FREE

The DYNAMIC DUO

ONE DAY OPTIONS TRADES

NETPICKS
Trading Strategies Since 1996

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In reality, the results do not represent the track record of the methodology originator or subscribers. This also means there is no guarantee that one applying these methodologies would have the same results as posted. Since trading successfully depends on many elements including but not limited to a trading methodology and trader's psychology, our website does not make any representation whatsoever that the above-mentioned trading systems might be or is suitable or profitable for you.

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.

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.

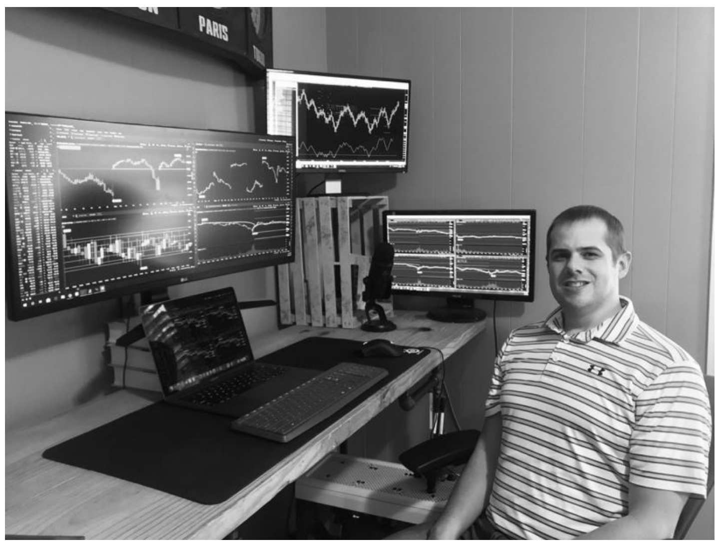
Traditional options: Certain member firms under special exchange rules write a particular type of option called a ‘traditional option’. These may involve greater risk than other options.

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 share one of my favorite income generating strategies that you can use on our 2 favorite markets in just minutes each day and using less than $200 of capital.

The great news is this entire strategy is part of a done for you service called the Overnight Pop Trades program. In this service we send you exact trade recommendations each week following the criteria outlined in this eBook. That way you can stay active in the markets through trading options in just minutes a day following our trade instructions. You don't have to worry about the research and trade selection. We will be sending you more details about this done for you program in the coming days.

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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Michael Jordan and Scottie Pippen

Shaquille O'Neal and Kobe Bryant

Jerry Seinfeld and George Constanza

Batman and Robin

Larry Page and Sergey Brin

Over time, we have certainly seen many dynamic duos in sports, entertainment, and business. The ones mentioned above represent some of the most successful dynamic duos of the last 50 years. It's amazing how just 2 people can have a drastic impact on the business world and pop culture.

With markets so focused on the actions of the Fed, one of the top issues facing traders is knowing which stocks to trade. It's easy to find yourself spending dozens of hours on a weekly basis trying to determine which markets you plan on trading next. Instead of getting stuck in that trap, we prefer to focus our attention on a few markets that we know move well each week and have great liquidity in the options.

As an active options trader for almost 20 years now, I am always looking for the best markets to trade on a regular basis. Looking over all the trades that I have taken since 2002, there are 2 markets that are consistently at the top of my list of best performers.

This dynamic duo of ETF's has become a core focus of our options trading at NetPicks. The 2 products are the S&P 500 ETF (Symbol: SPY) and the Nasdaq ETF (Symbol: QQQ).

SPY and QQQ are two of the most liquid markets to trade as they have good volume and open interest in both the weekly and monthly options. They are also unique in that they both have options that expire daily each week. This gives us 5 different opportunities to use our favorite Overnight Pop Trades each week.

Before we get into how we take the trades on the Dynamic Duo, we need to establish how these 2 markets work. What underlying stocks drive the movement? How has the performance looked the over the last 12 months? How liquid are the options? The answers to these questions will allow us to better structure our options trades.

With this in mind, we are going to take a closer look at SPY and QQQ so we can trade these ETF's with more confidence. We will also walk you through the exact criteria that

we look for in the chart patterns along with how we select the proper options to take the trades with.

Let's go ahead and dive in.

S&P 500 ETF (Symbol: SPY) - Data You Should Know

Overview: SPDR S&P 500 (Symbol: SPY). The SPDR S&P 500 is an ETF that tracks the performance of the S&P 500 index. SPDR stands for the Standard & Poor's Depository Receipts.

While some traders like to trade options on the SPX which is the S&P 500 cash index, we prefer to trade SPY as the ETF is much cheaper and easier to trade for retail traders. SPY is 1/10 the size of SPX which makes the options much less expensive as well.

Performance: SPY does provide a good snapshot for overall market performance. The ETF is down 15.78% year to date. It is down 14.45% over the last year and up 10% over the last 3 years. While not as volatile as the individual stocks, it can produce good movement back and forth which is ideal for options traders.

Components: SPY does track the performance of 500 individual stocks in different areas of the market. However, it is a market-cap weighted index comprised of different large and midcap stocks. In other words, each of the 500 stocks in the index are not evenly weighted. Therefore, it's important to know which sectors and stocks have the biggest impact on the performance of the ETF.

SPY Sectors	% of SPY
Electronic Technology	15.66%
Technology Services	15.48%
Finance	13.67%
Health Technology	10.65%
Retail Trade	7.46%
Consumer Non-Durables	5.59%
Energy Minerals	4.61%
Producer Manufacturing	4.21%
Consumer Services	3.46%
Commercial Services	3.25%

While you might get into a trade on SPY thinking it will provide great diversification, 41% of the index is in tech related sectors. While you will find other sectors represented like the Financial sector which makes up 13.67% of the index and Retail Trade 7.46%, they don't have near the impact that the tech sector does.

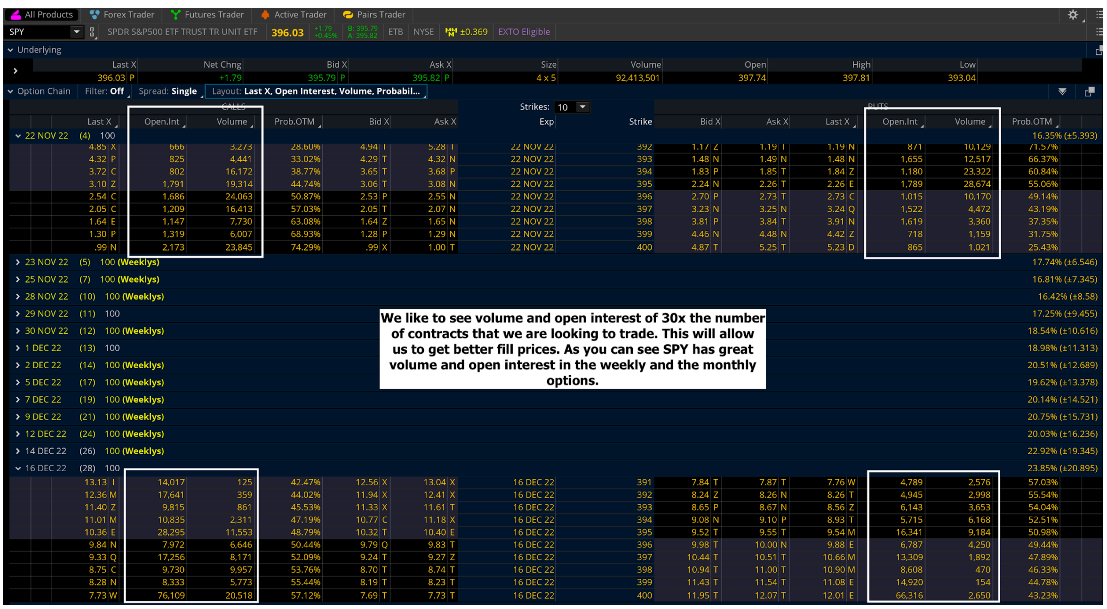
As you can see from the screenshot below, the top 4 stocks that have the biggest impact on the movement of the ETF are all tech stocks.

