INVEST WITH HENRY

A Discord member asked me the following question.

Jovanni Today at 12:52 PM
What is an acceptable bid-ask range when doing credit spreads

henry Today at 1:21 PM
@Jovanni depends on which stock. Generally a 10 cent gap is as high as I will go
However it depends! Because for Tesla the gap can be 80 cents. But the premium will be massive at say $1,100
Here is a rule of thumb I am estimating for you. I should probably add a document into the course. I actually will do that after this.
1. Stocks under $10 - Gap should be less than 20 cents
2. Stocks under $30 - Gap should be less than 35 cents
3. Stocks under $50 - Gap should be less than 50 cents
4. Stocks under $100 - Gap should be less than 75 cents
5. Stocks under $500 - Gap should be less than $1
Also depends on premium. You don't want the gap to be more than say 20% of premium. If you are collecting $1.50 you don't want to have a gap of 50 cents. That would be 33% loss. If it is 10 cents that is fine.
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To elaborate further you want to keep the gap low. Just how low though? Well it is in relation to the premium you collect. Losing 10 cents on a gap is fine if you collect over $1. Since you meet in the middle of the gap you are only losing $5.

$5/$100 = 5%. That would be perfectly fine.

For Tesla let's take a look at Robinhood, which I officially am moving away from to TdAmeritrade. I just like their easy user interface.

$600	$596.35	81.17%	-7.59%	-$0.30	$3.65 +

Bid	Ask	Mark	Previous Close	High
$3.55 × 22	$3.75 × 16	$3.65	$3.95	$7.95
Low	**Volume**	**Open Interest**	**Implied Volatility**	
$2.34	28,355	12,442	64.94%	

The Greeks

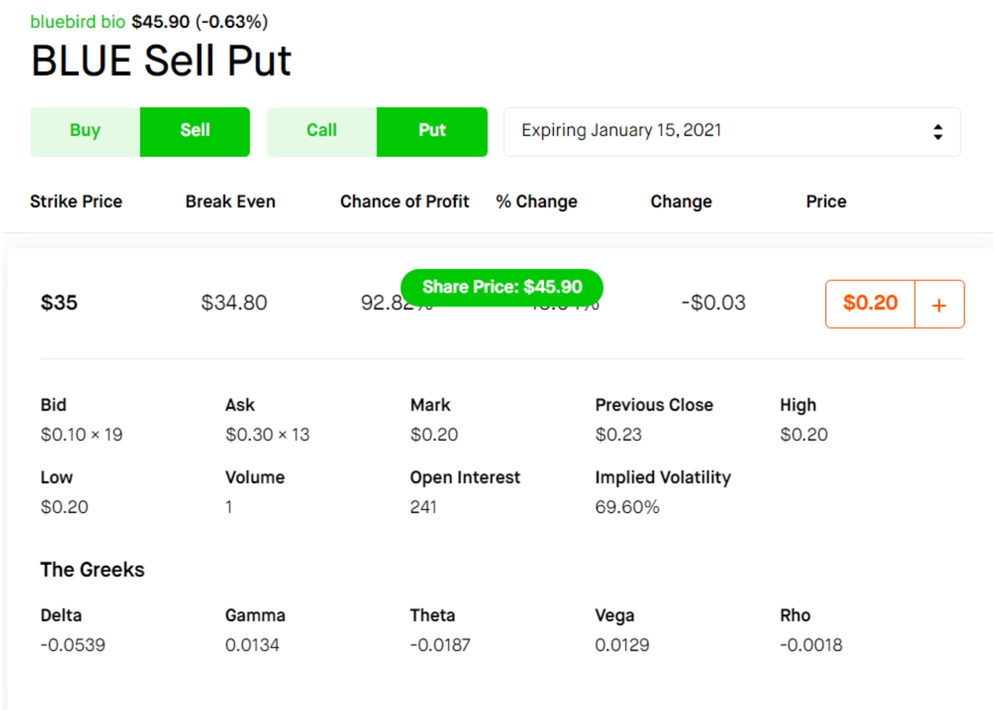
Delta	Gamma	Theta	Vega	Rho
-0.2103	0.0096	-2.1590	0.1330	-0.0074

So the bid is $3.55, while the ask is $3.75. Our total gap is 20 cents. When we meet in the middle the cost to us is about 10 cents or $10. Now take $10 divided by the total premium.

$10/$365 = 2.7%

That is amazing! No problem at all paying that fee for making that money.

Now let us take a look at some trash bid/ask spread to see what is not worth it.



This is BLUE Bio. A biotech stock or something in that space I do not follow. I never looked at it. I just know it used to be popular when I was at Goldman Sachs and they had some sky-high price target. They do gene therapies. This isn't on my watch list because if I kept track of the 100s of biotech companies I'd be a researcher and not a content creator. No time to look at 100s of things. Rather be an expert on 30!

Anyways The bid ask difference is 20 cents. The total premium is 20 cents. So here we are losing 10 cents on a 20-cent option premium. That is 50%! Too expensive! No thank you!

Stick to a percent of ~15%. Give or take. Depends on the stock and I can’t give you an exact answer for every stock unless we look at it through coaching together. Use this as a rule of thumb. You can tweak it with your experience.