

Appendix C — Checklists, Rules and the Trade Journal

The desk pages: the two-tier entry checklist, the expiration-week checklist, every rule set off in the chapters, and the journal template. The companion workbook carries the same pages as printable sheets.

C.1 The Two-Tier Entry Checklist

Table C.1 — Before the order

Tier	Check	If no
Safety	Thesis written: price, direction, volatility or event view; horizon; why the executable price is attractive	Pass
Safety	Liquid: natural fill and exit priced; minimum acceptable credit or maximum acceptable debit set	Pass
Range	Days to expiration in the 30 to 45 day window	Pass, or log the exception
Range	Strikes in their expected-move bands	Pass, or log the exception
Safety	Management date and both strikes' distances on the ticket	Pass
Safety	Events in the window found and priced	Pass
Safety	Edge stated and positive after friction, for the written plan	Pass
Safety	Worst case inside the per-trade, per-underlying and open-risk limits; group stress inside the group limit	Pass; a smaller size is a new candidate
Safety	Exit, stop, roll limits and close-by time written	Pass
Safety	Assignment, dividend and settlement exposures acceptable	Pass

The same ten gates as the decision tree (Chapter 21, Appendix B). Preferred ranges are house starting conventions.

C.2 The Expiration-Week Checklist

1. Monday: list every open spread expiring this week, its settlement (cash or physical; AM or PM) and its last trading day.
2. Each close: mark each spread, its distance from the short strike in expected moves, and the seller's gamma at the short strike against Table 15.1 (Chapter 15).
3. Check ex-dates this week for every physically settled short call: dividend against the put at the same strike plus interest (Chapter 16).
4. Check deep in-the-money short puts: is the American value at intrinsic? (Chapter 16).
5. AM-settled options: close by the last trading day's close; they settle on the next open (Chapter 16).
6. Physically settled spreads near the short strike: close by Thursday's close, or at the written close-by time (Chapter 15).
7. Know the broker's exercise cutoff and the long-leg policy, in writing; do not assume them (Chapter 15).
8. If anything is left to expire: the share count and notional if assigned, against the account (Chapter 15).

C.3 Every Rule in the Book

The 65 rules set off in the chapters and the Closing, in order. 4 of them are stated here in full where the chapter's context had made them shorter.

Introduction

- A probability without its payoff is half a calculation.
- State the worst case in dollars before the order goes in.
- A high win rate is the price talking. It is not an edge.

Chapter 1

- A vertical's payoff worst case is the width less the credit, or the debit, plus fees. It is known before the order goes in.
- Bull or bear is the bet. Credit or debit is the cash timing.

- Every vertical in this book is described by its lower and upper strike, its width, and its price at the fill.
- Read the strikes against the forward before you read the name.

Chapter 2

- At European model values before friction, a debit spread is its credit twin plus an investment in a zero-coupon bond paying the width at expiration.
- On European options the twins are one trade. On American options they are one trade plus the exercise rights.
- Choose between the twins by fill and assignment, never by the name on the ticket.

Chapter 3

- Compute the worst case at the fill, in dollars, for the whole order.
- Write the contractual worst case and the account risk beside it. One line is not a worst case.
- Value-to-width is a price, recorded twice: at the model value and at the fill.
- In a credit spread, the protective long leg bounds the contractual loss; in a debit spread, the short leg reduces the premium paid and caps the gain. Everything else in this book depends on that bound.
- For this view and these quotes, fewer, wider spreads keep more of any assumed edge than many narrow ones.

Chapter 4

- A delta is a number plus a convention. Know which convention your screen uses.
- Above its boundary, time decay helps the seller and a rise in volatility hurts; below it, both reverse. The boundaries differ.
- In the last week, a vertical near its strikes is a different trade from the one you opened.

- Split every mark into delta, gamma, theta, variance and the rest before deciding what it means.

Chapter 5

- Name the breakeven, the level for the maximum, and the reason you would leave, before you name the structure.
- Two bullish spreads at different strikes are two different bets. The strikes say which.
- If the edge clause is blank, the thesis line is a wish.

Chapter 6

- Measure strikes from the forward, in expected moves, and know which expected move your screen shows.
- Distance in expected moves, delta and probability are three readings of one choice. On a skewed surface they do not agree exactly, and the far strikes carry more tail than the normal rule says.
- Moving the short strike away trades credit for win rate at nearly the same worst case. It does not make the spread safe.
- Place the long strike for the worst case you can carry, not for a level you hope the index will respect.

