OPTION TRADER'S HOT LIST

FAVORITE STOCKS & STRATEGIES FOR 2021

NETPICKS
Trading Strategies Since 1996

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In addition, it’s important to understand and accept that there can be data outages and server failures. The brokers system might not be functional, the auto trading servers might have technical difficulties and there may be times where communication between accounts, the broker and the auto-trade program are not functioning properly. This can lead to greater risk. Markets also do not always guarantee exact fills. Periods of fast markets can cause greater degrees of slippage and less than ideal fills. There can be no guarantee that your account will always be able to enter and exit the programs ideal entry or exit point.

They carry a high degree of risk.

Options

There are many different types of options with different characteristics subject to the following conditions. Buying options: Buying options involves less risk than selling options because, if the price of the underlying asset moves against you, investors can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if investors buy a call option on a futures contract and investors later exercise the option, they will acquire the future. This will expose investors to the risks described under ‘futures’ and ‘contingent liability investment transactions’.

Writing options: If investors write an option, the risk involved is considerably greater than buying options. Investors may be liable for margin to maintain their position and a loss may be sustained well in excess of the premium received. By writing an option, investors accept a legal obligation to purchase or sell the underlying asset if the option is exercised against them however far the market price has moved away from the exercise price. If you already own the underlying asset which you have contracted to sell (when the options will be known as ‘covered call options’) the risk is reduced. If you do not own the underlying asset (‘uncovered call options’) the risk can be unlimited. Only experienced persons should contemplate writing uncovered options, and then only after securing full details of the applicable conditions and potential risk exposure.

Traditional options: Certain member firms under special exchange rules write a particular type of option called a ‘traditional option’. These may involve greater risk than other options.

Two-way prices are not usually quoted and there is no exchange market on which to close out an open position or to affect an equal and opposite transaction to reverse an open position. It may be difficult to assess its value or for the seller of such an option to manage his exposure to risk. Certain options markets operate on a margined basis, under which buyers do not pay the full premium on their option at the time they purchase it. In this situation you may subsequently be called upon to pay margin on the option up to the level of your premium. If you fail to do so as required, your position may be closed or liquidated in the same way as a futures position.

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 13 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 outline our 21 favorite stocks and ETF's to trade options with in 2021. This complete list will provide a diversified trade plan that can be used in just minutes each day.
We will also outline the 3 options strategies that every options trader should have in their toolbox. These strategies will allow you to stay active in all market conditions with risk defined trades. This book will not only teach you how the 3 options strategies work, but we will also provide the exact criteria that you need to start using them in real time.

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

In many ways 2020 flipped the world upside down for all of us. The COVID-19 pandemic has forced us all to make significant adjustments to all areas of life. How many of us work, consume entertainment, shop for goods, and live our everyday lives has changed dramatically in the last year.

Financial markets have also changed significantly as well. Central banks worldwide have taken drastic measures to aid markets which has led to some extreme price movement in both directions.

While uncertainty is at all-time highs as no one knows when the pandemic will allow life to get back to a sense of normalcy, we are seeing stocks make historic moves in response to the pandemic. Tesla is up over 700% over the last year. Some of the tech stocks are up over 300%. Markets are presenting traders with the opportunity to benefit from the volatile markets. The key is to do so in a safe way with a diversified watch list of stocks and mix of risk defined options strategies which we will outline in this eBook.

As traders, we are all looking for growth 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 13 years. I'm going to show you how to focus in on a small universe of stocks that are going to help you experience consistent returns in just minutes each day. 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 consistent gains 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 Top 21 for 2021 Watch List?

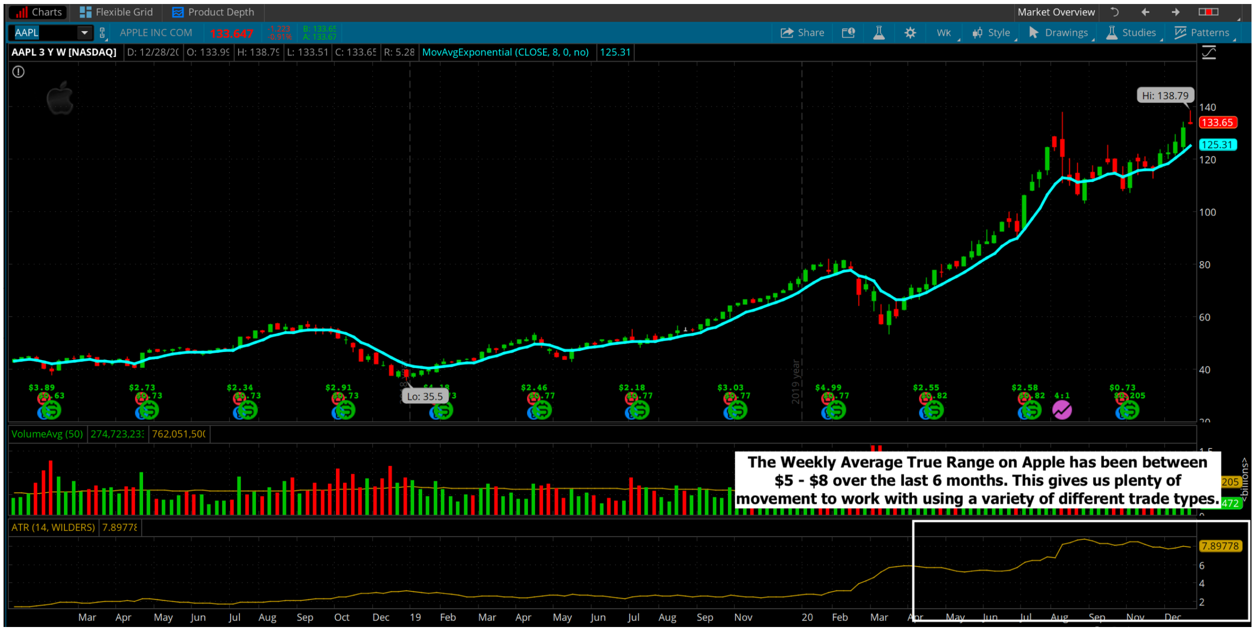
One of the hardest parts about being a trader is fighting the hindsight game. It's really easy to go back and say I would have taken this trade, or I would have closed out of my winning trades at the exact high or low of the latest market move. However, in reality trading is much more difficult than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

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.

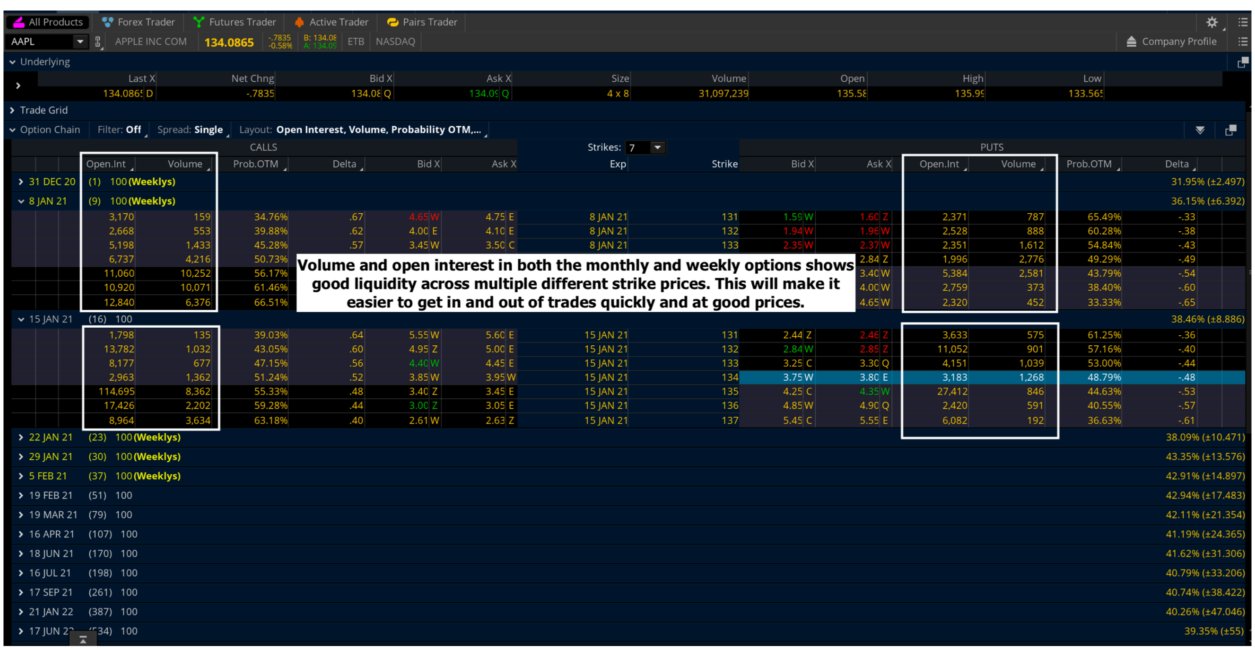
We teach our students to instead focus on trading a small list of stocks and ETF's week in and week out. This will allow you to get to know the names on your list really well. We love to trade the Nasdaq names because they offer the best movement back and forth over time as well as the best liquidity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

How did we select the Top 21 for 2021 watch list names?

If you look at stocks like Apple (Symbol: AAPL) and Facebook (Symbol: FB) 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.



Finally, don't overcomplicate things. I see so many traders looking for that new secret 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 12 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 21 for 2021 Option Trader’s Hot List.

NetPicks Options Hot List 2021

1. Apple (Symbol: AAPL)

Overview: Most traders come into the markets with the idea of trading stocks that you know. Apple is the most recognized company in the world with incredibly popular products that have led to a cult following.

Apple stock is also one of the most popular trading vehicles on a weekly basis with active traders and long-term investors alike.

Going into 2021, we will look for AAPL to once again be a market leader. The argument could be made that with 5G expanding at a fast pace, the new iPhone 12 sales should continue to impress which backs the bullish view. Add to the mix the rumor of a potential electric vehicle down the road and the catalysts for future growth are there.

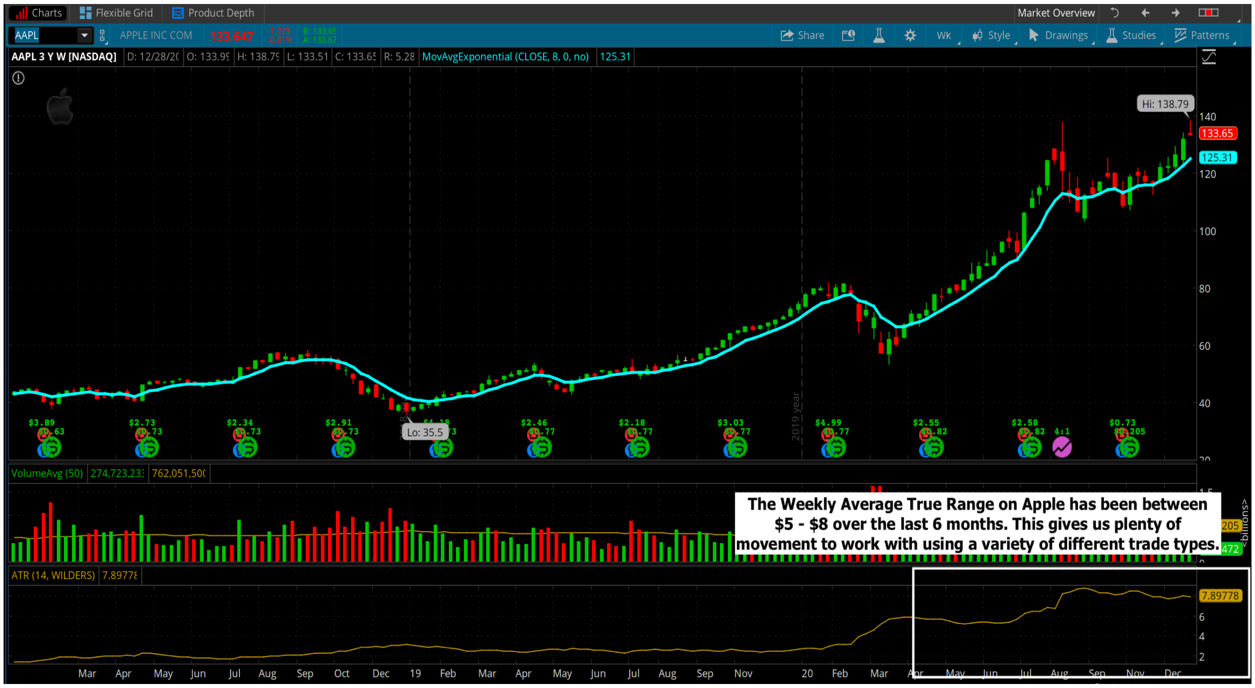
On the flip side, AAPL stock has had a heck of a move higher over the last 8 months. In our view, there is a lot of good news already priced into the stock price. The stock split in 2020 also made AAPL more tradeable for traders of all account sizes. This will keep the stock at the top of any watch list in the year to come.

