

["Chicken Bull Put Spread" on BetterTrades](#)

I am famous for getting up to \$2.75 in a Bull Put Spread the day before expiration date! That is almost unheard of! But yes it can and does happen if you use my secrets! Let me share with you my secrets and technique that I call CHICKEN BULL PUT SPREADS.

1. CHICKEN refers to doing a trade at the last minute, so your obligation is very short in time. What I love the best, is to do a BULL PUT SPREAD (BUPS) the day before expiration date. If you want to do it sooner that is okay, just keep in mind the longer the play is open the greater the chance is unexpected stock movement could happen and ruin the trade. This play is best with only a few days before expiration
2. BULL means I am expecting the stock to go up.
3. PUT means I am using put options. Remember PUTS gain value as the stock moves down, but I am expecting the stock to move up.
4. SPREAD refers to both buying and selling puts at the same time, and in this case it is a vertical spread where the expiration dates are the same (the strike prices are different). I use the front month expiration date so that the obligation is very short.

The neat thing about bull put spreads is that if you are not qualified to sell naked puts you can get around the requirement by just adding an insurance policy so you are not naked. This will also drastically reduce the risk in the trade. You are actually turning it into a vertical spread. What I mean by adding an insurance policy is that you buy a puts option in addition to selling a put option. Most trading accounts are qualified to do spreads at a low level of option trading, so bottom line YOU CAN DO THIS!

To make this play more conservative (remember I am CHICKEN) is I will look for the support line of the stock. Once I know what the stock's support price is, I will then sell a put (short position) with a strike price below the support line price (slightly out of the money). Then I will buy a put (long position) with a strike price lower than the puts I sold (further out of the money). Here are some cheat notes:

1. Find support on the stock you want to do a bull put spread on.
2. Figure out which put strike price is slightly below that support price. This is the put option you will sell-to-open (your short leg).
3. Figure out the next put strike price that is below the put you sold, this is the put option that you will buy-to-open (your long leg). To avoid being naked for even a second, buy this put first (your long leg), then sell the upper put strike next (your short leg).

Note: Sometimes your brokerage firm does not understand you are doing a spread and disallows it. A simple phone call to the firm should resolve the issue. Once they realize you are wanting to do a vertical spread and marrying the put you sold to the put you bought they should be able to override the action in your account and allow it. Some trading programs allow you to enter the trade in as a spread all at once so this does not ever become an issue.

Example Chicken Bull Put Spread

Here is an example of a BUPS I did on TASR three weeks before expiration date. This one is not so chicken, as I have three weeks to be in the trade. I guess I would call it a bull-put-spread and not a chicken-bull-put-spread, but it is a real trade and it shows you the strike prices and support line to help you visualize what I mean when I tell you to look for support and the next two strikes down...

FYI: I also wanted to catch some extra money the day before expiration and open a real chicken bull put spread but I missed it! I was travelling and the market makers actually manipulated it a day earlier than I expected - two days before expiration date instead.

Looking at the following chart you can see TASR found a real nice support above \$26.

[View BetterTrades Chart](#)

It had a nice pull back and opened above \$26 on July 27th and had the potential to head up a few more dollars. Keep in mind I want to do a put spread play, with a stock that is expected to move up, that is why TASR was the perfect candidate - it loves to run up when it is near support!

The closest put that is just below the \$26 support line is the \$25 strike price (this is the put to sell), the next put below that one is the \$22.50 strike price (this is the put to buy). Based on support being around \$26 after the bounce up, I decided to sell-to-open a \$25 put (short position) and buy-to-open a \$22.50 put (long position) " both with expirations for the month of August.

Risk Considerations

Remember selling puts means you can get the stock put to you. In this case you are obligated to take stock at \$25 per share if someone puts it to you. However, if the stock stays above the \$26 support line we drew, then there is a very little chance that you will be forced (obligated) to take the stock for \$25 because they can sell it to the market for more. They will not want to exercise their right to sell the stock to you for \$25 if they can get \$26 or more at the market.

If the stock falls below \$25 and you are put the stock your broker can do an automatic sell, when you are put the stock. If the stock is at \$24 and you are put the stock for \$25 you will have to buy the stock at \$25. In this case I brought in .80 cents credit so I am only down .20 cents (stock put to me for \$25 - .80 cent credit received = \$24.20. I could sell the stock for \$24 which would result in a cost of .20 cents).