SPY Top 10 Stocks	% of SPY
Apple (Symbol: AAPL)	6.74%
Microsoft (Symbol: MSFT)	5.41%
Amazon (Symbol: AMZN)	2.58%
Alphabet Class A (Symbol: GOOGL)	1.77%
Berkshire Hathaway (Symbol: BRK.B)	1.67%
Alphabet Class C (Symbol: GOOG)	1.59%
Tesla (Symbol: TSLA)	1.47%
UnitedHealth Group (Symbol: UNH)	1.45%
Exxon Mobil (Symbol: XOM)	1.42%
Johnson & Johnson (Symbol: JNJ)	1.38%

With the market so tech driven, it can be frustrating to look at AAPL, MSFT, AMZN, and GOOGL and see expensive options. However, using SPY instead will still give you exposure to these tech stocks but for a fraction of the cost.

Liquidity: SPY is one the most liquid markets in the world daily. Pull up any scan that looks for the stocks or ETF's that have the most volume daily and you will typically find SPY in the stop spot.

Looking at the 50-day moving average of the volume on SPY it typically trades 96,206,147 shares daily. While we prefer to trade the options instead, the good volume in the shares of stock will also translate to good volume in the options as well. The bigger the volume the easier it is to get in and out of trades quickly and at good prices.



SPY — SPDR S&P500 ETF TRUST TR UNIT ETF — 396.03 — ETB — NYSE — ±0.369 — EXTO Eligible

Underlying

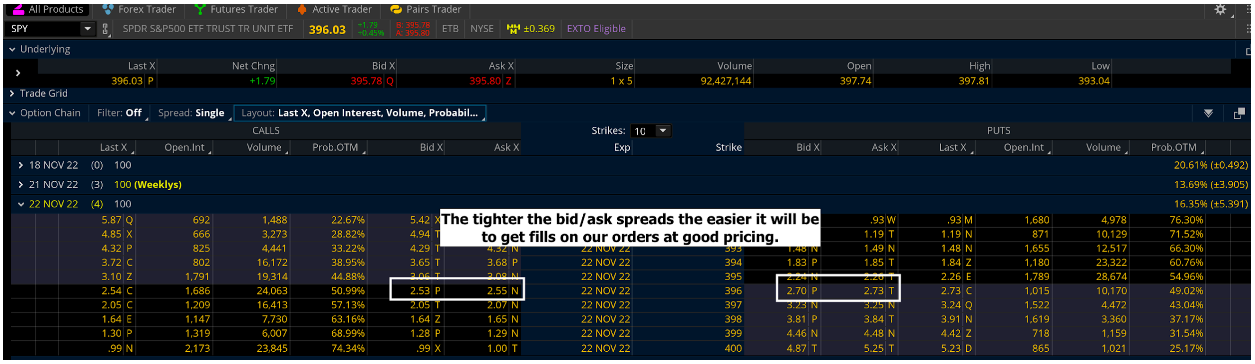
Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low
396.03 P	+1.79	395.79 P	395.82 P	4 x 5	92,413,501	397.74	397.81	393.04

Option Chain — Filter: Off — Spread: Single — Layout: Last X, Open Interest, Volume, Probabil... — Strikes: 10

CALLS Last X	Open.Int	Volume	Prob.OTM	Bid X	Ask X	Exp	Strike	PUTS Bid X	Ask X	Last X	Open.Int	Volume	Prob.OTM
22 NOV 22 (4) 100													16.35% (±5.393)
4.85 X	666	3,273	28.60%	4.94 I	5.28 I	22 NOV 22	392	1.17 Z	1.19 I	1.19 N	871	10,129	71.57%
4.32 P	825	4,441	33.02%	4.29 T	4.32 N	22 NOV 22	393	1.48 N	1.49 N	1.48 N	1,655	12,517	66.37%
3.72 C	802	16,172	38.77%	3.65 T	3.68 P	22 NOV 22	394	1.83 P	1.85 T	1.84 Z	1,180	23,322	60.84%
3.10 Z	1,791	19,314	44.74%	3.06 T	3.08 N	22 NOV 22	395	2.24 N	2.26 T	2.26 E	1,789	28,674	55.06%
2.54 C	1,686	24,063	50.87%	2.53 P	2.55 N	22 NOV 22	396	2.70 P	2.73 T	2.73 C	1,015	10,170	49.14%
2.05 C	1,209	16,413	57.03%	2.05 T	2.07 N	22 NOV 22	397	3.23 N	3.25 N	3.24 Q	1,522	4,472	43.19%
1.64 E	1,147	7,730	63.08%	1.64 Z	1.65 N	22 NOV 22	398	3.81 P	3.84 T	3.91 N	1,619	3,360	37.35%
1.30 P	1,319	6,007	68.93%	1.28 P	1.29 N	22 NOV 22	399	4.46 N	4.48 N	4.42 Z	718	1,159	31.75%
.99 N	2,173	23,845	74.29%	.99 X	1.00 T	22 NOV 22	400	4.87 T	5.25 T	5.23 D	865	1,021	25.43%
23 NOV 22 (5) 100 (Weeklys)													17.74% (±6.546)
25 NOV 22 (7) 100 (Weeklys)													16.81% (±7.345)
28 NOV 22 (10) 100 (Weeklys)													16.42% (±8.58)
29 NOV 22 (11) 100													17.25% (±9.455)
30 NOV 22 (12) 100 (Weeklys)													18.54% (±10.616)
1 DEC 22 (13) 100													18.98% (±11.313)
2 DEC 22 (14) 100 (Weeklys)													20.51% (±12.689)
5 DEC 22 (17) 100 (Weeklys)													19.62% (±13.378)
7 DEC 22 (19) 100 (Weeklys)													20.14% (±14.521)
9 DEC 22 (21) 100 (Weeklys)													20.75% (±15.731)
12 DEC 22 (24) 100 (Weeklys)													20.03% (±16.236)
14 DEC 22 (26) 100 (Weeklys)													22.92% (±19.345)
16 DEC 22 (28) 100													23.85% (±20.895)
13.13 I	14,017	125	42.47%	12.56 X	13.04 X	16 DEC 22	391	7.84 T	7.87 T	7.76 W	4,789	2,576	57.03%
12.36 M	17,641	359	44.02%	11.94 X	12.41 X	16 DEC 22	392	8.24 Z	8.26 N	8.26 T	4,945	2,998	55.54%
11.40 Z	9,815	861	45.53%	11.33 X	11.61 T	16 DEC 22	393	8.65 P	8.67 N	8.56 Z	6,143	3,653	54.04%
11.01 M	10,835	2,311	47.19%	10.77 C	11.18 X	16 DEC 22	394	9.08 N	9.10 P	8.93 T	5,715	6,168	52.51%
10.36 E	28,295	11,553	48.79%	10.32 T	10.40 E	16 DEC 22	395	9.52 T	9.55 T	9.54 M	16,341	9,184	50.98%
9.84 N	7,972	6,646	50.44%	9.79 Q	9.83 T	16 DEC 22	396	9.98 T	10.00 N	9.88 E	6,787	4,250	49.44%
9.33 Q	17,256	8,171	52.09%	9.24 T	9.27 Z	16 DEC 22	397	10.44 T	10.51 T	10.66 M	13,309	1,892	47.89%
8.75 C	9,730	9,957	53.76%	8.70 T	8.74 T	16 DEC 22	398	10.94 T	11.00 T	10.90 M	8,608	470	46.33%
8.28 N	8,333	5,773	55.44%	8.19 T	8.23 T	16 DEC 22	399	11.43 T	11.54 T	11.08 E	14,920	154	44.78%
7.73 W	76,109	20,518	57.12%	7.69 T	7.73 T	16 DEC 22	400	11.95 T	12.07 T	12.01 E	66,316	2,650	43.23%

We like to see volume and open interest of 30x the number of contracts that we are looking to trade. This will allow us to get better fill prices. As you can see SPY has great volume and open interest in the weekly and the monthly options.

