

GENERATING MONTHLY INCOME SELLING CREDIT SPREADS WITH CHARTS



A FREE EBOOK FROM MASTERTRADER.COM

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INTRODUCTION

Stocks can only trend up, down, or sideways in the time frame being viewed. When trading stocks, you can only profit if you are correct on direction.

Buy low and sell high, buy high and sell even higher, and vice versa.





Unless you are a skilled chart reader – which is our specialty -- then the odds of success are 50% -- a mere coin flip!

This *Master Trader* E-Book is going to teach you how you can easily and consistently sell option credit spreads on short-term price reversal patterns – which we will show you.

When you sell options this way, you are literally “getting paid” (i.e., equal to the premium received) for simply predicting where the stock or ETF will not go!

With limited chart reading skills, it is so much easier than buying stocks to generate income.

Based on the way options are priced (and you will soon learn why the odds favor option sellers), mathematically, you increase your odds of success to 67% or more by selling options!

Selling options gives you a higher probability of profit -- by definition -- and a “cushion to be wrong” on the direction, as we affectionately refer to it, which you will soon learn.

Then, by selling credit spreads using [Master Trader Strategies](#) (MTS) for timing and management, your success jumps to 85%+!

We sell bull put credit spreads on bullish patterns, and bear call credit spreads on bearish patterns.

Trading credit spreads is easy to learn, use, and profit from as an options income strategy.

You either keep the money received from selling the options as pure profit (which happens over 85% of the time using Master Trader Strategies), or you have obtained stock at an improved cost basis. It's a win-win!

After reviewing the foundation of options, we will show you the exact patterns to sell credit spreads on to generate additional monthly income.

We focus on options expiring less than 45 days because of time decay (note: because options lose value each day, that decay is "our profit," which you will soon learn).

We will then show you how to enter and manage these high-probability setups and strategies.

Let's begin!



OPTION BASICS

Before we show you how to sell credit spreads for income using charts, we need to introduce you to a number of definitions and option basics that will help you trade this strategy with confidence.

An *option* is a contract allowing for the right to buy or sell something during a *specific time*, for a *specific price*. The premium quoted is per share (1 contract = 100 shares).

A call option is a security that gives the holder (buyer) the right, but not the obligation, to buy (“call away”) the stock from the seller (writer) at a specific price (strike), on or before a specific date (expiry).

Think of buying a call like buying an option to buy your neighbor’s house at a locked-in price. Instead of the underlying being a house, it is a stock or ETF.



Traders buy call options to speculate on higher prices; they are bullish. Traders sell call options when they believe the premium received is more net profitable than holding the position alone.

A *put option* is a security that gives the holder (buyer) the right, but not the obligation, to sell ("put") the stock to the seller (writer) at a specific price (strike), on or before a specific date (expiry).

Traders buy put options to speculate on lower prices or to partially hedge existing positions.

Traders sell put options when (a) they think the stock is not going lower and will profit from the premium received when it expires worthless (very bearish); or (b) are willing to purchase (be assigned) the stock at the short put price -- in addition to keeping the premium -- which gives them a superior cost basis versus buying the stock at the time the put was sold.

When an option is converted into the underlying stock, it is said to be *exercised*. Options are automatically exercised if they close one penny in-the-money.

The *strike price* is the price at which the holder of an option can purchase the underlying stock if the option is exercised. Stay with me if this is sounding complicated.

A call option is *in-the-money* ("ITM") when the current price of the stock is above the strike price (the difference being referred to as the option's *intrinsic value*). Think of this as having a "coupon" to buy a stock at less than the current price.

A call option is out-of-the-money (“OTM”) when the strike price is above the stock’s current price. Think of this as having a “coupon” to buy a stock at more than the current price – it has no “intrinsic value” since it would just be cheaper to buy it in the open market.

A put option is ITM when the current price of the stock is below the strike price (your “coupon” allows you to sell/short the stock at a higher price than the stock is currently trading).

A put option is OTM when the strike price is below the stock’s current price (your “coupon” is worthless).

As you will see, Master Trader sells put spreads at/below support (we believe that the move lower in the stock is over short-term), and call spreads at/above resistance (we believe that the move up in the stock is over short-term).

The goal being to keep the full credit (money received from selling the spread) as profit with the expectation of the spread expiring worthless/OTM.

