tastytrade

OPTIONS STRATEGIES CHEAT SHEET

01 SHORT PUT OPTION
02 LONG PUT OPTION
03 SHORT CALL OPTION
04 LONG CALL OPTION
05 SHORT PUT VERTICAL SPREAD
06 LONG PUT VERTICAL SPREAD
07 SHORT CALL VERTICAL SPREAD
08 LONG CALL VERTICAL SPREAD
09 COVERED CALL
10 COVERED PUT

Tastytrade, Inc. ("Tastytrade") is a FINRA member firm and a registered broker-dealer with the Securities and Exchange Commission (SEC) and is a member of the Securities Investor Protection Corporation (SIPC) and the National Futures Association (NFA). Tastytrade's products and services are intended for self-directed, experienced, and sophisticated traders. Tastytrade does not provide tailored or personalized advice or recommendations. Tastytrade's content, which may be provided by third-party contributors, is general in nature and should not be construed as a recommendation or solicitation to buy or sell any security or enter into any specific trading strategy. All trading involves risk. Past performance does not guarantee future results. Trading in the markets may not be suitable for all investors. Carefully review the risks associated with any strategy or product before trading. Tastytrade does not guarantee any specific outcome or profit. Tastytrade does not provide tax, legal, or investment advice. Losses from trading futures and options can exceed the initial margin deposit. For more information, please review Tastytrade's Terms of Service, Privacy Policy, and relevant disclosures at tastytrade.com.

01 SHORT PUT OPTION

OVERVIEW

A short put is a bullish to neutral strategy that profits if the underlying stock or ETF stays above the short put strike price. It can be used as a cash-secured put to sell put options on stocks you want to own at a lower price, or as a credit spread, where the short put is hedged by a long put at a lower strike.

PAYOFF DIAGRAM

OPTIONS DIMENSIONS

- Direction: Short
- Volatility: Short
- Time: Short
- Underlying: Long or neutral
- Delta: Positive
- Theta: Positive
- Vega: Negative
- Assignment risk: Yes, early assignment

SUMMARY

- Max profit: Credit received
- Max loss: Strike price − credit received
- Breakeven: Strike price − credit received
- Margin: Cash-secured put requires full strike price in margin; credit spread requires margin equal to the spread width minus the credit received.
- Assignment: Short put may be assigned early, especially near ex-dividend dates or when deep in the money.
- Exit: Buy back the put to close, let it expire, or roll to a later date or lower strike.
- Volatility: Rising implied volatility helps the position; falling implied volatility hurts.
- Time decay: Time decay works in your favor as the option loses extrinsic value.
- Risk: Large downside if the underlying falls significantly below the strike; credit spreads limit risk to the spread width.
- Tax: Premium is taxed as short-term capital gain when the trade closes or expires.

02 LONG PUT OPTION

OVERVIEW

A long put is a bearish strategy that profits when the underlying stock or ETF falls below the strike price minus the premium paid. It can be used to hedge downside risk in a portfolio or to speculate on a decline in price. Time decay and implied volatility both work against the position, so timing matters.

PAYOFF DIAGRAM

OPTIONS DIMENSIONS

- Direction: Short
- Volatility: Short
- Time: Short
- Underlying: Short
- Delta: Negative
- Theta: Negative
- Vega: Positive
- Assignment risk: None

SUMMARY

- Max profit: Strike price − premium paid
- Max loss: Premium paid
- Breakeven: Strike price − premium paid
- Margin: None beyond the premium paid
- Assignment: None; you can exercise the put to sell shares at the strike price if you choose.
- Exit: Sell to close, let it expire, or exercise to sell shares.
- Volatility: Rising implied volatility helps the position; falling implied volatility hurts.
- Time decay: Time decay works against you as the option loses extrinsic value.
- Risk: Limited to the premium paid; the position can lose value quickly if the underlying rises or time passes without a move.
- Tax: Premium is taxed as short-term capital gain when the trade closes or expires.

03 SHORT CALL OPTION

OVERVIEW

A short call is a bearish to neutral strategy that profits if the underlying stock or ETF stays below the short call strike price. It can be used as a covered call, where the short call is hedged by owning the underlying shares, or as a credit spread, where the short call is hedged by a long call at a higher strike.

PAYOFF DIAGRAM

OPTIONS DIMENSIONS

- Direction: Short
- Volatility: Short
- Time: Short
- Underlying: Short or neutral
- Delta: Negative
- Theta: Positive
- Vega: Negative
- Assignment risk: Yes, early assignment

SUMMARY

- Max profit: Credit received
- Max loss: Unlimited; hedged by shares in a covered call or by the long call in a credit spread
- Breakeven: Strike price + credit received
- Margin: Naked calls require margin equal to a portion of the underlying value; covered calls require no margin; credit spreads require margin equal to the spread width minus the credit received.
- Assignment: Short call may be assigned early, especially near ex-dividend dates or when deep in the money.
- Exit: Buy back the call to close, let it expire, or roll to a later date or higher strike.
- Volatility: Rising implied volatility hurts the position; falling implied volatility helps.
- Time decay: Time decay works in your favor as the option loses extrinsic value.
- Risk: Unlimited downside if the underlying rises significantly above the strike; credit spreads limit risk to the spread width.
- Tax: Premium is taxed as short-term capital gain when the trade closes or expires.

