

Home &gt; Strategies &amp; Advanced Concepts &gt; Strategies &gt; Synthetic Long Stock

## Strategies

[Bear Call Spread](#)  
[Bear Put Spread](#)  
[Bear Spread Spread](#)  
[Bull Call Spread](#)  
[Bull Put Spread](#)  
[Bull Spread Spread](#)  
[Cash-Backed Call](#)  
[Cash-Secured Put](#)  
[Collar](#)  
[Covered Call](#)  
[Covered Put](#)  
[Covered Ratio Spread](#)  
[Covered Strangle](#)  
[Long Call](#)  
[Long Call Butterfly](#)  
[Long Call Calendar Spread](#)  
[Long Call Condor](#)  
[Long Condor](#)  
[Long Iron Butterfly](#)  
[Long Put](#)  
[Long Put Butterfly](#)  
[Long Put Calendar Spread](#)  
[Long Put Condor](#)  
[Long Ratio Call Spread](#)  
[Long Ratio Put Spread](#)  
[Long Stock](#)  
[Long Straddle](#)

## Synthetic Long Stock

Recommend { 0 }

Tweet

Share

### Description

The strategy combines two option positions: long a call option and short a put option with the same strike and expiration. The net result simulates a comparable long stock position's risk and reward. The principal differences are the smaller capital outlay, the time limitation imposed by the term of the options, and the absence of a stock owner's rights: voting and dividends.

If assigned, the investor who doesn't take further steps to resell, ends up with an actual long stock position. It's another reason to be wary if the long-term outlook is bearish.

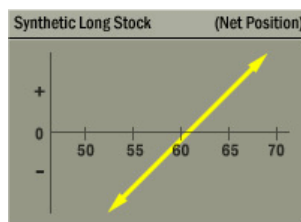
### Outlook

Looking for an appreciation in the stock's price during the life of the options; the sharper, the better. Since the term of the strategy is limited, the stock's longer-term outlook isn't as critical. However, if the investor is bearish on the stock's longer-term future, it would require a careful pinpointing of the trends; when the stock will head up, and when it will go down. The difficulty of making such a precise forecast suggests that this would not be an optimal strategy for a bearish investor.

### Summary

This strategy is essentially a long futures position on the underlying stock. The long call and the short put combined simulate a long stock position. The net result entails the same risk/reward profile, though only for the term of the option: unlimited potential for appreciation, and large (though limited) risk should the underlying stock fall in value.

### Motivation



Net Position (at expiration)

### EXAMPLE

[Long 1 XYZ 60 call](#)   
[Short 1 XYZ 60 put](#) 

### MAXIMUM GAIN

Unlimited

### MAXIMUM LOSS

Strike price - debit paid  
(substantial)

Phone

Live Chat

Email

### Talk to Options Professionals

Questions about anything options-related? Call or chat with an options professional now.

**Call 1-888-OPTIONS**

### REGISTER FOR THE OPTIONS EDUCATION PROGRAM

Free, unbiased options education  
Learn in-person and online  
Advance at your own pace



### More Info

### Upcoming Seminars & Events

No active seminars or events!

[See all seminars & events](#)

OIC Sign In

Follow us:

User acknowledges review of the [User Agreement](#) and [Privacy Policy](#) governing this site. Continued use constitutes acceptance of the terms and conditions stated therein.

Log In

Help

### Login

This web site discusses exchange-traded options issued by The Options Clearing Corporation. No statement in this web site is to be construed as a recommendation to purchase or sell a security, or to provide investment advice.

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](#) (PDF). Copies of this document may be obtained from your broker or from any exchange on which options are traded or by contacting The Options Clearing Corporation, One North Wacker Dr., Suite 500 Chicago, IL 60606 ([options@theocc.com](mailto:options@theocc.com)).

User Name

Password

[Forgot your password?](#)

Don't have an account?

- [Synthetic Long Put](#)
- [Synthetic Long Stock](#)
- [Synthetic Short Stock](#)

al gain would also be infinite. The  
e price and then sell the resulting  
stock at the new, high price. The gain would be higher (lower) by the amount of the credit  
(debit) when the strategy was implemented.

