

## 11.7 STRANGLE STRATEGY



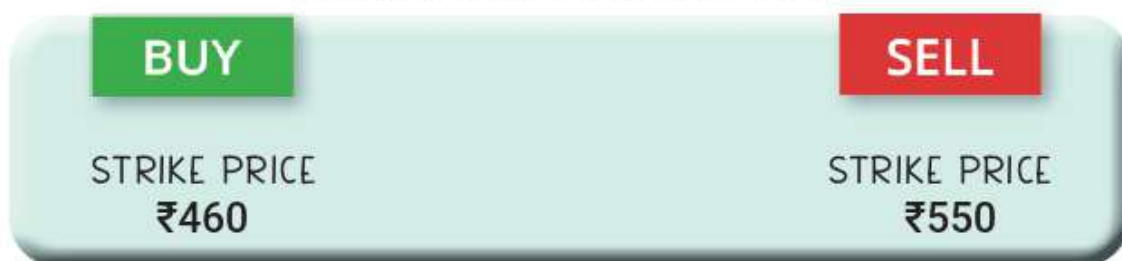
Explainer Video

Strangle strategies are quite similar to straddle strategies. The only difference is that in a straddle strategy, we buy/sell two options at the same strike price. While in a strangle strategy, we buy/sell two options at different strike prices.

### STRADDLE STRATEGY



### STRANGLE STRATEGY



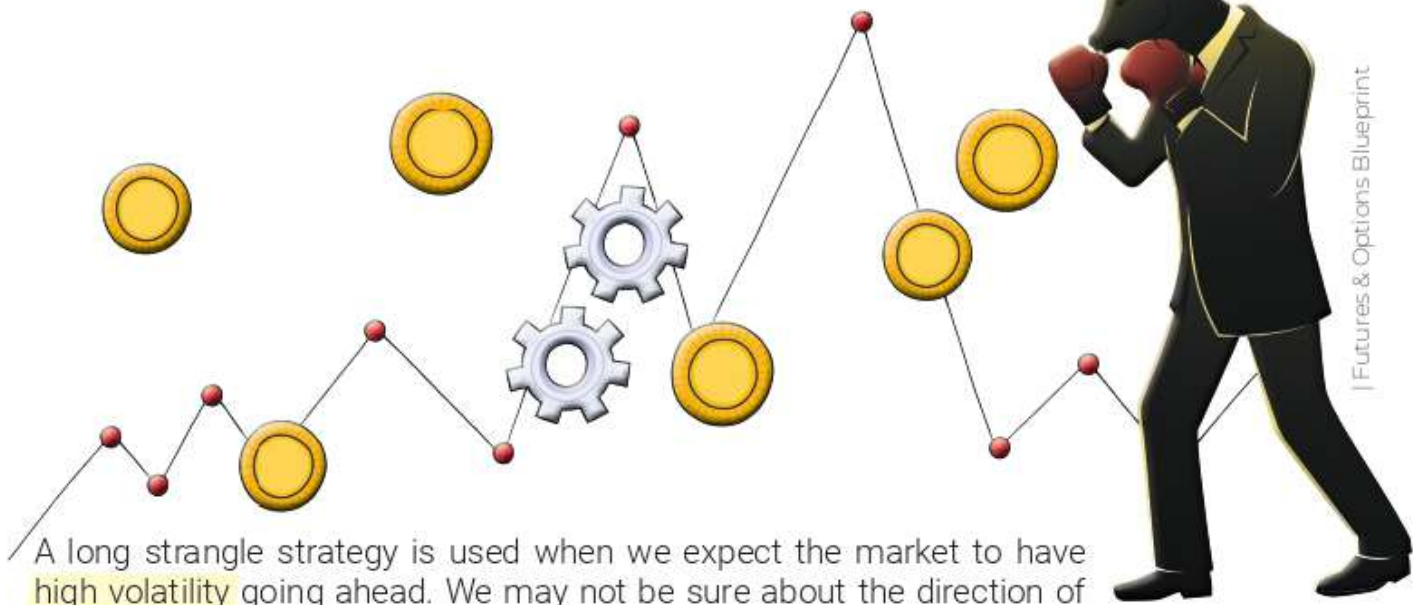
We have two kinds of option strangle strategy. One is Long Strangle Strategy and the position opposite to it is Short Strangle Strategy.

