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THE TOP 10 OPTIONS INCOME SUPERSTARS

How to Create a Consistent Income with 10 Secret Stocks & One Simplified Options Trading System

MIKE RYKSE

Hello Traders!

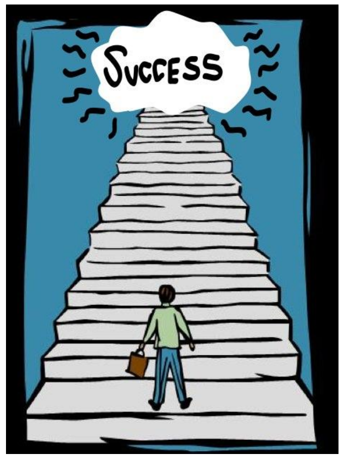
My name is Mike Rykse and I am the Options Specialist at NetPicks. I have been an active trader in the markets since 2002 and have traded just about every market available (stock, options, futures, forex, bonds). Without a doubt, my favorite area of the market is trading options and that is where I have seen the most success in my own trading.

I have personally developed numerous options trading systems and educational courses which are designed to provide retail traders the tools that they need to be successful in the options markets. These programs have been used by thousands of traders in over 100 countries over the last 15 years.

In working with thousands of traders over the years, I have learned some tricks of the trade that I want to share with you that can make a big difference in your trading results over time. Trading can be difficult but having a specific tool set in place can help you become a successful trader right away.

Like any successful business, the traders that see the most success are the ones that stay disciplined to a plan. Whether you are trading full time or part time you need to treat this as a business. This means having a plan in place that will guide you every day. A big part of that plan is knowing the markets that you trade like the back of your hand.

In this eBook I will share my favorite stocks and ETF’s that I use to trade options on a weekly basis to make a full-time income. We will outline our top 10 markets to trade in today’s volatile markets. These are markets that have a track record of great movement back and forth and have a record of good volume in the options. This makes them perfect candidates to help us produce consistent income regardless of market conditions.



If you have any questions that I can help with as you work through this training, please feel free to contact me directly. You will find my direct contact info below. We look forward to hearing from you.

Happy Trading!

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Introduction

Does it ever seem like you are missing out on all the big stock moves that make it into the news each week?

Are you looking for a way to create a consistent source of income from the markets with minimal risk and minimal time commitment?

If either one of these describe you as a trader, then this eBook is a perfect resource. As traders, we are all looking for big gains in our accounts on a regular basis. The goal of any trader is to make money. It could be you are looking for a supplemental source of income. Or maybe you are to the point you are now looking for a full-time replacement income. Supplementing retirement, buying the vacation home, getting the kids through college. Bottom line there are many different reasons for trading, but the goal is always the same: We all want to make money!

I bring this up as it will drive everything we do as traders. If you lose sight of this goal, it's easy to get caught up on trying to catch every move in the market because if you don't, it feels like you are missing out. You can get caught up in the emotions of trading and next thing you know your account is losing money and you don't know how to fix it.

With my goal being to make money and grow my account size over time, I have established rules for myself that guide my trading throughout the year. I don't care what markets I'm trading, how many trades I'm taking, or if I'm catching every big move the market is making. I care about making money and want to focus on a plan that will help me accomplish that goal.

We are going to focus on a key component of my trade plan that has allowed me to generate my full-time income from the markets for the last 10 years. I'm going to show you how to focus in on a small universe of stocks that are going to help you experience the big returns in just minutes each day. This list is what we refer to as the Options Income Superstars list. I will share the exact names that I focus on every week in my own trading. You will see why I choose the names for my watch list, how I trade them, and why it’s important to not get caught up with how any other stock not on our list is trading.

Are you ready to take the next step in your trading to make sure you are making money on a regular basis? Are you ready for the big returns in just minutes each day? If that’s you then let’s dive in and get a plan of attack in place that you can use immediately regardless of account size and in all market conditions.

Why trade the Options Income Superstars?

One of the hardest parts about being a trader is fighting the hindsight game. It's really easy to go back and say I would have taken this trade, or I would have closed out of my winning trades at the exact high or low of the latest market move. However, in reality trading is much more difficult than that.

SIMPLIFIED OPTIONS SUPERSTARS

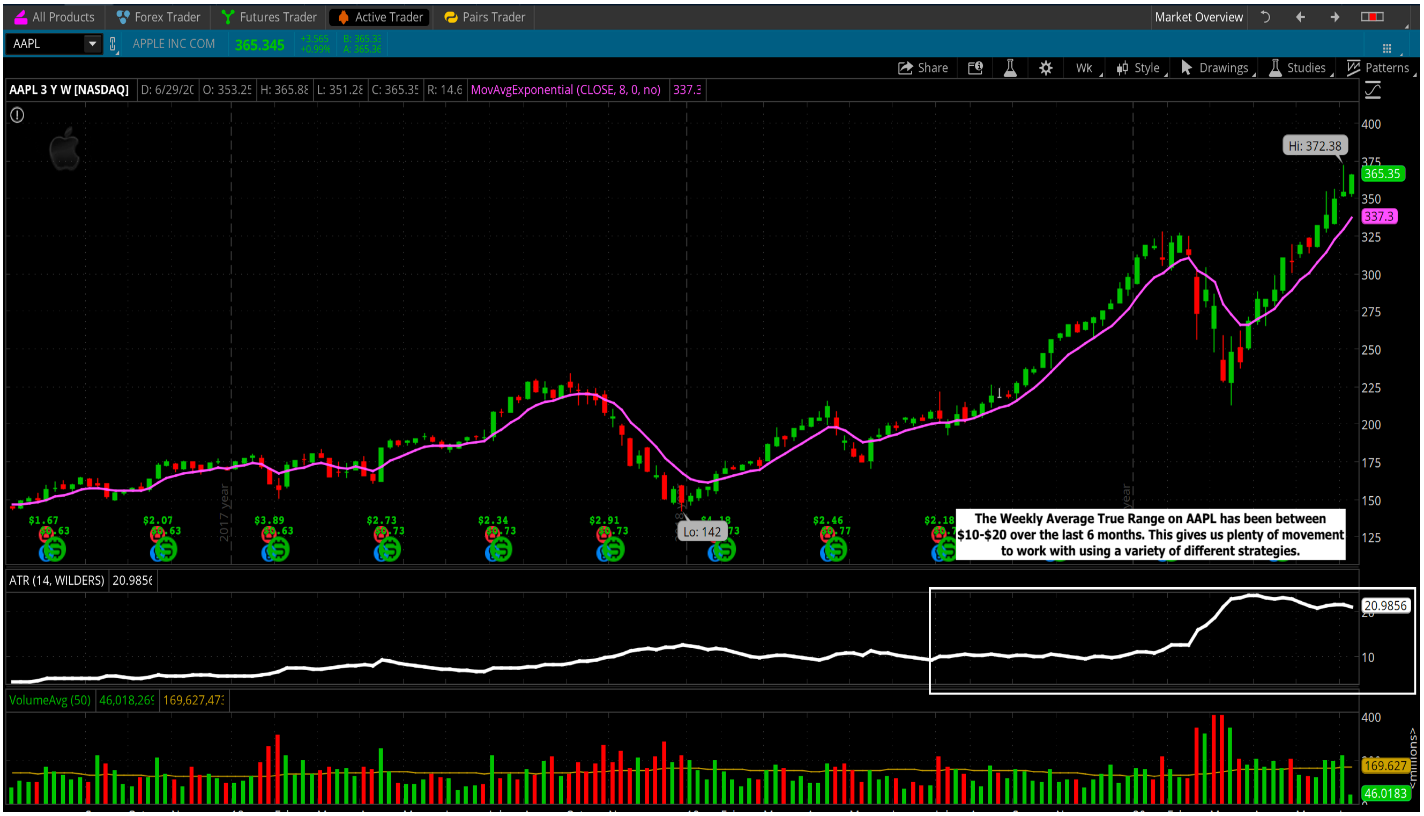
Identifying the best entry and exit points on the best stocks in real time can be extremely difficult. The best advice I can give is to keep things simple. It's crucial to realize you aren't going to catch every big market move. You aren't going to be able to pick market tops and bottoms on a consistent basis.

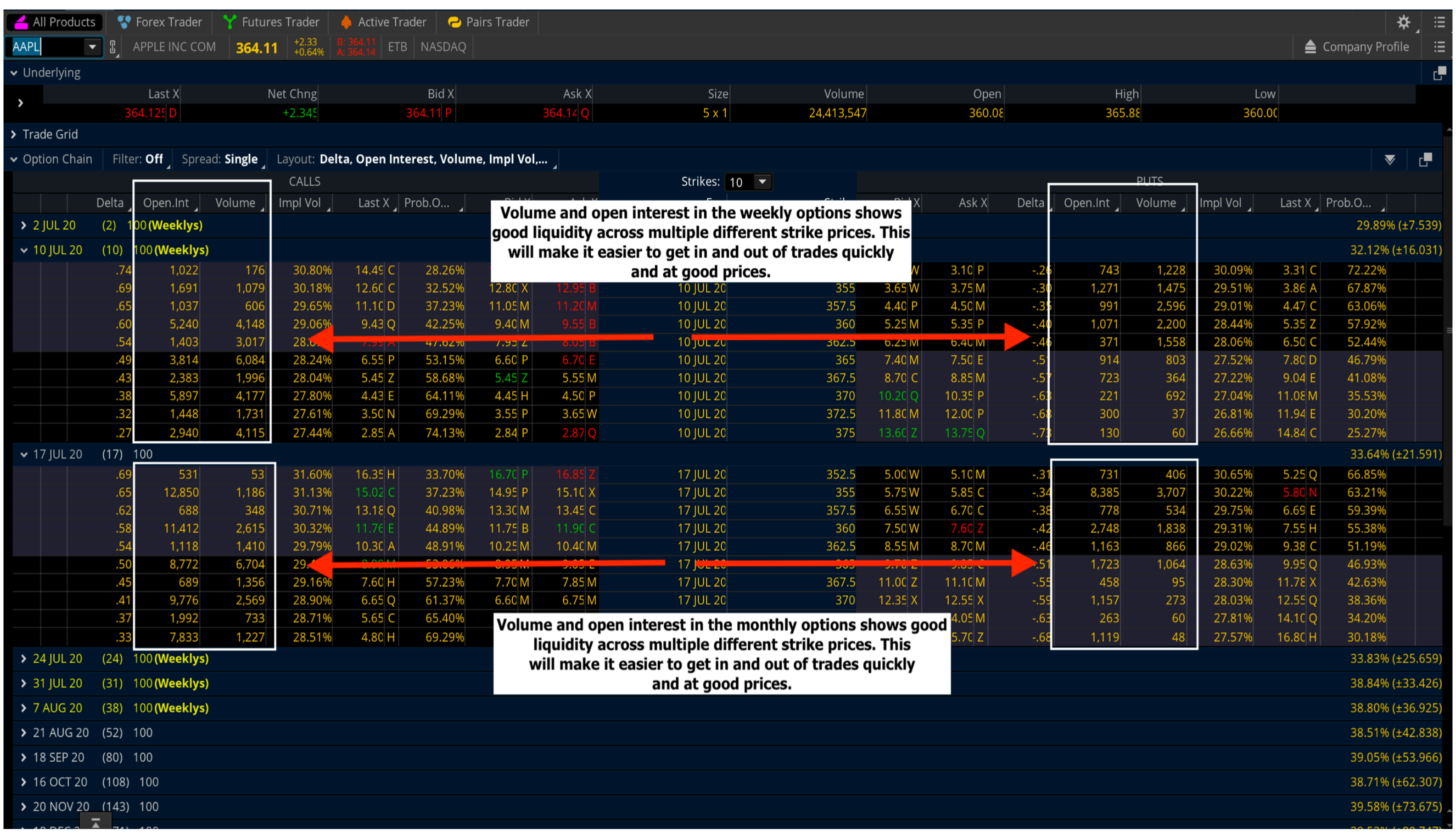
We teach our students to instead focus on trading a small list of stocks and ETF's week in and week out. This will allow you to get to know the names on your list really well. We love to trade the Options Income Superstars because they offer the best movement back and forth over time as well as the best liquidity in the options.

