Bid Ask Spread Dynamics Checklist

Signal Pilot Education Hub

Bid-Ask Spread Trading Checklist

From Lesson 13: Bid-Ask Spread Dynamics

Use this checklist to minimize spread costs and detect spread widening as a leading indicator.

📋 Pre-Trade: Spread Analysis

- [ ] **Document normal spread for this asset**
- Check current spread during liquid hours (9:30 AM - 4:00 PM ET)
- Compare to historical baseline for this instrument
- Note if spread is abnormally wide (2-3× normal)
- [ ] **Calculate spread as % of stop loss**
- Spread cost: $_____
- Your stop distance: $_____

- Percentage: ____% (should be < 10%)
- If > 10%: Widen stop or skip trade
- [ ] **Check time of day**
- Trading during liquid hours? (9:45 AM - 3:45 PM ET)
- Avoid first 15 min (9:30-9:45) and last 15 min (3:45-4:00)
- Avoid overnight/illiquid sessions (spreads 5-10× wider)
- [ ] **News event proximity**
- No major news within 10 minutes? (FOMC, NFP, earnings)
- If news pending: Wait 5-10 min after release for spreads to normalize
- Check economic calendar before entry

✅ Spread-Aware Entry Criteria

- [ ] Current spread < 5 basis points (0.05%)
- [ ] Spread < 10% of stop loss distance
- [ ] Trading during liquid hours (tight spreads)
- [ ] No major news events imminent
- [ ] Spread stable (not widening rapidly)

🎯 Order Type Selection

Use LIMIT orders when:

- [ ] Mean reversion setup (price coming to you)
- [ ] Spread > 2 basis points
- [ ] Adding to winner (not urgent)
- [ ] Liquid hours (you can wait 30 seconds for fill)

Use MARKET orders when:

- [ ] Breakout with momentum (can't miss the move)
- [ ] Stop loss hit (exit immediately)
- [ ] Spread already tight (< 2 basis points)
- [ ] Opportunity cost > spread cost

Order placed: Limit / Market (circle one)
Fill price: $_ (vs. intended $_)
Slippage: $__ (track this!)

🔍 Spread as Leading Indicator

Watch for spread widening WITHOUT news:

- [ ] Spread widened from $_ **to $** (2-3× increase)
- [ ] Time: _
- [ ] No obvious catalyst (check news)
- [ ] Interpretation: Market makers sense uncertainty
- [ ] Action: Tighten stops, wait for confirmation, reduce size

Watch for spread tightening:

- [ ] Spread narrowed from $_ **to $_**
- [ ] After major level test or consolidation
- [ ] Interpretation: Market makers confident, breakout likely to stick
- [ ] Action: Confirm with Janus/Plutus, consider entry

💰 Cost Tracking

Per-trade costs:

- Spread cost: $_ (half spread × 2 for round trip)
- Slippage: $_ (difference from intended price)
- Commission: $_
- **Total cost:** $_ (impacts R-multiple)

Adjusted P&L:

- Gross P&L: $_
- Minus costs: -$_
- **Net P&L:** $__

📊 Post-Trade Review

Spread management:

- Was spread favorable at entry? Yes / No
- Did I use limit vs. market appropriately? Yes / No
- Could I have saved money on execution? Yes / No

What went right:

- _____

What could be improved:

- _____

Lesson learned:

- _____

Net R-multiple (after costs): __

Remember:

- ✅ Spread < 10% of stop loss
- ✅ Trade during liquid hours (9:45 AM - 3:45 PM ET)
- ✅ Limit orders > market orders (patience saves money)
- ✅ Spread widening = leading indicator (caution)

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