### LONG STRANGLE STRATEGY

### SHORT STRANGLE STRATEGY



## LONG STRANGLE STRATEGY

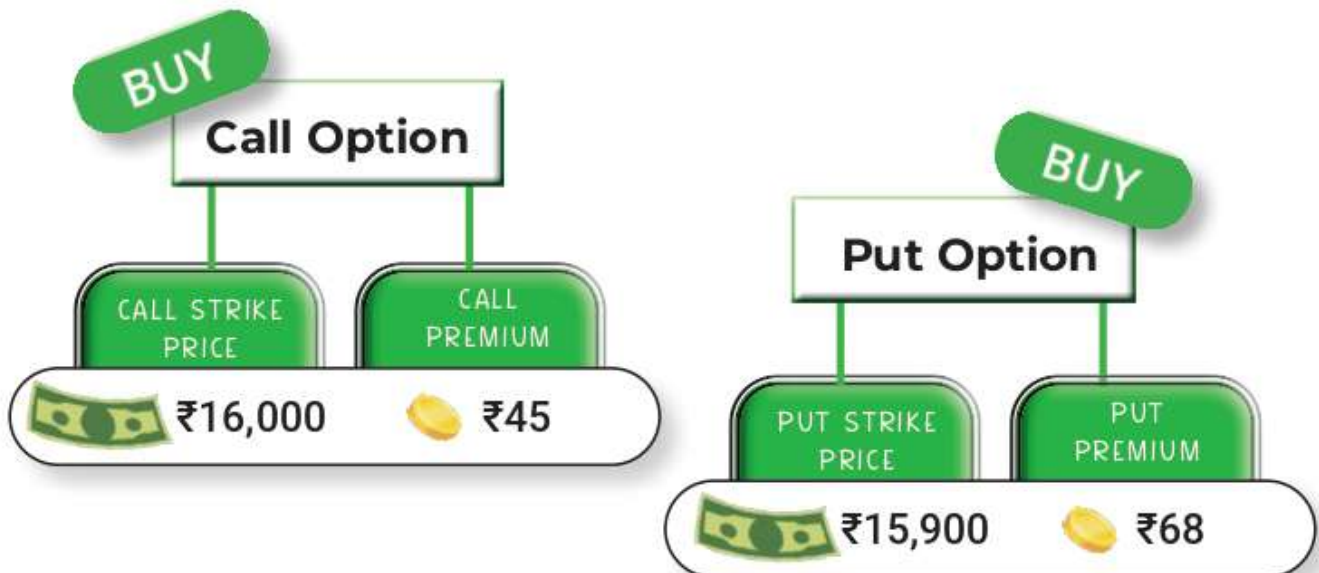


| Futures & Options Blueprint

A long strangle strategy is used when we expect the market to have **high volatility** going ahead. We may not be sure about the direction of the market prices but expect high volatility. We buy both call and put options at different strike prices on the same underlying asset. With this strategy, we have **LIMITED LOSSES** and enjoy **UNLIMITED PROFIT POTENTIAL**. Also, as a long position holder, we have a low margin requirement.

**For instance,**

we buy a call at a strike price of ₹16,000 at a premium of ₹45 and a put option at a strike price of ₹15,900 at a premium of 68.

