



THE BLUE COLLAR INVESTOR GUIDE TO CONSERVATIVE CREDIT SPREADS

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Dedication

This book is dedicated to the incredible Blue Collar Investor community.

Since our founding in 2007, we have attempted to provide you with the best educational resources and tools available in the options education industry. Along the way, all of the enhancements and new feature sets were implemented as a result of our subscribers' requests and suggestions.

This book and the Credit Spread Calculator follow that tradition. It is a result of the many requests for information, training, and tools for using credit spreads for income generation.

Acknowledgements

First and foremost, I want to thank my beautiful bride Adele, for her unwavering support throughout this entire project. She was there by my side, every step of the way, guiding me through the layout and design of this package.

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During the development of the Credit Spread Calculator, all of the features were tested and evaluated by our beta testing team: Art Jacob, Alan Kelm, Bruce Porter, and Joseph Srodawa. Thank you for your help and support.

None of this would have been possible without the commitment and support from my close friend and colleague, Alan Ellman. From the very beginning of this project, Alan trusted me with the design details of the calculator and accompanying book. All along the way, he provided guidance that made this a “BCI worthy” product.

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INTRODUCTION

The Conservative Credit Spread: A Gateway to Defined-Risk Income for Blue Collar Investor Options Traders

Welcome to the world of defined risk income! You've dipped your toes into the exciting world of options trading, perhaps generating some steady income with **Covered Calls (CCs)** on stocks you own or by selling **Cash-Secured Puts (CSPs)** to acquire shares at a discount. If you've been using The Blue Collar Investor methodologies, you already have a fantastic set of foundational tools for income generation to help you enhance your returns.

But what if you could generate income with a **defined risk** from the outset, without necessarily owning the underlying stock or committing to buy it? What if you could refine your income strategies to be both capital-efficient and more predictable in terms of your maximum potential loss?

Welcome to the next step in your options journey: **Credit Spreads**. This book is your introduction and guide to understanding, implementing, and conservatively managing credit spreads, building upon your existing knowledge of CCs and CSPs. We'll show you how credit spreads offer a powerful way to generate consistent income with risks you can clearly identify before you even enter a trade.

We won't be chasing huge, speculative gains. Instead, we will be working towards income generation. As a conservative trader, your primary focus is capital preservation and risk reduction. Credit spreads, when used correctly, align perfectly with that goal. We'll introduce the methodology, show you how to identify high-probability trade setups, and equip you with the checklists and management techniques to navigate these strategies with confidence.

Get ready to expand your options playbook and discover how to truly control your risk while seeking consistent profits.

Let's get started!

CHAPTER 1

Options Basics

Before we leap into credit spreads, let's briefly review the basic option terminology required to allow us to understand the concepts of the various option strategies available to us.

What is an option? (Option Buyer's Perspective)

- **Option:** A contract that bestows the *right, but not the obligation*, to buy or sell 100 shares of a stock or ETF at a fixed price (**strike price**) and by a specified date (**expiration date**)
- **Call Option:** An option to *buy* 100 shares of a stock or ETF at a specified price
- **Put Option:** An option to *sell* 100 shares of a stock or ETF at a specified price
- Option-buyers have rights. Option-sellers have obligations for which we are handsomely paid. We are the option-sellers, insofar as it relates to **covered calls** and **cash secured puts**.

Call Option Strike Price as it Relates to the Price of the Stock ("Moneyiness")

- **At-The-Money (ATM):** The strike price of the call option is *identical* to the market value of the stock (\$30.00/\$30.00).
- **Near-The-Money (NTM):** The strike price is *close* to the current price to the stock (\$29.96/\$30.00).
- **In-The-Money (ITM):** The strike price of the call option is *lower* than the market value of the stock (\$56.00/\$50.00).
- **Out-Of-The-Money (OTM):** The strike price of the call option is *higher* than the market value of the stock ((\$48.00/\$50.00).

Put Option Strike Price as it Relates to the Price of the Stock (“Moneyness”)

- **At-The-Money (ATM):** The value of the underlying stock is identical to the strike price of the option. An example is when you sell the \$50.00 put option on a stock currently trading at \$50.00.
- **Near-The-Money (NTM):** These are closely related to ATM strikes where the stock value is close to, but not exactly the same as the market value of the stock. For example, if the stock is trading at \$50.10, the \$50.00 put option is said to be near-the-money.
- **In-The-Money (ITM):** The strike price is higher than the current price of the stock. An example is when you sell a \$50.00 put option on a stock trading at \$48.00.
- **Out-Of-The-Money (OTM):** The strike price is lower than the current price of the stock. An example is when you sell a \$72.50 put option on a stock trading at \$75.00 per share.

What is an option-chain, and how do I read it?

This is a method of quoting option prices through a list of all options for a given underlying security. Let’s analyze the components of call and put option chains for NVIDIA Corp. (Nasdaq: NVDA) taken from CBOE.COM on 7/28/2025:

Calls									NVDA: \$173.45 on 7/28/2025		Fri Aug 15 2025 ^
Last	Net	Bid	Ask	Vol	IV	Delta	Gamma	Int	Strike		
9	-0.35	9	9.1	680	0.32	0.7036	0.0259	1772	NVDA 167.500		
7.35	-0.3	7.2	7.35	5,821	0.31	0.6369	0.0289	52730	NVDA 170.000		
5.85	-0.275	5.75	5.85	3,270	0.3	0.5626	0.0311	5687	NVDA 172.500		
4.4	-0.4	4.4	4.5	17,651	0.3	0.4834	0.0322	61220	NVDA 175.000		
3.34	-0.335	3.3	3.35	2,155	0.29	0.403	0.0318	3152	NVDA 177.500		
2.45	-0.31	2.42	2.45	8,907	0.29	0.326	0.03	57625	NVDA 180.000		

Figure 1.1 Call Option Chain

- Strikes in the yellow cells represent ITM call strikes; those in orange cells are OTM call strikes (OTM calls are higher than the current market value).

- **Bid Price:** The price we would use to sell options
- **Ask Price:** The price used to buy options
- **Bid-Ask Spread:** The difference between the bid and ask price
- **Vol. (Volume):** Total number of contracts traded during each day
- **IV (Implied Volatility):** Implied volatility is the expectation of future price movement of the stock or ETF, based on option pricing in the marketplace. It is an annualized statistic based on 1 standard deviation.
- **Delta:** Expected price change in option premium for every \$1.00 change in share price.
- **Gamma:** Expected change in Delta for every \$1.00 change in share price.
- **Int. (Open Interest):** Total number of outstanding option contracts that have not been closed, exercised, or expired worthless.

Fri Aug 15 2025 ^ Puts NVDA: \$173.45 on 7/28/2025

Strike	Last	Net	Bid	Ask	Vol	IV	Delta	Gamma	Int
NVDA 167.500	2.63	-0.225	2.61	2.64	2,152	0.32	-0.2996	0.0262	4067
NVDA 170.000	3.4	-0.25	3.35	3.45	7,357	0.31	-0.3672	0.0293	17667
NVDA 172.500	4.35	-0.275	4.3	4.4	4,259	0.3	-0.4427	0.0316	4808
NVDA 175.000	5.49	-0.31	5.45	5.55	3,464	0.29	-0.5234	0.0328	7605
NVDA 177.500	6.95	-0.25	6.85	6.95	457	0.29	-0.6055	0.0325	557
NVDA 180.000	8.5	-0.3	8.5	8.6	485	0.29	-0.6846	0.0308	4220

Figure 1.2 Put Option Chain

Put Option Chain

- Strikes in the yellow cells represent ITM put strikes; those in the orange cells are OTM calls.
- OTM for puts are lower than current market value.

Having now reviewed options basics, it's time to move on to the star of the show: *credit spreads*.

CHAPTER 2

Introducing Credit Spreads: Defined Risk, Enhanced Income Potential

Credit spreads are the logical next step for conservative traders looking to expand their income-generating strategies. They build on the principles of selling options (collecting premium) but introduce a crucial layer of protection by simultaneously adding a purchased option that defines your maximum potential loss. Think of it like this:

- You sell an option to collect premium (just like CCs or CSPs). This is the **income generation leg**.
- But immediately, you use a small portion of the premium to buy “protection”: an option further-out-of-the-money (higher for calls; lower for puts). This purchased option acts as insurance, by capping your potential losses if the market moves against you. This is called the **insurance leg**.
- A credit is received upon opening the trade.

The difference in strike prices between the option you sell and the option you buy is called the **width of the spread**, or **strike width**. This width, along with the net credit received, directly determines your maximum profit and maximum loss.

Two Sides of the Same Coin: Bull Put Spreads and Bear Call Spreads

Just as you have puts and calls, there are two primary types of credit spreads, each suited for a slightly different market outlook.

Bull Put Spreads

A **Bull Put Spread (BPS)** is designed for a *neutral to bullish* market outlook. You profit if the underlying stock stays *above* your short strike price. The components of a BPS are as follows:

- **Sell (Write) an Out-Of-The-Money (OTM) Put Option:** This is your primary income generation leg.

- **Buy a Further Out-Of-The-Money Put Option:** This is your protective, hedge, or insurance leg. This leg has a lower strike price than the put you sold.

This is considered a bull put because in this case, you want the stock to remain strong (either bullish or sideways) so both puts expire worthless. The net effect of this type of trade is that you receive a credit when you open the trade.

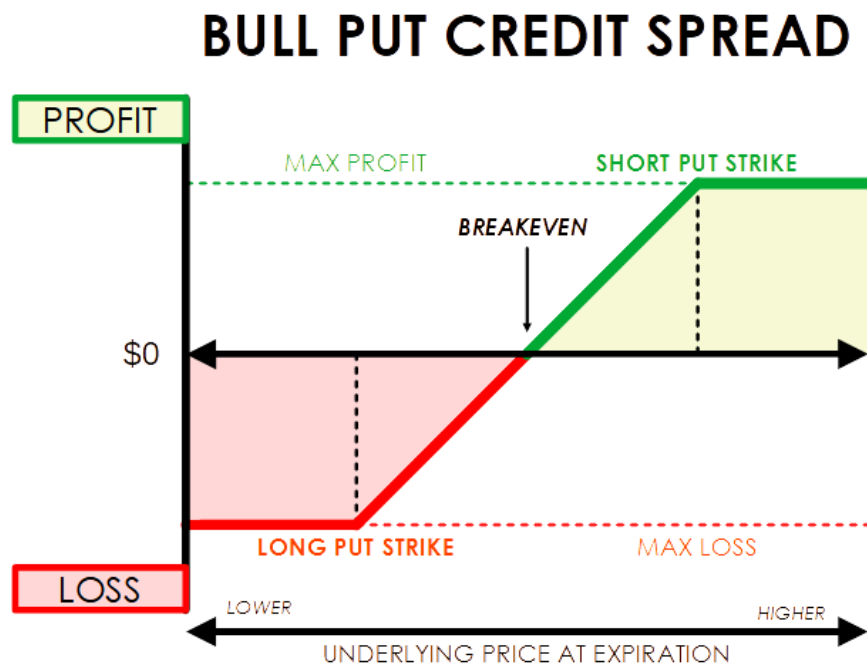


Figure 2.1 Bull Put Credit Spread Risk/Reward Diagram

Calculations for the Bull Put Spread

- Max Profit: The net premium received per contract

$$(\text{Short Put Premium} - \text{Long Put Premium}) \times 100$$
- Max Loss:

$$\text{Width of the Spread} - \text{Net Credit Received}$$
- Breakeven Point:

Short Put Strike - Net Premium

- Return On Risk (ROR%):

$$\text{Max Profit} \div \text{Max Loss}$$

Example Bull Put Credit Spread

- Let us suppose that the stock XYZ is trading at \$100.00 per share.
- You *sell* the \$95.00 put for \$1.50 per share (collecting \$150.00 per contract).
- You *buy* the \$90.00 put for \$0.50 per share (paying \$50.00 per contract).
- Net Credit: $\$1.50 - \$0.50 = \$1.00$ per share (\$100.00 per contract)
- Max Loss: $(\$95.00 - \$90.00) - \$1.00 = \$5.00 - \$1.00 = \4.00 (\$400.00 per contract). This loss occurs if XYZ expires at or below \$90.00.
- Breakeven Point: $\$95.00 - \$1.00 = \$94.00$
- Return on Risk (ROR): $\$1.00 \div \$4.00 = 25\%$

Bear Call Spreads (BCS)

A **Bear Call Spread (BCS)** is designed for a *neutral to slightly bearish* market outlook. You profit if the underlying stock stays *below* your short call strike price. Like the Bull Put Spread, there are two components that make up a Bear Call Spread:

- **Sell (Write) an Out-Of-The-Money (OTM) Call Option:** This is your primary *income generation leg*.
- **Buy a Further Out-Of-The-Money (OTM) Call Option:** This is your *protective, hedge, or insurance leg*, with a higher strike price than the call you sold.

This is considered a bear call because you want the stock to remain weak (either bearish or sideways) so both calls expire worthless. Like the Bull Put Spread, the net effect here is receiving credit when opening the trade.

BEAR CALL CREDIT SPREAD

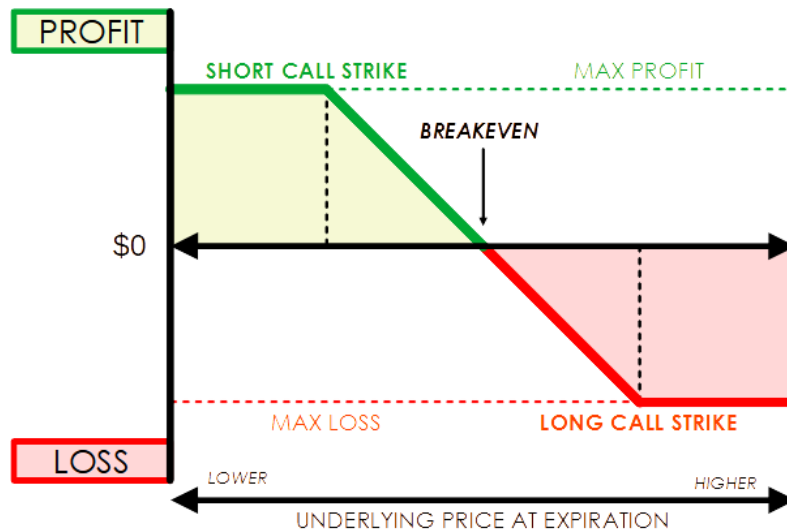


Figure 2.2 Bear Call Credit Spread Risk/Reward Diagram

Calculations for a Bear Call Credit Spread:

- Max Profit per Contract:

$$(\text{Short Call Premium} - \text{Long Call Premium}) \times 100$$

- Max Loss per Contract:

$$\text{Width of the Spread} - \text{Net Credit Received}$$

- Breakeven:

$$\text{Short Call Strike} + \text{Net Premium}$$

- Return on Risk (ROR%):

$$\text{Max Profit} \div \text{Max Loss}$$

Example Bear Call Spread:

- Let us suppose that the stock ABC is selling for \$50.00 per share.
- The stock trend is bearish.

- You *sell* the \$55.00 call for \$1.20 (collecting \$120.00 per contract).
- You *buy* the \$60.00 call for \$0.40 (paying \$40.00 per contract).
- The maximum profit here is \$80.00 per contract ($\$1.20 - \$0.40 = \0.80 per share).
- Our maximum per share loss here is $(\$60.00 - \$55.00) - \$0.80 = \$5.00 - \$0.80 = \4.20 (\$420.00 per contract). This loss occurs if our stock ABC expires at or above \$60.00.
- Breakeven: Here, our breakeven is $\$55.00 + \$0.80 = \$55.80$.
- Return on Risk (ROR): Our ROR percent is $\$0.80/\$4.20 = 19\%$.

The Defined Risk Advantage

Defined risk is the biggest benefit for conservative traders like us. With credit spreads, our *maximum potential loss is known and fixed* the second you enter the trade. This is because the option you buy acts as a cap (a hedge or insurance) on how much the option you sold can move against you. No longer will we have to worry about a limitless downside, should the stock price plummet, nor will we have to commit large sums of our capital to potentially acquire a stock with a falling price.

We define our risk, manage our capital efficiently, and can size our positions precisely according to our comfort level and risk profile. This certainty allows for better risk management and more consistent trading over time.

Pros and Cons of Credit Spreads

CREDIT SPREADS	
PROS	CONS
<p>Defined Risk: Maximum loss is known upfront.</p>	<p>Limited Profit: Maximum gain is capped at credit received, which can be low compared to risk. We trade lower return for higher probability of success.</p>
<p>Upfront Income: Credit is received when opening the trade.</p>	<p>Risk/Reward Imbalance: One bad trade can wipe out several winning trades if the trade is not managed properly. Trade management is covered later in this book.</p>
<p>Favorable Time Decay: Credit spreads benefit from time decay (theta), especially as expiration approaches.</p>	<p>Directional Sensitivity: If the underlying moves against your position, losses can come quickly if trade management rules are not followed.</p>
<p>Flexible Market Views and Conditions: Depending on your market outlook, you can enter both bullish (BPS) or bearish (BCS) trades.</p>	<p>Volatility Risk: Rising IV can hurt your position, especially if the spread is NTM (near-the-money).</p>
<p>Lower Capital Requirement: Credit spreads require less capital, making them more accessible for smaller accounts.</p>	<p>Assignment Risk: If the short leg is ITM, the trade may be assigned early if you are using American-style options. Assignment risk increases as you near expiration.</p>
<p>High Probability Trades: If placed using OTM trades using our methodology, credit spreads have a high probability of expiring above your short put or below your short call, or expiring worthless.</p>	<p>Complexity for Beginners: While safer than some other options strategies, credit spreads still require an understanding of market and stock direction, strike selection, trade and stop placement, and expiration timing, which will be covered later in this book.</p>

Figure 2.3 Pros and Cons of Credit Spreads

CHAPTER 3

Stock and ETF Selection: Key Characteristics

One of the most important considerations we will be making when trading credit spreads is selecting the most appropriate underlying stock, ETF, or index. Since one of our goals is the generation of income, the proper underlying stock is key. This is the first step in the trade, with strike selections and trade management coming next.

In this chapter, we will cover the steps for selecting appropriate underlying stocks and ETFs that are suitable for credit spread trading.

Selecting Stocks or ETFs that are Moving in the Same Direction as the Market

Identifying market direction is the first step in identifying stocks and ETFs for credit spreads. Since most stocks move in the same direction as the market (roughly, 70%), identifying the market trend is our starting point. Remember the old market saying, “The trend is your friend!”

Since the “market” is universally considered to be represented by the S&P 500, market trend can be determined when looking at the S&P ETF, SPY. Institutions consider the market in an uptrend when the price is both above the 50-day simple moving average (50D-SMA), and above the 200-day simple moving average (200D-SMA). These moving averages can be set up quickly on virtually any stock charting tool, or on your broker trading platform.