We aren't here to push the bullish or bearish agenda on AAPL for 2021. In the long run, all we are looking for is back and forth movement over time. As active options traders we thrive on two-way price action. Should we get that movement, AAPL will most likely be our most active market that we trade in 2021.

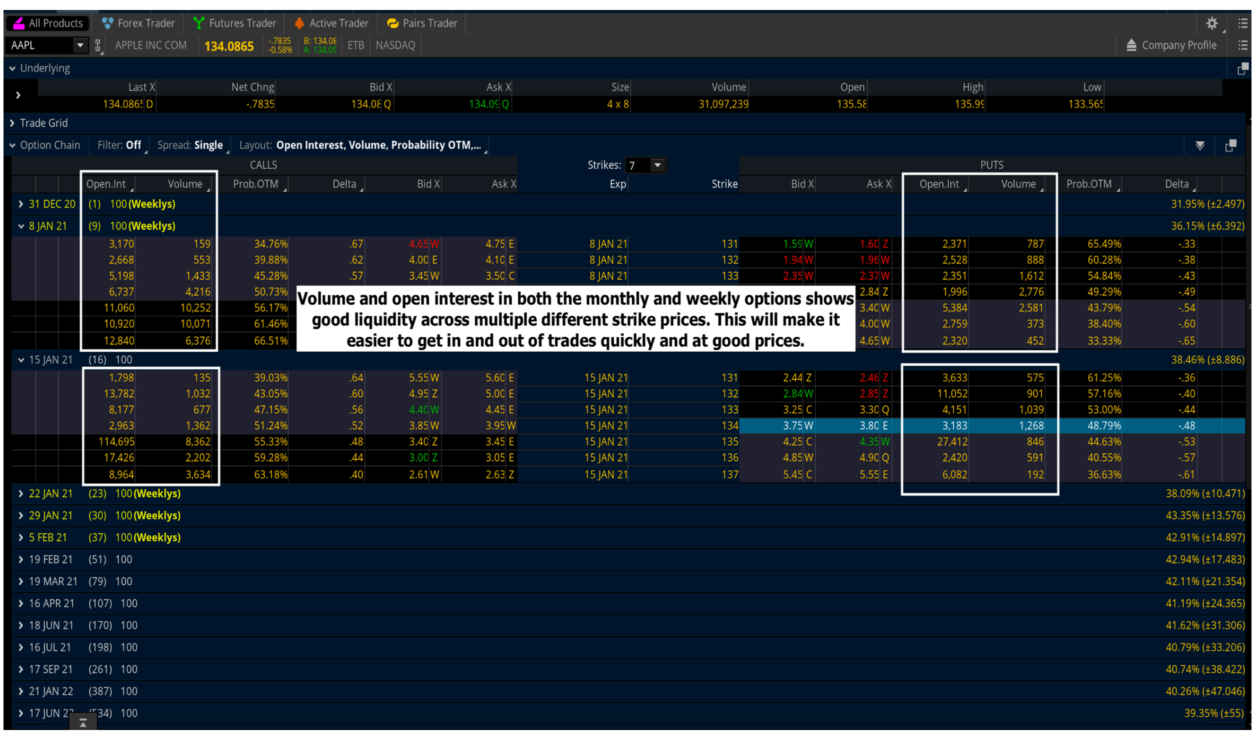
When you combine the great range in the stock price with the phenomenal liquidity in the options, it makes for a powerful trading vehicle. Our options playbook is wide open when trading Apple. We can keep it simple with long calls and puts only or go more complex with the vertical spreads as well. This 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. Facebook (Symbol: FB)

Overview: For most of 2020, the tech sector was unstoppable. It didn't matter if the news headlines were good or bad. It also didn't matter how bad the pandemic was hitting the economic numbers worldwide. In the case of Facebook, it also didn't matter that the company faced heightened scrutiny around its business practices. The tech stocks continued moving higher.

While many consumers have a love/hate relationship with Facebook as a company, the bottom line is it's a great trading vehicle. The stock is very active in both directions with a Weekly ATR between $15-$23 over the last year. This provides new opportunities on a regular basis.

Going into 2021, we expect the tech stocks, including Facebook, to remain very active. The company will be facing more legal battles in the months to come. While we don't trade off fundamentals, we look for catalysts that could lead to increased volatility for us to take advantage of.

The stock has very liquid options in both the weekly and monthly options which opens up our playbook to be able to use a wide range of different strategies. This includes long calls and puts, debit spreads, and credit spreads.

With the stock price elevated over $250/share the options can be pricey. As a result, I prefer to trade more vertical spreads over the other strategies. The spreads help lower the cost of the trades and also provide 5 ways of making money on the trades.

Price Movement:

Options Liquidity:

FB FACEBOOK INC COM CL A 274.42 -2.36 -0.85% B: 274.42 A: 274.47 ETB NASDAQ

Underlying

Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low
274.42 Z	-2.36	274.42 V	274.47 Y	2 x 1	3,144,861	277.95	278.08	273.55

Trade Grid

Option Chain Filter: Off Spread: Single Layout: Open Interest, Volume, Probability OTM,... Strikes: 7

	CALLS								PUTS						
	Open.Int	Volume	Prob.OTM	Delta	Bid X	Ask X	Exp	Strike	Bid X	Ask X	Open.Int	Volume	Prob.OTM	Delta	
31 DEC 20 (1) 100 (Weeklys)															30.15% (±4.82)
8 JAN 21 (9) 100 (Weeklys)															35.08% (±12.693)
	587	4	32.56%	.69	9.80 M	9.95 B	8 JAN 21	267.5	2.89 P	2.98 B	826	184	67.51%	-.31	
	1,370	234	38.96%	.63	8.15 H	8.30 B	8 JAN 21	270	3.70 X	3.80 B	1,966	302	61.17%	-.37	
	669	354	45.70%	.56	6.65 H	6.80 Q	8 JAN 21	272.5	4.70 A	4.80 B	783	248	54.36%	-.44	
	2,614	719	52.65%							6.00 B	1,029	362	47.34%	-.51	
	796	470	59.53%							7.40 Q	545	105	40.40%	-.58	
	3,963	988	66.11%							9.00 H	465	194	33.82%	-.64	
	1,192	234	72.03%							10.75 H	886	227	27.82%	-.70	
15 JAN 21 (16) 100															36.40% (±17.208)
	1,339	30	37.39%	.65	11.60 H	11.75 B	15 JAN 21	267.5	4.65 B	4.75 M	1,644	40	62.72%	-.35	
	13,810	114	42.31%	.60	10.05 Z	10.15 C	15 JAN 21	270	5.55 B	5.60 Z	12,692	396	57.84%	-.39	
	620	59	47.41%	.55	8.55 H	8.75 B	15 JAN 21	272.5	6.55 X	6.70 X	814	54	52.67%	-.45	
	9,713	543	52.59%	.50	7.30 X	7.40 Z	15 JAN 21	275	7.75 X	7.90 X	11,260	161	47.41%	-.50	
	490	175	57.75%	.45	6.15 Q	6.25 M	15 JAN 21	277.5	9.10 X	9.25 Z	369	45	42.18%	-.55	
	57,991	1,199	62.73%	.40	5.15 B	5.25 Z	15 JAN 21	280	10.60 M	10.75 M	50,962	61	37.13%	-.60	
	498	68	67.53%	.35	4.25 X	4.35 N	15 JAN 21	282.5	12.20 B	12.40 M	489	27	32.32%	-.65	
22 JAN 21 (23) 100 (Weeklys)															35.96% (±20.224)
29 JAN 21 (30) 100 (Weeklys)															41.70% (±26.716)
5 FEB 21 (37) 100 (Weeklys)															42.60% (±30.264)
19 FEB 21 (51) 100															41.22% (±34.324)
19 MAR 21 (79) 100															39.96% (±41.418)
18 JUN 21 (170) 100															39.69% (±60.95)
16 JUL 21 (198) 100															38.30% (±63.582)
17 SEP 21 (261) 100															37.95% (±72.862)
21 JAN 22 (387) 100															39.06% (±93.095)
17 JUN 22 (534) 100															37.40% (±106.193)
16 SEP 22 (625) 100															37.05% (±114.972)

Volume and open interest in both the monthly and 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.

3. Tesla (Symbol: TSLA)

<u>Overview:</u> 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 was added to the S&P 500 back in December which will only make the liquidity even better for active traders. Like many other stocks, 2020 was a banner year for TSLA. The stock saw amazing gains on the upside leaving it at very overbought levels going into 2021.

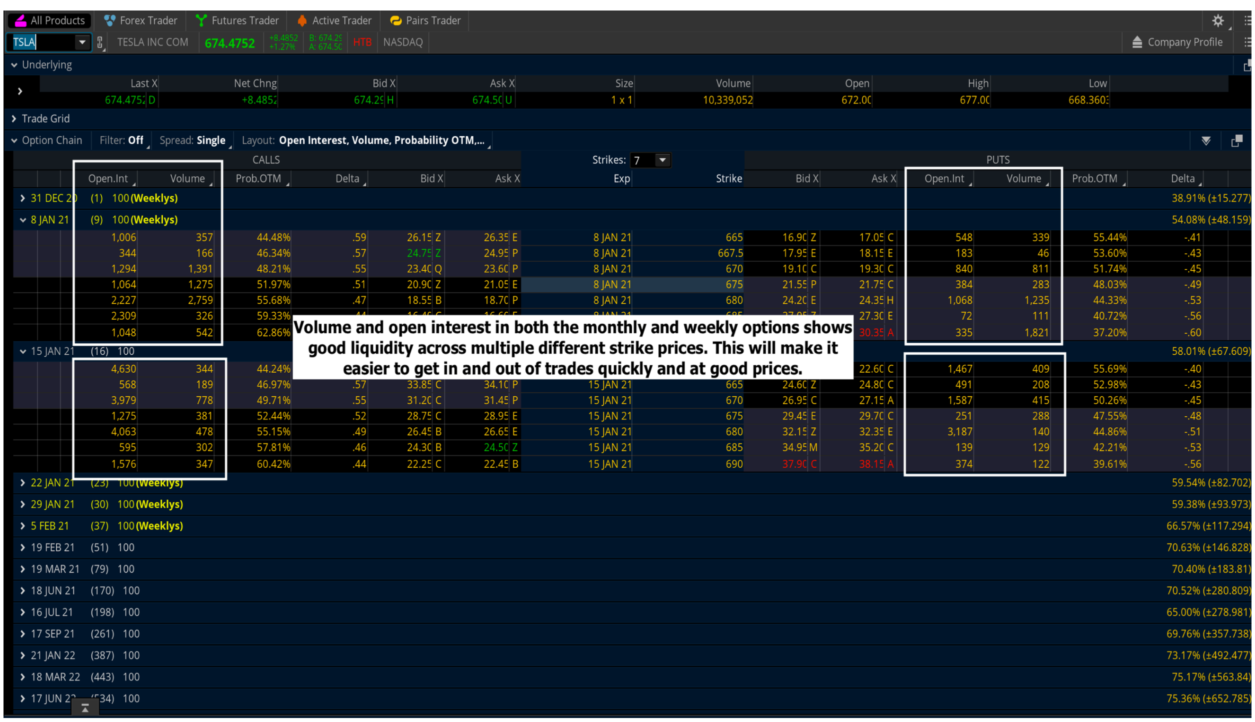
We don't expect the one way move higher to last much longer. Instead, we will be looking for better two-way price action in the months to come. Like we mentioned earlier, we don't care if the stock moves higher or lower over time. We just need to see movement on good volume. TSLA should be one of the most active stocks again in 2021 which is why it will be a mainstay on our watch list.

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.

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. Netflix (Symbol: NFLX)

Overview: With the pandemic changing life for so many people in 2020, we were forced to get used to life stuck at home. Most entertainment sources revolve around the TV. One company that benefited from the lockdowns was Netflix as subscriber growth expanded at an impressive level.

The competition has picked up over the last 12 months but with NFLX being one of the first to the space, it has an advantage over all the newcomers. With no end in sight for the pandemic restrictions, we like the home entertainment space in 2021.

As a trading vehicle, NFLX is towards the top of my list of favorites. Like many of the other tech names, it has a history of big price movement back and forth. The Weekly ATR (Average True Range) has been between $30 - $45 over the last 6 months which gives us plenty of movement to work with.