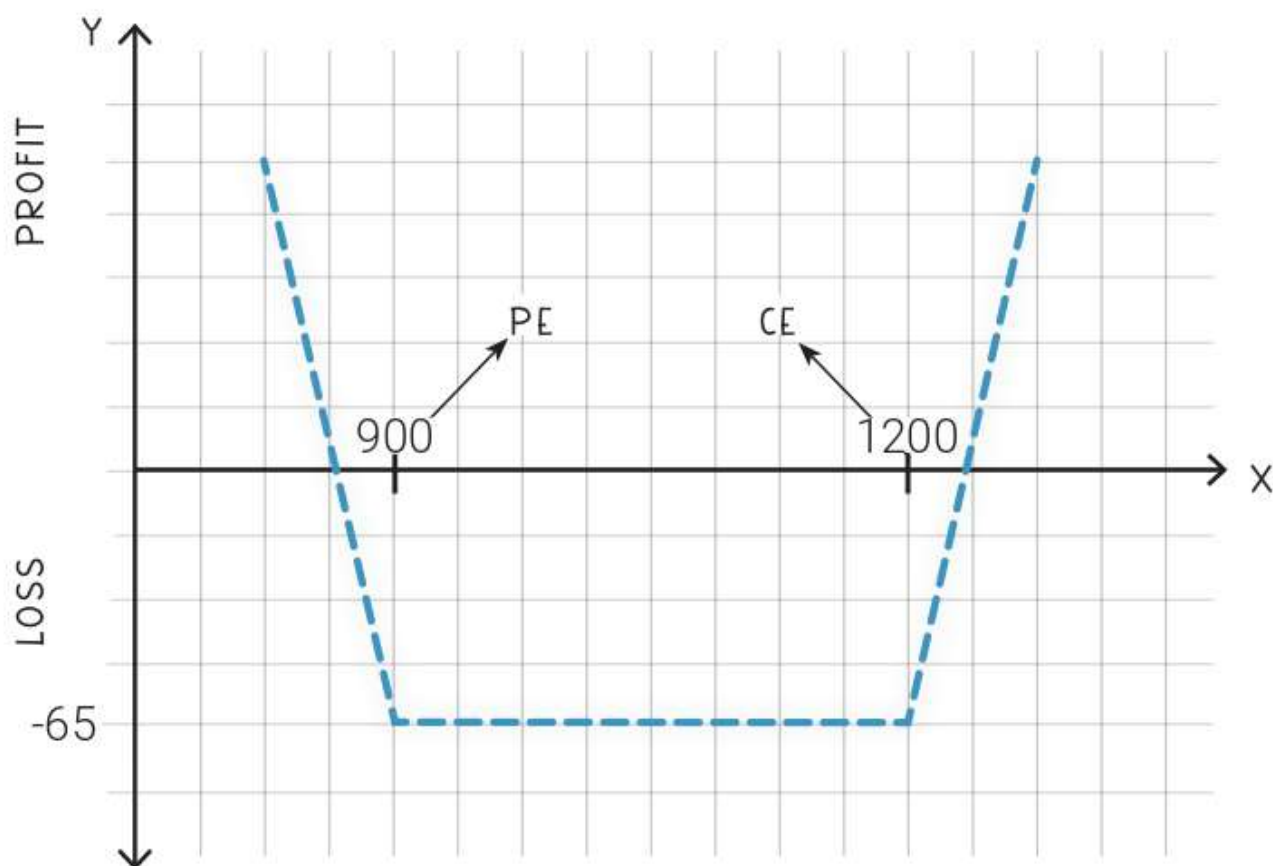
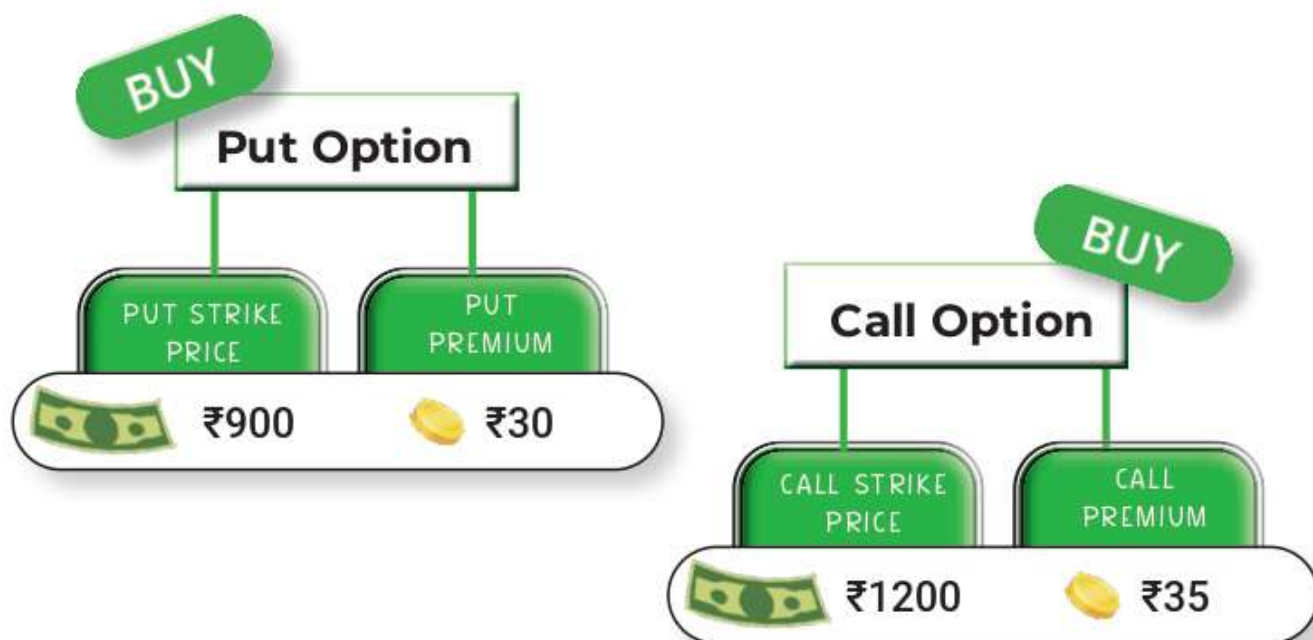