- Uptrend: (SPY price > 50D-SMA) & (50D-SMA > 200D-SMA)
- Downtrend: (SPY < 50D-SMA) & (50D-SMA < 200D-SMA)

Selecting High Quality Stocks or ETFs

When trading credit spreads (particularly in retirement or income-focused portfolios), *stock quality matters*. We are not looking for speculative plays or the next breakout winner. Instead, we want *high quality, institutionally supported companies* that offer stability, predictable behavior, and reliable technical setups.

Many stocks that appear in the *BCI Weekly Stock Screen and Watch List* are suitable stocks in a bullish market trend.

Large Cap Companies

High quality stocks are typically large cap companies. These companies have well established businesses, consistent earnings, and large institutional following and ownership. This means that the price tends to move in more stable patterns. These stocks are less prone to manipulation or sudden volatility. They also make it easier to define technical levels such as support and resistance. The *BCI Blue Chip Report* is a valuable resource for these securities.

ETFs

ETFs are excellent choices for credit spreads because they are diversified by design and spread the risk across many holdings. They *generally* tend to move more gradually than individual stocks. With ETFs, there is no company specific risk and no surprises with earnings reports. They typically have lower implied volatility swings. Good candidates are SPY, QQQ, and DIA, as well as SPDR sectors such as XLF, XLV, and XLK. The *BCI Weekly ETF Report* is also a great resource for selecting quality ETFs.

Higher Liquidity

High quality stocks tend to be more liquid. This can translate into tighter bid-ask spreads and better order execution. Use this short checklist to help you find higher quality stocks.

- Average volume of AT LEAST 250,000 shares traded per day (BCI minimum guideline), but preferably around 1,000,000 shares traded per day for higher quality stocks
- Tight bid-ask spreads using the BCI guideline of \$0.30 or less (if possible, look for bid-ask spreads of \$0.20 or less)

Strong Fundamentals

Stocks with strong fundamentals contribute to price stability. Look for companies with positive **earnings per share (EPS)** growth. All stocks that appear in BCI reports are screened for strong fundamentals. Also consider stocks that

generate dividends, as these are typically cash-rich companies. A stock with strong fundamentals builds investors' confidence and make sharp price declines less likely.

Stocks with Institutional Ownership and Analyst Following

Stocks followed by analysts and owned by institutions tend to behave more rationally. Institutional ownership can act as a stabilizing force during times of high volatility. Consider stocks that are both part of a major index (especially the S&P 500) and are higher priced, as higher priced stocks tend to provide higher premiums for the same strike width and maximum risk.

Stocks with Moderate Implied Volatility (IV)

Ideally, we want stocks with higher IV that gives us higher premiums. However, higher quality stocks tend to have more moderate and predictable volatility. They are more ideal for defined risk credit spreads. We also want there to be no upcoming earnings reports or pending legal rulings. If the IV is too low, there may not be enough premium. However, too high an IV adds additional risk and trade management issues. Use the *BCI Credit Spread Calculator (CSC)* to determine if the initial returns align with your goals and personal risk tolerance.

ETF-like Stability

High quality stocks tend to behave like ETFs. They tend to have lines of business that are diversified, geographically spread out, and tend to be resilient to one-time events.

SUMMARY	
CHARACTERISTIC	WHY IT MATTERS FOR CREDIT SPREADS
Large-Market Cap	Provides Price Stability
High Daily Volume	Ensures liquidity and better bid-ask spreads
Strong Fundamentals	Indicates financial health and reduces risk of sharp price declines
Institutional Presence	Adds confidence and stability
Moderate Implied Volatility	Balances premiums received and risk
ETF-like Stability	Reduces single event exposure

Figure 3.1 Summary

High quality stocks give credit spread traders an edge, as they make the strategy more repeatable, manageable, and emotionally comfortable. You are stacking probabilities in your favor. The rest of the steps in the strategy (strike placement, spread width, and trade management rules) can only work if the foundation is sound.

A great place to begin your search for stocks to trade using credit spreads are the Blue Collar Investor reports. There are a variety of reports published there.

The Weekly Stock Screen and Watch List

This report has been continuously published every week since 2008. It contains a list of stocks and top 20 ETFs that have passed our rigorous stock screening protocol. You can use them to identify candidates for bull put spreads using the stocks that have passed the screening process (in white cells).

Similarly, you can use stocks that have been removed from the list as bear call spread candidates (in pink cells).

The Weekly Top Performing ETFs

This report has been continuously published every week since 2010. It contains all the ETFs that meet our rigorous ETF screening protocol. You can use it to identify candidates for bull put spreads.

The Monthly Blue Chip Report

This report has been continuously published every month since 2017. The report focuses on the DJIA (Dow 30) stocks. The report features the members of the Dow 30 that consistently outperform the S&P 500. Stocks on this list are excellent candidates for bull put spreads.

The Quarterly High Dividend Report

This report has been continuously published every quarter since 2017. The report focuses on high quality stocks that pay dividends between 2.5-8%. Many of these stocks can make excellent bull put spread candidates.

To learn more about these Blue Collar Investor reports and services, go to <https://www.thebluecollarinvestor.com>

CHAPTER 4

Identifying Opportunities: Core Technical Analysis for Credit Spreads

While the core of credit spread trading is about probabilities and time decay, identifying good opportunities often involves understanding basic technical analysis. For conservative traders, this means using charts to find areas where the market is likely to respect certain price levels, increasing the probability of your short option expiring worthless (out-of-the-money). Here, we will focus on foundational concepts: **timeframes, support and resistance, trend analysis, and volume.**

Timeframes

Be sure to use a combination of time frames, like daily and weekly charts. Daily charts are used for identifying overall trends and major support/resistance. They will be the main chart used to guide your stock selection, strike selection, and trade management. Weekly charts can be used for confirming long term trends as well as established levels.

Days to Expiration (DTE)

For conservative credit spreads, 30-45 **days to expiration (DTE)** tends to be the industry accepted standard. This is because you can capture theta decay without exposing yourself to gamma risk as you approach expiration. Shorter timeframes, like 7-14 DTE, typically offer faster theta decay, but require close trade management. Longer timeframes, like 45-60+ DTE reduce theta but allow for more time for adjustments. Though you do have more time for adjustments, never forget that the longer you are in a position, the longer you expose yourself to potential market risks.

Timing

As discussed in other BCI educational materials, the midday (11AM-2PM EST) tends to offer the best fills as well as more stable prices. Market volatility tends to settle after the opening (9:30 AM EST). It is good practice to avoid

entering trades in the first and last half hours of the trading day. These two half hour windows are when volatility is at its peak.

Exit timing will be covered in more depth later in this book. For now, we will visit some basic guidelines. First, *close credit spread trades early*. We do this to lock in early profits, reduce market risk, and make more efficient use of our capital, by making it available to deploy more quickly.

A good guideline is to *close the trade when you have achieved 50-80% of the max profit* for the trade. This helps us avoid potential assignment risks and volatility spikes as we near expiration. Using conditional orders or alerts will notify you and allow you to exit automatically when your target has been reached.

Support and Resistance Levels

Support and resistance levels are the most fundamental concepts in technical analysis and are crucial for placing credit spreads.

A **support** is a price level where a downtrend is expected to pause due to a concentration of demand. You can think of it as a floor where buyers step in. In a bull put spread, we want to sell our short put strike *below a strong support level*. This maximizes the probability that the stock will stay above your strike. Our trade is protected by the stock appearing to bounce off support.

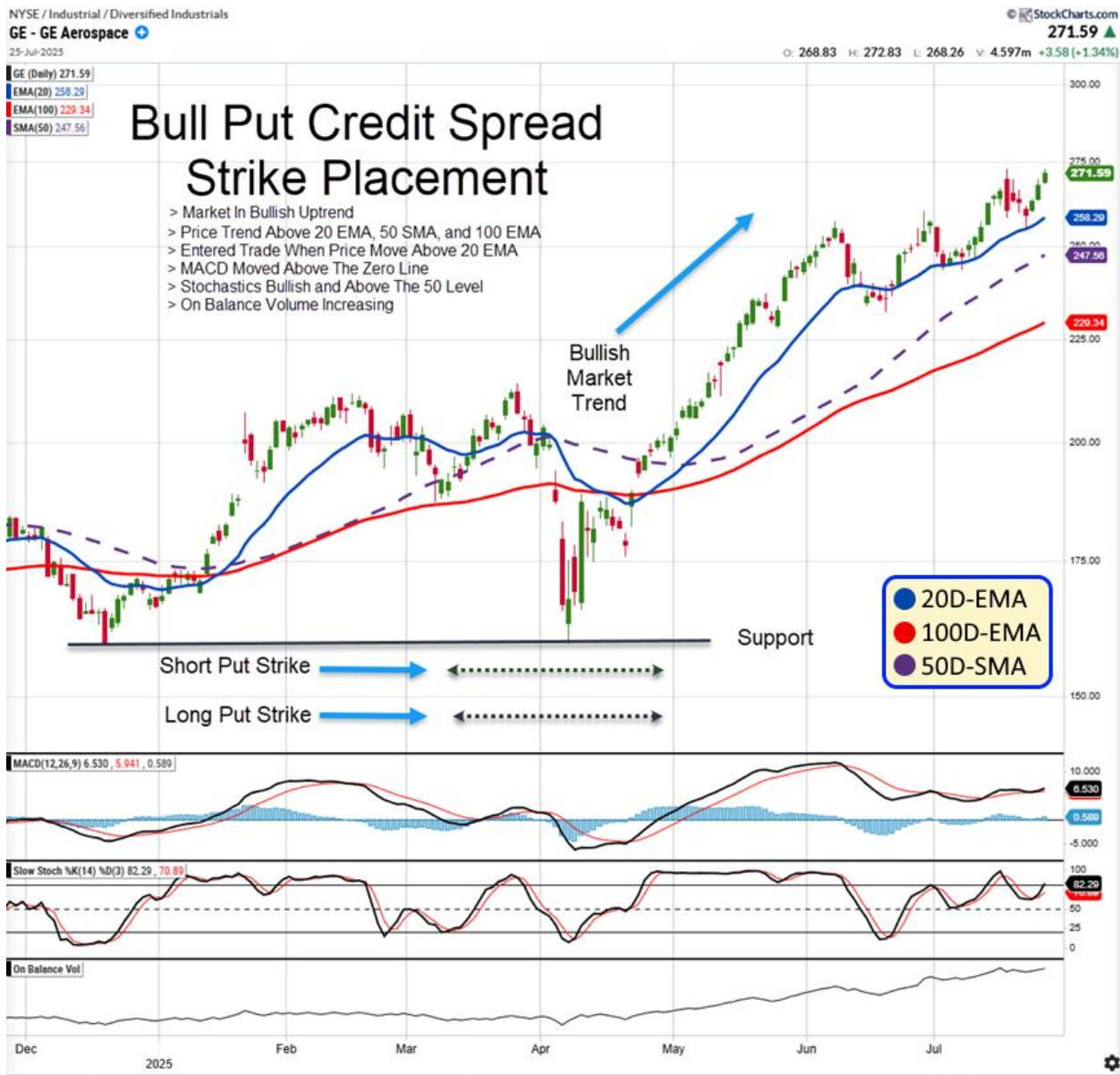


Figure 4.1 Bull Put Strike Placement (chart from stockcharts.com)

For example, if a stock has shown itself to bounce back up around \$160.00, then \$160.00 will serve us as a strong support level. We might consider selling a \$155.00 put (for a BPS) because there's a higher chance the stock stays above \$160.00.

Resistance is a price level where an uptrend is expected to pause due to a concentration of supply. We can think of this as a ceiling where sellers step in. For a bear call spread we want to sell our short call strike *above a strong resistance*

level. This maximizes the probability that the stock will stay below our strike. Our trade is protected whenever the stock hits the ceiling and bounces back down.

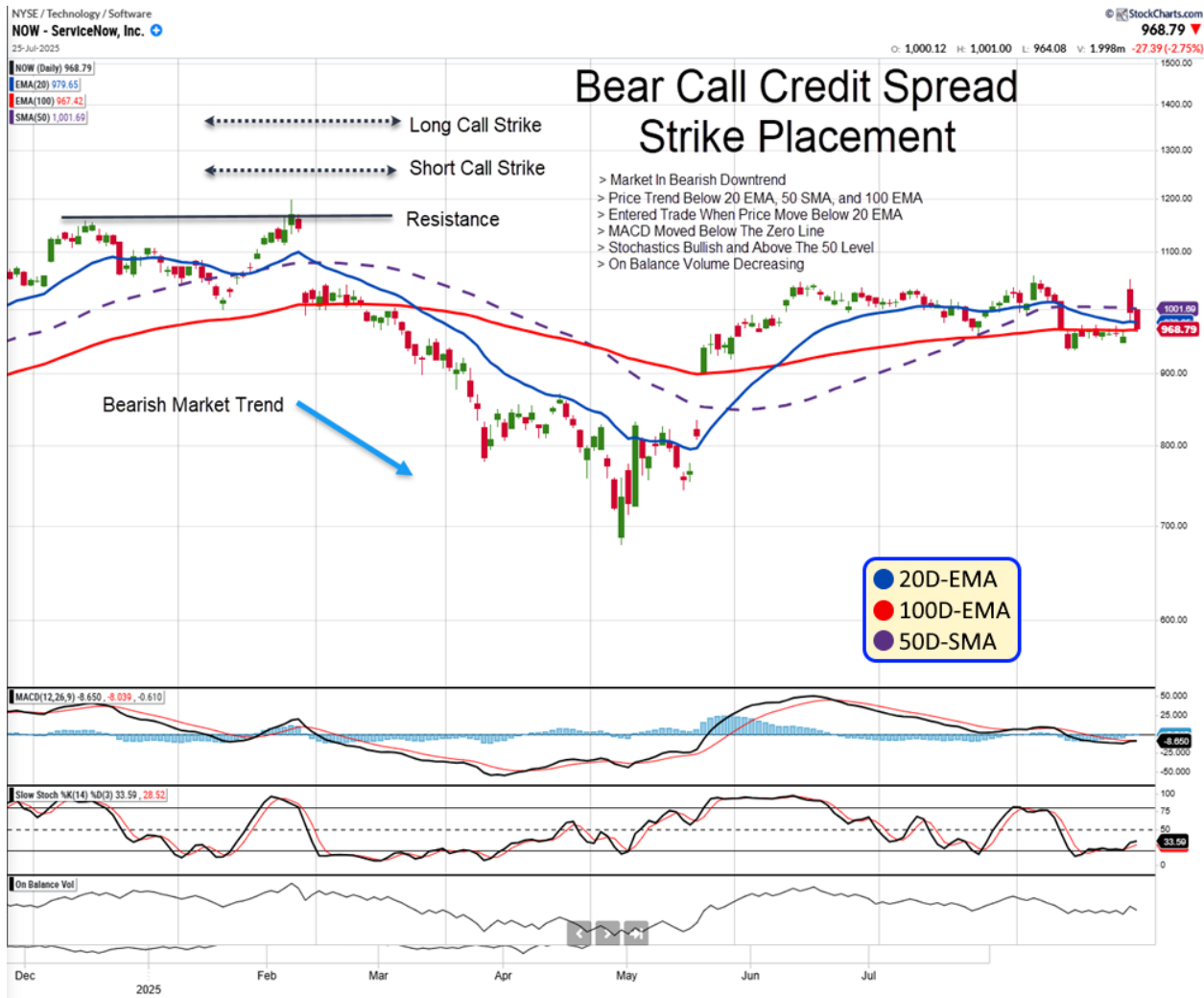


Figure 4.2 Bear Call Strike Placement (chart from stockcharts.com)

Here, our stock has repeatedly failed to break above \$1175.00, marking that as a strong resistance level. We might consider selling a \$1210.00 or \$1220.00 call (for a BCS) because there is a higher chance the stock stays below \$1175.00.

Identifying Support and Resistance

First, we look at prior highs and lows. By pinpointing where the price has repeatedly turned around in the past (or by finding a small range where it has), we can find the supports and resistances. We can also *draw* on the chart, creating lines to illustrate the prices where the stock price tends to reverse direction.

Psychologically, we may try to stick to whole, round numbers such as \$50.00, \$75.00, or \$100.00.

We may also use **moving averages (MAs)**, which act as *dynamic* supports and resistances. The **20-day Exponential Moving Average (EMA)** is used for defining short term trends.

The **100-day EMA** is a longer intermediate term MA used by the BCI. At the Blue Collar Investor, both the 20-day EMA and 100-day EMA are key moving average that we use for analyzing the stocks for the *Blue Collar Investor Weekly Stock Screen and Watch List* report.

The **50-day Simple Moving Average (SMA)** often acts as support in uptrends and resistance in downtrends. This is a key MA that institutions use to determine the market, stock, or ETF trend.

The **200-day SMA** is a significant long term indicator. Prices above are bullish; prices below are bearish. A strong signal is said to exist when the stock price respects this line. This is also a key MA that institutions use to determine market, stock, or ETF trends.

Ideally, these three moving averages should be “stacked”, that is, the 20-EMA above the 50-SMA, and the 50-SMA above the 100-EMA.

Trend Analysis

Understanding the current trend helps you align your credit spread with the trend. These trends are the uptrend, downtrend, and moving sideways (also called consolidation, or channeling).

An **uptrend** is characterized by higher highs and higher lows. When dealing with an uptrend, we would use the bull put spread. Look for where the stock has pulled back to, to ensure that it is in fact at a support. Place your short put below the support level.

A **downtrend**, on the other hand, is characterized by lower highs and lower lows. With a downtrend, we use the bear call spread. Look for resistance levels

where the stock has bounced back down from. Place your short call *above* the resistance.

A **sideways trend (also sometimes called consolidation, or channeling)** is when the price moves within an observable range. Both bear calls and bull puts are appropriate during a sideways trend, forming an *Iron Condor*, which is summarized in *Appendix F*.

Volume Analysis

Volume (the number of shares traded) is a measure we use to confirm the trend movements. This is industry standard practice. When *price rises with a rising volume*, we see what can be called a *strong uptrend*. If the price rises, but volume falls, we have a *weak uptrend*. When the price falls, but *retains a rising volume*, the *strength* of a downtrend is confirmed. If both the *price and volume fall*, we have a weak downtrend.

