OIC The Options Industry Council

Options Strategies

QUICK GUIDE

OCC THE FOUNDATION FOR SECURE MARKETS

The OPTIONS INSTITUTE
CBOE

Mastering Options Strategies

A step-by-step guide to understanding profit & loss diagrams

Because Money Doesn't Grow on Trees

Written by the Staff of The Options Institute
of the Chicago Board Options Exchange

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Mastering Options Strategies

In order to simplify the computations, commissions have NOT been included in the examples used in these materials. Commission costs will impact the outcome of all stock and options transactions and must be considered prior to entering into any transactions.

Options involve risk and are not suitable for all investors. Prior to buying or selling an option, a person must receive a copy of *Characteristics and Risks of Standardized Options*, available to download at **www.cboe.com**. Copies of this document are also available from your broker or The Options Clearing Corporation (OCC), One North Wacker Drive, Suite 500, Chicago, IL 60606 or by calling 1-888-OPTIONS. The OCC Prospectus contains information on options issued by The Options Clearing Corporation. Copies of this document are also available from the OCC at the above address. The documents available discuss exchange-traded options issued by The Options Clearing Corporation and are intended for educational purposes. No statement in the documents should be construed as a recommendation to buy or sell a security or to provide investment advice.

ANY STRATEGIES DISCUSSED, INCLUDING EXAMPLES USING ACTUAL SECURITIES AND PRICE DATA, ARE STRICTLY FOR ILLUSTRATIVE AND EDUCATIONAL PURPOSES ONLY AND ARE NOT TO BE CONSTRUED AS AN ENDORSEMENT, RECOMMENDATION, OR SOLICITATION TO BUY OR SELL SECURITIES.

PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE PERFORMANCE.

Why You Need This Workbook

Learning the basics of options involves three steps:

1. Understand the rights and obligations of long and short options,

2. Learn to calculate profit and loss at expiration, and

3. Master the mechanics of exercise and assignment.

This workbook takes you through each step. First, by drawing diagrams, you will learn how to calculate profit and loss on an option's expiration date. This will also teach you recognize the potential profit, potential risk and break-even point of different positions. This knowledge will serve you well when choosing strategies. Second, the problems that ask you to recognize when option exercise and assignment occurs will reinforce how options can interact with a position in the underlying stock.

After mastering the concepts taught in this workbook, your options education will ***not*** be complete! You will still need to learn the tradeoffs that different strategies offer and about option price behavior. Finally, to use options successfully for either investing or trading, you must learn a two-step thinking process. After identifying a goal, the first step is initiating an option position, and the second step is closing the position on or before the expiration date. These concepts along with many strategies are taught in classes at The CBOE's Options Institute.

To learn more about The Options Institute classes, schedules and/or to register, call 1-877-THE-CBOE or visit www.cboe.com

How to Draw Profit and Loss Diagrams

Step 1: ***Describe the opening transaction completely***

Strategy: Long Call EXAMPLE: Buy a 50 Call @ $2

Step 2: ***Make a profit/loss table and a grid for the diagram.***

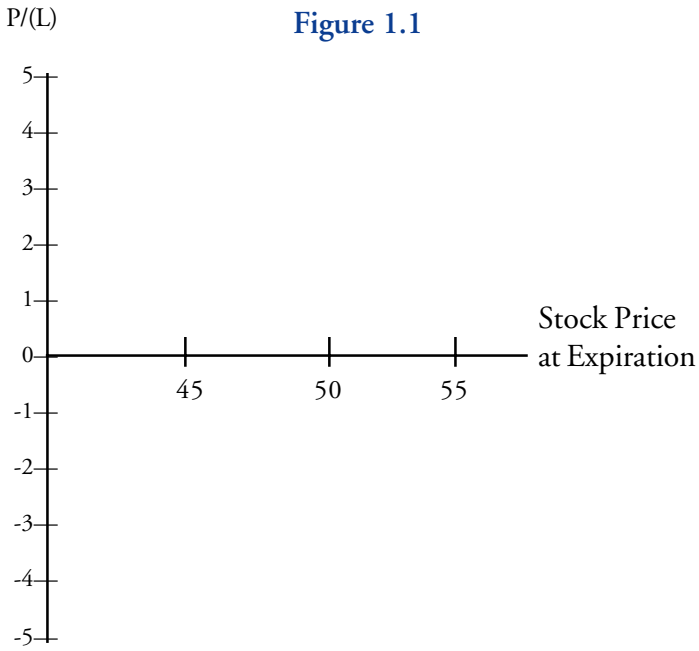
The table (Table 1.1) should have one column for each option and one column for the total profit/loss. On the grid (Figure 1.1), the vertical line represents profit and loss, labeled P/(L), and the horizontal line represents a range of stock prices.

Strategy: Long Call
EXAMPLE: Buy a 50 Call @ $2

Table 1.1

Stock Price at Expiration	Long 50 Call @ 2 P/(L)
57	
56	
55	
54	
53	
52	
51	
50	
49	
48	
47	

Figure 1.1



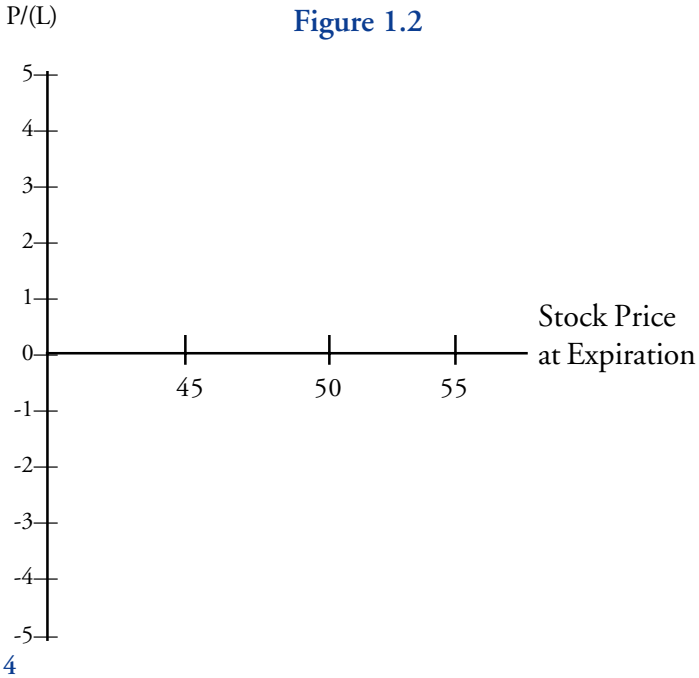
Step 3: ***Select a stock price at expiration and calculate the option's value.***

With a stock price of $55 at expiration, for example, the 50 Call has a value of $5.

Table 1.2

Stock Price at Expiration	Long 50 Call @ 2 P/(L)
57	
56	
55	3
54	
53	
52	
51	
50	
49	
48	
47	

Figure 1.2



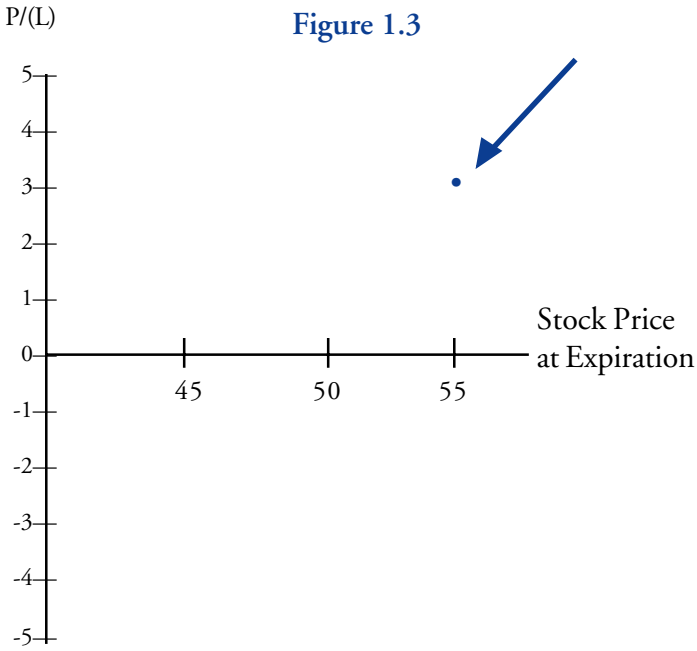
Step 4: *Calculate the profit or loss.*

For a purchased (long) option, subtract the purchase price from the value at expiration. For a sold (short) option, subtract the value at expiration from the selling price. In this example, 5 (value at expiration) minus 2 (purchase price) equals a profit of 3. Plot the profit on the graph in Figure 1.3.

Table 1.3

Stock Price at Expiration	Long 50 Call @ 2 P/(L)
57	
56	
55	3
54	
53	
52	
51	
50	
49	
48	
47	

Figure 1.3



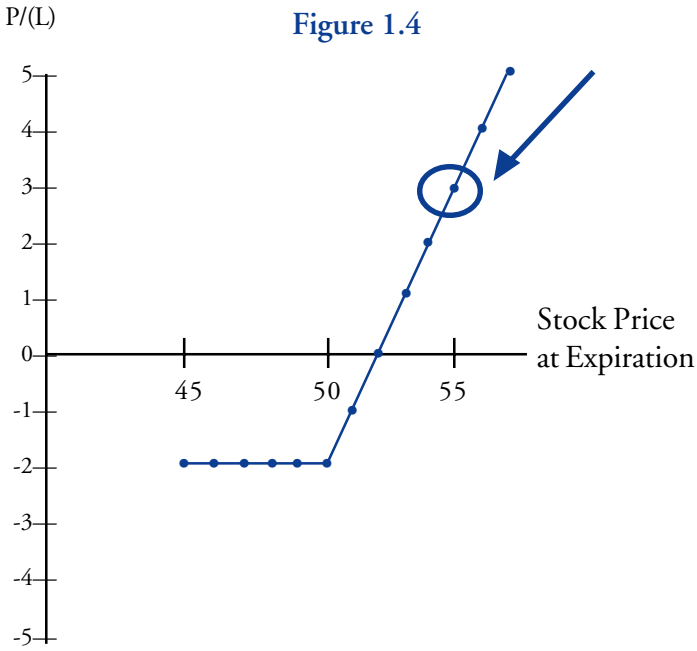
Step 5: *Plot the profit or loss*

A stock price of $55 at expiration, in this example, yields a profit of 3 and creates the point (55, 3) on the grid.

Table 1.4

Stock Price at Expiration	Long 50 Call @ 2 P/(L)
57	5
56	4
55	3
54	2
53	1
52	0
51	(1)
50	(2)
49	(2)
48	(2)
47	(2)

Figure 1.4



Step 6: *Repeat steps 3, 4 and 5*

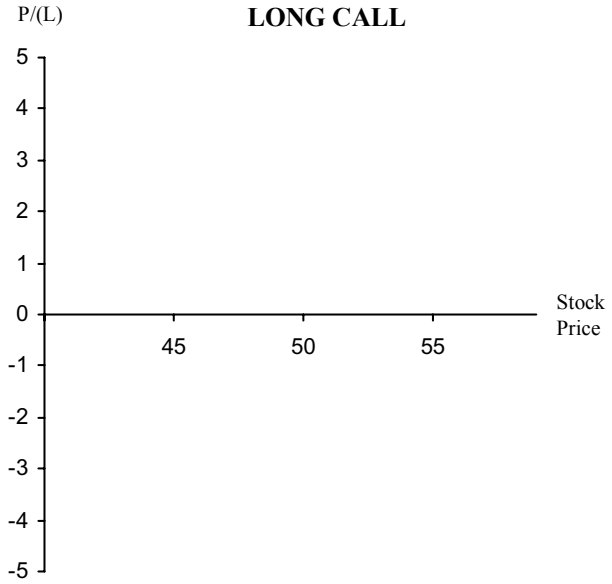
Repeating the steps above over a range of stock prices creates a set of points which, when connected, becomes the profit and loss diagram.

Call Strategies

STRATEGY: Long Call

EXAMPLE: Buy $50 Call @ 3

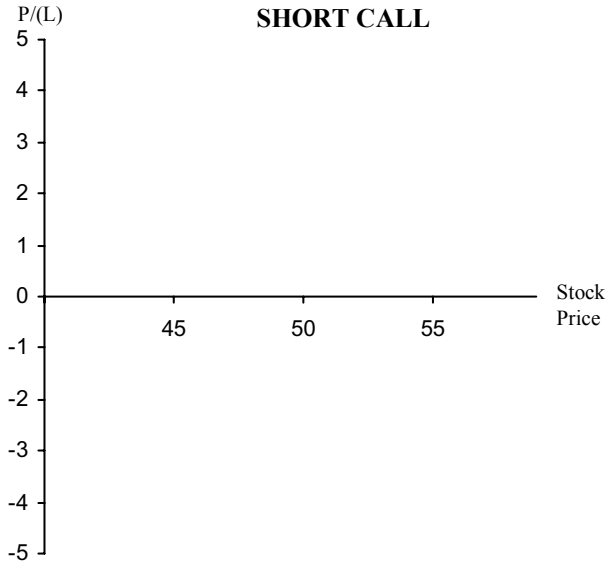
Stock Price at Expiration	Long Call P/(L)
58	
57	
56	
55	
54	
53	
52	
51	
50	
49	
48	



STRATEGY: Short Call

EXAMPLE: Sell $50 Call @ 3

Stock Price at Expiration	Short Call P/(L)
58	
57	
56	
55	
54	
53	
52	
51	
50	
49	
48	

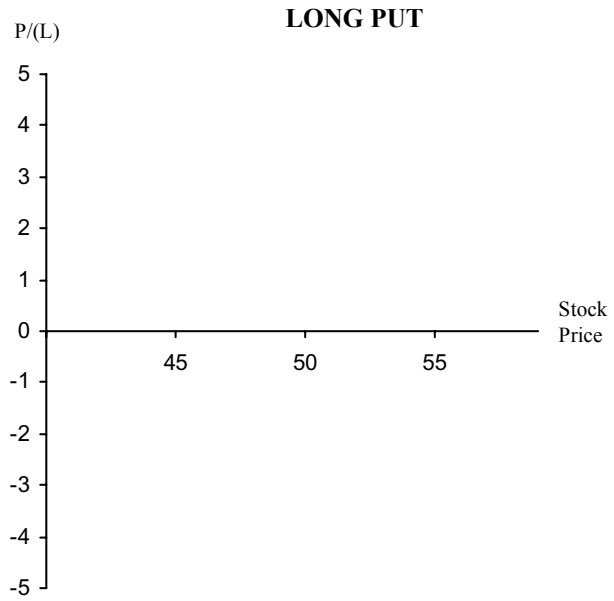


Put Strategies

STRATEGY: Long Put

EXAMPLE: Buy $50 Put @ 2

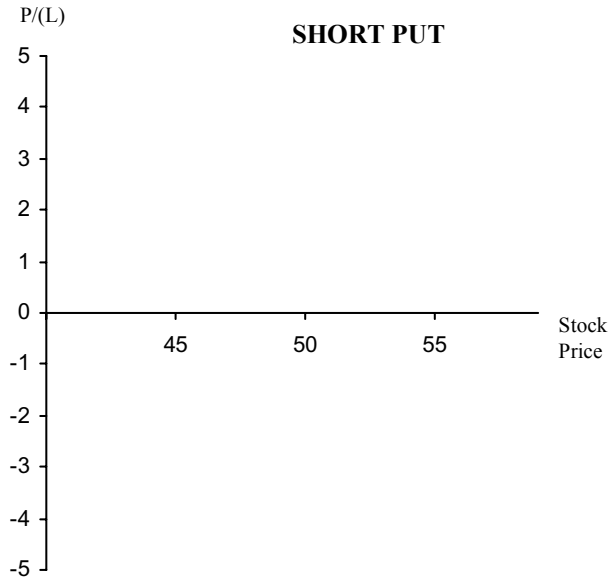
Stock Price at Expiration	Long Put P/(L)
53	
52	
51	
50	
49	
48	
47	
46	
45	
44	
43	



STRATEGY: Short Put

EXAMPLE: Sell $50 Put @ 2

Stock Price at Expiration	Short Put P/(L)
53	
52	
51	
50	
49	
48	
47	
46	
45	
44	
43	

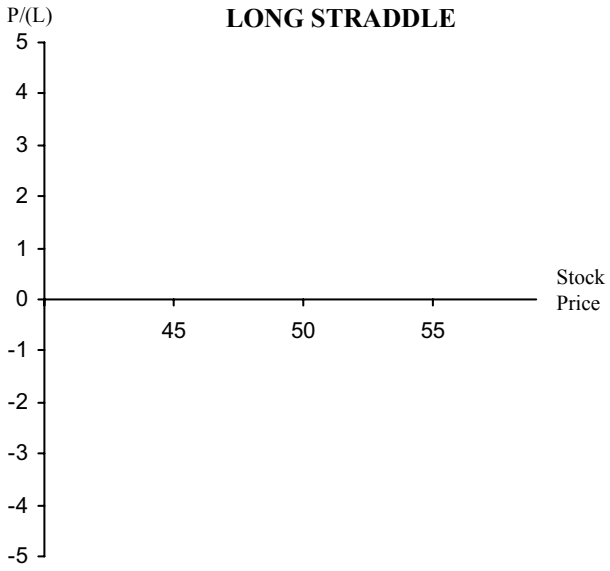


Straddles

STRATEGY: Long Straddle

EXAMPLE: Buy $50 Call @ 3 and
Buy $50 Put @ 2

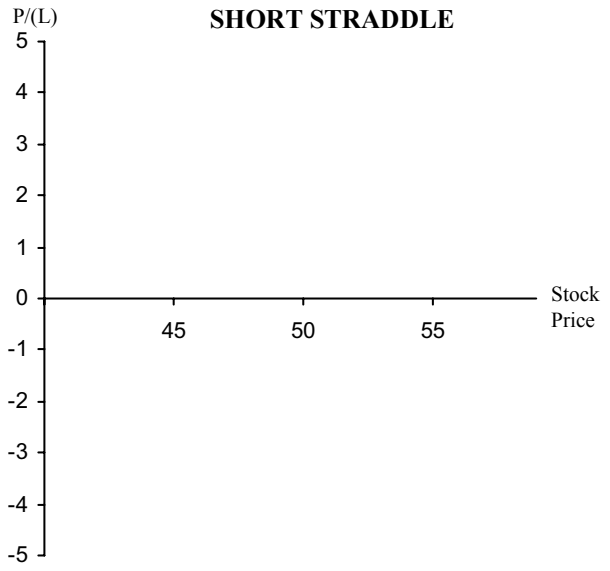
Stock Price at Expiration	Long Call P/(L)	Long Put P/(L)	Total P/(L)
59			
57			
55			
53			
51			
50			
49			
47			
44			
43			
41			



STRATEGY: Short Straddle

EXAMPLE: Sell $50 Call @ 3 and
Sell $50 Put @ 2

Stock Price at Expiration	Short Call P/(L)	Short Put P/(L)	Total P/(L)
59			
57			
55			
53			
51			
50			
49			
47			
45			
43			
41			

