The Bear Call Spread

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The Bear Call Spread Defined

- Credit Spread
- Sell to Open the Trade
- Short Call Placed Out of the Money and Above a Strong Level of Resistance and in the Current or Next Month of Expiration.
- Long Call is Placed One or More Strike Prices Higher 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.
Module 4.2
The Bear Call Spread

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Long Call is placed at the December $23.00 Strike and is the secondary or hedge option.

Short Call is placed at the December $20.00 Strike and is the primary or money making option.

- As the price of the stock moves down both options lose value.
- That’s good for the short calls, and since we took in an overall credit it is good for the whole trade.
- We want the price of the stock to stay below the strike price of the short call so that both options expire worthless.
1. Max Reward = The net credit of both options.

2. Max Risk = The difference in the strike prices minus the net credit taken in on both options.

3. ROI is calculated by dividing the max reward by the max risk.

4. A good target ROI is 15% or more. The more the better.
**Module 4.2**
The Bear Call Spread

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<table>
<thead>
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<th>Calls</th>
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<tr>
<td><strong>Dec10 Calls</strong></td>
<td></td>
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<tr>
<td>(27 days to expiration)</td>
<td>RMBS @ 19.96</td>
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<tr>
<td>Last</td>
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- **STO Dec10** $20.00 Strike Call for $0.74 credit.
- **BTO Dec10** $23.00 Strike Call for $0.14 debit.
- Net Credit is $0.60 per share. (Max Reward)
- Max Risk = Difference Between the Strike Prices ($3.00) Minus the Net Credit ($3.00 - $0.60 = $2.40)
- ROI = Max Reward Divided by Our Max Risk ($0.60 / $2.40 = 25% ROI)
Defining our Exit Strategy

1. Primary Exit for The Bear Call Spread is to see Both Options Lose Value Quickly and Possibly Expire Worthless.

2. The Target ROI is always fixed because the net credit is fixed once the trade is open. The target ROI should be at least 15%.

3. Being in the trade for five weeks or less is ideal and if half or more of the target ROI can be captured with time still left until option expiration the trade should be closed.

4. The Adjustment or Secondary Exit will be covered in Module 6.4.
Summary

1. When a stock has established and identifiable level of resistance and has a short term expectation of staying stagnant to slightly or very bearish the bear call spread can take advantage of this.
2. The trade works best when the level of resistance is stronger and the expiration date of the options is closer.
3. It is very important that there is no fixed event like an earnings report between the time the trade is open and the expiration of the options.
4. A good target ROI is 15-50% or more and a good expectation of time spent in the trade is less than 5 weeks (the shorter the better).
5. Rapid time decay works very well for this trade.