The big volume will also mean tighter bid/ask spreads in the options which makes it much easier to use a wider variety of options strategies.



Best Options Strategies To Use: We love to trade SPY using our Overnight Pop Trade setup which utilizes selling credit spreads the day before expiration and closing them out the day of expiration. We will walk through the exact criteria that we use for this set up later in this eBook.

Nasdaq ETF (Symbol: QQQ) - Data You Should Know

The Nasdaq has always been a key index that drives price action market wide, but it is especially true given how strong the technology sector has been the last few years. Stocks like Apple, Microsoft, Meta, and Google have had incredible moves to the upside which has put the Nasdaq in a leadership position.

QQQ is one of the most active ETF's on a daily basis which makes it a great product to trade options on. However, it's important to know more about its components and how they impact the movement of the ETF.

QQQ is very heavily skewed towards the technology stocks which means it's not the most diversified ETF. As you will see in a moment, the top 10 weighted stocks that make up QQQ represent 48.82% of the ETF.

While the Nadaq-100 tracks 100 stocks in the index, it's really **driven by the top 10 names** that we will outline below.

Overview: Invesco QQQ Trust (Symbol: QQQ) QQQ is an ETF (Exchange Traded Fund) that tracks the performance of 100 Nasdaq stocks.
While some traders like to trade options on the NDX which is the Nasdaq cash index, we prefer to trade QQQ as the ETF is much cheaper and easier to trade. The QQQ options are less expensive as well which makes it a better product for retail traders.

Performance: QQQ does provide a good snapshot for the technology stocks. The ETF is down 27.90% year to date. It is down 27.73% over the last year and up 12.74% over the last 3 years. The tech sector can be highly volatile making big moves back and forth on QQQ commonplace. It can be a great product for active traders looking for short term trades back and forth.

Components: QQQ does track the performance of 100 individual Nasdaq stocks. While there are different areas of the market represented in the index, it is very tech heavy with almost 67% of the ETF coming from the tech sector.

While you have other sectors like Consumer Durables, Utilities, Consumer Non-Durables, Communications, and Retail Trade represented, they make up a much smaller percentage of the ETF.

QQQ Sector Breakdown	% of QQQ
Technology Services	29.83%
Electronic Technology	29.12%
Retail Trade	10.82%
Health Technology	7.61%
Consumer Services	5.29%
Consumer Non-Durables	4.52%
Consumer Durables	3.44%

While there are 100 being tracked the top 10 stocks drive most of the directional movement. As you can see from the screenshot below, it's Apple, Amazon, and Microsoft that dominate the movement of QQQ daily.

While you might get into a trade on QQQ thinking it will provide great diversification into the tech sector as a whole, **29% of the index is driven by just 3 stocks.**

QQQ Top 10 Stocks	% of QQQ
Apple (Symbol: AAPL)	13.41%
Microsoft (Symbol: MSFT)	10.11%
Amazon (Symbol: AMZN)	5.55%
Alphabet Class C (Symbol: GOOG)	3.42%
Alphabet Class A (Symbol: GOOGL)	3.32%
Tesla (Symbol: TSLA)	3.26%
NVIDIA (Symbol: NVDA)	3.13%
Pepsico (Symbol: PEP)	2.29%
Meta (Symbol: META)	2.17%
Costco (Symbol: COST)	2.16%

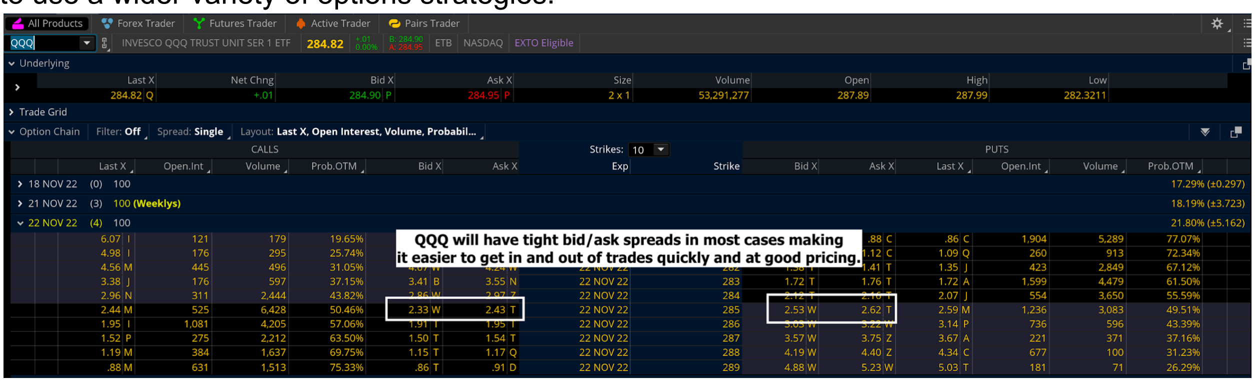
QQQ – Cheap Exposure: While you won't get great diversification trading QQQ, it is a much cheaper way to get exposure to the tech sector when compared to taking individual positions on stocks like Apple, Microsoft, or Amazon. The options will be trading at lower price points and the liquidity is great making QQQ an easier product to trade for retail traders.

QQQ can be a great substitute for the expensive stocks, but it is important to know that it's movement will depend on what the top 10 stocks are doing daily. This is important to keep in mind especially when trading around big news events like an earnings release out of Apple. Even though it's an ETF, QQQ can make large moves around these events from the individual tech stocks.

Liquidity: While QQQ won't have the same level of liquidity that SPY has, it is still one the most active markets in the world daily. Pull up any scan that looks for the stocks or ETF's that have the most volume daily and you will typically find QQQ in one of the top 5 spots.

Looking at the 50-day moving average of the volume on QQQ it typically trades 65,797,208 shares daily. While we prefer to trade the options instead, the good volume in the shares of stock will also translate to good volume in the options as well.

The bigger the volume the easier it is to get in and out of trades quickly and at good prices. The big volume will also mean tighter bid/ask spreads in the options which makes it much easier to use a wider variety of options strategies.



Best Options Strategies to Use: We love to trade QQQ using our Overnight Pop Trade setup which utilizes selling credit spreads the day before expiration and closing them out the day of expiration. We will walk through the exact criteria that we use for this set up later in this eBook.

How do we identify price extremes?

We love to trade options on the Dynamic Duo of SPY and QQQ using our Overnight Pop Trade setup.

