Can You Really do a RISKLESS Spread Trade?

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Is it really possible to place one of the **popular spread trades** (bear call spread, bull put spread, etc) and enjoy **riskless** status, all the while looking forward to a possible super-duper payday?

Good news! In the time it takes to grab an Uber in Manhattan…

…check it… that's about 3 ½ minutes… ☺

…I'll show you how all the cool kids are doing it.

What's the Problem With Doing Spread Trades?

Spread trades are a WONDERFUL way of grabbing quick cash from the market… that is, except when they end up being just a quick a way to lose it.

The problem is leverage.

Now, I own a martial arts studio (no joke).

When a 20-something, 225-pound former high school football player signs up for Mixed Martial Arts (MMA) classes… I get to toss him around my *dojo* like a kitten with a ball of yarn.

[*I should mention that I go about 165 and I'm pushing 50 years old*]

The reason I have such a fun time whipping snotnosed kids is because of my training in jiu-jitsu: the Japanese science of leverage.

But fast forward 12 months and I'LL be dodging young snotnose.

Why? Because he now understands some of the leverage principles , AND he's a big 'un.

Why the analogy? Because I'm describing *you,* Trader..!

You might be able to beat the market sometimes with your leveraged trades. But sooner or later the 225 pound punk gorilla called THE MARKET will catch up with you.

Spread trading courses and programs are common as dandelions in the suburbs. So is the sob story of the victims students of these courses. It's hard to swing a dead cat without hitting a spread trading fan that got the sh!t kicked out of 'em by the market's mercurial swings.

Beware: **Leverage is a two-edged sword**.

Why Haven't the Problems with Spread Trades Been Solved?

In another series of posts about trading, we handled the issue of position sizing.

The biggest, most important consideration in trading ANY issue is position sizing. It's been argued by the world's top traders that position sizing is the most vital factor in trading success.

But it’s not the *only* factor.

Successful 2 out of every 3 plays, but one could kill ya

Let’s take the instance of your leveraged trade, a bear call spread that can grab a FAST $100, and do it two times out of three.

See that? Now of course, I’m exaggerating some by putting the loss potential at 100%, but you get the picture. Theoretically, your risk is indeed 100%.

Now, by inserting a position size of 10%… miracles start to happen.

The problem is NOT solved though, not by a stretch.

Because with a just a tiny aberration of 5% to your success rate… now you’re looking at a loss again.

Lookit what happens when 35% losses turns into 40%. Awww…

Exact same probability and payout, but using ten times the capital and using only 10% of it makes you win instead

Not out of the woods yet..! Simply adding position sizing doesn't solve the problem if you end up underperforming

How Can Your Spread Trade be Made RISKLESS?

Actually, it's quite simple.

Rather than doing your spread "bare", you simply add a *context* to your spread trade that makes it riskless.

It's easier to get your head around this than you might think.

Here's how a popular options trade with **UN**limited risk looks:

The "naked call" is as risky a play as you can do.

In fact, the only play that's more risky than a naked call… is TWO naked calls.

This is because if you're short a call, and the stock goes up… you're on the hook to deliver stock at a low price, but buy it at whatever the market price is.

Ouch.

BUT..!