	RISING VOLUME	FALLING VOLUME
RISING PRICE	STRONG UPTREND	WEAK UPTREND
FALLING PRICE	STRONG DOWNTREND	WEAK DOWNTREND

Figure 4.3 Volume Analysis

Putting It All Together: Combining Technicals for High Probability Setups

1. **Trend Identification:** Identify if the stock is in an uptrend, downtrend, or a sideways channel. Keep in mind that whether or not it is in a sideways channel is a matter of observation.
2. **Find the Strong Support and Resistance Levels:** Find the key price levels that the stock has historically respected. Try to find as many points of contact (areas where it appears to “bounce” off of) as possible.
3. **Align your Strategy with the Trend:** If using bull put spreads, look for stocks in an uptrend which have pulled back to a strong support level. Sell the short put strike *below* this support.
If using bear call spreads, look for stocks in a downtrend that have bounced up to a strong resistance level. Sell your short call strikes *above* this resistance.

4. **Consider Volume:** Does the volume confirm the price action at these levels?

These allow you to find areas where your short options are likely to remain OTM.

CHAPTER 5

Selecting the Right Strikes: Delta, Standard Deviation, and Probability

Once you have identified a promising underlying stock using fundamental and technical analysis, the next crucial step is selecting the appropriate strike prices for your credit spread. For Blue Collar Investors, this is not a random choice. It is a data driven decision, leveraging concepts like delta, standard deviation, implied volatility, and probability of expiring OTM.

Delta for Short Leg Selection

Delta (Δ) is one of the key “Greeks”. It is a measure that has two practical uses for options traders. The first use is option price sensitivity, which tells us how much an option’s price is expected to change for every \$1.00 move in the underlying stock price.

The second use is delta as an approximation of the option’s probability of expiring in the money. The approximate probability that the option will expire out of the money can be expressed as $(1 - |\Delta|)$. Calls are represented with a positive delta ($+\Delta$), puts with a negative delta ($-\Delta$). For our calculations, delta is *always* its absolute value ($|\Delta|$).

For a credit spread, you’re selling the option that you want to expire worthless. Therefore, you want the option to have a *low delta*, indicating a high probability it will expire OTM. For our purposes, we want the delta between 0.1 and 0.3 (more aggressive traders may even use deltas up to 0.4, though this naturally presents greater risk of not closing OTM).

A 0.1Δ means there is roughly a 10% chance the option expires ITM, implying a 90% chance of expiring OTM. This is highly conservative, offering maximum probability of success, but typically a lower premium.

A 0.2Δ means roughly a 20% chance of expiring ITM, implying an 80% chance of expiring OTM. This offers a bit more premium for slightly more risk.

A 0.3 Δ means roughly a 30% chance of expiring ITM, implying a 70% chance of expiring OTM. This offers more premium for greater risk.

A lower delta is considered more conservative because we place our short strike further from the current stock price, giving the market more room to move without challenging your position. This translates to a higher statistical probability of success for the trade.

Standard Deviation (SD)/Implied Volatility and Expected Moves

Standard Deviation (SD)/Implied Volatility (IV) is a statistical measure of how much a stock's price has deviated from its average price over a certain period. In options trading, it is used to estimate the expected range of a stock's price movement by a certain expiration date when used in conjunction with IV statistics. A single standard deviation move (expressed as 1-SD) represents the range within a stock is expected to trade about 68% of the time by expiration.

Many options trading platforms or dedicated options calculators (like the new BCI Credit Spread Calculator and Expected Price Movement Calculator or brokerage tools) can show you the 1-SD expected moves for a given stock and expiration cycle based on the implied volatility of the NTM option strike price.

For conservative credit spread trading, we want our short strike price *outside of the 1-SD range.*

In a bull put spread, we sell the short put strike *below* the 1-SD range. For example, if a stock sits at \$100.00, and the 1-SD is \pm \$5.00 (meaning it is expected to stay between \$95.00 and \$105.00 68% of the time) you might sell the \$94.00 or \$93.00 put, which is *below* the 1-SD range, increasing your probability of success.

Similarly, with a bear call spread, we sell the short call strike *above* the 1-SD range. If a stock sits at \$100.00, and is expected to move \pm \$5.00, we might sell the \$106.00 or \$107.00 call, which is *above* the 1-SD range.

Standard Deviation and Delta Relationship

Typically, strikes corresponding to 1-SD have a delta of about 0.16 (for both calls and puts), or approximately an 84% probability of expiring OTM.

Options Chain Probability Column

Some trading platforms give you the ability of including a column that can be defined as *either* the possibility of expiring in the money, or the possibility of expiring out of the money. The probability of expiring in the money is expressed as P(ITM), whereas the probability of expiring out of the money is expressed as P(OTM). Some people may find it helpful to use the *probability cone*, which visualizes where an option's price is likely to fall given the confidence level expressed through the standard deviation.

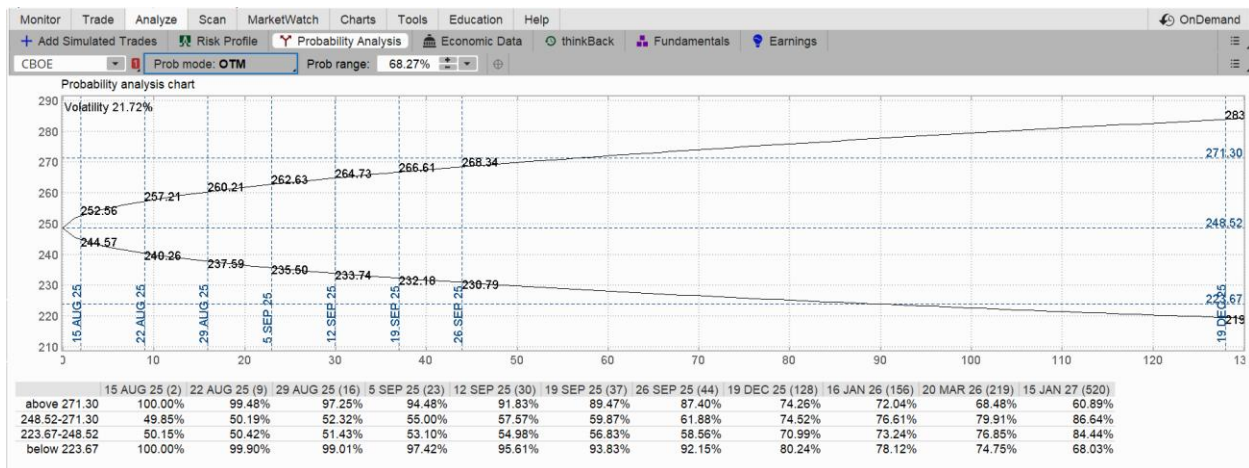


Figure 5.1 Probability Cone

Choosing the Long Leg (Hedging)

Once you've selected your short strike using delta, standard deviation, and probability (of expiring OTM), you need to choose the long (protective) leg of your spread.

We begin with defining our spread width. Our spread width determines our maximum loss. Narrow spreads (\$2.00-\$5.00) are generally recommended for conservative traders who are just starting out. They offer a lower premium, but with a smaller maximum loss per contract. For the more experienced traders, using wider spreads offers more premium but with higher maximum loss.

Your long option is insurance. We want it to be liquid and deep enough OTM to capture our maximum loss, but not so far OTM that it barely provides protection or becomes illiquid. To ensure liquidity, make sure the option has

sufficient open interest as well as low bid-ask spreads. This makes it easier to enter and exit the trade at a fair price. Avoid illiquid options, even if they have good probability. You can use the Blue Collar Investor guideline of at least 100 contracts of open interest and/or \$0.30 or less bid-ask spread.

Strike Selection Checklist

- **Underlying Stock/ETF Selection:**
 - Use the S&P 500 ETF, SPY, to give you an indication of the market trend. Make sure the spread you are using is favorable with the current market.
 - Check the trend and choose your spread appropriately. BPS for upward/bullish trends, and BCS for downward/bearish trends. It may help you to remember that BPS shares the P with “up”.
 - Find strong support levels (BPS) or resistance levels (BCS) on the chart.
 - Check that volume confirms price action.
 - Avoid stocks with upcoming major news (FDA news, pending court cases, etc.) or economic reporting (upcoming earnings reports, Fed announcements, etc.).
- **Expiration Cycle:**
 - Choose 30-45 DTE (days to expiration)
 - Ensure good liquidity in this cycle
- **Short Option (Sell Leg):**
 - **Placement:** For BPS, place the short put *below* strong support. For BCS, place the short call *above* strong resistance.
 - **Delta Target:** Aim for 0.1-0.3 Δ (remember that puts have negative delta).
 - **Probability:** Aim for 70%-90% P(OTM).
 - **Standard Deviation:** Ensure the short strike is *outside* the 1-SD range.
- **Long Option (Buy Leg):**
 - **Width:** Choose a narrow-spread width (for example, \$2.00-\$5.00) for defined, manageable risk. It is important to note that some underlying stocks or ETFs may have only \$10.00 wide strikes.
 - **Liquidity:** Ensure the long option also has good liquidity.

- **Strike:** For BPS, the strike is placed *below* your short put. For BCS, the strike is placed *above* the short call.
- **Net Credit:**
 - Ensure the net credit provides a reasonable return on your maximum risk (approximately 10-30%).

By diligently following our process, you can increase the statistical odds in your favor, which is the cornerstone of conservative income generation with credit spreads.

CHAPTER 6

Using Spread Width, Theta, and Vega for Risk Management

For the conservative trader, risk management is the foundation of every trade. With credit spreads, the risk is defined, but that does not mean it is negligible. Prudent management is paramount to consistent success, and more importantly, to preserving your capital.

The Foundation of Conservative Trading

Before placing any credit spread, it is important that you internalize these four principles.

First, your capital preservation is paramount. Your goal with these, first and foremost, is to protect your trading capital. The profits you receive trading credit spreads, while nice, is secondary.

Second, trade small and trade often (strategically, of course). Never risk a substantial portion of your portfolio on a single trade, no matter how tempting it may be. Small, high-probability trades executed consistently add up over time. If you can imagine your portfolio slowly dwindling away, you can just as easily imagine it slowly growing in value.

Third, know your potential maximum loss upfront before you send in your buy or sell orders. You should *always* know your worst-case scenario and be comfortable with your maximum potential loss.

Finally, no “Hail Mary” trades. Trading on the market is *not* gambling, so avoid speculative *bets*. Stick to high-probability setups.

Defining Risk Tolerance

No one can know your risk tolerance but you. We do have some pointers to help you find out, however.

First, portfolio allocation. Never allocate more than a small percentage of your total trading capital to a single credit spread. For beginning traders, it is a common guideline to not put more than 2% of your total trading capital on any one trade. As always, remember to diversify your holdings. Make it a point to be invested in separate, unrelated sectors.

Second, determine your position size. Your position size should not be determined by how much you hope to gain, but *by how much you are comfortable losing*. Let your maximum acceptable loss determine your position size, not the other way around.

The Importance of Spread Width

The width of the spread (the difference between the strike prices of your short and long options) is critical. The typical spread widths are \$2.50, \$5.00, and \$10.00.

Wider spreads (\$10-20 range) offer more premium (higher credit) in exchange for a higher maximum loss if the spread works against you.

Narrower spreads (\$1.00-\$5.00 range) offer less premium (lower credit) in exchange for a lower maximum loss. It is recommended that you start with these narrow spreads first, as this keeps your maximum loss per contract manageable and allows you to learn without risking too much capital.

Time Decay (Theta) and Its Role

Theta (Θ) is the friend of the credit spread seller. **Time Decay** is the concept of the premium decreasing as expiration nears. It represents the rate at which an option's time-value decreases over time (all else being equal). When you sell a credit spread, you receive a net credit. Both the sold option and the bought option lose value due to time decay.

The short option (the option you sell), being closer to the money than the long option (the one you bought), *experiences faster time decay* than the long option. This differential decay is why credit spreads profit as time passes *and* as the underlying price stays outside your spread.

Search for expirations that are about 30-45 DTE. This offers a good balance of time decay acceleration as well as offering enough time for the stock to stay outside of your strike zone. For beginners, it is a good idea that you avoid very short-dated options (less than 10 DTE) as they can be highly volatile and hard to manage. It is also good practice (as a beginner) to avoid the very long-dated options as the time decay with these is much slower (as well as being exposed to more potential market risks).

Volatility (Vega) and Implied Volatility (IV)

Vega (V) measures an option's sensitivity to changes in implied volatility. **Implied Volatility (IV)** is the market's expectation of future price swings.

We want to sell credit spreads when the IV is high. In times of volatility and uncertainty, IV increases across the board. Higher IV means inflated option premiums, allowing you to collect more credit for the same risk.

If the IV drops after entering a trade, your options lose value even if the stock price does not move (this is beneficial to you).

Remember that IV is affected by the news. News of tariffs, or new business regulations, or interest rate announcements, or anything that may pertain to the stock in question, will influence the IV.

Note that extremely high IV (80% or higher) adds more risk to the trade and makes it harder to exit the trade.

Managing Expectations: Realistic Returns

Conservative credit spread trading is about *consistent, smaller gains*. We are not after home runs. Aim for a reasonable return on risk (recall, maximum profit ÷ maximum loss). Many traders target 10-30% ROR for a successful trade.

A high win rate (70% or higher) is typical for conservative credit spread strategies due to the appropriate selection of OTM strikes. Even with a high win rate, managing losses quickly on the losing trades is key. The smaller consistent gains compound over time and steadily build your account value.

Always prioritize defining and controlling your maximum potential loss. Small, high probability trades combined with proper position sizing are the hallmarks of successful conservative credit spread trading.

CHAPTER 7

Trade Entry and Management: Bull Put Spreads

You've done your homework. You've identified a suitable stock, analyzed its chart, and selected your ideal strikes using delta and probability. Now it's time to put theory into practice. This chapter walks you through a conservative BPS trade, from entry to management.

Case Study: BPS Setup – Neutral to Slightly Bullish Outlook

Let's imagine it's early October, and you're looking at the stock DEF, currently trading at \$100.00 per share.

- **Technical Analysis:**
 - **Trend:** DEF has been in a steady uptrend for the past six months, marked by higher highs and higher lows.
 - **Support:** It recently pulled back from \$105.00 to \$100.00 and is now bouncing off its 50D-SMA, which, historically, has acted as strong dynamic support. There's also a clear historical support level at around \$98.00 from a previous consolidation phase.
 - **Volume:** The volume is average, which does not indicate any major reversal.
- **Market Outlook:** Based on available data, you believe DEF will likely continue its uptrend or at least stay above \$95.00, given the strong support levels.
- **Expiration Selection:** You choose the November 17th expiration (45 DTE).
- **Implied Volatility (IV):** IV for DEF options is at a reasonable level, not excessively high or low.

Step 1: Selecting the Short Put Strike

Based on our approach:

- You want to sell a put strike well *below* the current price and below the identified support levels.

- Your 50-D SMA is around \$99.00, and historical support is at \$98.00.
- You check the options chain for the November 17th expiration:
 - o The \$95.00 put has a delta of -0.18 (meaning an 82% chance of expiring OTM).
 - o The Platform's 1-SD expected move for November 17th suggests a downside target for \$96.00. You're placing your short strike further out (lower).
 - o The \$95.00 put looks good.

Step 2: Selecting the Long Put Strike (Hedge)

- You want a narrow spread for defined, manageable risk. A \$5.00-wide spread seems appropriate.
- The strike directly below your \$95.00 short put would be the \$90.00 put.
- You check the options chain for the \$90.00 put. It has good liquidity.

Step 3: Calculating Net Credit and Risk/Reward

Using the **mid-prices**:

- Sell the November 17th \$95.00 put @ \$1.80
- Buy the November 17th \$90.00 put @ \$0.80
- Net Credit: $\$1.80 - \$0.80 = \mathbf{\$1.00}$ (\$100.00 per contract)
- Max Profit: \$100.00 (if DEF stays above \$95.00 at expiration)
- Spread Width: $\$95.00 - \$90.00 = \mathbf{\$5.00}$
- Max Loss (Risk): $\$5.00 - \$1.00 = \mathbf{\$4.00}$ (\$400.00 per contract)
- Return on Max Risk: $(\$100.00 / \$400.00) = \mathbf{25\%}$ (Reasonable, conservative target)
- Breakeven Point: $\$95.00 - \$1.00 = \mathbf{\$94.00}$

Step 4: Placing the Trade

You'll place a **limit order** for the entire spread.

- Action: Sell to Open (STO) 1 DEF Nov. 17 \$95.00/\$90.00 Put Spread @ \$1.00 Limit
- Order Type: This will be a multi-leg order on your brokerage platform.

Entry Checklist for Bull Put Spreads

- Technical Confirmation:
 - o Metrics should align with the metrics in BCI reports.
 - o Stock in uptrend or solid consolidation
 - o Strong support level below current price
 - o Short put strike below strong support
 - o No upcoming major news events before expiration
- Option Chain Selection:
 - o DTE in 30-45 day range
 - o Both legs have good liquidity (open interest, low bid-ask spread).
- Strike Selection:
 - o Short put delta in -0.1 to -0.3 range
 - o Short put P(OTM) 70% or higher
 - o Short put strike outside the 1-SD range
 - o Narrow spread width (\$2.00-\$5.00)
- Risk/Reward
 - o Net credit provides 10%-30% ROR.
 - o Max loss within portfolio allocation limits
- Order Entry:
 - o Use a limit order for spread.

Managing Trade: Your Conservative Playbook

Patience is key once the trade is live. Remember, time decay works in your favor. However, you must be prepared to manage the trade if conditions change.

It is wise to take your profits early. Profits taken are never profits lost. Aim to close the spread for 50-80% of your maximum potential profit. By taking profits early, we reduce exposure to unforeseen market moves in the final days and hours before expiration. We have captured most of the time decay.

*Set a **GTC (Good 'til Cancelled)** limit order to close your spread at your target profit as soon as you enter the trade. If the trade has not yet reached your profit target, but is still safely OTM with 7-10 days to expiration, consider closing for a smaller profit or breakeven to avoid the end of expiration week volatility.*

Defensive Adjustments for When the Trade Goes Against You

This is where defined risk shines. You know your maximum loss, but you can often mitigate it. If a stock price approaches your short strike (within 1-2%), or if your spread loses 50-75% of its maximum profit (your unrealized loss reaches this level), it's time to consider an adjustment or closing the trade. Don't wait for your max loss to be hit.

Roll Down and Out (BPS)

When we "roll down and out", we close the original trade and open a new trade in the next expiration period (the Roll Out) at a lower price (the Roll Down). When the short put is threatened, to avoid buyers exercising their rights, we buy back the original short put, sell the original long put (essentially closing the trade), and execute a new trade further out in time (usually in the next expiration period). This new trade has both a lower short put and lower long put. Ideally between closing the old trade and opening the new trade, there will still be a net positive premium. This is done if you still believe in the stock long term but find that your timing this time around wasn't great.

