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THE AUCTION IS EVERYTHING *by James Kessick*

Bidding on a few items on eBay over the past few days got me thinking about the auction process involved. Now I'm by no means what could be considered an eBay veteran, although I'd like to consider myself a little more savvy than many (a dangerous thing I'm sure, with parallels to the new trader!). As a buyer, I'm looking only for items that I can't get elsewhere on the internet or a good deal. As a seller I'll do my homework on selling prices, item availability, concurrent auctions and when my auction is taking place and finishing. Technicalities aside, the auction works in much the same way as any other auction. Prices move based on supply and demand.

The big difference of an eBay auction and say, Crude Oil Futures, is that Crude can go down in price as well as up whereas an item listing can only go one way. Right? Well no, actually. Yes, in the sense that once a price is bid, it won't drop from there in the same auction (unless it's a 'Buy It Now' listing where the seller can increase or decrease the asking price at any time before a bid has been placed). In Crude Oil Futures, the price can drop without actually trading. But on the eBay item, if there are many listings of the same item, value is found and subsequent auction finishing prices can drop where general demand is lower. So supply and demand drive price.

What got me thinking about eBay in particular were two observations. The first was watching auction listings rocket in price toward the end of some auctions. Now of course with the way in which bidding works, it can be that prices are driven up by automatic bids up to a high price (effectively a limit order) or people trying to place single bids hoping to beat other participants by stealth. In either case, people in their **fear of missing out** are in danger of ending up overbidding for an item. This is particularly apparent when looking at items that are available elsewhere online at competitive prices.

The action of these people pushes prices to unfair levels. On eBay, the seller can get a great price. If this happens in Crude (or any other market) then traders willing to take on the risk of the market continuing to trend **can secure excellent prices** going against the move when this kind of 'going off the boil' action occurs. Equally, a trader who holds a position with the crowd must be aware that sharp moves up can lead to sharp moves down as markets rebalance and traders reassess value compared to their own inventory.

The second observation was something that happened earlier this summer. In the build-up to the London Olympics, there was a tour of the Olympic flame throughout the UK. Many people were chosen to take part and the end of the tour, they were given the replica torch that they had used in their leg of the tour. Olympic torchbearers then flocked to eBay to sell their new torches as early listings reportedly sold for upwards of $200,000! Unbelievable when you think about it. The subsequent level of supply that flooded the market had only one outcome – a dramatic drop in prices. The most recent completed listing I found, sold for a little under $4,000.

These kinds of observation in 'everyday auctions' should be very recognizable to every trader, but sadly they're not. Despite the multitude of auctions around us from eBay to grocery stores and the housing market to a simple beer, traders do not always take the time to properly assess how the market tends to auction and the possible implications that follow. How a market auctions and the manner in which it does so make up a large part of the all-important context we can use to trade so much more effectively. So I would highly suggest learning auction basics, as it is essential to successful trading.

Trade well.

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LETTER FROM THE DEVELOPER....

Is it possible that we've already reached the **end of another year?**

Here at NetPicks, we'll be entering our 17th year in operation. We were founded "way back" in 1996. In fact, we've now shipped trading systems to **105 countries**! Back when I started NetPicks I would never have even imagined that would be possible. Here in the U.S. we have the Holiday season coming up and we certainly have much for which to be **thankful**. Number one, of course, is the loyal support of our NetPicks fans for all these years.

I can tell you that me and the entire team leave everything 'out there' in our trading courses, systems and ongoing training -- and we do it because we want nothing more than for all of you to have **success in your personal trading**. We certainly realize that it can be one of life's greatest challenges to get to the point of profitability, but once you accomplish that goal, the freedom and flexibility is priceless. Our responsibility to you is to do everything we can to pave the way to that goal. We feel it's a way to thank you for all your support the last 17 years.

I personally always feel we can do better and each year I try to consider what NetPicks can do in the coming year to up the ante. I think this is going to be a very difficult year to beat. We introduced the **Premier Trader University** (PTU) and put together an amazing comprehensive trading education program - *the best in our history*. Then we added one of the most impressive trading systems to our product line-up with our PTU **Trend Jumper** trading system, which was also included in our Premier Trading University. At the same time we launched our **Mastermind** program, and right now we have a group of traders well on their way to success in the trading business full time, staked with investor funds.

