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# Market Chameleon

## How to Screen for Debit Put Spreads

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# Debit Put Spread

Discussion:

Bearish Option Strategy

Theoretical Edge

Directional Bias

Screening using different parameters

# Debit Put Spread

Involves buying and selling a put option in the same expiration on different strike prices

Bearish Outlook on the Stock- The strategy benefits from a falling stock price

Defined Risk- The strategy risk is pre-defined to the initial cost or debit

Assignment Risk at Expiration (if stock closes between strikes you may get assigned on one leg of the strategy)

# Theoretical Value

Theoretical Value can be compared to market prices to determine the **discount/premium** of the strategy. Is the market bidding up the strategy?

Theoretical Value can be estimated using **historical returns** of the stock in similar circumstances.

Factors to consider: Implied Volatility and **Skew**

# Directional Bias

**Option Order Flow-** How are investors feeling about the stock based on the general order flow?

**Fundamental Analysis-** Fair Value Estimates

Does the stock appear to be overpriced/underpriced?

**Trend of stock-** Is the stock in an uptrend or downtrend

# Debit Put Screener

Screener helps to narrow down potential stock candidates

Screener also helps narrow down debit put spread opportunities based on selected option criteria such as theoretical edge, potential return etc..

A screener can be a good starting point to do further research.