Chapter 19 Time Spreads: Calendars and Diagonals

All of the previous trades had something in common and that is that all the options in the trade used the same expiration period, be it 7 days or 45 days, the entire position expired at the same time. Time spreads, on the other hand don't, and are considered horizontal trades that rely on the discrepancies between options with different dates to expiration. They also fare better in periods of low IV. There are two types of time spreads, the typical calendar spread which uses the same strikes, and the diagonal calendar which uses different strikes.

CALENDAR SPREADS

Basic Definition

In a calendar spread, you are buying an option, and then selling the same strike option closer to expiration. These trades have a positive Theta, so they capture time decay and unlike most trades I've mentioned before, they are long Vega so an increase in volatility helps them. An example (**Option Chain 19.1**) with IWM (Russell 2000 ETF) trading at \$188.42, is buying a 50 DTE 189 call for \$6.30 and selling a 15 DTE 189 call for \$3.57, for a debit of \$272. It's sorta like a regular debit spread, except now it's spread out over time at the same strike price.

Syr	mbol		Desc	cription		La	Last		1				
⊽ IWM	-		iShs Russ	ell 2000 ET	٢F	188	188.42						
Spread S	Single - Filter Spr Width: 5 - Strikes 4 -												
CALLS													
Pos	Imp Vol	Extrinsic	Gamma	Vega	Theta	Delta	Bid	Ask	Strike				
⊿ 17 M	ar 23 (15c	I)											
	24.03 %	3.49	0.042	0.15	-0.13	0.57	4.39	4.43	187.5				
	23.91 %	3.71	0.043	0.15	-0.13	0.54	4.11	4.14	188				
	23.60 %	3.58	0.043	0.16	-0.13	0.50	3.56	3.59	189				
	23.28 %	3.07	0.044	0.15	-0.13	0.46	3.05	3.08	190				
→ 24 M	> 24 Mar 23 (22d) Weekly												
→ 31 M	> 31 Mar 23 (29d) Quarterly												
• 06 Aj	06 Apr 23 (35d) Weekly												
→ 14 Aj	or 23 (43d) Weekly	/										
🔺 21 Aj	or 23 (50d)											
	21.73 %	6.03	0.026	0.27	-0.07	0.59	7.42	7.48	187				
	21.55 %	6.45	0.026	0.28	-0.07	0.56	6.84	6.89	188				
	21.34 %	6.30	0.027	0.28	-0.07	0.53	6.27	6.32	189				
	21.14 %	5.76	0.027	0.28	-0.07	0.51	5.74	5.77	190				

Options Chain 19.1 IWM

How It Works

The theory behind the spread is that the long option with more days to expiration will hold or gain extrinsic value, while the short option loses extrinsic value more quickly as time passes. The short option has both

quicker time decay and less sensitivity to changes in volatility due to is it shorter time to expiration. This lets you take advantage of time decay and a rise in volatility as you get closer to expiration.

The Set Up

You want to have a fairly neutral market assumption and in a low IV situation as this trade will benefit from IV expansion. You should look to buy an option that is about 45 days out in time, with around a 40 to 50 Delta, then sell same strike option with about 21 DTE or sooner. The lower the delta the more directional view you will have. Make sure the IV in the shorter month is about the same or bigger than the one the further month. If it is a lot smaller, don't make the trade, because you are either overpaying for the further out option or not getting a great value for the closer to explain short option. An ideal situation is if you get a little higher IV in the front month.

GREEK EXPOSURE

Greek Refresher Course

Theta will increase as expiration nears.

Vega will decrease as expiration nears.

Delta

Because you are buying and selling options with the same strike, this trade will be a very close to Delta neutral trade as the Deltas will cancel each other out. Typically you would use ATM options to get the highest Vega and Theta exposure which allows for best Greek sensitivity. If you have a little market bias, you can use OTM puts for down bias and OTM calls for up bias In this case, aim to use 35 to 40 Delta options, to give you some directionality, If you have a big bias, don't trade a calendar spread as they work best with no movement.

Theta

Calendar spreads, though debit trades, still make money from time decay. In calendar spreads, you make a profit when the short, near term option (with higher Theta) has faster time decay than the further out option that you buy. In the IWM example, Theta is -13 on the 15 DTE option and -7 on the 50 DTE one. This gives the trade a net Theta of 5.83; making \$5.83 a day from time decay.

