

Options Strategies

# QUICKGUIDE



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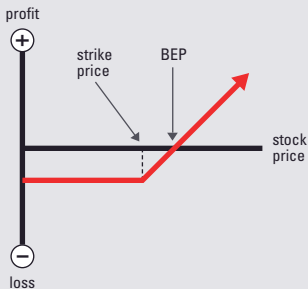
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In order to simplify the calculations used in the examples in these materials, commissions, fees, margin, interest and taxes have not been included. These costs will impact the outcome of any stock and options transactions and must be considered prior to entering into any transactions. Investors should consult their tax advisor about any potential tax consequences.

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## HOW TO USE THIS BOOK



Each strategy has an accompanying graph showing profit and loss at expiration.

- The vertical axis shows the profit/loss scale.
- When the strategy line is below the horizontal axis, it assumes you paid for the position or had a loss. When it is above the horizontal axis, it assumes you received a credit for the position or had a profit.
- The dotted line indicates the strike price.
- The intersection of the strategy line and the horizontal axis is the break-even point (BEP) not including transaction costs, commissions, or margin (borrowing) costs.
- These graphs are not drawn to any specific scale and are meant only for illustrative and educational purposes.
- The risks/rewards described are generalizations and may be lesser or greater than indicated.

## TERMS AND DEFINITIONS

**Break-Even Point (BEP):** The stock price(s) at which an option strategy results in neither a profit nor loss.

**Call:** An option contract that gives the holder the right to buy the underlying security at a specified price for a certain, fixed period of time.

**In-the-money:** A call option is in-the-money if the strike price is less than the market price of the underlying security. A put option is in-the-money if the strike price is greater than the market price of the underlying security.

**Long position:** A position wherein an investor is a net holder in a particular options series.

**Out-of-the-money:** A call option is out-of-the-money if the strike price is greater than the market price of the underlying security. A put option is out-of-the-money if the strike price is less than the market price of the underlying security.

**Premium:** The price a put or call buyer must pay to a put or call seller (writer) for an option contract. Market supply and demand forces determine the premium.

**Put:** An option contract that gives the holder the right to sell the underlying security at a specified price for a certain, fixed period of time.

**Ratio Spread:** A multi-leg options trade of either all calls or all puts whereby the number of long options to short options is something other than 1:1. Typically, to manage risk, the number of short options is lower than the number of long options (i.e. 1 short call: 2 long calls).

**Short position:** A position wherein the investor is a net writer (seller) of a particular options series.

**Strike price or exercise price:** The stated price per share for which the underlying security may be purchased (in the case of a call) or sold (in the case of a put) by the option holder upon exercise of the option contract.

**Synthetic position:** A strategy involving two or more instruments that has the same risk/reward profile as a strategy involving only one instrument.

**Time decay or erosion:** A term used to describe how the time value of an option can “decay” or reduce with the passage of time.

**Volatility:** A measure of the fluctuation in the market price of the underlying security. Mathematically, volatility is the annualized standard deviation of returns.