The *premium* is the price paid for the option. Prices are quoted with a *bid* and *ask*. We recommend only trading liquid options with tight spreads to minimize slippage.

The *expiration date* is the date when an option is no longer active.



Why Option Sellers Have an Edge



Buying options cost money, similar to buying an insurance policy on your house or car. The stock must move in the intended direction for the option buyer to make money.

Theta (time decay) is the rate at which an option position loses value given the passage of one day, all other factors considered equal.

All options with time left until expiration will have extrinsic value.

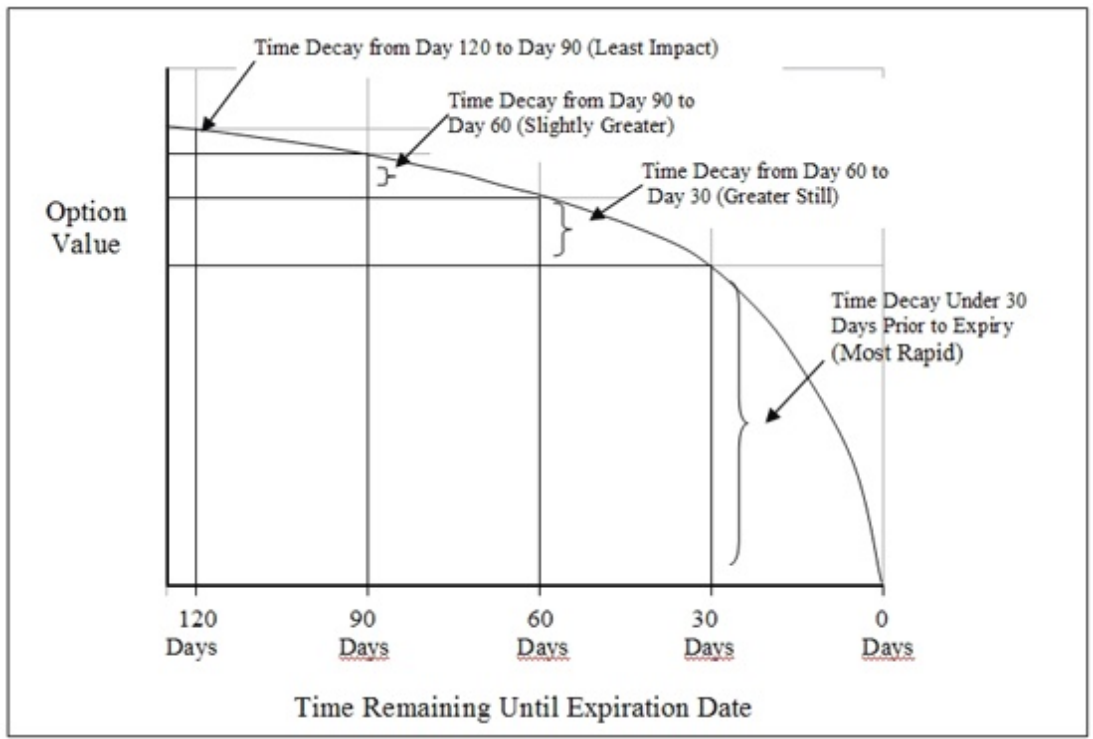
As an option seller, this price decay over time is a good thing.



This is why when you sell options you can make money just from the passage of time and no stock movement!

Time decay is like a melting ice cube. It occurs more rapidly the last 30 days to expiration (and even faster under 10 days), which is why we focus on selling short-term expiring credit spreads.

The following diagram shows how Theta decays into expiration and why we favor selling options with less than 45 days to expiration:



Some brief words on volatility. VIX is the [ticker symbol](#) for the [Chicago Board Options Exchange](#) Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 [index options](#).



This volatility is meant to be [forward looking](#). It is calculated from both calls and puts, and is a widely used measure of [market risk](#), often referred to as the "investor fear gauge."

When the VIX is high, or the implied volatility of individual stocks rises (e.g., either with the market risk or known events like earnings or pending news), option premiums rise.

It is better to sell expensive options during these times (confirmed by Master Trader Strategies as shown in this E-Book) since the higher premium received increases your probability of profit and breakeven level.

In other words, you are getting paid more for the risk taken. With the use of the right technical strategies, we can determine with a high probability when options are priced for world's end.