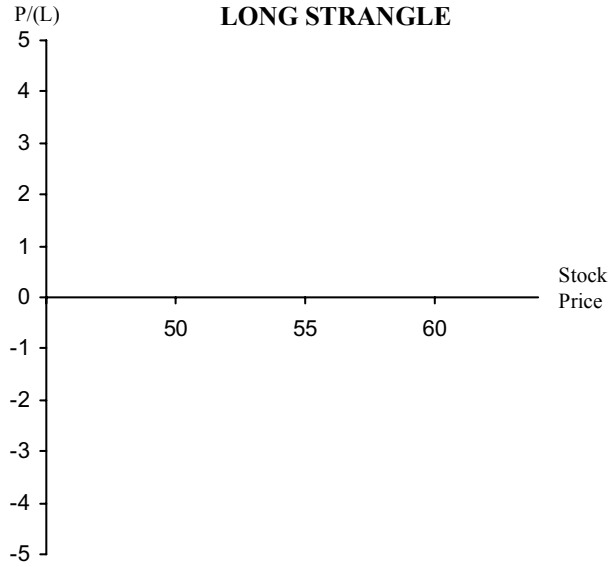


Strangles

STRATEGY: Long Strangle

EXAMPLE: Buy $55 Call @ 1 1/2 and
Buy $50 Put @ 1 1/2

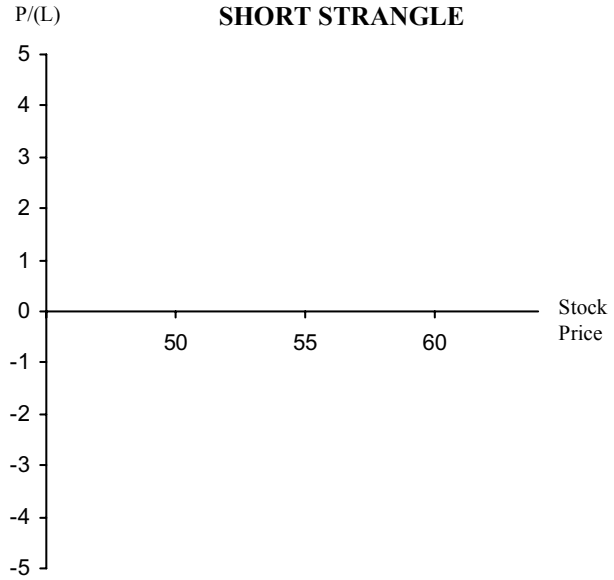
Stock Price at Expiration	Long Call P/(L)	Long Put P/(L)	Total P/(L)
61			
59			
57			
55			
53			
51			
50			
49			
47			
45			
43			



STRATEGY: Short Strangle

EXAMPLE: Sell $55 Call @ 1 1/2 and
Sell $50 Put @ 1 1/2

Stock Price at Expiration	Short Call P/(L)	Short Put P/(L)	Total P/(L)
61			
59			
57			
55			
53			
51			
50			
49			
47			
45			
43			

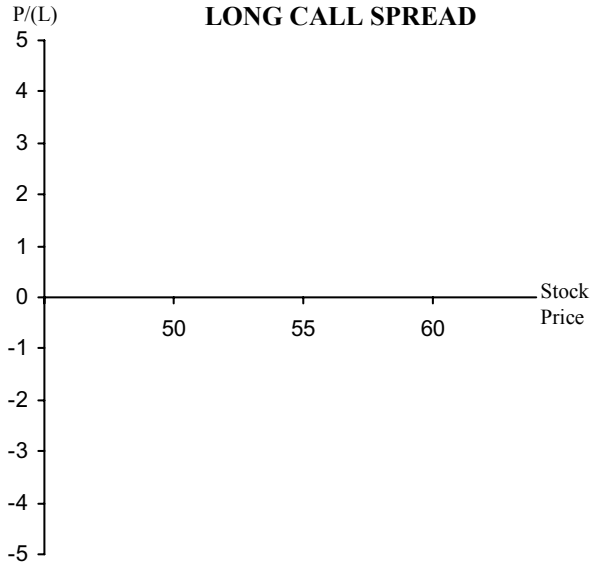


Call Spreads

STRATEGY: Long Call Spread

EXAMPLE: Buy $50 Call @ 4 and
Sell $55 Call @ 2

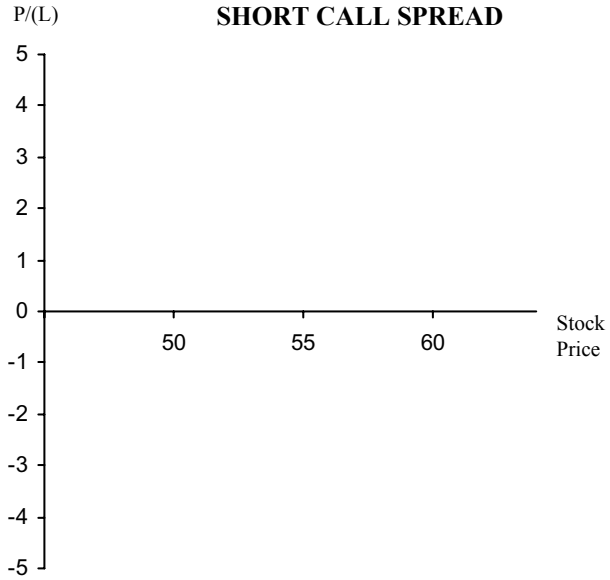
Stock Price at Expiration	Long Call P/(L)	Short Call P/(L)	Total P/(L)
58			
57			
56			
55			
54			
53			
52			
51			
50			
49			
48			



STRATEGY: Short Call Spread

EXAMPLE: Sell $50 Call @ 4 and
Buy $55 Call @ 2

Stock Price at Expiration	Short Call P/(L)	Long Call P/(L)	Total P/(L)
58			
57			
56			
55			
54			
53			
52			
51			
50			
49			
48			

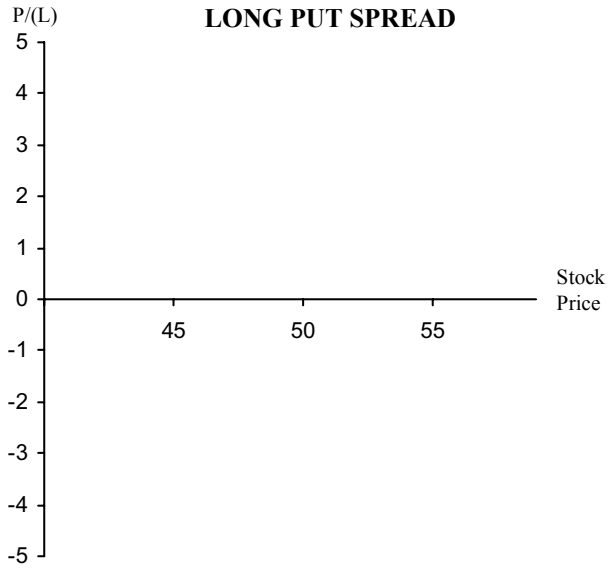


Put Spreads

STRATEGY: Long Put Spread

EXAMPLE: Buy $50 Put @ 3 1/2 and
Sell $45 Put @ 1 1/2

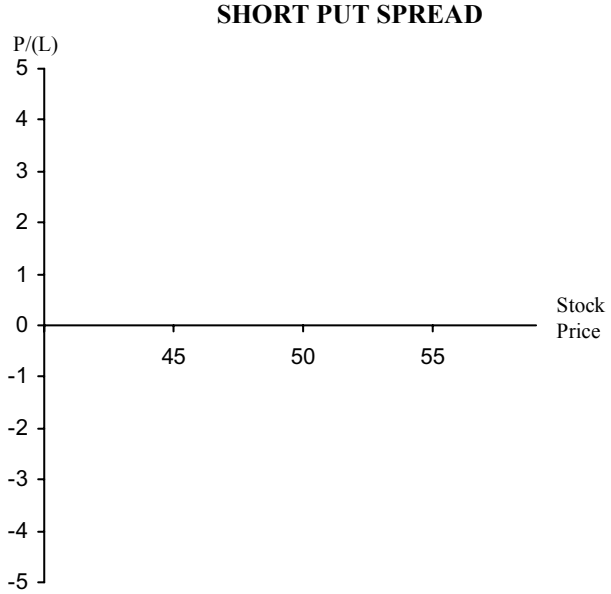
Stock Price at Expiration	Long Put P/(L)	Short Put P/(L)	Total P/(L)
53			
52			
51			
50			
49			
48			
47			
46			
45			
44			
43			



STRATEGY: Short Put Spread

EXAMPLE: Sell $50 Put @ 3 1/2 and
Buy $45 Put @ 1 1/2

Stock Price at Expiration	Short Put P/(L)	Long Put P/(L)	Total P/(L)
53			
52			
51			
50			
49			
48			
47			
46			
45			
44			
43			

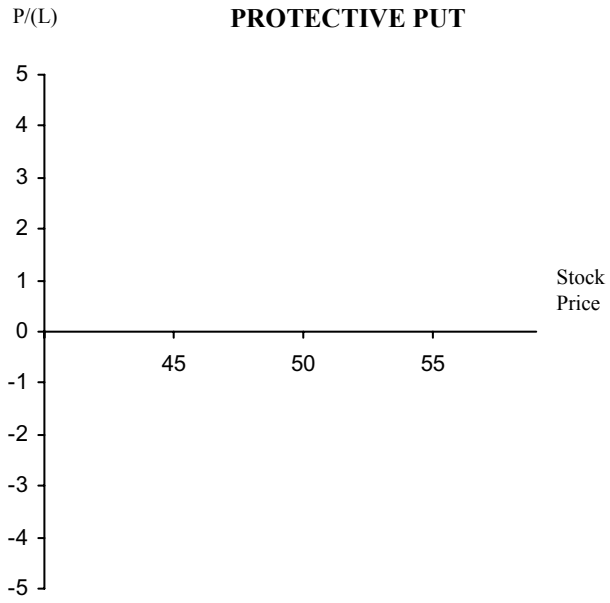


Stock and Option Strategies

STRATEGY: Protective Put

EXAMPLE: Buy Stock @ 50 and
Buy $50 Put @ 2

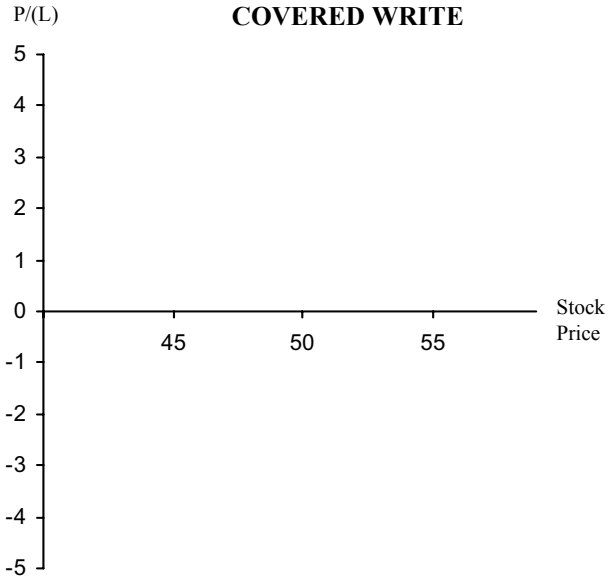
Stock Price at Expiration	Long Stock P/(L)	Long Put P/(L)	Total P/(L)
57			
56			
55			
54			
53			
52			
51			
50			
49			
48			
47			



STRATEGY: Covered Write

EXAMPLE: Buy Stock @ 50 and
Sell $50 Call @ 3

Stock Price at Expiration	Long Stock P/(L)	Short Call P/(L)	Total P/(L)
53			
52			
51			
50			
49			
48			
47			
46			
45			
44			
43			

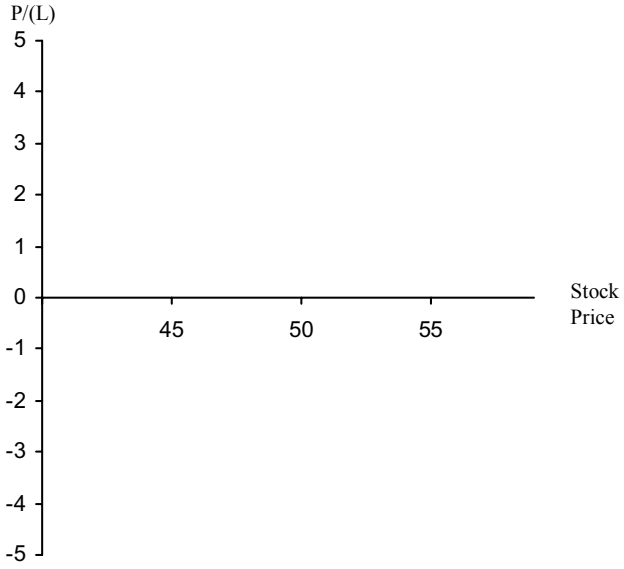


STRATEGY: Long Stock + Short Straddle

EXAMPLE: Buy Stock @ 50 and
Sell $50 Call @ 3 and
Sell $50 Put @ 2

Stock Price at Expiration	Long Stock P/(L)	Short Call P/(L)	Short Put P/(L)	Total P/(L)
55				
54				
53				
52				
51				
50				
49				
48				
47				
46				
45				

LONG STOCK + SHORT STRADDLE

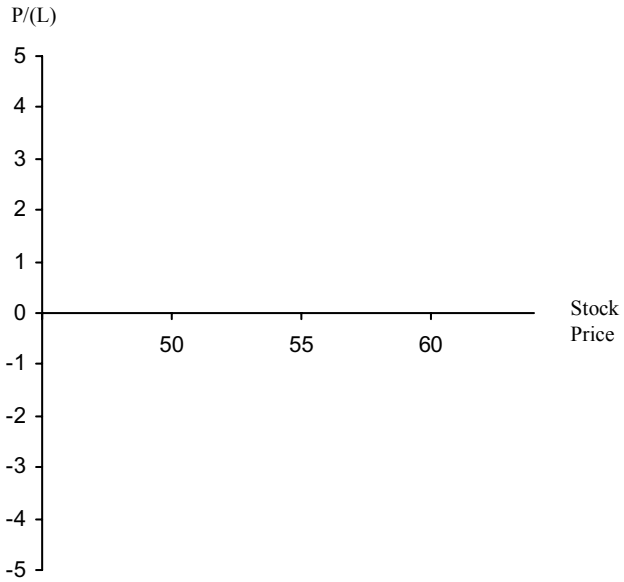


STRATEGY: Long Stock + Short Strangle

EXAMPLE: Buy Stock @ 52 and
Sell 1 $55 Call @ 1 and
Sell 1 $50 Put @ 1

Stock Price at Expiration	Long Stock P/(L)	Short Call P/(L)	Short Put P/(L)	Total P/(L)
56				
55				
54				
53				
52				
51				
50				
49				
48				
47				
46				

LONG STOCK + SHORT STRANGLE

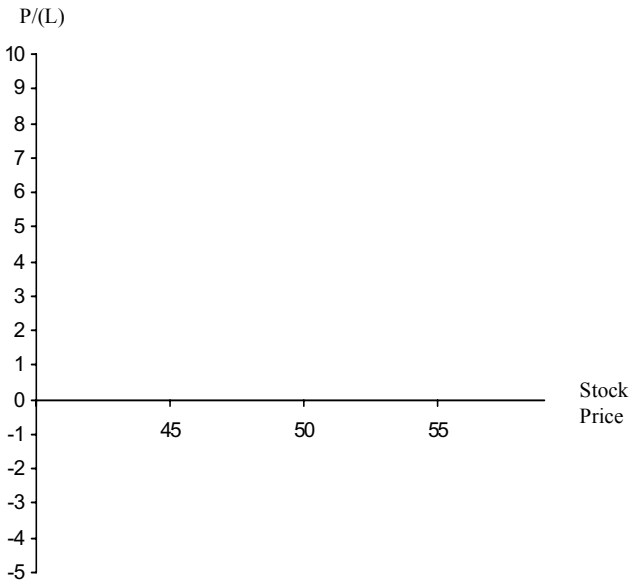


STRATEGY: Long Stock + Ratio Call Spread

EXAMPLE: Buy Stock @ 50 and
Buy 1 $50 Call @ 3 and
Sell 2 $55 Calls @ 1 1/2 each

Stock Price at Expiration	Long Stock P/(L)	Long Call P/(L)	Short Calls P/(L)	Total P/(L)
56				
55				
54				
53				
52				
51				
50				
49				
48				
47				
46				

LONG STOCK + RATIO CALL SPREAD

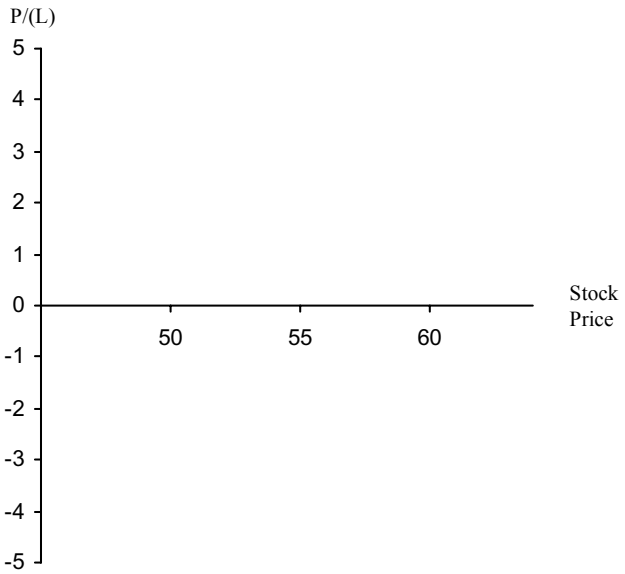


STRATEGY: Long Stock + Collar

EXAMPLE: Buy Stock @ 52 and
Sell 1 $55 Call @ 1 and
Buy 1 $50 Put @ 1

Stock Price at Expiration	Long Stock P/(L)	Short Call P/(L)	Long Put P/(L)	Total P/(L)
58				
57				
56				
55				
54				
53				
52				
51				
50				
49				
48				

LONG STOCK + COLLAR



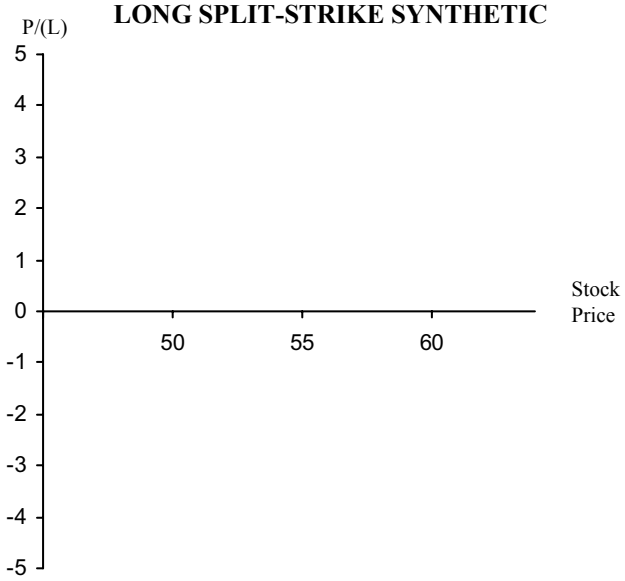
Synthetic Combinations

STRATEGY: Long Split-Strike Synthetic

EXAMPLE: Buy 1 $55 Call @ 1 1/2 and
Sell 1 $50 Put @ 1

Stock Price at Expiration	Long Call P/(L)	Short Put P/(L)	Total P/(L)
59			
58			
57			
56			
55			
53			
51			
50			
49			
48			
47			

