CHAPTER 11

VERTICAL SPREAD OPTION STRATEGIES

11.1 INTRODUCTION

Vertical Spread involves buying and selling of options of the same type (either put or call) and same expiry but at different strike prices.

For instance,

Such strategies are used over buying plain vanilla options to bring down the upfront premium investment and as a result the overall risk.

11.2 TYPES OF SPREADS

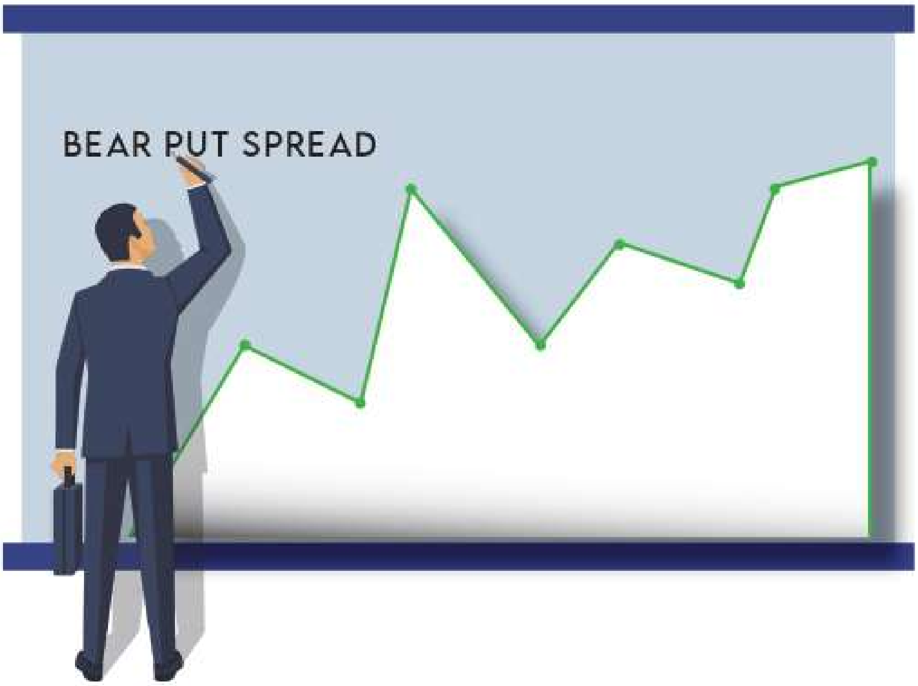
The spreads that we can create are essentially of 4 types. Namely:

- **BULL CALL SPREAD**
- **BULL PUT SPREAD**
- **BEAR CALL SPREAD**
- **BEAR PUT SPREAD**

We create a **Bull Call Spread** when we are expecting the markets to go up. Based on our opinion, when we have a Bullish view, we may go ahead with Bull Call Strategy. We will learn in the next segment how to form a Bull Call spread but we profit when the underlying asset price goes up.

Similarly, we create a **Bear Call Spread** when we expect that the markets are going to go down. Bearish Call Strategy is the opposite side of Bull Call Strategy. We profit when the price of underlying asset goes down.

We create a **Bull Put Spread** when we are expecting the markets are going to go up. Based on our analysis, if we expect the market to stay bullish, put bull spread is alternate method to profit from the same.



Similarly, we create a **Bear Put Spread** when we expect that the markets are going to go down. Bear Put Spread is created using a combination of put combination. We profit when the price of the asset goes down.

Let us discuss these strategies in-depth one by one.