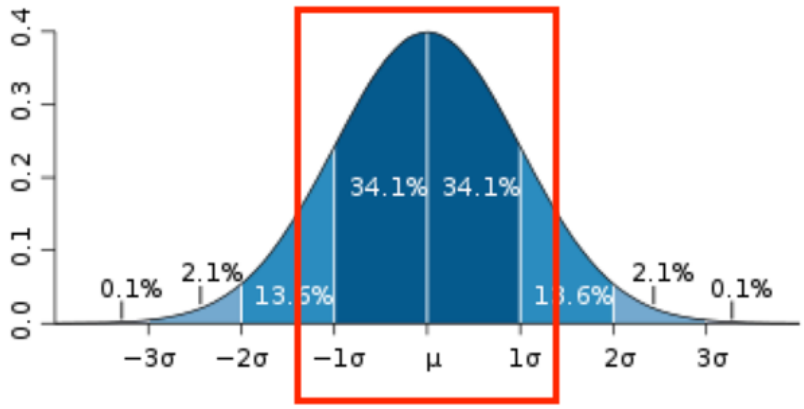
Before we jump into the criteria of this powerful strategy, we need to talk about how price action is the basis for this trade type. You will find that stocks like to move in a stair step fashion. Price will move higher, lower, and sideways over time. This can lead to trending markets at times that will result in overbought and oversold conditions.

The million-dollar question for options traders is knowing when a market is hitting an overbought or oversold extreme which could lead to a change in market direction. As we will show next, there are ways that we can identify these extremes using statistics.

One of the secret weapons that many options traders overlook is the Bell Curve. If you have ever taken a statistics class in the past, you have heard the Bell Curve being discussed.

While it can be applied in many different areas, the Bell Curve can be especially helpful in the trading world. It will tell us the probability of an event outcome falling within a certain range. Essentially it will tell us how often the movement of a stock or ETF will stay inside of a defined range and how often we will see the big directional moves.

Standard Deviation - Bell Curve



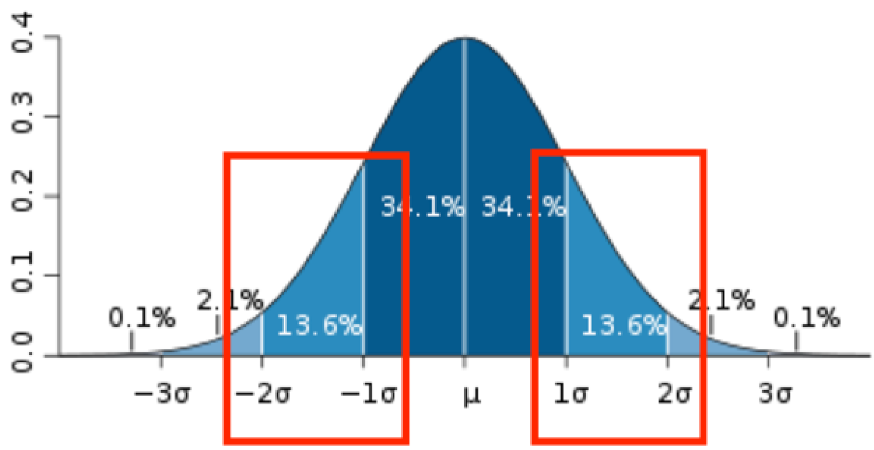
68.2% of all occurrences will fall between the midline and the 1 standard deviation lines on the upside and downside.

When looking at the Bell Curve above you will see the dark blue center section of the curve. This section is telling us 68.2% of all occurrences are going to fall inside of this range around the midline. 34.1% of all occurrences will fall between the midline and the 1 Standard Deviation line on the upside and 34.1% of all occurrences between the midline and the 1 standard deviation line on the downside. ***When applied to stocks and ETF's, we will see that price will fall inside of this dark blue range 68.2% of the time.***

As we start to go farther out on the curve to one standard deviation, two standard deviations, three standard deviations, that's telling us that we still have the tail risk of a big directional move happening. There's still a chance of an outlier move happening, either on the upside or the downside.

If we go out 1 standard deviation on the upside or downside you will find that only 13.6% of all occurrences fall between the 1 and 2 standard deviation lines. This is more interesting to me because once we see a stock price hit a 1 standard deviation move (on the upside or downside) then I know the chances of that move continuing are getting slim. That doesn't mean price has to stall out, but it does favor either a slowdown or even a reversal in the opposite direction.

Standard Deviation - Bell Curve

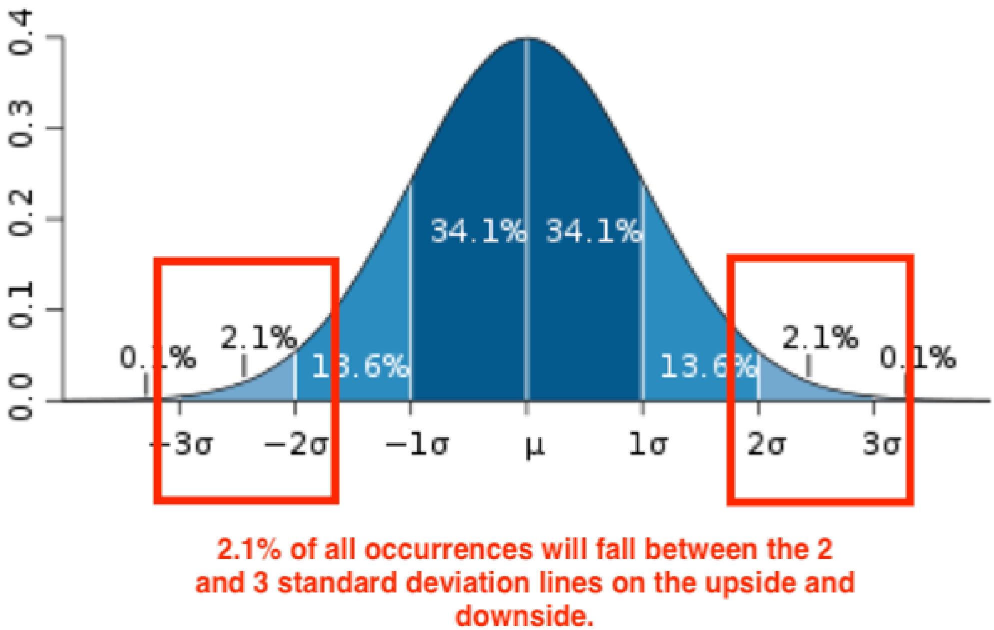


13.6% of all occurrences will fall between the 1 and 2 standard deviation lines on the upside and downside.

If we go out 2 standard deviations on the upside or downside, you will find that only 2.1% of all occurrences fall in these ranges (see screen shot below). This is even more interesting to me as once we see a stock price hit a 2 standard deviation move (on the upside or downside) then we know that only 2.1% of all occurrences fall outside of this range.

While it's possible that the stock continues to move in that direction, the odds favor a slow down or even a reversal in the other direction. Using the right options strategy, which we will talk about later in this book, will allow us to take advantage of this extreme.