Now do not fear for a moment that we're about to **rest on our laurels**. That's just not the way we do business. Until we achieve 100% winning trades, there's no reason we cannot continue to strive for improvements. It sometimes shocks people that if you improve your winning trade ratio from 60% to 70%, for example, you can boost your profits sometimes **50% or more**. It doesn't take a lot of incremental improvements to make a huge difference to your bottom line. That's our goal for 2013… discovering those incremental improvements that lead to measurable boosts in your profitability.

If I can leave you with one thing as you start to think about your Trading Resolutions for 2013, it is to "Complete the Plan." What I mean by that is that you have to dedicate yourself to taking every trade, in all the markets you have chosen to trade, each and every trading day. If I saw one thing this year that has tripped people up the most, it is NOT consistently completing his or her trade plan *each and every day*. **2013 will be the year you break that habit**. I'm right there with you.

Good Success,

Mark Soberman

Mark Soberman

VERTICAL SPREADS – DEFINING RISKS, REWARDS, AND PROBABILITIES *by Bob Malinowski*

As traders we have many strategies available to us for placing a trade. We can enter a trade by simply opening a straight long or short position, or we can employ one of many options strategies available, depending on how bullish or bearish we are, and how long we expect to be in the trade. Most traders new to options simply buy a call if they have a long bias, or buy a put if they have a short bias. In fact, most option trades are made with naked calls or puts (with no offsetting options). Although there are many strike prices and expiration dates to choose from, most traders choose the front month option with a strike price close to the underlying stock price, often just out-of-the-money. In this article we will explore the use of vertical spreads for placing trades, and look at some of the advantages vertical spreads offer over naked options, particularly to new traders. Vertical spreads offer a unique ability to control risk and reward by allowing us to determine our maximum gain, maximum loss, break-even price, maximum return on capital, and even the odds of having a winning trade, all at the time we open the position!

First, let's go over the basics of vertical spreads. Remember that a single call option allows the buyer to control 100 shares of an underlying stock (or ETF or ETN) by giving the buyer the right to buy 100 shares of the stock at the option strike price up through the expiration day of the contract. Conversely, a single put option allows the buyer to sell 100 shares of stock at the option strike price up through the expiration day of the contract. On the opposite side of the trade, the seller of a call option has the obligation to sell 100 shares, and the seller of the put option has the obligation to buy 100 shares, of stock at the option strike price at any time through the expiration day of the contract, should the contract be exercised by the buyer. The current price of a stock option is known as the option premium, and is quoted as the dollar amount per share. Stock option premiums have two components. The intrinsic value is the amount by which the option is in-the-money: stock price minus strike price for a call option, and strike price minus stock price for a put option. In addition, there is the extrinsic value which represents the value represented by the time remaining until expiration. The extrinsic value decays to zero by expiration, where only intrinsic value remains.

Vertical spreads represent an option strategy using either call options or put options, and are created by buying one option and selling another option on the same underlying stock, of the same type (call or put) and expiration date, but at different strike prices. This can be done for either a net debit or a net credit, depending on which option has the higher price. For vertical call spreads, the call option with the lower strike price has the higher premium, and for vertical put spreads, the put option with the higher strike price has the higher premium.

A vertical call spread is constructed using two call options. If we are moderately bullish on an underlying stock, we can construct a call spread by purchasing a call option with a strike price near the stock price, typically at-the-money or one strike out-of-the-money, and sell one out-of-the-money call option with a higher strike price, typically and one or two strikes higher than the long call option. This creates what is known as a bull call spread. The position is bullish because the value

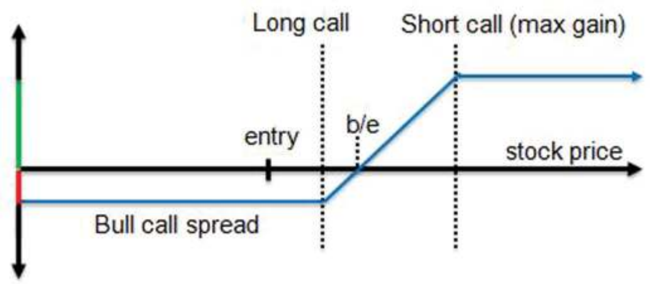

Figure 1: Parity Graph of a Bull Call Vertical Spread (Debit)

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3. Commit to taking **25 consecutive mistake-free trades**, *live*, in your sim account. A mistake can be anything including: execution errors, 2^{nd} guessing, moving your stops and targets outside of your plan, missing an entry, not adjusting around a key level, etc. If you make a mistake on the 24^{th} trade for example, you must start over at 1 again. Consider this your 'dress rehearsal.'

