# Best Option Trading Strategies

*Trading Options, when done correctly, are among the most efficient ways to accumulate wealth over the long term. The terms Option Strategies or Option Trading Strategies might be unfamiliar to you if you are a beginner in the stock market or the investing game, but don't worry—we've got you covered!*

An Option is a contract that enables an investor to buy or sell an underlying instrument, such as a stock or even an index, at a set price, over a specified period, in exchange for a premium paid by the buyer to the seller.

In this blog, we will discuss some of the best Option Trading Strategies that we think every investor or trader should at least be aware of.

## *Best Option Trading Strategies That Every Trader Should Know –*

Here is a list of some of the best Option Trading Strategies one may give a try. Whether you decide to use these strategies or not depends on your trading style, but at least if you have an understanding of how they work, you will be more adaptable to changing market conditions.

**Bullish Option Trading Strategies**

Let us first have a look at the Bullish Option Trading Strategies here-

1. **Bull Call Spread**

Bull Call Spread is an Option Trading Strategy that falls under the Debt Spreads category. If you're bullish on a [stock](https://groww.in/stocks) or [ETF](https://groww.in/p/exchange-traded-funds) while not wanting to risk buying shares outright, consider purchasing a call option for a lower-risk bullish trade.

However, even [Call Options](https://groww.in/p/call-option) can be costly and may expose you to more risk than you are accustomed to. You may be wondering, "Is there another way?" The answer is Yes! You could purchase a Bull Call Spread to reduce your preliminary cost and risk.

Primarily, in the Bull Call Spread option, you will still be able to buy that long call option expressing your bullish views, but you can compensate for some of that cost by selling a short call option in the face of it, hence lowering your risk.

A Bull Call Spread is made by purchasing one call option and concurrently selling another call option with a lower cost and a higher strike price, both of which have the same expiration date. Furthermore, this is considered the best option selling strategy.

1. **Bull Put Spread**

When an options trader believes that the price of the underlying asset will increase moderately shortly, they will use the Bull Put Spread [Option Trading](https://groww.in/p/option-trading) Strategy. Typically, this option falls under the Credit Spreads category. Although it is not the most complicated Option Trading Strategy, buying and selling puts and calls are more tangled than that.

Therefore, to put it simply, this spread entails selling a put option and purchasing a put option with a lower strike. Theta decay would benefit you in this situation since the Short-Put Option will start losing value faster than your Long-Put Option position.

In this case, it would be better to execute a Bull Put Position since such a position gains value quickly every day due to theta decay. This strategy is considered a great option buying strategy.

1. **Bull Call Ratio Backspread**

A trader needs to be very bullish on the stock to make this trade. Being only marginally bullish won't work for this trade. The biggest loss in a Bull Call Ratio Backspread happens in the direction the trader hopes the trade will move, which is one of the odd things about this strategy.

A bullish strategy that might be used instead of just purchasing call options is the Bull Call Ratio Backspread. The Call Ratio Backspread consists of two parts: selling one or more at-the-money or out-of-the-money calls and purchasing two or three calls that are longer in the money than the call that was sold. This strategy is also considered the best option selling strategy.

1. **Synthetic Call**

An investor purchases and holds shares to start a Synthetic Call, also known as a Synthetic Long Call. To hedge against a decline in the stock's price, the investor also buys an at-the-money put option on the same stock.

**Bearish Option Trading Strategies**

Following are the Bearish Option Trading Strategies-

1. **Bear Call Spread**

When one's outlook on the market is largely bearish, one might use a double options trading strategy called a Bear Call Spread.

With this method, a trader sells a shorter-term call option while simultaneously buying a longer-term call option with the same underlying commodity and time frame of the expiration date but a higher strike price. By receiving a higher option premium on the call sold than the cost of the call purchased, one achieves a net profit.

1. **Bear Put Spread**

A trader or investor will use a Bear Put Spread when they predict that the price of a security or asset will slightly decline. Purchasing Put Options and selling the same number of puts on the very same asset with the very same expiration date at a relatively low target price results in a Bear Put Spread.

The distinction between these two strike prices, less the total cost of the options, represents the maximum profit a trader can make using this strategy.

1. **Strip**

When an investor is bullish on volatility and bearish on the direction of the market, they must employ the Strip Strategy. Buying two lots of "At-the-Money Put Options" and "At-the-Money Call Options" are both parts of this strategy. The same underlying security and expiration month are required for both options. The common Long Straddle is similar to a bearish version of the Strip.

With the Strip Strategy, significant gains are possible when the underlying makes a significant move at expiration, moving more favourably in the direction of loss.

1. **Synthetic Put**

An investor who sells stock short and purchases a call is using a strategy that is risk-equivalent to buying a Put option.

It is an Option Strategy that mimics a Long-Put Option by holding both a Short Stock position and a Long Call Option on the same stock. In a nutshell, it's a tactic that investors can employ if they have a bearish bet on a stock but are concerned about that stock's potential for near-term strength.