Roll Out (BPS)

If the stock price falls and your short put is being challenged, but you want to give it more time without changing the strike, consider a "roll out". Roll outs involve "rolling" entire spread to the next expiration cycle (from one month to the next), *keeping strike prices the same* (the Roll Out, without the Down).

Cutting Losses by Closing the Trade

If the stock makes a strong move against you and your short strike is breached, or if you lose conviction (confidence) in the trade, **Buy to Close (BTC)** the entire spread. The trade is closed at a loss, but that loss is less than the maximum loss. We cut our losses here to prevent it from hitting our maximum loss. When the cost to exit (debit) reaches 200% of the credit we received when we entered initially, it is time to close the trade.

Handling Assignment Risk

If your short put is ITM on expiration day (especially in the last hour of trading), *close the spread immediately!* Don't risk assignment. The cost to close will be close to your maximum loss. Assignment can occur as early as the Thursday before Expiration Friday.

If you are assigned (and your long put is ITM before 4PM on Expiration Friday), you can immediately exercise your long put to sell those shares at its strike price. This action caps your loss at the max loss. However, this is more complex and less desirable. *It is always better to close the spread before assignment!*

Options trading can continue for about an hour after market close, generating additional risk of assignment. You cannot, however, exercise your short put after the market close – only the long put. This gives you a window to prevent assignment and possibly larger losses.

Exit Considerations for BPS

- Profit Target
 - o 50-80% of max profit reached
- Time
 - o Less than 7-10 DTE *and* not at profit target
- Price Action
 - o Cost to close (debit) at 200% of initial credit received when entering the trade
 - o Stock nearing or breaching your short put strike (within 1-2%)
 - o Breakeven is breached (price drops below)
 - o Unrealized loss hitting 50-75% of max profit
- Fundamental Change
 - o Company's outlook changed
 - o Major negative news involving company or sector
- Expiration Day
 - o If the short put is ITM, *close the spread before the market closes!* Before 3PM is best since the last hour of the trading day tends to be very volatile.

Consistent application of these entry and management principles will help you extract consistent income from bull put spreads.

CHAPTER 8

Trade Entry and Management: Bear Call Spreads (BCS)

Just like bull put spreads, **bear call spreads (BCS)** offer defined risk income, but are designed for neutral to bearish markets. The principles of entry and management are similar to that of the bull put spread, but are reversed.

Case Study: The Bear Call Spread Setup (Neutral to Slightly Bearish)

Let us imagine it is the middle of March, and you are looking at stock XYZ, which is currently trading at \$50.00 per share.

- **Technical Analysis:**
 - **Trend:** XYZ has been in a downtrend for the past few months, making lower highs and lower lows.
 - **Resistance:** It recently bounced from \$45.00 to \$50.00, and is now hitting its 50-day SMA, which has acted as a strong dynamic resistance historically. There is also another historic resistance at \$52.00 from a prior consolidation phase.
 - **Volume:** Volume on the recent bounce is declining, suggesting it's not a strong reversal.
- **Market Outlook:** You believe XYZ will likely continue its downtrend or at least stay below \$55.00, given the strong resistance levels.
- **Expiration Selection:** You choose the *April 19th* expiration (35 DTE).
- **Implied Volatility (IV):** IV for XYZ options is elevated due to recent price swings, making premiums attractive.

Step 1: Select the Short Call Strike

Based on our approach:

- You want to sell a call strike *well above* the current price and above the identified resistance.
- Your 50D-SMA is at \$51.00, with a historical resistance at \$52.00.
- You check the options chain for the April 19th expiration:

- The \$55.00 call has a delta of 0.15 (15% chance of expiring ITM).
- The platform's 1-SD expected move for April 19th suggests an upside target of \$53.00. You place your short strike further out.

The \$55.00 call looks good.

Step 2: Selecting the Long Call Strike (Hedge)

- You want a narrow spread; in this case, \$5.00 wide.
- The strike directly above your \$55.00 short call would be the \$60.00 call.
- You check the options chain for the \$60.00 call. It has good liquidity.

Step 3: Calculating Net Credit and Risk/Reward

Using the mid-prices:

- Sell April 19th \$55.00 call @ \$1.20 per share
- Buy April 19th \$60.00 call at \$0.40 per share
- Net Credit: $\$1.20 - \$0.40 = \$0.80$ (\$80.00 per contract)
- Max Profit: \$80.00 (if XYZ stays below \$55.00 at expiration)
- Spread Width: $\$60.00 - \$55.00 = \$5.00$
- Max Loss (Risk): $\$5.00 - \$0.80 = \$4.20$ (\$420.00 per contract)
- Return on Max Risk: $(\$80.00 / \$420.00) = 19\%$ (a reasonable return for a high-probability trade)
- Breakeven Point: $\$55.00 + \$0.80 = \$55.80$

Step 4: Placing the Trade

You'll place a limit order for the entire spread.

- **Action:** Sell to Open (STO) 1x XYZ April 19th \$55.00/\$60.00 call spread @ \$0.80 limit
- **Order Type:** This will be a multi-leg order on your brokerage platform.

Entry Checklist for Bear Call Spreads

- **Technical Confirmation:**
 - Stock is down-trending or in solid consolidation
 - Has a *strong* resistance level identified above the current price
 - Has a short call strike placed *above* the strong resistance
 - No pending major news
- **Option Chain Selection:**
 - DTE is in the 30-45 day range
 - Both legs have good liquidity (open interest, low bid-ask)
- **Strike Selection:**
 - Short call delta is in the 0.1-0.2 range
 - Short call P(OTM) is 70%+
 - Short call strike *outside* the 1-SD range
 - Spread width is narrow (\$2.00-\$5.00)
- **Risk/Reward:**
 - Net credit provides 20%-30% ROR
 - Max loss is within your portfolio allocation limits (1%-2% of total capital)
- **Order Entry:**
 - Use limit order for the spread

Managing the Trade

Management principles for BCS are the mirror image of the principles for the BPS.

Profit Taking (The Goal):

Our target is 50-80% of the maximum potential profit. Again, we exit early to reduce exposure to market risks as well as capturing most of the time decay. Set a GTC limit order to close your spread at your target profit as soon as you enter the trade. If the trade has not reached your profit target, but is still safely OTM with 7-10 DTE, consider closing the trade.

Defensive Adjustments in Case the Trade Goes Against You

A rule of thumb is that if the stock approaches your short strike (within 2%), or if your spread loses 50%-75% of its maximum profit, it is time to consider an adjustment or closing the trade.

Roll Up and Out (BCS)

For a bear call spread, we *roll up and out*, instead of down and out. When we do this, we close the original trade and open a new trade in the next expiration period (the Roll Out) but at a higher price (the Roll Up). When the short call is threatened, to avoid expiration, we buy back the original short call, sell the original long call (essentially closing the trade), and execute a new trade further out in time (usually the next expiration period). This new trade has both a higher short call and a higher long call. Ideally between closing the old trade and opening the new trade, there will still be a net positive premium. This is done if you still believe in the stock long term but find that the market was not on your side.

Roll Out (BPS)

If the stock price falls and your short put is being challenged, but you want to give it more time without changing the strike, consider a “roll out”. Roll outs involve “rolling” the entire spread to the next expiration cycle (from one month to the next), *keeping strike prices the same* (the Roll Out, without the Up)

Cutting Losses by Closing the Trade

If the stock makes a strong move against you, and your short strike is breached, or if you lose confidence in the trade, buy to close the entire spread. The trade is closed at a loss, but the loss is less than the maximum loss. We are cutting our losses here to prevent it from hitting our maximum loss. When the cost to exit (debit) reaches 200% of the credit we received when we entered the trade initially, it is time to close the trade. This is generally the preferred exit strategy.

Handling Assignment Risk

If your short call is ITM on expiration day (especially in the last hour of trading), *close the spread immediately!* Don't risk assignment. The cost to close

will be near your maximum loss. Assignment can occur as early as the Thursday before Expiration Friday.

If you are assigned (and your long call is ITM before 4PM on Expiration Friday), you can immediately exercise your long call to sell those shares at their strike price. This action caps your loss at the max loss. However, this is more complex and less desirable. *It is always better to close the spread before assignment!*

Options trading can continue for about an hour after market close, generating additional risk of assignment. You cannot, however, exercise your short call after the market close – only the long call. This gives you a window to prevent assignment and possibly larger losses.

Exit Considerations for Bear Call Spreads

- Profit Target
 - o 50-80% of max profit reached
- Time
 - o Less than 7-10 DTE and not at profit target
- Price Action:
 - o Cost to close the trade (debit) is 200% of the credit received when initially opening the trade.
 - o Stock nearing or breaching your short call strike (within 1-2%)
 - o Breakeven price is breached
 - o Unrealized loss hitting 50-75% of max profit
 - o Consider rolling or closing the trade to cut losses.
- Fundamental Change
 - o Company's outlook changed
 - o Major negative news involving company or sector
- Expiration Day
 - o If the short call is ITM, *close the spread before the market closes!* Before 3PM is best since the last hour of the trading day tends to be very volatile.

CHAPTER 9

Review of an Actual Trade in Detail

In this chapter we will review an actual trade in detail using the steps outlined in Appendix C, “BCI Conservative Credit Spread Trading Check List”. This trade was done in a ThinkOrSwim trading account for illustrative purposes to present the steps that a new credit spread trader would go through. The trade details are:

- The stock that we will be trading is General Electric Co. (NYSE: GE).
- Trade Entry Date was 05/27/25.
- The tools that we will use are:
 - Your trading platform. In this case we will be using Schwab’s “ThinkOrSwim” and the associated options chain.
 - A charting package. In this case we will be using the charting package that is part of “ThinkOrSwim”.
 - A tool for stock selection. In this case, we will be using the BCI “Weekly Stock Screen and Watch List” report from the week ending May 22, 2025.
 - The “Expected Price Movement Calculator”
 - The “Bull Put Calculator”
 - The “Credit Spread Profit and Loss Journal”
 - The “BCI Conservative Credit Spread Trading Check List”
 - The “BCI Conservative Credit Spread Guidelines”

Step 1: Identify Market Direction

Typically, with credit spreads, we want to trade in the direction that the market is moving in. Old time Wall Street pundits say the “The Trend Is Your Friend”, since 70+% of the stocks move in the same general direction as the market. Since the generally accepted surrogate for the “market” is the S&P 500 index, we can use the S&P 500 ETF, the “SPY”.

The easiest way to determine the market direction is to use a chart of the S&P 500. In this case, you can use a chart of the SPY or the SPX index. To see this detail, a chart of the SPY was used, as illustrated in Figure 9.1 below. As you can see in the chart:

- All three of the moving averages are moving up and to the right.
- All three of the moving averages are “stacked” bullish. That is, the 20 Day EMA is above the 50 Day SMA, and the 50 Day SMA is above the 100 Day EMA.
- The SPY is making higher highs and higher lows during the time that the trade was entered.

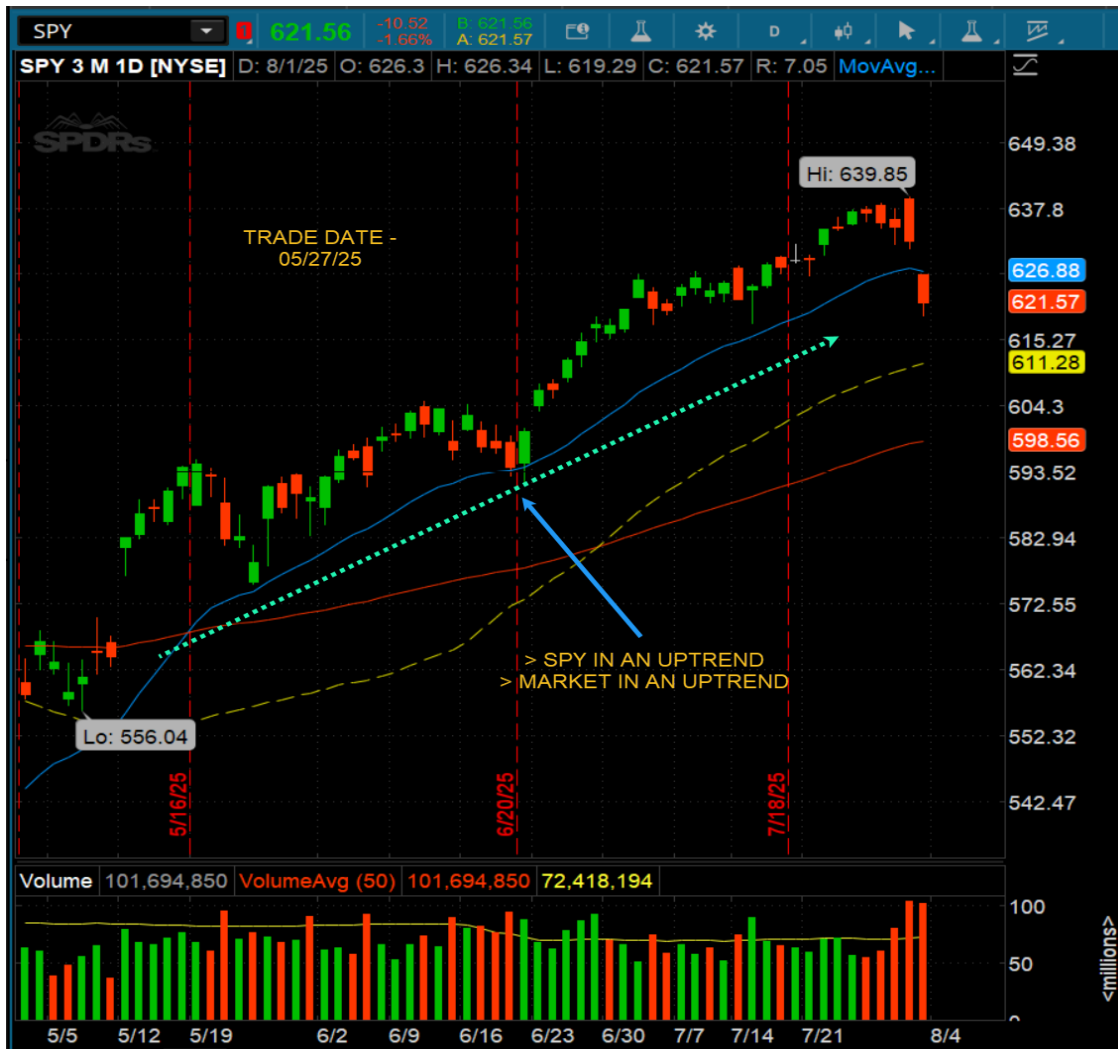


Figure 9.1 Chart of the S&P 500 ETF SPY

Here you can see from the chart, the market is in a Bullish uptrend when we entered the trade.

Step 2: Select Trade Type:

Since we have determined that the market is in a Bullish uptrend, following the guidelines presented in this book, the recommended strategy is to use a Bull Put Spread. A Bull Put Spread takes advantage of the Bullish market direction.

Step 3: Select the Stock, ETF, or Index

There are many ways to find and select suitable stocks for trading. Since 2007, The Blue Collar Investor Weekly Stock Screen and Watch List has proven to be a great resource to find great tradable stocks for all market conditions.

We used the Weekly Stock Screen and Watch List report for the week ending May 22, 2025 for selecting the stock for this actual trade. A portion of this report is below in Figure 9.2.

Symbol	Company Name	Wkly Rank or Other Source	Price (\$ US)	Industry Segment	Segment Rank	Pass Fund'l & Tech Screens	Mean Analyst Rating (MAR)	OBV	Chart: Price Bar Above 20 EMA Above 100 EMA (Y/N/@)	Tech Ind. OK: MACD & STOCH. (Y/N/?)	Chart Comments	Beta	% Div. Yield	Aprx Curr ATM IV%	NTM OI >100 Contr	Next ER Date (Estimate, Subj To Change Unless in Bold) SEE NOTE IN KEY	Wkly Avail	# Wks On Run List	Comments (The last or next Ex-Div date is shown)
PASSED PREVIOUS WEEKS & PASSED CURRENT WEEK																			
DY	Dycom Industries	Other	224.21	Telecom	A/A	Y	1.00	▲	Y	Y		1.11		35.7	Y	05/20/25		2	
MNSO	MINISO Group Holding	Other	22.19	Retail	A	Y	1.37	▲	Y	Y		1.00	2.60	55.6	Y	05/23/25		1	04/08/25
NVDA	NVIDIA CORP	PRW	132.83	Chips	B/B	Y	1.41	▲	Y	?	MACD ▲ / STO ▼	2.16	0.00	50.4	Y	05/28/25	Y	2	03/12/25
FUTU	Futu Holdings Cl A Ads	23	111.44	Finance	B/A	Y	1.32	▲	Y	Y		1.46		60.3	Y	05/29/25	Y	3	12/06/24
RY	Royal Bank of Canada	BC20-16	126.52	Banks	A/B	Y	1.20	▲	Y	?	MACD ▲ / STO ▼	0.56	3.30	19.2	Y	05/29/25		4	04/24/25
ZS	Zscaler Inc	43	252.82	Software	A/A	Y	1.66	▲	Y	?	MACD ▲ / STO ▼	1.47		43.9	Y	05/29/25	Y	9	
GGAL	Grupo Fin Galicia ADR	Other	62.33	Banks	A/A	Y	1.67	▲	Y	?	MACD ▲ / STO ▼	1.44		46.2	Y	06/03/25		4	07/26/24
HEI	Heico Corporation	BC20-14	267.08	Aerospace	A/A	Y	2.08	▼	Y	?	MACD ▲ / STO ▼	0.73	0.10	35.6	Y	06/03/25		4	01/03/25
AGX	Argan Inc	2	196.97	Building	B/A	Y	2.00	▲	Y	?	MACD ▲ / STO ▼	1.42	0.80	77.1	Y	06/04/25		5	04/22/25
AVGO	Broadcom Inc	BC20-6	230.53	Chips	B/B	Y	1.42	▲	Y	?	MACD ▲ / STO ▼	2.08	1.00	52.4	Y	06/05/25	Y	2	03/20/25
JPM	JPMorgan Chase	PRW	260.67	Banks	A/B	Y	2.04	▲	Y	?	MACD ▲ / STO ▼	0.97	2.20	23.1	Y	07/11/25	Y	2	07/03/25
BK	Bk of NY Mellon	PRW	89.18	Banks	A/B	Y	1.78	▲	Y	?	MACD ▲ / STO ▼	0.89	2.10	23.5	Y	07/15/25	Y	3	04/21/25
GE	GE Aerospace	BC20-7	230.27	Aerospace	A/A	Y	1.55	▼	Y	?	MACD ▲ / STO ▼	1.20	0.60	29.7	Y	07/22/25	Y	5	03/10/25
BSX	Boston Scientific	BC20-13	104.50	Medical	B/B	Y	1.38	▼	Y	?	MACD ► / STO ▼	0.74		25.4	Y	07/23/25	Y	5	

Figure 9.2 Weekly Stock Screen and Watch List for 5/22/25

The stock chosen is **GE Aerospace**. This stock meets the criteria for a good credit spread candidate. Specifically:

- It passed the Blue Collar Investor rigorous screening process.
- No upcoming ER reports or Ex Div days.
- It has passed the screening process for five consecutive weeks.