bull strategy | LONG CALL

**Example:** Buy call

**Market Outlook:** Bullish

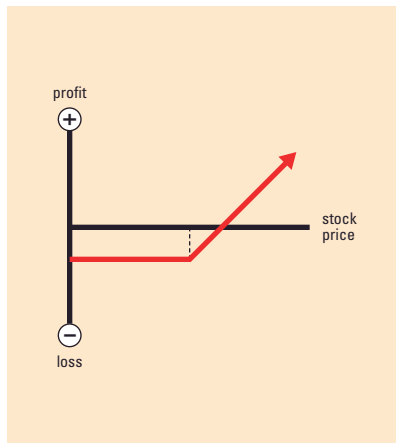
**Risk:** Limited

**Reward:** Unlimited

**Increase in Volatility:**  
Helps position

**Time Erosion:** Hurts position

**BEP:** Strike price plus  
premium paid





bull strategy | BULL CALL SPREAD

**Example:** Buy 1 call;  
sell 1 call at higher strike

**Market Outlook:** Bullish

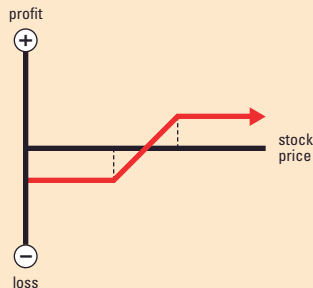
**Risk:** Limited

**Reward:** Limited

**Increase in Volatility:**  
Helps or hurts depending  
on strikes chosen

**Time Erosion:** Helps or hurts  
depending on strikes chosen

**BEP:** Long call strike plus  
net premium paid



bull strategy | BULL PUT SPREAD

**Example:** Sell 1 put;  
buy 1 put at lower strike with  
same expiry

**Market Outlook:**  
Neutral to bullish

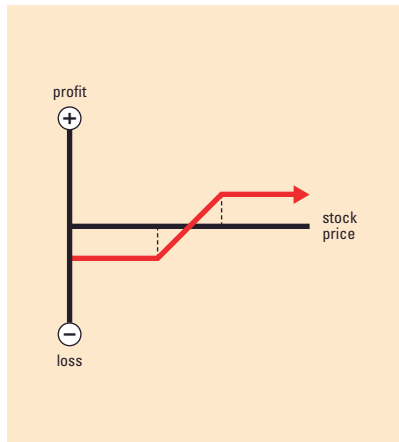
**Risk:** Limited

**Reward:** Limited

**Increase in Volatility:**  
Typically hurts position slightly

**Time Erosion:** Helps position

**BEP:** Short put strike minus  
credit received



bull strategy | COVERED CALL/BUY WRITE

**Example:** Buy stock; sell calls on a share-for-share basis

**Market Outlook:** Neutral to slightly bullish

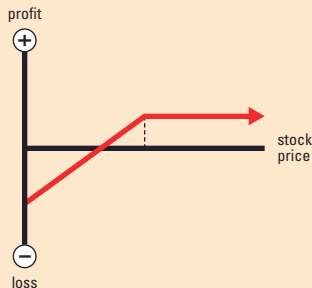
**Risk:** Limited, but substantial (risk is from a fall in stock price)