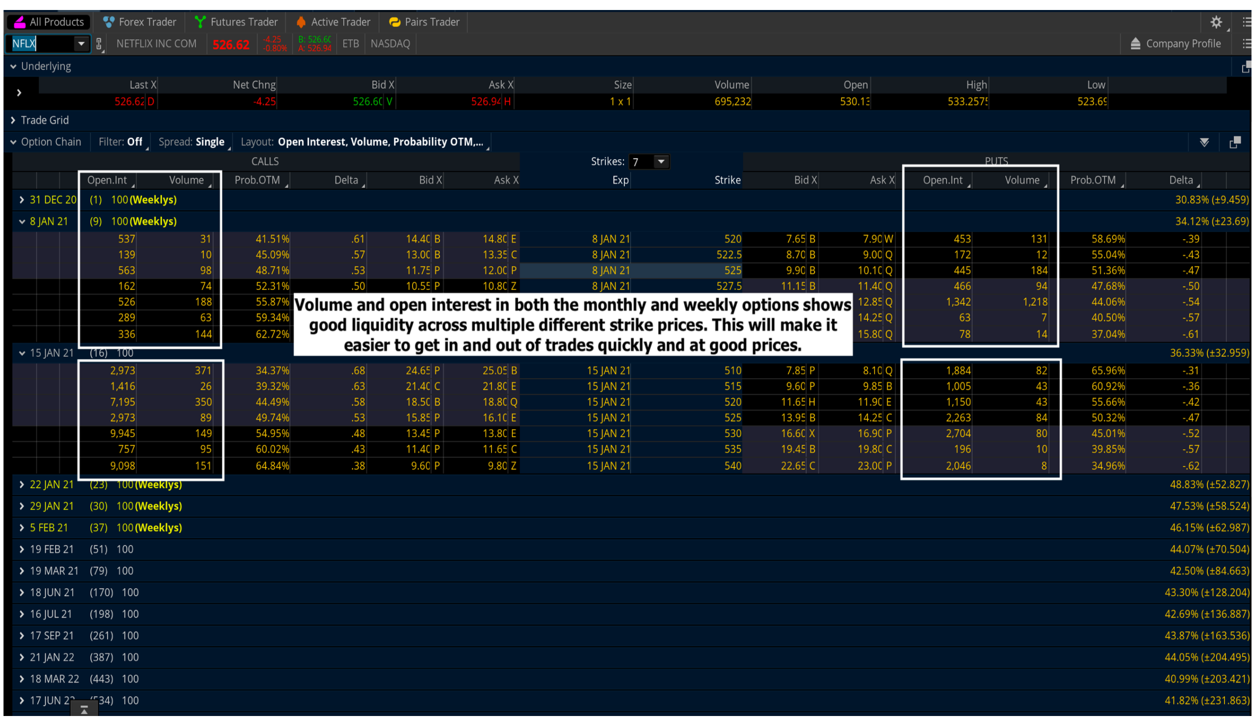
As an options trader, I don't mind if stocks trend in one direction or the other. However, I much prefer stocks that show volatility over time. NFLX is one of those stocks that doesn't like to stay quiet for long which makes it attractive to active traders.

Not only is the stock active in both directions, but it also has good liquidity in its options. Both the weekly and the monthly options provide opportunity on a regular basis. In fact, I use a combination of the weekly and monthly options to take advantage of the short term moves back and forth.

I do like to use a combination of debit and credit spreads on NFLX. We are able to lower the cost of the trades through the use of vertical spreads. The credit spreads allow me to place trades on NFLX 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.

Price Movement:

Options Liquidity:



5. Roku (Symbol: ROKU)

<u>**Overview:**</u> We talked earlier about NFLX benefiting from the pandemic lock downs that we have been dealing with since spring of 2020. The same can be said of ROKU. With many consumers stuck at home for both work and entertainment, we see products like ROKU and NFLX continuing to dominate the entertainment landscape.

Even before the pandemic hit, we saw the cord cutting trend really picking up steam. That has only intensified as consumers change the way they view content. They want instant access to their choice of TV shows and movies both on their in-home devices as well as mobile devices. ROKU has been a leader in providing these services for the last number of years.

The stock is also very active on a regular basis with a Weekly ATR ranging from $18-$30 over the last 12 months. This gives us plenty of movement to work with on a weekly basis.

ROKU also has very liquid options in both the weekly and monthly expiration cycles. This opens up our playbook to use a variety of different options strategies.

We prefer to trade ROKU using options with 20-40 days left to expiration. With an elevated stock price over $300/share, we use more vertical spreads on this stock. The spreads will help us lower the cost of the trades by 30-60% in many cases when compared to trading long calls and puts. The spreads also give us 5 ways of making money on the trades which provide a more forgiving approach.

Price Movement:

Options Liquidity:

6. Chewy (Symbol: CHWY)

Overview: At this point in our Top 21 list you are probably starting to notice a trend developing. We are looking to trade stocks that are heavily influenced by the ongoing pandemic facing global markets. Many of these names have seen stock prices soar due to changing trends in consumer behavior. Yet another stock that has seen their business grow exponentially is Chewy.

CHWY is an online pet store providing easy shopping for pet food, meds, and toys. With most consumers looking to avoid the crowds of traditional retail shopping, online stores like CHWY have been the benefactors. Even when money gets tight, consumers will do whatever it takes to take care of their pets.

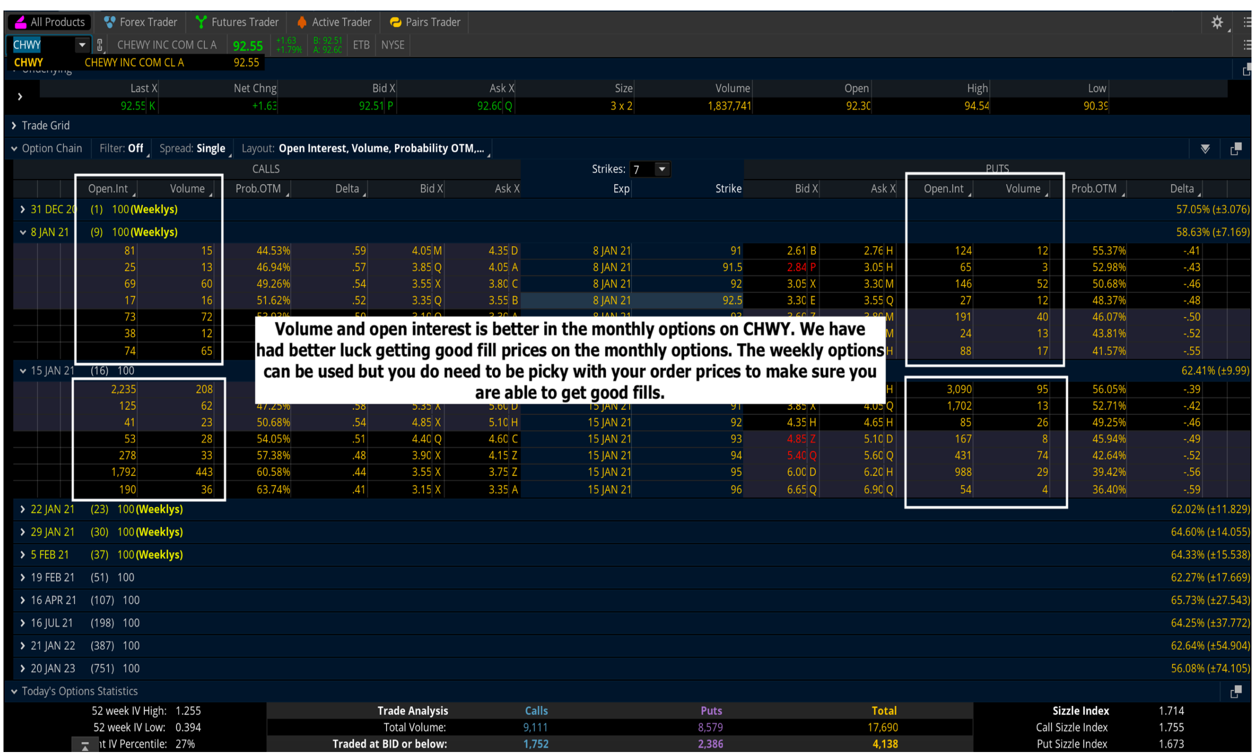
CHWY stock price is up over 300% this year alone. Not only has the stock price jumped, but the liquidity in the options has also expanded making it a great stock for active options traders. The Weekly ATR (Average True Range) has expanded from $1.50 early in 2020 to over $5 currently. This provides great movement to work with on a regular basis.

CHWY does offer weekly and monthly options but you need to be careful when using the weekly expiration cycles. The weekly options don’t have great liquidity in many cases. This can make it difficult to get in and out of trades quickly and at good prices. We have found better success trading the monthly options when possible. The volume and open interest are at much better levels making it easier to get fills on trades.

We have used a wide range of strategies on CHWY over the last 10 months. We will use the occasional long call or long put depending on market conditions. We also love to use credit spreads as they provide a higher probability of success while using less capital.

Price Movement:

Options Liquidity:



7. PayPal (Symbol: PYPL)

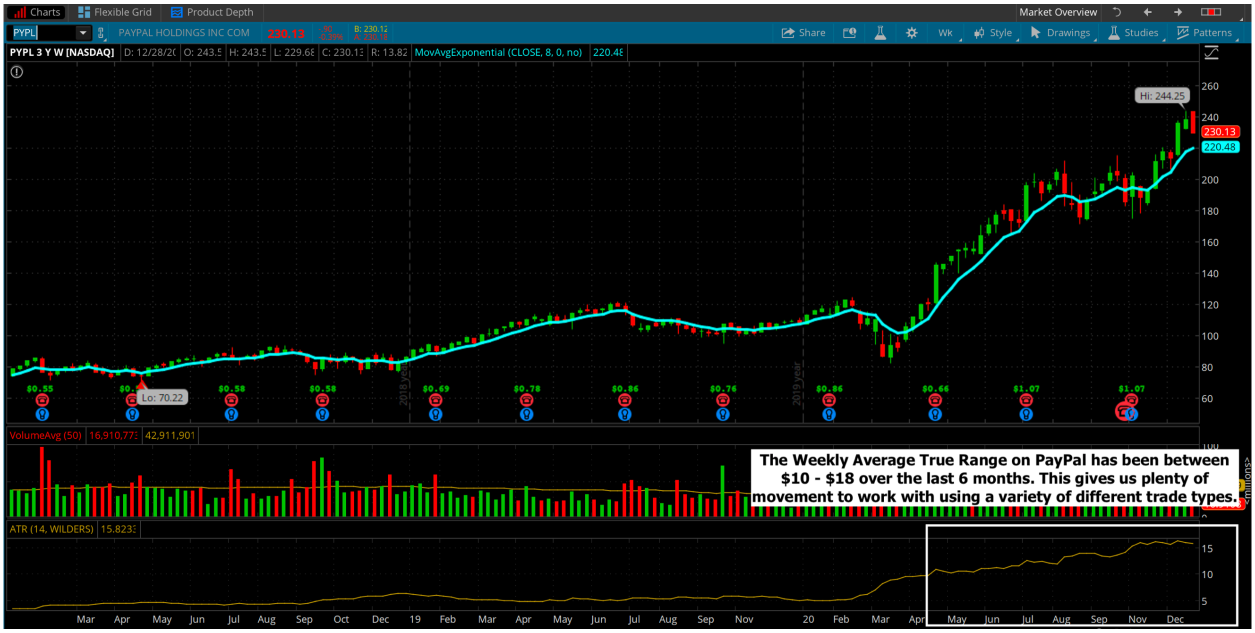
Overview: Another stock that has benefited from the unfortunate circumstances around the pandemic is PYPL. With the lockdowns taking center stage for most of 2020 along with the stimulus payments that were made earlier in the year, consumers shifted their focus to online shopping. Online payment processing will continue to be an area of growth in 2021 as the changing shopping habits are here to stay.

Like many other tech stocks, PYPL saw an impressive move higher in 2020 as the stock more than doubled. We are now left with an overbought stock going into 2021. I point this out as we expect the stock to have better two-way price action going forward.

