

Options Trading SIG

Informal presentations to
help you enhance your
portfolio with options

Spread Trading with Options Part 2: Put Credit Spreads

A defined risk option strategy for weekly or monthly income

Previous meetings: www.aaisandiego.com/sub-groups/options-trading/

Flexible Meeting Fees

- New contribution system: Flexible Meeting Fees (instead of the Pay-As-You-Go).
- Motivated by those who made generous, voluntary contributions online during COVID, Thank You.
- Can we make this work after COVID for in-person meetings?
- We need contributions to meet our expenses.

- Ways to make voluntary contributions:
 - Cash or check
 - Use this QR code





Upcoming Events

Current calendar can be found at www.aaiisandiego.com

Upcoming Meeting Dates

In Person with Live Stream Option

November 12, 2022 – “What We Got Wrong In our Market Outlook for 2022 and Its Impact on 2023” presented by Nick Atkeson, Delta Investment Management LLC

In Person with Live Stream Option

January 14, 2023 – “2023 Economic Update” presented by Andrew Reilly, Market Director, Principal Global Investors



Welcome to the Options Investing Strategies Community!

This Community hosts webinars, provides space for online and live discussions, and posts resources to encourage and support AAI members who are interested in options for income, leverage, portfolio protection and/or trading profits. We welcome investors at all levels and invite our members to launch discussions, ask questions, report satisfactory experiences with vendors (or warnings), and post educational links.

By participating in this Community, all members acknowledge that everything posted here is for education and discussion purposes only and cannot be construed as a recommendation or endorsement of specific vendors, products and services.

Connect with other members who want to explore the use of options strategies to generate income, increase returns though leverage and provide portfolio protection.

The American Association of Individual Investors (AAII)

[Options Investing Strategies - American Association of Individual Investors \(aaii.com\)](https://www.aaii.com)

Presentation Outline

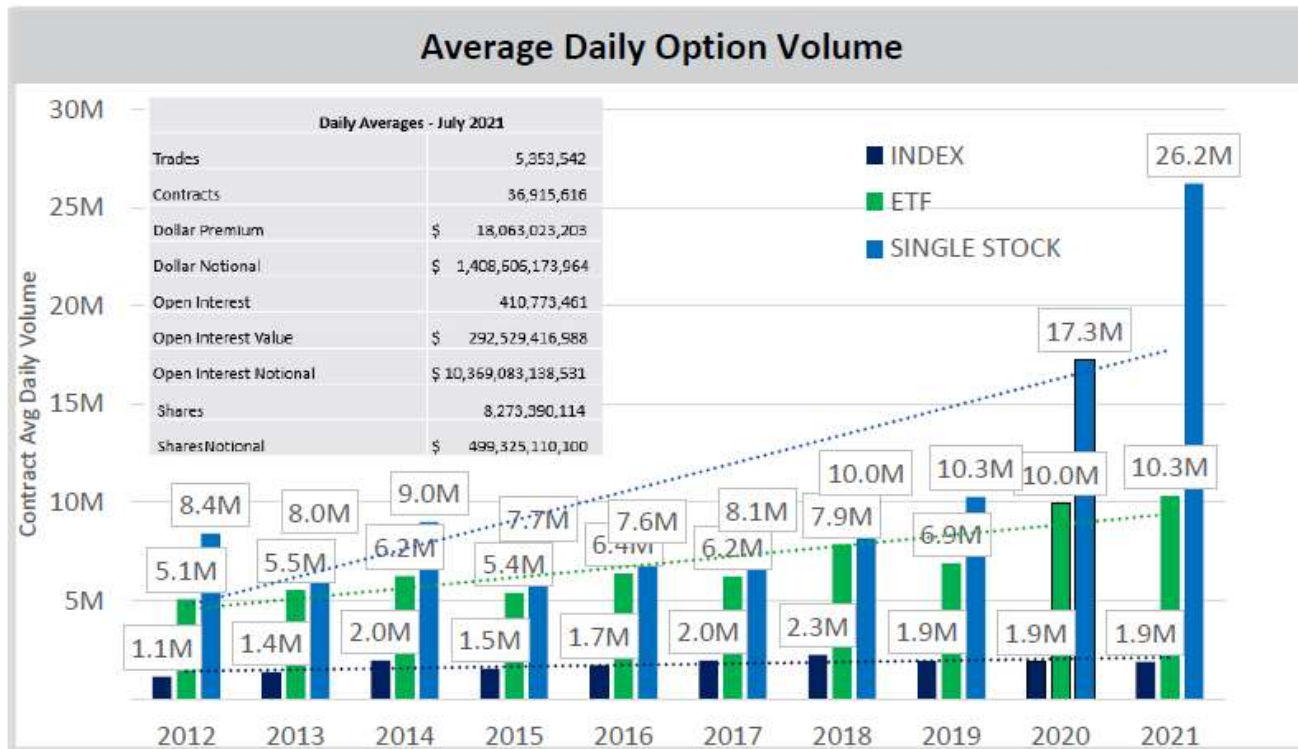
Basic Concepts and Market Activity

Characteristics of Index Options

Vertical Spreads

A Real SPX Put Credit Spread

Market Activity



Growth Index	
10yr	5.3%
5yr	-0.6%
1yr	-0.3%

ETF	
10yr	7.4%
5yr	10.7%
1yr	3.6%

Stock	
10yr	12.0%
5yr	26.4%
1yr	51.8%

Total	
10yr	10.2%
5yr	18.7%
1yr	31.9%

What is a Market Index?

