THEOTRADE PRESENTS

THE 60-SECOND BULLETPROOF OPTIONS CHECKLIST



THE 5-POINT PRE-TRADE CHECK THAT KEEPS YOU OUT OF ACCOUNT-KILLING TRADES

BY DON KAUFMAN

INTRODUCTION

THE DIFFERENCE BETWEEN A TRADE AND A GUESS

Most new options traders don't blow up their accounts because they picked the wrong stock. They blow up because every trade they place is open-ended. There's no floor under the loss and no ceiling over the gain — just a position, a hope, and a screen they can't stop checking.

Here's what open-ended looks like in real dollars

You buy 100 shares of a $90 stock because you think it's headed higher. You're risking $9,000. You set a stop-loss at $85 to protect yourself. The stock gaps down to $78 on earnings and your stop fills there, not at $85. You just lost $1,200 instead of the $500 you thought you were risking. And if you'd been right and the stock ran to $110, you still had $9,000 tied up to capture a couple thousand in gain.

That's an open-ended trade. The loss wasn't capped, the capital outlay was huge, and the stop didn't save you — a stop is only an instruction to sell at the next available price, and a gap blows right past it.

Now picture the same bullish view structured differently. You risk a few hundred dollars instead of nine thousand, you know your maximum loss before you enter, and you cannot lose a penny more no matter what the stock does overnight. That's the Pocket.

Why you can trust this

I spent 15 years inside the brokerage industry. I was the Chief Derivatives Instructor at thinkorswim and the Director of the Trader Group at TD Ameritrade, and I helped guide over 7 million retail traders. I had a front-row seat to the order flow, the accounts, and the losing trades, and I watched the same handful of mistakes wipe people out over and over. They weren't dumb — they were doing exactly what the industry taught them to do. That was the problem, and it's why I left in 2015.

After all those years, I took the safest structure I know and built it into one repeatable setup. I call it the Pocket, because it puts the whole trade inside a pocket: a floor on the bottom and a ceiling on top. The Floor is the most you can lose. The Ceiling is the most you can make. Both are known before you ever click buy, to the penny.

Duration over direction

Here is the philosophy underneath all of it. Most retail traders lose not because they were wrong about direction, but because they ran out of time, money, or conviction before the move happened. A Pocket trade, sized correctly, lets you hold through normal market noise and still be in the trade when it finally works. Duration over direction. That idea runs through every rule and every check in this guide.

OPTIONS 101

THE ESSENTIALS YOU ACTUALLY NEED, IN PLAIN ENGLISH

A quick word about what this book assumes: that you've at least crossed paths with options before. This is a pre-trade checklist, not an options course. The good news is the five checks only need about eight words of vocabulary — all of them below. If you're rusty, a few minutes here is enough. If they're second nature, skim this chapter and head straight for the rules.

What an option actually buys you

An option lets you control 100 shares of a stock for a small fraction of what the shares would cost, with your risk as a buyer capped at what you paid. That control-for-less is the entire reason options exist for a small account. Formally: a stock option is a contract that gives the holder the right, but not the obligation, to buy or sell 100 shares at a specific price (the strike) on or before a specific date (the expiration). The premium is what you pay to own that right. Because one contract covers 100 shares, a call quoted at $3.00 costs $300.

Calls and puts

A call is the right to buy 100 shares at the strike; call buyers profit when the stock rises. A put is the right to sell 100 shares at the strike; put buyers profit when the stock falls, which is why a put works like insurance on a stock you own. The side you're on matters: a buyer's worst case is the premium paid, while a naked seller's worst case can be far larger. That's why everything here is built from spreads, not naked positions.

A note on expirations

Standard monthly options expire on the third Friday of the month. Weekly options expire every Friday and behave the same way — their time value just burns off faster. Pocket trades are short-dated, usually a few weeks to about a month out, because the plan is to be in and out within two to four weeks.

Real value versus hope

An option's price is made of two parts. Intrinsic value is the part that's already real — what the option would be worth if you cashed it in today. A call with the right to buy at $100 while the stock trades at $105 has $5 of real value baked in. The rest of the price is extrinsic value, also called time value: the part you pay for time and possibility. Time value melts away as expiration nears — that's the time decay we'll keep coming back to. A call is in the money (ITM) when the stock is above the strike, and out of the money (OTM) when it's below; for puts it's the mirror image. In the money means real value now. Out of the money means not yet.