What makes an Options Income Superstar?

If you look at stocks like Apple (Symbol: AAPL) and JP Morgan (Symbol: JPM) you will see that they don't stay quiet for long. They typically have good range in both directions. This will open up our playbook to use a wider variety of options strategies and allow us to react to different types of market conditions.

As options traders it's crucial that we trade stocks that have good volume and open interest. This will allow us to get in and out of trades quickly and at good prices. Since our goal is to take our trades in 10 minutes each day, we want to make sure we can quickly come in and place our trades and get filled right away. We don't want to get stuck tracking trades throughout the day due to a lack of liquidity.


The Weekly Average True Range on AAPL has been between $10-$20 over the last 6 months. This gives us plenty of movement to work with using a variety of different strategies.


Volume and open interest in the weekly options shows good liquidity across multiple different strike prices. This will make it easier to get in and out of trades quickly and at good prices.
Volume and open interest in the monthly options shows good liquidity across multiple different strike prices. This will make it easier to get in and out of trades quickly and at good prices.

Finally, don’t overcomplicate things. I see so many traders looking for that new hot stock that no one knows about. I would much rather be looking at markets that everyone is trading on a regular basis. Let’s go where the action is at.

As you will see in our watch list below it doesn’t take a huge list of stocks and ETF’s to generate big returns from your trading. A list of 10 products will keep you plenty active and will also allow you to hit our goal of getting done with our trading in 10 minutes each day.

Let’s dive in and take a close look at our Top 10 Options Income Superstars.

Top 10 Options Income Superstars

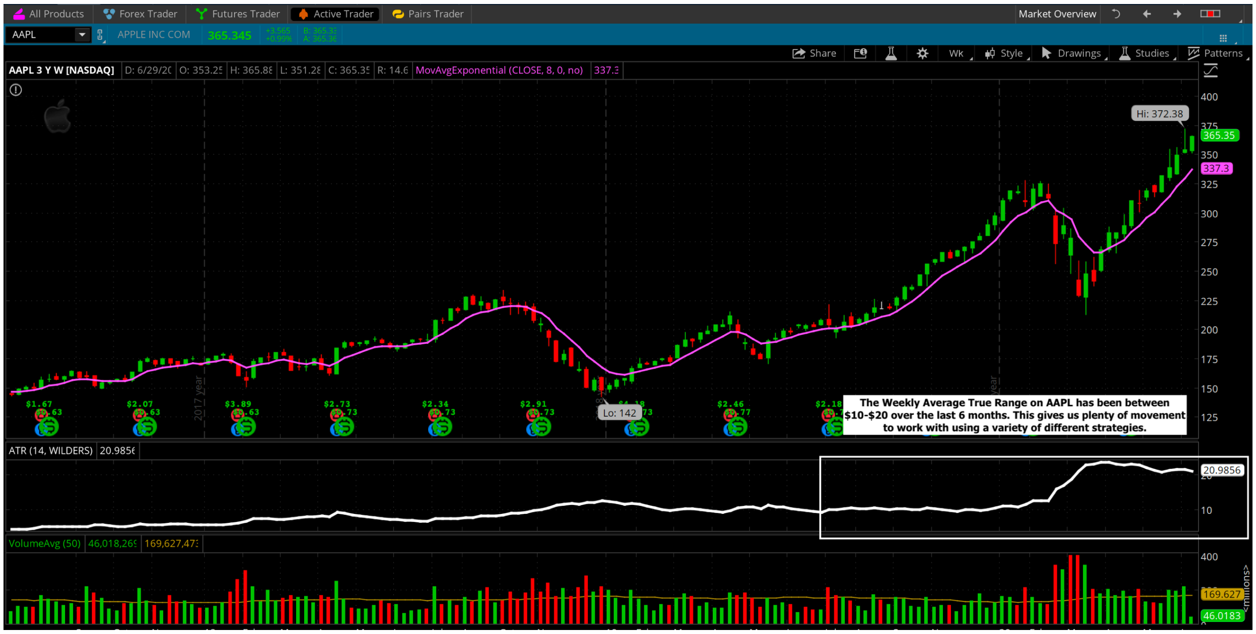
1. Apple (Symbol: AAPL)

Overview: Anytime you start talking about the best stocks to trade, Apple is always at the top of the list. Not only do their products have a cult following, but their stock has all of the features that we look for as options traders. The stock consistently has some of the best range in the market as we see great movement in both directions on a regular basis.

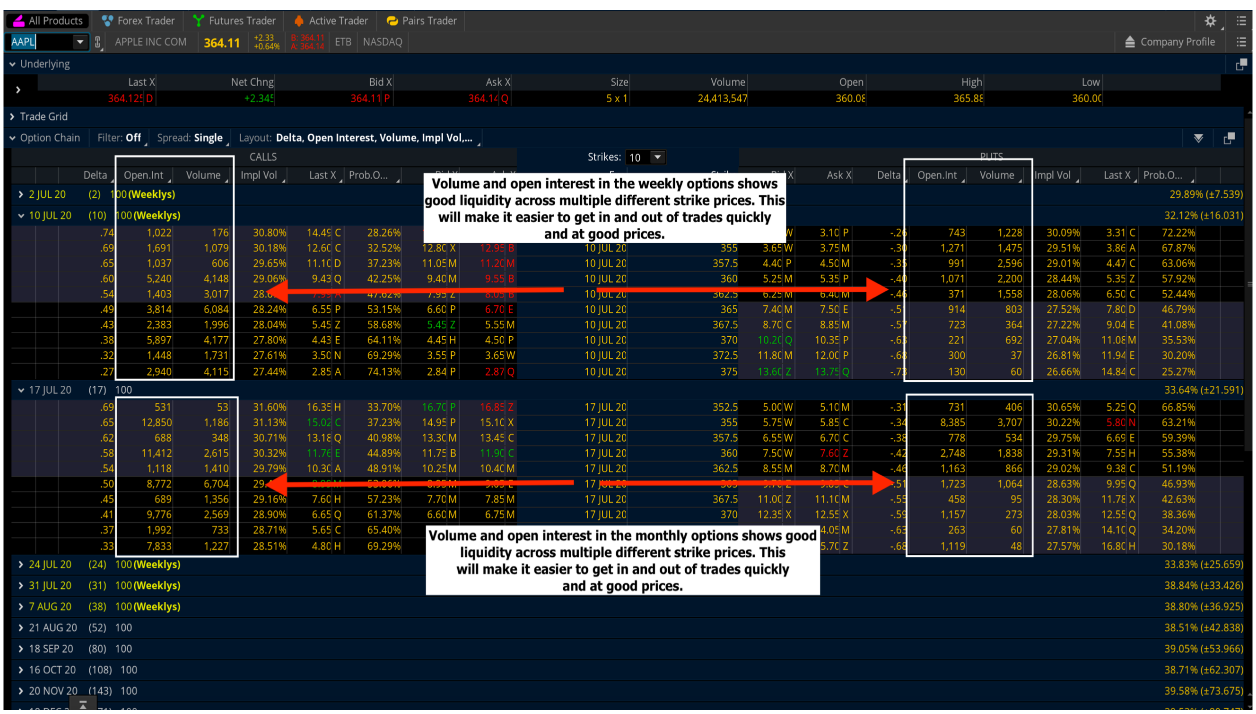
When you combine the great range in the stock price with the phenomenal liquidity in the options, it makes for a powerful product. Our options playbook is wide open when trading Apple. We can keep it simple with long calls and puts only or go more complex with the vertical spreads as well. This gives us tremendous flexibility in how we react to different market conditions.

I typically look to have 1-2 different types of trades going on Apple at all times. This can be a combination of long options and vertical spreads. It can also be a combination of monthly and weekly options as Apple has good liquidity across many different expiration cycles.

Price Movement - AAPL:



Options Liquidity - AAPL:



2. SPDR S&P 500 ETF (Symbol: SPY)

Overview: When trading options liquidity is king. Trading a stock or ETF that has good volume and open interest in the options will make it much easier to get in and out of trades quickly and at good prices.

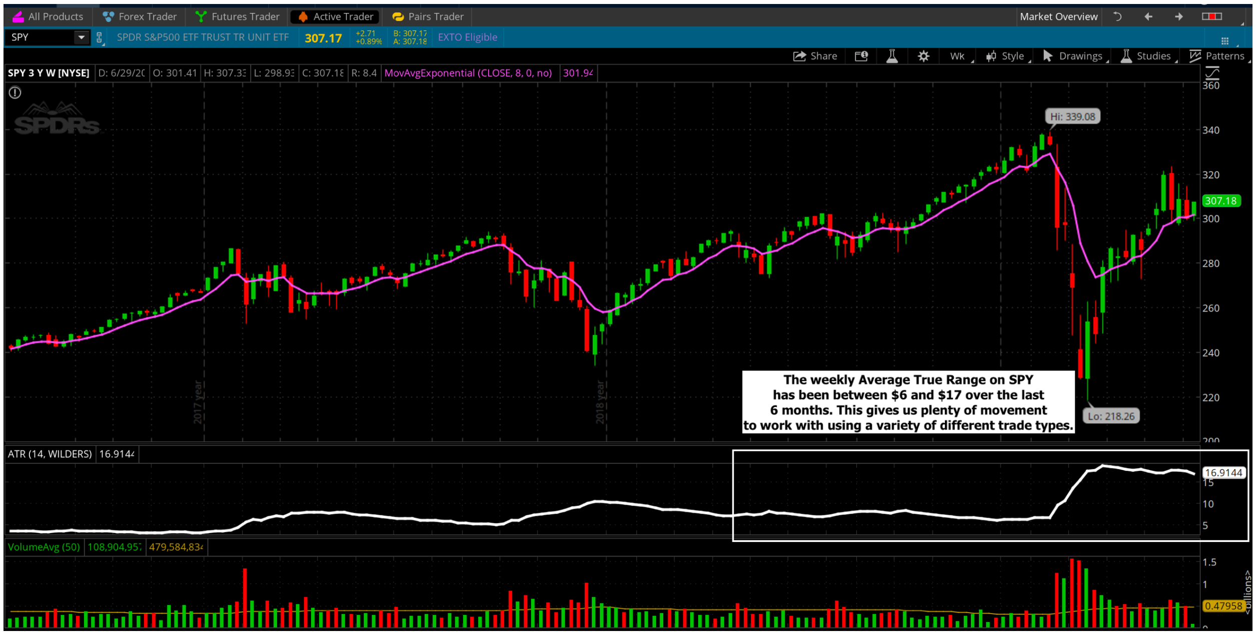
I hear from traders on a regular basis that only want to trade the high-flying stocks as they think that is where the big profits are at. While there is big opportunity in individual stocks, the ETF's (Exchange Traded Funds) can provide some of the best trending markets.

