ANATOMY OF A VERTICAL: TWO LEGS, ONE IDEA

Vajgrt Labs - Education - Lesson 45 of 72 - 6 min read - Updated Oct 21, 2026

TL;DR

- A vertical spread is two options of the same type and the same expiry, at two different strikes: you buy the strike nearer your view (the long leg) and sell the strike further along it (the short leg). 'Vertical' is chain geography - the two rows stand one above the other in the same expiry column.

- The short leg does three jobs: it refunds part of the long leg's premium on day one (16.08 - 13.12 = a 2.96 ticket instead of 16.08), its theta pays you while the long leg's charges you (on the real chain, -0.19 against +0.18 - a net rent of about -$1 a day at entry), and it caps the trade: above 785 this structure earns nothing more, however far SPY runs.

- The result is defined risk by construction, not by discipline: because the long leg always stands between you and the market, the worst case is printed before entry - here, max loss $296 (the debit), max gain $204 (the $5 width minus the debit), breakeven 782.96. No stop order, margin clerk or gap gets a vote on those numbers - expiry mishandling aside, and Lesson 7 is built on that.

THE TAKEAWAYS

- Same type, same expiry, two strikes - those are the rules that make it a vertical. Both legs calls (a call vertical) or both puts (a put vertical); the expiry is shared, so both legs live and die on the same date. One idea, expressed twice: the long leg says where you think price is going; the short leg says how much of that move you're willing to pay for.

- Debit or credit is just which side of the money the long leg sits on. Buy the nearer call and sell the further one (this lesson) and you pay a net debit - a debit vertical. Sell the nearer put and buy the further one (Lesson 4) and you receive a net credit - a credit vertical. Same skeleton, opposite cash direction; both are defined-risk, and both get their three numbers from the same arithmetic: the width and the net premium.

- The three numbers, always, in this order: max loss first (what leaves your account in the worst case), max gain (the cap you accepted), breakeven (the line the trade is judged against). For a debit vertical: max loss = the debit; max gain = width - debit; breakeven = long strike + debit for calls, - debit for puts. Lesson 3 runs them on real money; they are stated here so no spread is ever described in this course without them.

- The net Greeks are differences, and the differences are the point. This structure's delta at entry ~ 0.54 - 0.48 = 0.06 - about $6 per $1 SPY move per spread, against $54 for the single 780 call (Stage 6's arithmetic). It is a smaller, slower trade on purpose: less thrill per point, a fraction of the rent, and a worst case a budget can actually hold. Anyone selling you a vertical as 'the same trade, cheaper' is omitting the cap and the slower delta - the two things you paid with.

RULE: Two legs, one idea, three numbers - max loss, max gain, breakeven - or it isn't a vertical yet; it's two opinions in a trench coat.

COMMON MISTAKES

- Describing a spread by its long leg alone ('I bought the 780 call? with a hedge'). The structure is the trade; quote all three numbers or none.

- Mixing expiries and calling it a vertical. Different dates make it a diagonal or a calendar - different animals with different risk, and not this stage's trades.

- Believing the short leg is 'free money' that lowers the price. It is a sale of everything above 785; on the day SPY gaps to 795, the cap sends you the invoice.

- Counting the refund as profit. The 13.12 received is part of the ticket arithmetic, not income - the trade's result is settled at exit or expiry, in the journal, in full.

DO IT - BUILD THE SILHOUETTE FROM A LIVE CHAIN

On today's SPY chain, pick one expiry at least a few weeks out and build this lesson's silhouette on paper: choose a long call in the 0.50-0.65 delta zone, sell the call $5 higher, and write the three numbers - net debit from the quoted sides (your ask minus their bid), max loss, max gain, breakeven - plus the two legs' thetas and the net rent per day. Then write one sentence: what did the short leg refund, and what did it take? File it in the journal next to Lesson 1's audit; the gate compares the two.

Education only - not financial advice. Call-side quotes: real SPY chain data, Oct 9, 2026 (773 call bid 20.53 / ask 20.68, Nov 30 expiry). Second-leg and put-side quotes are the lessons' labeled example numbers; spread figures are arithmetic on those quotes. SPY distribution: State Street's declared September 2026 distribution, $1.8888 per share, ex-date Sep 18, 2026. Exercise-by-exception threshold: OCC Rule 805 ($0.01 in-the-money). Vajgrt Labs - Education.