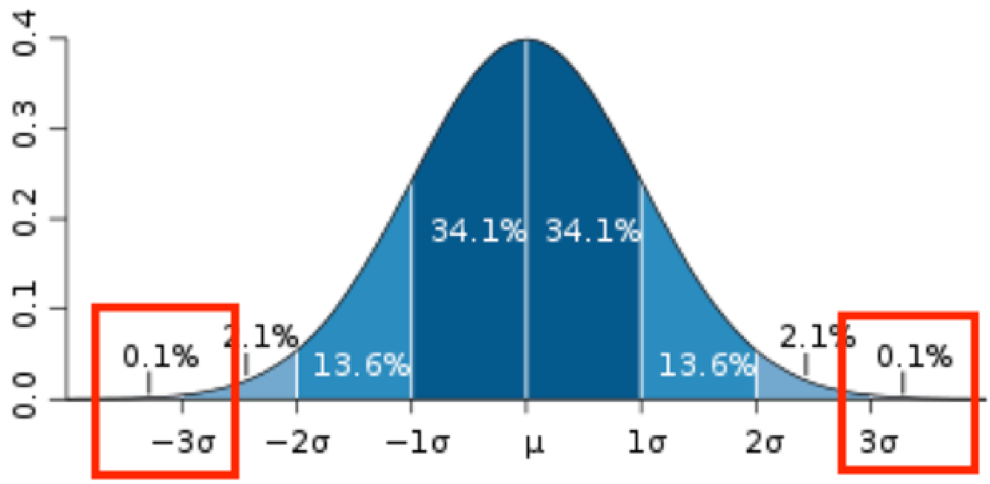
Standard Deviation - Bell Curve



If we go out 3 standard deviations on the upside or downside you will find that only 0.1% of all occurrences fall outside of this range (see screen shot below). This price extreme grabs my attention as once we see a stock price hit a 3 standard deviation move (on the upside or downside) then we know that only 0.1% of all occurrences fall outside of this range.

While it's possible that the stock continues to move in that direction, you will typically see a stock reverse quickly from this extreme. Using the right options strategy, which we will talk about later in this book, will allow us to take advantage of this extreme.

Standard Deviation - Bell Curve



0.1% of all occurrences will fall past the 3 standard deviation line on the upside and the downside.

In the current volatile market conditions that we are working with, there are many stocks and ETF's that are hitting 1, 2, and even 3 Standard Deviation overbought and oversold extremes on a regular basis. When we see that type of price action, it can influence what type of options strategies we use going forward with our trades. We can use the statistics to improve our results over time.

Standard Deviation Channels

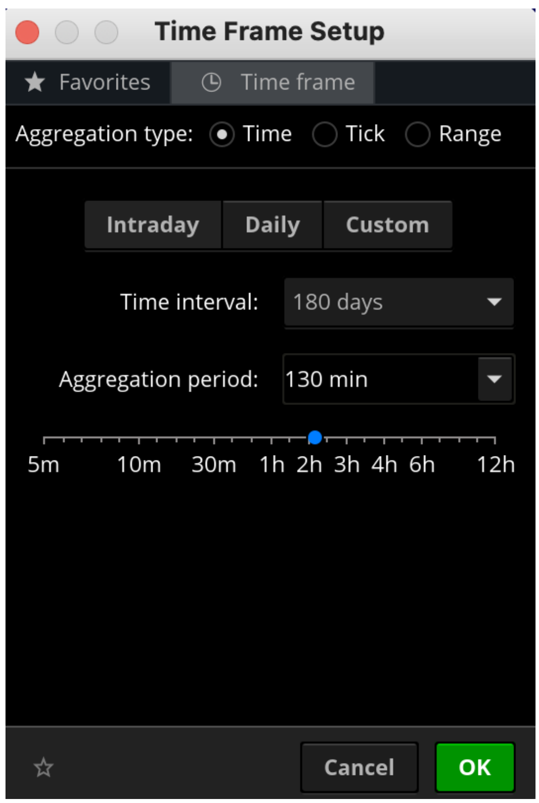
Now that we have laid the groundwork for how Standard Deviation works, is there an easy way to apply this on a stock chart?

One of my favorite indicators to use on my stock/ETF charts is the ***Standard Deviation Channel***. We can take the extreme levels from the previous section and let the Standard Deviation Channels quickly identify the extremes for us.

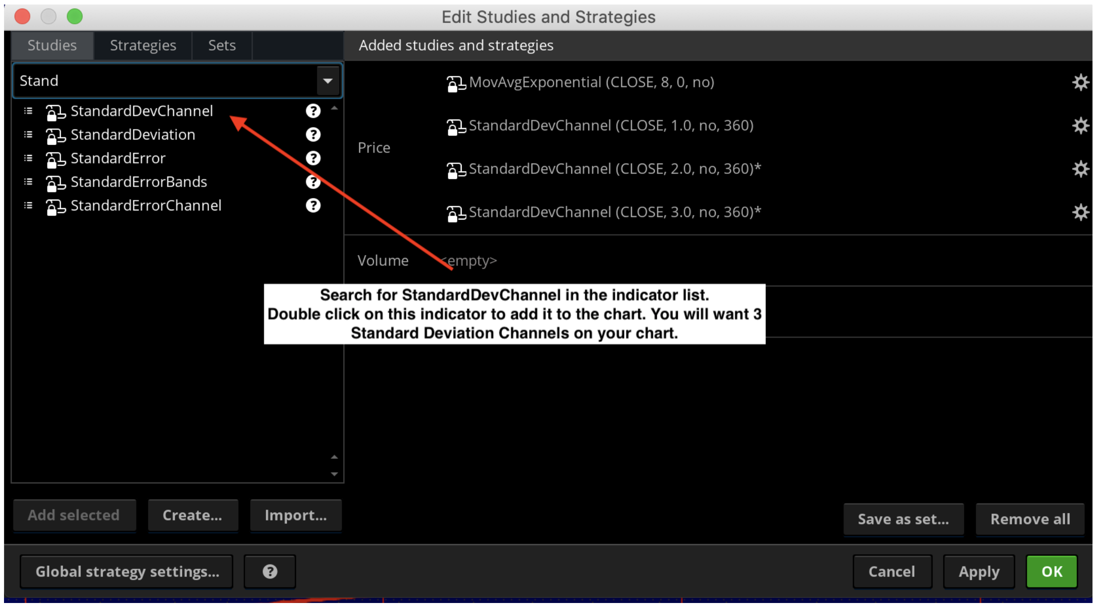
Most broker platforms will offer the Standard Deviation Channels as a default indicator. I'm going to show you how to set it up in the Thinkorswim platform.

Chart Setup Process

1. This strategy can be used on any time frame, but I like to use it on either the 130-minute charts which will give you 3 candles each day or the hourly chart.

