The Naked Put

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1 The Naked Put Write (Sell) (Short)

1.1 What

- It involves the selling of one Put Option.
- It is a neutral to bullish strategy. You'll make money as long as the Underlying does not move below the sold Put Option's strike price.
- We recommend the selling of the option to be:

  OTM. Avoid selling Put Options that are ITM, it's too risky.

  Around 1.5 standard deviations away (with less than 20% of Probability of being ITM on expiration day).

  With 1.5 months to 1 week of life left on the option.

1.2 Risk/Reward

- Maximum Profit: Limited to the premium received.
- Maximum Risk: Unlimited as long as the price of the Underlying keep going down.
- Breakeven: Strike price of the Put minus the premium received. The Underlying must be above this breakeven in order to make money.
- Example

1.2.1 Example: Let's say you wish to sell the Put: ORTY %40 Oct15 Put for $5

1. Scenario A
   - In October, ORTY trades at $43. Since $43 is higher than the $40 strike price, the Put you sold is OTM and so it expires worthless. You keep 100% of your profit, which is the $5 you received when you sold the Option.
2. Scenario B
   - In October, ORTY trades at $35. Since $35 is lower than the $40 strike price, the Put you sold is ITM (by $5 since 40-35=5). This is your loss. However, since you recieved $5 from the sale of the Put Option, you lose nothing, and make nothing. This is your breakeven.
3. Scenario C
   - In October, ORTY trades at $30. Since $30 is lower than the $40 strike price, the Put you sold is $10 ITM. Again this is your loss, however, since you received $5 for the sale of the Put Option, your loss is actually $5 instead of $10 (since 10-5 = 5). Either way though, you have a loss relative to this trade.

1.3 When

- Look for Underlyings with high IV Ranks (above 75).
- This strategy attempts to profit from people's excessive fears. So put selling is especially attractive in underlyings that have experienced large price decreases and investors look to buy puts to protect themselves. When fear-driven, investors will buy junk puts that have high probability of being OTM. You sell this junk to them and you pocket the money when they expire worthless.
- You believe the fall in price is an overreaction, and the stock will soon recover, or at least its price will not decrease drastically.

1.4 Pros

- It is a straightforward, simple strategy with:

  Low commission costs (since you are only selling one item).

  Easy to monitor (again because it is just one sold Option).

  Easier for your order to get filled.
- You make money if the price of the Underlying goes up, doesn't move, or even if it goes down slightly (less than the money your are receiving for the premium).
- You make money on time decay every day that goes by.
- If you follow our recommendations, you are very likely to be successful, as the odds are in your favor.

1.5 Cons

- If the Underlying coninues to decrese in price significantly, you can be exposed to huge losses.
- Brokerage firms will require significant cash or margin reserves before they let you sell a Put Option naked.
- While your maximum profit is defined prior to entering the trade, your maximum risk is unknown.

1.6 The Greeks of The Naked Put

- Δ: Positive

  You make money when the price of the Underlying increases.
- Θ: Positive

  You make money as time passes.
- Vega: Negative

  You lose money if volatility expands.