- Stock indices are be broad market indicators
- An index represents a collection of stocks and can be used to assess market and sector status
- Stock indices are not traded
 - Indices have a large derivative markets, i.e., options and futures
 - Indices have ETFs
- Broadly followed indices:
 - S&P 500 (SPX)
 - Nasdaq100 (NDX)
 - Dow Jones Industrial Average (DJX)

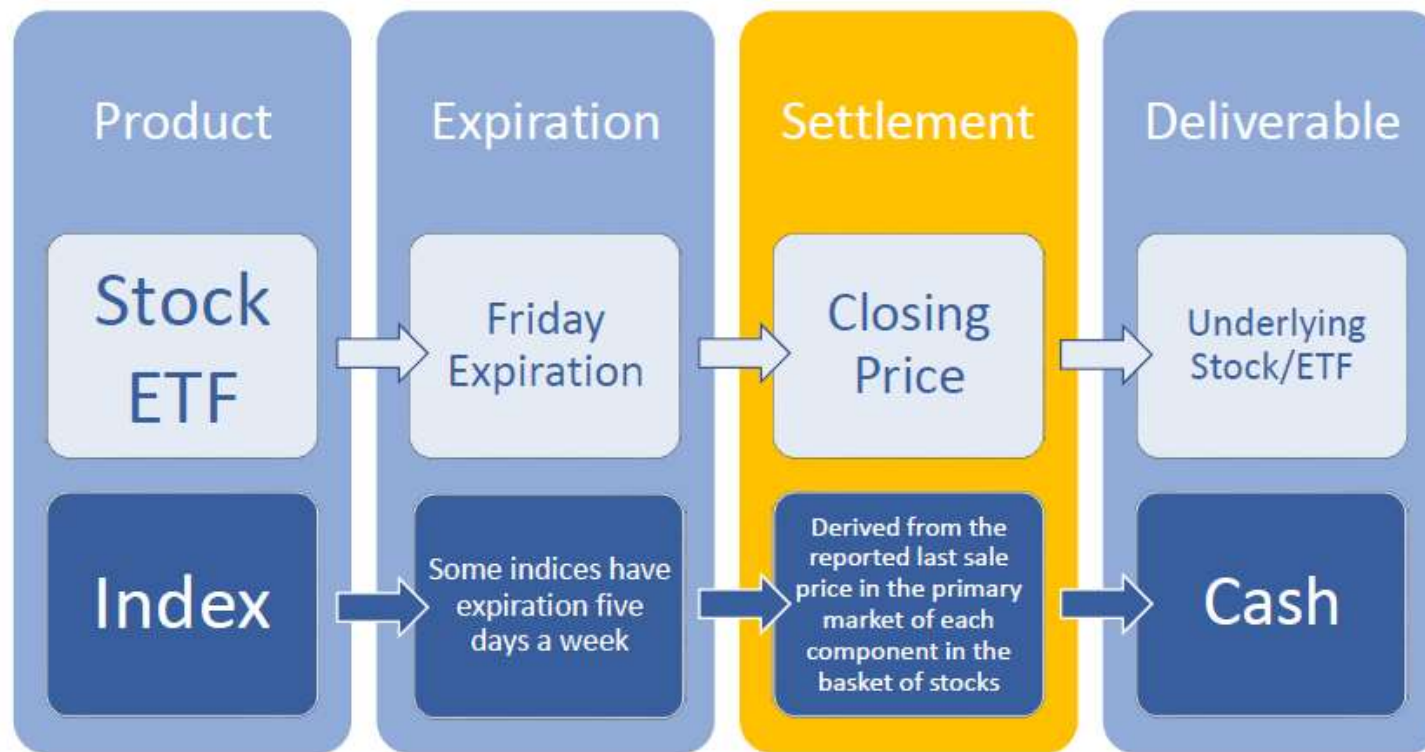


Indices

- **Standard & Poor's 500 (SPX)**
 - 500 largest U.S. Companies
 - Value is market-weighted
 - 80% of the total value of the U.S. stock market
 - Widely used as an indication of movement in the U.S. market
- **The Nasdaq 100 (NDX)**
 - 100 largest companies listed on the Nasdaq
 - Value is market-weighted
 - No financial stocks
- **Dow Jones Industrial Average (DJIA)**
 - 30 largest U.S. companies
 - Value is price-weighted
 - Oldest index in the world
 - Represents 25% of the value of U.S. market



Option Settlement



Option Contract Style (European vs American)

- ***European style:*** exercise only at expiration.
- Index options are European style (except OEX).

- ***American style:*** exercise anytime.
- Equity options are American style.



Index Exchange Traded Funds

Index	ETF	ETF Trust	Contract size of ETF
SPX	SPY	SPDR S&P 500 ETF	1/10 th of SPX
NDX	QQQ	Invesco QQQ Trust	1/40 th of NDX
RUT	IWM	iShares Russell 2000 ETF	1/10 th of RUT
DJX	DIA	Down Jones Industrial Average ETF	1/10 th of DJX