4. Make sure you are practicing for real; Power of Quitting combined with your time-based circuit breaker. It may seem like you will benefit more by just continuing to trade throughout the session, getting more and more practice trades under your belt. <u>This is not true!</u> The understated and often forgotten ingredient to your long term trading success is <u>discipline</u>. By practicing how you will ultimately trade for real, you will be strengthening this critical aspect to trading. **Don't short cut this process.**

Stage 4: The Curtain Opens... It's Showtime!!

1. It is time to begin trading. Once you have achieved your 25 consecutive mistake-free trades, and have meticulously tracked each and every one of them with your ever growing spread sheet, you will now have seen that this system works, over and over again. You will have lived through the ever-repeating 'two steps forward, one step backward' routine enough times to adequately allow your inner self to claim that profound and deep internal ownership of your trade plan. You are now 'ready to succeed' and you will! You have learned that **we make money based on the edge of our system**. You have learned how to NOT lose money because you now know that it is the 'edge' of our system that ultimately achieves our reason for trading, not any given trade or trades. What was that reason again? Repeat it every day! <u>Lean on the system and take your trades</u>, because that IS the only way to <u>continually</u> make money trading.

2. Allow yourself to trade 1 contract only, until you can take 25 mistake-free trades, consecutively, live with real money. You know the drill. Start back at 1 again if you make a mistake. Remember, this is real money now. Real live trading.

3. Develop your trade plan beyond. What comes next? Here are some ideas:

   a. Earn the right of passage. At this point you can begin trading with a standard 2% risk per trade. Establish your prior day's ending balance and use that to determine what a 2% risk would be, and how many contracts you can take per the average trade risk of your chosen market and timeframe. If you took my advice, and stuck with the NQ 144, then a $5,000 account would allow you to trade 2 contracts on any trade risking 10 ticks (2.5 points) or less. Do the math!

   b. As your account grows, so does the number of contracts you can trade. Again, keep it to the 2% risk per yesterday's ending account balance. 2% risk, combined with the winning edge of your system, POQ and your time-based circuit breaker will keep you on the winning track and you will have arrived as a solid member of the 10% club of ongoing winning traders! (Which is a whole lot better than being a member of the other 90% club. Trust me!)

   c. Back test other markets and time frames. Maybe even use other trading systems. Go through the exact process you did for the NQ 144. Examine Stage 1, then proceed to Stage 2, and work your way down the list with the same disciplined, meticulous business-like approach, duplicating the process again.

   d. Remember that our trades are just trees in our forest. We don't want to get lost amongst the trees. We need to elevate high enough above, so that we can keep an eye on our entire forest. With the two steps forward, one step back dynamic you will see your equity curves growing in a stair-step manner, at a 45-degree angling upward and to the right. Sure, we will see a lot of our trees fall. That's okay. That's how we keep our forest healthy. We have accepted our way of making money and we have learned that we MUST sacrifice 1/3 of the trees in our forest so that we can grow our forest 2/3rds larger. By trying to prevent the falling trees, we will wind up underneath them, buried and busted. Stay above the fray and let the process happen.

   e. If you do wind up losing your way, stop what you're doing. Take a step back. Re-evaluate. Go back to Stage 1 and start over again. The guide worked. It will work again.

Additional Advice

1. **<u>Educate Yourself</u>** – There are excellent education options available to you, including right here at NetPicks where each and every one of us is dedicated to the success of our members.

2. **<u>Surround Yourself with Other Successful Traders</u>** – This is pretty obvious but trading can be a lonely business and requires great levels of discipline and concentration. The market could care less about the passing of time but as humans we feel it, as the minutes pass by, day after day, trade after trade. It helps to be surrounded with other traders in a trade room or forum where each supports the other and the passing of time each session is much easier to endure.