Vega

Because Vega will be higher in the further time frames, changes in volatility will affect longer term options more. The higher priced further option will see a bigger dollar move up if IV increases by the same amount in both expirations. If volatility were to increase by 1%, then the 50 DTE call would increase by \$0.28 while the 15 DTE short call would lose \$0.16. That would be a \$12 net increase to the position.

Extrinsic Value

Calendar spreads are extrinsic value (EV) trades. Since both the long and short option have the same strike, they will have the same intrinsic value. In this case they are OTM, so neither have any intrinsic value. The only thing different in their price is their extrinsic value. The difference in EV of the 2 options, \$6.30 and \$3.58 is \$2.72 which is what the spread costs to make.

The reason this trade would work, is that shorter timeframe will lose EV faster. Assume price and volatility don't move in the next 15 days. Then you would expect the March 17th option to be worthless when it

expires, losing all its EV of \$358 in 15 days. Meanwhile in 15 days, the April 21 options would still have 35 DTE left and should be worth what the current 35 DTE option is worth, which is \$5.15 (not shown). The April 21 option would then only have lost \$115 in value (\$6.30-\$5.15). This results in a \$243 profit on the whole trade (\$3.58 loss on short minus \$1.15 lost on long option) if you exited it completely after 15 days.

What's important here is that the extrinsic value of the shorter term trade is more than the cost of whole trade. This is because if the stock is at or near the strike price (\$189) when the first option expires, you will gain all of its EV of \$358. The cost of the trade (\$272) is the most you can lose is you exit both sides at once so if you collect more in EV from the short option than the cost of the trade, you will have a profit. Had the trade cost \$400 to make the loss in EV of the front month wouldn't cover and the cost and you would need to relay on an increase in volatility to help out the April 21 option.

Only make a calendar trade if the extrinsic value of front month option is worth more than the debit paid for the trade.

Price Movement

This is a trade that you don't want the price to move too much, because if it moves away from ATM (where extrinsic value will be at its max) in either direction, the EV decreases becoming less of a factor to the trade. Use **Table 19.1** below to follow along. The eventual goal of a calendar is for the front month to expire worthless and the back contract at that point to be worth more than the trade cost to make. The greatest opportunity for this happening is if the first option expires at its strike price of \$189. Because then the back contract will have the most EV it can. This trade would make about \$243 if the front month expired at \$189.

If IWM were to drop to \$183, the options would be \$6.00 out of the money. The March 17th short would expire worthless again, but the long call still having 35 DTE would be worth about \$2.50, (I am estimating based on what a \$6.00 OTM call with 35 DTE is trading for now.) This means that the trade is losing \$22 at this point. (\$272 original cost - \$250 current value of trade.)

If it were to rally to \$195, then the short option would be worth \$6.00, (losing \$2.42 from its original price of \$3.58). While the long would probably be worth \$8.90 (this time using the \$6.00 ITM 35DTE option as in estimate), making \$260 from its original price. This ends up being an \$18 winner. But clearly the best situation is when the stock price is at the strike price.

Table 19.1 Calendar Pricing

IWM Calls	Current	Price \$188.42		Stock	Stock Price in 15 Da				
				\$183	\$189	\$195			
Expiration		Trade Value	EV	Estima	Estimated Option Value				
DATE	OPTION	At Entry	At Entry	OTM	ATM	ITM			
April 21th	Long 50 DTE 189 Call	\$6.30	\$6.30	\$2.50	\$5.15	\$8.90			
March 17th	Short 15 DTE 189 Call	-\$3.58	-\$3.58	\$0.00	\$0.00	-\$6.00			
	Value of Trade	\$2.72	\$2.72	\$2.50	\$5.15	\$2.90			
	Estimated Trade Profi	it or Loss After	-\$0.22	\$2.43	\$0.18				

But that's not the only factor, as volatility can make a difference as well. If the market dropped to \$183 there is a good chance that IV went up, so the trade may eke out a little profit. While the rally to \$195 may come with a drop in IV, hurting the position.

Breakeven

Calendar spreads are low risk, low reward strategies that take up little buying power. The max loss and margin requirement will just be the debit paid. Due to unknown factors involved, max profit and POP are impossible to calculate, but they do tend to have a success rate of 40% to 50%. Exact breakeven can't be figured out either, but you can guesstimate it.