ETF trading volume 10-14-22

SPY	1	SPDR S&P500 ETF TRUST TR UNIT ETF	359.19	-6.78 -1.85%	B: 359.20 A: 359.22	ETB	NYSE	±2.481	EXTO Eligible
Underlying									
>	Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low
	359.19 K	-6.78	359.20 Z	359.22 P	3 x 2	74,246,439	368.55	370.26	358.45
QQQ	1	INVESCO QQQ TRUST UNIT SER 1 ETF	262.6836	-6.1364 -2.29%	B: 262.68 A: 262.70	ETB	NASDAQ	±1.846	EXTO Eligible
Underlying									
>	Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low
	262.6836 D	-6.1364	262.68 P	262.70 Q	1 x 12	54,857,057	271.20	271.81	261.58
IWM	1	ISHARES TRUST RUSSELL 2000 ETF	168.13	-3.27 -1.91%	B: 168.11 A: 168.13	ETB	NYSE	±1.216	EXTO Eligible
Underlying									
>	Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low
	168.13 Q	-3.27	168.11 Q	168.13 U	10 x 2	17,149,366	172.74	173.92	167.48
DIA	1	SPDR DOW JONES IND UT SER 1 ETF	297.55	-3.01 -1.00%	B: 297.50 A: 297.55	ETB	NYSE	±1.287	EXTO Eligible
Underlying									
>	Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low
	297.55 D	-3.01	297.50 Q	297.55 U	2 x 7	4,172,369	302.54	304.3557	296.88



ETF Option Volume 10-14-22

SPY				
	Trade Analysis	Calls	Puts	Total
	Total Volume:	3,489,490	4,360,063	7,849,553
QQQ				
	Trade Analysis	Calls	Puts	Total
	Total Volume:	1,278,322	1,227,647	2,505,969
IWM				
	Trade Analysis	Calls	Puts	Total
	Total Volume:	211,439	421,375	632,814
DIA				
	Trade Analysis	Calls	Puts	Total
	Total Volume:	25,065	41,448	66,513

Index Option Volume 10-14-22

SPX				
Trade Analysis	Calls	Puts	Total	
Total Volume:	955,211	1,228,124	2,183,335	

NDX 100				
Trade Analysis	Calls	Puts	Total	
Total Volume:	10,368	11,522	21,890	

RUT				
Trade Analysis	Calls	Puts	Total	
Total Volume:	14,200	21,398	35,598	

DJX				
Trade Analysis	Calls	Puts	Total	
Total Volume:	779	609	1,388	

Vertical Spreads

Sell

- Sell the more expensive strike
- Buy the less expensive strike

Buy

- Buy the more expensive strike
- Sell the less expensive strike

Vertical Spreads

Credit Spreads

- Put Credit (bullish)
- Call Credit (bearish)

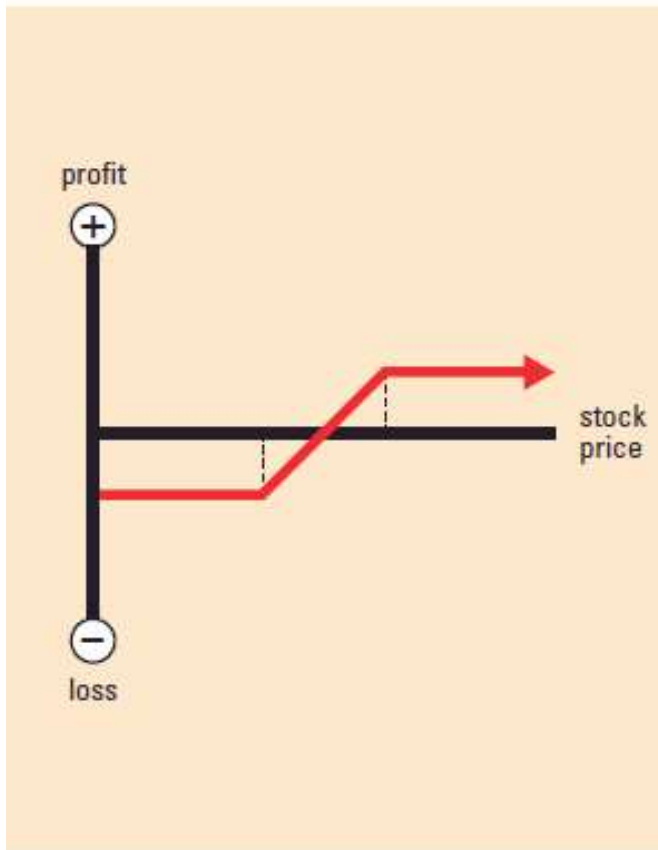
Debit Spreads

- Put Debit (bearish)
- Call Debit (bullish)