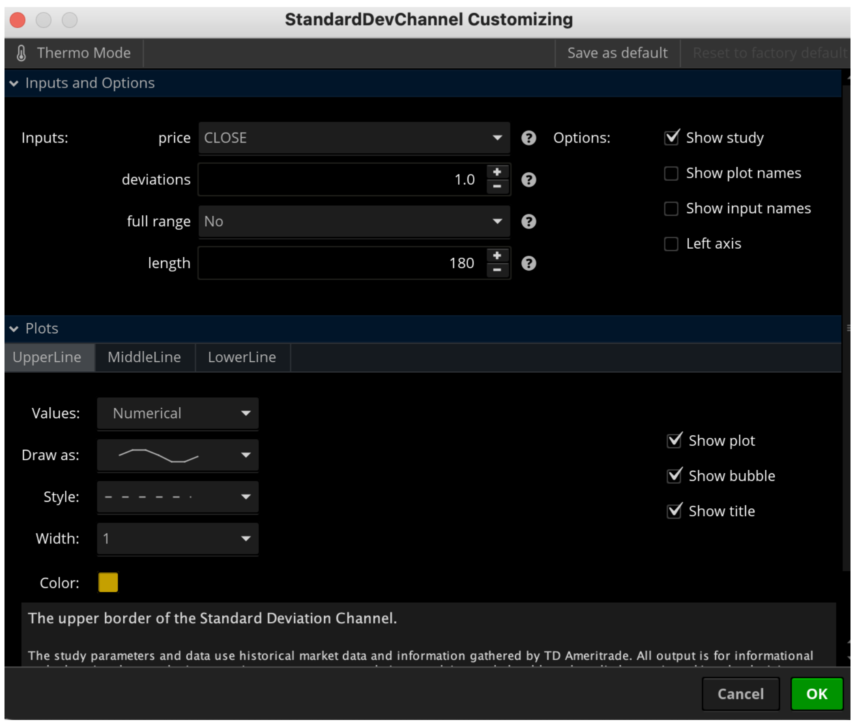


2. Place 3 Standard Deviation Channels on your chart.

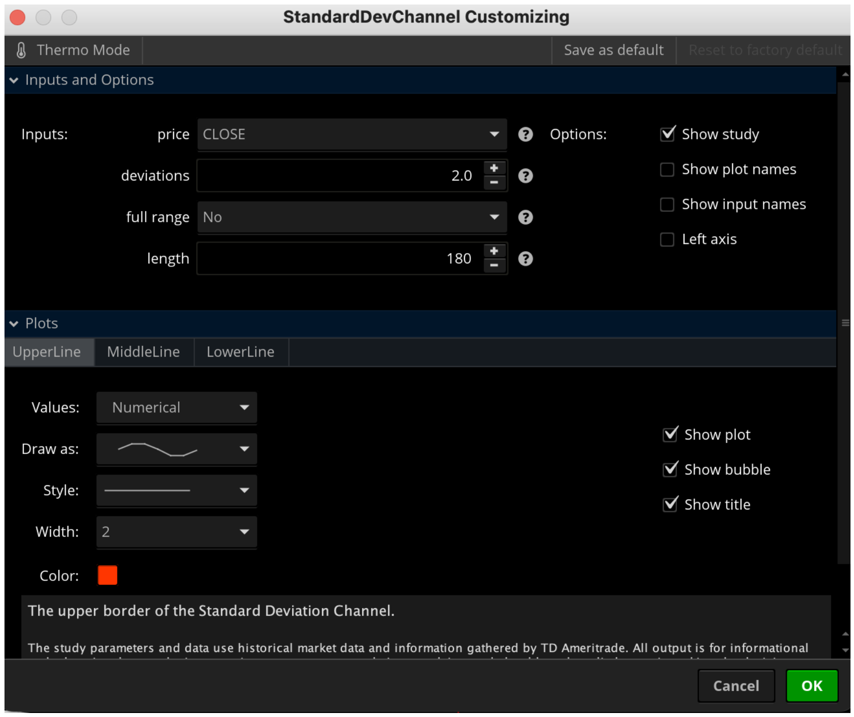


3. Settings for the 3 Standard Deviation Channels

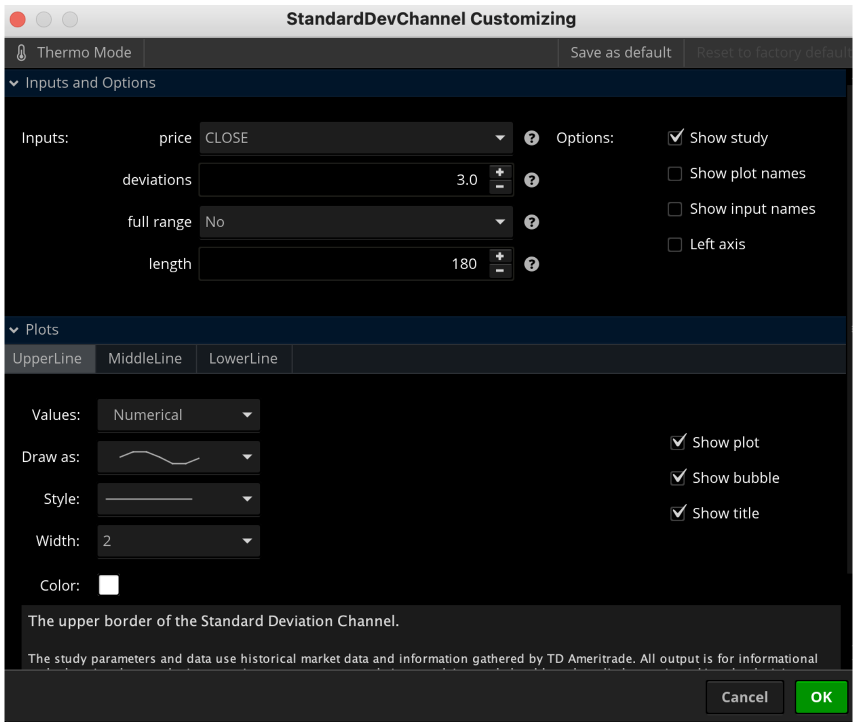
   a. First channel should be set to a 1 Standard Deviation move. The Length input should be set to 180. I like to set this channel to a dotted yellow line. Make sure the Middle Line is set to a solid white line.



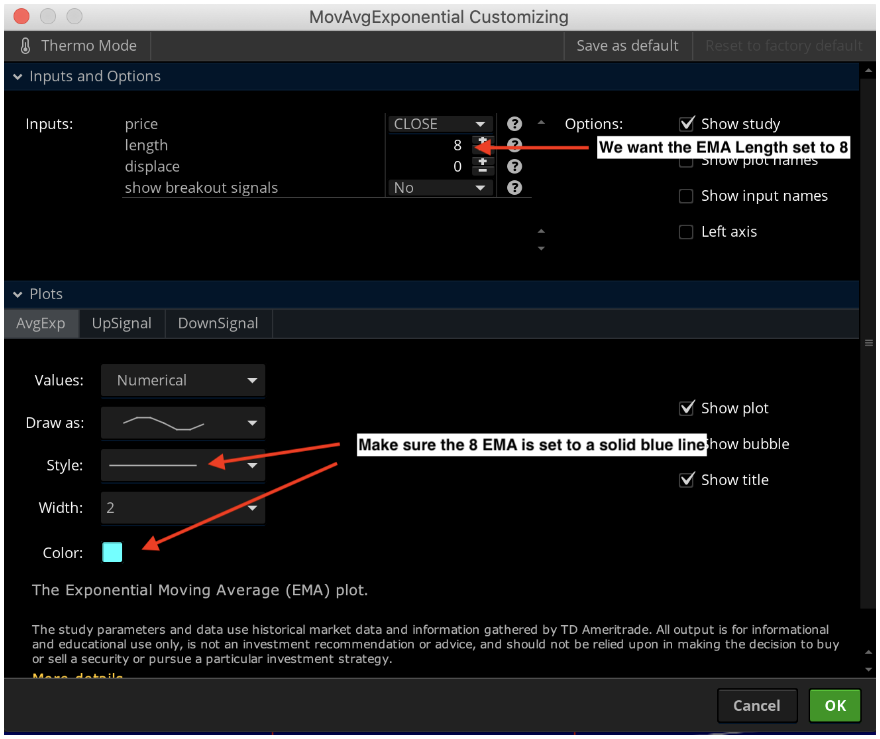
b. Second channel should be set to a 2 Standard Deviation move. The Length input should be set to 180. I like to set this channel to a solid red line. Make sure the Middle Line is set to a solid white line.



c. Third channel should be set to a 3 Standard Deviation move. The Length input should be set to 180. I like to set this channel to a solid white line. Make sure the Middle Line is set to a solid white line.



4. Add the 8 period Exponential Moving Average to the chart.



Final Chart Setup Example:

Now that we have the chart setup with the indicators mentioned above, we can start to talk about how we use this chart to identify the trades.

Trade Setup Criteria

As mentioned earlier, with this strategy we are looking to identify overbought and oversold extremes. There are very specific criteria that I look for when identifying these trades.