LONG SPLIT-STRIKE SYNTHETIC

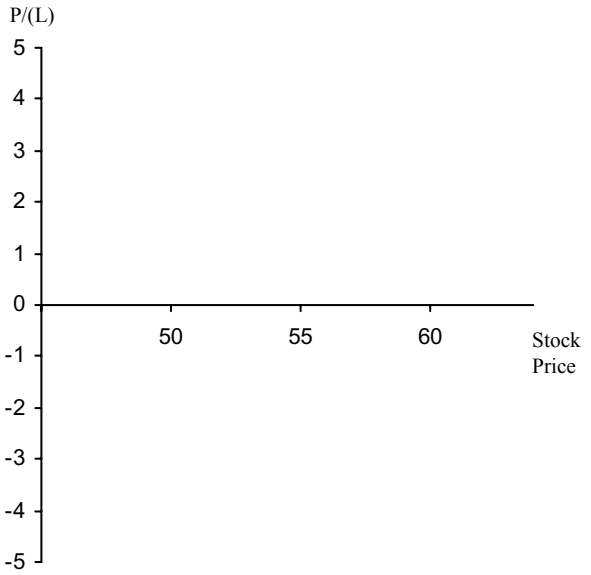


STRATEGY: Short Split-Strike Synthetic

EXAMPLE: Sell 1 $55 Call @ 1 1/2 and
Buy 1 $50 Put @ 1

Stock Price at Expiration	Short Call P/(L)	Long Put P/(L)	Total P/(L)
59			
58			
57			
56			
55			
53			
51			
50			
49			
48			
47			

SHORT SPLIT-STRIKE SYNTHETIC

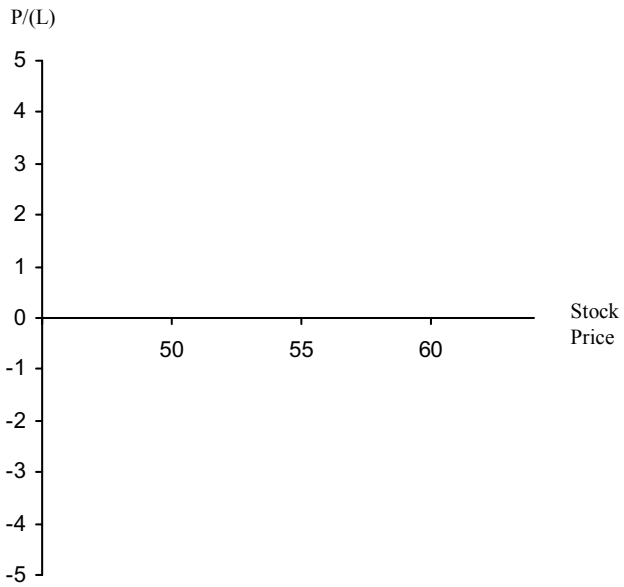


Ratio Spreads

STRATEGY: 1 X 2 Ratio Vertical Spread With Calls
EXAMPLE: Buy 1 $50 Call @ 3 and
Sell 2 $55 Calls @ 1 each

Stock Price at Expiration	Long Call P/(L)	Short Calls P/(L)	Total P/(L)
62			
60			
59			
58			
57			
56			
55			
54			
53			
52			
51			
50			
48			

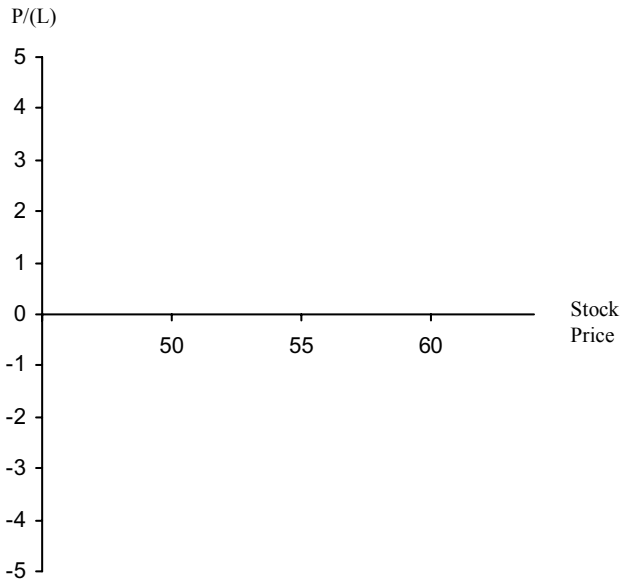
1 X 2 RATIO VERTICAL SPREAD WITH CALLS (FRONT SPREAD)



STRATEGY: 1 X 2 Ratio Volatilty Spread With Calls
EXAMPLE: Sell 1 $50 Call @ 3 and
Buy 2 $55 Calls @ 1 each

Stock Price at Expiration	Short Call P/(L)	Long Calls P/(L)	Total P/(L)
62			
60			
59			
58			
57			
56			
55			
54			
53			
52			
51			
50			
48			

1 X 2 RATIO VOLATILITY SPREAD WITH CALLS (BACK SPREAD)

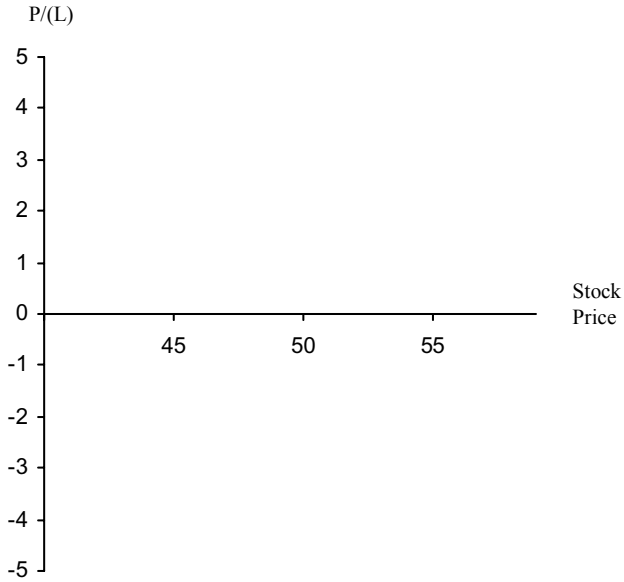


Butterfly Strategies

STRATEGY: Call Butterfly
EXAMPLE: Buy 1 $45 Call @ 6 and
Sell 2 $50 Calls @ 3 ea. and
Buy 1 $55 Call @ 1

Stock Price at Expiration	Long Call P/(L)	Short Calls P/(L)	Long Call P/(L)	Total P/(L)
56				
55				
54				
53				
52				
51				
50				
49				
48				
47				
46				
45				
44				

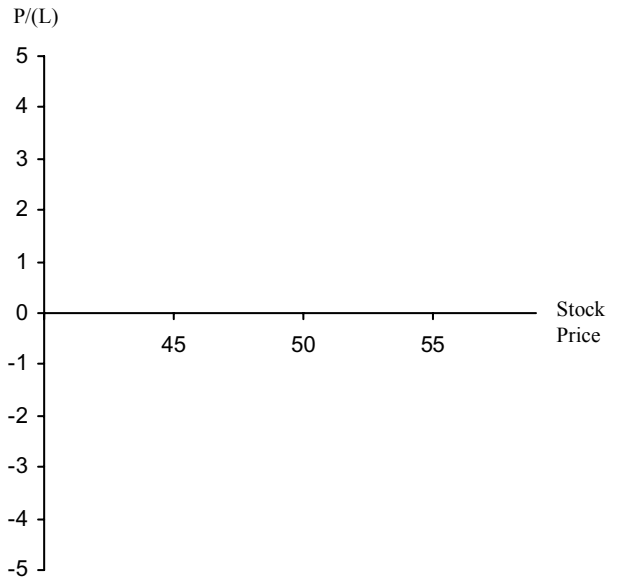
LONG CALL BUTTERFLY



STRATEGY: Short Butterfly with Calls
EXAMPLE: Sell 1 $45 Call @ 6 and
Buy 2 $50 Calls @ 3 ea. and
Sell 1 $55 Call @ 1

Stock Price at Expiration	Short Call P/(L)	Long Calls P/(L)	Short Call P/(L)	Total P/(L)
56				
55				
54				
53				
52				
51				
50				
49				
48				
47				
46				
45				
44				

SHORT CALL BUTTERFLY



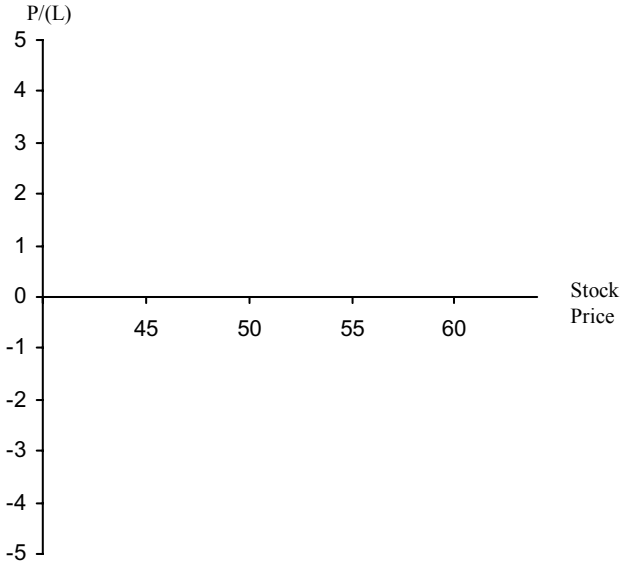
These strategies are presented for educational purposes only. Transaction costs may make these impractical for individual investors.

Condor Strategies

STRATEGY: Long Condor with Calls
EXAMPLE: Buy 1 $45 Call @ 6 and
Sell 1 $50 Call @ 4 and
Sell 1 $55 Call @ 2 and
Buy 1 $60 Call @ 1

Stock Price at Expiration	Long 45 P/(L)	Short 50 P/(L)	Short 55 P/(L)	Long 60 P/(L)	Total P/(L)
62					
60					
58					
56					
55					
54					
52					
50					
48					
46					
45					
44					

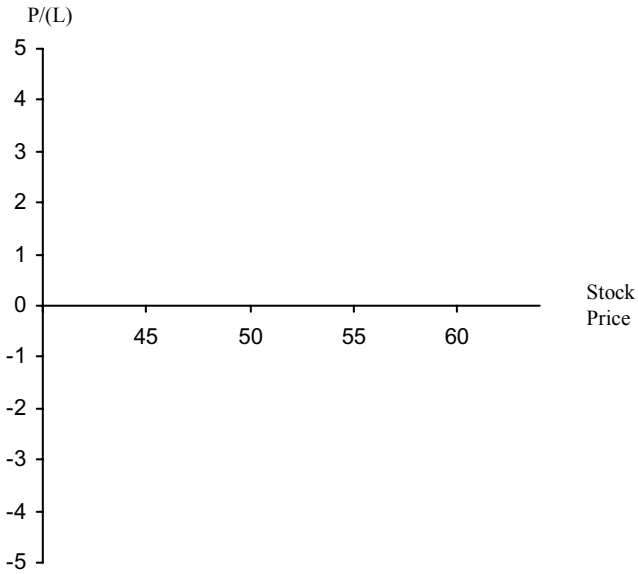
LONG CALL CONDOR



STRATEGY: Short Condor with Calls
EXAMPLE: Sell 1 $45 Call @ 6 and
Buy 1 $50 Call @ 4 and
Buy 1 $55 Call @ 2 and
Sell 1 $60 Call @ 1

Stock Price at Expiration	Short 45 P/(L)	Long 50 P/(L)	Long 55 P/(L)	Short 60 P/(L)	Total P/(L)
62					
60					
58					
56					
55					
54					
52					
50					
48					
46					
45					
44					

SHORT CALL CONDOR



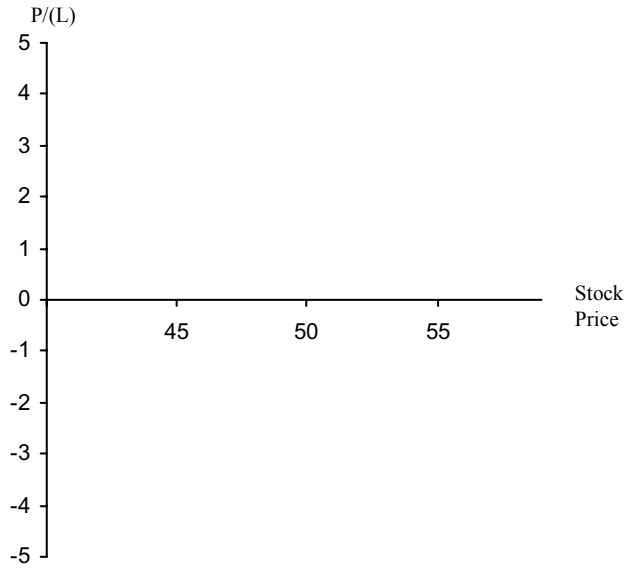
These strategies are presented for educational purposes only. Transaction costs may make these impractical for individual investors.

Iron Strategies

STRATEGY: Iron Butterfly
EXAMPLE: Buy 1 $45 Put @ 1 and
Sell 1 $50 Put @ 3 and
Sell 1 $50 Call @ 3 and
Buy 1 $55 Call @ 1

Stock Price at Expiration	Long Put P/(L)	Short Put P/(L)	Short Call P/(L)	Long Call P/(L)	Total P/(L)
56					
55					
54					
53					
52					
51					
50					
49					
48					
47					
46					
45					
44					

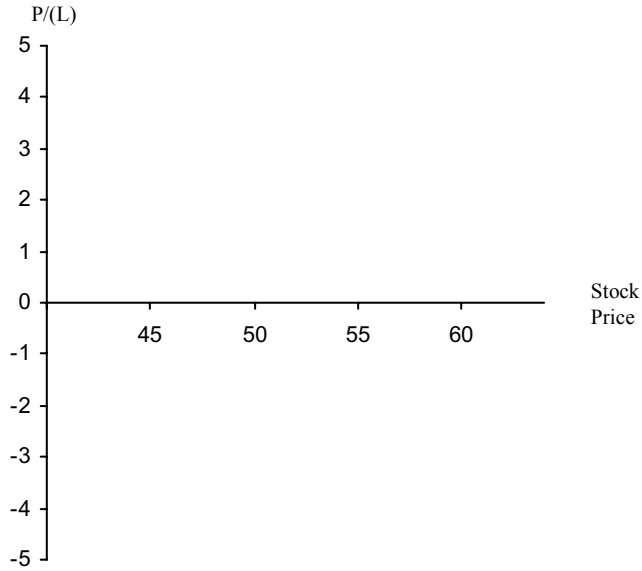
IRON BUTTERFLY



STRATEGY: Iron Condor
EXAMPLE: Buy 1 $45 Put @ 1 and
Sell 1 $50 Put @ 3 and
Sell 1 $55 Call @ 3 and
Buy 1 $60 Call @ 1

Stock Price at Expiration	Long Put P/(L)	Short Put P/(L)	Short Call P/(L)	Long Call P/(L)	Total P/(L)
62					
60					
58					
56					
55					
54					
52					
50					
48					
46					
45					
44					

IRON CONDOR



These strategies are presented for educational purposes only. Transaction costs may make these impractical for individual investors.

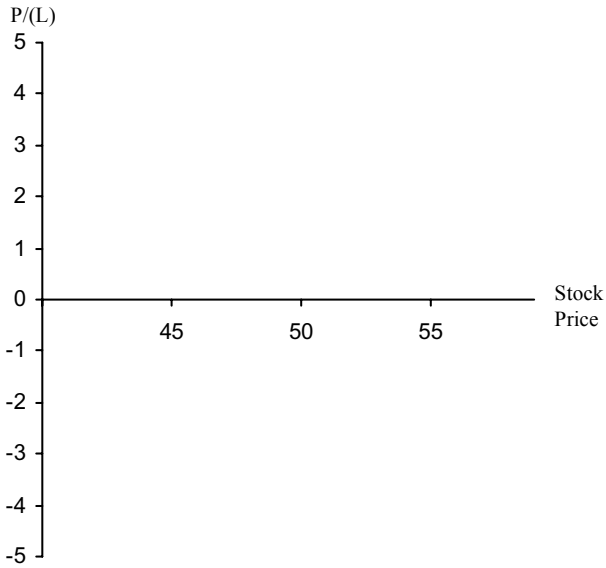
Synthetic Positions

STRATEGY: Synthetic Long Stock

EXAMPLE: Buy 1 $50 Call @ 2 and
Sell 1 $50 Put @ 2

Stock Price at Expiration	Long Call P/(L)	Short Put P/(L)	Total P/(L)
55			
54			
53			
52			
51			
50			
49			
48			
47			
46			
45			

SYNTHETIC LONG STOCK

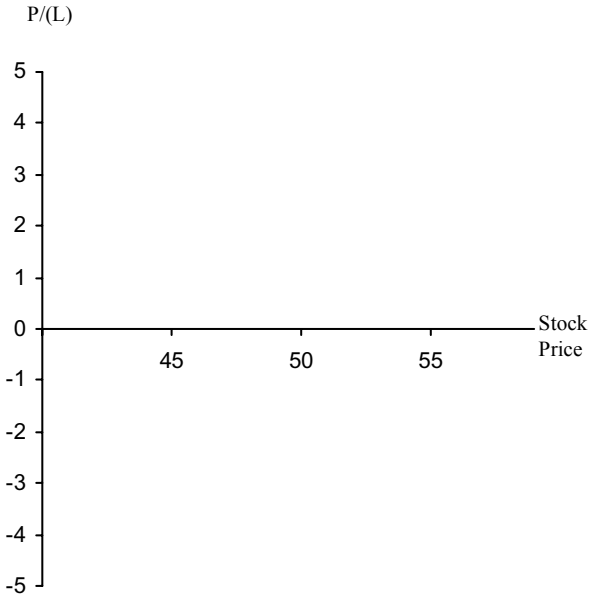


STRATEGY: Synthetic Short Stock

EXAMPLE: Sell 1 $50 Call @ 2 and
Buy 1 $50 Put @ 2

Stock Price at Expiration	Short Call P/(L)	Long Put P/(L)	Total P/(L)
55			
54			
53			
52			
51			
50			
49			
48			
47			
46			
45			

SYNTHETIC SHORT STOCK



These strategies are presented for educational purposes only. Transaction costs may make these impractical for individual investors.