- It is a member in the S&P 500 index and is a member of the Fortune 500...a quality stock.
- It is in a strong industry that is showing growth (Aerospace current rated “A”).
- It has a strong following among analysts with a Mean Analyst Rating (MAR) of 1.55 (1 is best; 5 is worst).
- GE is in a strong bullish uptrend as illustrated in Figure 9.3, the chart of GE Aerospace.



Figure 9.3 GE Aerospace Chart

As you can see in the chart above, GE is in a bullish uptrend with all three moving averages “stacked”. The chart confirms the selection of GE Aerospace as a suitable stock for a Bull Put Credit Spread. You may also want to make an entry into your trading journal as to key reason or reasons for selection the stock that you have chosen.

Step 4: Short Strike Selection

Credit spread trading involves the use of several factors to help you identify your short strike price. As discussed in earlier chapters, factors to consider are:

- Expected price movement during the life of the trade. This is important because you want to be close to the outside of the range of the expected move. In this case, you can use the Blue Collar Investor “Expected Price Movement Calculator”. We will review this later in this chapter.
- The Greek “Delta”. Among the uses of Delta, it represents the approximate probability of the stock closing In-The-Money (ITM). Alternatively, $(1 - \text{Delta})$ is the approximate probability of the stock closing Out-of-The Money (OTM). The BCI Conservative Credit Spread Guidelines recommend a Delta in the range of 0.10 to 0.30 for Bear Call Spreads and -0.10 to -0.30 for Bull Put Spreads.
- Support and Resistance are critical. You always want your short put below strong support and your short call above strong resistance.
- Standard Deviation is another consideration. Most conservative short strikes should be beyond 1-standard deviation (1-std dev) for the OTM limit.

Let’s take these considerations into selecting the short put for the GE Aerospace Bull Put Spread. To start, we need to look at the options chain on May 22, 2025, the day the trade was entered. This is represented by Figure 9.4.

May 27, 2025 Trading Day									
GE	GE AERO...	241.78	+8.99 +3.86%	B: N/A A: N/A	ETB NYSE	MM ±2.73	EXTO Eligible	Company Profile	05/27/2025
Underlying									
	Last	Net Chng	Volume	Open	High	Low			
	241.78	+8.99	7,162,378	235.42	242.28	235.10			
Option Chain Sides: Put Spread: Single Mark, Open Inter...									
Strikes: ALL PUTS									
Exp	Strike	Bid	Ask	Mark	Open.Int	Impl Vol	Delta	Prob.OTM	
20 JUN 25	(24) 100							35.89% (±17.683)	
20 JUN 25	215	1.06	1.15	1.105	94	37.20%	-10	88.54%	
20 JUN 25	217.5	1.23	1.35	1.290	1,174	36.13%	-11	86.81%	
20 JUN 25	220	1.51	1.60	1.555	6,499	35.41%	-13	84.54%	
20 JUN 25	222.5	1.81	1.94	1.875	118	34.72%	-16	81.94%	
20 JUN 25	225	2.15	2.35	2.250	582	34.02%	-19	79.00%	
20 JUN 25	227.5	2.66	2.83	2.745	170	33.61%	-22	75.49%	
20 JUN 25	230	3.20	3.40	3.300	1,540	33.08%	-25	71.73%	
20 JUN 25	232.5	3.85	4.00	3.925	452	32.45%	-29	67.68%	
20 JUN 25	235	4.55	4.75	4.650	2,082	31.83%	-34	63.28%	
20 JUN 25	237.5	5.45	5.70	5.575	1,900	31.60%	-39	58.42%	
20 JUN 25	240	6.45	6.65	6.550	459	31.08%	-44	53.48%	
20 JUN 25	242.5	7.60	7.85	7.725	7	30.87%	-49	48.35%	
20 JUN 25	245	8.90	9.05	8.975	11	30.43%	-54	43.20%	
20 JUN 25	247.5	9.50	10.60	10.050	36	28.72%	-60	37.68%	
20 JUN 25	250	11.80	12.20	12.000	2	30.10%	-64	33.28%	
20 JUN 25	252.5	12.90	14.45	13.675	0	29.82%	-69	28.62%	

Figure 9.4 GE Options Chain

To get an estimate of the expected price movement consider IV and calculate an approximate 1-standard deviation price move. We can use the BCI Expected Price Movement Calculator. Since the price of GE was \$241.62 when the trade was being planned, we used the At-The-Money Implied Volatility (IV) of 30.87%. The Expected Price Movement is shown in Figure 9.5 below.

BCI APPROXIMATE EXPECTED PRICE MOVEMENT CALCULATOR - Ver 1.4

Stock	GE	
Date of Calculation	05/27/25	
Expiration Date	06/20/25	
Stock Price (\$/Sh)	\$241.62	
At The Money Implied Volatility (ATM IV)	30.87%	
Number of Calendar Days To Expiration	25	
Approx. Expected +/- \$ Price Move (1 Std. Dev.)	\$19.52	See Note #1
Expected Approximate Price Range	\$261.14	to \$222.10

NOTES

- [1] Formula: Approx. Expected +/- \$ Price Move (1 Standard Deviation):
 $(\$ \text{ StockPrice}) + (\text{ATM IV}) * (\sqrt{(\# \text{ Calendar Days To Expiration}) / 365})$
Note: $\sqrt{\quad}$ is symbol for the "Square Root"
- [2] The probability for the calculated expected price range is approximately 84%
- [3] Recheck Expected Price Movement prior to entering your trade. The Expected Price Movement is specific to the time that you do the calculation. It will change as the price changes.

Disclaimer:

The Blue Collar Investor Corporation, BCI, makes no representations as to the accuracy or validity of this information and should not be construed as a recommendation to purchase or sell a security or to provide investment advice. This information is provided for educational purposes only. Market conditions may change quickly and unexpectedly. Use this calculator at your own risk.

Figure 9.5 Expected Price Movement

The approximate expected price range when the current price is \$241.62 is between \$222.02 and \$261.22. This means that the short put can be near the low end of the expected price range. The actual selection will depend on Delta and support and resistance.

Support and Resistance are critical factors as mentioned numerous times earlier. Looking at the chart, Figure 9.6 below, we see that there is strong support at \$228.61. Knowing this, we want the short put to be below \$228.61.



Figure 9.6 Detailed GE Stock Chart

Next, we look at Delta. To meet our high probability target, we want Delta to be between 0.10 and 0.30. This will give us an approximate probability of

success between 70% and 90%. From the chart, we want to be below support. This would suggest that at Delta of 0.22 would give us a high probability of success at approximately 78% (see Figure 9.4).

Putting this all together, we see:

- We have a target low end of the expected price movement at \$222.10.
- Support at \$228.61, so our short strike needs to be below this level.
- A Delta of 0.22 that gives us an approximate probability of 78% for a successful trade.
- A more detailed estimate of success at 75.49% using the options chain metric of Probability of Closing OTM (Prob OTM). It is important to note that this metric may not be available on your trading platform but is included here for completeness.

Short strike selection sometimes may have to include trade-off considerations. For example, in the GE sample trade, we may not place the short strike below 1 standard deviation. In this case, placing the short strike below \$222.02 gives us a much lower return. By using support and Delta only, we can get a good return with a reasonably high probability of success. If you are unable to find a short strike that meets all of the factors just discussed, you can use Delta only to select your short strike.

In the case of the GE trade, we have selected \$227.50 as our short strike.

The reasons are:

- A Delta of 0.22 gives us a high probability trade.
- The short strike is below support.
- We can expect a good return.
- There are over 100 contracts of open interest. In this case, 170 open contracts.
- A narrow bid-ask spread of \$0.17.

Step 5: Determine Strike Width

Determination of strike width, while straight forward, is a trade-off between return and total risk. The wider the strike width, the higher both the risk and return. Conversely, the narrower the strike width, the lower both the risk and return. In the options chain, strike widths can vary between \$1.00 and \$10.00, sometimes more with indexes, depending on the specific underlying.

For most of our credit spread trades, a strike width of \$5.00 is a good tradeoff between return and risk. However, some stocks may only have \$10.00 wide strikes. In our actual trade example, a \$5.00 strike width was chosen. This now gives us the foundation of our trade:

Stock Price: \$241.62

Short Put: \$227.50

Long Put: \$222.50

Long Leg Strike

Once you have selected your short strike and strike width, the determination of the long strike is straight forward. For bull put spreads, the long strike is simply the strike price of the short strike minus the strike width. For bear call spreads, the long strike price is the short strike plus the strike width.

In our example trade, we selected the short strike to be \$227.50. The long strike will be the short strike less the strike width or $\$227.50 - \$5.00 = \$222.50$. You can see the some of the trade parameters in Figure 9.4 repeated below.

Exp	Strike	Bid	Ask	Mark	Open.Int	Impl Vol	Delta	Prob.OTM
20 JUN 25	100							35.89% (±17.683)
20 JUN 25	215	1.06	1.15	1.105	94	37.20%	-10	88.54%
20 JUN 25	217.5	1.23	1.35	1.290	1,174	36.13%	-11	86.81%
20 JUN 25	220	1.51	1.60	1.555	6,499	35.41%	-13	84.54%
20 JUN 25	222.5	1.81	1.94	1.875	118	34.72%	-16	81.94%
20 JUN 25	225	2.15	2.35	2.250	582	34.02%	-19	79.00%
20 JUN 25	227.5	2.66	2.83	2.745	170	33.61%	-22	75.49%
20 JUN 25	230	3.20	3.40	3.300	1,540	33.08%	-25	71.73%
20 JUN 25	232.5	3.85	4.00	3.925	452	32.45%	-29	67.68%
20 JUN 25	235	4.55	4.75	4.650	2,082	31.83%	-34	63.28%
20 JUN 25	237.5	5.45	5.70	5.575	1,900	31.60%	-39	58.42%
20 JUN 25	240	6.45	6.65	6.550	459	31.08%	-44	53.48%
20 JUN 25	242.5	7.60	7.85	7.725	7	30.87%	-49	48.35%
20 JUN 25	245	8.90	9.05	8.975	11	30.43%	-54	43.20%
20 JUN 25	247.5	9.50	10.60	10.050	36	28.72%	-60	37.68%
20 JUN 25	250	11.80	12.20	12.000	2	30.10%	-64	33.28%
20 JUN 25	252.5	12.90	14.45	13.675	0	29.82%	-69	28.62%

Figure 9.7 GE Options Chain

Step 7: Determine The Length of The Trade (DTE)

The 30–45 DTE range is the sweet spot for conservative credit spreads. This time frame offers good premium potential, enough time to adjust the trade if necessary, and a favorable risk-reward profile. Longer-term spreads (60–90+ DTE) deliver the higher premiums and more time to be right, but they decay more slowly, ties up capital for extended periods, and expose the position to broader market risks. Shorter time frames (0–7 DTE) offer faster premium decay and quick turnaround but carry high gamma risk with less time to adjust. This makes them suitable only for tactical setups with precise entry criteria.

For the example trade, 25 days to expiration was chosen (25 DTE). Although the trade is less than 30 DTE, all of the other parameters make this a workable trade.

Step 8: Determine Profit Target and Contingency (Stop Loss) Exit

The determination of profit targets and contingency (stop loss) exits are a function of your personal risk profile. Your goal in this step is to be able to execute the trade unemotionally, following rules that you predefine. Knowing your max reward and max risk is the first part of the process. This was done earlier in the trade when you set your short and long strike prices. In this step of the process, you want to determine a reasonable profit target and a loss target that you can live with.

Here is a summary of the best industry exit rules of thumb that you need to consider:

- *The time that you will stay in the trade.* For most trades, you want to exit early, before expiration. A generally accepted industry rule of thumb is to exit the trade before the last week of expiration. Typically, this can be 7 to 10 days before expiration. The exception to this rule is when the stock price moves far out of the money as you enter expiration week.
- The next item to consider is your *profit target*. As discussed in this book, a reasonable profit target is 50% to 80% of your max profit. Another consideration is to exit is when the delta of the short leg drops to 0.10 or less. This indicates a very high probability that the trade will be successful. Conversely, the trade has very low remaining risk.
- The final item to consider is your *contingency exit or stop loss*. Some exit considerations are:
 - o When the cost to exit the trade doubles. That is, exit the trade when the net debit to exit is 2X the *net premium* you receive when you entered the trade. For example, if you received \$0.80 in premium, exit the trade when the cost to exit is \$1.60. This rule will always ensure that your loss from the trade will be less than the max loss that was defined when you entered the trade.

- When the price crosses your short strike
- When there is a volatility spike or a news event that impacts your original decision to enter the trade

For this example, the decision for the profit target is 70% and the contingency exit or stop loss is 200% of the premium received.

Step 9: Enter The Trade Details into the Trade Calculator

Decisions made so far:

- Stock – GE Aerospace with the stock price at entry at \$241.89
- Delta - -0.22 giving an approximate probability of success at 78%.
- Short Put – Based on our value for Delta, the short Put is at \$227.50.
- Long Put – Based on our strike width, the long put is at \$222.50.
- Profit Target at 70% of max profit.
- Contingency Exit at 200% of premium received

To calculate our risk, reward, target exit and contingency exit, we enter the details into the Bull Put Calculator as follows:

BCI BULL PUT CREDIT SPREAD CALCULATOR			
STOCK/ETF/INDEX:	GE		
OPTION MONTH:	June'25	TRADE ID:	GE-1
Data Input			
<p>Note: [1] All Calculations Are On A Per Share Basis. [2] All Calculations are based on one (1) contract. Adjust your calculated results as accordingly. [3] Enter data in "White" cells. [4] Calculated data in "Green", "Pink", & "Yellow" cells.</p>			
	Entry Trade	Exit Trade	Final Result
Stock Symbol	GE		
Trade Date (mm/dd/yy)	05/27/25		
Expiry Date (mm/dd/yy)	06/20/25		
Stock Price (\$)	\$241.49		
Sold (Short) Put Strike (\$)	\$227.50		
Sold (Short) Put Premium (\$)	\$2.70		
Sold (Short) Put Delta	-0.22		
Purchased (Long) Put Strike (\$)	\$222.50		
Purchased (Long) Put Premium (\$)	\$1.89		
Profit Target Exit (As A Percentage Of Premium Received - %)	70%		
Contingency (Stop) Exit (As a Percentage of Premium Received - %)	200%		
Calculated Results			
Approx Prob Of Short Put Closing Out Of The Money (OTM %)	78.00%		
Number Days In Trade	25		
Net Credit (\$)	\$0.81		
Max Risk (\$)	\$4.19		
Return On Risk (ROR) (%)	19.33%		
Return On Risk (ROR) (%) Annualized	282.24%		
Break Even (\$)	\$226.69		
Distance Between Price and Short Put (\$)	\$13.99		
Distance Between Price and Short Put (%)	5.79%		
Critical Target Dates			
Next Earnings Report Date (mm/dd/yy)	07/22/25		
Recent Or Upcoming Ex Div. Date (mm/dd/yy) or n/a	03/10/25		
Exit Strategy - Guidelines			
Primary Target Profit Exit - Target Net Debit (\$)	\$0.24		
Contingency Exit (Stop) - Exit Net Debit (\$)	\$1.62		
Notes & Comments			
Key Support Level:	\$228.00		
Industry or Sector:	Aerospace		
NOTES:			

Figure 9.8 Bull Put Calculator

The resulting calculations at trade entry show:

- The probability of success is approximately 78%, a high probability trade, and meets our guidelines and rules.
- The number of days in the trade is 25 if the trade is held to expiration. This will be fewer days in the trade because of our rule of not staying in the trade through expiration.
- The initial max profit is the Net Credit of \$0.81
- The initial max risk is \$4.19
- The initial Return On Risk or ROR is 19.33%, 282.24% annualized. This meets our guideline of 10% to 30% target return.
- Breakeven is at \$226.69. This is important to know for contingency exit purposes.
- Target profit exit at 70% of premium received indicates a debit of \$0.24 (cost-to-close the trade).
- Contingency exit 200% of premium received indicates a debit of \$1.62.
- No earnings reports or Ex Div dates during the time that the trade will be in force.

The bottom line, the trade meets all of our rules and guidelines.

Step 10: Enter the Trade into the P&L Journal (partial view displayed)

Once the trade is entered in the calculator, you can enter the trade details into the P&L Journal to help you track your trades during the trading month.

Step 12: Enter The Target Profit and Contingency Exits Into your Trading Platform

Ideally, you can enter your order as an “OCO” order or “One Cancels The Other”. Many advanced platforms such as Schwab’s *TOS* have advanced contingency order types. With an “OCO” order, you set it up two orders. One order for your target profit exit and the other for your contingency or stop loss exit. When the first condition is reached, it executes and cancels the second order. This way, your trade can be a “set it and forget it”. That is, the trade will execute and meet your exit conditions automatically without the need for constantly watching the trade. *Make sure that you enter the exit trade as a “GTC” or “Good Till Cancel” order.*

If your trading platform doesn’t have an “OCO” type of order, you can enter your contingency (stop loss) exit order to exit the trade when the price hits your contingency exit target. You can also enter an alert to notify you when your target profit price is hit so you then can exit the trade with a profit and cancel the contingency order.

In the case of our sample trade, we have set our profit target at a debit of \$0.24 and a contingency exit target at \$1.62 as mentioned in step 9.

Step 13: Monitor The Trade

Here you monitor your trade(s) as you would normally. The key difference is that you are watching two potential outcomes and looking for early exit opportunities when hitting your target profit exit or hitting your contingency stop loss exit. If you are not in front of your screen and your trading platform has the capability, you can set alerts that can be sent to your smart phone. As stated, numerous times in this book, monitor your trades so you could exit early for a profit or to minimize your loss.