Here's how. First figure out how many days will be left on the long contract when the first option expires. In the IWM example, it will be the 35 DTE left. Next look at that expiration cycle for the strike that is worth what the debit paid for the trade was (\$2.72). The 35 DTE 195 call is close, trading at \$2.50. This option is \$6.00 OTM from \$189. This implies that if in 15 days IWM was \$6.00 OTM from our strike prices of \$189 (\$183) and the 15 day option expires worthless, you can turn around and sell the April 21th option for \$2.50 and come close to breaking even. Since the payoff diagram is roughly symmetrical you can go the same distance ITM to get \$183 and \$195 as rough BEs. This assumes no change in volatility.

Payoff Diagram

Calendars do not have a perfect payoff diagram as one of the options is not expiring and its price can be based on multiple variables with a range of prices, when the other expires. In a perfect world it will look like Payoff Diagram 19.1 where it peaks at its strike price and tapers off, but changes in volatility and the ability to roll the short strike, will alter it.

Payoff Diagram 19.1 Calendar Spread





The example I've been showing used close to ATM options with a roughly 50 Delta, and that assumes you believe no movement in the market. If you did have a directional opinion, then you could use OTM options that are around 35 to 45 Deltas. Two reasons for this are: 1) You want to be within the expected range so don't go out too far. 2) If you go out too far you won't get enough extrinsic value on the short to make the trade worthwhile.

Puts, Calls, and Directional Bias

Calendar spreads can be done with puts or calls. If using the 50 Delta strikes it doesn't matter which as the trade will work the same. If you did have a bias, use the side with OTM options, this is for liquidity and assignment reasons as I have mentioned in previous chapters. A downside directional calendar will tend to work better because volatility tends to increase as the market moves down, helping the position out.

Time Frames

Look to put the trade on with the back contract at least twice the distance than the expiring contract. So 60 and 30 days or something like in the IWM example with 50 to 14 days. This is a trade I don't mind doing in shorter time frames to take advantage of the time decay.

Skipping Cycles and Rolling

I made my example with an unsymmetrical distance, by skipping a cycle or two. This allows you to repeat the process if the trade is working. If it's working and the short option has lost a good chunk of its extrinsic value, you can then roll that option over to a longer expiration, still keeping the original long option. This lets you take advantage of the trade for longer while reducing Gamma risk on the expiring contract. You could do this several times, while still holding the original long. Kind of acting like a very tight covered call.

Exit Strategies

Look to take profits quicker on calendars than you would on most other trades as you cannot afford a price move. Once you get 25 to 50 percent of debit paid, you should consider taking profits, unless the stock is still in the same range and you plan on rolling the expiring contract. In the last few days of trading, the front expiration will have much more Gamma risk than the back month and a trade could easily go from winner to loser in a day. I would tend to exit with a or two week to go to prevent this, instead of pinning my hopes that stock will be at specific price in a specific number of days. In this example I would only hold for a week before locking to roll or exit, if I had done longer term options, I would probably get out with two weeks to go.

Usually with debit trades like this, I am willing to lose half the cost of the trade before taking a loss, but if it is a very small debit to start with, like in a butterfly, I give it more leeway or hold closer to expiration.

Ideal Scenario

Only make a calendar trade when you don't expect much price movement and/or think IV is going up and when the EV of the front month option is worth more than the debit you are paying for the trade. The latter puts you in the driver's seat and you can benefit from time decay alone. If you overpay for the trade, you will not have this benefit and need an IV expansion to work for you.

DIAGONAL SPREADS

A diagonal spread is a combination of a calendar and a vertical spread. You may also hear it called a poor man's covered call. Similar to the calendar and long vertical spreads you prefer to make this in a low IV environment. You are looking to put the trade for long Theta and Vega. This trade is directionally biased, so it is more suitable than a regular calendar spread when you have a market opinion. Diagonal spreads can also be a good strategy for earnings when you a directional option.

Basic Definition

A Diagonal spread buys a put or call while selling a further OTM, same type of option with a shorter expiration. It's simply a debit vertical spread, spread out over time where the long option has a longer time to expiration than the short option. It can be is a better way to reduce the cost of a long option as opposed to a debit spread. The trade will still collect time decay like a regular calendar, but not as much, with the tradeoff being you have more directional opportunities.

The Setup

There are 2 ways to use the diagonal spreads, one is a pure directional play, that looks to reduce the price of an option and the other is like a covered call. Both are setup differently. Here are some basics that apply to both, that I will explain along the way.