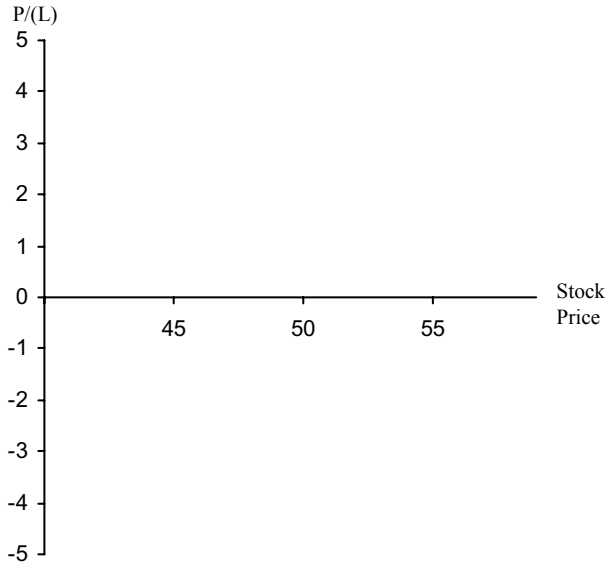
Synthetic Positions

STRATEGY: Synthetic Long Call

EXAMPLE: Buy Stock @ 50 and
Buy 1 $50 Put @ 2

Stock Price at Expiration	Long Stock P/(L)	Long Put P/(L)	Total P/(L)
55			
54			
53			
52			
51			
50			
49			
48			
47			
46			
45			

SYNTHETIC LONG CALL

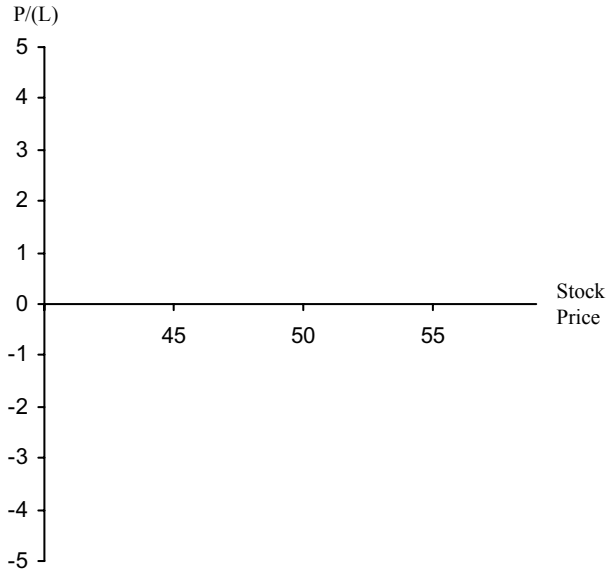


STRATEGY: Synthetic Short Call

EXAMPLE: Sell Stock Short @ 50 and
Sell 1 $50 Put @ 2

Stock Price at Expiration	Short Stock P/(L)	Short Put P/(L)	Total P/(L)
55			
54			
53			
52			
51			
50			
49			
48			
47			
46			
45			

SYNTHETIC SHORT CALL



These strategies are presented for educational purposes only. Transaction costs may make these impractical for individual investors.

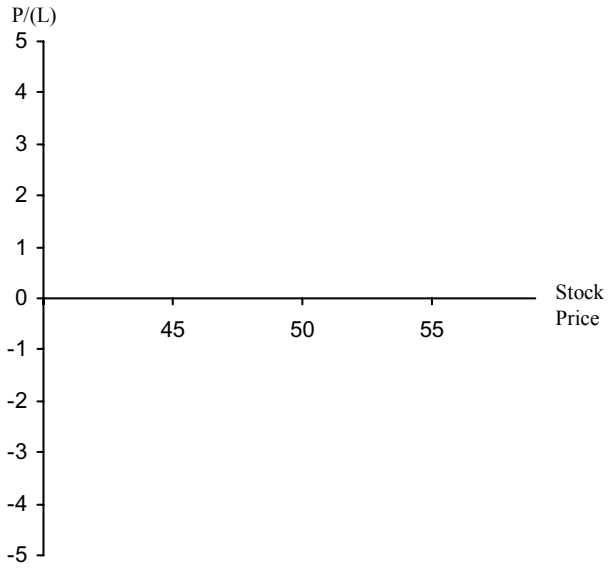
Synthetic Positions

STRATEGY: Synthetic Long Put

EXAMPLE: Sell Stock Short @ 50 and
Buy 1 $50 Call @ 2

Stock Price at Expiration	Short Stock P/(L)	Long Call P/(L)	Total P/(L)
55			
54			
53			
52			
51			
50			
49			
48			
47			
46			
45			

SYNTHETIC LONG PUT

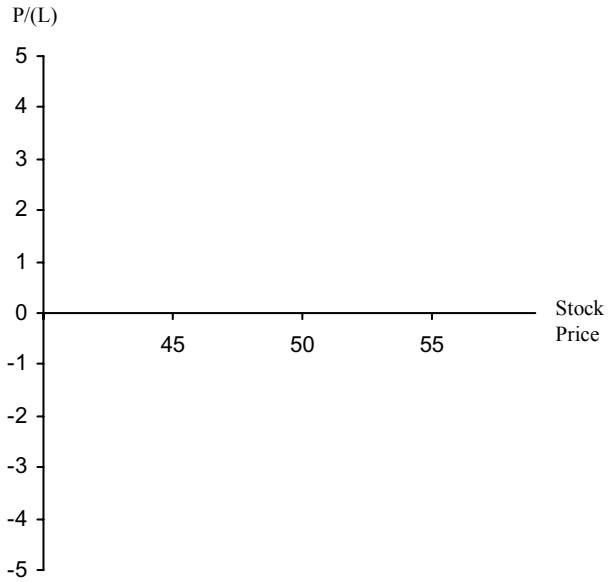


STRATEGY: Synthetic Short Put

EXAMPLE: Buy Stock @ 50 and
Sell 1 $50 Call @ 2

Stock Price at Expiration	Long Stock P/(L)	Short Call P/(L)	Total P/(L)
55			
54			
53			
52			
51			
50			
49			
48			
47			
46			
45			

SYNTHETIC SHORT PUT



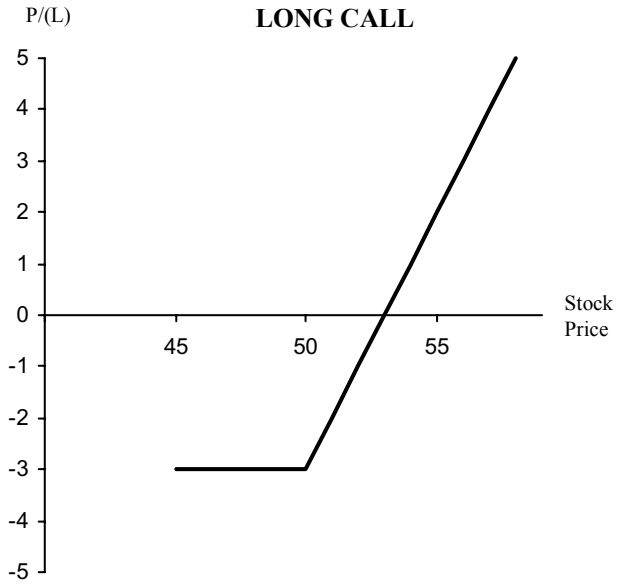
These strategies are presented for educational purposes only. Transaction costs may make these impractical for individual investors.

ANSWERS: Call Strategies

STRATEGY: Long Call

EXAMPLE: Buy $50 Call @ 3

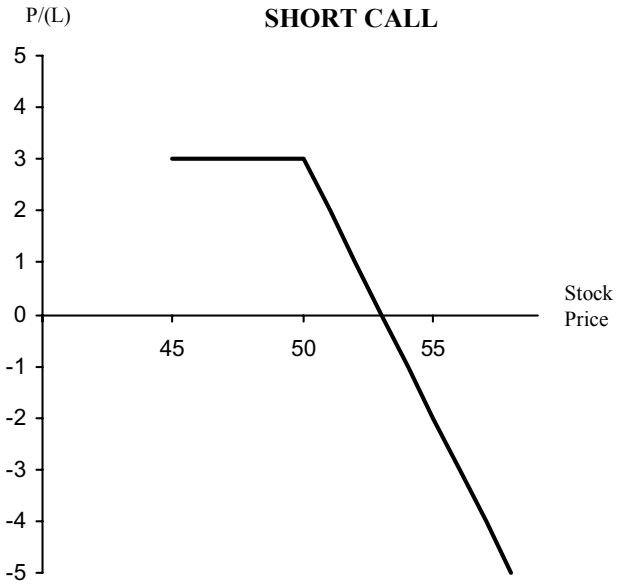
Stock Price at Expiration	Long Call P/(L)
58	5
57	4
56	3
55	2
54	1
53	0
52	(1)
51	(2)
50	(3)
49	(3)
48	(3)



STRATEGY: Short Call

EXAMPLE: Sell $50 Call @ 3

Stock Price at Expiration	Short Call P/(L)
58	(5)
57	(4)
56	(3)
55	(2)
54	(1)
53	0
52	1
51	2
50	3
49	3
48	3

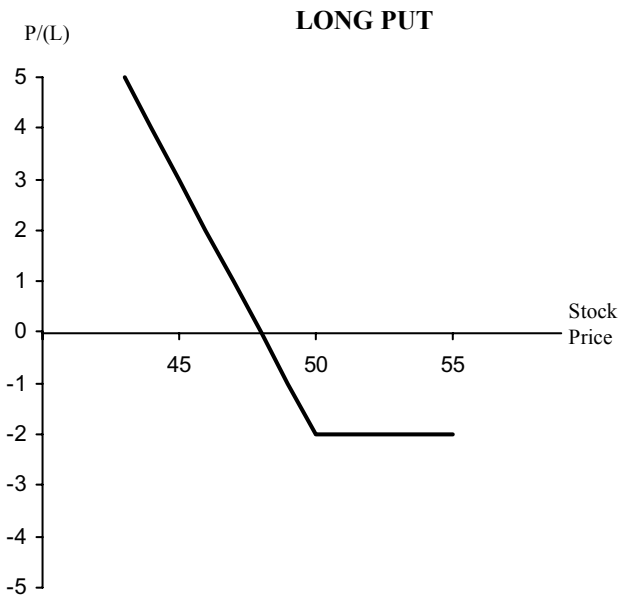


ANSWERS: Put Strategies

STRATEGY: Long Put

EXAMPLE: Buy $50 Put @ 2

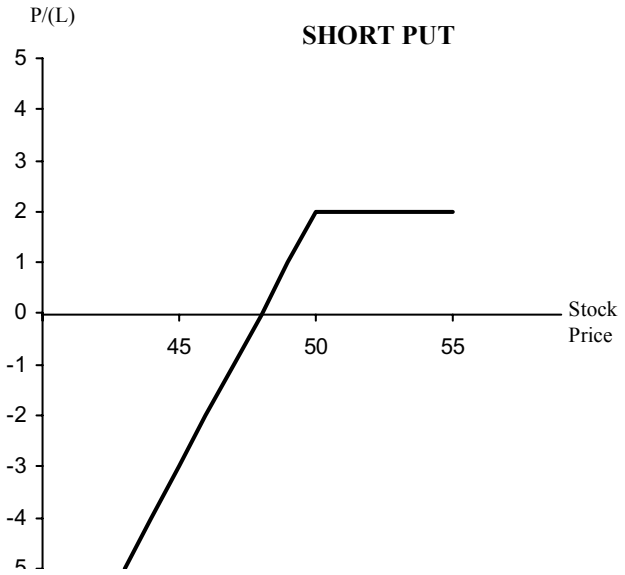
Stock Price at Expiration	Long Put P/(L)
53	(2)
52	(2)
51	(2)
50	(2)
49	(1)
48	0
47	1
46	2
45	3
44	4
43	5



STRATEGY: Short Put

EXAMPLE: Sell $50 Put @ 2

Stock Price at Expiration	Short Put P/(L)
53	2
52	2
51	2
50	2
49	1
48	0
47	(1)
46	(2)
45	(3)
44	(4)
43	(5)

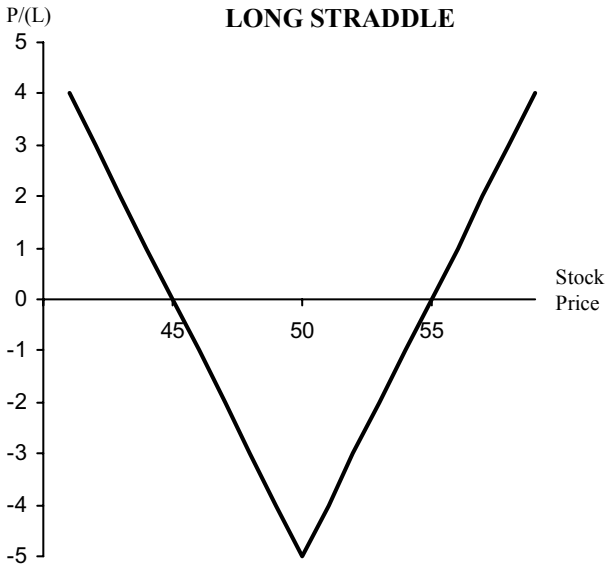


ANSWERS: Straddles

STRATEGY: Long Straddle

EXAMPLE: Buy $50 Call @ 3 and
Buy $50 Put @ 2

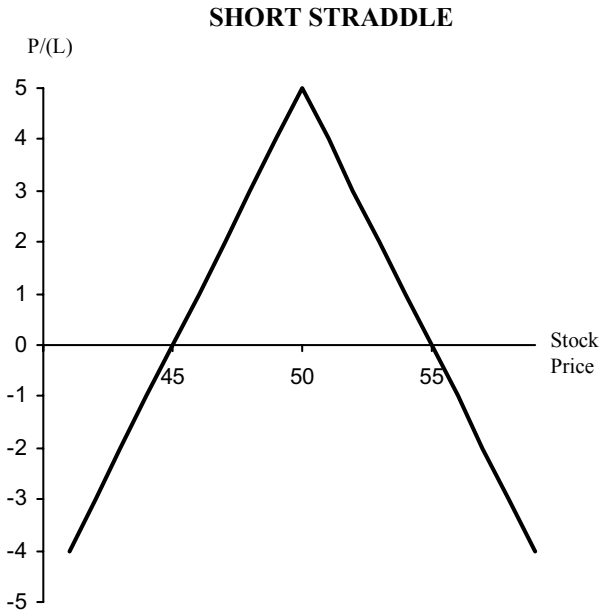
Stock Price at Expiration	Long Call P/(L)	Long Put P/(L)	Total P/(L)
59	6	(2)	4
57	4	(2)	2
55	2	(2)	0
53	0	(2)	(2)
51	(2)	(2)	(4)
50	(3)	(2)	(5)
49	(3)	(1)	(4)
47	(3)	1	(2)
45	(3)	3	0
43	(3)	5	2
41	(3)	7	4



STRATEGY: Short Straddle

EXAMPLE: Sell $50 Call @ 3 and
Sell $50 Put @ 2

Stock Price at Expiration	Short Call P/(L)	Short Put P/(L)	Total P/(L)
59	(6)	2	(4)
57	(4)	2	(2)
55	(2)	2	0
53	0	2	2
51	2	2	4
50	3	2	5
49	3	1	4
47	3	(1)	2
45	3	(3)	0
43	3	(5)	(2)
41	3	(7)	(4)

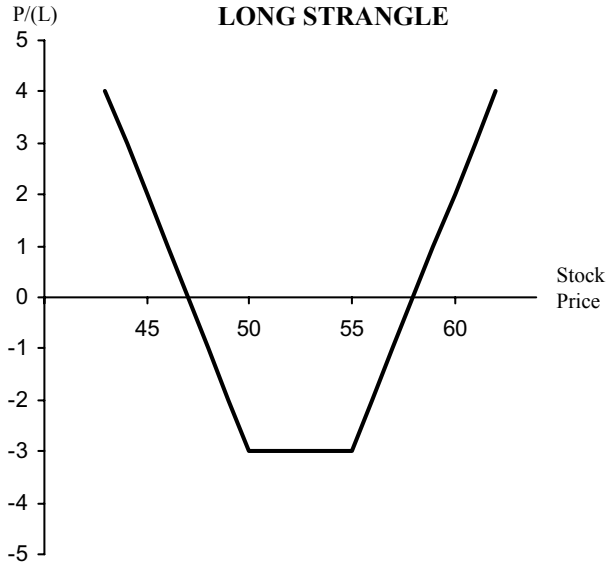


ANSWERS: Strangles

STRATEGY: Long Strangle

EXAMPLE: Buy $55 Call @ 1 1/2 and
Buy $50 Put @ 1 1/2

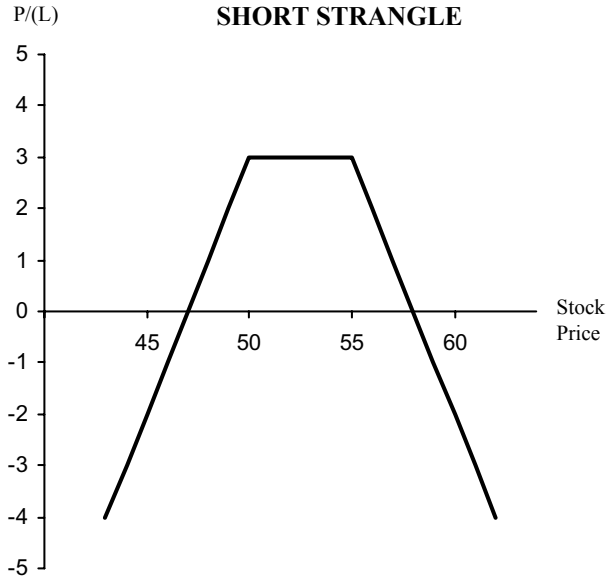
Stock Price at Expiration	Long Call P/(L)	Long Put P/(L)	Total P/(L)
61	4 1/2	(1 1/2)	3
59	2 1/2	(1 1/2)	1
57	1/2	(1 1/2)	(1)
55	(1 1/2)	(1 1/2)	(3)
53	(1 1/2)	(1 1/2)	(3)
51	(1 1/2)	(1 1/2)	(3)
50	(1 1/2)	(1 1/2)	(3)
49	(1 1/2)	(1/2)	(2)
47	(1 1/2)	1 1/2	0
45	(1 1/2)	3 1/2	2
43	(1 1/2)	5 1/2	4



STRATEGY: Short Strangle

EXAMPLE: Sell $55 Call @ 1 1/2 and
Sell $50 Put @ 1 1/2

Stock Price at Expiration	Short Call P/(L)	Short Put P/(L)	Total P/(L)
61	(4 1/2)	1 1/2	(3)
59	(2 1/2)	1 1/2	(1)
57	(1/2)	1 1/2	1
55	1 1/2	1 1/2	3
53	1 1/2	1 1/2	3
51	1 1/2	1 1/2	3
50	1 1/2	1 1/2	3
49	1 1/2	1/2	2
47	1 1/2	(1 1/2)	0
45	1 1/2	(3 1/2)	(2)
43	1 1/2	(5 1/2)	(4)