**Reward:** Limited

**Increase in Volatility:**  
Hurts position

**Time Erosion:** Helps position

**BEP:** Starting stock price minus premium received



bull strategy | PROTECTIVE/MARRIED PUT

**Example:** Own 100 shares of stock; buy 1 put

**Market Outlook:** Cautiously bullish

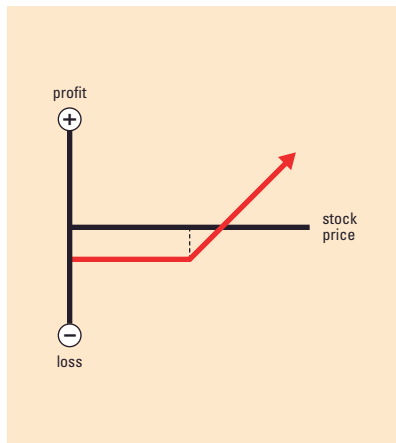
**Risk:** Limited

**Reward:** Unlimited

**Increase in Volatility:** Helps position

**Time Erosion:** Hurts position

**BEP:** Starting stock price plus premium paid



bull strategy | CASH-SECURED SHORT PUT

**Example:** Sell 1 put; hold cash equal to strike price x 100

**Market Outlook:** Neutral to slightly bullish

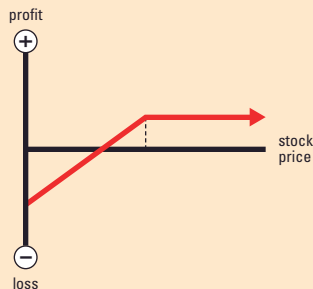
**Risk:** Limited, but substantial

**Reward:** Limited

**Increase in Volatility:**  
Hurts position

**Time Erosion:** Helps position

**BEP:** Strike price minus premium received







bear strategy | LONG PUT

**Example:** Buy put

**Market Outlook:** Bearish

**Risk:** Limited

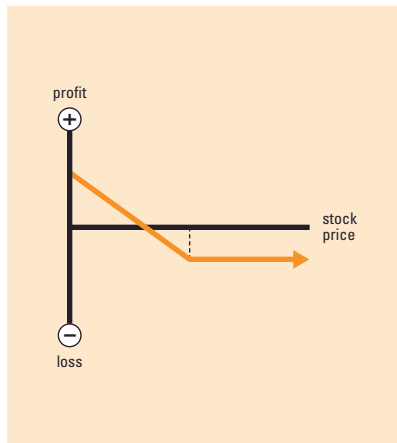
**Reward:** Limited, but substantial

**Increase in Volatility:**

Helps position

**Time Erosion:** Hurts position

**BEP:** Strike price minus premium paid





bear strategy | BEAR PUT SPREAD

**Example:** Sell 1 put;  
buy 1 put at higher strike

**Market Outlook:** Bearish

**Risk:** Limited

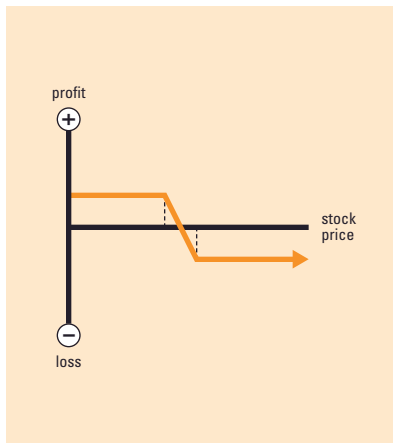
**Reward:** Limited

**Increase in Volatility:**

Helps or hurts depending on  
strikes chosen

**Time Erosion:** Helps or hurts  
depending on strikes chosen

**BEP:** Long put strike minus  
net premium paid



bear strategy | BEAR CALL SPREAD

**Example:** Sell 1 call;  
buy 1 call at higher strike

**Market Outlook:**  
Neutral to bearish

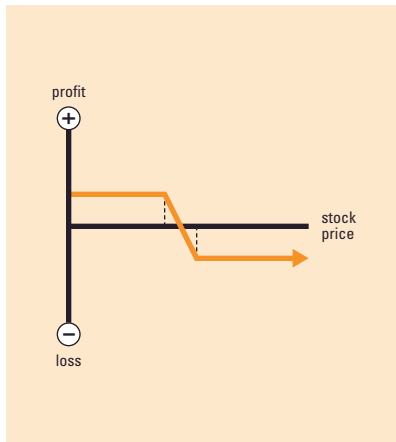
**Risk:** Limited

**Reward:** Limited

**Increase in Volatility:**  
Typically hurts position slightly

**Time Erosion:** Helps position

**BEP:** Short call strike plus  
credit received







neutral strategy | COLLAR

**Example:** Own stock, protect by purchasing 1 put and selling 1 call with a higher strike

**Market Outlook:** Neutral to slightly bullish

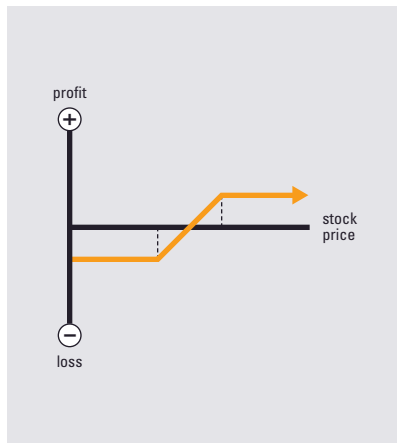
**Risk:** Limited

**Reward:** Limited

**Increase in Volatility:** Effect varies, none in most cases

**Time Erosion:** Effect varies

**BEP:** In principle, breaks even if, at expiration, the stock is above/(below) its initial level by



neutral strategy | SHORT STRADDLE

**Example:** Sell 1 call;  
sell 1 put at same strike

**Market Outlook:** Neutral

**Risk:** Unlimited

**Reward:** Limited

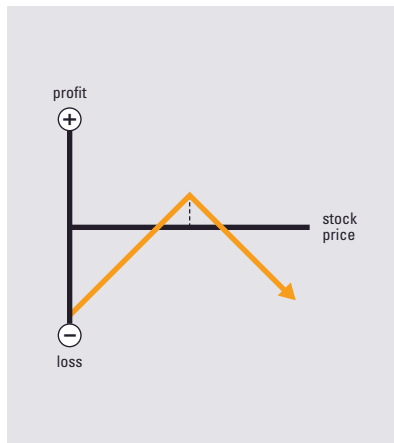
**Increase in Volatility:**

Hurts position

**Time Erosion:** Helps position

**BEP:** Two BEPs

1. Call strike plus premium received
2. Put strike minus premium received



neutral strategy | SHORT STRANGLE

**Example:** Sell 1 call with higher strike; sell 1 put with lower strike

**Market Outlook:** Neutral

**Risk:** Unlimited

**Reward:** Limited

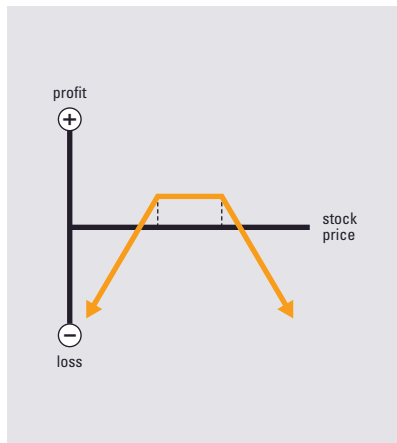
**Increase in Volatility:**

Hurts position

**Time Erosion:** Helps position

**BEP:** Two BEPs

1. Call strike plus premium received
2. Put strike minus premium received



neutral strategy | IRON CONDOR

**Example:** Sell 1 call; buy 1 call at higher strike; sell 1 put; buy 1 put at lower strike; all options have the same expiry. Underlying price typically between short call and short put strikes.