Chapter 7

- At a fixed point distance, a shorter expiration puts the strike more expected moves away. At a fixed expected-move distance, it collects a broadly similar credit with more gamma near the strike and less time to respond.
- Theta is paid for gamma. Choose the decay rate and you have chosen the speed of the losses.
- Weeklies buy fresh decisions through four entries, at about two and a half times the monthly's friction here. Use them for that, not for the decay.
- Set the management date at entry, from the clock, not from the mark.

Chapter 8

- The volatility risk premium is an argument, not a guarantee. Price what its tail costs before you sell it.
- A vertical's price depends on the level of the smile and on its slope between the strikes. One implied volatility does not settle it.
- An event in the window is priced into the volatility. A spread across it is a bet on the event, whatever its name says.

Chapter 9

- A vertical's price already contains its probabilities. A high win rate is in the price, not on top of it.
- At model value, the financed risk-neutral expected result measured at entry is zero before costs. After costs it is negative. Any edge is an assumption you have to state.
- Rules decide when a result is taken. They do not create an edge, and on this spread they cost one.

Chapter 10

- Send verticals as one combination order. Price the exit fill before you take the entry one.
- Set friction against the edge you claim, once, on entry and exit. If net edge at the executable price is not positive or not supported, pass.

Chapter 11

- Size in risk units: the contractual worst case in dollars at the final limit, fees included. Size assignment and residual positions separately.
- Five index-like spreads can be one trade. Run the group stress before adding the next one.
- Bounded is not small. Size so that a run of maximum losses leaves the account able to keep trading.
- The broker's requirement is not the risk, and the return on margin is not the return. Size on the risk unit.

Chapter 12

- After entry, decide from here. The entry price and entry costs are sunk.
- Half the credit is a mark, not a decision. Decide from the four numbers from here and the days left.
- Being right early is worth less than being right at expiration. A target or a time stop sells the rest back; write which, and why, at entry.

Chapter 13

- A roll is two trades: a close, whose result is final, and an open, judged on its own.
- A roll for a credit is not free. If the credit came from more contracts or more width, it was bought with more risk.
- Keep the books split: the old trade's realized result, and the new trade's own credit, break-even and worst case.
- Roll only into a trade you would open on its own today, at its own size. Otherwise, close.

Chapter 14

- A stop is insurance. With no edge it costs the give-up on every path it closes; what it buys is a smaller tail.
- Grade the move, then decide from here. A: hold under the written stops. B: close. C: close, or judge the rest as a new trade.

Chapter 15

- In the last week, gamma at the short strike turns a spread into a one-day bet near the full width.
- A physically settled spread near its short strike at the close is not a defined-risk position over the weekend.

Chapter 16

- Before an ex-date, a short call is likely to be exercised when the dividend exceeds the put at the same strike plus interest on the strike. This is a diagnostic; check whether the American call's value is at intrinsic.

- A deep in-the-money short put is at risk of assignment once its American value falls to intrinsic; interest on the strike above the call at the same strike is the sign to check.
- AM-settled options stop trading a day early and settle on the next open: close them by the last trading day's close.

Chapter 17

- A tape shows how a decision is made, not how often it pays. Judge the decisions by the numbers available at the time.

Chapter 18

- A trigger is not a guaranteed price. A gap fills a stop where the market is, not where the plan was.

Chapter 19

- A debit spread's exit is a time decision as much as a price one. Write the date with the thesis.

Chapter 20

- Pick the product for the risks it removes, then close before the ones it leaves.

Chapter 21

- Ask the ten questions in order. A safety gate's no is a pass; a range gate's no is a pass unless the exception is logged.

Chapter 22

- Split day by day, in a fixed order, with one reconciliation rule; put execution on its own line and skew beside the split.
- Score the thesis and the plan separately from the P&L, and judge skill only across many logged trades.

Closing

- Defined risk bounds the contractual payoff. Size, stress and the calendar help manage the account exposures beyond it.
- A pass is a decision. Log it with the gate that made it.

C.4 The Trade Journal

One line for every candidate, traded or passed (Chapter 21), and a line for every action after entry (Chapter 17).

Table C.2 — Journal template

Field	What to write
Date and time	When the decision was made
Trade	Underlying, structure, strikes, expiration, size; settlement and exercise style
Thesis	Price, direction, volatility or event view; horizon; and why the executable price is attractive
Gates	Each gate's answer; any logged exception and its reason
Four numbers	Worst case; value-to-width at model and fill; strikes in expected moves; friction against edge
Expected result	The written plan after friction: no edge / base / adverse, or the trader's own view beside them
Plan	Exit, target, stop, time stop, roll limit, close-by time
Fill	Price against the mid and the natural; fees
Each action	Date, marks, the four numbers from here, what was done and why
Result	Realized result; attribution (Chapter 22); plan followed or not; thesis right or wrong