**Neutral Option Trading Strategies**

Now, let us have a look at the Neutral Option Trading Strategies here-

1. **Long Straddles & Short Straddles**

Straddle is considered one of the best Option Trading Strategies for Indian Market. A Long Straddle is possibly one of the easiest market-neutral trading strategies to execute. The direction of the market's movement after it has been applied has no bearing on profit and loss. The market's movement can go either way, but that which never changes is its direction.

And regardless of the trend, as long as it moves, a profit and loss are produced. In a Long Straddle Options Strategy, a trader essentially purchases a long call and a long put.

A Short Call and a Short put are purchased with the same underlying asset, expiration date, and strike price as part of the Short Straddle Options Strategy. Since it is applied during the times when the market is least volatile, this strategy seems to be the complete antithesis of a Long Straddle Strategy.

1. **Long Strangles & Short Straddles**

The Long Strangle (also known as the Buy Strangle or Option Strangle) is a neutral strategy in which slightly OTM Put Options and slightly OTM Call Options with the same underlying asset and expiry date are purchased simultaneously.

This Long Strangle Strategy might be utilized when the trader anticipates high volatility in the underlying stock shortly. It's a method with low risk and high payoff potential. When the underlying moves significantly higher or downwards at expiration, the maximum loss is the net premium paid, whereas the maximum profit is when the underlying moves significantly upwards or downwards.

The Short Strangle is a variation of the Short Straddle. It aims to increase the profitability of the trade for the option seller. The breakeven points are widened to achieve this. This necessitates significantly more change in the underlying stock/index. In exchange, the Call and Put option may be worthwhile to use. This method entails selling two options at the same time.

**Intraday Option Trading Strategies**

Here are the Intraday Option Trading Strategies-

1. **Momentum Strategy**

As the name suggests, the basis of this Intraday Option Trading Strategy is to make the most of the momentum in the market. This involves tracking the right stocks before a significant change in the market trend materializes.

Based on this change, traders buy or sell securities. The choice of stock depends on the latest news, the announcement of takeovers, quarterly earnings, and more.

Thus, intraday traders need to study such news regarding stocks that are on their watchlist and place buying or selling orders accordingly.

Since share prices fluctuate owing to various external factors, intraday traders must make quick decisions to earn returns. The duration for which individuals hold the shares depends on the momentum of the market. Additionally, this strategy is the best option strategy for intraday.

1. **Breakout Strategy**

When it comes to buying and selling securities on the same day, timing is undoubtedly one of the most crucial factors. This [intraday trading](https://groww.in/p/intraday-trading) strategy involves finding the stocks which have broken out of the territory in which they usually trade.

Alternatively, a trader can identify stocks that are about to trade in a new price range. In other words, traders have to spot threshold points at which share prices increase or decrease. If the stock prices rise above the threshold point, intraday traders consider entering long positions and buying shares.

That said, stock prices plunge below the threshold point, which is an indication for individuals to consider short positions or sell shares.

1. **Reversal Strategy**

This trading strategy is associated with high risk. It involves making investment decisions against the market trend, based on analysis as well as calculations.

In comparison to other methods, this intraday trading strategy is more difficult. This is because intraday traders need to have extensive knowledge of the market. Furthermore, pinpointing the pullbacks and strengths accurately can also be quite challenging.

1. **Scalping Strategy**

The scalping trading strategy involves making financial gains from small price changes. This method is commonly used by intraday traders when buying and selling commodities. In addition, usually, individuals engaging in high-frequency trading utilize this technique.

Individuals must keep in mind that the fundamental or technical setup in its entirety does not have much relevance in this case.

That said, price action has a greater significance in the case of a scalping strategy.

When picking stocks, individuals opting for this intraday trading strategy must ensure that they choose shares that are liquid as well as volatile. Furthermore, they must make sure to put in a stop loss for all orders.

1. **Moving Average Crossover Strategy**

Another successful intraday trading strategy in India is the moving average crossover strategy. When the prices of stocks or any other financial instrument move above/below the moving average, it serves as an indication that there is a change in momentum.

When share prices rise over the moving average, it is called an uptrend. Whereas when stock prices are lower than the moving average, it is referred to as a downtrend. In the case of an uptrend, experts recommend entering long positions or buying stocks. That said, when there's a downtrend, traders enter short positions or sell their shares.

1. **Gap and Go Strategy**

The gap and go strategy involves finding stocks not having any pre-market volume. The opening price of these stocks represents a gap from yesterday's closing price. When the price of a stock opens higher in comparison to the closing price of the previous day, it is known as a gap up.

However, if the opposite happens, it is known as a gap down. Intraday traders opting for this strategy identify such stocks and buy them believing that the gap will close before the closing bell.

*Conclusion*

We have discussed the most significant Option Trading Strategies in this blog. We hope this blog will aid in your understanding of concepts. In conclusion, traders can use several fundamental strategies that have low risk in place of the high risk that is typically associated with options.

So even traders who are afraid of taking risks can increase their overall returns by using options. However, it's crucial to comprehend the risks associated with any investment so that you can decide whether the potential gain justifies them.