The most liquid ETF in the world is SPY which tracks the S&P 500. You will see phenomenal volume and open interest in the Weekly and Monthly options. This makes it easy to use a wide range of options strategies including long calls and puts, debit spreads, and credit spreads.

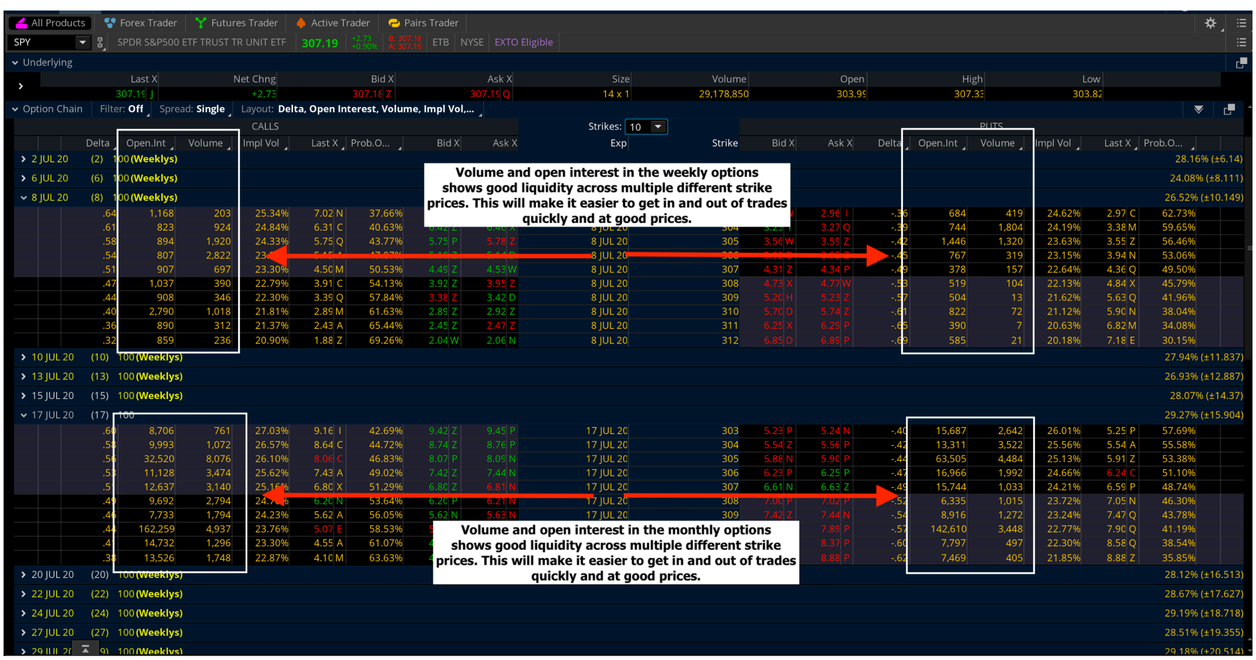
Since ETF's track a whole basket of stocks, they will allow you to get instant diversification in your account. This can allow you to use options on SPY for either a pure directional trade or for a hedging position.

Regardless of account size or trading style, SPY should be a mainstay on your watch list.

Price Movement:



Options Liquidity:



3. Tesla (Symbol: TSLA)

Overview: Tesla has been one of my favorite stocks to trade over the last few years. It's hard to find a week over the last year where Tesla was not in the headlines. I am not a big fundamental trader, so I don't try and predict sales and future product lines. All I care about is whether a stock has good volatility and liquid options. Tesla has both of those and has led to big profits from trading it.

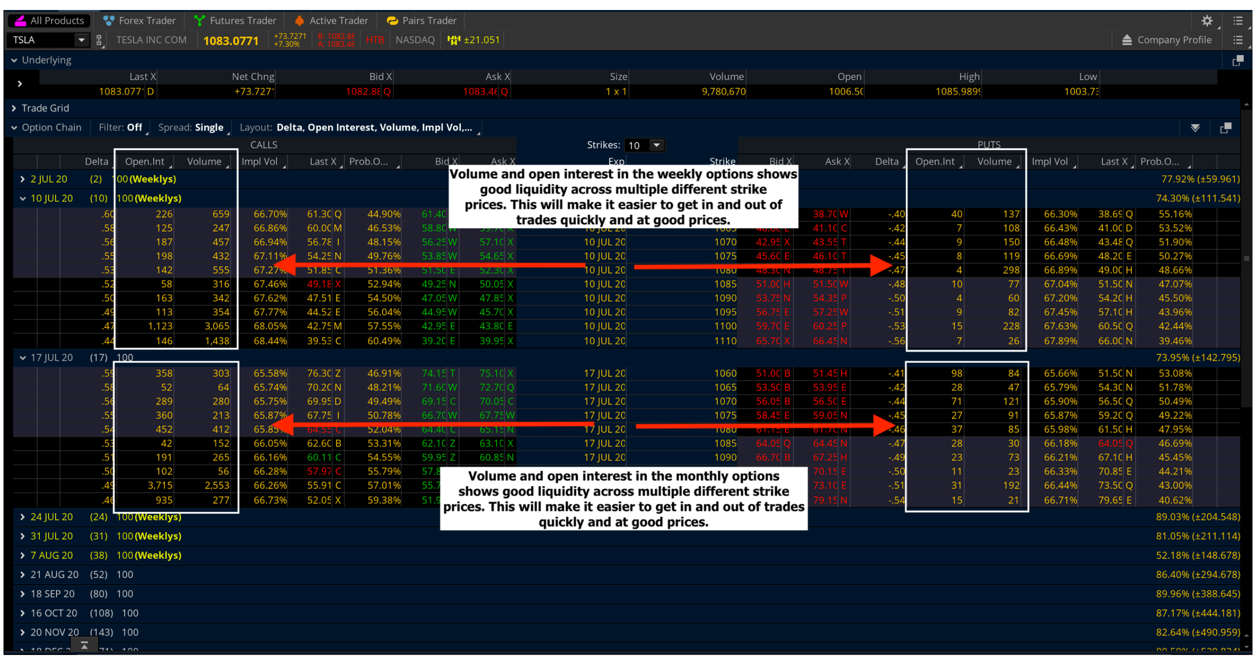
Tesla can seem expensive to some traders depending on account size. This is why I love to have a bigger options playbook too use. If we were just trading Tesla using long calls and puts it might be more difficult to keep the risk at a manageable level for small account sizes.

However, I do like to use a mix of options strategies. There will be times that I use long calls and puts, but more often than not, I use vertical spreads. We are able to lower the cost of the trades through the use of the spreads. The credit spreads allow me to place trades on Tesla with as little as a few hundred dollars of capital. Not only does this drastically reduce the cost of the trades but they also allow me to make money in 5 different scenarios. As a result, I typically see a much higher winner percentage when trading the credit spreads. They also allow me to make money in many types of market conditions.

I like to use a combination of debit and credit spreads. It can also be a combination of monthly and weekly options as Tesla has good liquidity across many different expiration cycles.

Price Movement:

Options Liquidity:



4. JP Morgan Chase (Symbol: JPM)

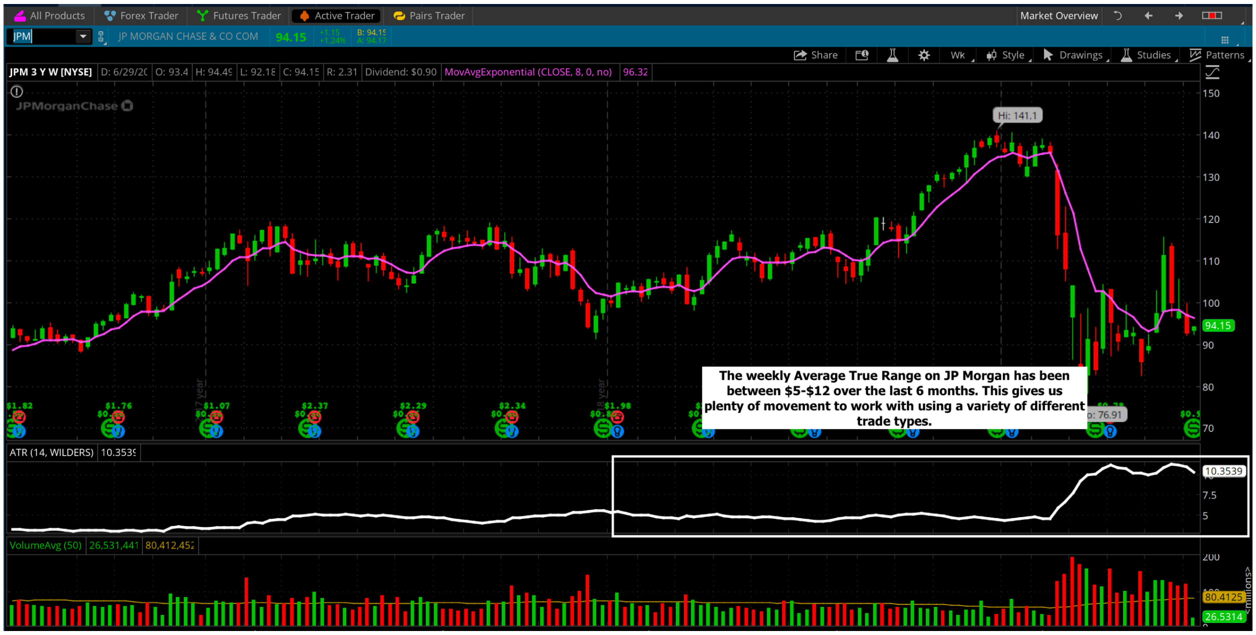
Overview: We preach using a diversified approach to our traders on a daily basis. This can be done a few different ways. We can mix up the markets that we trade, along with using different types of options strategies. Mixing up our markets means a mix of stocks and ETF's along with using stocks in different sectors.

One sector that is crucial to have exposure to on your watch list is the Financial sector. While it won't always lead the broad market, it's difficult for the market to move without the financial names participating.

My favorite financial stock to trade is JP Morgan. It can be a really nice trending market at times with good liquidity in the options as well. This allows us to use a mix of weekly and monthly options along with a mix of different options strategies. I use a lot of long calls and puts along with a fair number of credit spreads on JPM.

With the volatility in today's market due to all the global uncertainty around Covid-19, we expect the financial sector to be a major driver of market direction in the months to come. Make sure have at least 1 financial stock or ETF on your watch list. JPM can fit that spot for you perfectly.