That picture is the whole reason it's called the Pocket. You buy the strike that sits at or just inside the money and sell a strike just outside it, both the same expiration, and you pay a small debit to put it on. One foot in, one foot out — the trade tucked inside a pocket with a floor and a ceiling. Two numbers fall out of that structure, and both are known the moment you enter. The debit you paid is your Floor — the most you can lose. And because the spread can never be worth more than the distance between the two strikes, the strike width minus the debit is your Ceiling — the most you can make. You'll see both at work in the rules ahead.

THE 5 RULES

EACH ONE DEFEATS A SPECIFIC WAY NEW ACCOUNTS GET DESTROYED

What follows is five short chapters. Each one names the mistake, shows you why it kills accounts, and gives you the rule that defeats it. At the end of the book, all five rules collapse into a single 60-second checklist — the one tool you'll actually run before every trade.

Rule 1 — The Floor

THE MISTAKE *Placing a trade when the loss has no bottom.*

When you buy a stock or sell a naked option, there's no hard limit on what a bad move can cost you. A gap down overnight, a stop that fills nowhere near where you set it, and the damage keeps going. That open-ended downside is what turns one bad trade into an account-ending one.

In a Pocket trade, the debit you pay to put the spread on is the entire amount you can lose. It's paid the moment you enter, and nothing — a gap, an overnight headline, a fast market — can take more than that. That known worst case is your Floor, and the trade cannot fall through it. This is what a defined-risk spread gives you: the loss is capped by the structure of the trade itself, not by a stop order you're hoping will work.

The rule: *before you enter, answer one question in dollars. If I'm completely wrong, exactly how much do I lose? If you can't answer to the penny, you're not ready to place the trade.*

Rule 2 — The Ceiling

THE MISTAKE *Entering with no profit target, then watching a winner round-trip back to nothing.*

New traders obsess over getting in and almost never plan getting out. So a trade goes green, they get greedy, they hold for more, and they give it all back. The calm comes from deciding the exit before emotion enters the picture.

Your maximum gain — the Ceiling — is known to the penny at entry, the same way your Floor is: the strike width minus the debit you paid. Most Pocket trades resolve in two to four weeks, so you're not married to a position indefinitely.

Here's what makes that Ceiling reachable. Time decay — the silent tax that bleeds every naked option buyer, as you'll see in Rule 3 — doesn't bleed a Pocket. You own one strike in the money and you're short one strike out of the money, so the time value melting off the option you sold pays for the time value melting off the option you bought. And once the stock has moved through your strikes, the clock flips to your side: every passing day pulls the spread closer to its full value. That's the entire premise of the structure: in a Pocket, time doesn't matter.

Implied volatility doesn't matter either. Whatever volatility does, it does to both legs at once, and the spread cancels most of it. The two forces that grind down every option buyer — the clock and the volatility swings — are designed out of this trade before you enter. What's left is the one thing you're actually trading: direction.

So the exit rule isn't about racing decay — it's about risk and reward. Rule of thumb: take the money at 50 to 75% of maximum profit. Past that point you're risking a large open gain to collect a small remainder, and one late move against you can hand a winner back. Take the money, free the capital, find the next Pocket.

The rule: *before you enter, name your max gain and the point where you'll take profits. A trade with a Floor but no Ceiling is only half-planned.*

Rule 3 — The Structure

THE MISTAKE *Buying cheap calls and puts as lottery tickets, with the whole trade riding on one perfect guess.*

This is the big one, and it's exactly what the brokerage industry teaches: think a stock's going up, buy a call; going down, buy a put. It quietly stacks the deck against you. Direction is only one of three things that have to go right — you also need the timing and a big enough move, all at once. Miss any one and the trade loses.

The numbers bear it out. A University of Florida study found that for every $100 the average retail options trader puts into a trade, they lose about $16 of it. Set a stop a dollar below your entry and a target two dollars above, and the odds of getting stopped out first run around 80%, while hitting that target runs around 40%. The math beats you before you place the trade.

And while you wait for that perfect move, the clock is billing you. A naked option's time value erodes every single day, whether the stock moves or not — and it doesn't erode evenly. From 120 to 60 days out, the decay is slow. From 60 to 30, it's moderate. Inside 30 days it turns rapid, and the final week is a cliff. That's the treadmill every naked buyer is on: you don't just have to be right — you have to be right fast enough to outrun the melt. Most of the time, the move doesn't come fast enough.

