

TRADING DIAGONALS from Book 1 · Appendix B

Entry Checklist

This checklist has two parts. Part 1 items are safety checks — answer them before committing capital regardless of how attractive the setup looks. Part 2 items are the preferred construction ranges used throughout this book; a position outside one of them is not automatically a bad trade, but it does require a stated reason recorded in the journal.

Part 1 — Safety checks (do not enter without these)

- ☐ Maximum defined loss known and within your position limit
- ☐ Broker approval confirmed for this structure in this account type
- ☐ Broker's margin and buying-power treatment of the spread confirmed
- ☐ Assignment consequences understood, including the temporary capital requirement
- ☐ Adequate buying power and reserve to absorb an assignment without a forced unwind
- ☐ Liquidity adequate for the actual size intended, not just a single contract
- ☐ Directional thesis still valid as of today

Part 2 — Preferred construction ranges (document any exception)

Pre-Entry Screening

Underlying:

- ☐ Average daily volume > 1 million shares
- ☐ Options open interest on target strikes > 500 contracts
- ☐ Bid-ask spread on target options < 2% of midpoint
- ☐ LEAPS available with at least 12 months to expiration
- ☐ Clear directional trend confirmed on weekly chart
- ☐ IVR in the 20–50 range
- ☐ No earnings announcement within the short leg's expiration window
- ☐ No known major catalyst within the short leg's expiration window

Long Leg:

- ☐ Delta between 0.70 and 0.85 (call) or –0.70 to –0.85 (put)
- ☐ Expiration at least 15 months out (preferably 18)

- ☐ Intrinsic value represents majority of premium
- ☐ Time value at risk (net debit minus long-leg intrinsic): ideally under \$5/share; above \$8/share justified in writing

Short Leg:

- ☐ Delta between 0.30 and 0.40 (call) or –0.30 to –0.40 (put)
- ☐ Expiration at 30–45 DTE
- ☐ Short-leg premium approximately 2–5% of net debit per cycle; below 2% justified in writing
- ☐ Short strike above long strike (call diagonal) or below long strike (put diagonal)

Combined Position:

- ☐ Time value at risk (net debit – long-leg intrinsic): ideally under \$5/share; above \$8/share justified in writing
- ☐ Debit-to-width ratio preferably below 85%; if above, reason documented (a crowding signal, not a hard ceiling)
- ☐ Net delta in 0.40–0.55 range (call diagonal) or –0.40 to –0.55 (put diagonal)
- ☐ Gap between legs at least 180 days (preferably 270–365)
- ☐ Maximum loss within your predetermined position limit

Execution:

- ☐ Single combination order prepared
- ☐ Limit price set at midpoint of combined bid-ask
- ☐ Entry during 10:00 AM–3:30 PM trading session
- ☐ Trade journal entry template prepared

Post-Entry Documentation:

- ☐ Full trade journal entry completed
- ☐ Profit target calculated and recorded
- ☐ Loss threshold calculated and recorded
- ☐ Short leg management date on calendar
- ☐ Long leg roll trigger date on calendar
- ☐ Upcoming earnings dates noted