Price Movement:



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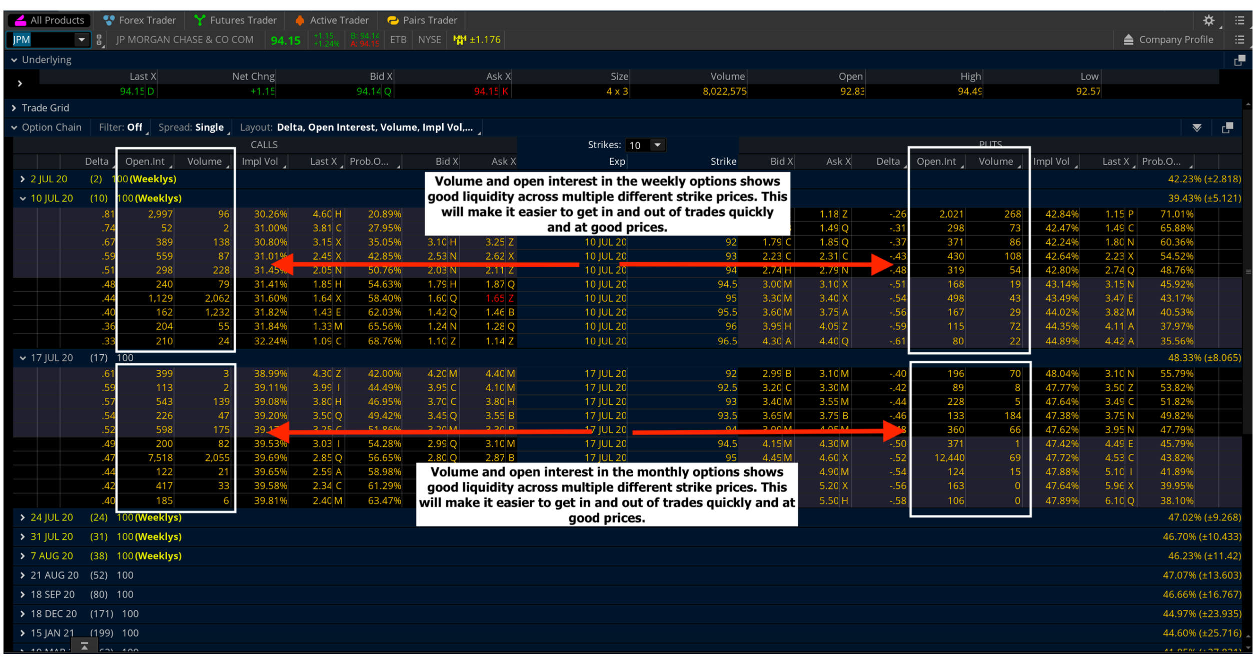


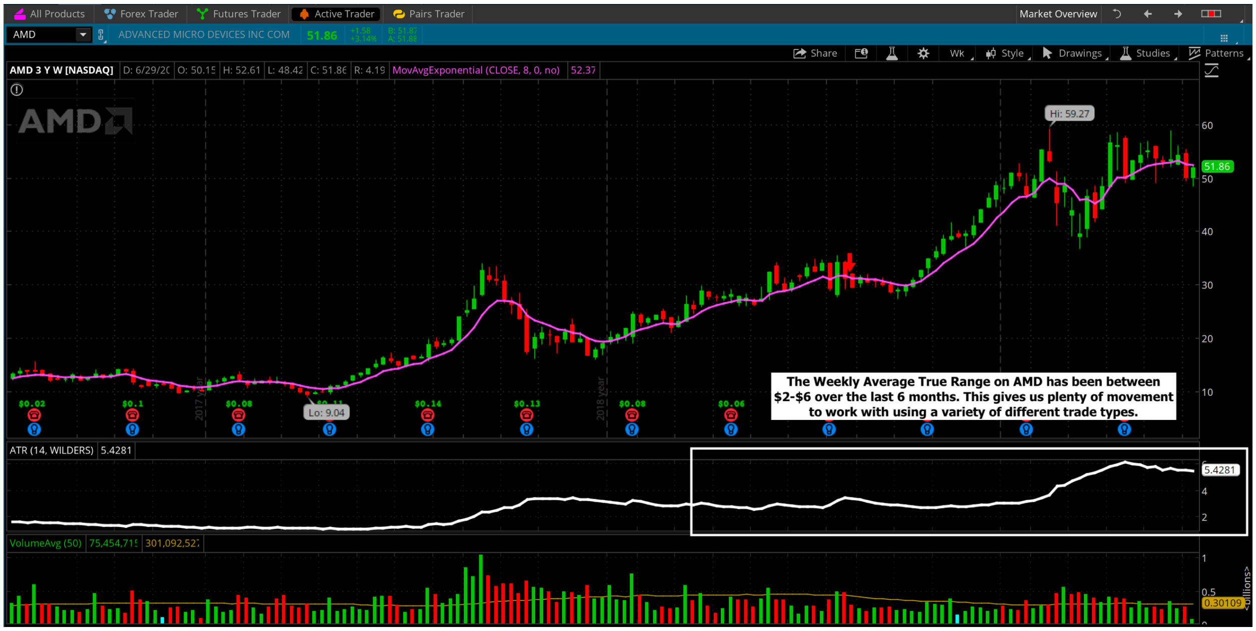
5. Advanced Micro Devices (Symbol: AMD)

<u>Overview:</u> The semiconductor stocks have been a huge driver of market movement for the last few years. I don't see that changing anytime soon. With so much of the world dependent on technology for every area of daily life, the semiconductor sector is an area that we need to take advantage of as traders. There are many different routes we could go here. I have traded AMD and NVDA with really nice success. However, AMD has been a standout on my watch list for the last 12 months.

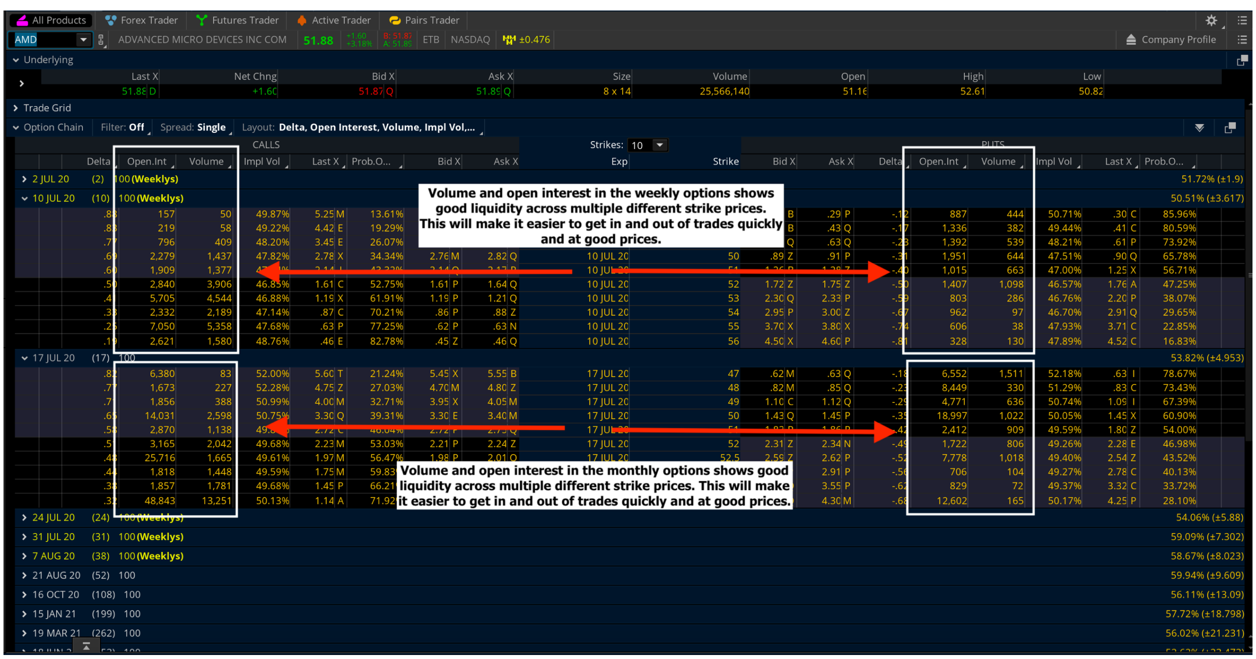
It is one of the active names in the space and that helps us out as options traders. With liquidity being so important to us, we need to go where the action is at. You have probably noticed at this point in the list that I like to focus on stocks that give us flexibility. I want to trade stocks that have both weekly and monthly options. This allows to take both shorter-term scalp trades as well as longer term swing trades if we want to.

I will use a mix of different options strategies. This includes long calls and puts, debit spreads, and credit spreads. Having this flexibility allows me to react to different types of market conditions. While we all love to see the explosive returns that long calls and puts can provide, we also know the market isn't always going to be making those big directional moves. Mixing in the vertical spreads can provide a great source of consistent income even in slower markets.

Price Movement:



Options Liquidity:



6. Select Sector SPDR Trust Energy ETF (Symbol: XLE)

Overview: One of the hardest hit areas of the market from the spread of Covid-19 has been the energy sector. The demand of oil has taken a huge hit and that has been reflected in the stock price of some of the biggest energy stocks.

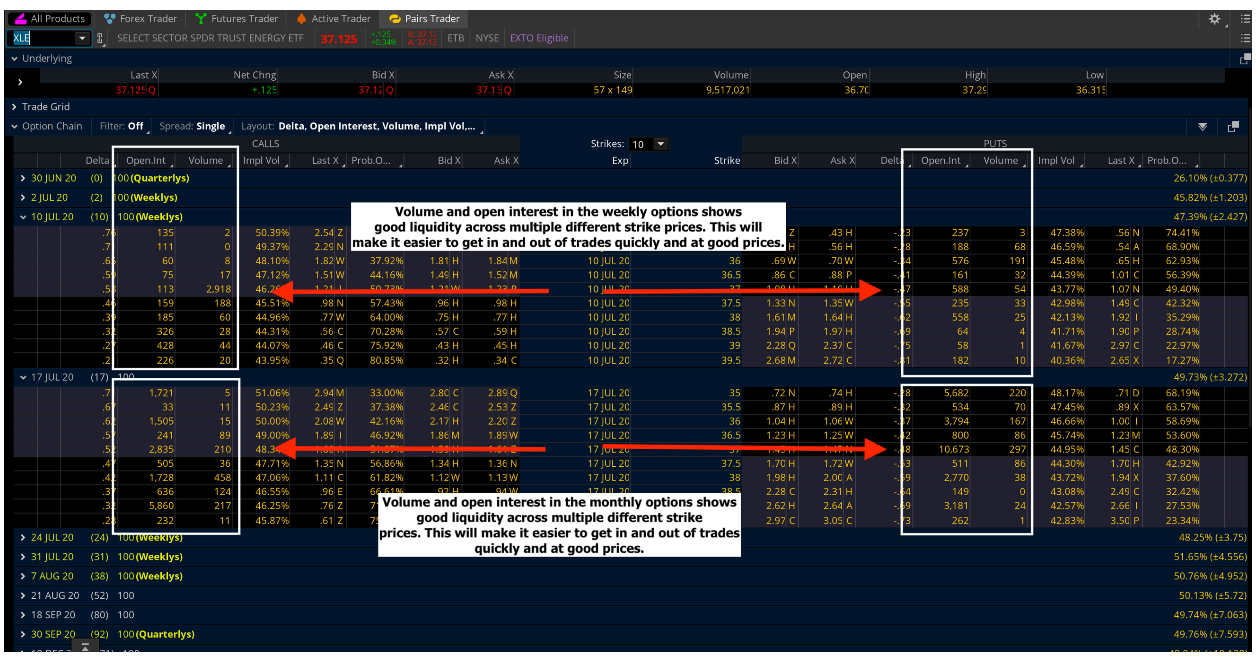
One product that I love to use to get instant exposure to the energy sector is XLE, which is the energy ETF. XLE does have weekly and monthly options that are liquid. The bid/ask prices are pretty tight which makes it easier to get in and out of trades quickly and at good prices. It also opens our strategy playbook so we can use both long calls and puts as well as vertical spreads.