1. Make sure you paying less for the trade than the width of strikes. If you can get a 75% discount that is great.

2. This won't always happen but if you can get the front option to have a greater IV, you have the added bonus of selling high premium and buying low.

As Covered Call

Diagonal spreads can be used to create a covered call like situation. This is done by buying a back month deep ITM call to act as a proxy for a stock while selling a shorter-term option that acts as the covered call.

The Long Call

You should go out about 2 months or slightly more on the long call, if you go out too far there may not be much liquidity and the call will start getting too pretty pricy at some point. As you go out in time, the Theta will be less and time decay won't eat into the option as much. Deep ITM calls will also have small Thetas and won't be affected much by Gamma.

I recommend a Delta in the 75-85 range when trying to replicate a cover called. This can be a pricey trade if trading an expensive stock and could tie up a few thousand dollars in buying power, but it's cheaper than buying 100 shares of stock. I prefer to reduce the cost by trading stocks under \$150.

The Short Call

You would then sell an OTM option in a closer expiration, exactly the same way you would with a regular covered call. I like to go out 2 weeks to expiration and constantly roll it over, but you can go 30 or 45 DTE if that's more your style. You would use Deltas around 16 to 20 like you would with a covered called. In the Roku example on **Option Chain 19.2** I am being a little more aggressive and shorting the 26 Delta option, but I think that's a safe spot here, plus I am okay if the max spread is hit. This is all preference and you could use a 40 Delta with a tighter target, if you wanted a bigger premium on the short

The Trade

This trade setup is: Roku price: \$54.80 Buy 78 Delta 68 DTE 45 call for \$13.25 Sell 26 Delta 12 DTE 65 call for \$1.75 Net debit of \$1,150

The trade has a positive Theta of close to 12, its long almost 52 Deltas and it is long Vega by 4. The spread on the trade from \$45 to \$65 is \$20. Roku has earnings coming out in 4 days so the front expirations have elevated IV. You normally won't see as big a discrepancy like this except for earnings. I really like this set up and being bullish on Roku and I will put it on tomorrow, and keep it through earnings. If it works out I will keep it on for 2 months by repeatedly covering the expiring option and shorting a new one every two weeks or so.

Option Chain 19.2 Roku Diagonal

INSERT Option chain 19.2

Optic	onstatio	JI FIU													
5	Symbol		D	escription		Last	Net Chg	Bid	As	k Hist	Volat	Beta Weight	ing /	Account	
ROK ROK	(U	-	Ro	oku Inc CI A	4	54.80	-0.19	54.85	54.9	99 69.	48 %	SPY	- All Ac	counts	*
Spread	Single	- F	ilter Spr Wi	dth:5 ·	Strikes 24		*						Clic	k to: Trade	· ·
				CALLS								PUTS			
Pos	Ext	insic	Vega	Theta	Delta	Bid	Ask	Strike	Bid	Ask	Delta	Theta	Vega	Extrinsic	Pos
4 24	Feb 23	(12d)	Weekly											122.69%	(±9.90)
		2.17	0.035	-0.180	0.309	2.09	2.25	63	10.10	10.35	-0.688	-0.175	0.035	2.13	3
		1.95	0.034	-0.174	0.285	1.89	2.01	64	10.90	11.15	-0.710	-0.170	0.034	1.93	3
		1.75	0.033	-0.166	0.262	1.69	1.80	65	11.70	11.95	-0.733	-0.163	0.033	1.73	3
		1.57	0.031	-0.159	0.241	1.51	1.62	66	12.50	12.75	-0.755	-0.155	0.031	1.53	3
· 03	Mar 23	(19d)	Weekly										1	06.21%	±10.76)
· 10	Mar 23	(26d)	Weekly										ç	6.70% (±11.46)
· 17	Mar 23	(33d)											9	91.47% (±12.24)
· 24	Mar 23	(40d)	Weekly										8	37.74%	±12.94)
· 31	Mar 23	(47d)	Quarter	y									8	34.70% (±13.55)
- 21	Apr 23	(68d)											7	78.07% (±15.07)
		1.98	0.052	-0.036	0.862	16.75	17.00	40	1.64	1.71	-0.14	0 -0.031	0.053	1.6	88
		3.33	0.071	-0.046	0.779	13.10	13.35	45	2.95	3.05	-0.22	3 -0.041	0.071	3.0	00
		5.23	0.085	-0.053	0.680	10.05	10.20	50	4.75	4.90	-0.32	0 -0.047	0.085	4.8	33
		7.53	0.093	-0.056	0.575	7.45	7.60	55	7.15	7.25	-0.42	5 -0.050	0.093	7.1	0
		5.45	0.094	-0.056	0.470	5.40	5.50	60	10.05	10.20	-0.52	8 -0.049	0.094	5.0)3
Trade															
Spread	b									Delta		Theta	Max Profit	Max L	oss
Diagon	nal									51.67		11.996	N/A	N/A	۰. N