Below is a weekly chart of the VIX. When it gets to a historical extreme and stalls, it is usually an excellent time to sell puts on the S&P 500 ETF SPY, as well as individual stocks.

CBOE Volatility Index (VIX)

VIX rises with market fear and uncertainty -- but can't trade it!



For those interested in profiting from trading volatility – both on selloffs and during quiet times and profit from the huge on these products, see Master Trader's specialty course at mastertrader.com, *Ultimate Guide to Trading Volatility ETFs and Options Class*.



***SHORT BULL/BEAR
CREDIT SPREADS
USING MASTER
TRADER STRATEGIES***

Master Trader combines [Technical Strategies \(MTS\)](#) with option trading to teach investors and traders how to generate income and wealth in the markets.

So-called “mechanical option traders” who trade solely off the “Greeks” -- or mathematics alone without regard to technical analysis -- do so at their own peril.

All of our trade recommendations are based on how bullish or bearish we are on the price patterns that we use on multiple time frames (MTF).

We then choose either Income or Directional Option Strategies to best match our bias and trading time frame used.

This E-Book is focusing only on selling credit spreads, a Master Trader “Income Strategy.”

We will provide a foundation to technical analysis to help you understand the patterns we are looking for to sell credit spreads.

Since stocks can only do three things: go up, go down, or move sideways, having a basic understanding of support and resistance is important for the technical options trader.

Support (where buyer are) is the level/area where demand for the stock was greater than the supply of stock at those prices, which should prevent it from going down further when retested.

Master Traders sells Bull Put Credit Spreads at/under Support.

Resistance (supply) is the level/area where supply for the stock was greater than the demand of stock at those prices, which should prevent it from going up further when retested.

Master Traders sells Bear Call Credit Spreads at/above Resistance.

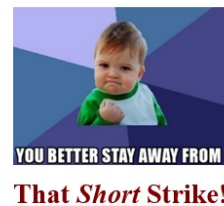
Sideways trends/consolidations are defined as “relatively equal highs and lows.”

Master Traders sells both Bull Put Credit Spreads and Bear Call Credit Spreads in sideways trends at turning points to generate monthly income.

Only Movement of Stocks:



- Using Compelling Patterns, we place *Bets* that the Pattern will not *Violate* the short Strike.
- *Bull Put Credit Spread* - You Profit if Stock goes Up, Sideways, or Down < Break even.
- *Bear Call Credit Spread* - You Profit if Stock goes Down, Sideways, or Up < Break even.
- *Cushion* provides an Edge to be wrong!



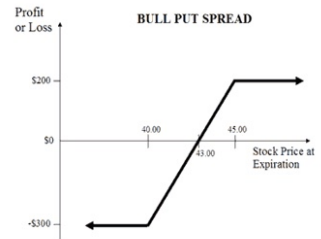
Like an Insurance Company, we get Paid each day unless an unexpected disaster occurs.

Observe that selling these credit spreads drastically stacks the odds in your favor – particularly using Master Trader Strategies with the charts!

Below is the definition of the Bull Put Credit Spread, which is used on bullish patterns:

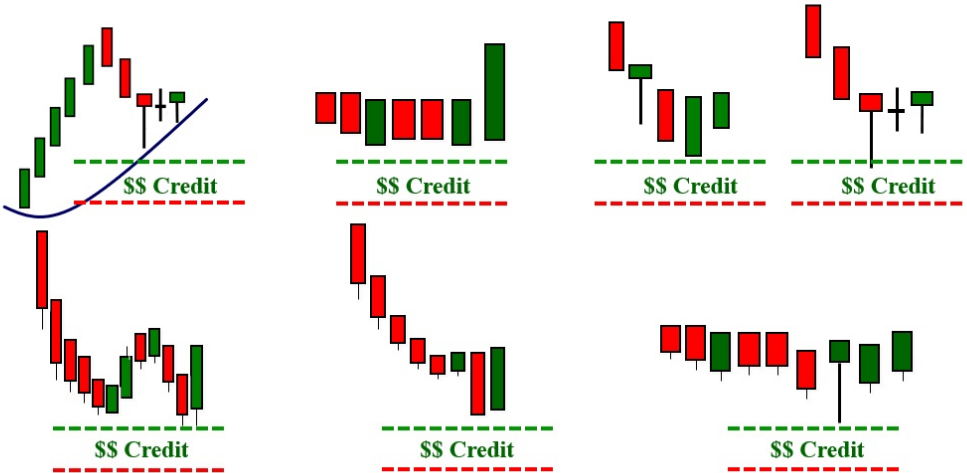
Bull Put Credit Spread for Income

- Bull Put Credit Spread Defined (Vertical Spread)
 - Sell put strike price at/under support, and
 - Purchase lower strike put as hedge
- **Max Gain** = Net Credit received
- **ROC** = Credit divided by **Max Loss**
- **Breakeven (Basis)** = Short Strike – **Credit**
- Although less Credit than selling naked Puts, Spreads reduce Capital requirement and Max Loss



Below are examples of the bullish Master Trader patterns we search for in selling Bull Put Credit Spreads on liquid stocks and ETFs:

We Will Teach You to Generate Profits on These Patterns

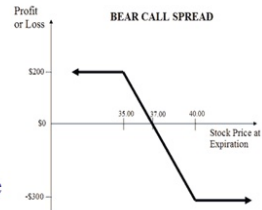


Master Trader Technical Strategies With Option Trading for Monthly Income!

Below is the definition of the Bear Call Credit Spread, which is used on bearish patterns:

Bear Call Credit Spreads for Income

- **Bear Call Credit Spread Defined (Vertical Spread)**
 - Sell call strike price at/over resistance, and
 - Purchase higher strike call as hedge
- **Max Gain = Net Credit received**
- **ROI = Credit divided by Max Loss**
- **Breakeven (Basis) = Short Strike + Credit**
- Although less Credit than selling naked Puts, Spreads reduce Capital requirement and Max Loss



Below are examples of bearish Master Trader patterns we search for in selling Bear Call Credit Spreads on liquid stocks and ETFs:



We Will Teach You to Generate Profits on These Patterns



BULL PUT CREDIT SPREAD EXAMPLES USING MASTER TRADER STRATEGIES

Now we will review a few actual short bull put credit spread examples given to our subscribers which illustrate the simplicity of this high-probability strategy around bullish turning points.

In the UNH trade, notice the bullish professional gap (Pro Gap) and Bullish Wide Range Bar (+WRB) close on the day marked. These are technical patterns we teach to profit on stock and option trades.

UNH continued to move up and then consolidate. On the last day shown, it closed near the high end of the consolidation.

Without needing to be a technical expert, ask yourself, “what are the odds of UNH holding its support area for seven days?”

Very high, that's right! So we "put our money on the line," so to speak, by selling an OTM put spread. In credit spread seminar, [Generate Monthly Income Selling Credit Spreads](#), we teach how to select the proper strike price and expiration date.

In this example as you can see, we sold the \$207.50 put and bought the further OTM \$202.50 put to make it a \$5-wide bull put vertical.

Using spreads (versus selling the put naked) makes it a defined risk trade and also requires less capital to put on the trade.

Assuming you sold a 10-lot, you would immediately receive \$800 (less commissions) into your brokerage account. This is 100% pure profit if UNH expires worthless (i.e., above the \$207.50 short strike)! Many of our seminar graduates love this strategy, claiming it is like "taking candy from a baby."

Daily - UNH



- **Pattern:** Bullish consolidation in strong uptrend all time frames.
 - **Bull Put Credit Spread (7 DTE):**
 - Sell \$207.5 Puts, *Bullish*
 - Buy \$202.5 Puts, *Bearish/Hedge*
 - **\$.80/share Credit Limit.**
- 19% ROI (\$0.80/4.20) if expires worthless, stop under support.**

Spread	Side	Qty	Symbol	Exp	Strike	Type	Price
VERTICAL	SELL	-10	UNH	1 DEC 17	207.5	PUT	.80
	BUY	+10	UNH	1 DEC 17	202.5	PUT	CREDIT



Here are a few more self-explanatory examples similar to UNH.

Bull Put Credit Spread on Bullish High Volatility Trade



- Pattern: Bullish +123 Continuation from consolidation.
- Strategy: *Income Trade*, 100% Implied Volatility (Earnings).
- Short \$40/35 Bull Put Credit Spread for \$.55/share (29 DTE).
- 12.3% ROI (\$.55/4.45).
- 18.7% Cushion!
- Breakeven (Cost Basis if assigned) is \$39.45/share.