Step 14: Exit The Trade

During the process of monitoring your trade you will find exit opportunities. In the case of our sample trade, we found an opportunity to exit the trade 11 days into the trade. The exit details are:

BCI BULL PUT CREDIT SPREAD CALCULATOR			
STOCK/ETF/INDEX:	GE		
OPTION MONTH:	June '25	TRADE ID:	GE-2
Data Input			
<p>Note: [1] All Calculations Are On A Per Share Basis. [2] All Calculations are based on one (1) contract. Adjust your calculated results as accordingly. [3] Enter data in "White" cells. [4] Calculated data in "Green", "Pink", & "Yellow" cells.</p>			
	Entry Trade	Exit Trade	Final Result
Stock Symbol	GE		
Trade Date (mm/dd/yy)	05/27/25	06/06/25	
Expiry Date (mm/dd/yy)	06/20/25		
Stock Price (\$)	\$241.49	\$255.65	
Sold (Short) Put Strike (\$)	\$227.50		
Sold (Short) Put Premium (\$)	\$2.70	\$0.62	
Sold (Short) Put Delta	-0.22		
Purchased (Long) Put Strike (\$)	\$222.50		
Purchased (Long) Put Premium (\$)	\$1.89	\$0.34	
Profit Target Exit (As A Percentage Of Premium Received - %)	70%		
Contingency (Stop) Exit (As a Percentage of Premium Received - %)	200%		
Calculated Results			
Approx Prob Of Short Put Closing Out Of The Money (OTM %)	78.00%		
Number Days In Trade	25		11
Net Credit (\$)	\$0.81		\$0.53
Max Risk (\$)	\$4.19		\$4.19
Return On Risk (ROR) (%)	19.33%		12.65%
Return On Risk (ROR) (%) Annualized	282.24%		419.72%
Break Even (\$)	\$226.69		
Distance Between Price and Short Put (\$)	\$13.99		
Distance Between Price and Short Put (%)	5.79%		
Critical Target Dates			
Next Earnings Report Date (mm/dd/yy)	07/22/25		
Recent Or Upcoming Ex Div. Date (mm/dd/yy) or n/a	03/10/25		
Exit Strategy - Guidelines			
Primary Target Profit Exit - Target Net Debit (\$)	\$0.24		
Contingency Exit (Stop) - Exit Net Debit (\$)	\$1.62		
Notes & Comments			
Key Support Level:	\$228.61		
Industry or Sector:	Aerospace		
NOTES:			

Figure 9.11 Bull Put Spread Exits

The final results of the trade on a per share basis were:

- Exit Date – 06/06/25
- Time In the Trade – 11 days
- Stock Price at exit - \$255.65
- The Net Debit was \$0.28, yielding a final credit of \$0.53.
- The Finals Return On Risk (ROR) was 12.67% or 419.72% annualized

Looking back on the trade:

- The market was in a bullish trend
- The stock, GE Aerospace, was following the market trend and was bullish as well.
- The trade met all of our entry rules:
 - The short strike was below the known strong support.
 - The probability of success was 78%, which met the 70% to 90% target probability.
 - The short strike was at a Delta of -0.22, which met the 0.10 to 0.30 Delta Rule.
 - The strike width was \$5.00, which met our strike width rule of \$5.00 to \$10 (\$2.00 - \$5.00 for beginners and ultra-conservative traders).
 - The profit target was set at 70% which met our profit target rule of 50% to 80% of the premium received.
 - The Contingency exit met our rule of 2X premium received, although we never approached that price level.
 - There were no earnings reports, Ex Div dates, or bad news during the life of the trade.

The key takeaway from this exercise is that following a proven set of rules, credit spread trades are straight forward and can be very profitable.

CHAPTER 10

Advanced Concepts for the Conservative Trader

As you gain experience and confidence with credit spreads, you may choose to explore more complex strategies or applications. Presented here are potential next steps to consider.

Aligning Spread Selection with Market Conditions

Market Condition	Best Strategy
Strongly Bullish	Bull Put Spreads Deep OTM Covered Calls
Moderately Bullish	Bull Put Spreads Covered Calls
Neutral	Iron Condors Covered Calls Cash Secured Puts
Bearish	Bear Call Spreads ITM Covered Calls Deep OTM Cash Secured Puts
Volatile/Uncertain	Stay in Cash Deep OTM Cash Secured Puts Deep ITM Covered Calls

Figure 10.1 Spread Selection & Market Conditions

Use major indexes (SPY, QQQ, DIA) to gauge trends. Use VIX for volatility assessment (below 20 is best). Use breadth and momentum indicators for confirmation.

If the market is trending strongly, avoid neutral spreads. In a flat, range bound market, a neutral strategy works well. Covered calls and cash secured puts can be crafted for all market conditions. To learn more about them, be sure to check out the Blue Collar Investor's books and online courses on covered calls and

cash secured puts. The Trade Management Calculator (TMC) is a must-have for these low-risk option-selling strategies.

Adjusting Strategy based on Implied Volatility (IV)

Implied volatility will impact your credit received and the expected moving ranges.

IV Environment	Strategic Adjustment
Low IV	Narrow Spreads Small Credits More Directional
High IV	Wider Spreads Higher Credits Neutral Strategies
IV Rising	Favor Credit Spreads Avoid Post-News Trades
IV Crush Coming	Avoid New Positions Close Winning Spreads Early

Figure 10.2 Spread Adjustments & IV Environment

IV Target Ranges

For Index ETFs like the SPY, QQQ, and IWM, look for IVs in the range of 15% - 25%

For large-cap, stable stocks like AAPL, MSFT, and AMZN, look for IVs in the range of 20% to 30%.

For higher volatility growth stocks like TSLA, NVDA, and AMD, look for IVs in the range of 30% - 40%. For IVs in this range, make sure that your short strike is far out of the money and you are trading smaller position sizes.

These ranges work because *below IVs of 15%*, premiums are too low. *IVs above 40%* can hurt you because potential price swings can breach your short strike. This can happen even when strikes are far out of the money. By using IVs in the mid-

range, you can sell strikes outside of 1-SD and maintain a probability of success in the 70% to 90% range.

Target IV vs. Delta & Strike Placement for Conservative Credit Spreads

This table provides target absolute implied volatility (IV) ranges for different types of underlying stocks and ETFs, with corresponding delta ranges, strike placement rules, and expected probabilities of success. It is designed for credit spread traders aiming for a 70–90% probability of success and a minimum 20% return on risk.

Underlying Type	Target IV	Delta Range (Short Leg)	Strike Placement Rule	Expected Probability of Success
Index ETFs (SPY, QQQ, IWM)	15% – 25%	0.08 – 0.15	Bull Put: Below major support Bear Call: Above major resistance Outside 1 SD	~80% – 90%
Large-Cap Stable Stocks (AAPL, MSFT, AMZN)	20% – 30%	0.10 – 0.20	Bull Put: Below support + 1–2 strikes Bear Call: Above resistance + 1–2 strikes Outside 1 SD	~75% – 85%
Higher-Volatility	30% – 40%	0.12 – 0.25	Bull Put: Well below strongest support	~70% – 80%

Growth Stocks (TSLA, NVDA, AMD)			Bear Call: Well above strongest resistance	
			Outside 1.25 SD	

Figure 10.3 Target IV/Delta Short Strike Placement

Spread Adjustments Around Earnings

You should avoid opening new spreads before earnings because of gap risk as well as **implied volatility crush** (especially on short legs). This is the rapid decrease in the implied volatility of an option contract. For traders like us, the best practice is to *stay on the sidelines for any stock that is about to report earnings*.

Event-Based Spread Adjustment

Before Fed meetings, CPI/PPI reports, or before any major geopolitical event takes place, be sure to reduce your position size, place further OTM strikes, and exit or adjust your trades earlier (to reduce your exposure to market risks). A good resource to learn of upcoming market events is *The Forex Factory*. It is good practice to maintain a trading calendar with known events to manage your risk exposure.

Multiple Spread Management

Traders managing multiple positions should stagger expiration dates and monitor delta. It is also important to maintain diversification within your portfolio. Always utilize a trade journal or spreadsheet to track metrics.

Credit Spreads on Indexes/ETFs: Diversification and Benefits

Trading credit spreads on broad market indexes or popular ETFs can offer certain advantages for traders. Indexes such as the S&P 500 (\$SPX, SPY), Nasdaq 100 (\$NDX, QQQ), or Russell 2000 (\$RUT, IWM) represent baskets of stocks. This reduces single-stock risks (company-specific news).

Index and ETF options are oftentimes extremely liquid, allowing for tight bid-ask spreads as well as easy entry and exit. Broad markets tend to be much less

volatile than an individual stock, often respecting technical levels more consistently (though not always).

Some index options (like \$SPX and \$NDX) are considered *Section 1256 Contracts*, which can have favorable tax treatment (60% long term/40% short term capital gains, regardless of holding period).

Important Disclaimer: Tax Implications

Trading options has tax implications that differ from stock trading. The tax treatment of options can be complex, and varies based on the type of option, holding period, and your individual circumstances. You should *always* consult a qualified tax professional for advice specific to your situation. This book is for educational purposes only. This book does not provide tax advice.

Be sure to keep meticulous records of all your trades, including your premiums collected, commissions, and your profits and losses. The *BCI Credit Spread Calculator* can be a valuable tool in this regard.

EPILOGUE

The Conclusion of Your Journey as a Defined Risk Income Trader

Congratulations! You've now embraced the power of credit spreads. You understand how to leverage defined risk, implement management techniques, and utilize basic technical analysis to identify high-probability trading opportunities. Options trading is a continuous journey of learning and refinement. The market is dynamic, and while the core principles remain constant, your application of these principles will evolve. Maintain your discipline, stick to the rules, follow your trading plan, and remember to keep emotion out of your trades. Never stop learning and refining your trading knowledge. Journal your trades; their entries, exits, and reasoning behind the trade. Credit spreads are a wonderful way to generate consistent income. The principles and strategies here make you well-equipped to navigate the world of credit spreads.

Happy trading, and may your premiums always be generous.

APPENDIX A

Glossary of Terms and Concepts

Assignment – The process by which the writer of an option contract is required to fulfill the terms of the option. For puts, this means buying stock; for calls, selling stock. Credit spreads help mitigate assignment due to the protective long leg.

Bear Call Spread – A credit spread constructed by selling a call option and buying a higher-strike call. Profits when the underlying remains below the short call strike.

Bid-Ask Spread – The difference between the highest price a buyer is willing to pay (bid) and the lowest price a seller is willing to accept (ask). Narrow spreads indicate better liquidity.

Break-even Point – The price at which a credit spread produces no profit or loss at expiration. Calculated as:

- Bull Put: short put strike – net credit
- Bear Call: short call strike + net credit

Bull Put Spread – A credit spread constructed by selling a put and buying a lower-strike put. Profits when the underlying remains above the short put strike.

Buy to Close (BTC) – A term used by brokerages to represent the closing of a short position in options transactions.

Capital Efficiency – A measure of how effectively capital is deployed. Credit spreads require less capital than covered calls or CSPs, allowing for more trades and enhanced diversification.

Cash-Secured Put (CSP) – A strategy in which a trader sells a put option and reserves cash to buy the underlying if assigned. It is a low-risk approach to trading options.

Credit Spread – A multi-leg options strategy where the trader receives a net credit for entering the position. Risk and reward are both limited and defined.

Days to Expiration (DTE) – The days remaining until an options contract expires from today.

Delta – A Greek metric measuring the expected change in an option's price given a \$1.00 change in the underlying. Also used as a proxy for probability of expiring in-the-money.

Defined Risk – A condition where the maximum possible loss on a trade is known and capped at entry. Credit spreads provide defined risk.

Downtrend – A stock with a declining share price showing lower highs and lower lows.

Earnings per Share (EPS) – A company's profit divided by the number of outstanding shares.

Expiration (or Expiration Date) – The date when an options contract becomes void. Spreads are constructed using options with the same expiration date.

Exponential Moving Average (EMA) – A moving average that gives more weight to more recent data. It reacts faster to recent price changes than does a simple moving average.

Extrinsic Value – The portion of an option's price that reflects time, volatility, and other external factors. Credit spread traders sell extrinsic value to generate income. Also, called *time-value*.

Gamma – Measures the rate of change of delta as the underlying price changes by \$1.00. Gamma risk increases near expiration.

Good 'Til Cancelled (GTC) – A limit order to close your spread at your target profit as you enter the trade. It is active until execution or cancellation, instead of expiring at the end of the day.

Implied Volatility (IV) – The market’s forecast of a stock’s future volatility. Affects option premium. High IV increases credit received but also expected price movement.

Iron Condor – A strategy that combines a bull put spread and a bear call spread. Profits when the underlying stays between both short strikes.

Liquidity – The ease with which an option can be bought or sold without affecting price. High liquidity results in tight bid-ask spreads and smoother fills.

Margin Requirement – The capital required to hold a spread position. For credit spreads, this is typically the width of the spread minus the credit received.

Max Loss – The worst-case scenario if the spread moves entirely in the money. Calculated as spread width minus net credit received.

Max Profit The total credit received when opening the trade, realized if both legs expire worthless (OTM).

Mid-Price – The midpoint between the best bid price and best ask price.

Moving Averages – An indicator frequently used in technical analysis showing the average value of a securities price over a set period. They are generally used to measure momentum and identify areas of possible support or resistance.

Noise Zone – The “noise zone” in credit spread strike placement refers to the price range where the underlying asset is likely to fluctuate without a clear directional move—essentially, the area of indecision or *chop* (no clear direction). It refers to confusing market factors that make option values less predictable.

Open Interest – Total number of outstanding option contracts that have not been closed, exercised, or expired worthless.

Option: A contract that gives the owner the right but not the obligation (if exercised), to buy or sell a specified stock or ETF at a specified price within a specified amount of time. Options are split into two types: calls and puts. Calls are

options for buying stocks, whereas puts are options for selling them. Options contracts are generally for round lots of 100 shares.

Probability ITM/OTM – A platform-provided metric that estimates the chance of an option expiring in- or out-of-the-money. Used to guide strike selection. This metric is mathematically expressed as P(ITM) or P(OTM).

Relative Strength Index (RSI) – A momentum indicator used to assess overbought or oversold conditions. Often included in technical confirmations.

Rolling – Adjusting a position by closing the current spread and opening a new one with later expiration, different strikes or both.

Sell to Close (STC) – A term used by brokerages to represent the closing of a long position in options transactions.

Sideways Pattern (Consolidation) – The horizontal price movement of an equity where the forces of supply and demand are equal. The stock cannot easily establish an uptrend or downtrend.

Simple Moving Average (SMA) – A moving average that gives equal weight to each period's price data. It reacts slower to recent changes than does an exponential moving average.

Standard Deviation (SD) – A statistical measure of how far price is expected to move. Used to place strikes outside likely price movement ranges.

Support and Resistance – Price levels where stocks tend to pause or reverse. Spread traders place strikes beyond support (bullish) or resistance (bearish).

Strike Price – The standard price per share for which the underlying security may be purchased (in the case of a call) or sold (in the case of a put) by the option holder upon exercise of the option contract.

Strike Width – The difference in strike prices between the option you sell and the option you buy.

Time Decay – A term used to describe how the theoretical value of an option erodes or reduces with the passage of time.

Theta – Measures time decay. Credit spread traders benefit from theta as short options lose value over time.

Trade Journal – A record of trades including setup rationale, outcome, and improvement notes. Critical for refining strategy and improving over time.

Uptrend – An increase in share price showing higher highs and higher lows.

Vega – Sensitivity of an option's price to changes in implied volatility. Rising IV can hurt existing spreads; falling IV can help them.

Vertical Spread – Simultaneously buying and selling options of the same type (calls or puts) with different strikes but the same expiration date.

Volatility Crush – A sharp drop in implied volatility, typically after earnings or major news. Can hurt option buyers and benefit spread sellers.

Volume – Total number of contracts traded each day.

Wing Width – The distance between strike prices in a vertical spread (e.g., \$5.00). Determines the spread's max risk and capital requirement.

APPENDIX B

Credit Spread Guidelines

From the Blue Collar Investor Credit Spread Calculator...

CONSERVATIVE CREDIT SPREADS ARE A TRADEOFF BETWEEN A HIGHER PROBABILITY OF SUCCESS AND A LOWER REWARD TO RISK RATIO. YOU CAN USE THESE GUIDELINES AS YOUR SET OF TRADING RULES SO YOU CAN ENTER AND EXIT TRADES UNEMOTIONALLY.

[1] CONSERVATIVE CREDIT SPREADS USE DELTA AS A METRIC TO DETERMINE THE APPROXIMATE PROBABILITY THAT A CREDIT SPREAD TRADE WILL EXPIRE IN-THE-MONEY AT THE TIME THE TRADE IS PLACED. IT IS A PRIMARY METRIC FOR DETERMINING THE SELECTION OF THE SHORT LEG STRIKE OF THE SPREAD.

[2] DETERMINE MARKET DIRECTION...FOR BULLISH / UPTRENDING MARKETS, USE BULL PUT SPREADS...FOR BEARISH / DOWNTRENDING MARKETS, USE BEAR CALL SPREADS.

[3] ENTER SHORT LEG AT A 10 TO 20 DELTA TYPICAL FOR CONSERVATIVE TRADES...CAN BE BETWEEN 5 AND 30 DELTA...DEPENDING ON YOUR RISK TOLERANCE. ALTERNATIVELY, YOU CAN USE THE FOLLOWING RULES:

- a) FOR BULL PUT SPREADS, SHORT LEG CAN BE PLACED BELOW KNOWN STRONG SUPPORT... OR BELOW 1 STD DEV FOR APPROX 84% PROBABILITY OF SUCCESS.
- b) FOR BEAR CALL SPREADS SHORT LEG CAN BE PLACED ABOVE KNOWN STRONG RESISTANCE...OR ABOVE 1 STD DEV ...APPROX 84% PROBABILITY OF SUCCESS.

- c) USE THE "EXPECTED PRICE MOVEMENT CALCULATOR" TO HELP SELECT THE SHORT LEG OF YOUR CREDIT SPREADS USING ONE STANDARD DEVIATION.
- d) AS WITH BCI GUIDELINES, DON'T ENTER THE TRADE IF THERE IS AN EARNINGS REPORT, EX-DIV DATE, OF OTHER POTENTIAL MARKET MOVING REPORTS OR ANNOUNCEMENTS OCCURRING DURING THE LIFE OF YOUR TRADE.

[4] THE STRIKE WIDTH IS TYPICALLY \$5.00. YOU CAN USE HIGHER OR LOWER STRIKE WIDTHS.

[5] TARGET 30 TO 45 DAYS TO EXPIRATION (DTE)...CAN BE SHORTER FOR SPECIFIC STRATEGIES SUCH AS "0DTE" OR WEEKLY CREDIT SPREADS.

[6] ALWAYS EXIT THE TRADE BEFORE EXPIRATION.

[7] PRIMARY PROFIT TARGET IS 50% TO 80% OF CREDIT RECEIVED, CAN BE MORE OR LESS DEPENDING ON YOUR PERSONAL RISK TOLERANCE.

[8] PRIMARY PROFIT TARGET EARLY EXIT AT 50% OF CREDIT RECEIVED IF THE STOCK MOVES QUICKLY IN A FEW DAYS.