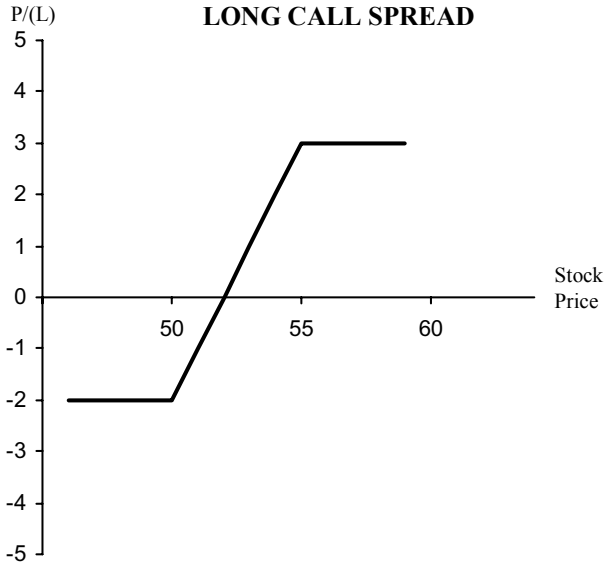


ANSWERS: Call Spreads

STRATEGY: Long Call Spread

EXAMPLE: Buy $50 Call @ 4 and
Sell $55 Call @ 2

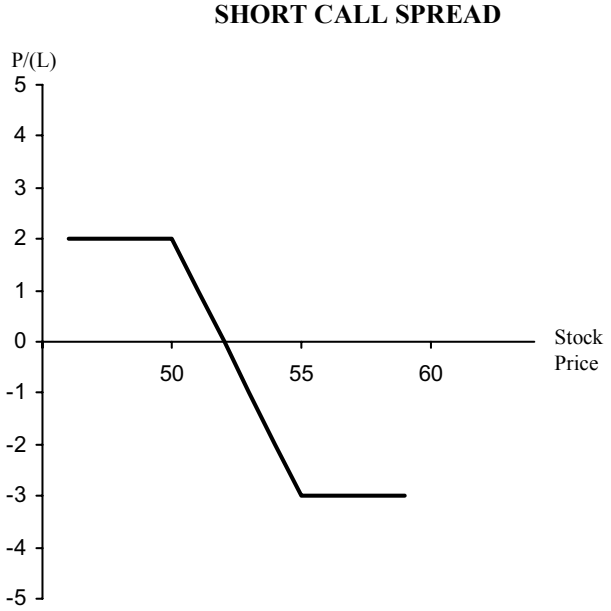
Stock Price at Expiration	Long Call P/(L)	Short Call P/(L)	Total P/(L)
58	4	(1)	3
57	3	0	3
56	2	1	3
55	1	2	3
54	0	2	2
53	(1)	2	1
52	(2)	2	0
51	(3)	2	(1)
50	(4)	2	(2)
49	(4)	2	(2)
48	(4)	2	(2)



STRATEGY: Short Call Spread

EXAMPLE: Sell $50 Call @ 4 and
Buy $55 Call @ 2

Stock Price at Expiration	Short Call P/(L)	Long Call P/(L)	Total P/(L)
58	(4)	1	(3)
57	(3)	0	(3)
56	(2)	(1)	(3)
55	(1)	(2)	(3)
54	0	(2)	(2)
53	1	(2)	(1)
52	2	(2)	0
51	3	(2)	1
50	4	(2)	2
49	4	(2)	2
48	4	(2)	2

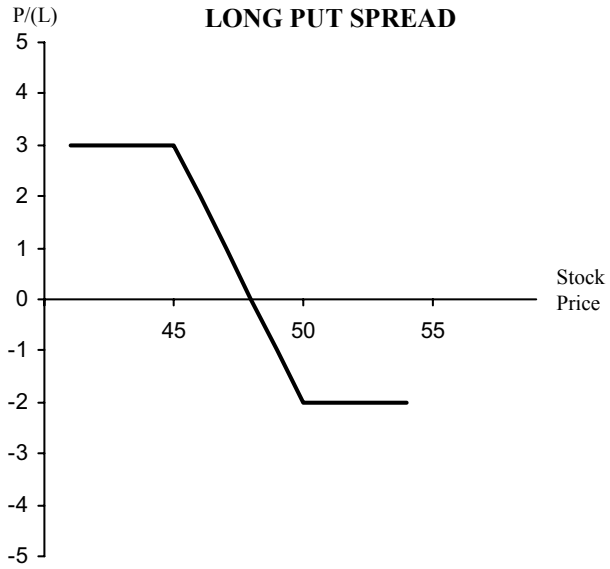


ANSWERS: Put Spreads

STRATEGY: Long Put Spread

EXAMPLE: Buy $50 Put @ 3 1/2 and
Sell $45 Put @ 1 1/2

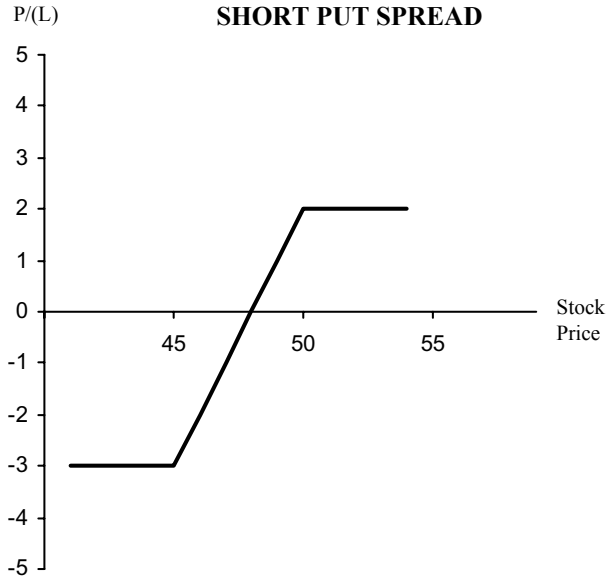
Stock Price at Expiration	Long Put P/(L)	Short Put P/(L)	Total P/(L)
53	(3 1/2)	1 1/2	(2)
52	(3 1/2)	1 1/2	(2)
51	(3 1/2)	1 1/2	(2)
50	(3 1/2)	1 1/2	(2)
49	(2 1/2)	1 1/2	(1)
48	(1 1/2)	1 1/2	0
47	(1/2)	1 1/2	1
46	1/2	1 1/2	2
45	1 1/2	1 1/2	3
44	2 1/2	1/2	3
43	3 1/2	(1/2)	3



STRATEGY: Short Put Spread

EXAMPLE: Sell $50 Put @ 3 1/2 and
Buy $45 Put @ 1 1/2

Stock Price at Expiration	Short Put P/(L)	Long Put P/(L)	Total P/(L)
53	3 1/2	(1 1/2)	2
52	3 1/2	(1 1/2)	2
51	3 1/2	(1 1/2)	2
50	3 1/2	(1 1/2)	2
49	2 1/2	(1 1/2)	1
48	1 1/2	(1 1/2)	0
47	1/2	(1 1/2)	(1)
46	(1/2)	(1 1/2)	(2)
45	(1 1/2)	(1 1/2)	(3)
44	(2 1/2)	(1/2)	(3)
43	(3 1/2)	1/2	(3)

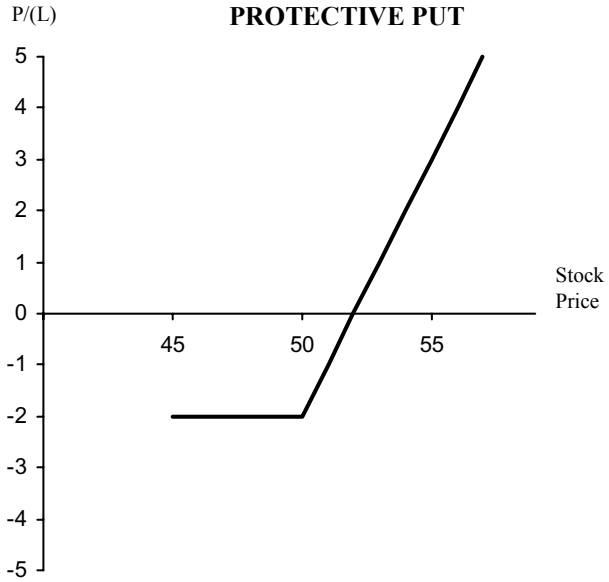


ANSWERS: Stock and Option Strategies

STRATEGY: Protective Put

EXAMPLE: Buy Stock @ 50 and
Buy $50 Put @ 2

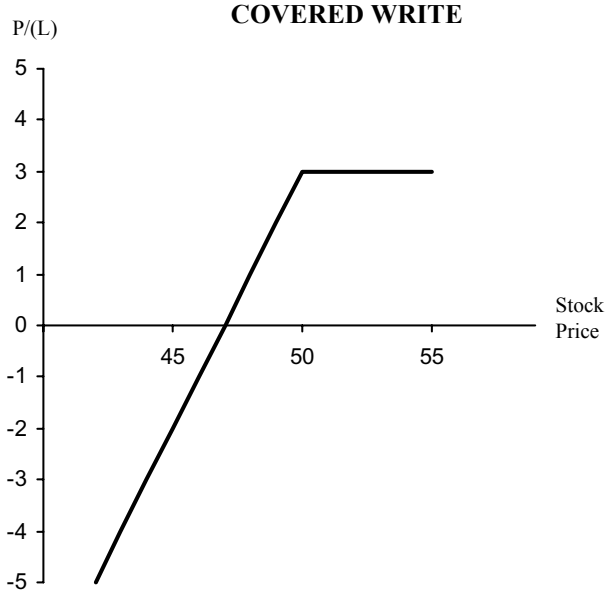
Stock Price at Expiration	Long Stock P/(L)	Long Put P/(L)	Total P/(L)
57	7	(2)	5
56	6	(2)	4
55	5	(2)	3
54	4	(2)	2
53	3	(2)	1
52	2	(2)	0
51	1	(2)	(1)
50	0	(2)	(2)
49	(1)	(1)	(2)
48	(2)	0	(2)
47	(3)	1	(2)



STRATEGY: Covered Write

EXAMPLE: Buy Stock @ 50 and
Sell $50 Call @ 3

Stock Price at Expiration	Long Stock P/(L)	Short Call P/(L)	Total P/(L)
52	2	1	3
51	1	2	3
50	0	3	3
49	(1)	3	2
48	(2)	3	1
47	(3)	3	0
46	(4)	3	(1)
45	(5)	3	(2)
44	(6)	3	(3)
43	(7)	3	(4)
42	(8)	3	(5)



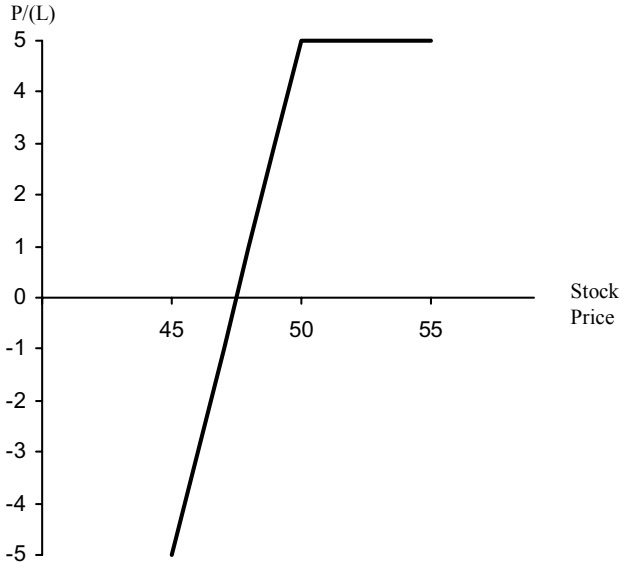
ANSWERS: Stock and Option Strategies

STRATEGY: Long Stock + Short Straddle

EXAMPLE: Buy Stock @ 50 and
Sell $50 Call @ 3 and
Sell $50 Put @ 2

Stock Price at Expiration	Long Stock P/(L)	Short Call P/(L)	Short Put P/(L)	Total P/(L)
55	5	(2)	2	5
54	4	(1)	2	5
53	3	0	2	5
52	2	1	2	5
51	1	2	2	5
50	0	3	2	5
49	(1)	3	1	3
48	(2)	3	0	1
47	(3)	3	(1)	(1)
46	(4)	3	(2)	(3)
45	(5)	3	(3)	(5)

LONG STOCK + SHORT STRADDLE

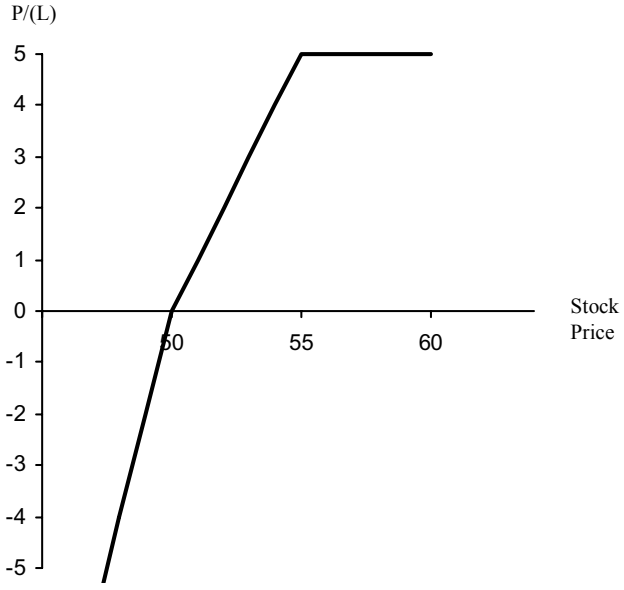


STRATEGY: Long Stock + Short Strangle

EXAMPLE: Buy Stock @ 52 and
Sell 1 $55 Call @ 1 and
Sell 1 $50 Put @ 1

Stock Price at Expiration	Long Stock P/(L)	Short Call P/(L)	Short Put P/(L)	Total P/(L)
56	4	0	1	5
55	3	1	1	5
54	2	1	1	4
53	1	1	1	3
52	0	1	1	2
51	(1)	1	1	1
50	(2)	1	1	0
49	(3)	1	0	(2)
48	(4)	1	(1)	(4)
47	(5)	1	(2)	(6)
46	(6)	1	(3)	(8)

LONG STOCK + SHORT STRANGLE



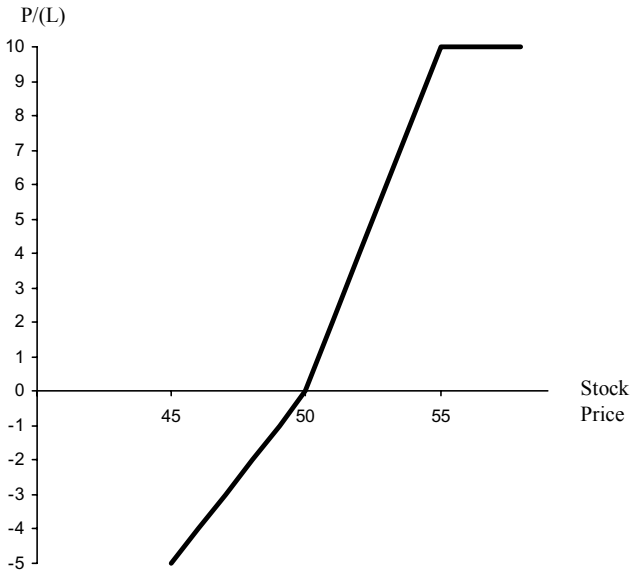
ANSWERS: Stock and Option Strategies

STRATEGY: Long Stock + Ratio Call Spread

EXAMPLE: Buy Stock @ 50 and
Buy 1 $50 Call @ 3 and
Sell 2 $55 Calls @ 1 1/2 each

Stock Price at Expiration	Long Stock P/(L)	Long Call P/(L)	Short Calls P/(L)	Total P/(L)
56	6	3	1	10
55	5	2	3	10
54	4	1	3	8
53	3	0	3	6
52	2	(1)	3	4
51	1	(2)	3	2
50	0	(3)	3	0
49	(1)	(3)	3	(1)
48	(2)	(3)	3	(2)
47	(3)	(3)	3	(3)
46	(4)	(3)	3	(4)

LONG STOCK + RATIO CALL SPREAD

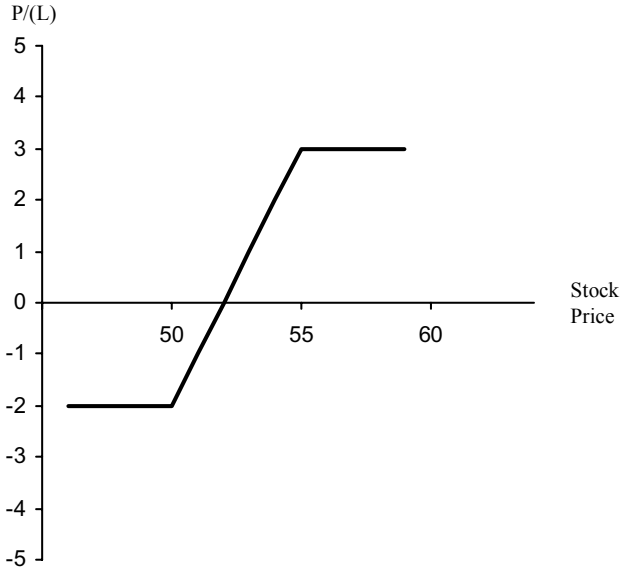


STRATEGY: Long Stock + Collar

EXAMPLE: Buy Stock @ 52 and
Sell 1 $55 Call @ 1 and
Buy 1 $50 Put @ 1

Stock Price at Expiration	Long Stock P/(L)	Short Call P/(L)	Long Put P/(L)	Total P/(L)
58	6	(2)	(1)	3
57	5	(1)	(1)	3
56	4	0	(1)	3
55	3	1	(1)	3
54	2	1	(1)	2
53	1	1	(1)	1
52	0	1	(1)	0
51	(1)	1	(1)	(1)
50	(2)	1	(1)	(2)
49	(3)	1	0	(2)
48	(4)	1	1	(2)