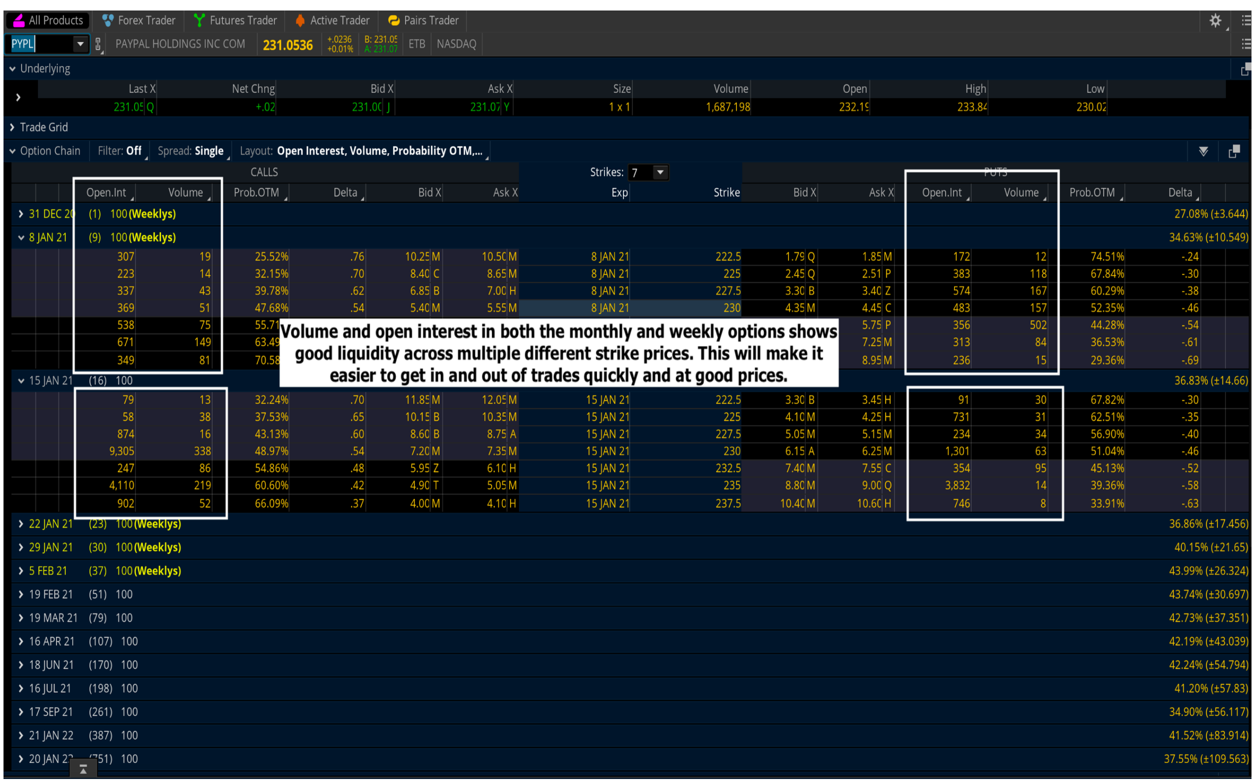
PYPL gives us a stock that has exposure to the tech sector but at the same time is different enough that it provides another layer of diversification. I like this stock over the mainstay credit card companies like Visa or Mastercard as it gives us more exposure to the tech sector.

The liquidity in PYPL options have improved over the last 8 months. Both the weekly and monthly options are fair game to use. We use a mix of different options strategies on PayPal. We do trade a lot of long calls and puts but also a fair amount of credit spreads as well.

Price Movement:



Options Liquidity:



8. Nasdaq ETF (Symbol: QQQ)

Overview: Most traders get so focused on trading individual stocks that they miss out on the great opportunities that ETF's present. Trading individual stocks is a big part of what we do on a weekly basis.

However, there are times where I would rather be in an ETF as it provides me instant diversification. We are able to get exposure to an entire index, sector, or region of the world by trading an ETF.

The Nasdaq ETF (Symbol: QQQ) is one of the most liquid products in the world on a daily basis. The volume and open interest make QQQ one of the easiest names on our list to get in and out of trades quickly and at good prices.

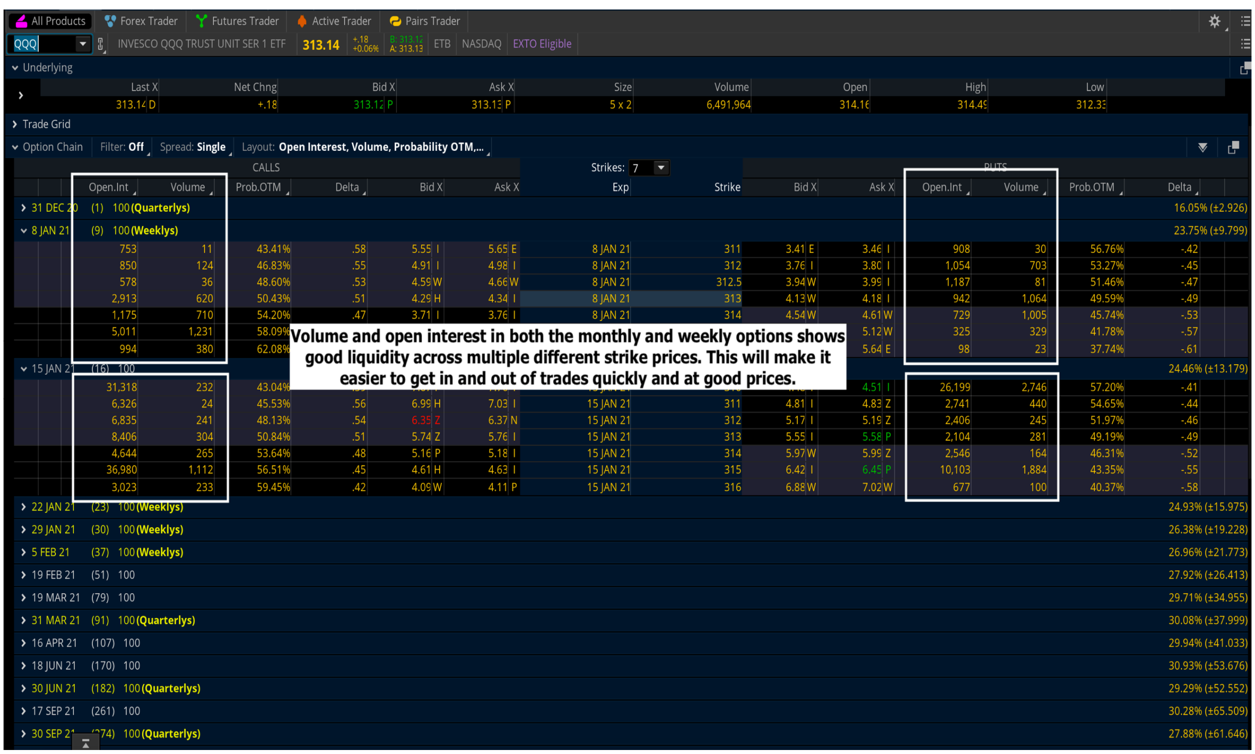
The Nasdaq has led the charge on the upside for the last few years. As a result, many of the individual Nasdaq stocks are left at very lofty stock prices making it difficult for smaller retail traders to work with. The ETF's can lower the cost of the trades by 40-60% in many cases while providing another way of getting exposure to the overpriced individual stocks.

I also find it very beneficial to have an ETF on the list during earnings season when I don't like to trade individual stocks as much or around different holidays when price action can get a little less predictable.

QQQ gives us the ability to trade weekly and monthly options with no problem. It also allows to use any type of options strategy. I will use long calls and puts as well as vertical spreads (both debit and credit spreads) depending on market conditions.

Price Movement:

Options Liquidity:



9. Etsy (Symbol: ETSY)

Overview: Yet another pandemic success story is ETSY. While the pandemic has made life very difficult on traditional retailers, the online retailers have been the big benefactors of the changing shopping habits for most consumers. More and more shoppers are looking for ways to shop from the safety of their homes.

Not only have the shopping habits changed in a big way, but ETSY has also provided a way for people to generate another source of income by selling their creative products online. As a result, ETSY stock is up over 400% since the beginning of 2020.

Not only has the stock price risen, but the volumes have expanded as well making ETSY an active stock for many traders. The Weekly ATR (Average True Range) has moved from $8 back in early 2020 to over $20 currently. This type of range makes the stock an ideal candidate for options traders.

While ETSY does offer both weekly and monthly options, we have found the monthly options to be easier to trade. They have better liquidity when compared to most of the weekly cycles. If you are going to use the weekly options, we prefer to do so with the cycles that have 20-40 days left to expiration.

We have used a wide range of options strategies on ETSY over the last 8 months. This has included both long calls and puts as well as vertical spreads. With the stock price above $170, we have preferred to use more vertical spreads to take advantage of the cost savings. The spreads will also provide a higher probability of success which is important in today’s markets which can change in the blink of an eye.

Price Movement:

Options Liquidity:

10. Disney (Symbol: DIS)

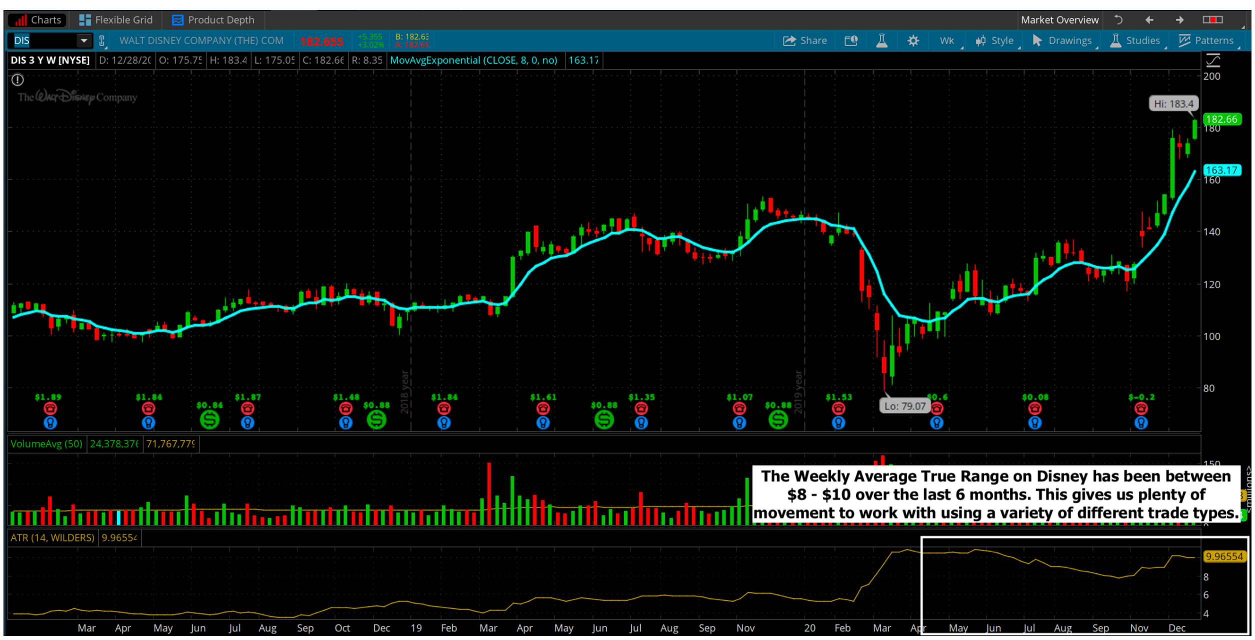
__**Overview:**__ We have talked about the success of online retailers over the last 9 months. At initial glance, you wouldn't think a company like Disney would fall into that category. Many of their brands have been negatively impacted by the pandemic. Their theme parks have battled through shutdowns and smaller crowds when they are open. Sports have seen schedule interruptions and shorter seasons which have led to challenges for ESPN as well. Movies have also seen a significant slowdown with no end in sight as well.

Even with all of the factors mentioned above in play, DIS stock has reached new all-time highs over the last few months. The stock has more than doubled off the March 2020 lows after the pandemic really picked up.

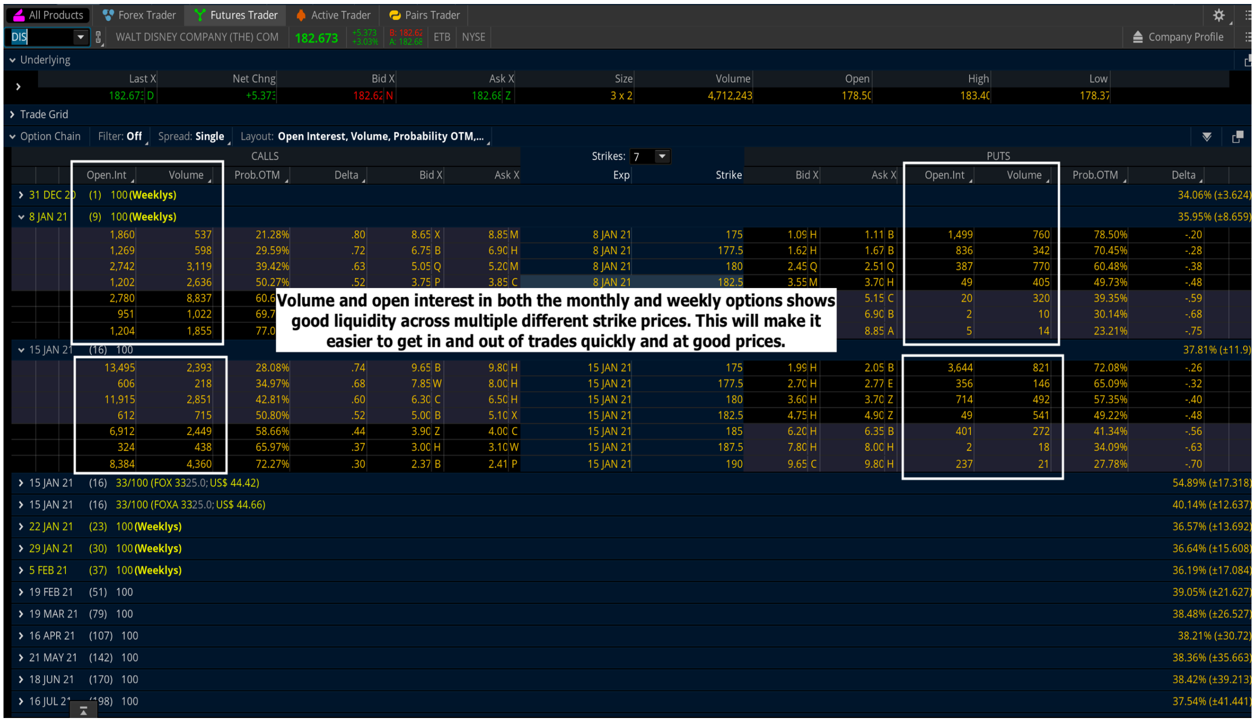
All of these factors have changed the way DIS stock trades. We have seen the Weekly ATR (Average True Range) range from $8 to over $10 currently. This provides active options traders plenty of movement to work with.