Every options position is built from four pieces. It's worth seeing what each one risks:

Position	Direction	Max Profit	Max Loss
Long Call	Bullish	Unlimited	Premium paid
Short (naked) Call	Bearish	Premium received	Unlimited
Long Put	Bearish	Strike − premium	Premium paid
Short (naked) Put	Bullish	Premium received	Strike − premium

That "Unlimited" max loss on a naked short call is exactly why we never trade them. The fix for all of it is the spread: buy one option and sell another of the same type and expiration against it. That single move caps your risk, brings your breakeven closer, and takes time decay off your back — the leg you sold melts in your favor, paying for the melt on the leg you bought.

How a Pocket trade is built

A Pocket is the tightest version of that fix: a defined-risk spread that straddles the price — one strike in

the money, one strike out — bought for a debit. Here's a real one, so you can see exactly where the Floor and the Ceiling come from. I bought the CVS 97.5 put and sold the 92.5 put in the same expiration for a $2.05 debit. The strikes are $5 apart. That $2.05 — $205 per contract — is the Floor: the most the trade can lose, paid once, the moment I entered. The spread can never be worth more than the $5 width between the strikes, so the Ceiling is $5.00 minus the $2.05 debit — $2.95, or $295 per contract. Defined loss, defined gain, both known before entry.

Point the same machine the other way with calls and you've built a bullish Pocket. You'll see this exact CVS trade again in the examples section, run through all five checks.

The rule: *before you buy a naked call or put, ask whether you're making a single perfect bet — or trading a structure that can win across a range of outcomes. If it's the former, build the Pocket instead.*

Rule 4 — The Size

THE MISTAKE *Risking thousands on a single position, then oversizing again to win it back.*

Look at the same bullish view two ways. To buy 100 shares of a $98 stock you put up $9,800. To control that move with a $100 call you might pay $400. If the stock drops to $80, the shareholder is down $1,800 and can keep losing, while the option buyer's loss was capped at what they paid. That capped, fractional outlay is the whole point.

When you risk a small, fixed amount per trade, you can be wrong several times in a row and still have an account. You can hold through volatility without panicking. You live to take the next setup — and the trader who survives long enough to be right consistently is the one who wins. This is also where the revenge trade does its damage: a loss stings, so you double up to make it back, and now one position carries far too much of your account. The fix is a hard ceiling on size, set before emotion gets a vote.

The rule: *no single trade should put more than 3 to 5% of your account at risk. If a position is large enough that a full loss would genuinely hurt, it's too big — cut it down before you enter.*

Rule 5 — The Protection

THE MISTAKE *Buying naked calls and trusting a stop-loss to save you, when stops fail exactly when you need them most.*

Here's the trap almost every beginner falls into. You're bullish heading into earnings, so you buy calls outright. To protect yourself, you set a stop-loss. You feel covered. You are not. A stop-loss is just an instruction to sell at the next available price once your level trades — it does nothing against a gap. Earnings come out after the close, the report is bad, and the stock opens far below where it closed. Your calls gap down with it, and the stop never fills where you wanted. The exact moment you most needed protection is the moment the stop failed.

With a Pocket, you don't need a stop-loss to save you, because your protection was set the moment you entered. The Floor is the debit you paid, and nothing can take more than that. The same earnings gap that blows past a stop-loss simply lands you on your Floor — the worst case you already accepted on the way in.

	Stop-Loss on Naked Calls	The Pocket's Floor
Gap protection	None — fills past your price	Full — capped at the debit
Overnight earnings news	No protection	Loss can't exceed the Floor
When it works	Only in smooth markets	Always — set before entry

The rule: *if your only plan for a bad move is a stop-loss order, you don't have protection — you have a hope. Build the downside into the position itself, where it holds even when the market gaps.*

WHY THE MATH WORKS

HIGH-PROBABILITY TRADING, IN PLAIN NUMBERS

Strip everything else away and the Pocket is one move: you reduce risk by using a spread. The Floor, the Ceiling, the calm — they all fall out of that single decision. But it raises the question every sharp reader asks, so let's answer it head-on. A winning Pocket pays 55 to 75 cents for every dollar you risked — sometimes less, when a fast move hands you 30 cents in a few days and you take it. A losing Pocket costs the whole dollar. Win small and lose big? On its face, that looks backwards.

It isn't, and the reason is the entire basis of the method: the Pocket is built to win far more often than it loses. One strike sits in the money the day you enter, so the trade starts with real value, not hope. You paid well under the full width of the spread, so the stock doesn't need a heroic move — a modest drift in your direction does the job. And because you take profits at 50 to 75% of the maximum instead of holding out for the last nickel, winners get banked instead of round-tripping. Stack those together — and add a disciplined entry signal — and you get a high-percentage trade. Over 16 months I documented 80 of them: 59 winners, 18 losers, 3 breakevens. A 73.8% win rate.