**Market Outlook:** Range bound or neutral

**Risk:** Limited

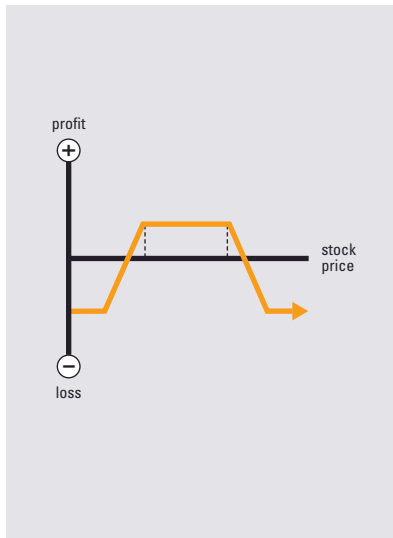
**Reward:** Limited

**Increase in Volatility:**  
Typically hurts position

**Time Erosion:** Helps position

**BEP:** Two BEPs

1. Short call strike plus credit received
2. Short put strike minus credit received





neutral strategy | CALENDAR SPREAD

**Example:** Sell 1 call; buy 1 call at same strike but longer expiration; also can be done with puts

**Market Outlook:** Near term neutral (if strikes = stock price); can be slanted bullish (with OTM call options) or bearish (with OTM put options)

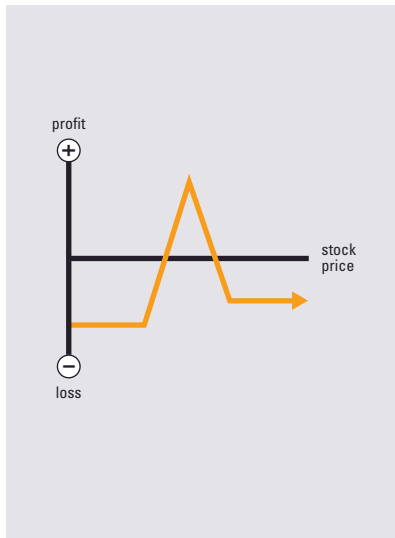
**Risk:** Limited

**Reward:** Limited; substantial after near term expiry

**Increase in Volatility:**  
Helps position

**Time Erosion:** Helps until near term option expiry

**BEP:** Varies; after near term expiry long call strike plus debit paid or (if done with puts) long put strike minus debit paid



neutral strategy |

## COVERED COMBINATION/COVERED STRANGLE

**Example:** Own stock; sell one call; sell one put; underlying price typically between short call and short put strikes

**Market Outlook:** Range bound or neutral, moderately bullish; willing to buy more shares and sell existing shares

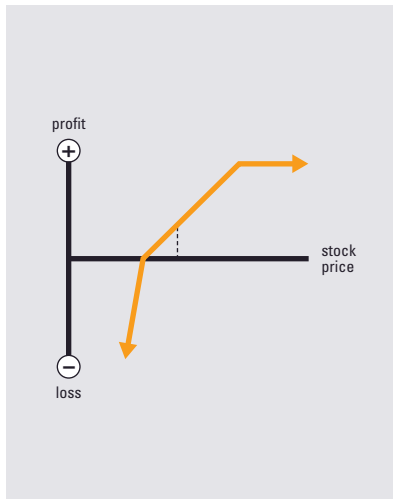
**Risk:** Limited, but substantial

**Reward:** Limited

**Increase in Volatility:** Typically hurts position

**Time Erosion:** Typically helps position

**BEP:** Initial stock price (or average price if assigned) minus net premium received



neutral strategy | LONG CALL BUTTERFLY

**Example:** Sell 2 calls;  
buy 1 call at next lower strike;  
buy 1 call at next higher strike  
(the strikes are equidistant)

