Adjusting The Bull Put Spread

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Review of The Bull Put Spread

- Credit Spread
- Sell to Open the Trade
- Short Put Placed Out of the Money and Below a Strong Level of Support and in the Current or Next Month of Expiration.
- Long Put is Placed One or More Strike Prices Lower and in the Same Month of Expiration.
- Cost Basis is the Total Net Credit of the Options Subtracted from the Difference in The Strike Prices of the Options.
- Max Risk = Cost Basis
- Max Reward = Net Credit.
- Good Target ROI is 15-50%
- Good Target Time in the Trade is Under 4 weeks.
Open the Trade Expecting Stagnant to Bullish Movement
Stock price reverses into a Bearish movement
Before stock is put to us, roll our long puts out past the next earnings, or other scheduled event.
Allow Stock to be Put to us at the Strike Price of our Short Put Option
Add covered calls farther out in time than the new puts, and at a higher strike price.
Don’t forget your profit on your original bull put spread. That is still yours.
Module 6.3
Adjusting The Bull Put Spread
Adjustment for Bearish Move

- Open the Trade Expecting Stagnant to Bullish Movement
- Stock price reverses into a Bearish movement
- Roll both options out, and down.
- Probably have to increase the spread between options prices to get enough credit.
- We will likely add risk along with time to the trade.
- This is not the most advised adjustment.
Never forget your cost basis.
Money in; money out.
Buy to close the Sep13 $90.00 for $2.93.
Sell to close the Sep13 $85.00 for $0.15.
We now need a $2.78 credit with our new options, just to keep our same original credit.
Sell to open the Oct13 $85.00 for $1.29.
Buy to open the Oct13 $80.00 for $0.33.
We spent $2.78 to close but we only took in $0.94 to open. We are short $1.84.
Never forget your cost basis.
Money in; money out.
Buy to close the Sep13 $90.00 for $2.93.
Sell to close the Sep13 $85.00 for $0.15.
We now need a $2.78 credit with out new options, just to keep our same original credit.
Sell to open the Nov13 $85.00 for $2.20.
Buy to open the Nov13 $77.50 for $0.58.
We spent $2.78 to close but we only took in $1.62 to open. We are short $1.84, and we increased our risk by $2.50/share.
Adjustment for Bearish Move

- Open the Trade Expecting Stagnant to Bullish Movement
- Stock price reverses into a Bearish movement
- Buy to open additional long put contract in the hope that the stock continues to move down.
- First set of long puts are used to sell the stock which gets put to us.
- Second set of long puts are used to offset loss.
Summary

1. When the stock in a bull put spread moves below the strike of our short put we can:
   1. Roll our long put straight out in time before the stock is put to us (the new month of expiration should be beyond the next scheduled event).
   2. Add covered calls at a higher strike, and longer expiration date than the new long puts.
   3. Collar the stock until a good exit presents itself.
   4. Add protective long puts instead of keeping the stock which is put to us.

2. Be very careful of your cost basis and your risk if you decide to roll both options out and down.

3. Always keep track of your cost basis and how it changes as we roll the option.