3. **<u>Find Yourself a Good Mentor</u>** – For the same reasons as number 1 and 2. Also, a Mentor will hold you accountable and often times that is the ONE thing missing to push a trader from just 'getting by' to becoming truly successful.

Good luck. Have fun. Enjoy the journey.

BEGINNER'S GUIDE TO DAY TRADING SUCCESS A Step by Step Plan

by Troy "TJ" Noonan

This guide assumes that you already have your trade platform and that you have funded your trade account with our minimum recommendation of $5,000.

By following the easy steps below, you will accomplish a mastery of the 3 main areas necessary to succeed in trading; methodology, risk management and trade psychology.

Stage 1: Create Your Foundation

1. Establish your reason for trading. Hopefully you will have edited your reason down to 3 simple words. "**TO MAKE MONEY**!"

2. Understand that in order to achieve your reason for trading (to make money), you must accept the fact that you have to first learn how to 'not lose money.' How do we do that? By not losing 'the forest amongst the trees'.

3. Strive to accept the fact that we make money from the 'edge' that our trade system, our 'methodology,' gives us over time. Not from any individual trade or small series of trades. Notice I said 'strive.' I did not straight out say 'accept.' You are NOT ready to accept this fact but you ARE ready to strive to accept it. There is a big difference. In order to actually accept this critical fact, you must first learn to take **internal ownership** of the methodology. By skipping this important necessity, you will merely take a leap of faith -- thinking that the method will work but not actually believing it will work. Once you are in a trade, your inner self will **fight against you**. This will lead to your undoing and can only be prevented by Stage 2.

4. Keep it simple: Use the Power of Quitting (POQ). If you don't know what that is, email us and we'll set you straight. Combine POQ with a strict time limit each day. I recommend trading from the open of the US Session and quitting with POQ or, at 11:00 am CST, whichever comes first. If you are trading other markets or in other time zones, use the same concept and have a time-based circuit breaker combined with your POQ rules. Commit to this and you will dramatically reduce the risk of failing.

Stage 2: Striving to Accept the Way to Make Money as a Trader

1. Seek a beginner's market where you can risk 2% or less per trade with a $5,000 account. I suggest the NASDAQ Emini 144 tick chart. Why? Because you can trade 1 contract and your average risk per trade will be less than 2% per a $5000 account. Also, it trades great with NetPicks trading systems. **Don't take my word for it** though lest you run the risk of that fatal leap of faith. Prove it to yourself so you can finally believe in it and accept the edge that it will give you, internally. How?

2. **Manually** back test! Make sure you back test correctly. Briefly, you want to post at least 100 trades in your spreadsheet (though 200 is even better). Make sure you use one of the a solid tracker like the Ultimate Trade Analyzer Lite spreadsheet (which we give away FREE) so your statistics will be accurately tracked. This is critical. If you do not know the correct way to back test, shoot us an email and ask us as it is beyond the scope of this brief guide.

3. Witness the results of your back test. Note the losses as they relate to the winners. Notice key stats and results like: The most consecutive losses and largest draw down period. I refer to this as the 'one step back' mode. Notice also, the 'two steps forward' mode that always follows. Take note of how your internal self reacted to **uncomfortable set-ups**. Then notice the net profits that occurred through your 100+ trades, despite your discomfort and the losses that happened throughout. Wow! "**It really does work**," you're thinking to your self. You are beginning to accept. You are beginning to believe. You are beginning to take *internal ownership* of the system that will be your main tool for achieving your reason for trading. What was that again? To make money. Don't ever forget.

4. Be business-like! Don't think you can build Rome in a day. Don't think you can take internal ownership by **short-cutting** this step-by-step guide. There are only short cuts to busting out your account… not to growing it. Realize that successful trading is NOT some place you magically arrive at one day. It is a day to day, trade after trade business-like journey.

Stage 3: Practice Makes Perfect

1. Forward test. Now you are ready to sim trade (simulation trade) this market. Sim trading is NOT the same as real trading nor do we expect it to be. But it does serve a valuable purpose. You can now work at perfecting your craft by learning how to **execute your trades in real time**, while still adding trades to your spreadsheet, building your data set even beyond your back test. Also, you are reinforcing and perfecting your knowledge of your system in real-time action.