$$\text{MAXIMUM LOSS} = ₹45 + ₹68 = ₹113$$

While we still enjoy **UNLIMITED PROFIT POTENTIAL** when the volatility is high.

Let's take another example and calculate payoffs from this strategy.

On a stock XYZ at CMP = ₹1000, we buy a put option at a strike price of ₹900 at a premium of ₹30 per share. And a call option at a strike price of ₹1200 at a premium of ₹35. Lot Size = 100.



Price	Put Option	Call Option
Price = ₹800	✓ Exercised	✗ Exercised
Price = ₹950	✗ Exercised	✗ Exercised
Price = ₹1300	✗ Exercised	✓ Exercised



**MAXIMUM LOSS** = ₹30 + ₹35  
= ₹65

When the price stays between ₹900 to ₹1200, we have losses. As we move ahead of either of these two points (₹900 and ₹1200), we start to recover our losses.



On the downside,  
**BREAK EVEN POINT** = ₹900 - ₹65  
= ₹835

On the upside,  
**BREAK EVEN POINT** = ₹1200 + ₹65  
= ₹1265



### PROFITS

So, if the price goes below ₹835, we can have profits. Alternatively, if the price goes above ₹1265, we have profits.

This is why we want high volatility while we execute this strategy to make profits.

Higher the volatility, higher is the profit potential with this strategy.