LONG STOCK + COLLAR



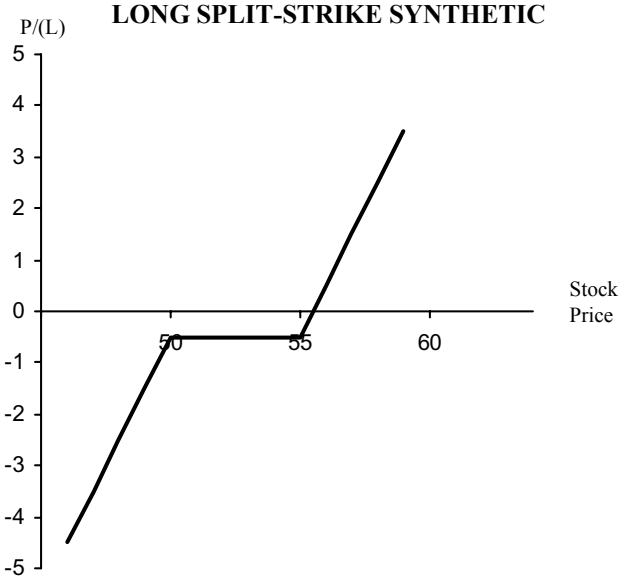
ANSWERS: Synthetic Combinations

STRATEGY: Long Split-Strike Synthetic

EXAMPLE: Buy 1 $55 Call @ 1 1/2 and
Sell 1 $50 Put @ 1

Stock Price at Expiration	Long Call P/(L)	Short Put P/(L)	Total P/(L)
59	2 1/2	1	3 1/2
58	1 1/2	1	2 1/2
57	1/2	1	1 1/2
56	(1/2)	1	1/2
55	(1 1/2)	1	(1/2)
53	(1 1/2)	1	(1/2)
51	(1 1/2)	1	(1/2)
50	(1 1/2)	1	(1/2)
49	(1 1/2)	0	(1 1/2)
48	(1 1/2)	(1)	(2 1/2)
47	(1 1/2)	(2)	(3 1/2)

LONG SPLIT-STRIKE SYNTHETIC

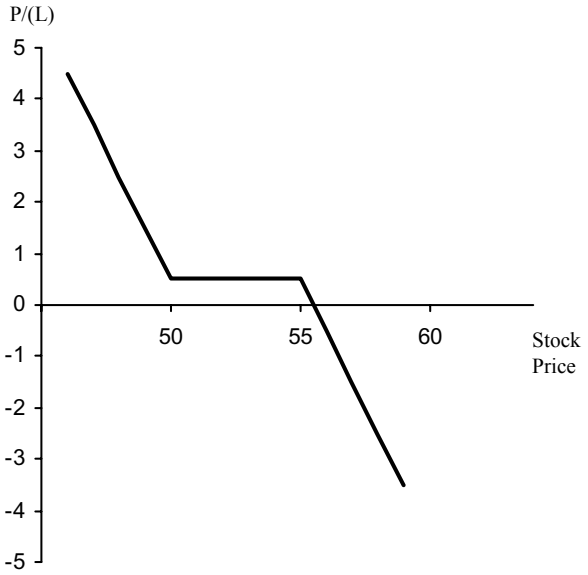


STRATEGY: Short Split-Strike Synthetic

EXAMPLE: Sell 1 $55 Call @ 1 1/2 and
Buy 1 $50 Put @ 1

Stock Price at Expiration	Short Call P/(L)	Long Put P/(L)	Total P/(L)
59	(2 1/2)	(1)	(3 1/2)
58	(1 1/2)	(1)	(2 1/2)
57	(1/2)	(1)	(1 1/2)
56	1/2	(1)	(1/2)
55	1 1/2	(1)	1/2
53	1 1/2	(1)	1/2
51	1 1/2	(1)	1/2
50	1 1/2	(1)	1/2
49	1 1/2	0	1 1/2
48	1 1/2	1	2 1/2
47	1 1/2	2	3 1/2

SHORT SPLIT-STRIKE SYNTHETIC

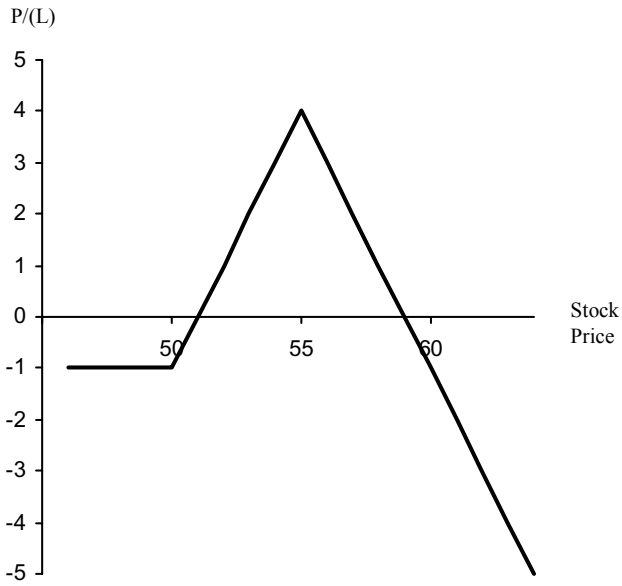


ANSWERS: Ratio Spreads

STRATEGY: 1 X 2 Ratio Vertical Spread With Calls
EXAMPLE: Buy 1 $50 Call @ 3 and
Sell 2 $55 Calls @ 1 each

Stock Price at Expiration	Long Call P/(L)	Short Calls P/(L)	Total P/(L)
62	9	(12)	(3)
60	7	(8)	(1)
59	6	(6)	0
58	5	(4)	1
57	4	(2)	2
56	3	0	3
55	2	2	4
54	1	2	3
53	0	2	2
52	(1)	2	1
51	(2)	2	0
50	(3)	2	(1)
48	(3)	2	(1)

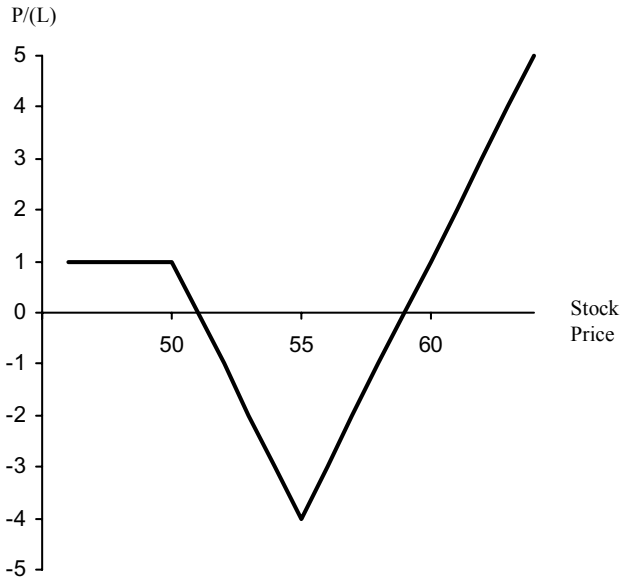
1 X 2 RATIO VERTICAL SPREAD WITH CALLS (FRONT SPREAD)



STRATEGY: 1 X 2 Ratio Volatilty Spread With Calls
EXAMPLE: Sell 1 $50 Call @ 3 and
Buy 2 $55 Calls @ 1 each

Stock Price at Expiration	Short Call P/(L)	Long Calls P/(L)	Total P/(L)
62	(9)	12	3
60	(7)	8	1
59	(6)	6	0
58	(5)	4	(1)
57	(4)	2	(2)
56	(3)	0	(3)
55	(2)	(2)	(4)
54	(1)	(2)	(3)
53	0	(2)	(2)
52	1	(2)	(1)
51	2	(2)	0
50	3	(2)	1
48	3	(2)	1

1 X 2 RATIO VOLATILITY SPREAD WITH CALLS (BACK SPREAD)

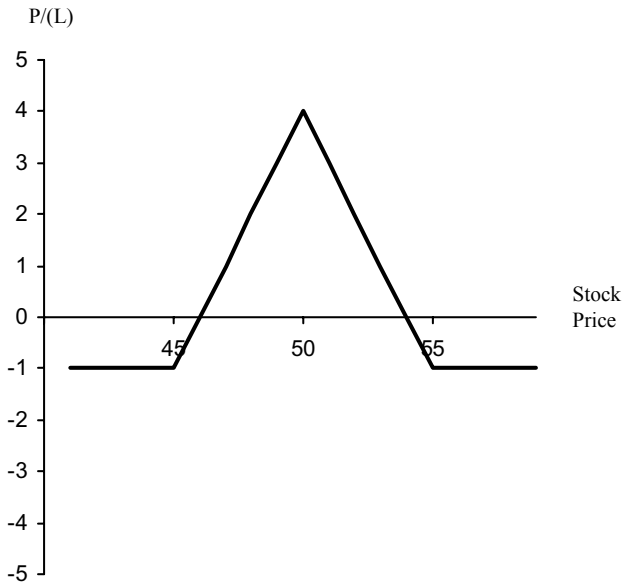


ANSWERS: Butterfly Strategies

STRATEGY: Call Butterfly
EXAMPLE: Buy 1 $45 Call @ 6 and
Sell 2 $50 Calls @ 3 ea. and
Buy 1 $55 Call @ 1

Stock Price at Expiration	Long Call P/(L)	Short Calls P/(L)	Long Call P/(L)	Total P/(L)
56	5	(6)	0	(1)
55	4	(4)	(1)	(1)
54	3	(2)	(1)	0
53	2	0	(1)	1
52	1	2	(1)	2
51	0	4	(1)	3
50	(1)	6	(1)	4
49	(2)	6	(1)	3
48	(3)	6	(1)	2
47	(4)	6	(1)	1
46	(5)	6	(1)	0
45	(6)	6	(1)	(1)
44	(6)	6	(1)	(1)

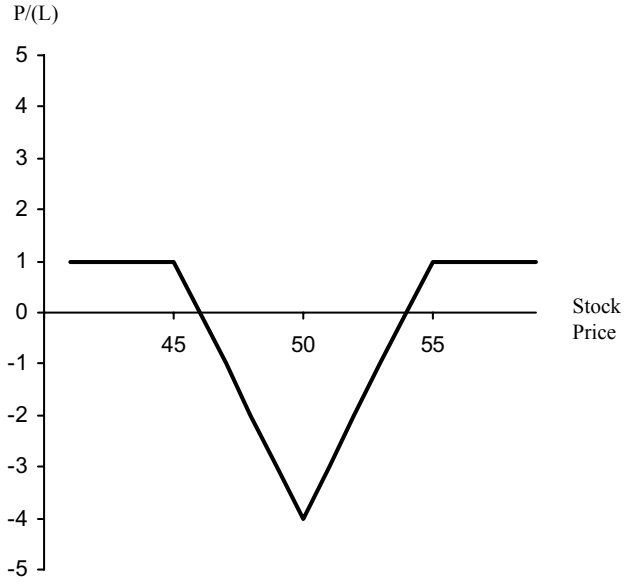
LONG CALL BUTTERFLY



STRATEGY: Short Butterfly with Calls
EXAMPLE: Sell 1 $45 Call @ 6 and
Buy 2 $50 Calls @ 3 ea. and
Sell 1 $55 Call @ 1

Stock Price at Expiration	Short Call P/(L)	Long Calls P/(L)	Short Call P/(L)	Total P/(L)
56	(5)	6	0	1
55	(4)	4	1	1
54	(3)	2	1	0
53	(2)	0	1	(1)
52	(1)	(2)	1	(2)
51	0	(4)	1	(3)
50	1	(6)	1	(4)
49	2	(6)	1	(3)
48	3	(6)	1	(2)
47	4	(6)	1	(1)
46	5	(6)	1	0
45	6	(6)	1	1
44	6	(6)	1	1

SHORT CALL BUTTERFLY



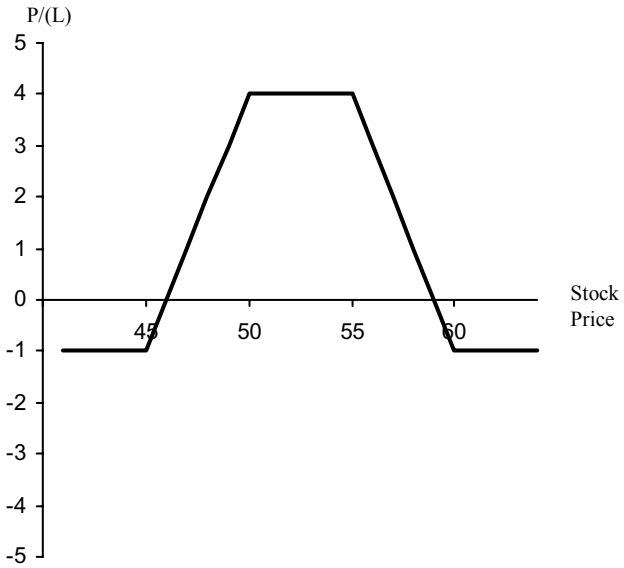
These strategies are presented for educational purposes only. Transaction costs may make these impractical for individual investors.

ANSWERS: Condor Strategies

STRATEGY: Long Condor with Calls
EXAMPLE: Buy 1 $45 Call @ 6 and
Sell 1 $50 Call @ 4 and
Sell 1 $55 Call @ 2 and
Buy 1 $60 Call @ 1

Stock Price at Expiration	Long 45 P/(L)	Short 50 P/(L)	Short 55 P/(L)	Long 60 P/(L)	Total P/(L)
62	11	(8)	(5)	1	(1)
60	9	(6)	(3)	(1)	(1)
58	7	(4)	(1)	(1)	1
56	5	(2)	1	(1)	3
55	4	(1)	2	(1)	4
54	3	0	2	(1)	4
52	1	2	2	(1)	4
50	(1)	4	2	(1)	4
48	(3)	4	2	(1)	2
46	(5)	4	2	(1)	0
45	(6)	4	2	(1)	(1)
44	(6)	4	2	(1)	(1)

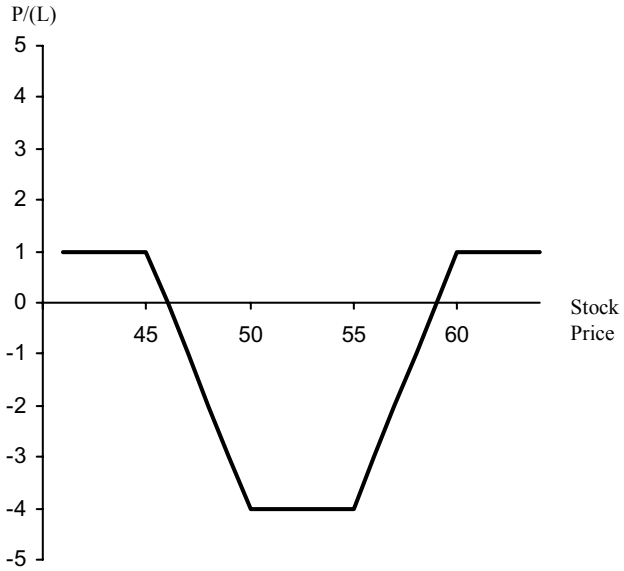
LONG CALL CONDOR



STRATEGY: Short Condor with Calls
EXAMPLE: Sell 1 $45 Call @ 6 and
Buy 1 $50 Call @ 4 and
Buy 1 $55 Call @ 2 and
Sell 1 $60 Call @ 1

Stock Price at Expiration	Short 45 P/(L)	Long 50 P/(L)	Long 55 P/(L)	Short 60 P/(L)	Total P/(L)
62	(11)	8	5	(1)	1
60	(9)	6	3	1	1
58	(7)	4	1	1	(1)
56	(5)	2	(1)	1	(3)
55	(4)	1	(2)	1	(4)
54	(3)	0	(2)	1	(4)
52	(1)	(2)	(2)	1	(4)
50	1	(4)	(2)	1	(4)
48	3	(4)	(2)	1	(2)
46	5	(4)	(2)	1	0
45	6	(4)	(2)	1	1
44	6	(4)	(2)	1	1

SHORT CALL CONDOR



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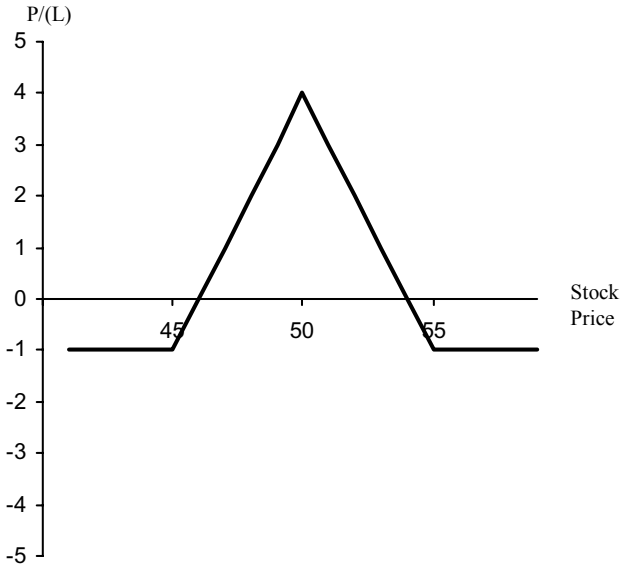
ANSWERS: Iron Strategies

STRATEGY: Iron Butterfly
EXAMPLE: Buy 1 $45 Put @ 1 and
Sell 1 $50 Put @ 3 and
Sell 1 $50 Call @ 3 and
Buy 1 $55 Call @ 1

Stock Price at Expiration	Long Put P/(L)	Short Put P/(L)	Short Call P/(L)	Long Call P/(L)	Total P/(L)
56	(1)	3	(3)	0	(1)
55	(1)	3	(2)	(1)	(1)
54	(1)	3	(1)	(1)	0
53	(1)	3	0	(1)	1
52	(1)	3	1	(1)	2
51	(1)	3	2	(1)	3
50	(1)	3	3	(1)	4
49	(1)	2	3	(1)	3
48	(1)	1	3	(1)	2
47	(1)	0	3	(1)	1
46	(1)	(1)	3	(1)	0
45	(1)	(2)	3	(1)	(1)
44	0	(3)	3	(1)	(1)

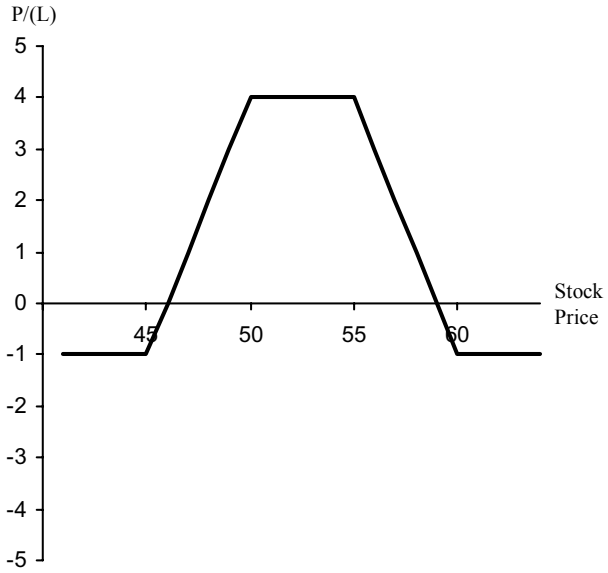
IRON BUTTERFLY



STRATEGY: Iron Condor
EXAMPLE: Buy 1 $45 Put @ 1 and
Sell 1 $50 Put @ 3 and
Sell 1 $55 Call @ 3 and
Buy 1 $60 Call @ 1