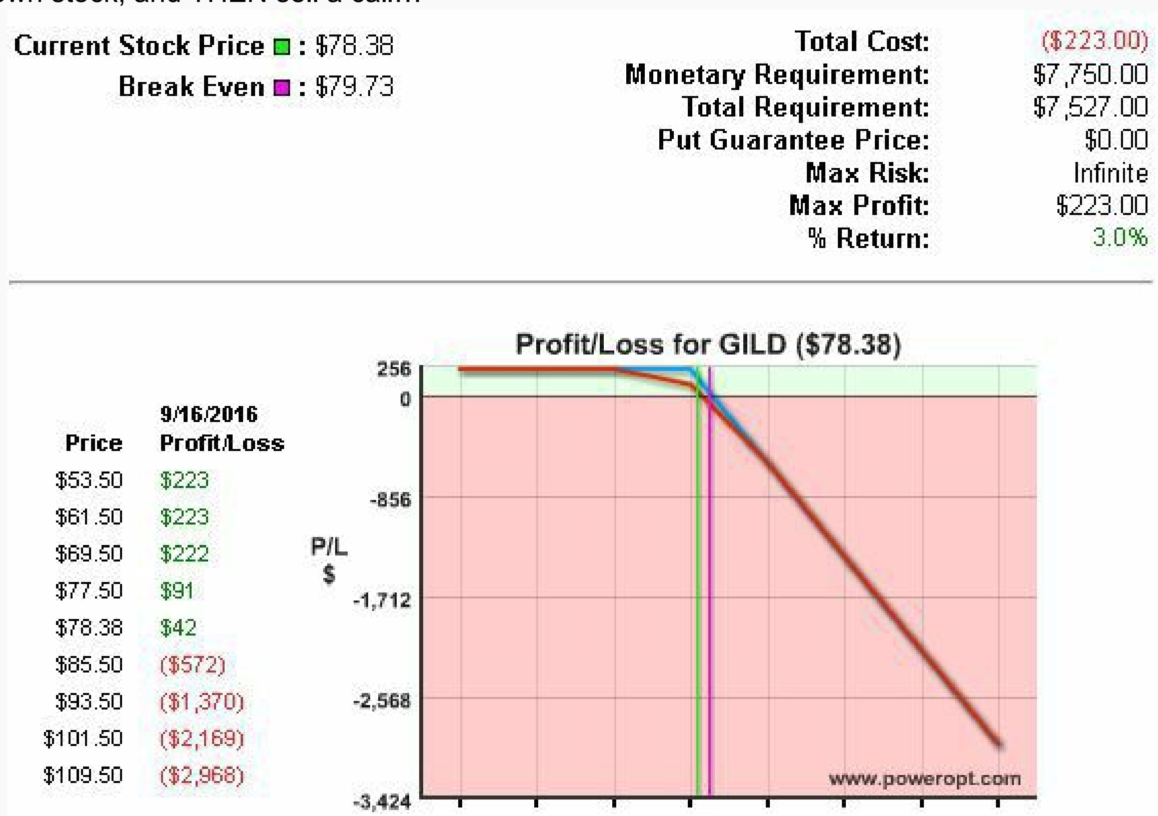
If you happened to own stock, and THEN sell a call…

…then, the risk of selling the call is **null** and **void**.

That premium is captured no matter what.

Sure, you still have whatever risk is presented by owning the stock itself… but the short call is riskless.

You *get to keep the premium,* no matter whether your underlying stock goes up, down, or sideways.



Infinite risk. The only play riskier than a "NAKED" Call… is TWO Naked Calls

Current Stock Price : $78.38
Break Even : $76.15

Total Cost:	$7,615.00
Monetary Requirement:	$0.00
Total Requirement:	$7,615.00
Put Guarantee Price:	$0.00
Max Risk:	$7,615.00
% Max Risk:	100.0%
Max Profit:	$135.00
% Return:	1.8%

Price	9/16/2016 Profit/Loss
$53.50	($2,265)
$61.50	($1,465)
$69.50	($666)
$77.50	$3
$78.38	$42
$85.50	$140
$93.50	$142
$101.50	$143
$109.50	$144

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The “Covered Call”. Not what a savvy trader would do, because it limits your upside… but at least the risk for shorting the call is gone. Of course, there IS still risk for holding the stock…

So How Do You Make a Spread Trade Riskless?

First, let’s consider a common spread trade play: the near-expiring bear call spread.

Its risk is finite and so is its potential payout.

Now for the **context**… rather than using stock alone, let’s use stock plus a far away expiry put option.

By itself, the married put risks $200.

And, by itself, the bear call spread risks $150.

Does the TOTAL risk of doing both plays equal $200 + $150 = $350?

Incredibly, NO.

The total risk of both plays is actually reduced.

Sell 1 contract of GILD 2016 30-SEP 77.50 CALL @ $2.10	($210.00)
Buy 1 contract of GILD 2016 30-SEP 80.00 CALL @ $1.10	$110.00

Current Stock Price : $77.99
Break Even : $78.50

Total Cost:	($100.00)
Monetary Requirement:	$250.00
Total Requirement:	$150.00
Put Guarantee Price:	$0.00
Max Risk:	$150.00
% Max Risk:	100.0%
Max Profit:	$100.00
% Return:	66.7%

Price	9/16/2016 Profit/Loss
$70.00	$99
$72.50	$92
$75.00	$66
$77.50	$13
$77.99	$0
$80.00	($55)
$82.50	($109)
$85.00	($136)
$87.50	($147)

This Bear Call Spread pays $100 up front… but may backfire and end up costing you as much as $150

The total AT RISK amount for both plays is only $100… less than either play by itself has!

The bear call spread technically riskless; the only way that the bear call spread can close against you is if your married put gains enough to pay for any loss.

I just showed you a RISKLESS bear call spread.