DIS has good liquidity in both the weekly and monthly options which gives active traders the flexibility needed to react to different types of market conditions. We trade more monthly options on DIS over the weekly cycles. We will also use a wide range of strategies including long calls and long puts as well as vertical spreads. The volatility won't be as high as some of the tech names but there is still plenty to do on a regular basis using DIS options.

Price Movement:



Options Liquidity:



11. S&P 500 ETF (Symbol: SPY)

<u>Overview:</u> While the individual stocks can provide great volatility to work with, it's important to not overlook the opportunities that the ETF's can present. The ETF's can provide a great way to get instant diversification. The index ETF's like SPY and QQQ also happen to be some of the most liquid products available to trade on a daily basis as well.

The S&P 500 ETF (Symbol: SPY) is the most liquid product on a daily basis. You will often find the bid/ask spreads on SPY options between .01-.03 wide making them very easy to trade. This can be crucial especially in an active market. The tight markets make it easier to get faster fills at better pricing.

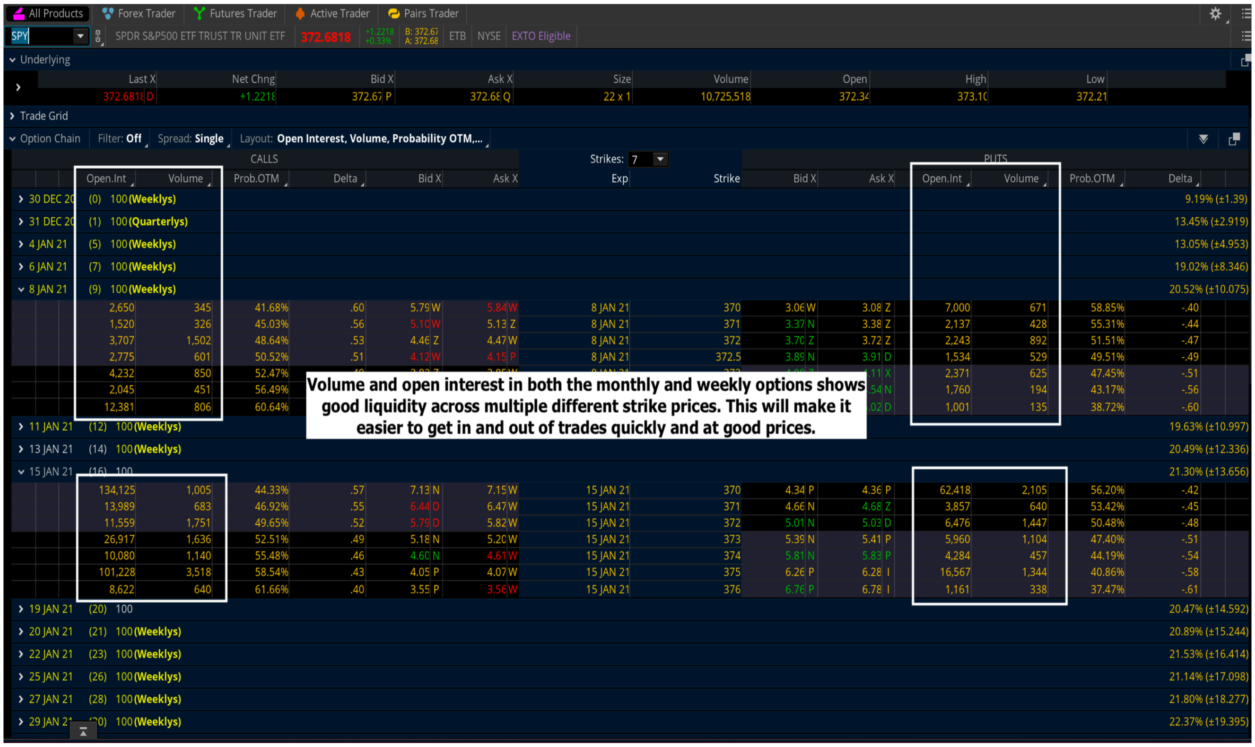
The Weekly ATR (Average True Range) on SPY has contracted in the second half of 2020 from over $20 earlier in the year down to $12 currently. There is still good range to work with at the moment which opens the door to using long calls and long puts. However, we have been trading a lot of credit spreads the last few months as they provide more forgiving trades with a higher probability of success.

SPY has very liquid weekly and monthly options. You can trade any cycle you want without running into any issues getting fills on your trades. We will use SPY options many different ways including Overnight Pop trades going into options expiration as well as longer term directional trades using monthly options with 30-60 days left to expiration.

It's not uncommon for us to have 2-4 different types of trades on SPY at any given time. The great liquidity makes it a favorite product for all retail traders. Regardless of market conditions, we plan on keeping SPY at the top of our watch list in 2021.

Price Movement:

Options Liquidity:



12. Russell 2000 ETF (Symbol: IWM)

Overview: We just got done singing the praises of SPY as a great index ETF to trade. While not as liquid as SPY, the Russell 2000 ETF (Symbol: IWM) is another index product that we expect to be very active in 2021. The small cap stocks that make up IWM have had an incredible run in 2020 leading to new all-time highs in the 4th quarter. Going into 2021 we expect more two-way price action to work with which makes IWM and ideal candidate for our style of trading.

We love the ETF's for the diversification that they provide. A good portion of our Top 21 watch list is made up of the big heavy hitting stocks like AAPL, FB, and TSLA. We love having IWM on our list as it gives us exposure to a completely different segment of the market. That diversification is going to be very important going into an uncertain new year in 2021 for markets.

The Weekly ATR (Average True Range) has contracted from over $12 back during the volatile stretch in spring of 2020 to under $9 currently. We fully expect that range to expand again in the 1st quarter of 2021. If we get a pullback off the all-time highs, we will see that Weekly ATR number pick back up above $10 which will open up our options playbook to include a wider range of strategies.

While not as active as SPY, the IWM options have plenty of liquidity for us to work with in both the weekly and monthly options. We are most active with the expiration cycles that have between 20-40 days left to expiration.

We will use a wide range of options strategies when trading IWM depending on market conditions. This includes long calls and long puts, debit spreads, and credit spreads. Our preference is to use more credit spreads as they allow us to better control our risk and also provide a more forgiving trade with a higher probability of success.

Price Movement:

Options Liquidity:

13. JPM Morgan (Symbol: JPM)

<u>Overview:</u> We often talk to our traders about how difficult it is for the market to move without the financials participating. They don't need to always lead the market higher or lower, but they do need to participate in the move if the market is going to make a sustainable run in either direction.

One of our favorite financial stocks to trade is JP Morgan (Symbol: JPM). With interest rates at zero you would think the banks would have a hard time hitting their numbers. However, the financial stocks have joined in on the run higher in recent months.

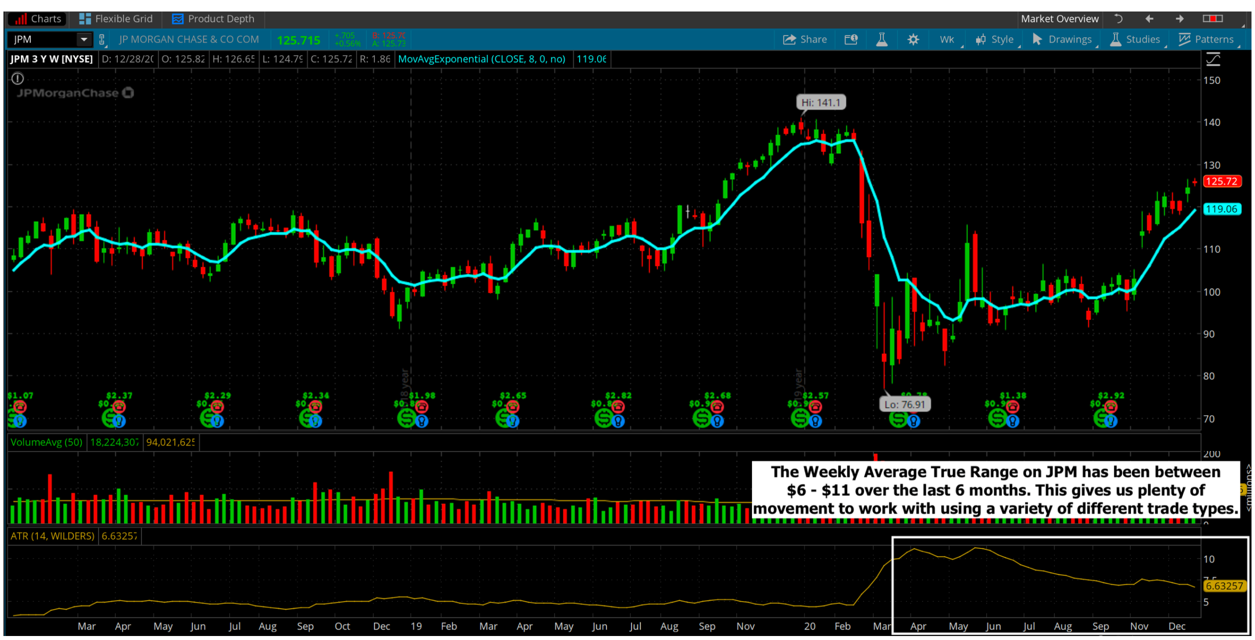
We like JPM as a trading vehicle for a few reasons. First, it has decent liquidity in the options. Second, it's not an overly volatile stock. We don't need to babysit our trades on the financial stocks like we do on the volatile tech stocks.

We did see a short-term spike in the Weekly ATR (Average True Range) back in spring of 2020 to over $11. Since then we have seen a steady decline to down below $7 currently. This has us more interested in using credit spreads in most cases on JPM. Since we don't get the big moves in a matter of days like we do on the tech stocks, we prefer to put the time decay in our favor with the credit spreads.

JPM does have both weekly and monthly options available. However, we have found much better success with the monthly options over the years. We prefer to use the options that have between 30-50 days left to expiration as they tend to have the best liquidity in the options.

Going into 2021, we fully expect JPM to be a leader inside of the financial sector. If you need a lower priced financial stock on your watch list, we like to trade Bank of America (Symbol: BAC) as well.

Price Movement:



Options Liquidity:

14. Electronic Arts (Symbol: EA)

<u>Overview:</u> Another huge benefactor of the pandemic has been the gaming sector. With so many consumers stuck at home looking for new sources of entertainment, the gaming stocks like Electronic Arts have seen their sales explode higher. We have seen shortages of gaming consoles going back to spring of 2020 with no end in sight.

The EA stock price has jumped off the lows back in March around $84/share to over $140 currently. We have also seen the Weekly ATR (Average True Range) expand as well from $5 earlier in 2020 to over $7 currently. This makes is a great stock for active options traders looking for movement back and forth.

We do expect volatility to pick up in Q1 of 2021 and if that happens, we should see many of these pandemic stocks pull back off their highs. However, as active traders we don’t care if the market moves higher, lower, or sideways. As long as we are trading liquid markets there is always something we can do.