Stock Price at Expiration	Long Put P/(L)	Short Put P/(L)	Short Call P/(L)	Long Call P/(L)	Total P/(L)
62	(1)	3	(4)	0	(1)
60	(1)	3	(2)	(1)	(1)
58	(1)	3	0	(1)	1
56	(1)	3	2	(1)	3
55	(1)	3	3	(1)	4
54	(1)	3	3	(1)	4
52	(1)	3	3	(1)	4
50	(1)	3	3	(1)	4
48	(1)	1	3	(1)	2
46	(1)	(1)	3	(1)	0
45	(1)	(2)	3	(1)	(1)
44	0	(3)	3	(1)	(1)

IRON CONDOR



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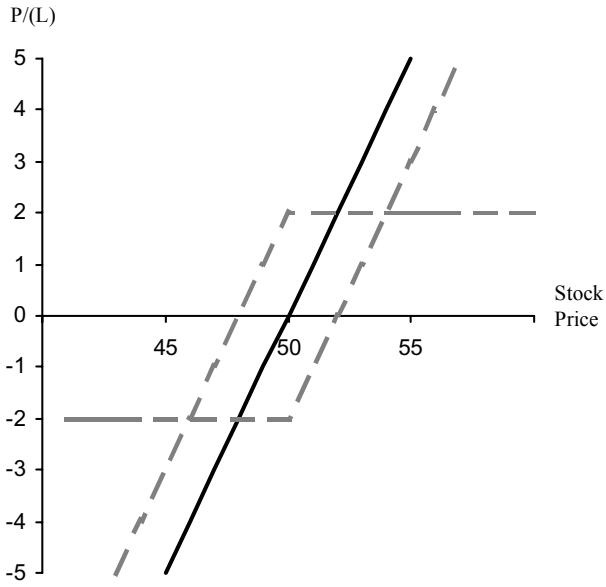
ANSWERS: Synthetic Positions

STRATEGY: Synthetic Long Stock

EXAMPLE: Buy 1 $50 Call @ 2 and
Sell 1 $50 Put @ 2

Stock Price at Expiration	Long Call P/(L)	Short Put P/(L)	Total P/(L)
55	3	2	5
54	2	2	4
53	1	2	3
52	0	2	2
51	(1)	2	1
50	(2)	2	0
49	(2)	1	(1)
48	(2)	0	(2)
47	(2)	(1)	(3)
46	(2)	(2)	(4)
45	(2)	(3)	(5)

SYNTHETIC LONG STOCK

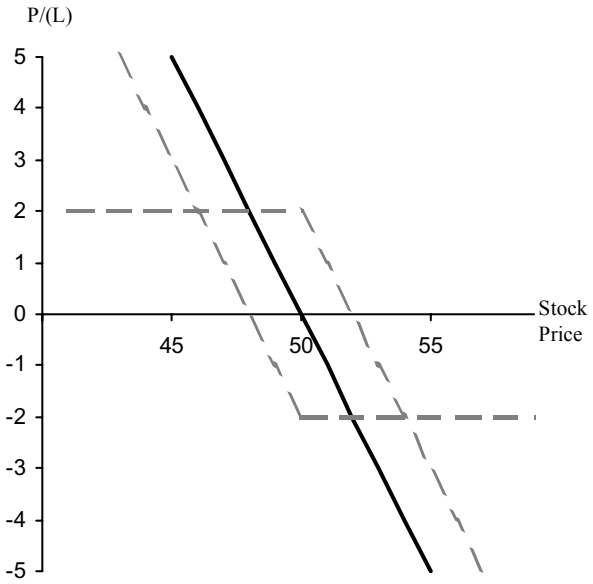


STRATEGY: Synthetic Short Stock

EXAMPLE: Sell 1 $50 Call @ 2 and
Buy 1 $50 Put @ 2

Stock Price at Expiration	Short Call P/(L)	Long Put P/(L)	Total P/(L)
55	(3)	(2)	(5)
54	(2)	(2)	(4)
53	(1)	(2)	(3)
52	0	(2)	(2)
51	1	(2)	(1)
50	2	(2)	0
49	2	(1)	1
48	2	0	2
47	2	1	3
46	2	2	4
45	2	3	5

SYNTHETIC SHORT STOCK



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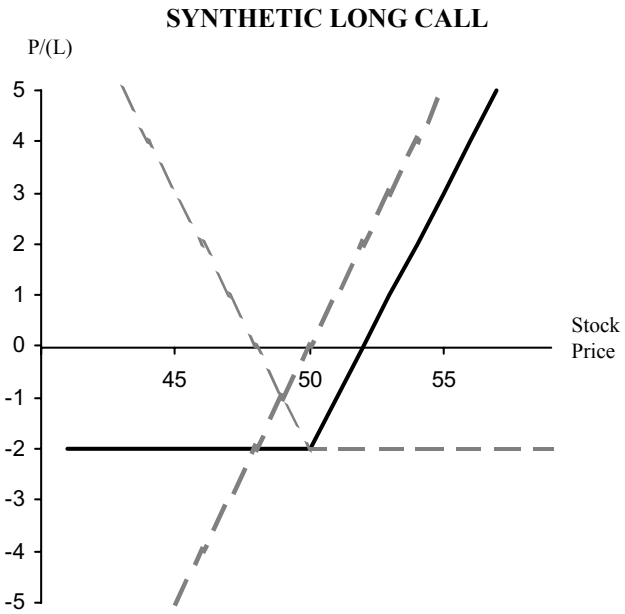
ANSWERS: Synthetic Positions

STRATEGY: Synthetic Long Call

EXAMPLE: Buy Stock @ 50 and
Buy 1 $50 Put @ 2

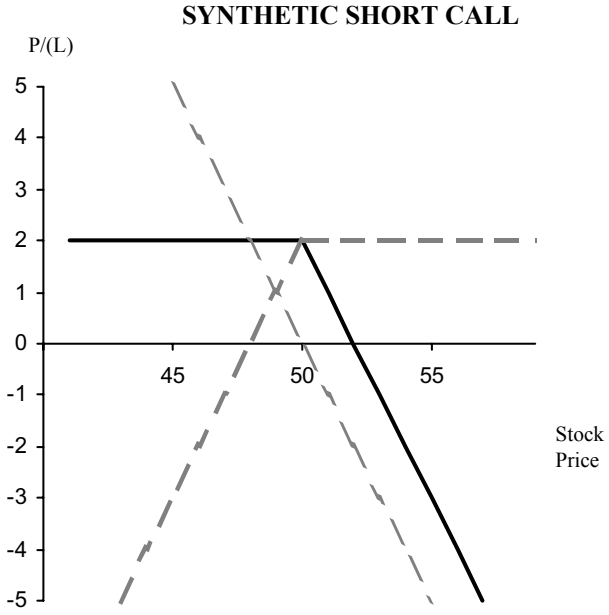
Stock Price at Expiration	Long Stock P/(L)	Long Put P/(L)	Total P/(L)
55	5	(2)	3
54	4	(2)	2
53	3	(2)	1
52	2	(2)	0
51	1	(2)	(1)
50	0	(2)	(2)
49	(1)	(1)	(2)
48	(2)	0	(2)
47	(3)	1	(2)
46	(4)	2	(2)
45	(5)	3	(2)



STRATEGY: Synthetic Short Call

EXAMPLE: Sell Stock Short @ 50 and
Sell 1 $50 Put @ 2

Stock Price at Expiration	Short Stock P/(L)	Short Put P/(L)	Total P/(L)
55	(5)	2	(3)
54	(4)	2	(2)
53	(3)	2	(1)
52	(2)	2	0
51	(1)	2	1
50	0	2	2
49	1	1	2
48	2	0	2
47	3	(1)	2
46	4	(2)	2
45	5	(3)	2



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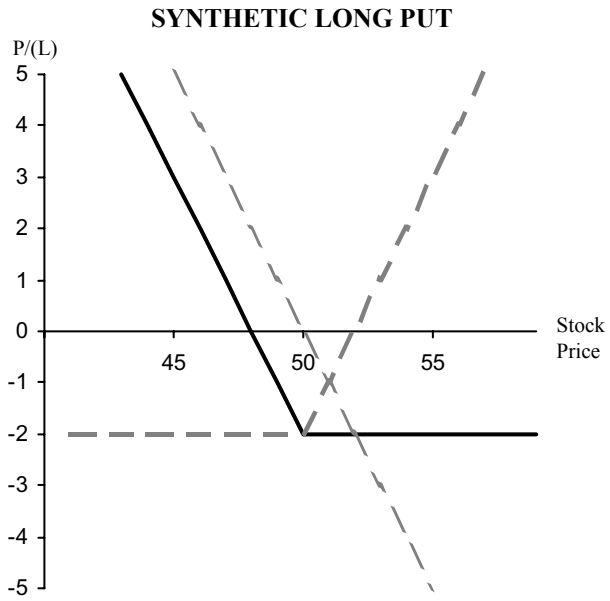
ANSWERS: Synthetic Positions

STRATEGY: Synthetic Long Put

EXAMPLE: Sell Stock Short @ 50 and
Buy 1 $50 Call @ 2

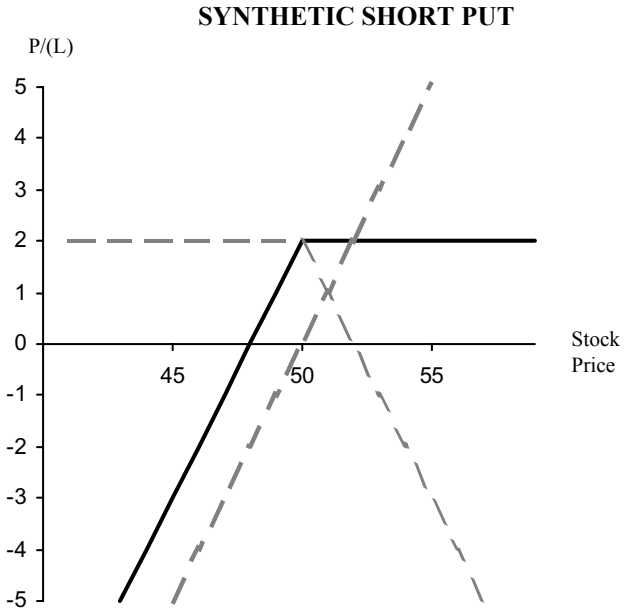
Stock Price at Expiration	Short Stock P/(L)	Long Call P/(L)	Total P/(L)
55	(5)	3	(2)
54	(4)	2	(2)
53	(3)	1	(2)
52	(2)	0	(2)
51	(1)	(1)	(2)
50	0	(2)	(2)
49	1	(2)	(1)
48	2	(2)	0
47	3	(2)	1
46	4	(2)	2
45	5	(2)	3



STRATEGY: Synthetic Short Put

EXAMPLE: Buy Stock @ 50 and
Sell 1 $50 Call @ 2

Stock Price at Expiration	Long Stock P/(L)	Short Call P/(L)	Total P/(L)
55	5	(3)	2
54	4	(2)	2
53	3	(1)	2
52	2	0	2
51	1	1	2
50	0	2	2
49	(1)	2	1
48	(2)	2	0
47	(3)	2	(1)
46	(4)	2	(2)
45	(5)	2	(3)



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Workbook created by William Gaynor - The Optons Institute, 1998.

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ABOUT OIC

The Options Industry Council (OIC) is an industry cooperative funded by OCC, the world's largest equity derivatives clearing organization and sole central clearinghouse for U.S. listed options. OIC's mission is to provide free and unbiased education to investors and financial advisors about the benefits and risks of exchange-traded equity options. Our goal is to provide a financially sound and efficient marketplace where investors can hedge investment risk and find new opportunities to profit from market participation. Managed by OCC, OIC delivers its education through the Options Education Program, a structured platform offering live seminars, self-directed online courses, videos, podcasts, webinars and live help. OIC's resources can be accessed online at OptionsEducation.org.

THE FOUNDATION FOR SECURE MARKETS

On behalf of OCC and The Options Industry Council (OIC), we are pleased to introduce the Options Strategies Quick Guide. This guide outlines a range of strategies for investing with options.
As the foundation for secure markets, it is important for OCC to ensure that the listed options markets remain vibrant, resilient and liquid in the eyes of regulators and the investing public. We believe that education is the key to prudent options investing, and that the tremendous growth of the U.S. listed options markets in recent years can be attributed, at least in part, to the value of this education.
We always are available to answer your questions and help you expand your knowledge of the listed options markets. For more information, or to contact OIC, please visit our website at OptionsEducation.org or emailing us at options@theocc.com

Thank you,

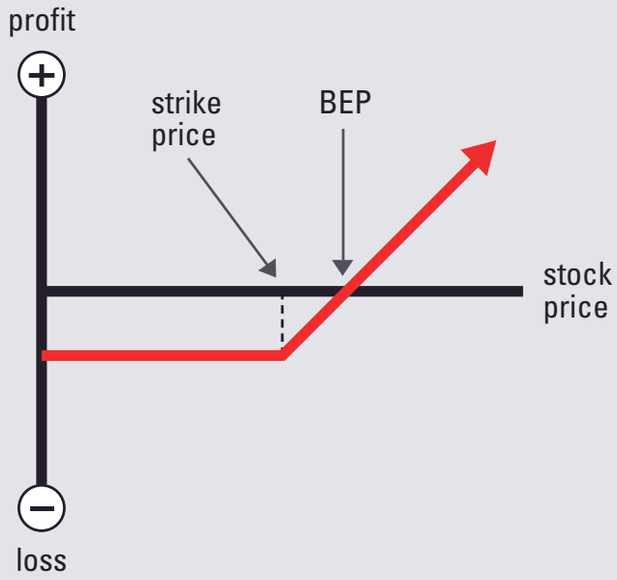
Craig Donohue
Executive Chairman and Chief Executive Officer, OCC

Mary Savoie
Executive Director, OIC

OIC The Options Industry Council

options@theocc.com
www.OptionsEducation.org

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 option 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

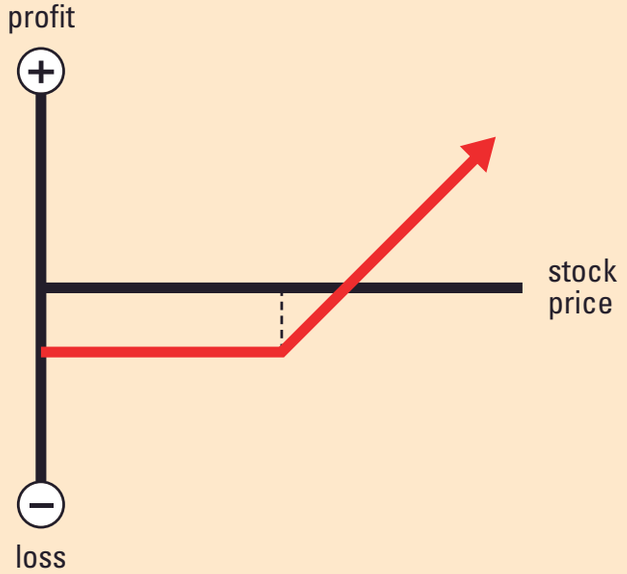
Risk: Limited

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

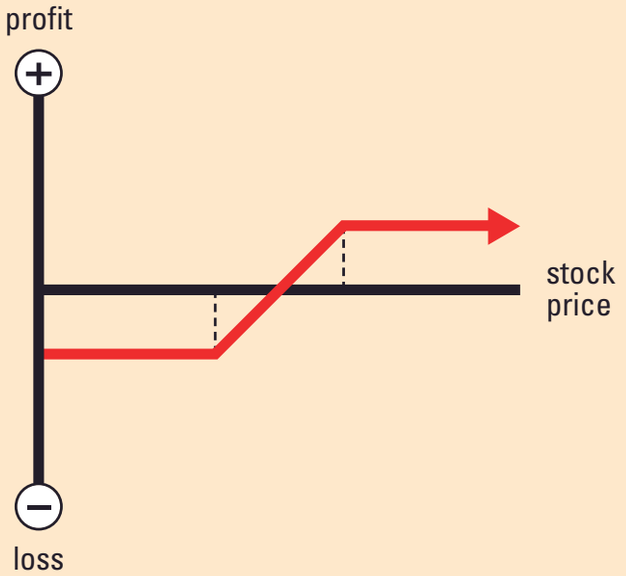
Risk: Limited

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

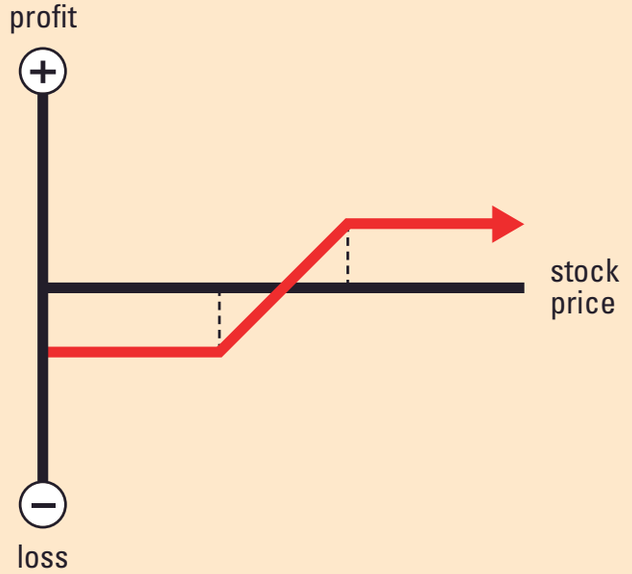
Risk: Limited

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

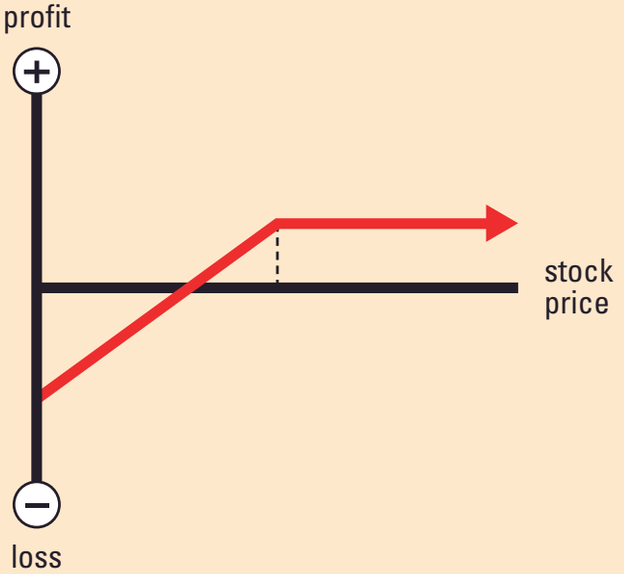
Risk: Limited, but substantial (risk is from a fall in stock price)