Put Credit Spread

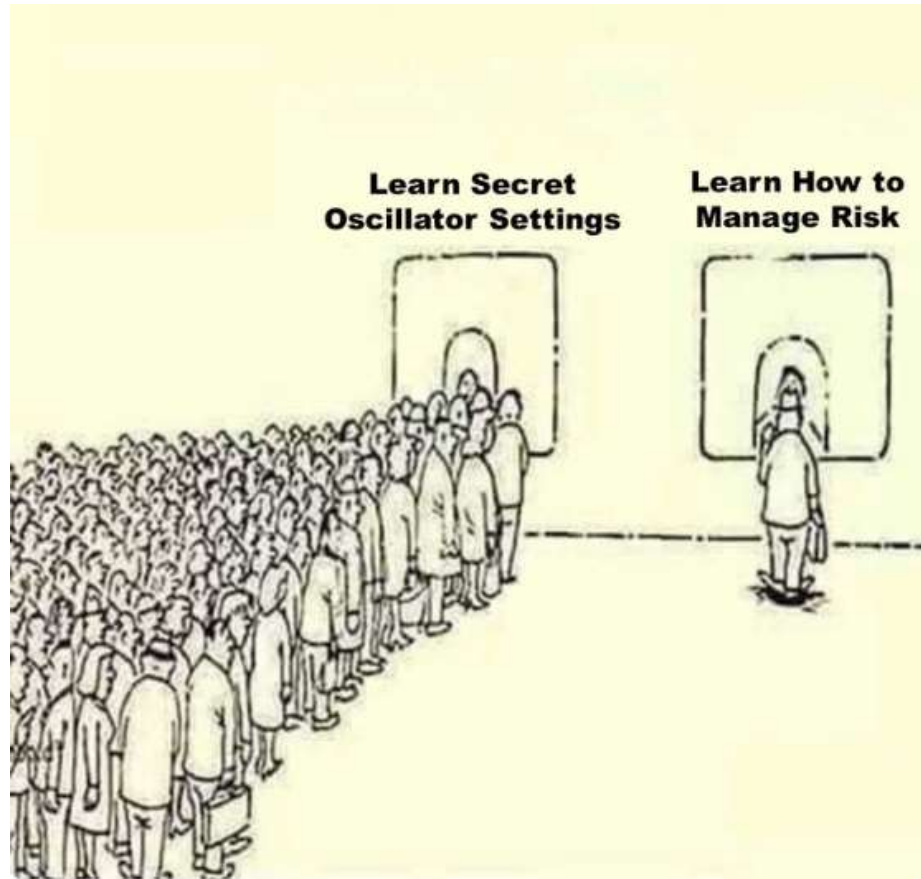
- Sell put and buy another put at lower strike with same expiration
- Market sentiment: neutral to bullish
- Limited risk* and limited reward
- Time decay helps position