Debit Paid

You want the debit paid to be less than the width of the spread, here the trade is costing \$11.50, this is great compared to the spread of \$20. You would like to see at most 75% percent of the spread, so this one is good. This protects against the options going deep ITM, losing most of their extrinsic value and the trade reaching its spread value. The width of the spread is technically the most this trade can make. If you had to pay \$21 to make this trade, it is not worth making and here is why. If after making the trade all of a sudden the stock explodes to \$100, both options will have little extrinsic value left in them and be worth just above \$35 and \$55, approaching a trade value of \$20 (the width of the spread). This is great if you paid \$11.50 for it. But no so great when it costs \$21 to make.

Managing the Trade

You should treat this as a directional trade and not be married to the position like in a covered call. Don't worry about losing the stock, instead you should encourage a move that approaches and passes the short option as this is a bullish trade. Yet you can keep to same parameters of a covered call. Once the short call reaches a set level or time frame, roll it over to a different expiration for a greater premium and keep repeating the process. You are flexible to move the strike up or down on when you roll over, based on what the stock has done.

MULTIPLE PROFIT SCENARIOS

You can make money on a diagonal spreads multiple ways, which combine aspects of a debit spread (directional move) and a calendar spread (time passing plus increase in IV)

1. Time Decay

Like a calendar spread, if nothing happens in the short term, you will gain more time decay from the short option than what you would lose on the long one. Not shown here but the 45 call with 47 DTE call is worth \$12.65. If this position were held until the short expired, the short would gain \$175 in lost value and the long would be worth about \$12.65 losing about \$60 and the trade would net \$115, this is in line with the positive 12 Theta between the two options.

2. Price Movement

You can also make money if the stock rallies as this position has a positive 52 Delta. The 78 Delta on the long options will outpace the 26 Delta on the short side. This will slow down as the stock approaches the short Delta price and as you near expiration. Closer to expiration Gamma is bigger, so the short term option will gain Deltas faster slowing down the trade.

In other words, a quick \$15 move up will see the OTM short call go from a 26 to about a 75 Delta (I am estimating like I did for the calendar spreads, but you can also you an option calculator). The April 21 call would go from a 78 Delta to 95 Delta. So the position that started as 52 Delta is now at 17 Delta and will get closer to Delta neutral as price increases eventually ceasing to make any more money. The width of the spread minus what you paid for it is technically the most it can make, but if you push the short option to a higher price in the next cycle you can keep increasing that that amount.

3. Covered Call

This is all about extrinsic value. As a covered call type trade, you can make money as long as the stock doesn't move much lower from its current price. As long as it doesn't drop more than the difference in extrinsic value between the long and short options, you will be okay. In this scenario if you roll the short option over every 2 weeks you can get 3 cycles of shorting. The 12 DTE option has an EV of \$1.75 and the 68 DTE has EV of \$3.33. Assuming you get the same every time you roll, you can capture about \$5.25 in EV in 3 cycles. If there were no price movement and you exit the trade completely with 2 weeks to go, the long option will have some EV left and should be worth close to \$11.00, which means you lose about \$2.25 on the long and make about \$5.25 on the shorts for a \$300 profit on the trade. If Roku drops by \$3.00, then price lost would outpace the EV gain.

4. Volatility

On a non earnings diagonal you will also make money if IV goes up. The Vega on the back month is almost 4 points higher than the expiring option, giving the trade a positive Vega of about 4. So a general raise in IV will be a little boast. This works even better with a put diagonal spread as you will get both direction and volatility working together if the price drops. This Roku trade has bit of a high IV and I normally would look for much lower IV to make this type of trade. Its IVR is 38% and has been climbing but is below its IV for the last 6 months so I think it still has upside potential.