2. Do this for a few weeks to a month. Once you feel you have a firm understanding of how your system works, you can recognize all the trade set-ups, and you can execute them, you are now ready for the final step before actually going live.

continued on next page

of the position goes up as the price of the underlying goes up. This type of spread is also known as a debit spread because the premium of the long call is higher than the premium of the short call, and our account is debited by this difference. Figure 1 shows profit/loss graph of this position at option expiration. This is also known as a parity graph.

With a bull call spread, the most a trader can lose is the net premium paid. However, to be profitable, the price of the underlying needs to move up. The position is not profitable until the stock price reaches the point where it is equal to the strike price of the long call plus the premium paid. At this point, the intrinsic value of the long call is equal to the price paid for the spread. As the stock price continues to move higher, the value of the spread increases until it reaches its maximum value at the strike price of the short call. At this point the maximum value of the spread is the difference between the two strike prices, and the maximum profit is the value of the spread minus the premium paid.

If we are moderately bearish on an underlying stock, we can construct a put spread by purchasing a put option with a strike price near the stock price, again typically at-the-money or one strike out-of-the money; and sell one put option with a lower strike price, typically one or two strikes lower than the long put option. Since the premium of the long put is higher than the premium collected for the short put, this creates a debit spread. This is considered a long put spread, but since the position is bearish (the value of the position goes up as the price of the underlying goes down), this creates what is known as a bear put spread. Figure 2 shows parity graph of this position.

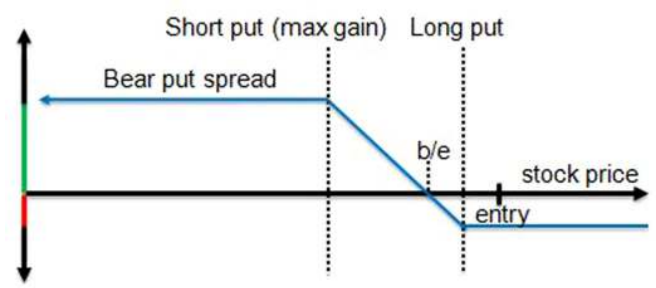

Figure 2: Parity Graph of a Bear Put Vertical Spread (Debit)

With a bear put spread, the most a trader can lose is the net premium paid, and just like the bull call spread, the position is not profitable until the stock price moves in the desired direction, which is lower. Break-even is reached when the stock price drops to the strike price of the long put minus the premium paid. As the stock price moves lower, the value of the spread increases until it reaches the strike price of the short put, at which point the value of the position reaches its maximum value, which is the difference between the two strike prices, and maximum profit is achieved, which is the value of the spread minus the premium paid.

With these first two positions, we were either moderately bullish or moderately bearish, and the stock price was required to move in the correct direction in order to make a profit. If we are willing to accept less profit, and a little more risk, we can use options to construct vertical spreads that profit even if the stock price does not move in our direction. In fact, these spreads can be profitable even if the stock moves a little against us. For instance, if we are only somewhat bullish to neutral on an underlying stock, we can construct a put spread by *selling* a put option one strike out-of-the money; and buy one put option with a lower strike price, typically one or two strikes lower than the short put option. This creates what is known as a bull put spread. Since the premium collected on the short option is larger than the premium paid for the long option, our account is credited with this difference, and the spread is known as a credit spread. We are short the spread, but this position is considered bullish because a profit is realized if the underlying stock goes up in value. Figure 1 shows the parity graph of a bull put spread at option expiration.

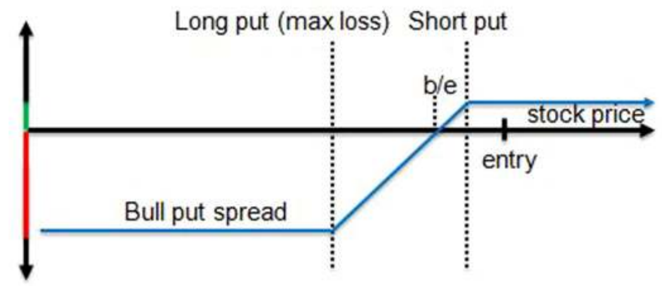

Figure 3: Parity Graph of a Bull Put Vertical Spread (Credit)

With a bull put spread, the maximum profit achievable is the initial credit collected at order entry. The position remains profitable as long as the stock price does not drop below the break-even price which is determined by subtracting the credit received from the short put strike price. If the price continues to drop, losses increase until a maximum loss is reached at the long option strike price. At this point, the maximum value of the spread is reached, which is the difference between the two strike prices, and the maximum loss is the spread minus the initial credit collected. This spread has a greater probability of being profitable (because the stock price can go up, stay the same, or even go down a little), but the profit is smaller than a bull call spread, and the losses can be greater.