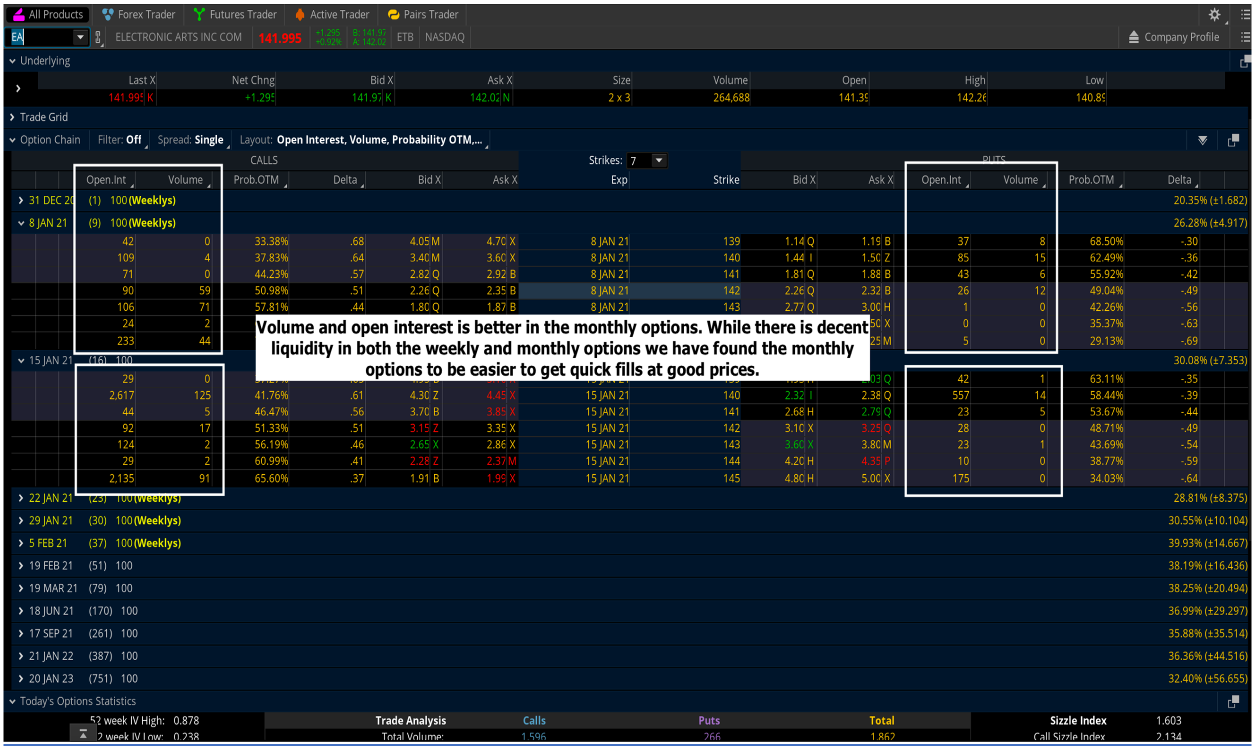
While we love the fundamental outlook for EA long term, the stock did get ahead of itself on the upside. We are expecting a pullback to the downside before the next run higher.

EA won’t have near the liquidity in the options like AAPL or FB, but we haven’t had any trouble getting fills on trades over the last few months. We prefer to trade the monthly options over the weekly options due to the higher volume and open interest in the monthly cycles.

We have also used a mix of different options strategies on EA over the last number of months. This includes long calls and puts, debit spreads, and credit spreads. We plan on keeping EA on our watch list for most of 2021.

Price Movement:

Options Liquidity:



15. Energy ETF (Symbol: XLE)

Overview: We are always looking to make sure we have a diversified watch list of products that we are trading. It's important to have many different sectors represented on the list. One important area that we like to have covered is the energy sector. Energy prices have been all over the map over the last year in reaction to the pandemic lock downs changing the transportation habits of many consumers.

With the continued economic uncertainty going into 2021, we expect energy prices to remain very active. With all the global stimulus being thrown at the markets, we expect the commodities markets to remain very active going into next year. We have already seen many of them recover off the March lows and that is a trend we see continuing going into 2021.

One of the easiest ways of getting exposure to different sectors is through the use of ETF's. The Energy ETF (Symbol: XLE) is a great way to stay active in the energy sector. At $37/share, it is a reasonably priced product for all account sizes. It won't provide the wide daily ranges that you will see on the tech stocks, but it provides plenty of opportunity in both directions on a regular basis.

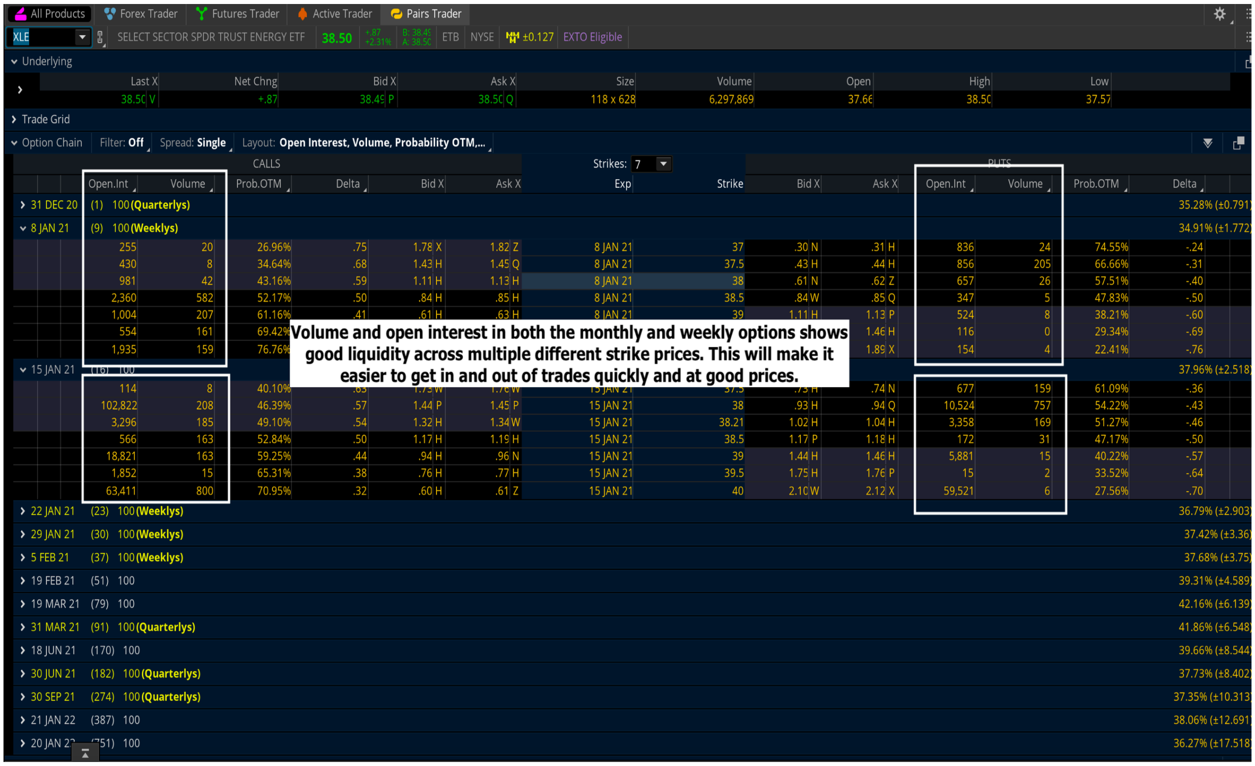
The Weekly ATR (Average True Range) is currently sitting just over $3. For a $30 stock this is a decent range to work with. It does have very liquid options to work with as well especially in the monthly cycles.

We trade primarily with the monthly options on XLE. While you can use the weekly options, you need to be picky with your orders to make sure you are getting good pricing. We have had some issues with wide markets in the weekly XLE options due the lower volume and open interest numbers. We have found the best success using the monthly options with between 30-60 days left to expiration.

We trade a lot of long calls and puts with XLE options. We will also use credit spreads at times as well as long as there is enough premium in the options.

Price Movement:

Options Liquidity:



16. Chevron (Symbol: CVX)

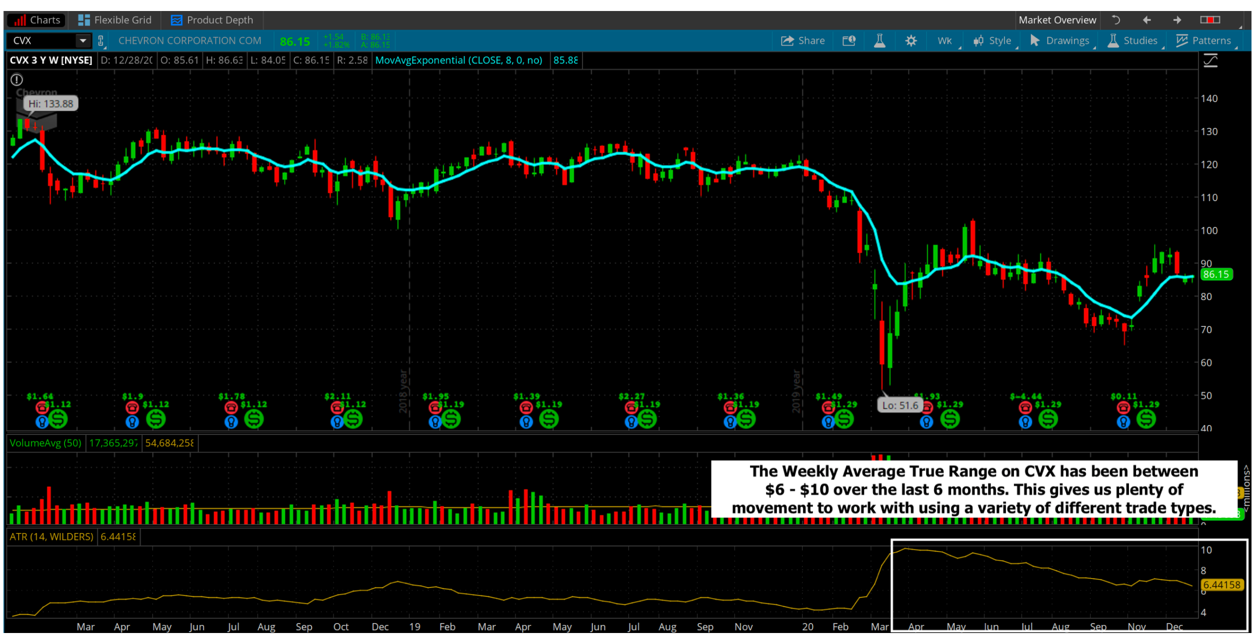
<u>Overview:</u> While we just talked about having XLE on our watch list representing the energy sector, we want to have a second energy stock on the list as well. We are going to add an individual energy stock to the list by using Chevron (Symbol: CVX).

We like CVX for a few reasons. First, we expect the commodity markets to remain very active going into 2021. The energy sector should see some really nice back and forth price action for most of the year. Second, CVX is a reasonably priced stock at $80/ share. As a result, the option prices are very doable for retail trades when compared to the high-priced tech stocks.

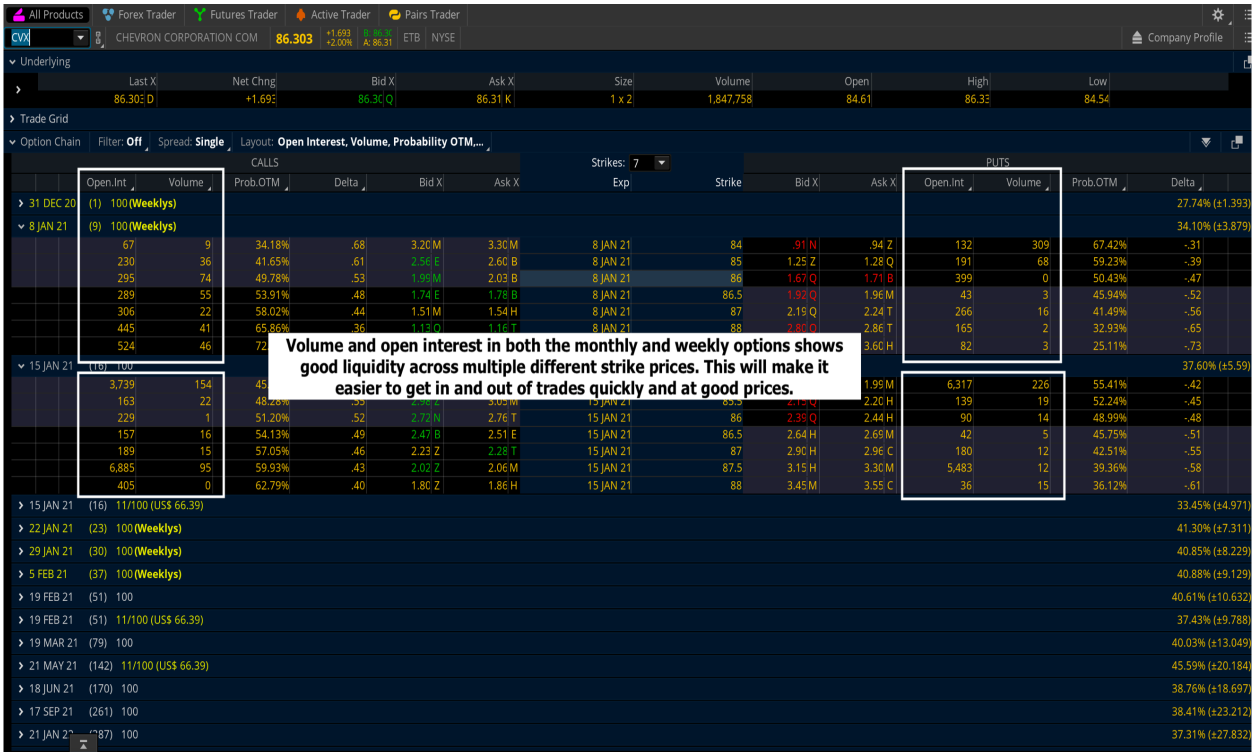
CVX isn't the most volatile stock on our list but does have enough action for us to remain active. The Weekly ATR (Average True Range) is currently sitting at just over $6. This provides enough price action for us to use a wide range of options strategies including long calls and puts as well as debit and credit spreads depending on market conditions.