XLE is an active product for being an ETF. While many ETF's tend be better trending markets, XLE can move around. We see good movement back and forth, which presents us with good trading opportunities on a regular basis.

I find the monthly options to be easier to trade than the weekly options in most cases. The sweet spot on XLE is to trade the options with 20-60 days left to expiration.

Price Movement:

Options Liquidity:



7. PayPal (Symbol: PYPL)

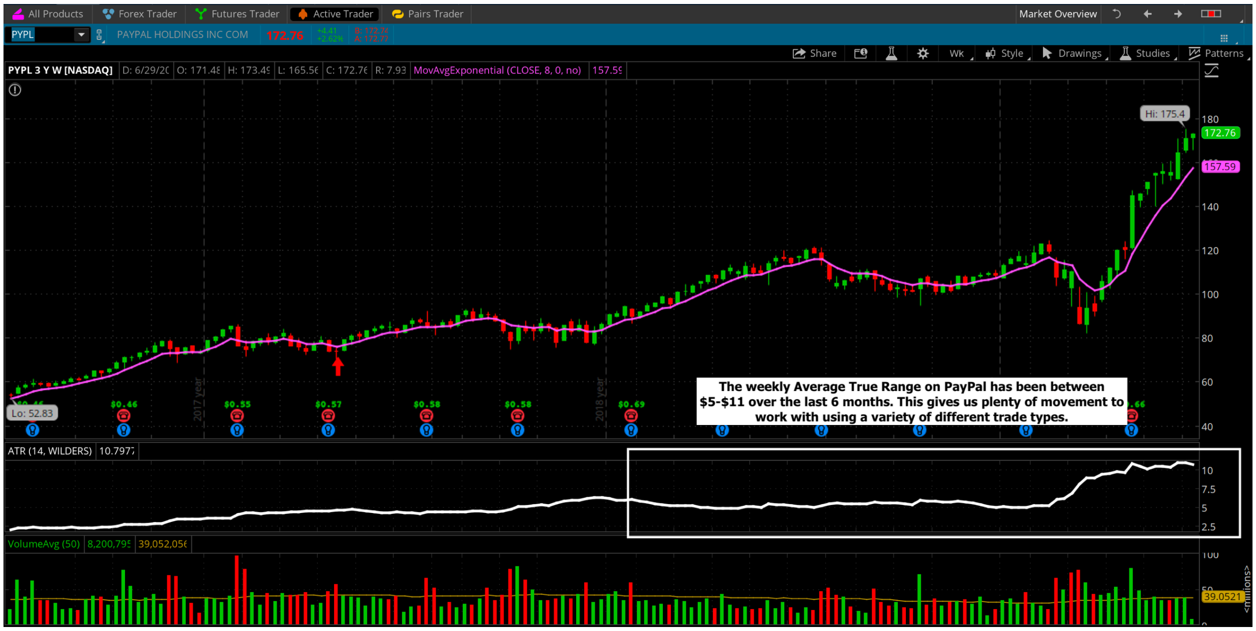
Overview: With online payment processing such a big part of any business, it's no surprise that payment processors like PayPal have taken off. This will continue as the spread of Covid-19 pushes more consumers to shopping online. PYPL is a major benefactor from that continued movement.

PayPal gives us a stock that has exposure to the tech sector but at the same time is different enough that it provides another layer of diversification. It does have weekly and monthly options available. My preference when trading PYPL is to use the options with 20-40 days left to expiration. This is where I typically find the best liquidity in the options.

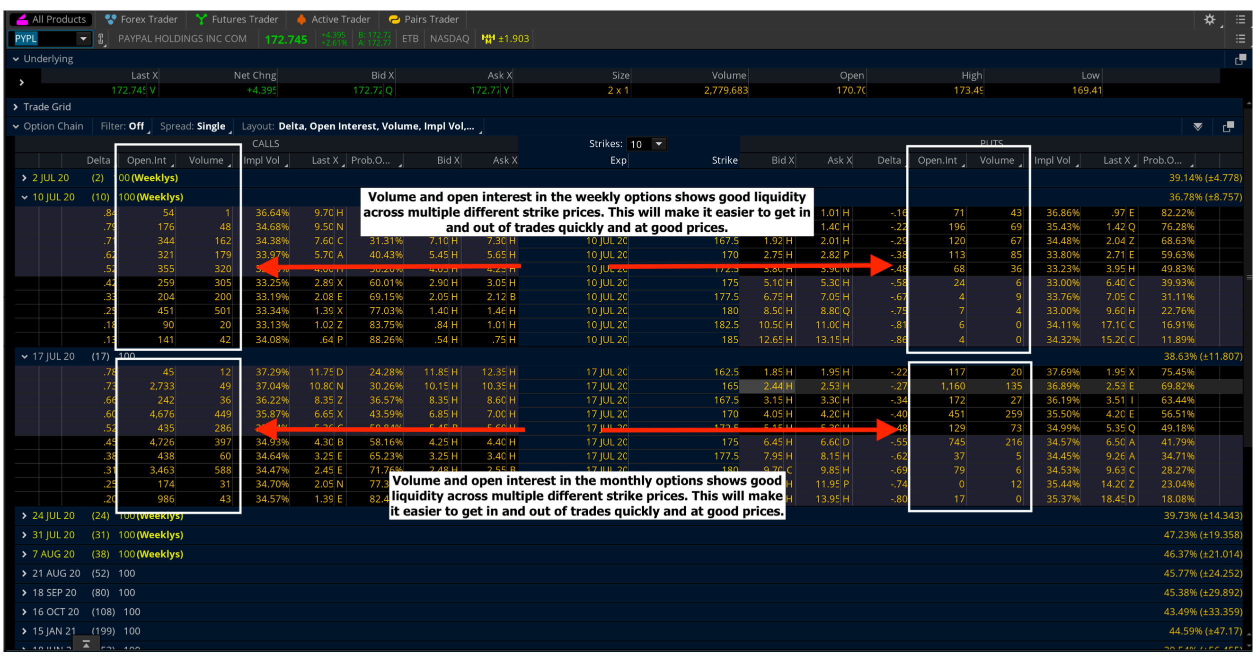
I do use a mix of different options strategies on PayPal. I do trade a lot of long calls and puts but also a fair amount of credit spreads as well. The directional moves can be powerful on this stock and it has a good trending market the last 6 months.

An alternative to PYPL would be Square (Symbol: SQ) but I have found it easier to get good fill prices when trading PYPL.

Price Movement:



Options Liquidity:



8. Target (Symbol: TGT)

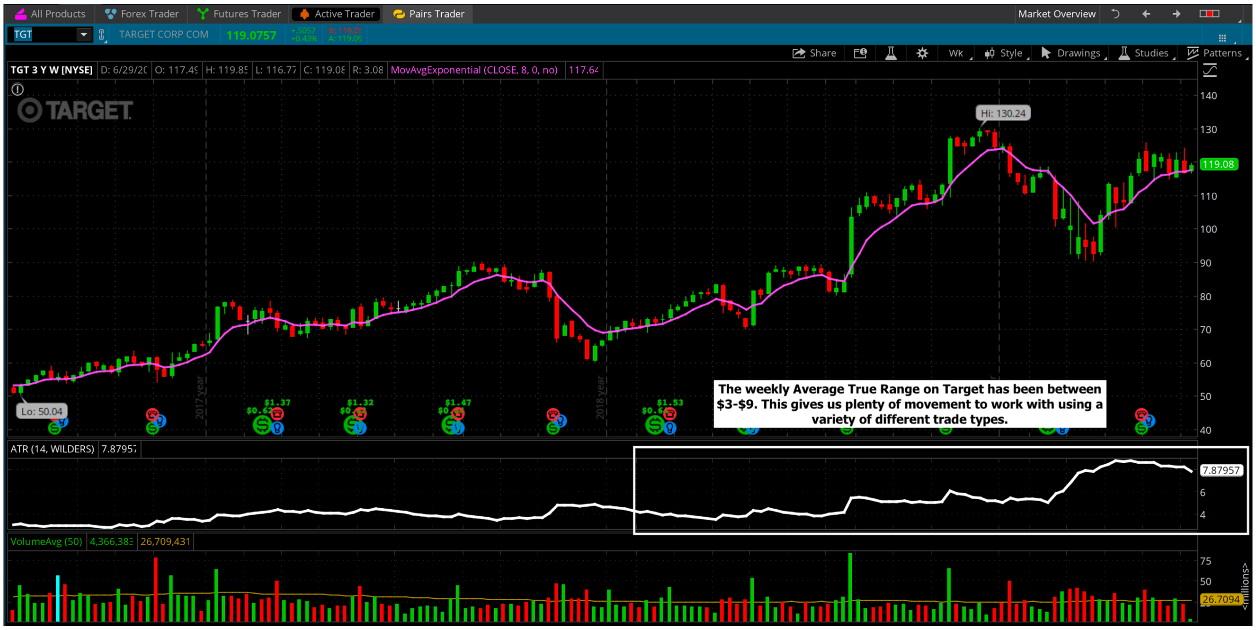
Overview: It can be easy to get caught up in the luster of the tech stocks and as a result miss out on some of the other great areas of the market. One of the sectors that is often overlooked is the retail sector. At initial glance AAPL seems more exciting to trade than Target. However, is it necessary to pick one over the other? Not at all.

We highly encourage you to have at least one retail stock on your list. You could go a few different ways here. You could trade the retail ETF which is XRT and get instant diversification. Or you could trade our preferred retail stock which is Target.

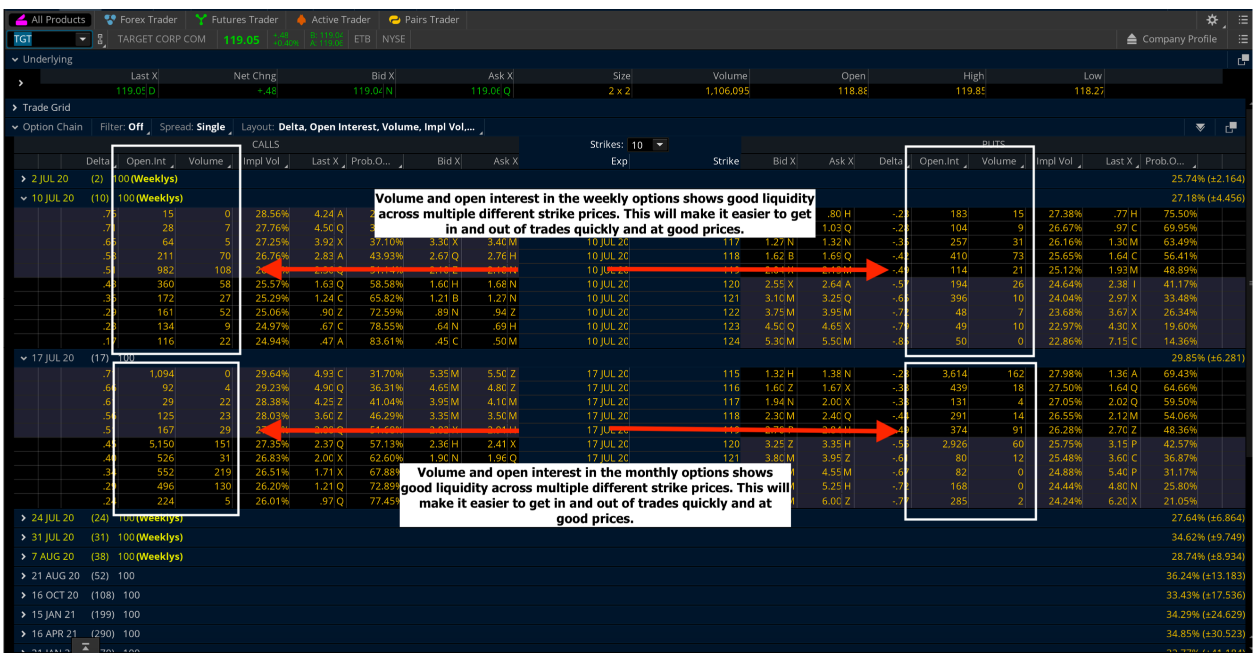
We take a slightly different approach when trading TGT. While it does offer weekly and monthly options, we have found the weekly options to be more challenging to get filled on orders. We trade mostly with the monthly options that have between 20-60 days left to expiration.