* See next slide

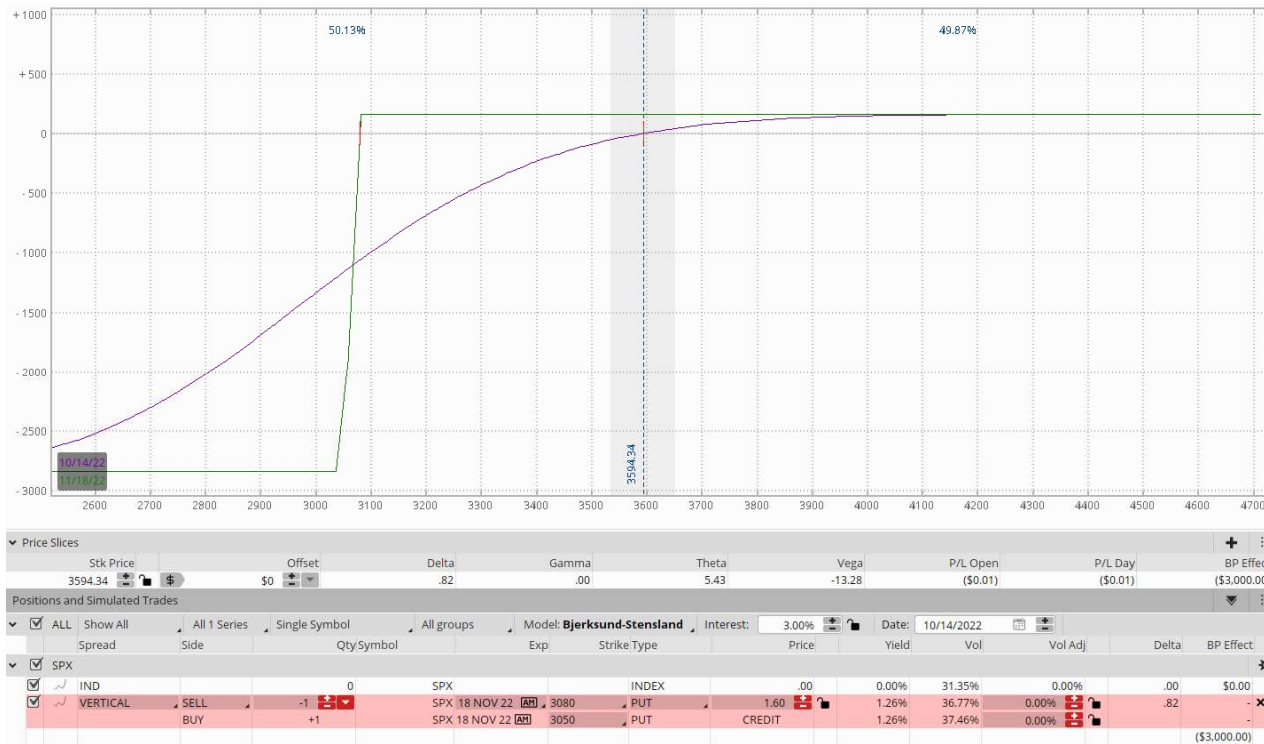


**Learn Secret
Oscillator Settings**

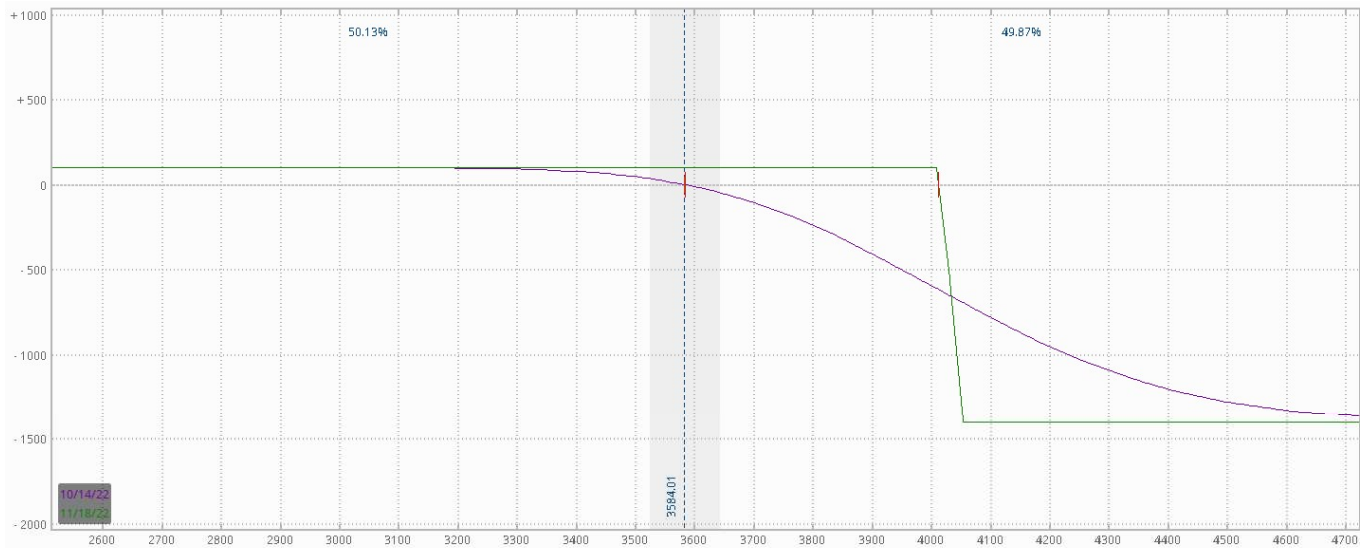
**Learn How to
Manage Risk**



Put Credit Spread

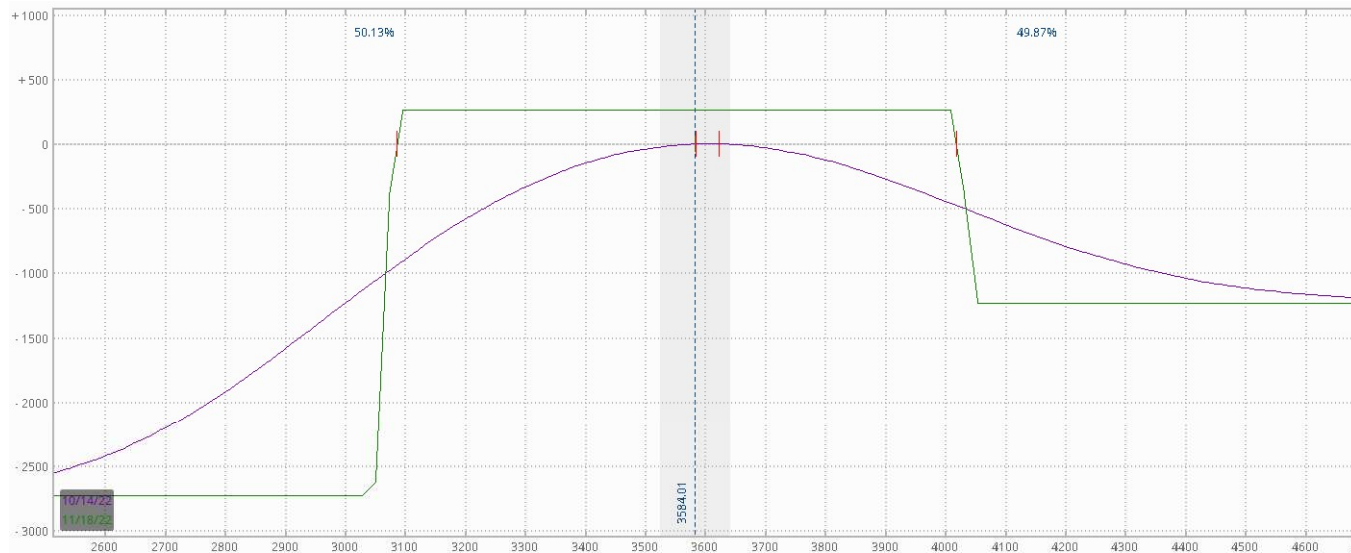


Call Credit Spread



Price Slices												
Stk Price	Offset	Delta	Gamma	Theta	Vega	P/L Open	P/L Day	BP Effect				
3584.01	\$0	-69	.00	4.25	-10.97	\$0.00	\$0.00	(\$1,500.00)				
Positions and Simulated Trades												
ALL	Show All	All 1 Series	Single Symbol	All groups	Model: Bjerkund-Stensland	Interest: 3.00%	Date: 10/14/2022					
Spread	Side	Qty	Symbol	Exp	Strike	Type	Price	Yield	Vol	Vol Adj	Delta	BP Effect
<input type="checkbox"/>	<input type="checkbox"/>	0	SPX			INDEX	.00	0.00%	31.62%	0.00%	.00	-
<input type="checkbox"/>	<input checked="" type="checkbox"/>	-1	SPX 18 NOV 22	3080	PUT		1.60	1.11%	36.55%	0.00%	.83	-x
<input type="checkbox"/>	<input type="checkbox"/>	+1	SPX 18 NOV 22	3050	PUT	CREDIT		1.11%	37.28%	0.00%		-
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-1	SPX 18 NOV 22	4025	CALL		1.00	1.11%	25.51%	0.00%	-.69	-x
<input type="checkbox"/>	<input type="checkbox"/>	+1	SPX 18 NOV 22	4040	CALL	CREDIT		1.11%	25.49%	0.00%		-
											(\$1,500.00)	

