

# Checklist

## Credit Spread Options

### ✓ **The Basics**

- Have an option-approved account
- Don't need a large account size
- Understand credit spreads
  - What they are
  - How they work
  - Using out-of-the-money options
  - Picking the right stock and option strikes

### ✓ **Prepare Your Stock List**

- Find stocks with weekly options to provide more opportunities
- Higher-priced stocks offer better option choices
- Avoid news/earnings/controversy, etc.
- Have a short list of 5-10 stocks ready on Friday

### ✓ **Assess the Market**

- Avoid news/announcements (Fed, jobs report, etc.) that could cause market turmoil
- Friday (or last day of the trading week) afternoon optimal
- Look for three-day weekends, shortened weeks, holiday weeks
- Boring is better

## ✓ **Make the Trade**

- Safety first
  - Goal is for sold option to remain out of the money
  - Avoid assignment; always close trade if sold option moves into the money
  - Unlimited risk if assigned; no hedge in place
- Focus on income received rather than return on margin
- Factor in trading costs
  - Can be a significant percentage of credit
  - Keep trading costs as low as possible
  - Adjust number of contracts traded to reduce per-contract cost
- Keep position sizes small
  - Applies to all trading strategies and all account sizes
  - Each trade <5% of account
  - Base allocation on margin amount
- Don't force trades
  - Opportunities may not be available every week
  - Volatilities may be low throughout market, meaning fewer opportunities
  - Don't chase trades; wait for the next Friday
  - Take what the market gives you

## ✓ **Final Advice**

- Paper Trade First
  - Know your stocks and their options
  - Get to know credit spreads
  - Get used to trading quickly; credits can disappear late in the day
- Have Fun!