We focus more on using long calls and puts to place directional trades on TGT. We will use the occasional credit spread as well but we have found the directional trades to work better for us over time.

Price Movement:



Options Liquidity:



9. Facebook (Symbol: FB)

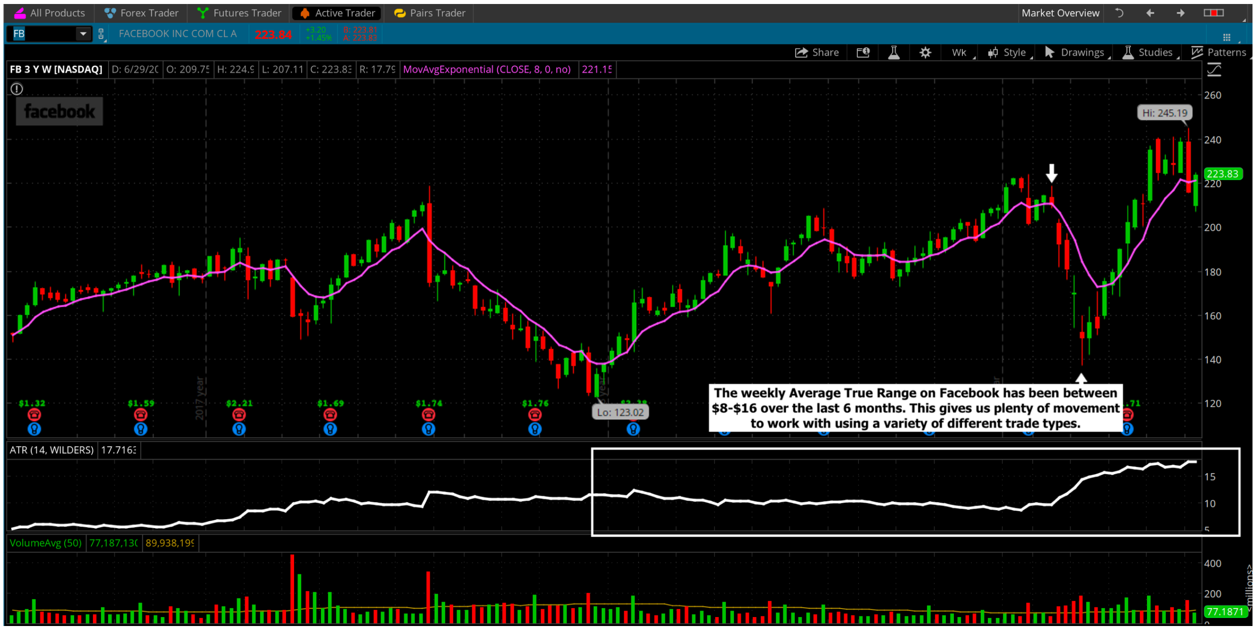
Overview: We all know how big of an impact social media has on our daily lives. It all started with Facebook years ago. While the number of social media platforms has exploded over the years, the leader in the clubhouse continues to be Facebook.

Whether you are a fan of using Facebook or not, it's hard to ignore it as a great trading product. It is one of the most liquid stocks on a daily basis with very active options as well. It also isn't a product that likes to stay quiet for long. It's consistently moving back and forth which presents numerous trade opportunities each week.

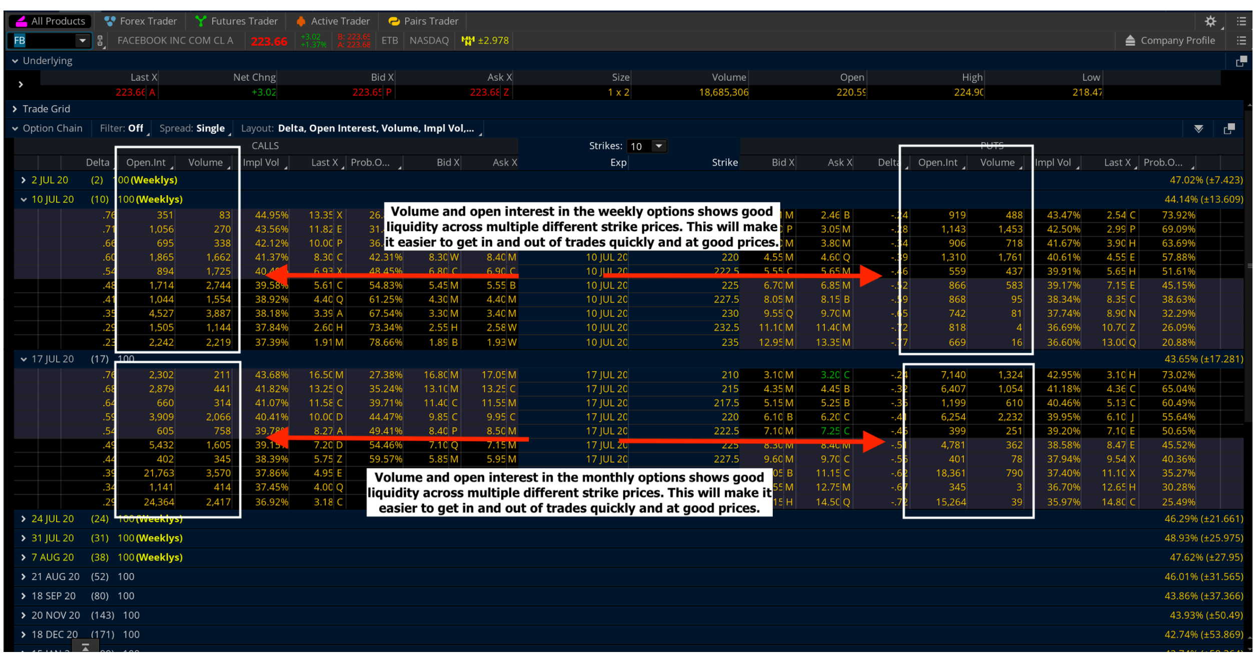
This is a stock that you can use both weekly and monthly options on with no problem. It also presents good opportunities with a variety of strategies. You can use simple calls and puts as well as vertical spreads. It is one of my favorite stocks to use credit spreads on to take advantage of having 5 ways of making money on the trades.

The sweet spot when trading Facebook is to use the options with 20-40 days left to expiration. This could mean using the weekly or monthly options.

Price Movement:



Options Liquidity:



10.Select Sector SPDR Trust Technology ETF (Symbol: XLK)

Overview: We have already talked a few times in this eBook about how important the tech sector is to the overall market. In most cases, when the overall market is making a big move it is being led by the tech sector.

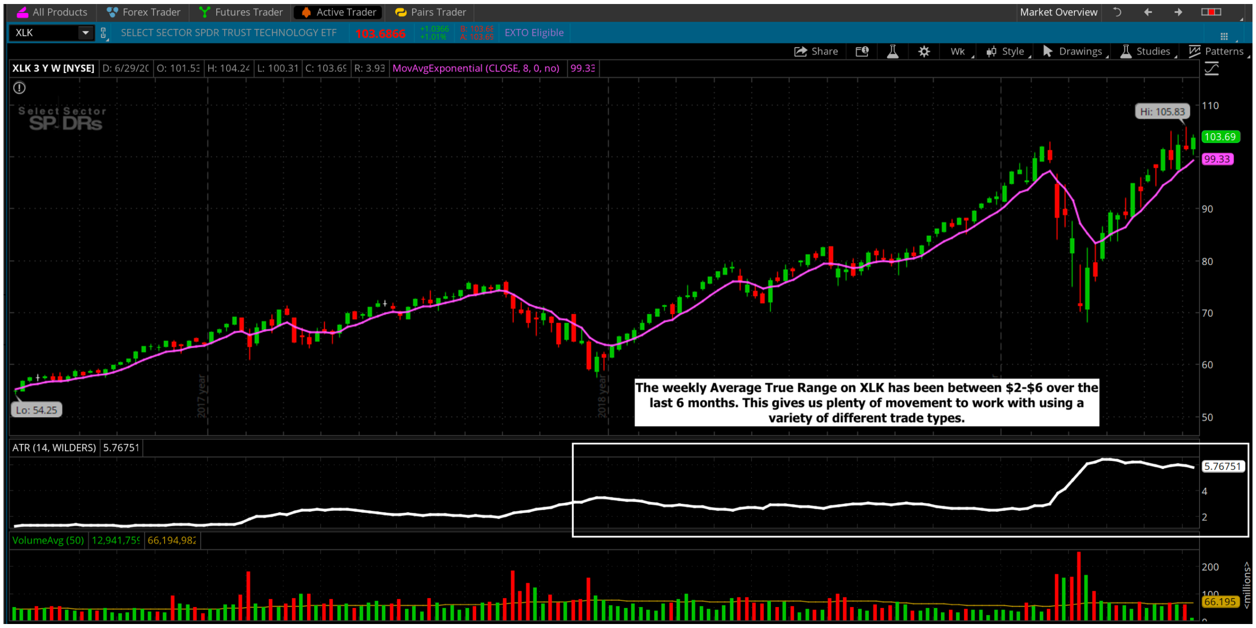
The problem with the tech names these days is they are all extremely expensive. Buying a call or put option on AAPL or AMZN will potentially require thousands of dollars. Not a good situation for many retail traders.

One way to get exposure to the tech sector without having to trade all the big highfliers is using the technology ETF which is XLK. Like all ETF's it will give you access to a basket of stocks inside of the tech sector. Best of all, it will allow you to do so for a fraction of the cost.

XLK has really nice liquidity in the options across many different expiration cycles. This includes both weekly and monthly options. I find myself using the monthly options whenever possible. I like to see 20-60 days left to expiration when selecting the expiration cycle.

I will use a mix of long calls and puts as well as vertical spreads when trading XLK. It can present many different opportunities on a regular basis. If you are finding it difficult to trade the expensive tech stocks, take a look at XLK. It will be a nice alternative that will still give you great profit potential.