## SHORT STRANGLE STRATEGY

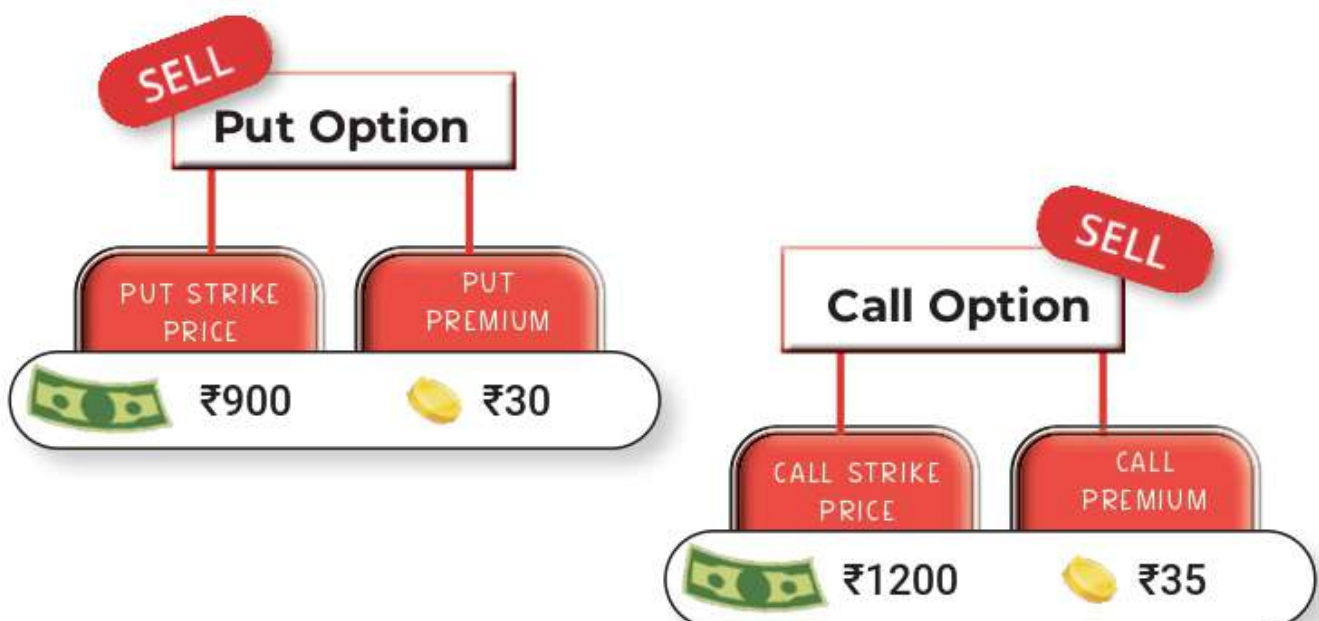


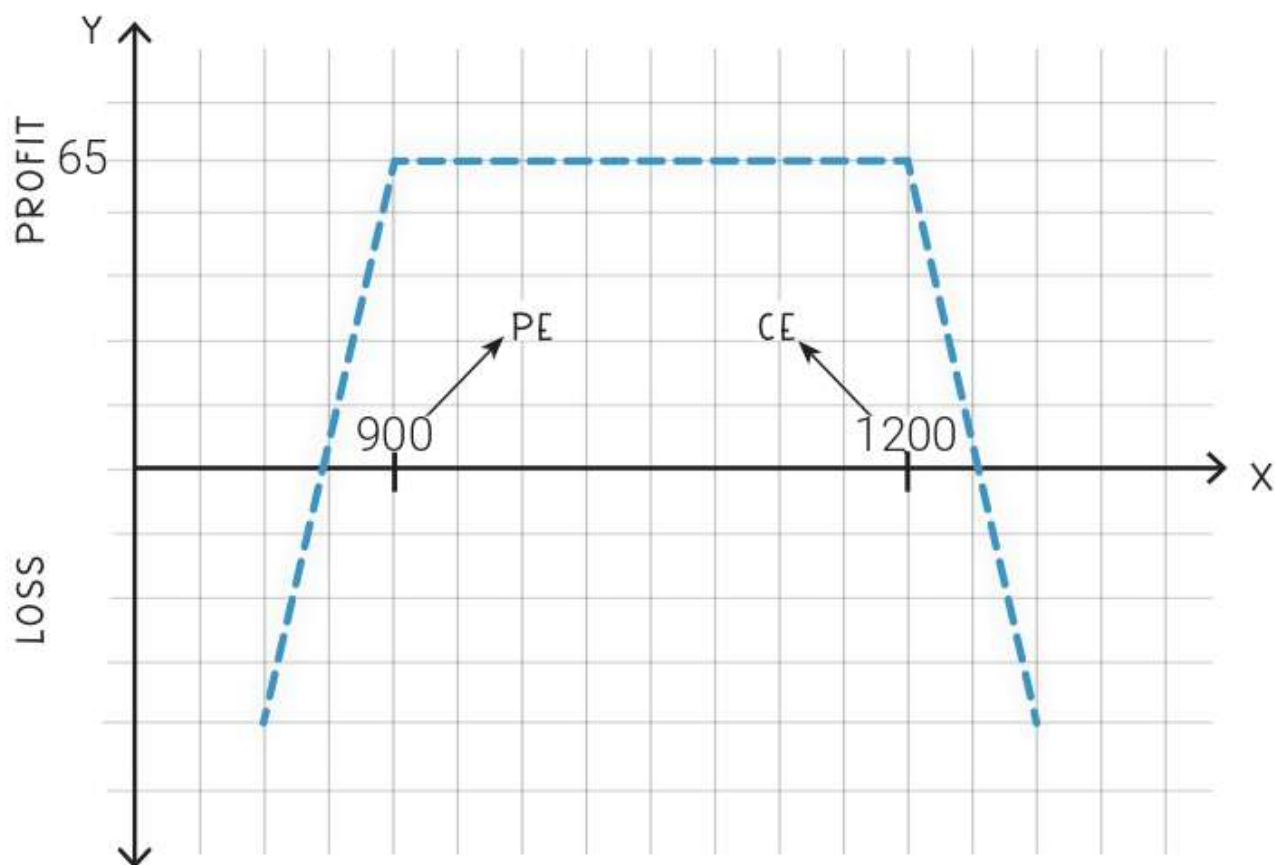
A Short strangle strategy is used when we expect **low volatility** in the market. The direction is not important till the time the movements in the market are limited. We sell both call and put options at different strike prices on the same underlying asset. With this strategy, we have **LIMITED PROFITS** with **UNLIMITED LOSS POTENTIAL**. Also, as a short position holder, we have a high margin requirement.

Let's take an example and calculate payoffs from this strategy.

On a stock XYZ at CMP = ₹1000, we sell a put option at a strike price of ₹900 at a premium of ₹30 per share. And sell a call option at a strike price of ₹1200 at a premium of ₹35. Lot Size = 100.

**Note that we are receiving premium this time.**





Price	Put Option	Call Option
Price = ₹800	✓ Exercised	✗ Exercised
Price = ₹950	✗ Exercised	✗ Exercised
Price = ₹1300	✗ Exercised	✓ Exercised



**MAXIMUM PROFIT** = ₹30 + ₹35  
= ₹65

When the price stays between ₹900 to ₹1200, we enjoy profits.

As we move ahead of either of these two points (₹900 and ₹1200), our profits start to reduce.



On the downside,

$$\text{BREAK EVEN POINT} = ₹900 - ₹65 \\ = ₹835$$

On the upside,

$$\text{BREAK EVEN POINT} = ₹1200 + ₹65 \\ = ₹1265$$

So, if the price goes below ₹835, we will have losses. Alternatively, if the price goes above ₹1265, we will have losses.



### LOSS

As we move ahead of either of these two points (₹900 and ₹1200), we start to incur losses.

Our profits are capped at ₹65, while we may incur unlimited losses if the markets turn out to be highly volatile.

This is why we want low volatility while executing this strategy.

Use the option chain of NSE to practice and get more familiarized with all these strategies that we have been discussing. Try creating payoffs and graphs independently. Getting comfortable with all these strategies is particularly important when you start working on creating your own strategies.