WHEN THE TRADE IS WRONG - AND WHAT ISN’T TAUGHT

Vajgrt Labs - Education - Lesson 50 of 72 - 8 min read - Updated Oct 21, 2026

TL;DR

- A trade is wrong in three distinct ways, and each has its door, written before entry: the market says so (invalidation - the plan’s market fact, like Lesson 6’s daily close below 770), the calendar says so (the time exit - Nov 23 in Lesson 6’s build, before expiry week, whatever the mark), or the loss budget says so (the plan’s max-loss exit - a spread that has spent its thesis and most of its value does not get to spend the rest proving a point). Add the fourth door, the profit exit (Lesson 6’s 1.90 mark), and the position can never be ’decided about’ mid-trade - only executed.

- ’Defined risk’ has one crack, and it is at expiry: if Lesson 4’s credit spread is held into expiry and SPY settles at 764.97 - three cents under the short strike - the 765 put is auto-exercised (the OCC threshold is $0.01 in-the-money), you are assigned 100 shares at 765 ($76,500), and the 760 put that was your floor has expired worthless. Monday’s gap to 750 turns the printed -$396 into ~ -$1,400 - about 3.5x the cap. The course rule is absolute and costs nothing: spreads are closed before expiry day, always.

- What this stage does not teach is part of the teaching: naked selling (unbounded loss; an elective-layer topic, never a strategy here), straddles and strangles (structures for later stages of the path), and event trading around earnings and data releases (Stage 3 already showed what event IV does to tickets). Stage 8 takes up the full management craft - rolling, adjusting, portfolio-level risk - including the popular ’take profits at 50%’ convention, examined there as the labeled convention it is, not adopted here as a finding.

THE TAKEAWAYS

- The max-loss exit deserves its own paragraph, because ’defined risk’ whispers against it: why exit early if the worst case is already capped? Three reasons, all mechanical. First, brakes are per-day and per-week (Stage 4: -2% / -4%) - a spread ridden to a full loss parks its capital inside a dead position while the brake clock runs. Second, Lesson 6’s worked loss (-$32 at the invalidation exit versus most of $142 by expiry week) is the general shape: plans exit losers at a fraction of max because the thesis died before the money did. Third, expiry itself: every door in this course closes before the final week, because that is where pin risk lives (next takeaway). Defined risk caps the loss; exit rules decide how much of the cap you actually pay.

- Pin risk, precisely: ’the pin’ is SPY closing expiry day within cents of your short strike - the zone where you cannot know whether you’ll be assigned. The machinery is automatic: in-the-money by $0.01 or more at the close and the long holder’s option is exercised by exception (OCC Rule 805); the assignment lands on some short holder, possibly you. In a spread, the disaster is asymmetry: your short leg is exercised (you now hold - or owe - 100 shares) while your long leg, struck on the wrong side of the pin, expires unexercised. The fence from Lesson 2 is a fence only while both legs live; expiry can kill one and exercise the other. Hence the rule’s exact wording: closed before expiry DAY - not ’managed on the day’, not ’watched closely on Friday’. A spread that reaches its expiry morning unclosed is already a rule break, whatever it later pays.

- Rolling, honestly previewed: when a losing spread is ’rolled’ - closed and re-opened further out in time, sometimes further out in strike - the trader books the loss and buys a new

position, usually for a small credit that makes the operation feel like a rescue. Most beginner rolling is exactly that feeling and nothing more: the loss is real, the new trade is new (with its own max loss, which often quietly grows), and the combined position must now win back the old loss from a worse starting line. There are legitimate, pre-planned reasons to extend a thesis; Stage 8 examines rolling with the expectancy arithmetic and the rules that separate adjustment from denial. Stage 7's rule is simpler and stricter: your paper trades for the gate are not rolled. They exit at their doors, they are journaled at their real results, and the log - not a rescue operation - is what gets graded.

- The complacency trap is Stage 7's final honesty test, and it targets the structure's greatest strength: because each loss is capped and modest, nothing stops a trader opening five, ten, fifteen 'small' spreads until the caps sum to a real account event. Stage 4's streak table is the antidote kept in view: independent-looking trades sharing one market factor (SPY's direction) are not independent - Lesson 4's correlation warning - and a bad week clusters. The division therefore runs across the book (Filter 3, Lesson 5), the brakes halt the week, and the journal's total-open-risk line is reviewed before any new ticket. Defined risk per trade is a property of structures. Defined risk per account is a property of discipline.

RULE: Exits are doors installed before entry - profit, invalidation, time, loss - and every door closes before expiry day. The market can take your max loss; only you can let it take more.

COMMON MISTAKES

- 'It's defined risk' as a reason to skip an exit. The cap limits the loss; the doors decide how much of it you pay - and expiry week is outside every door.

- Holding a spread into expiry day to 'save the closing toll'. A few dollars of toll against a 3.5x pin leak is the worst trade in this stage.

- Rolling a loser to avoid journaling it. The roll books the loss anyway - and usually enlarges the next max loss in the process. Stage 8 judges rolling; Stage 7 forbids it in gate trades.

- Summing 'small' spreads into an unbraked book. Total open worst case is a number; if you don't know it before the ticket, Filter 3 was never run.

DO IT - WRITE THE EXIT PAGE FOR A TRADE YOU HAVEN'T TAKEN

Take the structure from Lesson 6's practice and write its complete exit page before any entry exists: the four doors with their exact triggers (profit mark in dollars and R, invalidation as a market fact, time exit as a date, max-loss exit as a value), the Thursday-before-expiry deadline circled, and the assignment protocol's four steps in your own words. Then answer, in the journal, the gate's three questions for your whole Stages 5-7 log: How many compliant trades are logged? Has any position been held into expiry day? Is total open worst case written anywhere? Paper only. When the answers are 20+, none, and yes - Stage 8 is yours.

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.