Existing Bull Call Spread				Exit Analysis		Rolling Trade	
Stock Ticker..... <b>AMZN</b>						Today is: <b>7/10/2018</b>	
Entry Date..... 5/29/2018 Trade Date						Expiration Date (Friday) <input type="text" value="8/17/2018"/>	
Expiration Date (Friday)..... 7/20/2018						Long Strike (Buy To Open) <input type="text" value="\$1,500.00"/> Pick about .90 to .95 Delta	
Stock Price - Mark..... \$1,608.60 Stock Price on Trade Date						Short Strike (Sell To Open) <input type="text" value="\$1,600.00"/> Pick a call just below the ATM strike.	
Long Strike (Buy To Open)..... \$1,430.00 Pick about .90 to .95 Delta							
Short Strike (Sell To Open)..... \$1,530.00 Pick a call just below the ATM strike.							
Long Strike Premium - Mark..... \$192.38 Price paid for this option							
Short Strike Premium - Mark..... \$108.35 Credit received for this option				Bought Back the Short call For: <input type="text"/>			
Long Strike Open Interest..... 153				Current Stock Price - Mark..... <b>\$1,733.99</b>		Long Strike Open Interest..... 204	
Lot Size % of Open Interest..... 1% Prefer less than 10%				Long Call Mark..... \$314.700		Lot Size % of Open Interest..... 1% Prefer less than 10%	
Fill Risk..... 31.3% (Nat-Mid)/Max Gain				Short Call Mark..... \$215.050		Fill Risk..... 9.9% (Nat-Mid)/Max Gain	
Long Strike Delta..... 0.92				Short Call % of Max Gain.....		Long Strike Delta..... 0.85	
Short Strike Delta..... 0.89				Days To Expiration..... 10		Short Strike Delta..... 0.77	
Probability of Breakeven or Better..... 72% Prefer greater than 80%				Days To Expiration - Credit (Debit)..... \$99.65		Probability of Breakeven or Better..... 77% Prefer greater than 80%	
Days To Expiration..... 52				Gain (Loss) Dollars per 1 Lot..... \$1,562.00		Days To Expiration..... 38	
Capital At Risk per 1 Lot..... \$8,403.00 Equal to Max Loss				Gain (Loss) Return On Capital..... 18.6%		Capital At Risk per 1 Lot..... \$8,707.50 Equal to Max Loss	
Breakeven Stock Price..... \$1,514.03 Trade breakeven at expiration.				Current % of Max Gain -Loss..... <b>97.8%</b>		Breakeven Stock Price..... \$1,587.08 Trade breakeven at expiration.	
Max Gain, Total \$ per 1 Lot..... \$1,597.00				Remaining Potential Profits/Day..... \$3.50		Max Gain, Total \$ per 1 Lot..... \$1,292.50	
Equity Decline % at Max Loss..... 11.1%						Equity Decline % at Max Loss..... 13.5%	
Equity Decline % at Breakeven..... 5.9% Prefer greater than 5%						Equity Decline % at Breakeven..... 8.5% Prefer greater than 5%	
Max Return On Capital Per Month..... 11.0% Prefer greater than 8.4%.						Max Return On Capital Per Month..... 11.7% Prefer greater than 8.4%.	
Max Annual Return On Capital..... 131.6%						Max Annual Return On Capital..... 140.6%	
Potential Profits Per Day..... \$30.71						Potential Profits Per Day..... <b>\$34.01</b>	
<b>Account Management</b>				<b>Progress</b>		<b>New Trade - Rolling Trade</b>	
Account Net Liquidation Value	Percent to Trade	No. of Positions	Lot Size Placed	Total BPS Gain (loss) To Date		Lot Size of New Trade	
\$600,000.00	40%	16	2	\$3,124.00		<input type="text" value="2"/>	
Lot Size Computed: 2				Total Return On Capital At Risk	18.6%	Account Allocation Size: \$37,500.00	
Account Allocation Size: \$37,500.00				Total Rolling Credit (Debit)	\$2,515.00	Total Max Gain Potential Dollars: \$2,585.00	
Total Max Gain Potential Dollars: \$3,194.00				Capital Cost Difference	\$609.00	Total Capital at Risk: <b>\$17,415.00</b>	
Total Capital At Risk: \$16,806.00							

### Progress and Rolling the Trade:

In the **Progress** section, I can see how the overall position is doing.

The **Total BPS Gain (loss) To Date** calculation is the total dollars gained in the Call Debit Spread; the amount of the spread times the number of contracts times 100.

The **Total Rolling Credit (Debit)** calculation is the credit or debit that will be received for a rolling transaction. I generally sell the **Existing Trade** and buy the **Rolling trade** as a single four leg rolling transaction. I check this value in TOS before launching the trade to be sure I have setup the trade correctly.

