Short Credit Spread Pre-Trade Check List

The following is a list of the points we all consider before a short credit spread is entered.

O Is the implied volatility relatively high?
O Is the current implied volatility high enough to exceed the current historical volatility?
O Are there any undefined events that can increase implied volatility during the period in which the trade is held?
O Is the margin requirement or the risk not dangerous to my portfolio (1% to 5% of the total portfolio is ok for us)
O Will we still have sufficient capital to handle possible losses after this trade? The aim here is to hold at least 40% to 50% of the portfolio in liquid funds.
O Are the strikes selected so that the position can be rolled into a new expiration date without taking additional risks?
O Is the liquidity of the option, the selected strikes of the option and of the underlying sufficient?
O If not, can I reduce the strike difference or minimize the contract size to bring the risk into an acceptable level?
O Have I made assumptions regarding the market direction of the underlying (bullish, bearish, neutral)?
O Is the market assumptions compatible with my portfolio mix? That is, are we already too bullish or too bearish? The goal is not to be too bullish or not to be too bearish.
O Is there still enough time to trade the option? This is basically the case if the expiration date is still 40 to 60 days away.
O Is the time value reduction over the next 10 to 20 days sufficient to gain at least 50% of the premium through time decay?

More details at http:\\www.dgroeschke.com.