This is another product that we have had better success with the monthly options. They have better liquidity when compared to the weekly cycles. We prefer to use the monthly options that have between 30-60 days left to expiration.

Price Movement:



Options Liquidity:



17. Retail Sector ETF (Symbol: XRT)

Overview: The retail sector was red hot for most of 2020 as the stimulus money pumped into the economy was put to good use. As a result, many of the retail stocks are going into 2021 near their highs. There is a tremendous amount of good news already priced into this sector. The reason I point this out is we are expecting a big shift in how the sector trades in 2021. We expect there to be better two-way price action across the board.

When stocks get priced to perfection, it's very common for price action to underperform going forward. While we don't expect the sector to crash, we do expect volatility to pick up which will present us with a great trading opportunity.

We could add a number of retail related stocks to our list as we expect the sector to be very active in the months to come. However, we like the opportunity that XRT gives us. Even with price moving from $26 back in March of 2020 up to over $65 at the end of the year, it is still a reasonably priced product. The options are very affordable for all retail traders.

The Weekly ATR (Average True Range) is at just over $3 currently. This provides another name on our list that isn't as volatile which makes it easier for us to track on a daily basis.

We trade a lot of monthly options on XRT instead of the weekly options. We like to look for between 30-60 days left to expiration. This is an ideal candidate for directional trades with long calls and long puts depending on market conditions. We also like to sell out of the money credit spreads to get the time decay working in our favor. Since XRT doesn't tend to make volatile moves on a weekly basis the time decay can add up in our favor with the credit spreads.

Price Movement:

Options Liquidity:

18. Bond ETF (Symbol: TLT)

Overview: With everyone focused on the monster moves that we have seen in the tech names over the last 9 months, it's easy to forget about some of the safe haven markets like bonds and metals. TLT is a bond ETF that we have traded for years with really nice success.

As central banks continue to pump trillions of dollars into the markets and with interest rates at zero, we do expect some good movement in bonds going into 2021.

TLT is a great product since it gives us exposure to the bond market without having to trade the futures markets. It has very liquid options in the monthly expiration cycles and decent activity in the weekly options as well. We find ourselves using more monthly options on TLT rather than the weekly cycles. The monthly options have better liquidity and also fit our average holding time better than the weekly cycles. We are typically looking for 30-60 days left to expiration when trading TLT options.

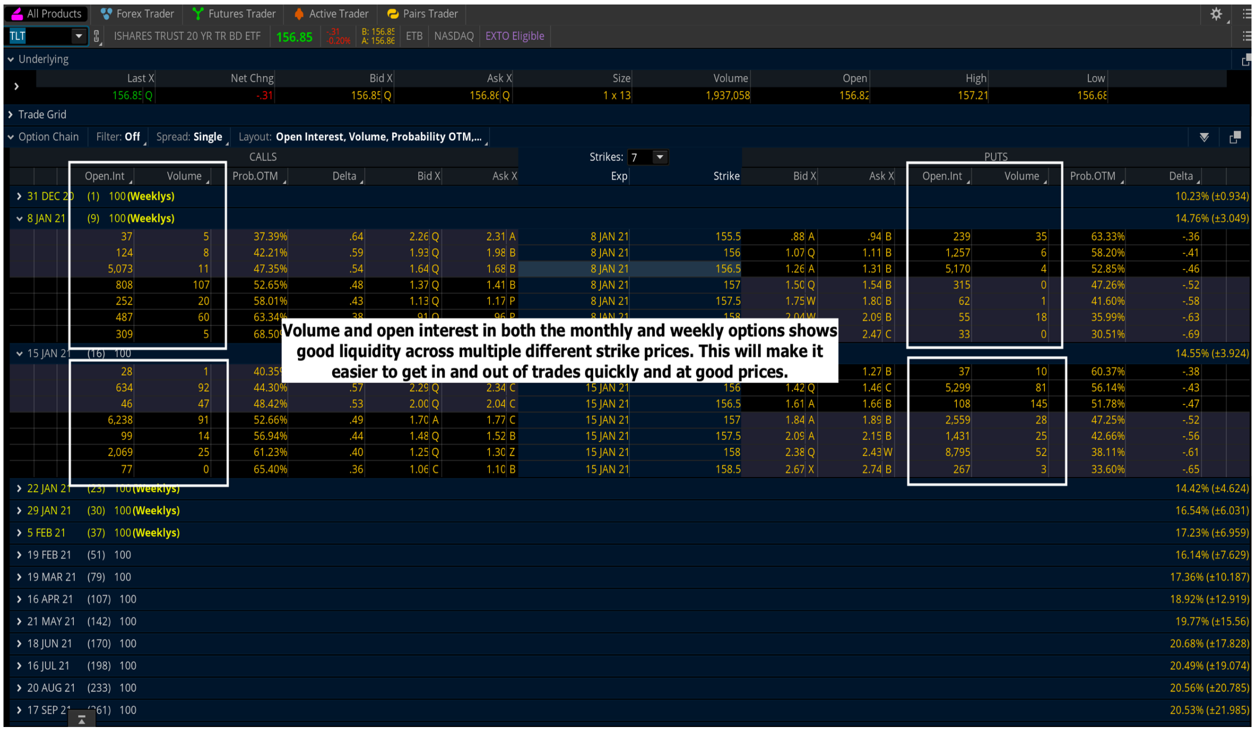
This is not a product that will have big movement on a weekly basis. The Weekly ATR (Average True Range) is around $4. While this can turn people off as it doesn't have the volatility that a product like TSLA has, this can be a really nice way to diversify your trading. It's very different than most other names on our list. It also gives us the opportunity to use more credit spreads to take advantage of the time decay that can add up from the slower movement.

Don't miss out on an opportunity for diversification with the ETF's. They can make a big impact on your bottom line at the end of the year.

iShares®

Price Movement:

Options Liquidity:



19. Gold ETF (Symbol: GLD)

Overview: Another ETF that we expect to be very active going into 2021 is GLD which is the Gold ETF. We have touched on the amount of money being thrown at markets worldwide to fight an economic slowdown due to the pandemic. Inflation numbers have already started to come to life, and we expect that to continue in the months to come.

We also have the dollar which has been absolutely crushed over the last year which could also impact how the metals trade in 2021. We like the prospects that both Gold and Silver present going forward but prefer to trade Gold.

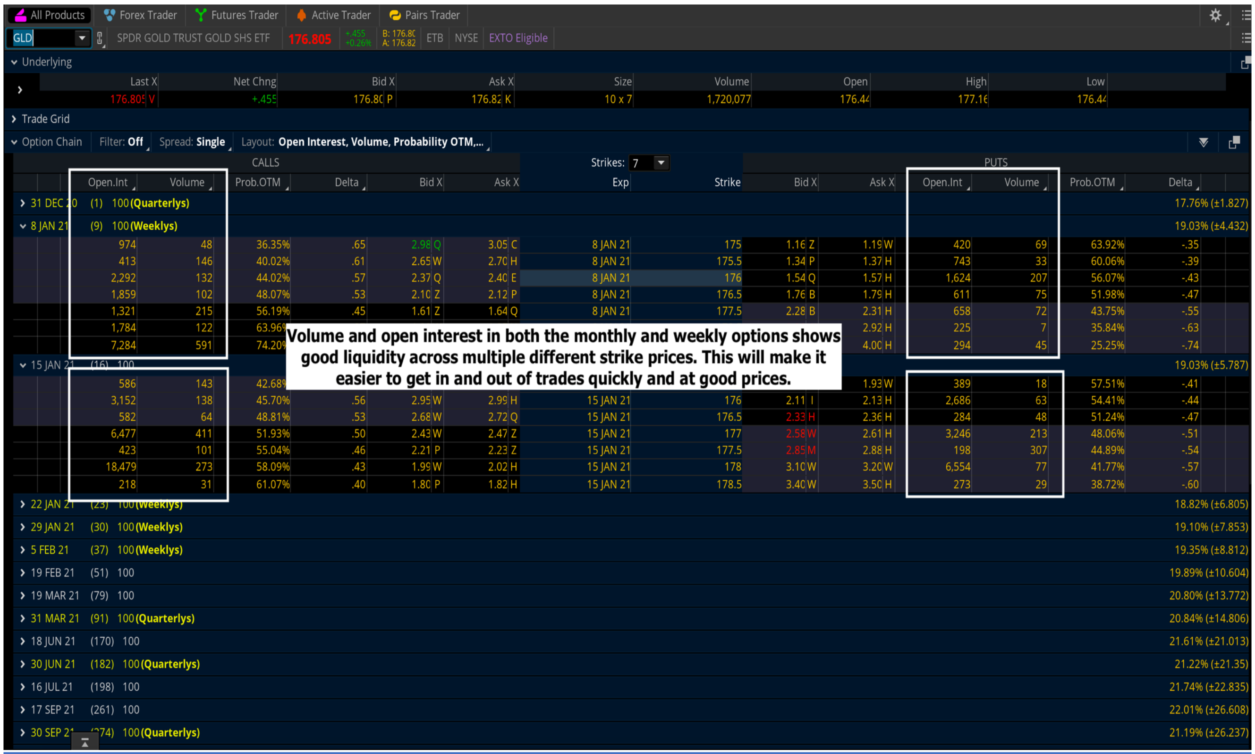
GLD can be a streaky product to trade. When it gets active it can be a great product to trade for months at a time. It can also get quiet and choppy for stretches as well. This is why it's important to have different options strategies in your toolbox. When GLD gets active it can produce some large moves that are great for long calls and puts. When price action gets choppy the credit spreads and iron condors can work really nicely as a way of generating income until price is ready to break out.

We have seen the range tighten up on GLD going into the end of 2020. The Weekly ATR (Average True Range) has contracted below $6. We are expecting a big move in Q1 which will give us big opportunities potentially in both directions.

We will use a mix of weekly and monthly options when trading GLD. We will also use a mix of options strategies including long calls and puts and credit spreads depending on market conditions.

Price Movement:

Options Liquidity:



20. Biotech ETF (Symbol: IBB)

Overview: We have touched on the economic impact of the pandemic, but we haven't touched on the health side of the situation. There has been much debate on the safety of the vaccines that have been produced. Regardless of how you feel about the vaccines, there is an opportunity for us as traders to benefit from the new technology being used to produce the vaccines.

IBB is an ETF tracking the Biotech sector that we have had success with over the last year. The tricky part about trading the Biotech stocks is they can be very news driven. They can be quiet for weeks at a time and then out of nowhere produce a bid directional move. By trading at ETF are able to filter out some of that overnight headline risk that you get with the individual stocks.

COVID-19 isn't going anywhere anytime soon. We are going to need new treatments to help fight this awful disease going forward. IBB is a product that will allow us as traders to stay active in an area that will be volatile in the months to come.

With the news driven nature of this sector, we like to take a conservative approach with our trading. We only use risk defined trades when trading IBB. We also like to use a lot of monthly options. Ideally, we are looking to trade the options with 30-60 days left to expiration.