Finally, if we are somewhat bearish to neutral on an underlying stock, we can construct a vertical call credit spread by *selling* a call option one strike out-of-the money; and buy one call

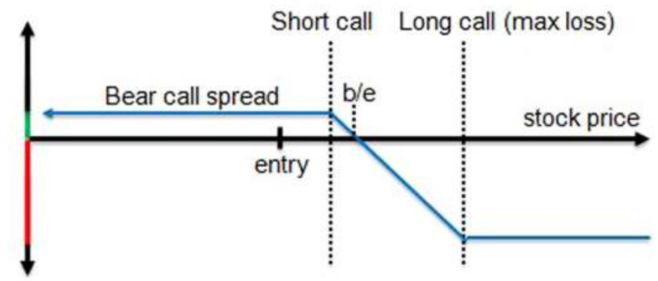

Figure 4: Parity Graph of a Bear Call Vertical Spread (Credit)

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option one or two strikes higher than the short call option. This creates what is known as a bear call spread. Again, since the premium collected on the short option is larger than the premium paid for the long option, our account is credited with this difference. We are short the spread, and this position is considered bearish because a profit is realized if the underlying stock goes down in value. Figure 1 shows the parity graph of the bear call spread at option expiration.

Just like the bull put spread, with a bear call spread, the maximum profit achievable is the initial credit collected at order entry. The position remains profitable as long as the stock price does not move higher than the break-even price, which is determined by adding the credit received to the short call strike price. If the price continues to rise, losses increase until a maximum loss is reached at the long option strike price. At this point, the maximum value of the spread is reached, and the maximum loss is this spread minus the initial credit collected. This spread also has a greater probability of being profitable (because the stock price can go down, stay the same, or even go up a little), but the profit is smaller than a bear put spread, and the losses can be greater.

Because option pricing is based on a robust mathematical model that takes into consideration the probabilities of reaching specific price levels, vertical spreads offer the trader the ability to determine probabilities of having a winning trade by contract expiration. There is an inverse relationship between the maximum profit achievable and the probability of achieving that profit, i.e. the greater the potential profit, the lower the probability of a winning trade; or put another way, the greater the potential loss, the greater the probability of a winning trade. Since the maximum value of a vertical spread is the difference between the two strike prices, the probability of a winning trade can be calculated by dividing the maximum loss by the width of the spread. The tradeoff in selecting a trade with a higher probability is that there is a direct relationship between the probability of winning and the potential loss, i.e. the greater the probability of winning, the greater the potential loss. The advantage of trading vertical spreads is that all of these metrics can be determined at order entry.

The following real example demonstrates how these metrics are calculated, using Autodesk (ADSK), trading at $32.40 twenty-three days before expiration of the October 2012 front month. (Commissions are not included for simplicity.) The first table shows the two possible bearish vertical spread strategies using spreads that are 1 strike wide. The first column is a debit spread where a bear put spread is purchased. In this example, the net debit is $0.33 per share, which means that each spread purchased will cost $33.00, which is the capital required to make this trade. The stock price must move down below the long strike by $0.33 to $31.67 just to break even. The maximum gain is reached once the stock price drops below the short option strike price of $31.00, and is equal to the difference in the strikes minus the debit paid, 100 x (1.00-0.33) = $67. The maximum loss is the debit paid, and the maximum return on capital is 67/33 = 203%. The odds of this being a winning trade is (max loss)/(width of strikes) = 33%. The next column shows the