Buy 1 contract of GILD 2016 18-NOV 77.50 PUT	@	$3.80	$380.00
Buy 100 shares of GILD (Gilead Sciences Inc.)	@	$75.70	$7,570.00

**Current Stock Price : ** $78.38
**Break Even : ** $79.50

Total Cost:	$7,950.00
Monetary Requirement:	$0.00
Total Requirement:	$7,950.00
Put Guarantee Price:	$7,750.00
Max Risk:	$200.00
% Max Risk:	2.5%
Max Profit:	Infinite

Price	10/11/2016 Profit/Loss
$53.50	($190)
$61.50	($188)
$69.50	($156)
$77.50	$77
$78.38	$124
$85.50	$648
$93.50	$1,404
$101.50	$2,200
$109.50	$3,000

This Married Put trade risks $200 but could go to the MOON if the stock grows

Sell 1 contract of GILD 2016 30-SEP 77.50 CALL	@	$2.10	($210.00)
Buy 1 contract of GILD 2016 30-SEP 80.00 CALL	@	$1.10	$110.00
Buy 1 contract of GILD 2016 18-NOV 77.50 PUT	@	$3.80	$380.00
Buy 100 shares of GILD (Gilead Sciences Inc.)	@	$75.70	$7,570.00

Current Stock Price : $78.38
Break Even : $71.48

Total Cost:	$7,850.00
Monetary Requirement:	$0.00
Total Requirement:	$7,850.00
Put Guarantee Price:	$7,750.00
Max Risk:	$100.00
% Max Risk:	1.3%
Max Profit:	Infinite

Price	9/16/2016 Profit/Loss
$70.00	($1)
$72.50	$52
$75.00	$113
$77.50	$173
$78.38	$195
$80.00	$246
$82.50	$359
$85.00	$522
$87.50	$721

The Married Put PLUS a Bear Call Spread… one trade risks $200 and the other risks $150… but the COMBINED risk is lower for either one: $100 total for both plays

Taking this Further: Bulletproof Spread Trades

In the real example I'm showing today, $100 is captured by the bear call spread. We call this Income Method #6 because out of the TWELVE "Income Methods", #6 was the sixth technique we proved with real money in real time.

Anyhoo. Let's remember that the *long-term* married put, with $200 risk… was reduced to $100 risk by capturing $100 from a *near term bear call spread.*

If the stock goes up, we make money. But what if GILD stays put or goes down?

Well… the $100 captured goes against the cost basis of the married put.

ANNNNNNND..!

We can do it again.

In October another, similar bear call spread could be assembled, again without incurring capital risk…

…and if the second bear call spread captures $100 again, well now the **Context Trade** of the married put is *bulletproof.*

And there are still weeks and months before expiration.

Bulletproofing is a sweeeeet way to trade. Because when you start with just single digit risk,

…then take away even *that* risk…

You're in a pretty position.

Heads you win, tails you can't lose.

Buy 1 contract of GILD 2016 18-NOV 77.50 PUT	@	$2.80	$280.00
Buy 100 shares of GILD (Gilead Sciences Inc.)	@	$75.70	$7,570.00
Sell 1 contract of GILD 2016 07-OCT 77.50 CALL	@	$2.45	($245.00)
Buy 1 contract of GILD 2016 07-OCT 80.00 CALL	@	$1.45	$145.00

Current Stock Price : $78.38

Total Cost:	$7,750.00
Monetary Requirement:	$0.00
Total Requirement:	$7,750.00
Put Guarantee Price:	$7,750.00
Max Risk:	$0.00
% Max Risk:	0.0%
Max Profit:	Infinite

Price	9/20/2016 Profit/Loss
$70.00	$90
$72.50	$141
$75.00	$199
$77.50	$259
$78.38	$283
$80.00	$335
$82.50	$452
$85.00	$615
$87.50	$816

"Bulletproof". After paying for the put option with multiple bear call spreads (or other of the TWELVE "Income Methods"), the stock can keep going up but can no longer lose before expiration in November

What Should You Do Next to Make YOUR Spread Trades Riskless?

You can read up on the three most popular posts on RadioActive Trading regarding riskless spreads:

The Strange Secret Behind Riskless Spread Trading

What on Earth is a "Nested Spread Trade"

The Riskless Spread Trade that Pays You TWICE

…and if you're ready for the big leagues, go check out the premium webinar
(premium means you PAY for it, all though every RadioActive Trading training video comes with a 30 day, 100% money back guarantee) titled,

How to Stop LOSING at Spread Trades Forever
…and see **how to structure SEVEN riskless spread trades**.

In two minutes you can be learning how to eliminate all risk from your spread trades, and indeed perhaps your stock trades as well.

Okay Traders! Enjoy the post. See you in the next one.

Happy Trading,

Kurt

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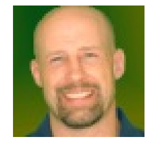
About Kurt Frankenberg



Kurt Frankenberg is an author and speaker about entrepreneurship, martial arts, and trading the stock and options markets. One of several "Biznesses" he founded as a teen, The Freedom School of Martial Arts, has been in continuous operation since 1986. Kurt lives in Colorado Springs with his wife Sabrina, German Shepherd Jovi, and his ninja cat Tabi.