Now run the honest arithmetic. If winners pay 55 to 75 cents and losers cost the full dollar, you need to win roughly six out of every ten trades just to break even. That's the hurdle, and it's exactly why this only works as high-percentage trading. At the documented rate — closer to seven and a half wins in ten — you clear the hurdle with room to spare. That gap is the edge.

Here's the same edge in dollars, as a simple illustration. Run ten Pockets, risking $100 on each. Win seven at an average of $65 — the middle of the range — and you collect $455. Lose three at the full $100 each and you give back $300. You finish up $155, and at no point was more than $100 exposed on any single trade. That's the machine: small, frequent wins that outrun rare, capped losses.

And keep "lose 100%" in perspective — it's 100% of a small number you chose in advance. Sized by Rule 4, a full loss on a $10,000 account is a $200-to-$300 scratch, not a catastrophe. Compare that to the trade most beginners are taught: the cheap naked option that occasionally pays big but loses far more often than it wins. That trader is chasing rare home runs and eating constant losses — the University of Florida math from Rule 3. The Pocket deliberately takes the other side of that bet: the boring side, the high-percentage side, the side that's still in the game next month.

WHAT REAL POCKET TRADES LOOK LIKE

THREE REAL TRADES, INCLUDING THE MATH ON A LOSS

These are real trades shown for educational illustration. Strikes and fills are actual; the structure and math are what matter. Past results are not a promise of future results, and all options trading involves risk of loss.

Example 1 — a bearish Pocket (CVS), run through all five rules
I wanted downside exposure on CVS with the risk fixed in advance — the same trade you saw built in Rule 3: **buy the 97.5 put, sell the 92.5 put, same expiration, for a $2.05 debit.** The strikes are $5 apart. Here's the trade against all five rules:

Floor: $205 max loss, known the moment I entered.
Ceiling: $295 max gain ($5 width − $2.05 debit). Take profits at 50–75%.
Structure: A defined spread — one strike in the money, one out — not a naked put.
Size: $205 on a $10,000 account is about 2% — inside the 3–5% limit.
Protection: Downside capped by the spread itself at $205. No stop-loss required.

I closed it near $2.67 — about a 30% gain on the amount at risk. The worst case, $205, was fixed before entry.

Example 2 — a bullish Pocket (NVDA)
Same machine, pointed up with calls instead of puts.

NVDA *Bullish Pocket*
Buy the 205 call, sell the 207.5 call. Debit $1.10. Strikes $2.50 wide.
Floor: $110 Ceiling: $140 Closed $1.43 ≈ +30%

Example 3 — a bigger winner (LEN)
Not every Pocket is a quick few percent. Same defined-risk structure, a larger move captured — and the Floor never changed.

LEN *Bearish Pocket*
Buy the 128 put, sell the 124 put. Debit $1.75. Strikes $4 wide.
Floor: $175 Ceiling: $225 Closed $2.73 ≈ +56% (≈11 days)

What about the losers?
There are losers. Over 16 months I documented 80 of these trades: **59 winners, 18 losers, and 3 that broke even — a 73.8% win rate.** The point isn't that the Pocket never loses. The point is what a loss costs you. When one goes against me, I lose the debit I put in and not a penny more, because the Floor was set the moment I entered. A losing Pocket is a known, survivable cost — not the account-ending hit an open-ended trade can become.

WHY THESE RULES WORK

THEY FIX THE HEAD GAME

Notice what every one of these checks has in common: the decision gets made before you enter, not in the heat of the moment.

That's the part nobody talks about. The hardest thing in trading isn't the analysis — it's your own head. The fear of missing out that makes you chase. The revenge trade after a loss. The paralysis when the setup is right there and your finger won't click. All of it comes from one source: open-ended trades your brain can't relax around, because there's no plan, just a guess.

When the Floor, the Ceiling, the size, and the exit are all set before you enter, the panic has nothing to feed on. You already know the worst case. You already know when you're out. The Pocket doesn't just fix the trade — it fixes the trader.

THE 60-SECOND CHECKLIST

ALL FIVE RULES ON ONE PAGE — RUN IT BEFORE EVERY TRADE

Everything in this book collapses into the five checks below. Print this page or screenshot it. Before any options trade, run all five — about ten seconds each. Tick a box only when the trade clearly passes.

□ CHECK 1 — THE FLOOR

Do I know my exact maximum loss, in dollars, before I enter?