**Total Return On Capital At Risk** is the bottom line. This reflects the gain in the Bull Call Spread divided by the **Total Capital At Risk** in the existing trade for the number of contracts. This may be greater than the **Max Return On Capital Per Month** if the duration of the trade was greater than 30 days.

### Why not a Bull Put Spread instead?

The Risk Profile for the Bull Put Spread is the same as the Bull Call Spread. The spreadsheet used to set up the Bull Put Spread is nearly identical to the Bull Call Spread. There are only a couple of important differences.

There is generally greater Open Interest in the puts versus the calls. This might create an opportunity for a better fill. Note that the spreadsheet includes the **Long Strike Open Interest** as well as **Lot Size % of Open Interest** so that I can decide if the underlying is liquid enough at these strikes for me to trade it successfully.

The **Fill Risk** calculation subtracts the Mid from the Natural and divides that by the Max Gain. Consider if the Bid/Ask spread is so wide that it is equal to the entire Max Gain of the trade. That would mean if I filled the trade at the Nat, there would be no gain in the trade. A **Fill Risk** of 100% or more simply means that filling at the Nat will be a losing trade. This high risk often occurs on the call side. If **Fill Risk** is high, I will either try to fill only at the Mid or just a penny or two off the Mid or perhaps just not trade those strikes at all. Highly liquid stocks have very low **Fill Risk** ratios. If the **Fill Risk** is less than 5% or so, a fill at the Nat would still work well. This will be most important in the Rolling Trade when four legs have to fill.

If the underlying stock trades well above the short put strike near expiration, I can take the risk to let the trade simply expire as income rather than selling it. In this case, I would receive Max Gain on the trade. Generally, however, the Rolling Trade presents an opportunity to roll into a better trade well before expiration. So, this really might not be a benefit of trading the put side for me.

The advantage on the call side is the case where the underlying drops dramatically early in the trade and I can buy back the short call for a high percentage of its max gain. I don't have the same opportunity to help mitigate losses this way on the put side.

On the put side, the short put could be assigned on a stock price drop so one would have to be prepared to take the shares and wait for the underlying to recover. If I felt that there was a fundamental change in the underlying valuation, I would sell the shares and move on.

The call side faces assignment risk if the underlying pays a dividend. I may have to roll the short call up and/or up and out to assure that I am not assigned.

As of this writing I am still trading far more Bull Call Spreads than Bull Put Spreads.

<b>New/Existing Bull Put Spread</b>		
<b>Stock Ticker</b> .....	<b>UNH</b>	
<b>Entry Date</b> .....	6/19/2018	Trade Date
<b>Expiration Date (Friday)</b> .....	7/20/2018	
<b>Stock Price - Mark</b> .....	\$252.00	Stock Price on Trade Date
<b>Long Strike (Buy To Open)</b> .....	\$230.00	Pick about -0.05 to -0.20 delta
<b>Short Strike (Sell To Open)</b> .....	\$240.00	Pick a call just below the ATM strike.
<b>Long Strike Premium - Mark</b> .....	\$0.78	Price paid for this option
<b>Short Strike Premium - Mark</b> .....	\$1.94	Credit received for this option
<b>Long Strike Open Interest</b>	680	
<b>Lot Size % of Open Interest</b>	1%	Prefer less than 10%
<b>Fill Risk</b>	7.33%	(Mid-Nat)/Max Gain
<b>Long Strike Delta</b>	-0.11	
<b>Short Strike Delta</b>	-0.27	
<b>Probability of Breakeven or Better</b>	70%	Prefer greater than 80%
<b>Days To Expiration</b>	31	
<b>Max Loss: Same as Capital At Risk</b>	\$884.00	
<b>Breakeven Stock Price</b>	\$238.84	Trade breakeven at expiration.
<b>Max Gain, Total \$ per 1 Lot</b>	\$116.00	Total Credit Received for a 1 Lot
<b>Equity Decline % at Max Loss</b>	8.7%	
<b>Equity Decline % at Breakeven</b>	5.2%	Prefer greater than 5%
<b>Max Return On Capital Per Month</b>	12.7%	Prefer greater than 8.4%.
<b>Max Annual Return On Capital</b>	152.4%	
<b>Potential Profits Per Day</b>	\$3.74	

### The Bottom Line:

Yes, this is complicated. I could not do this efficiently without having a spreadsheet to help me with the decision making. There are a lot of variables at moving constantly and I will want to take more or less risk depending on the market conditions and the underlying fundamentals.

After a hundred trades or so, it gets a lot easier.