Put Credit Spread + Call Credit Spread = Iron Condor



Price Slices											+
Stk Price	Offset	Delta	Gamma	Theta	Vega	P/L Open	P/L Day	BP Eff			
3584.01	\$0	.15	-.01	9.73	-24.55	(\$0.04)	(\$0.04)	(\$3,000.00)			
Positions and Simulated Trades											▼
<input type="checkbox"/> ALL Show All All 1 Series Single Symbol All groups Model: Bjersund-Stensland Interest: 3.00% Date: 10/14/2022											
Spread	Side	Qty/Symbol	Exp	Strike	Type	Price	Yield	Vol	Vol Adj	Delta	BP Effect
<input checked="" type="checkbox"/> SPX											
<input type="checkbox"/>	IND	0	SPX		INDEX	.00	0.00%	31.35%	0.00%	.00	-
<input checked="" type="checkbox"/>	VERTICAL	SELL	-1	SPX 18 NOV 22	3080	PUT	1.65	0.57%	36.70%	0.00%	.84
		BUY	+1	SPX 18 NOV 22	3050	PUT	CREDIT	0.57%	37.40%	0.00%	-
<input checked="" type="checkbox"/>	VERTICAL	SELL	-1	SPX 18 NOV 22	4025	CALL	1.00	0.57%	25.36%	0.00%	-.69
		BUY	+1	SPX 18 NOV 22	4040	CALL	CREDIT	0.57%	25.34%	0.00%	-
											(\$3,000.00)



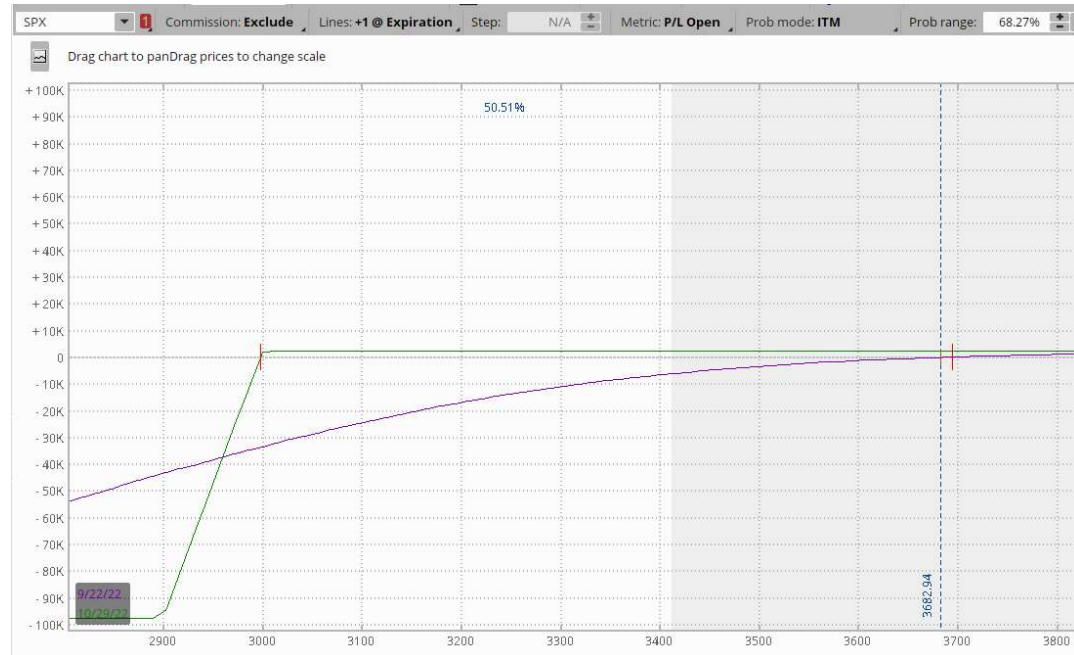
28 OCT SPX PCS, start: 9-23-22, 10:12am (35 DTE)

Strikes: ALL		PUTS							
Exp	Strike	Bid X	Ask X	Delta	Open.Int	Volume	Extrinsic	Intrinsic	
									30.19% (±275.879) *
28 OCT 22	1800	.25 C	.40 C	.00	23	5	.525	0	
28 OCT 22	2000	.50 C	.65 C	.00	249	N/A	.575	0	
28 OCT 22	2200	.90 C	1.05 C	.00	355	117	.975	0	
28 OCT 22	2400	1.65 C	1.80 C	-.01	405	135	1.725	0	
28 OCT 22	2600	2.85 C	3.10 C	-.01	7,462	76	2.975	0	
28 OCT 22	2700	3.70 C	3.90 C	-.02	70	46	3.80	0	
28 OCT 22	2800	4.80 C	5.00 C	-.02	2,054	47	4.90	0	
28 OCT 22	2900	6.30 C	6.50 C	-.03	2,173	499	6.40	0	POB
28 OCT 22	2950	7.30 C	7.50 C	-.04	107	97	7.40	0	
28 OCT 22	3000	8.40 C	8.70 C	-.04	939	33	8.55	0	POB
28 OCT 22	3050	9.90 C	10.20 C	-.05	10,685	10	10.05	0	
28 OCT 22	3100	11.80 C	12.10 C	-.06	15,581	364	11.95	0	
28 OCT 22	3150	14.20 C	14.50 C	-.07	423	101	14.35	0	
28 OCT 22	3200	17.20 C	17.50 C	-.09	265	10	17.35	0	
28 OCT 22	3250	21.00 C	21.30 C	-.11	123	12	21.15	0	
28 OCT 22	3275	23.20 C	23.50 C	-.12	68	1	23.35	0	
28 OCT 22	3300	25.70 C	26.00 C	-.13	167	22	25.85	0	