A gap or an overnight headline can blow straight past a stop-loss. Your Floor cannot be blown past.

PASS WHEN: *You can write your max loss to the penny. My max loss is $ _____*

□ CHECK 2 — THE CEILING

Do I know my maximum gain — and the point where I'll take profits?

Winners round-trip back to losers when there's no exit plan. Rule of thumb: take the money at 50–75% of max profit.

PASS WHEN: *Max gain is $ _____ and I take profits at _____*

□ CHECK 3 — THE STRUCTURE

Am I trading a defined-risk spread — not a naked call or put riding on one perfect guess?

A naked option needs direction, timing, and size-of-move all at once, while time decay bleeds it daily. A spread caps the risk.

PASS WHEN: *The position is a defined spread, not a naked directional bet.*

□ CHECK 4 — THE SIZE

Is no more than 3–5% of my account at risk on this single trade?

Survive enough trades and you earn the right to be right. One oversized position is what takes you out of the game.

PASS WHEN: *Max loss ÷ account is 5% or less. This trade puts _____ % of my account at risk.*

□ CHECK 5 — THE PROTECTION

Is my downside built into the position itself — not riding on a stop-loss order?

A stop-loss fails on the gap day you most need it. A spread's Floor holds no matter what the stock does overnight.

PASS WHEN: *Your max loss is capped by the structure, not by a stop you're hoping fills.*

All five boxes ticked? Place the trade.

Even one box empty? Walk away. There's always another setup — there isn't always another account.

SEE EXACTLY HOW DON TRADES THE POCKET

THE SETUP BUILT TO PASS ALL FIVE — EVERY TIME

This checklist keeps you out of the trades that kill accounts. The next step is learning the one setup engineered to clear all five checks on purpose — the Pocket: a floor on the bottom, a ceiling on top, both known to the penny before you click buy.

In the Pocket Masterclass, I walk through the exact method behind everything you just read: the directional signal that tells me when to enter and which way to take the trade, my strike selection, my entry and exit rules, and how I size every position so no single trade can hurt me. The complete recipe, with real trade walk-throughs from start to finish.



More than 3,000 traders have paid up to $297 for this.
Because you grabbed this checklist — today it's $7.

GET THE POCKET MASTERCLASS FOR $7

GLOSSARY

THE VOCABULARY OF OPTIONS, IN PLAIN ENGLISH

At the Money (ATM) — Strike equals the current stock price. No intrinsic value; time value is at its maximum.
Bid / Ask — The bid is the highest price a buyer will pay; the ask is the lowest a seller will accept. A narrow gap between them means the option is liquid.
Call Option — The right to buy 100 shares at the strike price.
Ceiling — In a Pocket trade, your maximum gain, known at entry.
Credit Spread — A defined-risk spread where you receive a net credit upfront and profit if the stock stays out of your short strike.
Debit Spread — A spread where you pay a net debit and profit if the stock moves your way. The defined-risk structure behind a Pocket trade.
Defined-Risk Spread — A trade whose maximum loss is capped by its structure, not by a stop order. The foundation of every Pocket trade.
Delta — How much an option's price moves per $1 move in the stock. An at-the-money option has a delta near 0.50.
DTE — Days to expiration.
Expiration — The last trading day for an option. Standard monthlies expire the third Friday.
Extrinsic Value — Another name for time value — the part of the premium beyond intrinsic value.
Floor — In a Pocket trade, your maximum loss, locked in at entry. The trade cannot fall through it.
Implied Volatility (IV) — The market's estimate of future movement, priced into options. It hits both legs of a Pocket at once, so the spread cancels most of it — for this trade, it doesn't matter.
In the Money (ITM) — A call with the stock above its strike, or a put with the stock below. Has intrinsic value.
Intrinsic Value — The real, immediate value of an option. Call: stock minus strike. Put: strike minus stock. Never below zero.
Naked — A short option with no underlying stock or offsetting option as protection.
Out of the Money (OTM) — A call with the stock below its strike, or a put with the stock above. No intrinsic value.
The Pocket — A trade with a known Floor and a known Ceiling, structured before entry so both your max loss and max gain are fixed in advance.
Premium — The price paid to buy an option, or received to sell one.
Put Option — The right to sell 100 shares at the strike price.
Strike Price — The price at which an option holder may buy (call) or sell (put) shares.
Theta — Time decay — how much an option loses in value per day, all else equal.
Vertical Spread — Buying and selling options of the same type and expiration at different strikes. The structure behind a Pocket trade.

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