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Closing the Time Spread Position

It is important to remember that the time spread will leave you with several potential positions that can be altered by other options or stock in numerous ways. There are a number of decisions you must make to clarify your understanding and goals.

First, it is important to understand what position you are going to be left with when the near-month option expires.

Second, you must form your opinion of what you think the stock is going to do (formulate a bullish or bearish lean) and then figure out the best way to take advantage of that opinion.

Next, you must figure out how to adjust your present position and change it into an advantageous position for a profitable outcome. That might mean selling out of the position totally. Your changes to the position must not only be correct, but also done in the most efficient, cost-effective manner including keeping commission prices down.

It is also important to note that you should make sure to go from a hedged position to another hedged position to ensure proper risk management.

Concluding Thoughts

The time spread is an excellent strategy for premium sellers who want to capture premium in a hedged way. It is best used in stagnant periods when a stock is likely to remain in a tight price range. It is less expensive and less risky than most other premium collecting strategies thus is friendlier to investors who are short on capital and experience. It can also be used to take advantage of volatility changes and even some directional stock movements.

The time spread can leave you with a residual naked position that needs to be managed for risk at expiration of the front month option. As always, it is important to fully understand the risks and rewards of the strategy and the potential risks and solutions of the residual position before executing the strategy.

The residual position does allow you many choices including closing out the position totally, or continuing the position by combining it with either stock or another option to create a new position that fits the investor's new expectations for the stock.

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