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

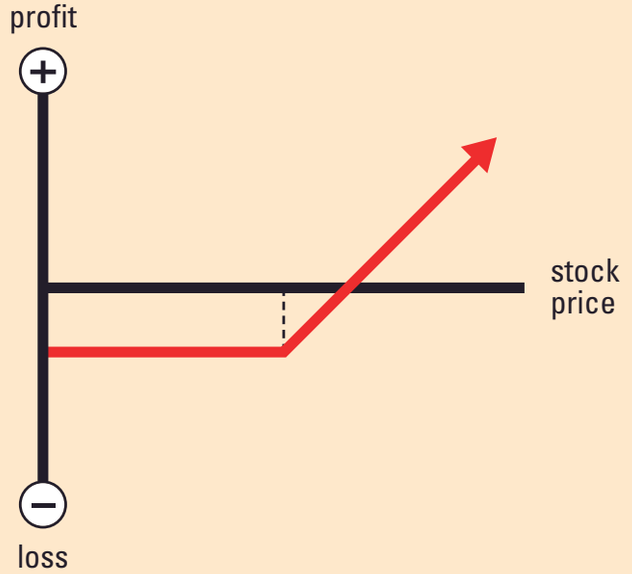
Risk: Limited

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

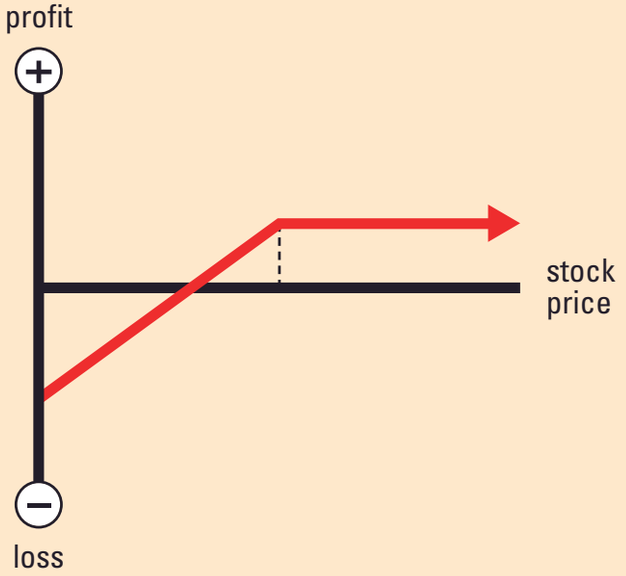
Risk: Limited, but substantial

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

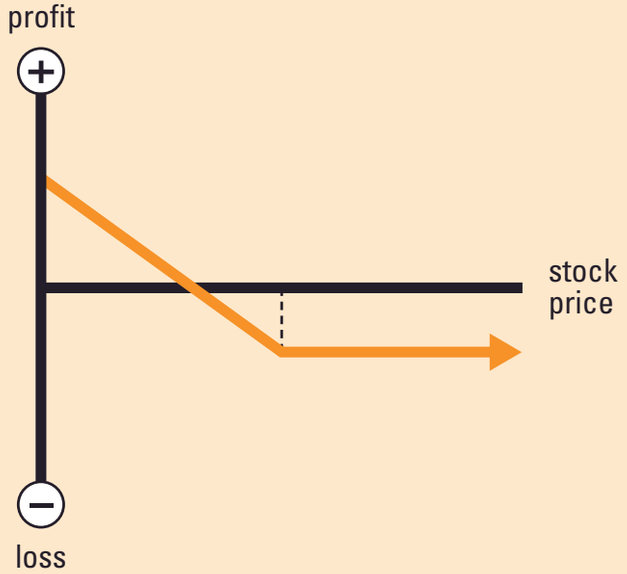
Risk: Limited

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

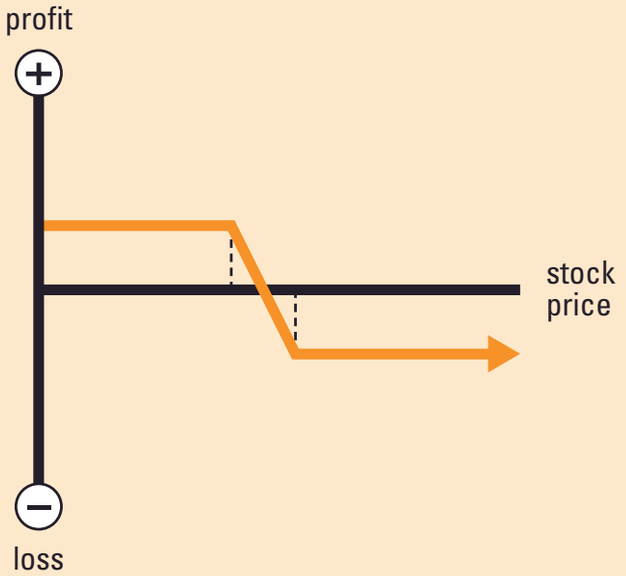
Risk: Limited

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

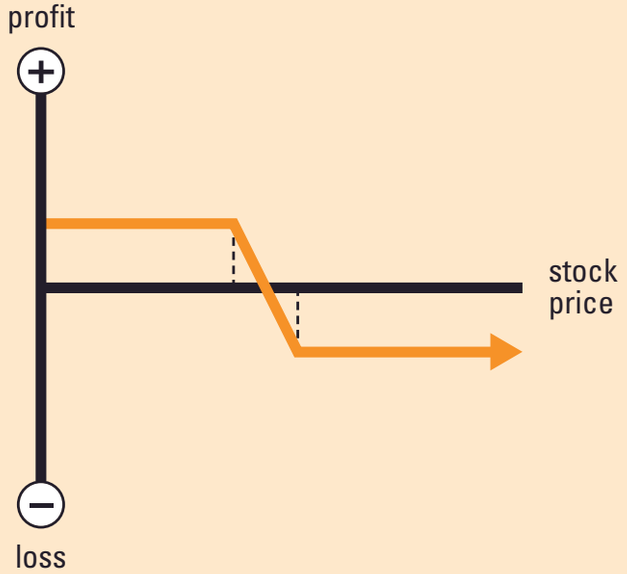
Risk: Limited

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

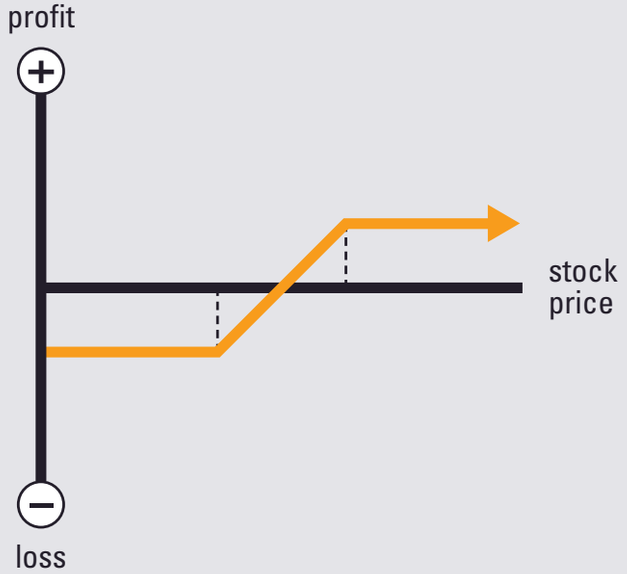
Risk: Limited

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

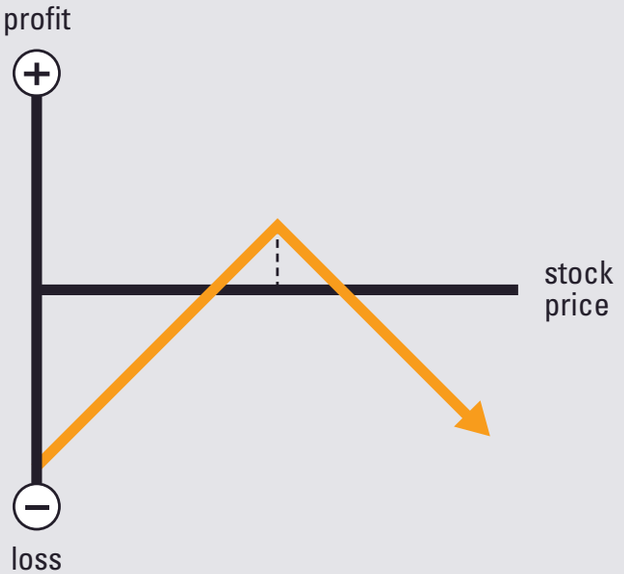
Risk: Unlimited

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

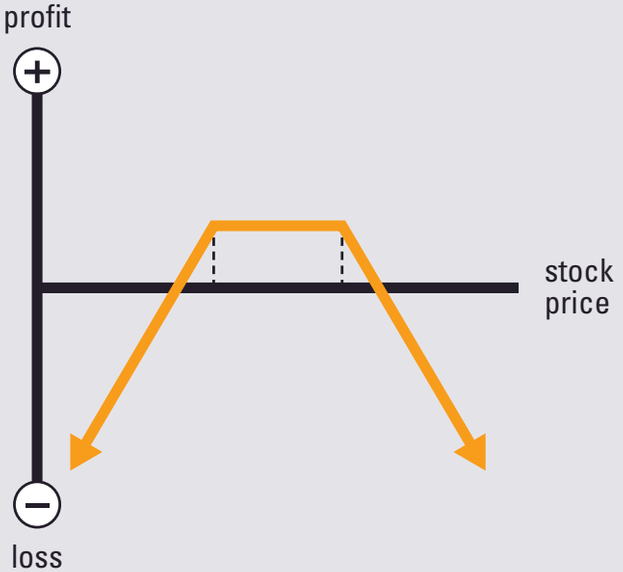
Risk: Unlimited

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

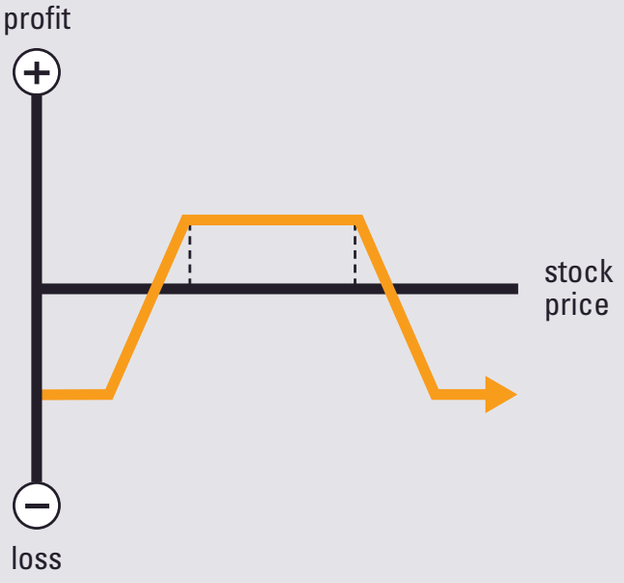
Risk: Limited

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)

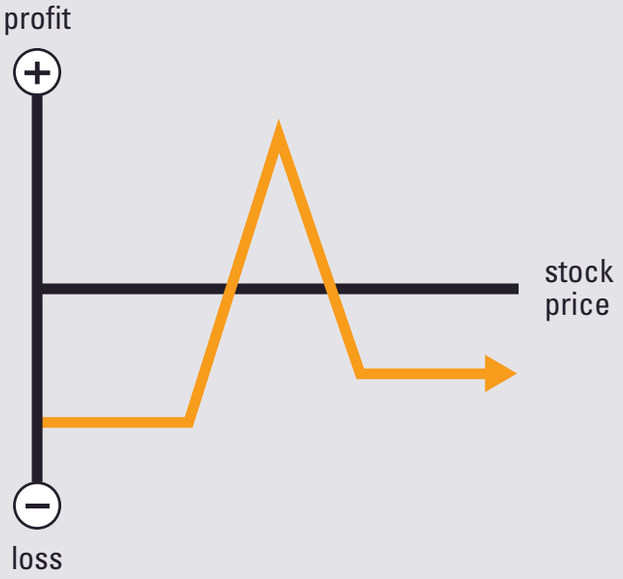
Risk: Limited

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

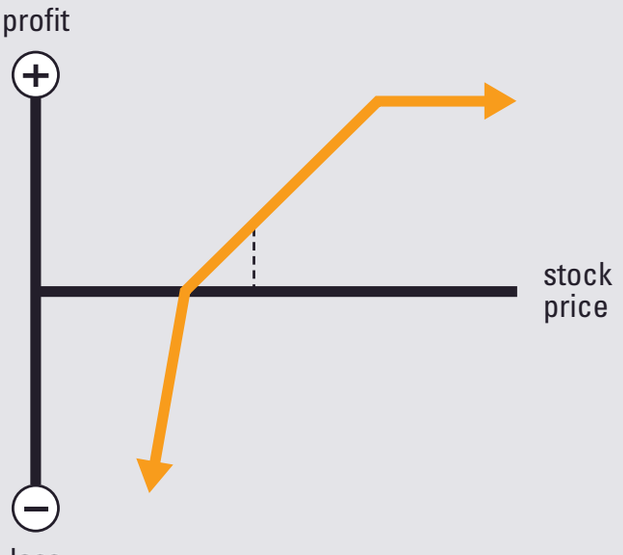
Risk: Limited, but substantial

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

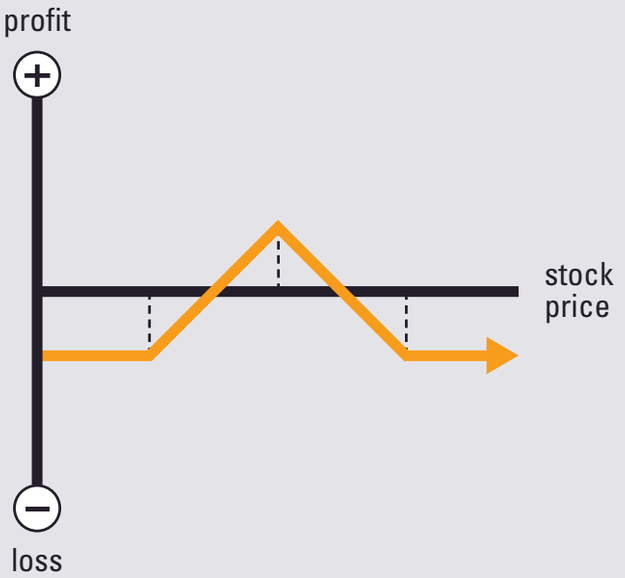
Risk: Limited

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

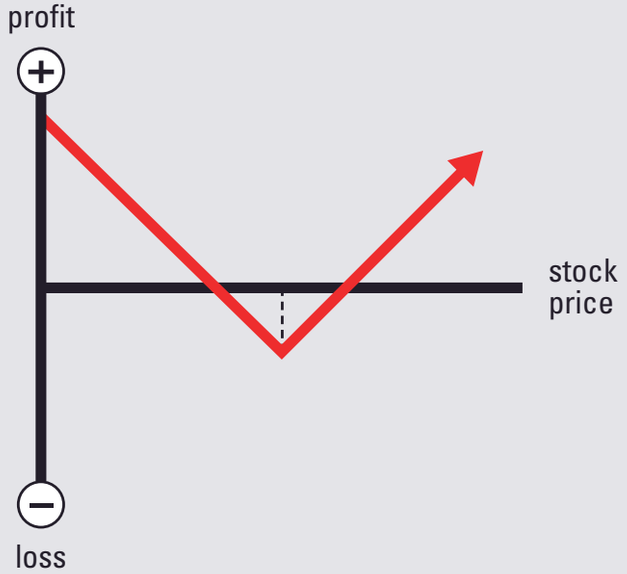
Risk: Limited

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

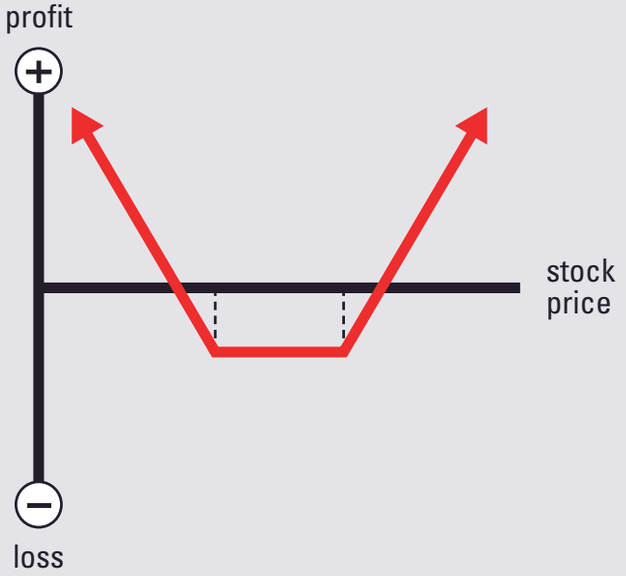
Risk: Limited

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

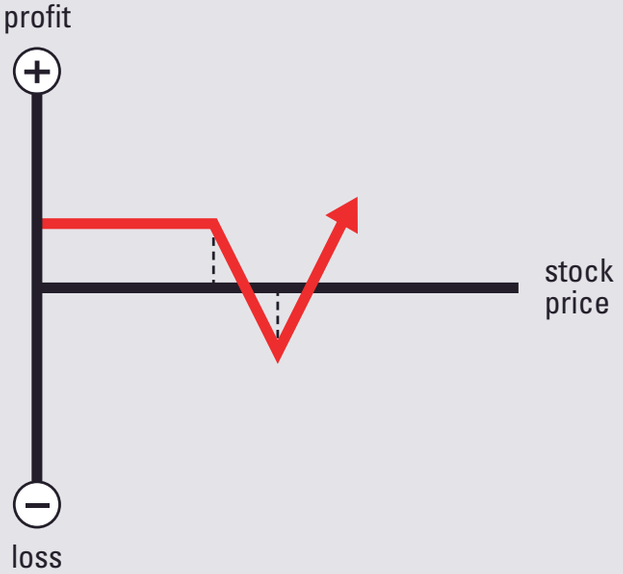
Risk: Limited

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

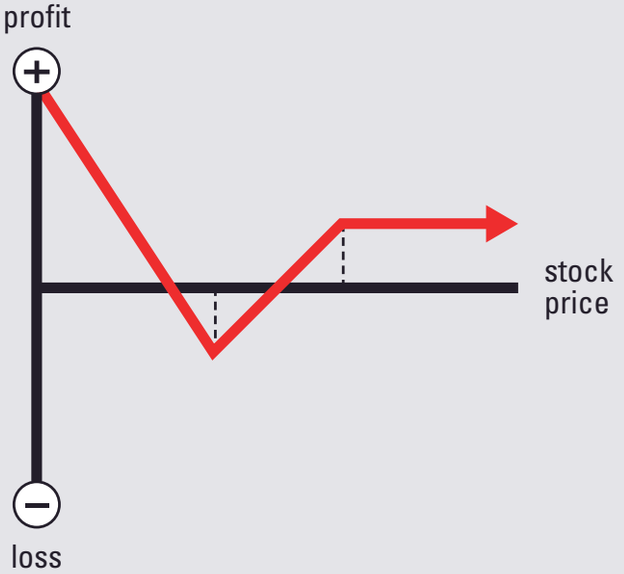
Risk: Limited

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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