Bull Put Credit Spread on Rounding Bottom



- **Pattern:** Breakout from multi-week bottoming pattern, with Higher High & Higher Low.
- **Strategy:** *Income Trade*, getting paid to call a short-term bottom.
- Short \$105/100 Bull Put Credit Spread for \$.75/share (43 DTE).
- 17.6% ROI (\$.75/4.25).
- 5.1% Cushion with \$104.25 Basis (Breakeven) if Assigned.

Bull Put Credit Spread With Huge Edge To Be Wrong!

Daily – HUM



- Sold 10 Jan \$180/170 Bull Put Credit Spread for \$500.
- ROI 5.2% (12.2% Cushion)!
- \$500 full profit as long as expires above \$180 Strike.
- Worse case scenario is own the stock at \$179.50/share!
- Master Trader scans daily for high-probability Option Selling Candidates around Charts.

In our [Weekly Options Trader](#), we specialize in selling options which expire 10 days or less because of the rapid time decay. We keep our open risk to a minimum.

Because of the ease of the strategy and statistical “edge” that exists in selling options around Master Trader’s compelling chart patterns, these trades are available in all market environments – trending, choppy, or even a volatile mess.

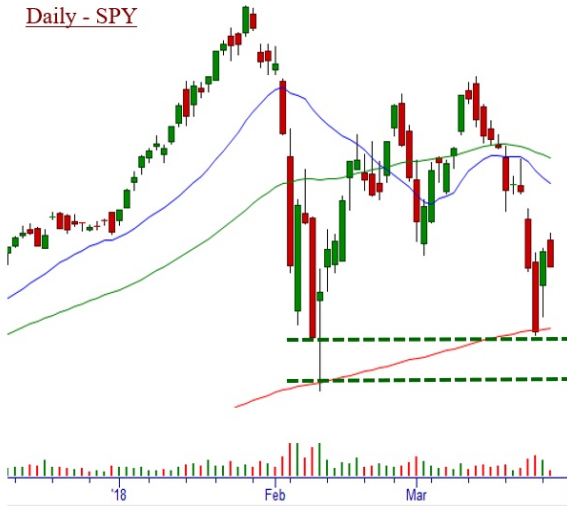
The S&P 500 ETF, SPY, has multiple expirations besides just weekly and monthly, making it an ideal ETF to sell short-term credit spreads.

Here is an example of a put spread expiring in three (3) days, although we closed the following day in trade management mode booking 93% of the Max Gain. No need to stick around trying to squeeze the last few drops of juice from the coconut!



We often sell credit spreads on SPY with 1 DTE – and even on expiration day, which happens throughout each week.

Bull Put Credit Spread on SPY Selloff (96% IVR)



- **Pattern:** Bull Gap Surprise after 10 red bars around Major Support.
- Short \$258/248 Bull Put Credit Spread for \$.55/share (3 DTE).
- Closed at 2x Top for \$.04/share (93% of Max Gain in 1 day).



In the above examples, we selected the strike and expiration and recommended same to our subscribers.

There are many factors in selecting the same, and there is no right answer.

It depends on the reward-risk tolerance and trading plan of each trader. But we teach traders how to make their own decisions.

Below are some of the factors we teach:

Selecting Proper Put Strikes and Expiration

What Is Best *Strike*?

- Short Put at Strike at/under **Support** (further **OTM** gives more **Cushion**, but Less **Premium**).
- Purchase further **OTM** Strike per your Reward-Cushion profile.

What Is Best *Expiration*?

- Sweet Spot is 0 – 45 days (**Time Decay**).
- Depends on bullishness of Pattern, Volatility, Time Decay, and Premium for the Risk assumed.
- Be aware of Earnings and News events.



TRADE MANAGEMENT



Once in a trade, we are in “trade management” mode. We adjust stops with the charts, take profits over time, use “adjusting strategies” when needed, and also stop out when the pattern fails.