There are 2 key areas that I look for as opportunities for new trades. I want to see SPY or QQQ either between a 1-2 Standard Deviation Channel move (Between the dotted yellow channel and the sold red channel) or between a 2-3 Standard Deviation Channel move (Between the solid red channel and the solid white channel).

1-2 Standard Deviation Setup

Let’s talk about the 1-2 Standard Deviation channel move first. The minimum criteria that I need to see for a valid trade is for 3 out of the past 5 price candles closing between the 1 and 2 Standard Deviation Channels.

Once I see this happen, it identifies a price extreme forming. This doesn’t mean price has to stall out and reverse immediately, but it does mean a continuation move in that direction will become more difficult. This is because only 13.6% of all occurrences fall outside of a 1 Standard Deviation move (See earlier discussion on the Bell Curve).

These extremes can happen on the upside or the downside.

When we see these overbought extremes on the upside, I’m looking to place a neutral to bearish trade that would benefit from either a period of sideways consolidation or a reversal to the downside.

When we see these oversold extremes on the downside, I'm looking to place a neutral to bullish trade that would benefit from either a period of sideways consolidation or a reversal to the upside.

2-3 Standard Deviation Setup

Next. let's talk about the 2-3 Standard Deviation channel moves. The minimum criteria that I need to see for a valid trade is for at least 1 candle closing between the 2 and 3 Standard Deviation Channels. If you get more than 1 candle closing between the 2 and 3 Standard Deviation Channels that is even a stronger signal.

Once I see this happen, it identifies a price extreme forming. This doesn't mean price has to stall our and reverse immediately but it does mean a continuation move in that direction will become more difficult. This is because only 2.1% of all occurrences fall outside of a 2 Standard Deviation move (See earlier discussion on the Bell Curve).

These extremes can happen on the upside or the downside.

When we see these overbought extremes on the upside, I'm looking to place a neutral to bearish trade that would benefit from either a period of sideways consolidation or a reversal to the downside.

When we see these oversold extremes on the downside, I'm looking to place a neutral to bullish trade that would benefit from either a period of sideways consolidation or a reversal to the upside.

How do we take these setups with options?

This chart pattern is ideal for using a vertical spread as our desired options strategy. Specifically, we are looking to sell a credit spread.

Why not just buy a long call or long put?

While offering big profit potential, buying long calls and puts only gives you 1 way of making money on the trade. You must see the stock move in your favor, and it must do so quickly to make money. I will use long calls and puts in certain cases, but it must be a very active market where we are seeing quick moves back and forth.

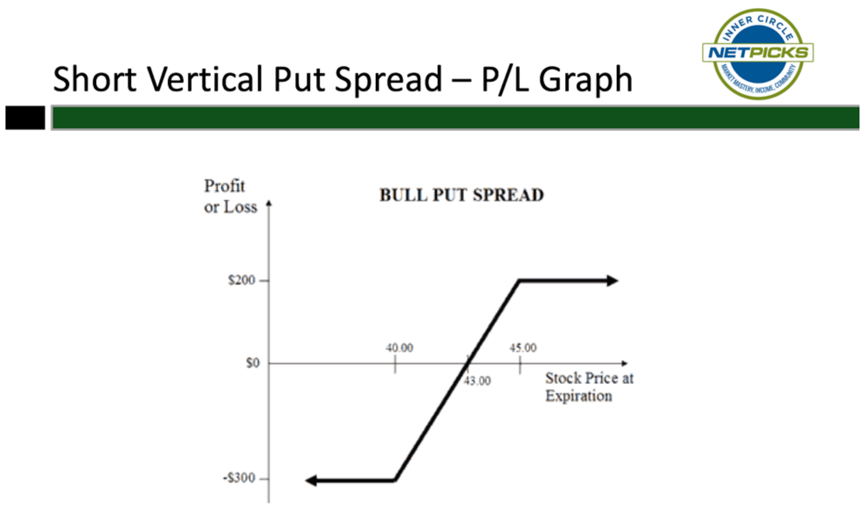
On the other hand, if we look at selling a credit spread, we can put ourselves in a trade where we have 5 ways of making money on the trade. It will give us a lower profit potential, but also a much higher chance of success when compared to buying a call or put option.

With multiple ways of making money on a credit spread, we don't need everything to like up perfectly like we do when we buy an option.

Credit spreads can be used for both bullish and bearish trades. Let's talk about a neutral to bullish trade first. We are going to place the trade by selling a put vertical spread.

Bullish: Selling A Put Spread

In many cases when using Put Options, we are looking for a move to the downside. In this case, selling a Put Spread will leave us with a bullish position. We will still have profit potential to the upside but with defined profit potential and defined risk.



Instead of being the buyer of an option, we're becoming the seller of an option. Once we walk through an example, you'll see why that can be so powerful.

For our example, we will use QQQ. Looking at the chart of QQQ below, we can see 3 out of 5 candles close between the 1 and 2 standard deviation channels. This had us looking at an oversold extreme where only 13.6% of all occurrences fall outside of this range on the downside.

We were looking for a period of sideways consolidation or even a reversal higher out of this pattern.

With our Overnight Pop Trade, we are going to take these trades with the options that have 1 day left to expiration. We are looking to open the trade in the last 30 minutes of the day and looking to close the position during the first 90 minutes of trading on expiration day.

When selling a Vertical Spread, the whole goal of the trade is for the options to get as cheap as possible. The cheaper the options get, the more profit we will have since we will be able to buy the spread back cheaper than what we sold it for to open the trade.

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 $2 wide-spread where we can collect $.50 or higher.***

Looking at the QQQ trade page, we decided to sell the 266/264 put spread. This had us selling the 266 put and at the same time we bought the 264 put to make sure we are in a risk defined trade. In total, we will collect $.55 or $55 per spread.

The $55 we collect when selling the spread was the most we could have made on the trade. We were risking $145 per spread to put the trade on. The max risk is calculated by taking the difference between the strikes ($2) minus the $.55 credit that we received for selling the spread.

This left us with a risk to reward ratio of between 2:1 and 3:1. While this doesn't seem attractive initially, we are ok with the ratio since we have 5 different ways of making money on the trade.

Our breakeven point on this trade was at $265.45. This was calculated by taking our short strike (266 put) and subtracting the $.55 credit that we received for putting on the trade. We didn't care if QQQ moved up, down, or sideways as long as price closed above $265.45 over the next 24 hours, we made money on the trade. We also made money from the time decay adding up as well as from volatility decreasing. ***This gave us 5 different ways of making money on the trade.***

Even though we were bullish on QQQ, price could have moved lower against us, and we would still have made money on the Short Put Spread. This takes much of the pressure off needing to be perfect on the timing and the direction of the trade. We can be dead wrong on direction and still make money. When we start to put all these factors in our favor, it is why we are willing to risk two to make one.

Overnight Pop Trade Criteria

1. We will be using the options that expire the next trading day.
2. We will be looking to open these trades after 3:30 p.m. eastern time the day before the options expire.
3. We will be looking to sell a $2 wide credit spread ($2 difference between the short and long strikes). We will be selling the out of the money spread that will let us collect $.50 or higher to open the trade.
4. Once in the trade we will look to exit when we can keep 50-75% of the potential gain. For example, if we sell a credit spread to open the trade for $.60 then we will look to buy it back for between $.15-$.30.
5. We will look to close these trades during the first 90 minutes on the day of expiration.