Price Movement:



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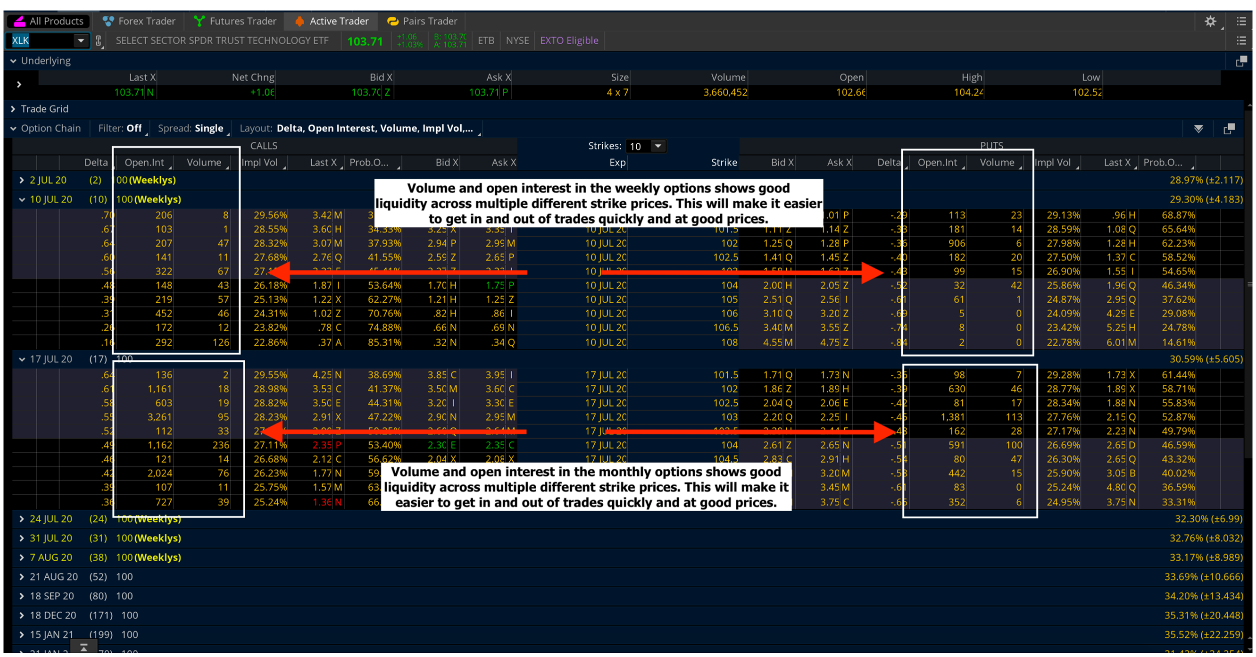


How do we trade these Options Income Superstars?

Now that we have covered our favorite Options Income stocks to trade, the next logical question becomes how do we know which type of options trade to take? As I mentioned in the watch list outline, I like to use a variety of different options strategies when trading these stocks. Options give us tremendous flexibility to control our risk in many types of market conditions.

"Options give us tremendous flexibility to control our risk in many types of market conditions."

If you are just starting out with options, there is nothing wrong with sticking to long calls and long puts only. They will give you big profit potential while also limiting your risk.

The problem with this approach is trading long calls and puts only allows you to make money if a stock makes a big move in your favor and it does so quickly. If the move isn't big enough or doesn't happen fast enough then you will not make money.

We all know markets don't always make the big quick moves like we want them to. So, we really need to make sure our options strategy playbook includes other trade types that will allow us to make money in different types of market conditions. This is where the vertical spreads come in. Even if you are newer to trading options, it should be a goal to add the vertical spreads to your toolbox as quickly as possible.

Following our vertical spread criteria for a debit spread, you will often times see a 30-50% cost savings when compared to buying a long call or put.

When using a credit spread you can cut the cost of the trade down to a few hundred dollars or less. The credit spreads will also produce much higher winning percentages as they give you 5 different ways of making money on each trade.

While this eBook is not designed to be a comprehensive options training course, I do want to leave you with an options playbook that you can use to guide you on how to structure each one of these trade types.

Let's take a look at the criteria that we use for long calls and puts, debit spreads, and credit spreads.

Long Call and Long Put Criteria

Step 1: Wait for our system to produce a valid setup that fits our trade plan.

This is true whether you are using any one of the NetPicks trading systems or if you've got your own system in place. While this seems very basic, it is a big road block that many traders run into. They start placing trades without a plan of attack. We don't want to trade off emotion. I can't buy a call option unless the system gives me an actual setup. I've got to have the entry point, targets, and stop right there on the chart in real time. Otherwise, I can't go ahead and enter the position.

Step 2: Make sure the options on the stock have an open interest of at least 30x the number of contracts that you're looking to trade.

I've put 30x in here as our minimum requirement. However, I'd like to have that number closer to 100x. In other words, if I'm looking to trade 10 contracts, I want to have at least 300 contracts of open interest.

If the options don't meet that criteria and I try to get filled on 10 contracts, it's going to be more difficult for to execute the trade. The higher the volume and open interest, the easier it will be to execute the trade quickly and at good prices.

Step 3: Make sure we have target and exit points before entering the position.

This step is very similar to step one that we just discussed. If we don't have these levels in place, it's too easy to act off emotion. If we buy a call option and don't have a target or a stop in place, the minute that the trade starts to move against us, it's going to be instinct to just get out right away. I don't know too many traders that are very good at trading off emotion.

The nice part about the NetPicks programs is you've got systems in place that do give you the targets and the stops ahead of time. That takes a lot of the guesswork out of the equation and it allows us to have a rule set in place that we can stay disciplined to.

The only time I will exit out of a trade is when a target or stop level is touched on the chart. Until that happens, I must stay patient and trust the odds that the system will give us.

Step 4: Form an opinion on how long we feel the move in the stock is going to take.

With most of the NetPicks systems, our typical holding time is three to thirty days. The reason this is important is we want to make sure that there's enough time left before expiration for that stock move to happen in our favor.

Now, how do I do that?

When determining how much time we expect the stock move to take, we can use a few key tools. First, we like to use the same watch list over time as it will allow us to get familiar with how those products trade. I've traded names like Apple, Facebook, and SPY for years.

I also like to keep a detailed trade journal where I document all the trades that I take. This allows me to track stats like P/L and average holding time. This can be beneficial when deciding which stocks and ETF’s are moving well and also when deciding how long I expect a trade to take.

I have a trade journal of literally hundreds of trades from each stock and ETF on my watch list. It's very easy for me to go back and see what my average holding time been on Apple or Facebook.

If you haven't traded those products or maybe you're newer to our systems, how do you get those numbers?

You need a starting point. This is where your back test comes into play. It’s crucial to go back and test the last three, four, or five months to look at the system trades to get a feel for the key statistics that we mentioned a few moments ago. We want to know our winning %, P/L, and average holding time. These can be very beneficial statistics to have when structuring your trade.

What you don't want to do is take a trade on a stock or ETF on our list with a weekly option when it has an average holding time of two weeks. That approach doesn't match up. You might like that weekly option with only four days left because it's cheap. The problem is it’s cheap for a reason. There just isn’t much time left before expiration. You're not going to have enough time for that trade to work out in your favor based on how that product trades historically.

Step 5: Make sure the options being traded have at least 2x the expected holding time left before expiration.

We then take our average holding time and make sure we have at least two times that expected holding time left before expiration. For example, if I know that my average holding time is three to five days, I want to make sure I have at least six to 10 days left to expiration on any option that I trade. I want to give myself a little bit of a cushion in case we get an outlier mover where the trade takes longer than anticipated.

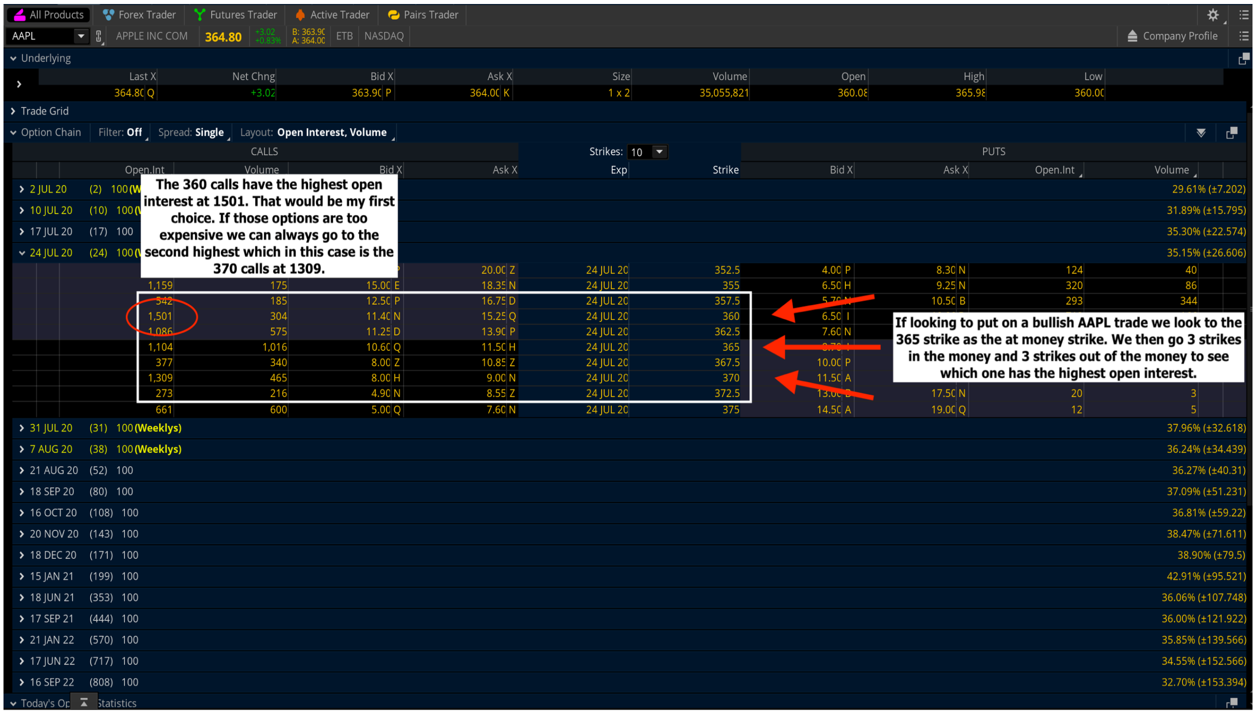
I might have a trade that completes in 24 hours or I might have a trade that takes three weeks. You don't know when you're going to get that outlier move so it’s good to have a little buffer in there so the time decay doesn’t hurt us too badly.

Step 6: Determine which option strike price is best for our trade.

We always start with the at the money option. You can find the at the money option by going to the strike price that is closest to the current stock price. The at the money option will also be the option with a Delta that is closest to +/- .50.

We then take a look at the options that are up to 3 strikes in the money or out of the money from the at the money option. We want to select the option for our trade from inside of that group that has the highest open interest number.

Open Interest in the number of outstanding contracts that have been opened since the options started trading. The higher the open interest the more active the options are which makes it easier to get in and out of trades quickly and at good prices. Ideally, this will also be the option that has the best volume for the day in that group.



Step 7: Manage the trade according to the system's trade plan.

Notice, how when I outlined these criteria three of the seven steps are very similar? That's by design. When working with newer traders, one common issue that comes up is not being able to stay disciplined to their system or to their trade plan. The entry, stop, and target levels are there for a reason. They will guide us on where to get in and out of trades, but they will only work if we stay discipline to our system on every trade.