* Expected move over the expiration period

SPX 28 OCT PCS

- 4 delta short put
- 35 DTE
- Distance to short strike: 683pts
- Expected move: 276pts



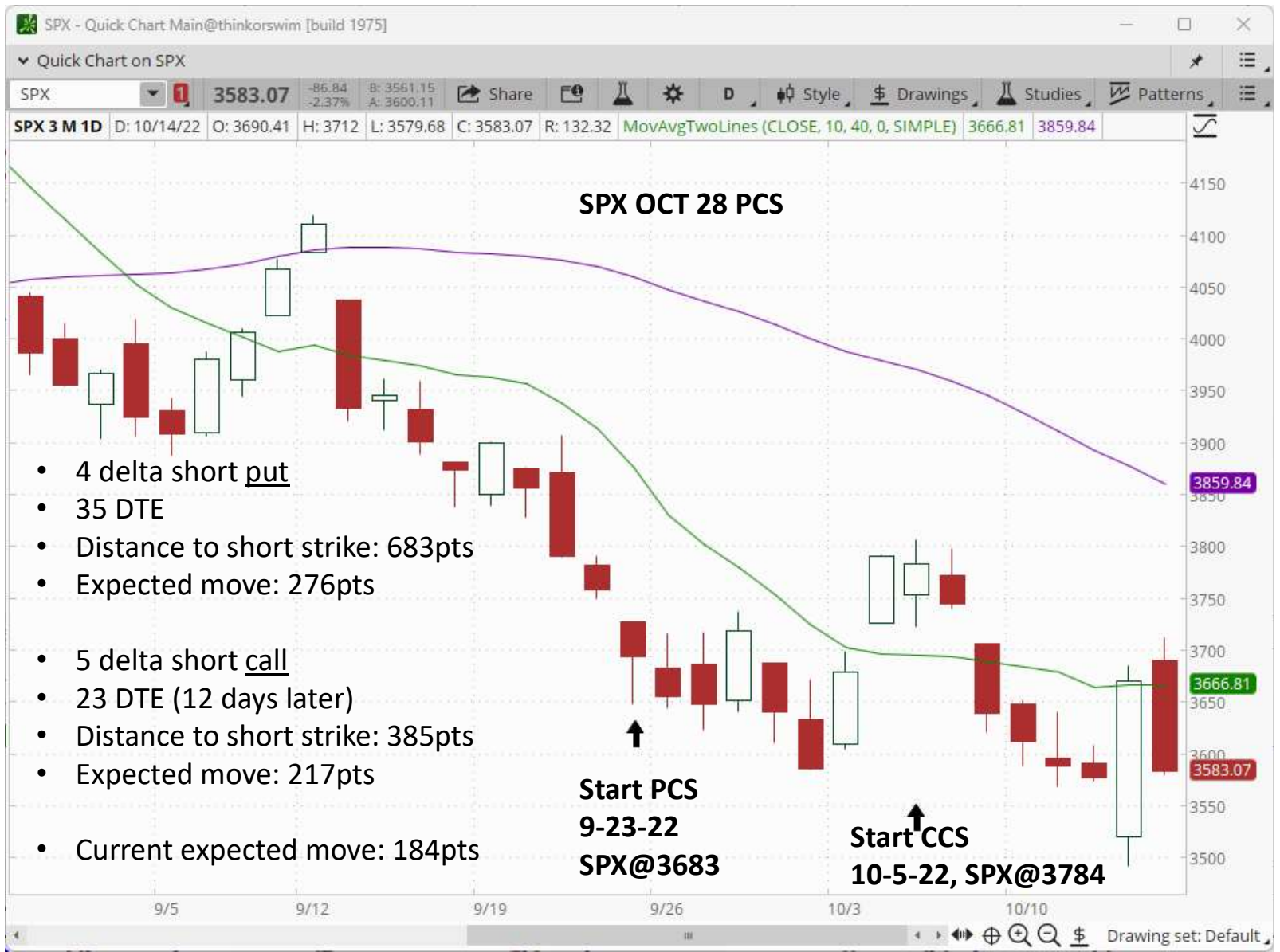
Price Slices											+	⋮
Stk Price	Offset	Delta	Gamma	Theta	Vega	P/L Open	P/L Day	BP Effect				
3683.12	\$0	12.22	-0.6	98.01	-249.69	(\$134.65)	(\$134.65)	(\$25,177.74)				
Positions and Simulated Trades											⌵	⋮
ALL	Show All	All 3 Series	Single Symbol	All groups	Model: Bjerk Sund-Stensland	Interest: 3.00%	Date: 09/22/2022					
Spread	Side	Qty	Symbol	Exp	Strike Type	Price	Yield	Vol	Vol Adj	Delta	BP Effect	
<input type="checkbox"/>	OPT LONG	+10	SPX 14 OCT 22 (Wee...		3400 PUT	8.10	1.89%	33.14%	0.00%	-145.37	-	
<input type="checkbox"/>	OPT SHORT	-9	SPX 14 OCT 22 (Wee...		3425 PUT	8.85	1.89%	32.68%	0.00%	147.73	-	
<input type="checkbox"/>	OPT LONG	+10	SPX 21 OCT 22 (Wee...		2950 PUT	4.90	1.54%	43.39%	0.00%	-27.17	-	
<input type="checkbox"/>	OPT SHORT	-10	SPX 21 OCT 22 (Wee...		3000 PUT	5.40	1.54%	41.75%	0.00%	32.20	-	
<input type="checkbox"/>	OPT LONG	+10	SPX 28 OCT 22 (Wee...		2900 PUT	6.38	1.36%	43.34%	0.00%	-31.46	\$98,279.76	
<input checked="" type="checkbox"/>	OPT SHORT	-10	SPX 28 OCT 22 (Wee...		3000 PUT	8.58	1.36%	40.39%	0.00%	43.10	(\$123,457.5...)	
											(\$25,177.74)	

