TAKING PROFIT: THE 50% RULE, LABELED

Vajgrt Labs - Education - Lesson 52 of 72 - 8 min read - Updated Oct 21, 2026

TL;DR

- The convention, stated fairly: close a credit spread when it has captured half its maximum profit - on Stage 7's spread, when the 1.04 credit has decayed to a 0.52 mark and +$52 is banked. Its source is a house style, not a study: tastylive's research segments and Dr Jim Schultz's beginner series teach taking winners at 50% of max profit as their house default (the same house rules this course cited for vertical-first sizing in Stage 7). A widely copied discipline - presented here as exactly that.

- Recomputed on the lesson's own numbers, the convention is NOT free expectancy. Halving the win while the loss still runs to the full $396 raises the breakeven win rate from 79.2% to 88.4% - and at the same 80% win rate Stage 7 used, expectancy falls from +$4.00 a trade to -$37.60. The rule pays only if leaving early raises the win rate itself above 88.4% - a claim about how price paths behave, which arithmetic can state precisely but cannot prove.

- What the convention genuinely buys is shape, not edge: wins banked before they can turn, capital freed weeks early, positions gone long before expiry week. Priced honestly and paired with a half-size loss door (exit at -$198), the hurdle returns to 79.2% and expectancy to +$2.00 a trade at the same win rate - before the extra toll every early exit pays. Choose it knowingly, as a risk-shape preference - or don't choose it - but never adopt it as a finding.

THE TAKEAWAYS

- The recompute, in full, on one spread (credit 1.04; max gain $104; max loss $396): HOLD TO EXPIRY - win +$104, loss -$396, breakeven win rate 79.2%, expectancy at 80% wins = +$4.00. THE 50% DOOR ALONE - win +$52, loss -$396, hurdle 396 ÷448 = 88.4%, expectancy at 80% = 41.60 - 79.20 = -$37.60. PAIRED HALF-DOORS - win +$52 at the 0.52 mark, loss door at -$198 (a 3.02 mark), hurdle 198 ÷250 = 79.2%, expectancy at 80% = 41.60 - 39.60 = +$2.00. Three rows, one instrument - the convention's whole truth fits in them, and none of the rows required a new statistic: conventions are priced, not researched.

- Why the single-door version is the popular one anyway, stated honestly: it feels wonderful. Wins arrive early and often, the journal fills with small green entries, and the disposition effect (Stage 0's canon: investors realised 14.8% of available gains but only 9.8% of available losses - Odean) gets a system-shaped blessing. And paths do sometimes rescue it: a spread that reaches +50% has moved away from danger, and some of those trades would have come back to lose. Whether 'some' is enough - whether your realized win rate under the door actually clears 88.4% at these payoff sizes - is an empirical question about YOUR log. This course's answer is to log both doors' R and let the 30-trade review (Stage 9's cycle) judge, not to adopt the famous rule on faith.

- The debit side barely uses it - geometry, again: Stage 7's worked debit trade set its profit door at 1.90 on a 1.42 fill - +$48, which is 83% of its $58 max gain, not 50%. A credit spread's profit is front-loaded (decay pays the seller early), so half of it arrives fast; a debit vertical's value must travel into the band first, so its door conventionally waits nearer the cap. Applying '50%' to the debit build means exiting at 1.71 for +$29 (+0.20R instead of +0.34R) - the same slogan, a different animal. Conventions don't transplant for free either, and a rule

quoted without its structure is a rule quoted without its meaning.

- The toll gets a vote: every early exit crosses two bid/ask spreads (Stage 2's friction, doubled for two legs) - on structures this size, Stage 7 priced closing costs at a few dollars to perhaps twenty - while a held winner whose spread expires worthless pays NO exit toll at all. In the paired-halves row the expectancy had already thinned to +$2.00 before that charge; charged honestly, the convention's expectancy case at these numbers is roughly a wash, and its real product stands revealed: variance reduction. The largest win halves, the largest loss halves, capital comes home early. Traders are allowed to buy exactly that - with eyes open and the price computed. That is this course's whole position on conventions, and it will not move in later stages.

RULE: A convention is a preference with a price - compute the price on your own structure's numbers, in R, before the convention gets a vote.

COMMON MISTAKES

- Adopting '50%' as a law because a famous desk uses it. It is tastylive's house convention - respectable, labeled, and still a preference. Your spread's arithmetic outranks their brand.

- Pairing an early profit door with a full-size loss door and never recomputing the hurdle (79.2% -> 88.4% here). Asymmetric doors are a win-rate bet; take it knowingly or not at all.

- Judging the convention by its best path (the rescued winner). Conventions are judged on the sum over trades - expectancy - or they are judged by marketing.

- Letting the door float ('about half, give or take, depending how it feels'). A door is a number on the plan card; a feeling with a % sign is still a feeling.

DO IT - PRICE THE DOOR MENU FOR YOUR OWN STRUCTURE

Take one credit spread from your Stage 7 gate work and build its door menu on paper: the three numbers (loss first), then the hurdle and the expectancy at your logged win rate under (a) the hold-to-expiry benchmark, (b) a 50% profit door alone, (c) paired half-doors. Write one closing sentence naming which door set your plan will use and what it costs or buys, in dollars per trade. If your log has no win rate yet, use Stage 7's 80%/75% illustrations and label them as such. Paper only. This page joins the gate artefacts - Stage 8 grades conventions by whether they were priced, not by which ones you picked.

Education only - not financial advice. Management figures are recomputations on Stage 7's own structures - the 765/760 put credit spread (credit 1.04), the 773/775 debit vertical at its 1.42 fill, and the 780/785 debit vertical (debit 2.96) - with scenario marks labeled as the lessons' example numbers. Assignment and exercise mechanics: the OCC's (Rule 805 exercise-by-exception at $0.01 in-the-money; contrary instructions under Rule 805(b); allocation of exercise notices by the broker's disclosed method) - checked Oct 15, 2026. SPY distribution: State Street's declared September 2026 distribution, $1.8888 per share. Margin-rate range: Fidelity's published schedule, checked Oct 15, 2026. Vajgrt Labs - Education.