[9] CONTINGENCY (STOP LOSS) EXIT, DEPENDING ON YOUR PERSONAL RISK TOLERANCE, CAN BE AT:

- a) WHEN DEBIT REACHES 2 TIMES (200%) CREDIT RECEIVED...INDUSTRY ROUGH "RULE OF THUMB".
- b) WHEN THE STOCK PRICE HITS THE SHORT LEG STRIKE PRICE.
- c) BREAKEVEN
- d) WHEN THE CLOSING STOCK PRICE BREAKS KNOWN SUPPORT OR RESISTANCE LEVELS.
- e) YOUR BREAKEVEN COST MINUS \$1.00 (OR OTHER AMOUNT THAT MEETS YOUR PERSONAL RISK TOLERANCE)

[10] **PROPER RISK MANAGEMENT IS ESSENTIAL TO TRADE CREDIT SPREADS SUCCESSFULLY...FOLLOW THE GUIDELINES.**

[11] ENTER CONTINGENCY EXIT ORDER AT THE TARGET CONTINGENCY EXIT PRICE WHEN INITIALLY PLACING TRADE...IF YOUR BROKER ALLOWS A STOP LIMIT.

[12] WHEN TRADING AN IRON CONDOR, BEST PRACTICES SUGGEST THAT YOU MANAGE THE TRADE AS SEPARATE BULL PUT SPREAD AND BEAR CALL SPREAD TRADES.

[13] FOR IRON CONDORS, THE BCI CREDIT SPREAD METHODOLOGY USES "BALANCED LEGS"...THAT IS EQUAL WIDTH SHORT AND LONG LEGS.

[14] CONSIDER USING HIGHER PRICED STOCKS...THEY OFFER HIGHER PREMIUMS WITH THE SAME NET RISK AS LOWER PRICED STOCKS.

[15] ALWAYS PAPER TRADE WHILE LEARNING ANY NEW TRADING STRATEGY...WHEN YOU ARE COMFORTABLE WITH THE STRATEGY, YOU CAN START WITH REAL MONEY IN SMALL TRADES (i.e.: 1 CONTRACT).

[16] AFTER YOU ARE SUCCESSFUL WITH THE STRATEGY, YOU CAN INCREASE THE NUMBER OF CONTRACTS.

APPENDIX C

Credit Spread Checklist

From the Blue Collar Investor Credit Spread Calculator...

BCI CONSERVATIVE CREDIT SPREAD TRADING CHECK LIST - Ver. 1.0				
STEP #	✓	ACTION	RESOURCE	NOTES & COMMENTS
1		Identify Market Direction	<ul style="list-style-type: none"> - Broker Platform - Metrics & Charts - BCI Reports 	<ul style="list-style-type: none"> - Market Direction Is Used To Determine The Specific Credit Spread Type To Employ
2		Select Trade Type	<ul style="list-style-type: none"> - Credit Spread Calculator 	<ul style="list-style-type: none"> - If The Market Direction Is: <ul style="list-style-type: none"> > Bullish/Up-trending = Bull Put Spread > Bearish/Down-trending = Bear Call Spread > Channeling/Flat = Iron Condor
3		Select Stock/ETF/Index	<ul style="list-style-type: none"> - BCI Reports - Broker Platform - Market News Sources 	<ul style="list-style-type: none"> - High Quality Stock/ETF/Index - i.e.:DJ30 Stock, S&P 500 Stock, SPY, QQQ, DIA, SPX - Stock/ETF/Index Is Moving In The Direction Of The Market > <ul style="list-style-type: none"> Market - No Earnings Reports, Ex Div Dates, or Key Economic Reports Upcoming During The Life Of The Trade - Moderate Volatility
4		Select Short Leg Strike	<ul style="list-style-type: none"> - Exp Price Movement Calculator - Broker Platform - Options Chain 	<ul style="list-style-type: none"> - Use Delta, Std Dev, or Support/Resistance, - Target Prob. Of Expiring OTM @ >70% - Typ. Delta Between 10 & 20, Can Go Up To 30, For Prob of Profit Between 70% & 90% - Outside 1 Std Dev, Prob Approx 84%

				<ul style="list-style-type: none"> - Min 100 Contracts Open Interest For Strike Selected - Bid/Ask Spread \$0.30 or Less
5		Determine Strike Width	<ul style="list-style-type: none"> - Broker Platform - Options Chain - Credit Spread Guidelines 	<ul style="list-style-type: none"> - Typically \$5 or \$10 Wide - Determines Max Credit & Max Risk
6		Determine Long Leg Strike	<ul style="list-style-type: none"> - Broker Platform - Options Chain 	<ul style="list-style-type: none"> - Determines Max Credit & Max Risk - Min 100 Contracts Open Interest For Strike Selected - Bid/Ask Spread \$0.30 or Less
7		Determine Length Of Trade (DTE)	<ul style="list-style-type: none"> - Broker Platform 	<ul style="list-style-type: none"> - Typically 30 - 45 Days
8		Determine Profit Target & Contingency (Stop Loss) Exits	<ul style="list-style-type: none"> - Credit Spread Calculator - Credit Spread Guidelines 	<ul style="list-style-type: none"> - Set As A Percentage (%) Of Max Credit Received - Profit Target @ 50% To 75% Of Max Credit - Contingency Exit (Stop) @ 200% Of Max Credit (Typical) - See Credit Spread Guidelines For Other Ways To Set Contingency Exits
9		Enter Trade Into Calculator	<ul style="list-style-type: none"> - Credit Spread Calculator >P&L Journal 	<ul style="list-style-type: none"> - Use Spreadsheets To Determine Final Trade Details.
10		Enter Trade Into P&L Journal	<ul style="list-style-type: none"> - P&L Journal 	<ul style="list-style-type: none"> - P&L Journal Used To Manage Trade
11		Enter Trade In Broker Platform	<ul style="list-style-type: none"> - Broker Platform 	<ul style="list-style-type: none"> - Double Check Trade Entries Against Spreadsheet
12		Enter Target & Contingency Conditional Exit Order(s) In Broker Platform - If Available	<ul style="list-style-type: none"> - Broker Platform 	<ul style="list-style-type: none"> - Enter As Conditional Orders Such As "OCO", (One Cancels Other) If Available On Broker Platform
13		Monitor Trade	<ul style="list-style-type: none"> - Broker Platform > Set Alerts At Target & Stop Prices (If Available From Broker) - Credit Spread Guidelines 	<ul style="list-style-type: none"> - Watch For Early Exit Opportunities - Monitor Profit Target & Contingency Exit Prices - ALWAYS EXIT THE TRADE A FEW DAYS BEFORE EXPIRATION EXPIRATION
14		Exit The Trade	<ul style="list-style-type: none"> - Credit Spread Calculator 	<ul style="list-style-type: none"> - Exit Trade When Target Exit Or Contingency Exit Is Hit.

			- Credit Spread Guidelines - P&L Journal	> If A Winning Trade = Exit At 75% Of Credit Rec'd > If A Losing Trade = Exit At < 200% Of Credit Rec'd
15		Enter Final Trade Results Into P&L Journal	- P&L Journal	- Determine Profit or Loss Details >Enter Trade Thoughts, Insights, & Comments In Journal Section - Capture Trade Notes In Journal Section
16		Rinse & Repeat		

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Figure C.1 Conservative Credit Spread Trading Checklist

APPENDIX D

Strategy Comparison: Covered Calls, Cash Secured Puts, and Credit Spreads

Feature	Covered Call (CC)	Cash-Secured Put (CSP)	Bull Put Spread (BPS)	Bear Call Spread (BCS)
Strategy Goal	Generate income on owned stock; reduce cost basis.	Generate income; acquire stock at a discount.	Generate income; profit from stock staying above a certain level.	Generate income; profit from stock staying below a certain level.
Market Outlook	Can be crafted for all market conditions	Can be crafted for all market conditions	Neutral to slightly bullish (expect stock to stay flat or rise)	Neutral to slightly bearish (expect stock to stay flat or fall)
Components	Own 100 shares, Sell 1 OTM Call	Cash-secured, Sell 1 OTM Put	Sell 1 OTM Put, Buy 1 further OTM Put	Sell 1 OTM Call, Buy 1 further OTM Call
Max Profit	Limited (premium + [strike - stock cost basis])	Limited (premium received)	Limited (net premium received)	Limited (net premium received)
Max Loss (without exit strategies)	Undefined (if stock drops to zero, loss is initial stock value - premium)	Large (strike price - premium, if stock drops to zero after assignment)	Defined (width of spread - net premium received)	Defined (width of spread - net premium received)

Capital Required	Full cost of 100 shares of stock	Full cash equivalent of strike price x 100 less premium received	Margin Requirement (Max Loss per contract) – significantly less than stock value	Margin Requirement (Max Loss per contract) – significantly less than stock value
Feature	Covered Call (CC)	Cash-Secured Put (CSP)	Bull Put Spread (BPS)	Bear Call Spread (BCS)
Underlying Exposure	Direct long stock exposure	Direct long stock exposure <i>after</i> assignment	No direct stock exposure (unless short put assigned and unmanaged)	No direct stock exposure (unless short call assigned and unmanaged)
Capital Efficiency	Low (ties up large capital for limited return)	Low (ties up large cash for limited return)	High (uses less capital for defined risk, freeing up capital for other trades)	High (uses less capital for defined risk, freeing up capital for other trades)
Best For	Income generation in all market conditions.	Income generation; acquiring stock at desired price; all market conditions.	Generating consistent income with defined risk in neutral to slightly bullish markets.	Generating consistent income with defined risk in neutral to slightly bearish markets.
Complexity	Low	Low	Moderate (two legs, P/L calculation)	Moderate (two legs, P/L calculation)

Time Decay (Theta)	Works in your favor	Works in your favor	Works strongly in your favor (both options decay, but sold option decays faster).	Works strongly in your favor (both options decay, but sold option decays faster).
Volatility (Vega)	Generally, lower IV is better	Generally, lower IV is better	High IV at entry can mean larger credit; low IV at exit is good.	High IV at entry can mean larger credit; low IV at exit is good.

APPENDIX E

Overview of the BCI Credit Spread Calculator

The BCI Credit Spread Calculator has six tabs:

- Bull Put Spread Calculator
- Bear Call Spread Calculator
- Expected Price Movement Calculator
- Credit Spread P&L Journal
- Credit Spread Guidelines
- Step-By-Step Credit Spread Checklist

How To Use the BCI Credit Spread Calculator

The BCI Credit Spread Calculator has the user guide already built into the tool. As you enter the trade variables from top to bottom, you can “hover” over the specific cell that you are working on and a comment will open describing:

- The specific data item you are entering?
- The format of that data item.
- Detailed comments about that item as necessary.

We have chosen this method of providing a user guide because it provides guidance about the item and doesn't require you to leave the spreadsheet and open a user guide in order to find out details about the cell that you are working on.

Bull Put and Bear Call Calculator Tabs

In the Bull Put and the Bear Call Calculators, enter the data in the Blue cells in the “Data Input” section going from top to bottom in the initial “Entry Trade” column. For the exit trade data, enter the data from top to bottom in the “Exit Trade” column.

The “Calculated Results” section will display the trade results for the expected trade outcome in the “Trade Entry” column. These results are for the trade if held until expiration. The actual/final results will be displayed under the “Final Results” column. See Figure E.1 below showing the calculator and the calculator with comments.

BCI BULL PUT CREDIT SPREAD CALCULATOR			
STOCK/ETF/INDEX:	GE		
OPTION MONTH:	June'25	TRADE ID:	GE-2
Data Input			
Note: [1] All Calculations Are On A Per Share Basis. [2] All Calculations are based on one (1) contract. Adjust your calculated results as accordingly. [3] Enter data in "White" cells. [4] Calculated data in "Green", "Pink", & "Yellow" cells.			
	Entry Trade	Exit Trade	Final Result
Stock Symbol	GE		
Trade Date (mm/dd/yy)	05/27/25	06/06/25	
Expiry Date (mm/dd/yy)	06/20/25		
Stock Price (\$)	\$241.49	\$255.65	
Sold (Short) Put Strike (\$)	\$227.50		
Sold (Short) Put Premium (\$)	\$2.70	\$0.62	
Sold (Short) Put Delta	-0.22		
Purchased (Long) Put Strike (\$)	\$222.50		
Purchased (Long) Put Premium (\$)	\$1.89	\$0.34	
Profit Target Exit (As A Percentage Of Premium Received - %)	70%		
Contingency (Stop) Exit (As a Percentage of Premium Received - %)	200%		
Calculated Results			
Approx Prob Of Short Put Closing Out Of The Money (OTM %)	78.00%		
Number Days In Trade	25	11	
Net Credit (\$)	\$0.81	\$0.53	
Max Risk (\$)	\$4.19	\$4.19	
Return On Risk (ROR) (%)	19.33%	12.65%	
Return On Risk (ROR) (%) Annualized	282.24%	419.72%	
Break Even (\$)	\$226.69		
Distance Between Price and Short Put (\$)	\$13.99		
Distance Between Price and Short Put (%)	5.79%		
Critical Target Dates			
Next Earnings Report Date (mm/dd/yy)	07/22/25		
Recent Or Upcoming Ex Div. Date (mm/dd/yy) or n/a	03/10/25		
Exit Strategy - Guidelines			
Primary Target Profit Exit - Target Net Debit (\$)	\$0.24		
Contingency Exit (Stop) - Exit Net Debit (\$)	\$1.62		
Notes & Comments			
Key Support Level:	\$228.61		
Industry or Sector:	Aerospace		
NOTES:			

BCI BULL PUT CREDIT SPREAD CALCULATOR			
STOCK/ETF/INDEX:	GE		
OPTION MONTH:	June'25	TRADE ID:	GE-2
Data Input			
Note: [1] All Calculations Are On A Per Share Basis. [2] All Calculations are based on one (1) contract. Adjust your calculated results as accordingly. [3] Enter data in "White" cells. [4] Calculated data in "Green", "Pink", & "Yellow" cells.			
	Entry Trade	Exit Trade	Final Result
Stock Symbol	GE		
Trade Date (mm/dd/yy)	05/27/25	06/06/25	
Expiry Date (mm/dd/yy)	06/20/25		
Stock Price (\$)	\$241.49	\$255.65	
Sold (Short) Put Strike (\$)	\$227.50		
Sold (Short) Put Premium (\$)	\$2.70	\$0.62	
Sold (Short) Put Delta	-0.22		
Purchased (Long) Put Strike (\$)	\$222.50		
Purchased (Long) Put Premium (\$)	\$1.89	\$0.34	
Profit Target Exit (As A Percentage Of Premium Received - %)	70%		
Contingency (Stop) Exit (As a Percentage of Premium Received - %)	200%		
Calculated Results			
Approx Prob Of Short Put Closing Out Of The Money (OTM %)	78.00%		
Number Days In Trade	25	11	
Net Credit (\$)	\$0.81	\$0.53	
Max Risk (\$)	\$4.19	\$4.19	
Return On Risk (ROR) (%)	19.33%	12.65%	
Return On Risk (ROR) (%) Annualized	282.24%	419.72%	
Break Even (\$)	\$226.69		
Distance Between Price and Short Put (\$)	\$13.99		
Distance Between Price and Short Put (%)	5.79%		
Critical Target Dates			
Next Earnings Report Date (mm/dd/yy)	07/22/25		
Recent Or Upcoming Ex Div. Date (mm/dd/yy) or n/a	03/10/25		
Exit Strategy - Guidelines			
Primary Target Profit Exit - Target Net Debit (\$)	\$0.24		
Contingency Exit (Stop) - Exit Net Debit (\$)	\$1.62		
Notes & Comments			
Key Support Level:	\$228.61		
Industry or Sector:	Aerospace		
NOTES:			

Figure E.1 BCI Bull Put Spread Calculator

Expected Price Movement Calculator Tab

You use this tab to help you determine your *short* strike prices. The results give you the expected price movement based on the At-The-Money (ATM) Implied Volatility (IV) for the expiration that you have chosen. The data items that you need to enter are:

- Stock Symbol
- Date of the calculation (mm/dd/yy)
- Expiration Date of the trade (mm/dd/yy)
- The stock price (\$)
- The ATM IV (the ATM IV of the expiration date you have chosen for the trade) in Percent (%).

The calculated results are:

- The number of calendar days to expiration.
- The expected +/- 1-Standard Deviation price movement from the stock price that you entered.
- The expected price range for the stock at expiration.

This calculation, at 1-Standard Deviation, will give you an approximate probability of success at 84%. The 84% number is approximately equal to a Delta of 16. You can use these results to determine where your short strikes need to be placed to get the approximate 84% probability. Specifically:

- For Bull Puts, you want your short strike to be below the lower number in the expected range. For example, if the low end of the calculation is at \$95.00, then you might place your short put strike at \$90.00.
- For Bear Calls, you want your short strike to be above the higher number in the expected range. For example, if the high end of the calculation is \$95.00, then you might place your short call strike at \$100.00.

BCI APPROXIMATE EXPECTED PRICE MOVEMENT CALCULATOR - Ver 1.4

Stock	GE	
Date of Calculation	05/27/25	
Expiration Date	06/20/25	
Stock Price (\$/Sh)	\$241.62	
At The Money Implied Volatility (ATM IV)	31.00%	
Number of Calendar Days To Expiration	25	
Approx. Expected +/- \$ Price Move (1 Std. Dev.)	\$19.60	See Note #1
Expected Approximate Price Range	\$261.22	to \$222.02

NOTES

- [1] **Formula:** Approx. Expected +/- \$ Price Move (1 Standard Deviation):
 $(\$ \text{ StockPrice}) + (\text{ATM IV}) + (\sqrt{((\# \text{ Calendar Days To Expiration})/365)})$
Note: $\sqrt{}$ is symbol for the "Square Root"
- [2] **The probability for the calculated expected price range is approximately 84%**
- [3] **Recheck Expected Price Movement prior to entering your trade. The Expected Price Movement is specific to the time that you do the calculation. It will change as the price changes.**

Disclaimer:

The Blue Collar Investor Corporation, BCI, makes no representations as to the accuracy or validity of this information and should not be construed as a recommendation to purchase or sell a security or to provide investment advice. This information is provided for educational purposes only. Market conditions may change quickly and unexpectedly. Use this calculator at your own risk.

Figure E.2 BCI Approximate Expected Price Movement Calculator

- **Section 3:** In this section, “**Trade Exit**”, you add the trade exit details. Specifically:
 - Trade Exit Date
 - Stock Price at Exit
 - BTC Short Strike Debit
 - STC Long Strike Credit

The P&L Journal will then calculate the final closing debits/credits, final return (ROR) in dollars and percent, and final ROR annualized.