Although this is beyond the scope of this E-Book, here are a few general considerations on position management:

- Close half if rapid **50% Max Gain**.
- Master Trader manages all option trades with the Charts (and Volatility).
- Close trade if it violates **Support** (avoid Rolling in “Hope Mode”). Unless a disaster gap occurs, losses if stopped should generally not exceed 3x Credit.
- Generally look for at least 10% Credit of the Spread Width (e.g., \$.50/share on \$5 wide **Bull Put Credit Spread**). We want to get paid for assuming risk!
- Although by definition you are always risking more than you can make, focus on the **Probability of trade working** (e.g., bullishness of the pattern plus *Delta* as a guide).
- **Reward-Risk** and ROC change with Strike and Expiration selection.



Managing Short Option Positions

- Do Nothing – You are willing to be assigned at improved cost basis.
- Managing Winners:
 - General objective of 80% of **Max Gain** to reduce risk if quick (i.e., don't *Overstay Your Welcome*).
 - Manage per *Master Trader Advanced Management Strategies (ATS)*.
- Stop – Pattern failed so close position (protects Capital and Mind).
- Adjusting – The **Bull/Bear** bias has changed so you add/overlay new strategies to *Adjust Exposure* (see *MT Options Strategies Series*).
- Rolling – Simultaneously close one position and open another one with a different **Expiration** or **Strike** per your Bias.

Trade
MANAGEMENT



Some traders have a hard time understanding this strategy because the potential loss in a worst-case scenario is much greater than the potential reward (maximum gain) too be achieved.

This, on its surface, is an excellent observation but ignores the statistics behind the strategy.

Unless we get a disaster gap (or rapid move of stock against us with rising volatility), our loss on credit spreads is typically 2-3x of the credit received.

But if a stock is bought out at a big premium, for example, it is likely we would suffer the max loss on a bear call credit spread.

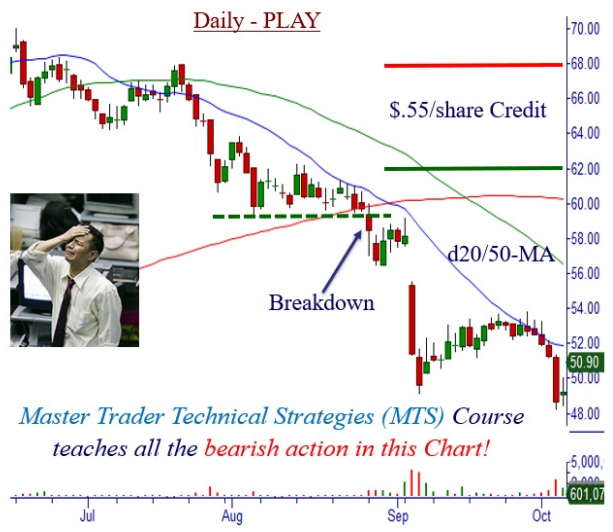
But the math still works over time when you have a success rate of over 85%. Also keep in mind that ANY loss suffered on any short credit spread trade is less than what would be incurred by a stock trader by definition.



BEAR CALL CREDIT SPREAD EXAMPLES USING MASTER TRADER STRATEGIES

Now we will review a few actual short bear call credit spread examples given to our subscribers which illustrate the simplicity of this high-probability strategy around bearish turning points.

Income Trade in *Master Trader Advisory Letter*



- Pattern: Breakdown at 200-MA and daily downtrend.
- Short \$62/68 Bear Call Credit Spread (25 DTE) for \$.55/share.
- 12.1% ROI (\$.55/4.45).
- Also gave Bearish Option Directional Trade.

Bear Call Credit Spread at Congestion



- Pattern: Bearish Engulfing at Resistance under 50/200-MA.
- Strategy: *Income Trade*, 92% Implied Volatility Rank.
- Short \$160/\$162.5 **Bear Call Credit Spread (BCCS)** for \$.58/share (5 DTE).
- 30.2% ROC (\$.58/1.92) if expires below \$160 short strike.
- Over \$160, stop BCCS and sell OTM Put Spread.



Here is an example of an extended stock on Multiple Time Frames (MTF). We then drill down to lower time frames for our entry when it suggests that the "jet fuel of the stock is exhausted."

Because of the rapid move up – suggesting high demand and greed – we look to sell OTM call spreads since the premium is usually large, as in this case.

Income Trade in *Master Trader Advisory Letter*



- Pattern: Climactic Sell Setup and TT daily and weekly.
- Sold \$35/40 **Bear Call Credit Spread** (53 DTE) for \$.70/share (186% Volatility!).
- 16.3% ROI (\$.70/4.30) with 52% *Cushion!*
- On gap down, closed at \$.15/share (78% Max Gain).