As Earnings Trade

Diagonal calendars are a good way to trade earnings if you have a directional bias. This Roku trade in particular sets up as an earnings play. The front expiration has a comparatively very high inflated IV and you would expect it to drop significantly after earnings are announced, while the back months shouldn't be affected as much. This differs from a typical diagonal where are you looking for an increase in the further option's volatility.

Normally when putting on a straight earnings diagonal you wouldn't buy such deep in the money options. Instead you should use a Delta in the 40 to 55 range. And sell one about 20 Deltas higher. This will lower the total cost of the trade, limiting what you can lose if you are wrong in direction. My goal was to hold Roku longer than just for earnings and continuously sell options against it. So I went deeper in the money. Had I done it just for a one day earnings play I would have chosen the 55 or 60 call as my long option and maybe used the 5DTE for the short one. This will set up like a speculative diagonal which I will describe next.

What is nice about this type of trade is that if the stock does have a massive move in the direction you hope for, like in the Nvdia iron condor, you will make money as opposed to losing it. This trade will lose money if the stock fails to rally and drops more than the EV of the short call.

Speculative Diagonal Spreads

Instead of going deep ITM, if you buy a call near the money, it becomes more of a speculative, cheaper-to-make trade, that just keeps getting cheaper every time you roll the front option out. If I ever buy a speculative put or call, I tend to turn them into diagonals to minimize costs.

Sticking with Roku, if instead of buying the ITM 45 call you had bought a 60 call with a 47 Delta, it would cost \$5.45. Now you are just good old fashion bullish and need a move up. This option is all extrinsic value so you need a decent move to make money on it. Everything still acts like before except this option has a higher EV and if you are lucky, you may just recoup it by selling the shorter call and rolling it out a few times collecting enough premium to offset the amount of the long. I have made many of these where I was able to cover the cost of the original long over 3 or 4 cycles, essentially getting a free trade. If the stock goes your way, just move the shorts to a higher price in the next cycle.

Using the same 12 DTE call as before, this trade now only costs \$3.70 to make and will have a much higher return on capital if successful. It has all the features of the previous trade except price movement is more important. Because of the extra EV in the long option, you may lose money if the stock doesn't move after 2 months, as it will have no intrinsic value left and it may outpace the gains of the shorts.

Best Scenario

What you want to happen is to get a slow steady move up over the lifespan of the long option as you keep rolling the short option to a higher strike. When putting on a diagonal like this, use a 35 to 55 Delta on the long option and a target you are comfortable for your short. Look to go out at least 60 DTE giving yourself plenty of time to keep rolling and having the Theta on the long option as low as you can.

Don't pay more than 75% of the size of the spread, otherwise your potential profit will be small making it too hard to be able to recoup the long option price.

Max Profit

Like calendars, diagonal are hard to calculate due to the different variables involved. Without taking into account being able to roll over, and price changes due to IV, the max profit you will make on a diagonal is the width of the spread minus the cost of the trade, with any extrinsic value left in the long option as a bonus. Your max profit will be at the short expiration price level, after that the EV of the long option will start to decrease and your profit will diminish and taper off. You can see this estimated in **Payoff Diagram 19.2.** The "max" profit can change if you can repeat the process by selling a new call options.

Payoff Diagram 19.2 Diagonal Spread



Max Loss

The max loss should be the net debit paid if the stock falls or doesn't reach your long option price, but you can lower that a little over time by rolling out the short a few times.

Exiting

Aim for 25% to 50% of the debit paid. It will be hard to get much more without a big boast in volatility or added rolling out effects. In the second example (buying the 60 call and selling the 65 call) the width is \$5.00 and the debit paid was \$370, leaving about \$130 in straight max profit potential, if Roku closes at \$65 at the first expiration.

If your intent is to make this a quick trade, then 25% of the debit paid is a good target to aim for. When I put on these trades I will keep moving out expiring contract if I still like the trade, I will tend to hold until there are 2 or 3 weeks left on the back month and till eventually I've created a debit spread. I will exit if I no longer like the stock directionally or have lost 50% of the total cost.

Final Thoughts

In times of low IV when you are scratching your head for a good trade to make, these time spreads are great. They can be set up cheaply and won't lose a lot when wrong. Start with a regular calendar to get hang of it first, then move on to diagonals. If you are getting frisky, look into double calendars, which can act like iron condors, trying to pick a range that a stock will stay in.