- **Section 5:** You use this section, ”Overall Month-to-Date Results for Closed Trades”, as your score card to measure your total returns for the month. It will capture only closed trades, that is, trades with final results. Any trades that are still in progress will not be included in the results.

OVERALL MONTH-TO-DATE RESULTS FOR CLOSED TRADES							
# Trades	Total Invested	Total Return	Net ROR	Avg. Invest.	Avg. Return	Avg. ROR	Av. Days/Trade
1	\$4,190.00	\$530.00	12.65%	\$4,190.00	\$530.00	12.65%	11

Figure E.8 Month-To-Date Results for Closed Trades

Conservative Credit Spread Guidelines

This section provides a generalized summary of the key guidelines for trading credit spreads.

BCI CONSERVATIVE CREDIT SPREAD GUIDELINES & CALCULATOR USAGE	
GENERAL CONSERVATIVE STRATEGY GUIDELINES:	
[1]	CONSERVATIVE CREDIT SPREADS ARE A TRADEOFF BETWEEN A HIGHER PROBABILITY OF SUCCESS AND A LOWER REWARD TO RISK RATIO.
[2]	CONSERVATIVE CREDIT SPREADS USE DELTAS AS A METRIC TO DETERMINE THE APPROXIMATE PROBABILITY THAT A CREDIT SPREAD TRADE WILL EXPIRE IN-THE-MONEY AT THE TIME THE TRADE IS PLACED. IT IS A PRIMARY METRIC FOR DETERMINING THE SELECTION OF THE SHORT LEG STRIKE OF THE SPREAD.
[3]	DETERMINE MARKET DIRECTION...FOR BULLISH / UPTRENDING MARKETS, USE BULL PUT SPREADS...FOR BEARISH / DOWNTRENDING MARKETS, USE BEAR CALL SPREADS.
[4]	ENTER SHORT LEG AT A 10 TO 20 DELTA TYPICAL FOR CONSERVATIVE TRADES...CAN BE BETWEEN 5 AND 30 DELTA...DEPENDING ON YOUR RISK TOLERANCE. - FOR BULL PUT SPREADS, SHORT LEG CAN BE PLACED BELOW KNOWN STRONG SUPPORT... OR BELOW 1 STD DEV FOR APPROX 84% PROBABILITY OF SUCCESS. - FOR BEAR CALL SPREADS SHORT LEG CAN BE PLACED ABOVE KNOWN STRONG RESISTANCE...OR ABOVE 1 STD DEV ...APPROX 84% PROBABILITY OF SUCCESS. - YOU CAN USE THE "EXPECTED PRICE MOVEMENT CALCULATOR" TO HELP SELECT THE SHORT LEG OF YOUR CREDIT SPREADS USING ONE STANDARD DEVIATION. - AS WITH BCI GUIDELINES, DON'T ENTER THE TRADE IF THERE IS AN EARNINGS REPORT, EX-DIV DATE, OF OTHER POTENTIAL MARKET MOVING REPORTS OR ANNOUNCEMENTS OCCURRING DURING THE LIFE OF YOUR TRADE.
[5]	THE STRIKE WIDTH IS TYPICALLY \$5.00. YOU CAN USE HIGHER OR LOWER STRIKE WIDTHS.
[6]	TARGET 30 TO 45 DAYS TO EXPIRATION (DTE) ...CAN BE SHORTER FOR SPECIFIC STRATEGIES SUCH AS "0DTE" OR WEEKLY CREDIT SPREADS.
[7]	ALWAYS EXIT THE TRADE BEFORE EXPIRATION.
[8]	PRIMARY PROFIT TARGET IS 50% TO 75% OF CREDIT RECEIVED, CAN BE MORE OR LESS DEPENDING ON YOUR PERSONAL RISK TOLERANCE.
[9]	PRIMARY PROFIT TARGET EARLY EXIT AT 50% OF CREDIT RECEIVED IF THE STOCK MOVES QUICKLY IN A FEW DAYS.
[10]	CONTINGENCY (STOP LOSS) EXIT , DEPENDING ON YOUR PERSONAL RISK TOLERANCE, CAN BE AT: - WHEN DEBIT REACHES 2 TIMES (200%) CREDIT RECEIVED...INDUSTRY ROUGH "RULE OF THUMB". - WHEN THE STOCK PRICE HITS THE SHORT LEG STRIKE PRICE - BREAKEVEN - WHEN THE CLOSING STOCK PRICE BREAKS KNOWN SUPPORT OR RESISTANCE LEVELS. - YOUR BREAKEVEN COST MINUS \$1.00 (OR OTHER AMOUNT THAT MEETS YOUR PERSONAL RISK TOLERANCE)
[11]	PROPER RISK MANAGEMENT IS ESSENTIAL TO TRADE CREDIT SPREADS SUCCESSFULLY...FOLLOW THE GUIDELINES.
[12]	ENTER CONTINGENCY EXIT ORDER AT THE TARGET CONTINGENCY EXIT PRICE WHEN INITIALLY PLACING TRADE...IF YOUR BROKER ALLOWS A STOP LIMIT.
[13]	WHEN TRADING AN IRON CONDOR, BEST PRACTICES SUGGEST THAT YOU MANAGE THE TRADE AS SEPARATE BULL PUT SPREAD AND BEAR CALL SPREAD TRADES.
[14]	FOR IRON CONDORS, THE BCI CREDIT SPREAD METHODOLOGY USES "BALANCED LEGS"...THAT IS EQUAL WIDTH SHORT AND LONG LEGS.
[15]	CONSIDER USING HIGHER PRICED STOCKS...THEY OFFER HIGHER PREMIUMS WITH THE SAME NET RISK AS LOWER PRICED STOCKS.
[16]	ALWAYS PAPER TRADE WHILE LEARNING ANY NEW TRADING STRATEGY ...WHEN YOU ARE COMFORTABLE WITH THE STRATEGY, YOU CAN START WITH REAL MONEY IN SMALL TRADES (i.e.: 1 CONTRACT).
[17]	AFTER YOU ARE SUCCESSFUL WITH THE STRATEGY, YOU CAN INCREASE THE NUMBER OF CONTRACTS.
USAGE AND DATA ENTRY NOTES:	
NOTE: THE USER GUIDE IS INCORPORATED INTO THE SPREADSHEET...JUST "HOVER" OVER THE CELL IN QUESTION AND THE DETAILS FOR THAT CELL AND THE FORMAT FOR THAT CELL WILL BE DISPLAYED IN THE COMMENT BOX.	
[1]	ENTER DATA IN WHITE CELLS
[2]	CALCULATED DATA IN GREEN, PINK, AND YELLOW CELLS
[3]	CALCULATED REFERENCE DATA IN YELLOW CELLS
[4]	CONTINGENCY (STOP) EXIT(S) IN PINK CELLS
[5]	COMMISSIONS NOT INCLUDED
[6]	USE THE NOTES AREA IN THE BULL PUT OR BEAR CALL SPREAD SHEETS FOR YOUR TRADE THOUGHTS, NOTES, AND COMMENTS. FOR MORE DETAIL ABOUT YOUR TRADE, USE THE "JOURNAL" SECTION OF THE CREDIT SPREAD JOURNAL FOR MORE DETAILED NOTES AND COMMENTS.
[7]	TO ERASE AN ENTRY, USE THE "CLEAR CONTENTS" FUNCTION.

Credit Spread Trading Check List

This is a step by step check list to help you place your credit spread trade. Use it to guide you through the process. It is especially valuable while you are learning the details of credit spreads. Make sure you use this tool while you are paper trading your first credit spread trades.

BCI CONSERVATIVE CREDIT SPREAD TRADING CHECK LIST - Ver. 1.0				
STEP #	✓	ACTION	RESOURCE	NOTES & COMMENTS
1		Identify Market Direction	- Broker Platform - Metrics & Charts - BCI Reports	- Market Direction Is Used To Determine The Specific Credit Spread Type To Employ
2		Select Trade Type	- Credit Spread Calculator	- If The Market Direction Is: > Bullish/Up-trending = Bull Put Spread > Bearish/Down-trending = Bear Call Spread > Channeling/Flat = Iron condor
3		Select Stock/ETF/Index	- BCI Reports - Broker Platform - Market News Sources	- High Quality Stock/ETF/Index - i.e.:DJ30 Stock, S&P 500 Stock, SPY, QQQ, DIA, SPX - Stock/ETF/Index Is Moving In The Direction Of The Market - No Earnings Reports Or ExDiv Dates Upcoming During The Life Of The Trade - Moderate Volatility
4		Select Short Leg Strike	- Exp Price Movement Calculator - Broker Platform - Options Chain	- Use Delta, Std Dev, or Support/Resistance, - Target Prob. Of Expiring OTM @ >70% - Typ. Delta Between 10 & 20, Can Go Up To 30, For Prob of Profit Between 70% & 90% - Outside 1 Std Dev, Prob Approx 84% - Min 100 Contracts Open Interest For Strike Selected - Bid/Ask Spread \$0.30 or Less
5		Determine Strike Width	- Broker Platform - Options Chain - Credit Spread Guidelines	- Typically \$5 or \$10 Wide - Determines Max Credit & Max Risk
6		Determine Long Leg Strike	- Broker Platform - Options Chain	- Determines Max Credit & Max Risk - Min 100 Contracts Open Interest For Strike Selected - Bid/Ask Spread \$0.30 or Less
7		Determine Length Of Trade (DTE)	- Broker Platform	- Typically 30 - 45 Days
8		Determine Profit Target & Contingency (Stop Loss) Exits	- Credit Spread Calculator - Credit Spread Guidelines	- Set As A Percentage (%) Of Max Credit Received - Profit Target @ 50% To 75% Of Max Credit - Contingency Exit (Stop) @ 200% Of Max Credit (Typ) - See Credit Spread Guidelines For Other Ways To Set Contingency Exits
9		Enter Trade Into Calculator	- Credit Spread Calculator	- Use Spreadsheets To Determine Final Trade Details.
10		Enter Trade Into P&L Journal	- P&L Journal	- P&L Journal Used To Manage Trade
11		Enter Trade In Broker Platform	- Broker Platform	- Double Check Trade Entries Against Spreadsheet
12		Enter Target & Contingency Conditional Order(s) In Broker Platform - If Available	- Broker Platform	- Enter As Conditional Orders Such As "OCO", (One Cancels Other) If Available On Broker Platform
13		Monitor Trade	- Broker Platform > Set Alerts At Target & Stop Prices (If Available From Broker) - Credit Spread Guidelines	- Watch For Early Exit Opportunities - Monitor Profit Target & Contingency Exit Prices - ALWAYS EXIT THE TRADE A FEW DAYS BEFORE EXPIRATION
14		Exit The Trade	- Credit Spread Calculator - Credit Spread Guidelines - P&L Journal	- Exit Trade When Target Exit Or Contingency Exit Is Hit. > If A Winning Trade = Exit At 75% Of Credit Rec'd > If A Losing Trade = Exit At < 200% Of Credit Rec'd
15		Enter Final Trade Results Into P&L	- P&L Journal	- Determine Profit or Loss Details - Capture Trade Notes In Journal Section
16		Rinse & Repeat		

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APPENDIX F

An Overview of the Iron Condor

An **Iron Condor** is a combination of a bull put spread and a bear call spread on the same underlying stock, with the same expiration date. It is designed to profit from a stock staying within a defined price range.

The iron condor is used for a neutral market outlook, since we want the stock to stay between our short put and short call strikes. Our maximum profit is the total net credit received from both spreads. Our maximum loss, however, is defined *only by one side of the condor*. We can win with both spreads, but we can lose with only one. If the widths are the same, your risk is the width of one spread minus the total credit. If the widths are different, your risk is the larger of the two widths.

Iron Condor Components

Short Put – Sell a put below current price following the rules described in this book. This generates income and sets the lower boundary of the profit zone.

Long Put – Buy a put at a lower price than the short put. This limits the possible downside loss.

Short Call – Sell a call above the current price following the rules described in this book. This generates income and sets the upper bound of the profit zone.

Long Call – Buy a call at a higher price than the short call. This limits the possible downside loss.

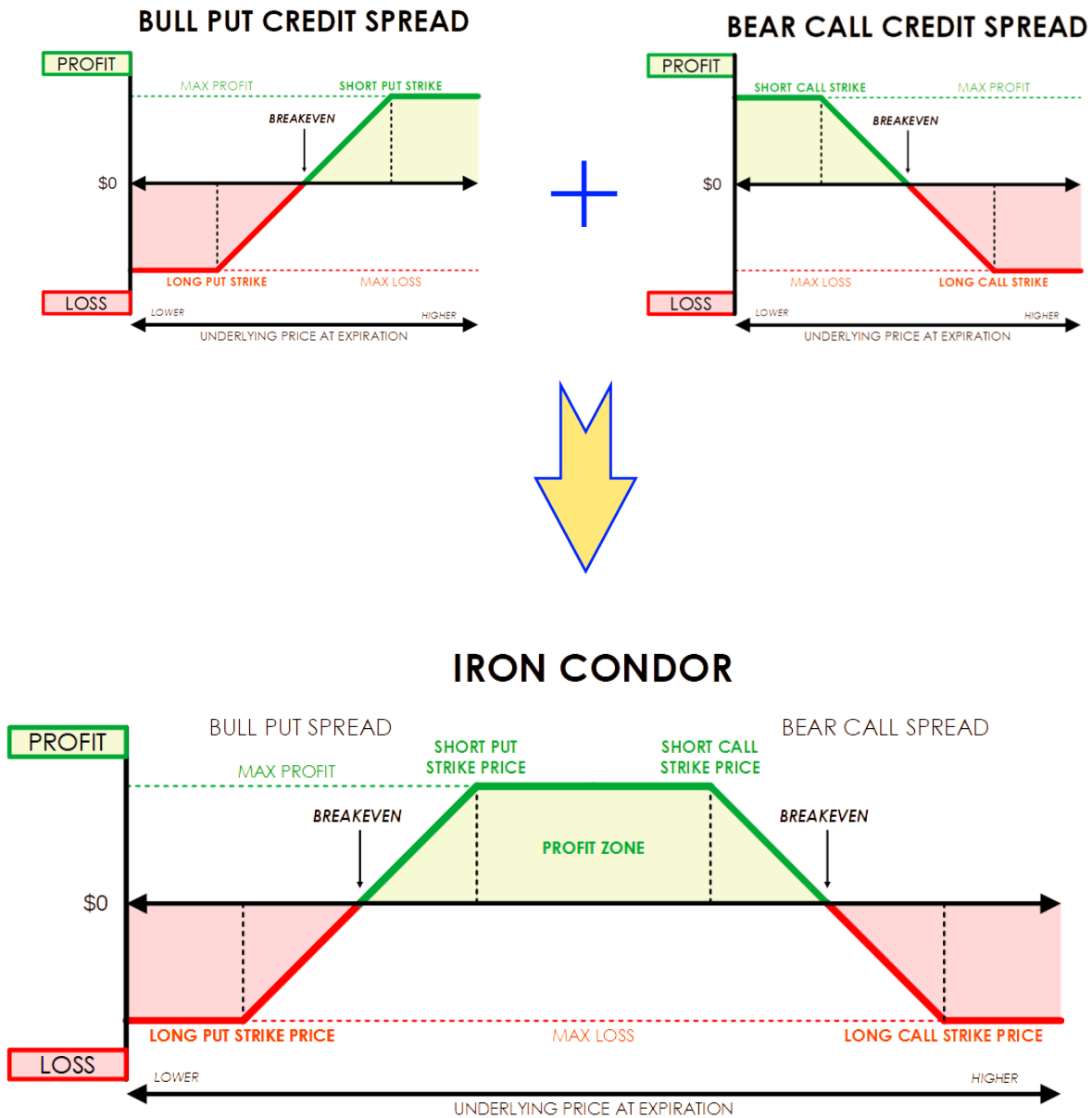


Figure F.1 Iron Condor Diagrams

The short put and short call strike prices establish the profit zone. This is where you can achieve maximum profit. The long put and long call serve as protection and define the maximum loss. This loss is capped on either side of the trade. This trade structure results in a defined risk position with the maximum profit defined by the short strikes and the maximum loss defined by the long strikes. The profit declines on each side of the short strikes until the breakeven is hit, with losses beyond the break evens.

The beauty of this strategy is that the trader doesn't have to rely on predicting where the price falls. The only thing that the trader needs to be concerned with is that the price remains within a specific range defined by the short strikes. Since the final price can't be at two different price levels, the iron condor can provide greater protection if one side of the trade loses.

A good analogy for this trade is that of football goal posts. Like a winning kick that has to go through the uprights, so does a winning iron condor. The trade needs to fall between the uprights (the short strikes).

Pros and Cons of the Iron Condor

Iron Condor	
Pros	Cons
Limited Risk: Long options protect against significant losses if security moves outside expected range.	Limited Profit: Profit is capped at credit received when trade is placed.
High Profit Probability: The profitability of the iron condor is higher than directional credit spreads (collecting two credits).	Multiple Commissions: Commissions can be higher since the condor is constructed of four separate trades.
Defined Profit: Maximum profit is known at the start of the trade, and is generally higher because of the two credit spreads in action.	Complexity: Managing two separate trades is more complex than managing a single bull put or bear call spread. Iron Condors require monitoring.

Mechanics of the Iron Condor

Maximum Profit = The total credit received from selling *both* the bull put and bear call spreads

Maximum Risk = Spread width of either side (OR wider side)– the total credit received

Break Even Points:

- Lower Break Even = Short Put Strike – Total Credit
- Upper Break Even = Short Call Strike + Total Credit

Return On Risk (ROR) = Max Profit/Max Risk

APPENDIX G

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APPENDIX H

Web Resources

Here are some excellent sites that will help you with in-depth financial and economic information:

- The Wall Street Journal - Overall market and stock information..."The Financial Paper of Record"
 - www.wsj.com
 - This is a subscription-based service
- FinViz- In-depth information relative to financial metrics and news
 - www.finviz.com
- Forex Factory - Excellent source of information regarding upcoming economic reports and discussion of their impact
 - www.forexfactory.com/calendar
- Sector SPDR - Website for the S&P 500 Sectors
 - www.sectorspdrs.com
 - Excellent information to help with decisions relative to sector rotation
 - Good visual tools

- Zero Hedge - Good in-depth articles on current economic and geopolitical issues that can impact the market
 - www.zerohedge.com
- Market Watch - General Market news and statistics
 - www.marketwatch.com
- Yahoo Finance - General Market news and statistics
 - www.yahoo.com/finance
- MSN Money - General Market news and statistics
 - www.msn.com/money
- Stockcharts.com - Good alternative to TOS charts
 - www.stockcharts.com
 - This is the site that Alan Ellman uses in all of his books for charts
- The Blue Collar Investor – Stock & ETF screening; options education
 - www.thebluecollarinvestor.com