OptionsWest

Trading Service Pointers

Credit Spread Placement in the EquiFund

After placing a Covered Call trade, we always place a "Credit Spread" order against that hedged position to automatically get us out of the trade (By buying back the call and selling the stock) should the spread between the option and the stock reach our maximum profit level earlier than options expiration. This Credit Spread order is always set at the Strike Price amount … and will get us back to cash with our pre-determined profit earlier than waiting until the full expiration date. Since our trade is designed to be capped at our maximum "called out" profit, we might as well take that profit early, should the opportunity arise, freeing us up to place perhaps another Covered Call during the same trading month. This of course would thereby increase our over-all percentage return for the month. A credit spread order allows the computer to instantly get us out of the trade even if the maximum profit spread only exists for a brief moment. Manually buying back the call and selling the stock would take too much time to take advantage of this, but the brokers system does it instantly.

Always place a credit spread order against your covered call positions right after you place the trade. The Covered Call Calculator shows this credit spread number as the "Delta Out" number.

Clear Eyes, Full Heart

Mark