Bear Call Credit Spread on Breakdown



- Pattern: Breakdown after Bearish Pro Gap on +Vol., rally to d20-MA, and Breakdown.
- Strategy: *Income Trade*.
- Short \$97/102 **Bear Call Credit Spread** for \$.80/share (26 DTE).
- **19% ROC** (\$.80/4.20) if expires below \$97 short strike.



CONCLUSION

We trust that this *Master Trader E-Book* has given you the knowledge to consider selling credit spreads around compelling patterns to generate additional monthly income.

You should start with paper trading until you build up your confidence, and follow our trades in our advisory letters.

We have presented to you the same technical patterns that we use to sell credit spreads on, as well as generally explained how to enter and manage them thereafter.

Using technical analysis as explained, it will allow Master Traders to profit in the vast majority of trades when using Master Trader Strategies.



If you are serious about wanting to generate income selling credit spreads, we urge you to take our full 5-module course, see <https://mastertrader.com/spreaddetails>

Make Money With Little Effort By Selling Credit Spreads!



Learn and Profit Now!

- ✓ Get Paid to predict will a stock will Not Go
- ✓ Learn the Patterns to sell Spreads on
- ✓ Easier to trade than Stocks
- ✓ Generate monthly income
- ✓ High Probability of Profit with Cushion to be Wrong
- ✓ Learn how to enter and manage bull/bear spreads

Course Description and Order at:
<https://mastertrader.com/SpreadDetails>

Master Trader Technical Strategies With Option Trading for Monthly Income!

ABOUT THE CO- AUTHORS AND MASTER TRADER.COM



Dan Gibby possess more than 25 years' experience in equity and options trading, with expertise in technical analysis, using options to hedge and speculate, and portfolio/asset management. He gave up his lucrative law practice to enter the incredible world of self-directed trading which offers unlimited financial gain and freedom to disciplined traders.

Mr. Gibby specializes in trading options to enhance or replace equity trading with superior risk adjusted returns. With an extensive knowledge of U.S. market microstructure, high-volume intra-day trading, finance and general business concepts, Mr. Gibby also previously acted as *Head of Corporate Proprietary Trading* for a global principal trading firm of equities and futures where he managed the firm's corporate trading account.

These gentlemen have been working together since 1998 and recently formed *Master Trader* to provide education to stock and option traders as well as consult for money managers and high net worth investors on option layover strategies to generate ongoing additional yield. Both have created significant educational content for beginning and advanced traders, created trading DVDs on trading options and equities, privately mentored advanced traders, and presented hundreds of trading seminars throughout North and South America. See <http://mastertrader.com/>



Greg Capra was Founded and President/CEO of a large education and trading company for over 22 years and is known as a pioneer of the online trading and investing industry.

In the late 1980s, he immersed himself into learning what moved the markets – and why. His approach to the markets is based on technical analysis, rather than a fundamental based one.

However, he uses what he calls a “Techno-Fundamental” one that combines Market Internals, Inter-market Analysis and Technical Analysis.

Mr. Capra has taught and consulted for money managers, institutional traders, specialists and market makers. He has won numerous real-money, real-time trading challenges using his MasterTrader Technical Strategies Method. McGraw Hill Publishing and Wiley Publishing each commissioned Greg to author several books and DVDs on the subject of technical trading and investing.

If you want to begin selling high-probability credit spreads for a mere \$97, click here to review our [Generate Monthly Income Selling Credit Spreads](#).

Thank you for downloading our e-Book. What we've shown you is part of the exact system we've used for years to achieve a success rate of over 85% in selling credit spreads around reversal patterns.

For those wanting to increase their understanding of this material and start selling credit spreads with confidence, please click this link for our [Credit Spread Course](#)

As part of the Master Trader family, we take a personal interest in your success and will continue to work with you to ensure your success.

Master Trader and You Building Your Financial Future Together!

Happy trading! If you have any questions or comments, please e-mail Dan Gibby at Dan@mastertrader.com or Greg Capra at Greg@mastertrader.com. We are happy to help.

All the best and Happy Trading!

Dan Gibby
Chief Options Strategist

Greg Capra
Managing Director

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