

Options Trading Strategies

Key Points to Remember:

- ALL options eventually lose ALL of their "time value."
- ALL "Out-Of-The-Money" options expire worthless.
- Markets only "trend" 1/3 of the time; they move sideways the other 2/3.

BULLISH Market Strategies

Option Spread Strategy	Description	Reason to use	When to use
Buy a Call	Strongest bullish option position.	Loss limited to premium paid.	Undervalued option with volatility increasing.
Sell a Put	Neutral bullish option position.	Profit limited to premium received.	High volatility, bullish trending market.
Buy Vertical Bull Call Spread	Buy Call & sell Call of higher strike price.	Loss limited to debit.	Small debit, bullish market.
Sell Vertical Bear Put Spread	Sell Put & buy Put of lower strike price.	Loss limited to strike price difference less premium received.	Large credit, bullish market.

BEARISH Market Strategies

Option Spread Strategy	Description	Reason to use	When to use
Buy a Put	Strongest bearish option position.	Loss limited to premium paid.	Undervalued option with increasing volatility.
Sell a Call	Neutral bearish option position.	Profit limited to premium received.	Option overvalued, market flat to bearish.
Buy Vertical Bear Put Spread	Buy at the money Put & sell out of the money Put.	Loss limited to debit.	Small debit, bearish market.
Sell Vertical Bull Call Spread	Sell Call & buy Call of higher strike price.	Loss limited to strike price difference minus credit.	Large credit, bearish market.

NEUTRAL Market Strategies

Option Spread Strategy	Description	Reason to use	When to use
Strangle	Sell out of the money Put & Call.	Maximum use of time value decay.	Trading range market with volatility peaking.
Arbitrage	Buy & sell similar options simultaneously.	Profit certain if done at credit.	Any time credit received.
Calendar	Sell near month, buy far month, same strike price.	Near month time value decays faster.	Small debit, trading range market.
Butterfly	Buy at the money Call (Put) & sell 2 out of the money Calls(Puts) & buy out of the money Call (Put).	Profit certain if done at credit.	Any time credit received.
Guts	Sell in the money Put & Call.	Receive large premium.	Options have time premium & market in trading range.
Box	Sell Calls & Puts same strike price.	Profit certain if done at credit.	Any time credit received.
Ratio Call	Buy Call & sell Calls of higher strike price.	Neutral, slightly bullish.	Large credit & difference between strike price of option bought & sold.
Conversion	Buy futures & buy at the money Put & sell out of the money Call.	Profit certain if done at credit.	Any time credit received.

Special Market Situations

Option Spread Strategy	Description	Reason to use	When to use
Straddle Purchase	Buy Put & Call.	Options will lose time value premium quickly.	Options under-valued & market likely to make a big move.
Covered Call	Buy future & sell Call.	Collect premium on Calls sold.	Neutral to slightly bullish.
Covered Put	Sell future & sell Put.	Collect premium of Puts sold.	Neutral to slightly bearish.
Synthetic futures position.	Buy Call (Put) & Sell Put (Call).	Neutral, slightly trending market.	Receive credit, option sold far out of the money.

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Call backspread	Long Put spread or bear spread (volatility down)	Short combo
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Call ratio spread	Long semi-futures (volatility up)	Short condor Call
Long Call albatross	Long semi-futures (volatility down)	Short condor gut iron
Long gut iron albatross	Long straddle	Short condor iron
Long iron albatross	Long strangle	Short condor Put
Long albatross Put	Long gut strangle	Short fence (volatility up)
Long butterflies Call	Long Call synthetic	Short fence (volatility down)
Long butterflies gut iron	Long Call semi-futures synthetic (volatility up)	Short Call
Long butterflies iron	Long Call semi-futures synthetic (volatility down)	Short Put
Long butterflies Put	Long Put synthetic	Short Put christmas tree
Long Call christmas tree	Long Put semi-futures synthetic (volatility up)	Short Put spread or bull spread (volatility up)
Long Call spread or bull spread (volatility up)	Long Put semi-futures synthetic (volatility down)	Short Put spread or bull spread (volatility down)
Long Call spread or bull spread (volatility down)	Long underlying	Short semi-futures (volatility down)
Long combo	Put backspread	Short semi-futures (volatility up)
Long Call condor	Put ratio spread	Short straddle
Long gut iron condor	Short Call albatross	Short strangle

Long iron condor	Short gut iron albatross	Short gut strangle
Long condor Put	Short iron albatross	Short Call synthetic
Long fence (volatility up)	Short Put albatross	Short Call semi-futures synthetic (volatility up)
Long fence (volatility down)	Short Call butterflies	Short Call semi-futures synthetic (volatility down)
Long Call	Short gut iron butterflies	Short Put semi-futures synthetic (volatility up)
Long Put	Short iron butterflies	Short Put semi-futures synthetic (volatility down)
Long Put christmas tree	Short Put butterflies	Short Put synthetic
Long Put spread or bear spread (volatility up)	Short Call christmas tree	Short underlying
Long Put spread or bear spread (volatility down)	Short Call spread or bear spread (volatility up)	
Long semi-futures (volatility up)	Short Call spread or bear spread (volatility down)	