Profit/Loss

As with a long stock position, the potential profit is unlimited, and the potential losses are substantial. An investor can do the research on the underlying and monitor the developments, but there is no guarantee of being able to get out of the short put position if a sharp move lower occurs.

Breakeven

This strategy breaks even if, at expiration, the stock is above (below) the strike price by the amount of the debit (credit) that the investor paid (received) when the strategy was implemented.

Breakeven = strike + net debit

(Breakeven = strike - net credit)

Volatility

Volatility is usually not a major consideration when implementing this strategy, all other things being equal. Since the strategy involves being both long and short an option with the same term and strike, any change in implied volatility should roughly be offset.

Time Decay

Since the strategy involves being both long and short an option with the same strike and term, the effects of time decay will roughly offset each other.

Assignment Risk

Early assignment of the short put, while possible at any time, generally occurs if it goes deep into-the-money.

And be aware, a situation where a stock is involved in a restructuring or capitalization event, such as a merger, takeover, spin-off or special dividend, could completely upset typical expectations regarding early exercise of options on the stock.

Expiration Risk

The investor cannot know for sure whether or not assignment occurred, until the Monday after expiration.

Comments

N/A

Related Position

Comparable Position: [Long Stock](#)

Opposite Position: [Synthetic Short Stock](#)

Post Rating

10 Ratings

Getting Started

[Options Education Program](#)  
[Options Overview](#)  
[Getting Started with Options](#)  
[What is an Option?](#)  
[What are the Benefits and Risks?](#)  
[Options Pricing](#)  
[LEAPS®](#)

Strategies & Advanced Concepts

[Getting Started with Strategies](#)

Options Education Program

[Program Overview](#)  
[MyPath Assessment](#)  
[Course Catalog](#)  
[Podcasts](#)  
[Videos on Demand](#)  
[Upcoming Seminars](#)

Seminars & Events

[Options Seminars](#)  
[Options Events](#)  
[Seminar & Event Descriptions](#)

Tools & Resources

[Investor Resources](#)  
[Options Quotes](#)  
[Historical & Implied Volatility](#)  
[Virtual Trading System \(VTS\)](#)  
[Position Simulator](#)  
[Today's Most Active Options](#)  
[An Investor's Guide to Trading Options](#)  
[Email Subscription Center](#)  
[Wide World of Options Radio Show](#)  
[Options Calculators](#)

News & Research

[Industry News](#)  
[Brochures & Literature](#)  
[White Papers](#)  
[Research Articles](#)  
[Market Data](#)

Options for Advisors

[OIC Advisor Resources](#)  
[Why Add Options To Your Practice](#)  
[Advisor Brief](#)  
[Client Strategies](#)

Sign Up for Email Updates

Email Address

About OIC

Help

Contact Us

Newsroom

Register/Login

Investor Services

<a href="#">Strategies</a> <a href="#">Advanced Concepts</a>	<a href="#">Collar Calculator</a> <a href="#">Covered Call Calculator</a> <a href="#">FAQs</a> <a href="#">Options Glossary</a> <a href="#">Expiration Calendar</a> <a href="#">Bookstore</a> <a href="#">It's Good to Have Options</a> <a href="#">OIC Mobile App</a>	<a href="#">White Papers &amp; Research</a> <a href="#">Sub-Advisor Manager Listing</a>	<a href="#">Characteristics and Risks of Standardized Options</a>
---	---	--	---

Official OIC Sponsors



This web site discusses exchange-traded options issued by The Options Clearing Corporation. No statement in this web site is to be construed as a recommendation to purchase or sell a security, or to provide investment advice. 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](#). Copies of this document may be obtained from your broker, from any exchange on which options are traded or by contacting The Options Clearing Corporation, One North Wacker Dr., Suite 500 Chicago, IL 60606 ([investorservices@theocc.com](mailto:investorservices@theocc.com)).

© 1998-2015 The Options Industry Council - All rights reserved. Please view our [Privacy Policy](#) and our [User Agreement](#).