ADSK Trading at $32.40	Moderately Bearish	Bearish to Neutral
Position ($1 wide)	Bear Put Spread	Bear Call Spread
Long Option	Oct 32 Put @ 0.83	Oct 34 Call @ 0.41
Short Option	Oct 31 Put @ 0.50	Oct 33 Call @ 0.74
Debit/Credit	Debit 100 x 0.33	Credit 100 x 0.33
Required Capital	33.00	67.00
Break Even	31.67	33.33
Max Gain	67.00	33.00
Max loss	33.00	67.00
Max Return	203%	49%
Odds of winning	33%	67%

Table 1: Bearish Positions in ADSK Using 1$ Wide Verticals

results for selling a bear call spread. In this example, a credit of $33 is collected, which means that as long as the stock price does not go higher than the short strike plus the credit (33.00 + 0.33), then this trade is profitable. Maximum loss occurs if the stock price is above $34 at expiration and is equal to $67, which is the capital required to make this trade. The maximum return on capital is 33/67 = 49%, however, the odds of winning, 67%, are greater because the trade has a lower potential return.

Table 2 shows the metrics for placing bullish trades on ADSK using $2-wide vertical spreads. Using the formulas defined above, the table shows the impact that the larger spreads have on all the calculations. The first column is a debit spread where a bull call spread is purchased. Since the net debit is $0.52, each spread purchased will cost $52.00, and the stock must move up to $33.52 to break even. The maximum gain is reached once the stock price reaches $35, and is equal to the difference in the strikes minus the debit paid, 100 x (2.00-0.52) = $148. Maximum return on capital is 148/52 = 285%, however the odds of this being a winning trade is only 52/200 = 26%. The next column shows the results for selling a bull put spread for 0.54 per share. In this example, a credit of $54 is collected, which means that as long as the stock price does not go lower than the short strike minus the credit (32.00 - 0.54) = 31.46, then this trade is profitable. Maximum loss occurs if the stock price is below $30 at expiration, and is equal to $146, which is the capital required to make this trade. The maximum return

ADSK Trading at $32.40	Moderately Bullish	Bullish to Neutral
Position ($2 wide)	Bull Call Spread	Bull Put Spread
Long Option	Oct 33 Call @ 0.74	Oct 30 Put @ 0.29
Short Option	Oct 35 Call @ 0.22	Oct 32 Put @ 0.83
Debit/Credit	Debit 100 x 0.52	Credit 100 x 0.54
Required Capital	52.00	146.00
Break Even	33.52	31.46
Max Gain	148.00	54.00
Max loss	52.00	146.00
Max Return	285%	37%
Odds of winning	26%	73%

Table 2: Bullish Positions in ADSK Using $2 Wide Verticals

continued on next page

on capital is 54/146 = 37%, and the odds of winning are 73%, which is fairly high because of the lower potential return.

For these bullish trades, $2 wide strikes were chosen to demonstrate the impact of selecting wider strikes. For the debit spread, because the width between the strikes is larger, more capital is required (less premium is collected on the short option), the break-even price is pushed father away from the long option strike price, the maximum gain and loss is larger, and the maximum return on capital is larger, however the odds of a winning trade have been reduced. For the bull put spread, the impact of the wider spread means that the initial credit is larger, the required capital is larger, and the maximum return on capital is smaller, but the odds of winning have increased.

As you can see, trading vertical spreads offers a lot of flexibility in selecting a strategy for taking a position in a stock. If you are extremely bullish or bearish, you can simply buy a single call or put, but greater capital is required for this position, and the stock has to move more in the required direction to be profitable. By creating a debit spread, the short option reduces the expense of the position, and the stock does not need to move as far to break even. There is a greater chance for a winning trade, but the tradeoff is that the maximum profit is reduced. With credit spreads, there is an even greater probability of a winning trade, but with the tradeoff of greater capital requirements and greater potential loss. The advantage of selecting a vertical spread strategy is that you have a lot of flexibility in selecting the width of the spreads and the option strike prices. The spread width, along with the debit paid or credit collected, provides all the information needed at order entry to determine capital requirements, break-even stock price, maximum gain, maximum loss, maximum return on capital, and the market odds of having a winning trade. This allows the trader to select the appropriate vertical spread strategy that is appropriate for the trade indicated by the trade plan, depending on the level of bullishness or bearishness, price target, expected time in the position, and the maximum acceptable level of risk.