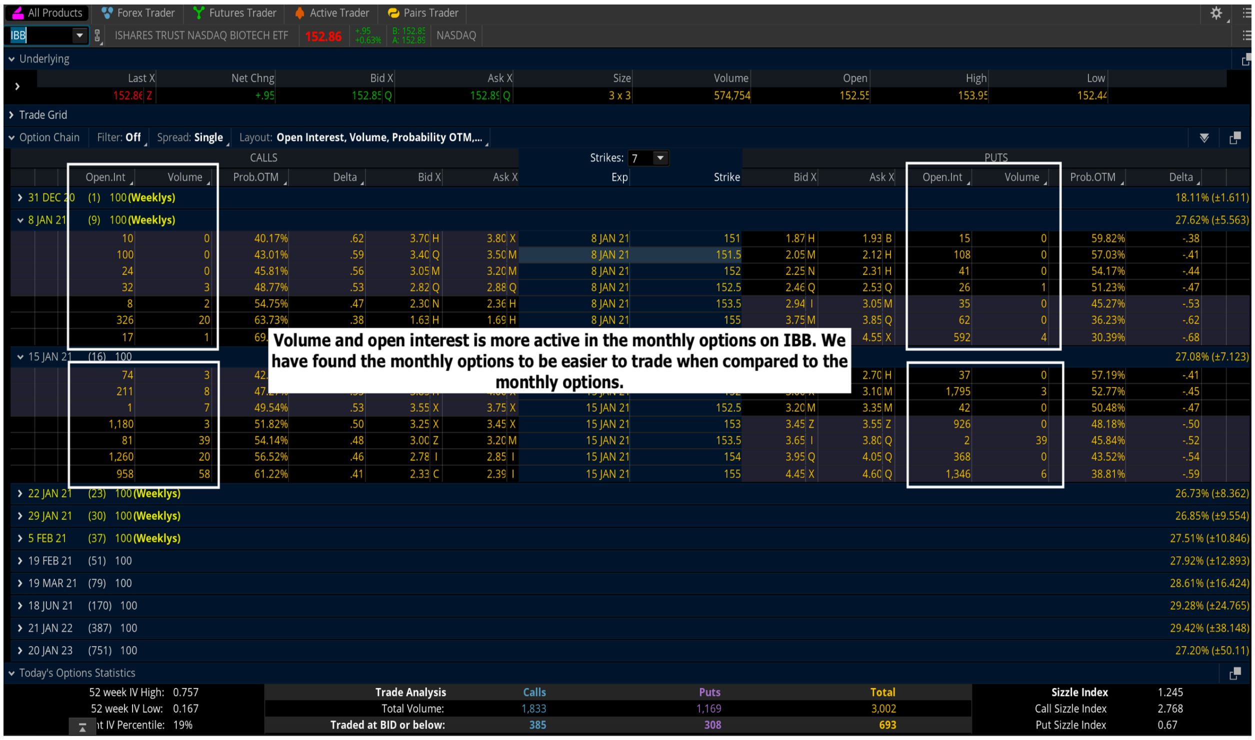
The Weekly ATR (Average True Range) has been between $6.50-$8 over the last 6 months. It is currently sitting at $6.80 which provides us with pretty good range to work with.

We will use a mix of options strategies including long calls and long puts as well as vertical spreads. We love to use credit spreads on IBB to get the time decay working in our favor.

iShares®

Price Movement:

Options Liquidity:



21. Costco (Symbol: COST)

Overview: One thing we all learned in 2020 when the pandemic hit was how quickly consumers overreact to uncertainty. We saw buying in bulk return in a hurry. As a result, retailers like COST thrived during the final 9 months of 2020. The stock rallied off the March lows at $263 all the way up to the all-time high at the end of the year at $386.

This is another stock that has a ton of good news already baked into the price. While this doesn't mean the stock can't move higher going forward, it does mean there is very little margin for error. Any further slowdown in the economy in 2021 can lead to volatility returning in a hurry.

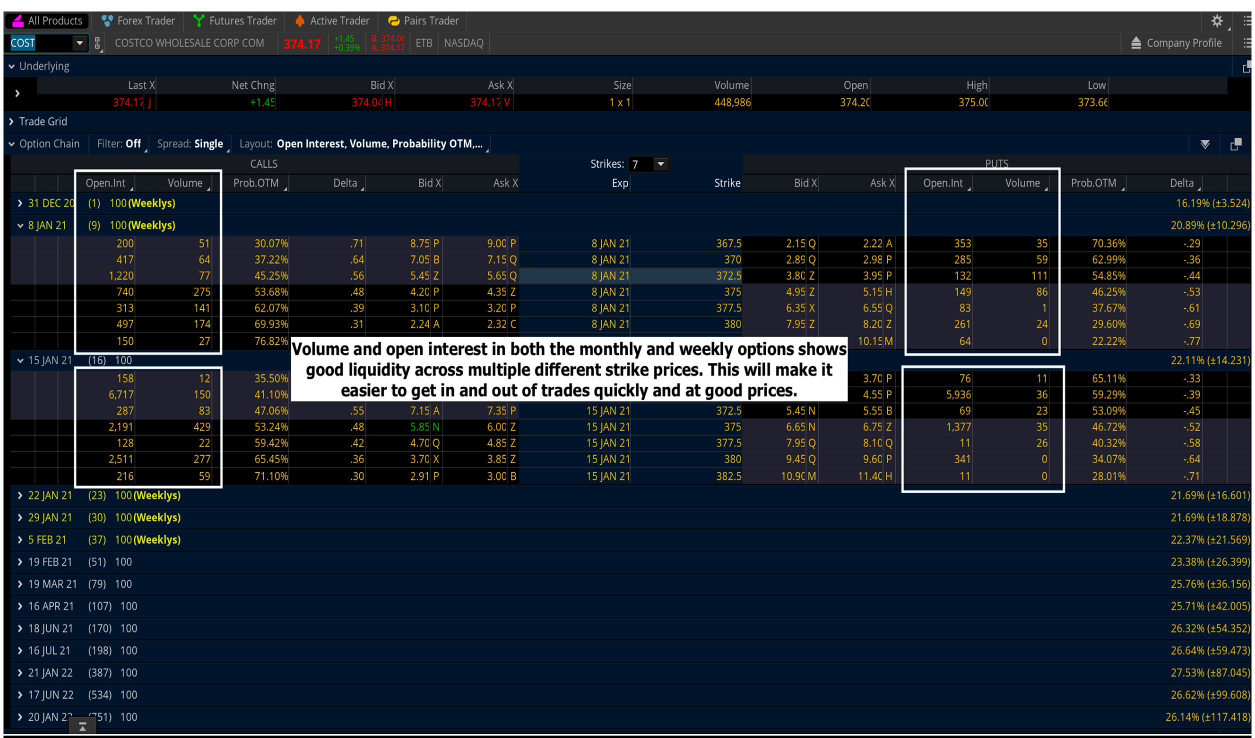
We expect COST to remain active for all of 2021. This doesn't mean we expect a continued one way move higher. There will be two-way price action to work with which is ideal for us active options traders.

The Weekly ATR (Average True Range) has contracted over the last few months but is still at a good number above $14. This gives us plenty of regular movement to work with.

We trade the monthly options in most cases on COST. While it does offer weekly options as well, they aren't nearly as liquid as the monthly options and can be more challenging to get fills on. The stock is approaching $400/share which means the options are pricey as well. We prefer to use vertical spreads in most cases as a way to reduce the cost of the trades by 40-60%.

Price Movement:

Options Liquidity:



NetPicks Options Top 21 for 2021 Hot List	
Symbol	Stock
AAPL	Apple
FB	Facebook
NFLX	Netflix
ROKU	Roku
CHWY	Chewy
ETSY	Etsy
PYPL	Paypal
DIS	Disney
SPY	SPDR S&P 500 ETF
QQQ	Invesco QQQ Trust
IWM	iShs Russell 2000 ETF
JPM	JP Morgan
EA	Electronic Arts
XLE	S&P Sel Energy
CVX	Chevron
TSLA	Tesla
XRT	SPDR S&P Retail
TLT	iShs 20+ Yr Treasury BD ETF
GLD	SPDR Gold Trust
IBB	iShs Nasdaq Biotech ETF
COST	Costco

How do we trade the Top 21 for 2021 Watch List?

Now that we have covered our favorite 21 stocks and ETF's for 2021, 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.

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.

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

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 compare 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, the targets, and the stop right there on the chart in real time.

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. 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 very difficult for me 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 we 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 NetPicks 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.

In most cases, we are going to be using the options that are 1-2 strikes In the Money. We can also use the Delta to identify the best option to take the trade with. We're ideally looking for the option with a Delta between 0.6 and 0.65.

The benefit of going farther In the Money is we can start to limit the effect of the time decay. The Gamma is also not as significant the farther In the Money that we go. This way, we start to build in a few layers of safety.

Why do I say one or two strikes In the Money? We will look at an example in just a second. The reason is to leave a little wiggle room there to account for liquidity. We want to make sure the option we are trading meets the criteria outlined in Step 2.

When deciding whether to go one or two strikes In the Money, in the grand scheme of things, it's not going to have a big impact on the P&L if you decide to go with one over the other. The difference there is one might clearly have better liquidity. It might have way more volume and open interest and if that's the case, that makes my decision easy. I always want to be trading the option contract that has the additional liquidity. That's going to allow me to get filled much faster and at better prices.

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 and 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 & 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.
   - Backtest
   - Get to know the stocks that you are trading

Long Call & Put Strategy Criteria

5. Time Left to Expiration
   - **Options Fast Track Trades: 20-40 days**
     - If VIX is above 15 then you can also look at the shorter term weekly options with 7-20 days left
   - **SPT Trades: 35-60 days**
     - If VIX is above 15 then you can also look at the shorter term options with 20-35 days left

6. Length of trade:
   - 1 week or less: delta of .50 (ATM) or .60-.65(1 strike ITM)
   - 1-3 weeks: delta of .60-.65 (1 strike ITM) or 1-2 strikes in the money. If one option clearly has more volume and open interest us that one.
   - More than a month: delta of .70-.75 (2 strikes ITM)

7. Manage the trade according to your trade plan.

Vertical Spreads

Why would we trade a spread?

Because a 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 January monthly options for a Vertical Spread, you will use the same January 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 use 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.

The max risk on the trade is whatever we paid for the spread. In the example above, since we paid $2.00 for the spread our risk would be $200 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 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.

When do we use this trade? When we're bullish 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. 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? As we mentioned earlier, 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.

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? As we mentioned earlier, 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. There's another P&L graph just showing you the limited profit potential with the defined risk as well.

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 a 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.

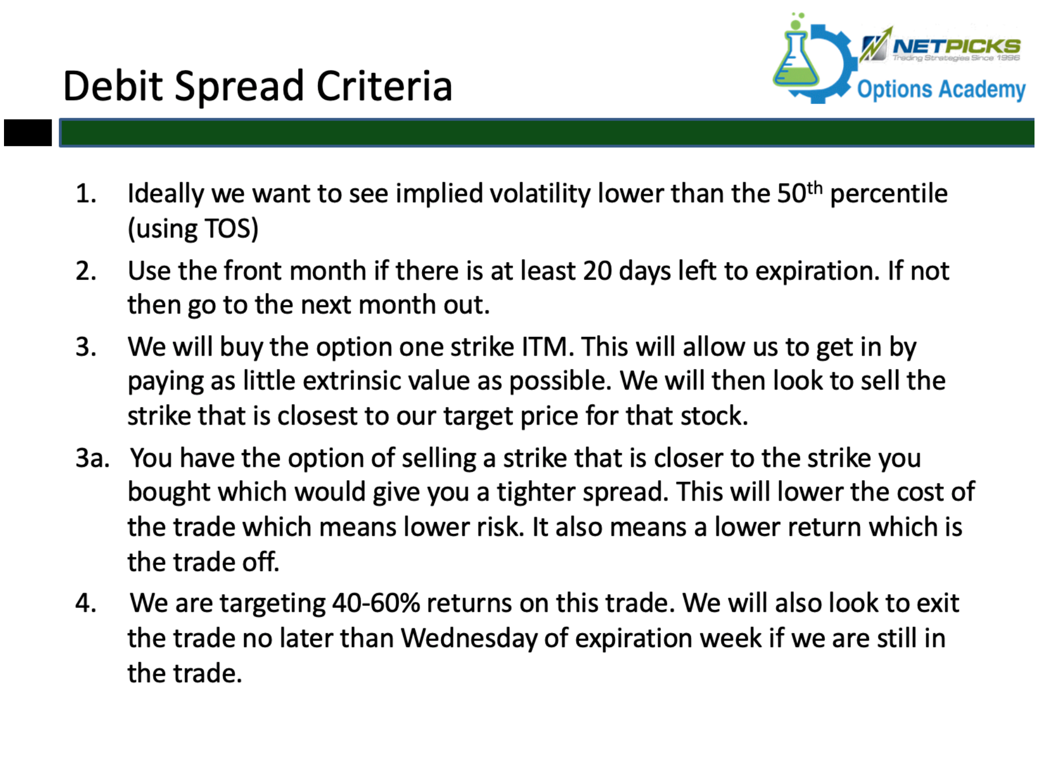
It's not the end of the world. It's just it's not the perfect scenario where everything is lining up in our favor. When selling low volatility, you won't have as much wiggle room if the trade moves against you. The breakeven point will be closer to the current stock price. When the volatility is low like it is now, 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 just 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 40 days left to expiration, but even more so than that, I’m ok if we have 2x our average holding time left before expiration. Let’s talk about this in more detail by looking at an example.



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.

Credit Spread Criteria

1. Use the front month if there is at least 20 days left to expiration. If not then go to the next month out.
2. 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
3. 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?


What strategy is best?
Most Conservative
-Credit Spreads
-Lowest risk
-Lowest reward
-Highest probability of success
-5 ways of making money
More Conservative
-Debit Spreads
-Lower cost by 30-50%
-Lower reward potential
Most Aggressive
-Long Calls and Puts
-Most profit potential
-Most Risk
-1 way of making money

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 Nasdaq 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.

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