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June 22, 2023

Sheridan Options Mentoring

Using Vertical Spreads: Directionally Trade the Market

Dan Sheridan
Sheridan Options Mentoring

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"Using Vertical Trades to Directionally Trade the Market"

With: Dan Sheridan – Dan@SheridanMentoring.com

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Using Vertical Trades Directionally to trade the Market

- Defining Vertical Trades
- XYZ at 100: Buy 1 August 100 Strike Call and Sell 1 August 105 Strike Call for 2 Debit.
- Risk? Potential Reward?
- Ex 2: Buy 1 August 105 Strike Put and Sell 1 August 95 Put Strike for $4.50 Debit.
- Risk? Potential Reward?

Why Trade Verticals Directionally?

- #1 Much cheaper than a Long Option

- #2 Reduces Volatility Risk

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Which Vehicles to Trade and how many?

- #1 Vehicles most familiar with
- #2 Diversification
- #3 Trade Small amount of vehicles

Considerations when getting ready to trade Vertical Spreads?

- #1 News or Earnings

- #2 Stock Range

- #3 Volatility

- #4 Duration

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How to pick Strikes?

- #1 Expected Range
- #2 Delta
- #3 Time Horizon
- #4 Volatility
- #5 Costs

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How to pick correct Expiration or Trade Duration?

- #1 Conviction
- #2 Speed of current and future expectations of the stock

Width of Verticals?

- #1 Cost
- #2 Risk / Reward
- #3 Planned Capital Allocation for Speculative Trades

Profit and Lost Targets?

- #1 Profit Target
- #2 Maximum Loss

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How to Tweak or Adjust?

- #1 Tweak or Adjust if Right: Take off, Turn into Butterfly, reduce or Scale out.

- #2 Tweak or Adjust if Wrong: Take off or turn into Butterfly and buy more time.