CREDIT VERTICALS: MAX LOSS FIRST

Vajgrt Labs - Education - Lesson 47 of 72 - 9 min read - Updated Oct 21, 2026

TL;DR

- A credit vertical reverses Lesson 3's cash flow: you sell the option nearer the money and buy protection further out, collecting a net credit today. This lesson's structure - sell the 765 put, buy the 760 put, same expiry - collects 1.04. (The course's published chain is the call side, so this lesson's put quotes are labeled example numbers, and every figure below is arithmetic on them.)

- Its three numbers, in the course's order: max loss $396 (the $5 width minus the 1.04 credit), max gain $104 (the credit, kept in full only if SPY expires at or above 765), breakeven 763.96. You are risking $396 to make $104 - a shape that wins often and small, and loses rarely and at 3.8 times the win. That asymmetry is the entire lesson.

- The honesty arithmetic, from Stage 4's instrument: this structure must win 79.2% of the time at full payoff just to break even. At an 80% win rate - genuinely good - the expectancy is 0.80 x $104 - 0.20 x $396 = +$4 a trade, BEFORE Stage 2's toll (crossing two spreads, twice) takes its cut. At 75% wins it is -$21 a trade. Credit spreads are not income. They are a probability business with thin margins, and this course teaches them with the red number first for exactly that reason.

THE TAKEAWAYS

- Why the win rate feels high - honestly: the short strike is placed where SPY is not. The 765 put is sold with SPY at 778.12, below the 766-767 support shelf Stage 3 mapped, so the trade profits if SPY rises, drifts, or falls gently - most ordinary paths pay it something. That is a real structural fact, and it is fully compatible with a negative expectancy: the market prices this. A structure that wins on most paths and still needs 79.2% to break even is the market's way of saying the losing path, when it comes, is not rare enough to save you. High win rate is a property of the shape, not evidence of an edge.

- The 90%-mirage, at strategy scale: Stage 0 named the trap - a claim that feels like safety because the wins are frequent. Here it is wearing a defined-risk costume. Run the streaks the way Stage 4 taught: wins of +$104 and losses of -$396 mean four wins buy back one loss, with $20 to spare - before costs. A trader winning 'almost always' can be compounding a coin-flip expectancy and discovering it in month three, in one week, all at once. The journal's job (Stage 4) is to record expectancy, not win rate: R per trade, averaged, after the toll.

- Theta finally pays you - with the same invoice, reversed: as the short leg's premium decays, the spread's value falls toward zero and the gain accrues to you. But time is not free money; it is the price the buyer pays you for carrying the tail. Every quiet day the trade earns a few dollars of decay is a day you were short a contract that a $13 SPY drop would have put at max loss. The course does not let the word 'theta income' appear without its shadow: you are paid because you are exposed, and the pay rate was set by a market that knows the exposure better than you do.

- The short leg is a real obligation, with two mechanics beginners must meet before money: assignment - the 765 put's buyer can exercise, and you would buy 100 SPY at 765 ($76,500 of

stock) - and its early form, driven on calls by SPY's quarterly distribution: a short in-the-money call heading into an ex-date (most recently declared: $1.8888 a share, ex-date Sep 18, 2026, per State Street) can be assigned the night before, leaving the seller short 100 shares and owing that distribution. The long leg is the floor in both cases - if the position is acted on promptly rather than admired over a weekend. Lesson 7 prices the expiry version of this (pin risk) to the cent.

RULE: A credit spread is a loss looking for its date, carrying a small win as its cover - price the $396 first, respect the 79.2% hurdle, and never call the credit income.

COMMON MISTAKES

- Calling the credit 'income' in the journal. It is collateral against a $396 loss; the trade's result is only known at exit, in R.

- Sizing by win rate ('it wins 85%, so five contracts'). Correlated spreads are one bet; the division uses the worst case of all of them together.

- Placing the short strike AT a level instead of beyond it. The 765 sits below Stage 3's 766-767 shelf on purpose; a strike parked on support is a strike the market visits for sport.

- Ignoring the calendar on short calls: SPY's quarterly distribution (ex-dates near the third Friday of Mar/Jun/Sep/Dec) turns an in-the-money short call into an assignment candidate the night before.

DO IT - STRESS A CREDIT SPREAD BEFORE YOU ADMIRE IT

Build one put credit spread on paper from a current chain (short strike beyond a Stage 3 level, long strike $5 further out, expiry at least three weeks out; use the quoted sides and label the numbers as this lesson does). Write the three numbers, the breakeven win rate, and the expectancy at 85%, 80% and 75% win rates - then Stage 4's division at your budget, counting this structure's worst case alongside anything else you have open on paper. Finish with the storm sentence: 'If SPY gaps through both strikes this week, I lose $___ and it takes ___ clean wins to refill it.' Paper only; this page is a gate artefact.

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.