To avoid being naked on your calls, you will need to buy an insurance policy by buying-to-open a put that is one strike price lower than the strike price of the put you want to sell-to-open. In this case if you want to sell the \$25 puts you would buy the \$22.50 puts.

To be safe, and to keep your broker happy:

1. Buy-to-open the \$22.50 puts first, then
2. Sell-to-open the \$25 puts second

Technically you are not naked if you sell-to-open puts first and buy-to-open puts before the market closes. However, some firms will get grumpy and fight with you and say you have a margin requirement for the few minutes you did not have your long put in place. Don't accept that, keep asking to talk to the next higher manager until the problem is resolved. However, make it easier on yourself and just buy the put first " then complete the spread by selling the other put after you are filled on the buy order.

Why Do the Spread Below the Support Line?

At support, the stock has a motivation to move up. If the price of the stock stays above the \$26 support line you get to keep your profits (credit) on the spread and no further attention will be needed. You just let both puts expire, and keep the money, with a big smile on your face. Actually you are safe if the stock stays above \$25, because that is the strike price of the puts you sold.

How Much Money Can I Earn?

In my case I sold \$25 puts for \$1.70 and bought the \$22.50 puts for \$.90 which gave me a net credit of \$0.80 ($\$1.70 - \$0.90 = \0.80).*

On 10 contracts that is \$800, not bad! I did 20 contracts, so it was \$1,600.00. By expiration date the stock closed way up and it was a done deal, and yes I had a smile on my face!

*Note: there was actually a lot more money to take on this day, and a number of my students were able to get a much better credit spread than I could, as I had to teach and was not filled until later in the day, so I had to settle for net credit of only \$.80 cents.

How About Damage Control?

As an important side note, please do not ever do a bull-put-spread for real unless you know how to unwind one, just in case the trade goes wrong! To unwind a bull put spread, if the stock appears to be falling and looks like it could fall below the strike price of the put you sold-to-open (\$25 put in this example) - you will need to buy back the puts you sold for a cost and then let the puts you bought make money for you as the stock falls! Once the stock is done falling sell the second put (\$22.50) for a profit and the trade is over.

Risk Consideration Part II

What is your risk? If you look at the trade, you are obligated to take stock for \$25 if it is put to you but you can turn around and put it to someone else for \$22.50 which gives you a net obligation of \$2.50 (the difference between the strike prices) minus the \$.80 credit you were paid, leaving your total risk \$1.70. Take your profit of .80 and divide it by your risk of \$1.70 and that is a 47% return for three weeks. Not bad!

Where Do I Go To Find CHICKEN BULL PUT SPREADS?

As I said, this TASR trade was not so chicken or as hot of a trade as normal. To search for the best CHICKEN BULL PUT SPREADS here is what I do:

1. Make a list of high volatility stocks (technology has tons, like EBay, Tsr, Rimm) about one week before expiration date.
2. Start looking for a sharp pull back going into expiration week, it seems to happen most the day before expiration date as the market makers start manipulating prices coming into expiration date.
3. When you see a quick pullback, look for the spread as it stops it's fall and just starts to move back up. It is usually quick, more of an intraday view, but that is where the money is. Already have pre-written notes of support and the strike prices you will look at for the spread so you can quickly try to see if they have beefed up the option premium and it is profitable.
4. Do not try to take more than the natural spread, it usually runs up way to fast to try to get in the spread and get a better credit. In the past, I have missed the play because it moved too fast (don't try to shave points in the spread) this late in the game.

What To Expect

First, practice, lots of practice. Actually PERFECT PRACTICE! Please do not attempt this technique until you have done plenty of successful practice trades. You can actually go back in time and try this so you can have your practice trades done in a day or so. I am able to get old option prices in Optionsxpress.com under quote details and choose historical values.

Bull-put-spreads can be such a sweet deal. First you are cheering for the stock to goes up and if it falls you unwind the upper leg and profit on it falling!
To be redundant: "of course all good things take perfect practice before using real money!"

Happy Trading,

Darlene with BetterTrades

About the Author

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