**Market Outlook:** Neutral around  
strike

**Risk:** Limited

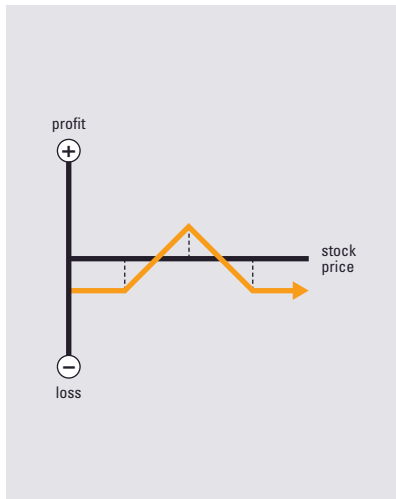
**Reward:** Limited

**Increase in Volatility:**  
Typically hurts position

**Time Erosion:** Typically helps position

**BEP:** Two BEPs

1. Lower long call strike plus  
net premium paid
2. Higher long call strike minus  
net premium paid







volatility strategy | LONG STRADDLE

**Example:** Buy 1 call;  
buy 1 put at same strike

**Market Outlook:** Large move  
in either direction

**Risk:** Limited

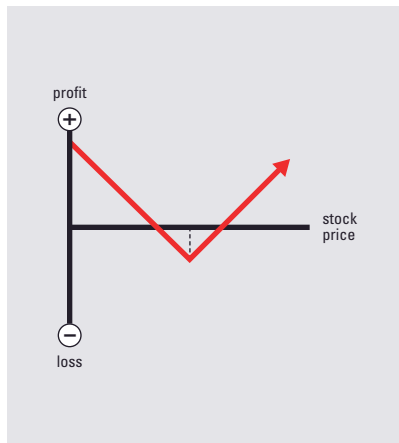
**Reward:** Unlimited

**Increase in Volatility:**  
Helps position

**Time Erosion:** Hurts position

**BEP:** Two BEPs

1. Call strike plus premium paid
2. Put strike minus premium paid



volatility strategy | LONG STRANGLE

**Example:** Buy 1 call with higher strike; buy 1 put with lower strike

**Market Outlook:** Large move in either direction

**Risk:** Limited

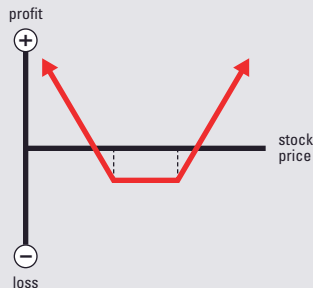
**Reward:** Unlimited

**Increase in Volatility:**  
Helps position

**Time Erosion:** Hurts position

**BEP:** Two BEPs

1. Call strike plus premium paid
2. Put strike minus premium paid



volatility strategy | CALL BACKSPREAD

**Example:** Sell 1 call;  
buy 2 calls at higher strike

**Market Outlook:** Bullish

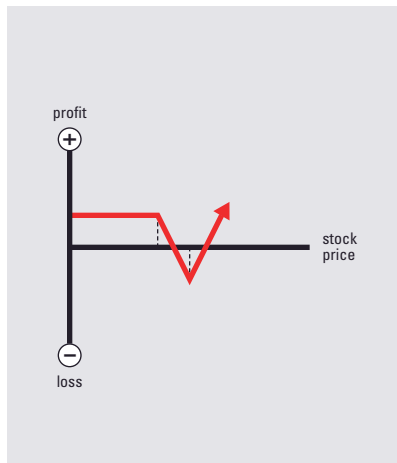
**Risk:** Limited

**Reward:** Unlimited

**Increase in Volatility:**  
Typically helps position

**Time Erosion:**  
Typically hurts position

**BEP:** Varies, depends if  
established for a credit or debit.  
If done for a credit, two BEP's  
with the lower BEP being the  
short strike plus the credit





volatility strategy | PUT BACKSPREAD

**Example:** Sell 1 put;  
buy 2 puts at lower strike

**Market Outlook:** Bearish

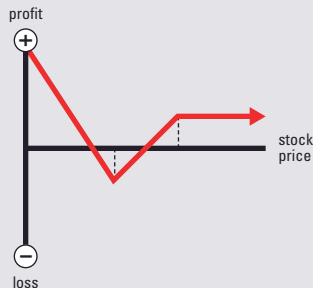
**Risk:** Limited

**Reward:** Limited, but substantial

**Increase in Volatility:** Typically  
helps position

**Time Erosion:** Typically  
hurts position

**BEP:** Varies, depends if  
established for a credit or debit.  
If done for a credit, two BEP's  
and the higher BEP is the short  
strike minus the credit





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