Bearish: Selling A Call Spread

Now let's look at selling a Call Spread. For our example, we will use SPY. Looking at the chart of SPY below, we can see 3 out of 5 candles close between the 1 and 2 standard deviation channels. This had us looking at an overbought extreme where only 13.6% of all occurrences fall outside of this range on the upside.

We were looking for a period of sideways consolidation or even a reversal lower out of this pattern.

With our Overnight Pop Trade, we are going to take these trades with the options that have 1 day left to expiration. We are looking to open the trade in the last 30 minutes of the day and looking to close the position during the first 90 minutes of trading on expiration day.

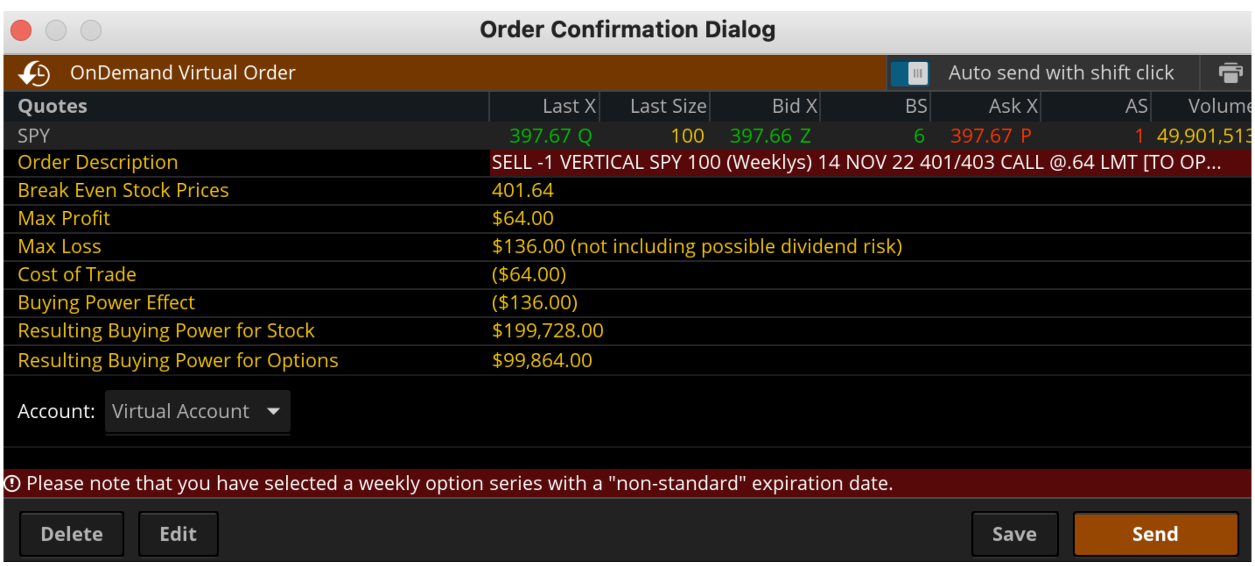
When selling a Vertical Spread, the whole goal of the trade is for the options to get as cheap as possible. The cheaper the options get, the more profit we will have since we will be able to buy the spread back cheaper than what we sold it for to open the trade.

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 $2 wide-spread where we can collect $.50 or higher.***

Looking at the SPY trade page, we decided to sell the 401/403 call spread. This had us selling the 401 call and at the same time we bought the 403 call to make sure we are in a risk defined trade. In total, we will collect $.64 or $64 per spread.

The $64 we collect when selling the spread was the most we could have made on the trade. We were risking $136 per spread to put the trade on. The max risk is calculated by taking the difference between the strikes ($2) minus the $.64 credit that we received for selling the spread.

This left us with a risk to reward ration of between 2:1 and 3:1. While this doesn't seem attractive initially, we are ok with the ratio since we have 5 different ways of making money on the trade.



Our breakeven point on this trade was at $401.64. This was calculated by taking our short strike (401 call) and adding the $.64 credit that we received for putting on the trade. We didn't care if SPY moved up, down, or sideways as long as price closed below $401.64 over the next 24 hours, we made money on the trade.

We also made money from the time decay adding up as well as from volatility decreasing. ***This gave us 5 different ways of making money on the trade.***

Even though we were bearish on SPY, price could have moved higher against us, and we would still have made money on the Short Call Spread. This takes much of the pressure off needing to be perfect on the timing and the direction of the trade. We can be dead wrong on direction and still make money. When we start to put all these factors in our favor, it is why we are willing to risk two to make one.

Overnight Pop Trade Criteria

1. We will be using the options that expire the next trading day.
2. We will be looking to open these trades after 3:30 p.m. eastern time the day before the options expire.
3. We will be looking to sell a $2 wide credit spread ($2 difference between the short and long strikes). We will be selling the out of the money spread that will let us collect $.50 or higher to open the trade.
4. Once in the trade we will look to exit when we can keep 50-75% of the potential gain. For example, if we sell a credit spread to open the trade for $.60 then we will look to buy it back for between $.15-$.30.
5. We will look to close these trades during the first 90 minutes on the day of expiration.

Vertical Spread Trade Management

When selling Vertical Spreads using our criteria, we don't have a defined stop and target stock price in place ahead of time. We have rules that guide how we manage the trades from start to finish but they are rules based on the value of the options and not the stock price.

First, we have the option to hold these trades to expiration. If it goes to expiration and stays above or below our breakeven point (above our breakeven point on the short put spreads and below our breakeven point on the short call spreads), then we can then keep the entire premium that was collected and take the full profit.

Credit Spread Trade Management Options

1. ***Hold the trade to expiration. If the options close out of the money you get to keep the full profit.***
2. ***Close the trade out when you can buy the spread back and keep 50-75% of what you collected when opening the trade. This is our preferred method.***

However, our initial target is between 50% and 75% of our maximum profit potential. For example, if I collect $.60 to sell the SPY call spread then I will look to close it out when I can buy it back for .15-.30. That would allow me to keep between 50% and 75% of the premium collected to put the trade on.

The thought process behind closing the trade out with 50-75% of max profit is we can book that profit ahead of time and avoid the increased Gamma the closer we get to expiration. Gamma refers to how quickly the options will react to changes in stock price.

We don't want to have a trade that's moving well in our favor and then reverse during the afternoon on expiration day. We could potentially go from a nice profit to an immediate loss. Instead, I would rather book the partial profit and free up the capital for the next trade.

Daily Routine

We are looking for these trades Mon-Fri on either SPY or QQQ (or both). We are looking to open the trades during the afternoon before expiration with the goal of closing the trades the following morning on expiration day.

We are looking to place these trades anytime between 3:30-4:00 p.m. eastern right before the market closes. Keep in mind options on SPY and QQQ trade until 4:15 p.m. eastern time which gives us an additional 15 min to put trades on after the market closes at 4:00 p.m. eastern time. This is typically when we see the best volume during the day which allows us to get filled on trades quicker and at better prices.

This does a few things for us. First, it gives us predictability of when the set ups will occur. We know the days to look for these set ups each week. It also allows us to know the exact time to look for set ups. We don't have to sit there for hours on end waiting for new trades. We know we will look to take the trades during the last 30 min of the trading day. This gives us the ability to better plan our day out.

Conclusion

Whether you have been trading options for years, or brand new to options all together, there is tremendous opportunity in these markets as long as you stay disciplined to a trading system. In this book, we have outlined one of my favorite strategies that has allowed me trade for a living for the last dozen years.

Review the material and follow the criteria that was laid out for finding and managing the trades and you will be well on your way to generating a great source of income. If you have any questions, feel free to contact me directly. We look forward to hearing from you. Happy Trading!

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