How Our Exit Strategies (Including Tripwires) Work with Backdoor Income Alerts

Hey folks,

This is an update to talk about exit strategies within Backdoor Income.

I've received some great questions from members about how certain aspects of the tripwire or other exits can or should work… And I love getting these smart questions from members who are really paying attention.

So I am creating this short update to dive a little deeper into this topic and I hope it will address several key questions along the way.

The Exit Strategies We Use

Most alerts have 3 exit strategies that can be used. And all of them are usually based on the stock hitting what we call a "*tripwire*" price. The tripwire is a price we use to signal that the trade might be going against us and to consider using an exit strategy.

**I'll talk more about the tripwire below, but let's first discuss the 3 exit strategies:

The first strategy is the "do nothing" strategy. In other words, we can leave the option alone and see if the stock ends up above/below our target line to produce a max profit on the trade. This is the most common practice and I usually recommend this type of exit for folks who are newer to options because it's the simplest to execute. After all, doing nothing isn't very hard.

The second exit strategy is using a limit to close the whole position. In other words, the trade is moving against us and we don't want to take a full loss, so we get out ahead of time by placing an order for the options together. This option is very dynamic because the prices of options are not fixed. Depending on the time, volatility and other factors, the stock hitting the "tripwire" could mean that you could still get out for break-even or even a small profit. But it could also mean limiting the loss to 30%, 50% or even 80% depending on how aggressive our position is. This also has a *lot* to do with where we set our tripwire which we will talk about in a moment. The key here is to understand that we're exiting the entire position (both sides of the spread) at once using a limit order to preserve a gain or limit a loss.

The third exit strategy is the most advanced and aggressive. This is where we close the losing side of the spread and hold the winning side looking to recoup our losses and then some on the winning side of the spread. For example, if our spread is a bullish one but the stock is falling fast, we could close the losing put (the sold one) and hold our bought put. If the stock tanks further, we could potentially make up for the losing side and then some as the put gains value.

Now, any of these exit strategies can make sense. It's up to you how you choose to manage the trade, but I will say the first is the simplest to execute and will also have the highest win rate over time (the downside is you will take some *full* losses with the first exit strategy, too).

But all 3 of these exits are based on the stock hitting our "tripwire" price so let's talk about that.

The Tripwire:

The tripwire price is a predetermined level that we use to execute one of our exit strategies.

What I would like you to do is please strip your expectations of what a tripwire price is…

Most people confuse themselves by thinking how a tripwire *should* function and then are concerned when it doesn't work out that way… but that is not the right way to think about it.

A tripwire is NOT a formula. It is NOT the same for every alert. It is NOT meant to work out to a break-even trade or any other calculation.It will NOT work the same way in this service as iot does in other services because this service has a unique methodology.

The tripwire is simply this:

The level we determine to consider using an exit strategy for that particular alert.

In other words, the tripwire could be just one percent away from our entry in one alert but be ten percent away in another alert depending on the setup.

I just want to be extra clear on this front because I have received some fantastic questions about why the tripwire is not at break-even or why it is not in between our strike prices, etc. and those are really good thoughts but they come because folks are assuming the tripwire should function in a certain way.

In reality, the tripwire is an exit signal and is utterly depended on the stock pick itself.

Here's an example to compare two very different scenarios.

In trade 1, we might be placing a less aggressive income trade on a slow moving stock targeting 10%. In this case, the tripwire will likely be close to our entry because if this stock begins to turn, we can consider getting out early and taking a small loss compared to risking a full loss on a relatively small gain.

In trade 2, we might be placing an aggressive income trade on a fast moving stock targeting 90%. In this case, the tripwire will likely be far from our entry and beyond both strikes because this stock can move a lot and still be in good shape to win. And it's often worth being down 50% for the potential to win 90%.

So in trade 1, a tripwire could have us out at break-even while in trade 2, a tripwire could have us out down 75%. See how different that can be?

Of course, it is important to note that in ***both*** scenarios, exit 1 is still to do nothing which means the tripwire has no impact at all!

Summary:

In summary, I hope you can see how dynamic our exit options are from trade to trade and this answers most questions about how to consider and apply the different elements of our exit criteria.

If you have any further questions, I am happy to help! Just let our team know.

Thanks
Jack