Getting Clearance to Trade Spreads
A Profit Skimmer Special Report

Spreads are some of the most powerful options strategies available to traders. There are various types of spreads; including the Vertical Spread, the Calendar Spread, the Diagonal Spread and the Ratio Spread. They’re also the building blocks of options strategies including the Butterfly and Condor.

Spreads are like the “Swiss Army Knife” in a trader’s pocket. Depending on the type of spread you use and how you construct it, spread trades can be used to play direction (bullish or bearish), profit from stagnation through the passage of time (decay), trade volatility and affords easier access to high priced stocks (think AMZN, GOOGL) because they’re cost efficient.

Trading spreads requires a solid understanding of options. Many TMM subscribers come to us with little or no experience in options trading, let alone spreads. But the great news is that you’ve come to the right place to get that experience and training!

If you want to learn all of the “in’s and out’s” of options and spreads, learning under the wing of a seasoned options trader is a major plus. And that’s exactly what’s included in the service because I used to be a floor trader on the Philly options exchange for nearly seven years. So you’ll get plenty of education and opportunities to interact with me during our periodic live webinar events.

For those of you ready to start spread trading, one of your first steps is you’re going to have to get clearance to trade spreads from your brokerage firm.

The aim of this report is to give you insight into that process and answer common questions so that you know what to expect when you call your brokerage firm requesting clearance to trade spreads on listed options.

What do brokerage firms want to know?

While brokers vary in terms of what they ask, we’ve found the following questions are most commonly asked.

- **Your Trading Experience and Specifically Option Trading Experience** – Brokers may ask you how long you have been trading and how much of that time has been trading options.

- **Your Account Size** – No broker would disclose the minimum account size that they require. But our customers have told us that they got clearance to trade spreads in accounts as small as $2,000.

- **Proof of Your Net Worth** – In the brokerage business, there is a rule… a law in fact… that is best summarized as Know Thy Customer. They will ask you for your net worth and even sometimes your income to ensure that you won’t go to the poorhouse if you were to blow out your options account.

- **Frequency of Trading** – It is in the brokerage firm’s interest to have customers who trade often. The more trades, the more commission they can generate. In my Profit Skimmer service, I generally put on 2 to 3 trades month. You might trade less frequently or more.

- **Your Risk Profile** – Your brokerage firm is going to ask you questions to determine what type of investor you are. If you tell them that you are looking for long-term growth or fixed income, chances are they will not accept your application to trade spreads. Typically, brokerage firms consider spread trading appropriate for aggressive / speculative / active /short term traders. These adjectives fit the profile of a spread trader.

“As a part of the application process, we review the account holder’s financial information which includes their annual income, net-worth and liquid assets. We also look at the client’s stock and option trading experience. Clients supply us with the years that they’ve been doing stock and options trading. This is done to ensure that the client is going to be financially suitable for the trades they’ll be making.”

- Brian Bachelier, Scottrade’s Options Product & Business Development Manager
• **Acceptance of Risk** - They want to be sure that you understand the risks of option trading and that you accept that risk. Option contracts have a finite life span and can expire worthless. You can lose your entire investment in options when you use spreads. This is why position sizing and risk management are critical lessons that we teach in every options service that we offer. Please be sure to understand those risks and get all of your questions answered before you put on any options trade.

• **What You Know About Options?** – If you don’t have experience, some brokers will ask you what courses you have taken on options. They are likely to also give you a short quiz on options basics. Previous subscribers have been asked: What is a covered call? When do options expire? What is your maximum risk if you sell a January 25/30 Call spread for a credit of $1.55? How do you calculate the breakeven of a spread trade? Etc.

As a Profit Skimmer member, you have access to my special video lesson: **Profit Skimming 101**. You’ll also get access to additional options educational videos and other bonus content found on the member website to help you become comfortable trading options and spreads. After reviewing all the material, you’ll be able to answer any questions in regards to spreads that your broker may throw your way.

I have also created a special cheat sheet on vertical spreads to reinforce your knowledge on this spread strategy outlining where your maximum risks and rewards lie. Reviewing this report, **Vertical Spread Breakeven**, will hammer home the material from my Profit Skimming 101 video.

**What is the experience like at leading brokerage firms?**

Hundreds of other subscribers have been exactly where you are right now; ready to get started trading spreads. We conducted an anonymous survey to let our customers share their experiences with various brokerage firms. These are real quotes from investors just like you about their experience in getting clearance at various firms.

“With E*TRADE, I needed to specify that speculation was the reason for wanting the option even thought it was for income and protection.”

“TradeKing made me fill out a form. I had to indicate that this account was for speculative trades, more aggressive exposure. I said that this was a maximum growth account, not growth and income. They wanted to make sure that I had some experience. Called the broker a few times to make sure that I filled it out for what they wanted to see.”

“At Fidelity they seemed to want a track record (with them) of trading options at level 1, and then at level 2, before they would grant level 3 access. So my “relatively easy” answer to your question 4 below is true, but possibly misleading. I had lots of experience, so was able to give the answers on their web forms that they wanted to hear. But, for example, at Fidelity I have a friend with over a million dollars on account there, but no prior option experience. He still can’t even get level 2!”

“I traded with the TradeStation platform for some time. When I started with them, I filled out a form that said I had no options experience. When I later applied [for Level 3 clearance], they had a problem with it. I then told them that I had enrolled in an on-line options education program and also with Profit Skimmer. They said they knew of the programs and approved me because I was getting guidance with my trades.”

“Scottrade’s OptionsFirst asked me how long I had been trading options and what level I wanted.”

With Interactive Brokers “just tick boxes that say you have experience…”

OptionsXpress (merged with Schwab) asked me “number of years trading stocks and options, net worth, available trading capital.”

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**Barron's 2016 Online Broker Rankings:**
- Fidelity
- Interactive Brokers
- OptionsHouse
- TD Ameritrade
- TradeStation
- Merrill Edge
- TradeKing
- CharlesSchwab
- E*Trade
- Lightspeed Trading
- Scottrade

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Think or Swim (merged with TD Ameritrade), “didn’t ask me anything - but I am able to trade spreads and do some day trading.”

TD Ameritrade asked… “Years of experience, How often I trade, Do I trade options, stocks…”

Schwab wanted “Previous option trading experience. Number of trades per year. Overall trading experience”

So you can see that obtaining level 3 access to trade option spreads differ between all the brokers. There’s really no set guideline to gaining approval, just what each broker considers appropriate on an individual basis.

In Conclusion

Using option spread strategies offers many advantages; lowers risk, increases return on investment, and enhances greater probability of successful outcomes.

Option spreading does involve a greater knowledge of options in general and active position management is usually needed, but once understood and used properly, the benefits increase your edge for success.

Once you have approval to trade spreads with one brokerage, that approval will typically transfer if you move your account to another brokerage firm.

Understanding the educational material outlined will put you in the driver’s seat to get the appropriate level approval needed to trade spreads.

If your broker is still hesitant, remember this: They’re not the only game in town and there are numerous other brokers that will be happy to accommodate your business.

Costas Bocelli

Best for Options Traders
(Barron’s 2016)

- OptionsHouse
- TD Ameritrade (Think or Swim)
- Interactive Brokers
- TradeStation
- TradeKing