Long Call and Long Put Strategy Criteria

1. Wait for your system to produce a valid setup that fits your trade plan.
2. Make sure the options on your stock have an open interest of at least 30 times the number of contracts that you are looking to trade.
3. Make sure you have target points and exit points before entering the position.
4. You need to form an opinion on how long you feel the move in the stock is going to take.
   - Back test
   - Get to know the stocks that you are trading

Long Call and Long Put Strategy Criteria

5. Time Left to Expiration
   - **NetPicks Trades: 20-60 days**
     - If VIX is above 15 then you can also look at the shorter-term weekly options with 7-20 days left

6. Length of trade:
   - Locate the at the money options
   - Look at the options 3 strikes in the money and 3 strikes out of the money.
   - Select the option from that group with the highest level of open interest

7. Manage the trade according to your trade plan.
   -As a starting point look to target a 100% return on a long call/put trade.

Vertical Spreads

Why would we trade a spread?

Using a vertical spread is going to allow you to reduce the cost of the trade, which in return is going to allow us to reduce the risk on the trade. In many cases, utilizing the spread with our criteria, we're able to reduce our cost by 30% to 50%.

The definition of a vertical spread is purchasing one call or a put at a given strike, within a given expiration cycle, and selling a different strike call or put with the same expiration cycle.

If you're using the October monthly options for a Vertical Spread, you will use the same October monthly options for both options. You're not going to mix up the expiration cycles.

Let's go ahead and talk about the strategy criteria in more detail. The easiest way to start talking about a Vertical Spread is to look at a trade example. We will go back to XYZ stock for this example. Let's say XYZ stock is trading at $40 per share. We expect the stock to move higher and want to put on a bullish trade.

Looking at the trade page we see the 40-call trading for $3. In seeing the $3 price per contract, I don't mind paying $300 to buy the call option but would love to reduce the cost if possible. I also see there is a 45 call that's selling for $1. I can sell that call option and collect a dollar. By buying the 40 call for $3 and selling the 45 call for $1 I'm able to lower my total cost to $2. I'm putting this trade on all at once using the same monthly expiration cycle for both contracts.

In this case, we have the right to buy 100 shares at 40, but we're also selling the 45 call. We would be obligated to sell 100 shares at 45.

Our maximum profit is limited to the difference between the long and the short strikes minus the debit paid. In our example here, we had a $5 wide difference between the strike prices (difference between the 45 call and 40 call). We paid $2 to put this trade on. So, we take that $5 wide difference, subtract the $2 which leaves our maximum profit on the trade at $3 per spread.

Isn't selling options too risky?

This is a question that I get all the time from newer traders. When selling options as part of a Vertical Debit Spread it leaves you with an extremely safe position. It's just like buying a call or a put. We can't lose any more than what we paid for that position. This is why the Vertical Spread is a popular strategy for many experienced options traders.

The main difference between buying a Call Spread and buying a Long Call, is that I give up my unlimited profit potential when using the Call Spread. If I buy a Long Call as long as that stock moves higher, I can make money. When I buy a Call Spread, my maximum profit is realized right at my short strike. So, if I sell the 45 call and the stock goes all the way up to $60, once it reaches $45, I really can't make any more money on the trade. I'm realizing as much profit as possible on that trade at that point.

In many cases, that's a fair trade off. I'm giving up the unlimited profit potential, but in return, I get lower risk. That's why I love this strategy. There are times when I don't want to be as aggressive. I don't want to just buy the Call or the Put.

I've been utilizing the Long Call Spreads a lot this year due to the extreme overbought conditions that we have seen. I don't want to get aggressive buying Calls because this move is already extended. I want to be more conservative and the Call Spreads allow me to do that. I can still trade the move to the upside, but in doing so, I'm able to keep the lower risk on my trades.

The max loss again is limited to whatever we paid for the trade. Our breakeven point on the trade is the long strike, plus the $2 debit that we paid to put the trade on. This puts our breakeven point at $42.

When do we use this trade? When we're looking for a directional trade and we want to lower the cost, when we want to define risk position, or when we feel the volatility is low. If we're not expecting a quick move, then the spread is a good way to go.

Where do we want that stock or ETF to finish? We want the stock or ETF to be right at or above the short strike on a call spread or at or below the short strike on a put spread. Since we sold the 45 call, ideally, I would love to have that stock or ETF go right to 45 and just settle in right there. That's where I would make the most money on the trade.

How does volatility impact the Vertical Spread? Volatility is a huge input in the pricing model of an option. Anytime that you buy an option, whether it be buying a call or a put or buying a vertical spread, you want the volatility to go higher, or at the very least, not go lower. When we're long an option and the volatility decreases, it will hurt our position. If the volatility increases, it's going to help us make more money quicker.

Can we use a Vertical Spread for a bearish trade?

Let's also talk about how we can use a Vertical Spread to trade the market moving lower. We can place a bearish Vertical Spread utilizing the put options. If XYZ is trading at $40, we could come in and buy the 40 put for $3. At the same time, we could also sell the 35 put for $1. That would bring our cost down to $2 for the Vertical Spread. If all I did was buy the Long Put, I would be paying $3 per contract. However, by using the Put Spread, I'm able to lower my cost to $2. That's a 33% decrease in my cost which is a nice little savings.

Our profit when buying a Vertical Put Spread is limited to the difference between the strikes minus the debit being paid to buy the trade. In our case, there's a $5 wide difference between the strikes. We're paying $2 to put this trade on. So, we subtract the $2 that we paid to buy the spread which leaves us with a maximum profit of $3.

We still have a nice profit potential on the trade if this stock moves to the downside, but we do give up the unlimited profit potential that we would have if we only bought the Long Put.

If XYZ stock makes a big move lower, I don’t get to profit on any price action lower than my short strike. In our case, we sold the 35 put option as part of the spread. Let's say the stock goes down to $20 per share. I don’t get to profit from any price action below $35. In return, I have a trade with limited risk which is a fair trade off in many cases.

When do we want to use the Long Put Spread? When we're bearish on a stock or ETF and we want to lower the cost of the trade. Keep in mind, we are limiting our profit potential, but we are also defining our risk.

Where do we want that stock or ETF to finish? We want the stock or ETF to be right at or below the short strike. Since we sold the 35 put, ideally, I would love to have that stock or ETF go right to 35 and just settle in right there. That's where I would make the most money on the trade.

How does volatility impact the Vertical Spread? Volatility is a huge input in the pricing model of an option. Anytime that you buy an option, whether it be buying a call or a put or buying a vertical spread, you want the volatility to go higher, or at the very least, not go lower. When we're long on option and the volatility decreases, it will hurt our position. If the volatility increases, it's going to help us make more money quicker.

When should I use the Credit Spread vs the Debit Spread?

Debit Spreads are ideal strategies to use when you have a strong directional opinion on that stock or ETF. They will give you a higher profit potential if you get that big move quickly. The Debit Spread is one of my favorite strategies as they can produce some nice results while leaving me with much less risk.

You'll typically buy the Debit Spread when the volatility is low. When the volatility is low, we know that the prices of the options are cheap. It goes back to the buy low, sell high mentality. If I buy an option when it's cheap, it will leave us with more profit potential while tying up less capital when buying placing the trade.

It's ideal to have high volatility when selling a Credit Spread because when volatility is high, the prices of the options are more expensive. Anytime you sell a product, whether it be a car, a house, a stock, or an option, we always want to collect as much money upfront as possible, right?

The same goes for an options spread. When the volatility is high and the prices of the options are expensive, that's going to allow us to collect more money up front. This can leave us with more profit potential. We can certainly sell spreads when volatility is low, but as you will see in a minute that you won't have as many factors lining up in your favor.

Do we have to have high volatility to sell a premium?

You can certainly sell spreads in low volatility. Just realize that you don't get the benefit of the volatility contracting. In this case, we're betting strictly on the time decay and the potential directional move. If we sell an option or if we sell a spread in low volatility, we essentially go from having five ways of making money down to four. We give up one way of making money.

It's not the end of the world. It's just it's not the perfect scenario where everything is lining up in our favor.

When selling low volatility, you won't have as much wiggle room if the trade moves against you. The breakeven point will be closer to the current stock price. When the volatility is low, we can still sell options, but in order to collect enough premium, we will have to move our short strike closer to the current stock price. When we do that, we don't have as much room to be wrong and still make money.

Selling high volatility is ideal for us because we can get that breakeven point far away from the current stock price. That improves our odds of success long-term.

When selling a Credit Spread, we are looking for a higher probability of success which also comes with a lower profit potential. This scenario is ideal if you're a little less certain on the overall direction move and would like multiple ways of making money on the trade. They can be great trades for grinding out a profit in a slow market environment.

Debit Spread Criteria

The nice part about having a defined rule set that we use for each strategy is that we can use that rule set on any stock or ETF that we are trading. Whenever I buy a Vertical Spread, whether it be a Call Spread or a Put Spread, the criteria is the same. ***We will always buy the option that is 1 strike In the Money from the entry point on the chart and sell the option that has a strike price closest to the second target on our chart.*** That's the criteria that we use every time.

How much time do we look for before expiation? Ideally, we'd like to see between 20 and 60 days left to expiration, but even more so than that, I'm ok if we have 2x our average holding time left before expiration.

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Vertical Debit Spread Criteria

1. Ideally, we want to see implied volatility lower than the 50th percentile (using TOS)
2. Use the front month if there is at least 20 days left to expiration. If not, then go to the next month out.
3. We will buy the option one strike ITM. This will allow us to get in by paying as little extrinsic value as possible. We will then look to sell the the next strike OTM. We can also play around with the strikes to make the spread wider or tighter if we can pay 50% or less of the width of the strikes.
4. We are targeting 40-80% returns on this trade. We will also look to exit the trade no later than Wednesday of expiration week if we are still in the trade.

Credit Spread Criteria

When selling a Vertical Spread, the whole goal of the trade is for it to expire worthless. If it does, we will be left with a full profit. With this in mind, we like to use Out of the Money options that have a low probability of closing In the Money.

We want to sell a spread where we can collect between 30-40% of the width of the strikes. For example, if we are looking at a $1 wide spread we would like to sell the spread for between $.30-$.40.

Vertical Credit Spread Criteria

1. Make sure implied volatility is higher than the 50th percentile (using TOS)
2. Use the front month if there is at least 20 days left to expiration. If not, then go to the next month out.
3. We will select the spread where we can collect around 30-40% of the width of the spread.
   - $10 wide-spread: Want to collect between $3.00 and $4.00.
   - $1 wide-spread: $.35
4. Once in the trade we will look to exit when we can keep 50-75% of the potential gain. Exit the trade no later than Wednesday of expiration week if still in the position at that time.

Which Strategy should you use?

Conclusion:

Is this list that magical formula to instant riches? No, it's not. However, it is a way for us to stay active on a daily basis in less than 10 minutes a day. We could add in a dozen other names to this list but that doesn't necessarily make it more powerful. It's a huge advantage for us to get to know the stocks on our list really well. This allows us to trade with much more confidence.

The key to utilizing a smaller watch list of stocks like the Options Income Superstars list is to be open to using different options strategies. Being open to using long calls and puts as well as debit and credit spreads will allow you to react to different types of market conditions. This will lead to better consistency with your results.

SIMPLIFIED OPTIONS SUPERSTARS

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