SPX 28 OCT PCS

- STO call credit spread on 10-5-22
- 5 delta short call
- 23 DTE (12 days later)
- Distance to short strike: 385pts
- Expected move: 217pts

CALLS								Strikes: ALL	
	Delta	Open.Int	Volume	Extrinsic	Impl Vol	Bid X	Ask X	Exp	Strike
▼ 28 OCT 22	(23)	100 (Weekly)	POS						
	.06	26	4	4.80	21.79%	4.70 C	4.90 C	28 OCT 22	4145
	.05	160	24	4.60	21.84%	4.50 C	4.70 C	28 OCT 22	4150
	.05	44	N/A	4.40	21.87%	4.30 C	4.50 C	28 OCT 22	4155
	.05	87	N/A	4.15	21.84%	4.10 C	4.20 C	28 OCT 22	4160
	.05	52	6	3.95	21.85%	3.90 C	4.00 C	28 OCT 22	4165
POS	.05	220	11	3.80	21.91%	3.70 C	3.90 C	28 OCT 22	4170
	.04	50	16	3.60	21.91%	3.50 C	3.70 C	28 OCT 22	4175
	.04	97	1	3.40	21.89%	3.30 C	3.50 C	28 OCT 22	4180
	.04	27	N/A	3.30	21.99%	3.20 C	3.40 C	28 OCT 22	4185
	.04	58	N/A	3.10	21.95%	3.00 C	3.20 C	28 OCT 22	4190
	.04	14	N/A	3.00	22.04%	2.90 C	3.10 C	28 OCT 22	4195
POS	.04	451	26	2.85	22.05%	2.80 C	2.90 C	28 OCT 22	4200
	.03	14	N/A	2.70	22.05%	2.65 C	2.75 C	28 OCT 22	4205
	.03	45	N/A	2.60	22.11%	2.55 C	2.65 C	28 OCT 22	4210
	.03	97	N/A	2.375	22.18%	2.30 C	2.45 C	28 OCT 22	4220

Strikes: ALL		PUTS							
Exp	Strike	Bid X	Ask X	Delta	Open.Int	Volume	Extrinsic	Impl Vol	
									28.55% (±217.225)
28 OCT 22	2800	1.50 C	1.60 C	-0.01	2,438	3,822	1.55	52.49%	
28 OCT 22	2900	2.05 C	2.15 C	-0.01	1,593	2	2.10	49.04%	POS
28 OCT 22	2950	2.35 C	2.50 C	-0.01	2,125	1,201	2.425	47.26%	
28 OCT 22	3000	2.75 C	2.90 C	-0.02	2,090	37	2.825	45.52%	POS
28 OCT 22	3050	3.20 C	3.40 C	-0.02	11,100	1	3.30	43.79%	
28 OCT 22	3100	3.70 C	3.90 C	-0.02	15,513	25	3.80	41.94%	
28 OCT 22	3125	4.10 C	4.30 C	-0.03	140	N/A	4.20	41.21%	
28 OCT 22	3150	4.50 C	4.60 C	-0.03	583	N/A	4.55	40.34%	
28 OCT 22	3160	4.60 C	4.80 C	-0.03	0	N/A	4.70	39.99%	
28 OCT 22	3170	4.80 C	5.00 C	-0.03	0	N/A	4.90	39.70%	
28 OCT 22	3175	4.90 C	5.10 C	-0.03	61	10	5.00	39.56%	



Flexible Meeting Fees

- New contribution system: Flexible Meeting Fees (instead of the Pay-As-You-Go).
- Motivated by those who made generous, voluntary contributions online during COVID, Thank You.
- Can we make this work after COVID for in-person meetings?
- We need contributions to meet our expenses.

- Ways to make voluntary contributions:
 - Cash or check
 - Use this QR code



Words of Trading Wisdom*

- 1. There Is No Single True Path**
- 2. Find a Trading Method that is Compatible with Your Personality**
- 3. Keep a Trading Journal**
- 4. Learn from Your Mistakes**
- 5. Risk Management is Critical**
- 6. Trade Small, Often and Consistently**
- 7. If You Hope a Trade Will Work: Get Out (*hopium is bad*)**
- 8. Emotions Are Detrimental to Trading**
- 9. Aiming for Consistent Profitability Can Be Counterproductive**
- 10. Successful Traders Love What They Do**

*** From Jack D. Schwager, *Unknown Market Wizards***