04 LONG CALL OPTION

OVERVIEW

A long call is a bullish strategy that profits when the underlying stock or ETF rises above the strike price plus the premium paid. It can be used to hedge a short position or to speculate on a rise in price. Time decay and implied volatility both work against the position, so timing matters.

PAYOFF DIAGRAM

OPTIONS DIMENSIONS

- Direction: Long
- Volatility: Long
- Time: Long
- Underlying: Long
- Delta: Positive
- Theta: Negative
- Vega: Positive
- Assignment risk: None

SUMMARY

- Max profit: Unlimited
- Max loss: Premium paid
- Breakeven: Strike price + premium paid
- Margin: None beyond the premium paid
- Assignment: None; you can exercise the call to buy shares at the strike price if you choose.
- Exit: Sell to close, let it expire, or exercise to buy shares.
- Volatility: Rising implied volatility helps the position; falling implied volatility hurts.
- Time decay: Time decay works against you as the option loses extrinsic value.
- Risk: Limited to the premium paid; the position can lose value quickly if the underlying falls or time passes without a move.
- Tax: Premium is taxed as short-term capital gain when the trade closes or expires.

05 SHORT PUT VERTICAL SPREAD

OVERVIEW

A short put vertical spread is a bullish to neutral credit spread that profits if the underlying stock or ETF stays above the short put strike. It combines a short put with a lower strike long put to define risk and limit margin requirements. The spread can be used to sell put options on stocks you want to own at a lower price, or to generate income while hedging downside risk.

PAYOFF DIAGRAM

OPTIONS DIMENSIONS

- Direction: Short
- Volatility: Short
- Time: Short
- Underlying: Long or neutral
- Delta: Positive
- Theta: Positive
- Vega: Negative
- Assignment risk: Yes, early assignment

SUMMARY

- Max profit: Credit received
- Max loss: Spread width − credit received
- Breakeven: Short put strike − credit received
- Margin: Spread width minus the credit received
- Assignment: Short put may be assigned early, especially near ex-dividend dates or when deep in the money.
- Exit: Buy back the spread to close, let it expire, or roll to a later date or lower strike.
- Volatility: Rising implied volatility helps the position; falling implied volatility hurts.
- Time decay: Time decay works in your favor as the option loses extrinsic value.
- Risk: Limited downside if the underlying falls significantly below the short put strike; the long put limits losses beyond the spread width.
- Tax: Premium is taxed as short-term capital gain when the trade closes or expires.

06 LONG PUT VERTICAL SPREAD

OVERVIEW

A long put vertical spread is a bearish strategy that profits when the underlying stock or ETF falls below the long put strike minus the net premium paid. It combines a long put with a lower strike short put to define risk and reduce the cost of the position. The spread can be used to hedge a short position or to speculate on a decline in price.

PAYOFF DIAGRAM

OPTIONS DIMENSIONS

- Direction: Short
- Volatility: Short
- Time: Short
- Underlying: Short
- Delta: Negative
- Theta: Negative
- Vega: Positive
- Assignment risk: None

SUMMARY

- Max profit: Spread width − net premium paid
- Max loss: Net premium paid
- Breakeven: Long put strike − net premium paid
- Margin: None beyond the premium paid
- Assignment: None; you can exercise the long put to sell shares at the strike price if you choose.
- Exit: Sell to close, let it expire, or exercise to sell shares.
- Volatility: Rising implied volatility helps the position; falling implied volatility hurts.
- Time decay: Time decay works against you as the option loses extrinsic value.
- Risk: Limited to the premium paid; the position can lose value quickly if the underlying rises or time passes without a move.
- Tax: Premium is taxed as short-term capital gain when the trade closes or expires.

07 SHORT CALL VERTICAL SPREAD

OVERVIEW

A short call vertical spread is a bearish to neutral credit spread that profits if the underlying stock or ETF stays below the short call strike. It combines a short call with a higher strike long call to define risk and limit margin requirements. The spread can be used to sell call options on stocks you expect to stay below a certain price, or to generate income while hedging upside risk.

PAYOFF DIAGRAM

OPTIONS DIMENSIONS

- Direction: Short
- Volatility: Short
- Time: Short
- Underlying: Short or neutral
- Delta: Negative
- Theta: Positive
- Vega: Negative
- Assignment risk: Yes, early assignment

SUMMARY

- Max profit: Credit received
- Max loss: Spread width − credit received
- Breakeven: Short call strike + credit received
- Margin: Spread width minus the credit received
- Assignment: Short call may be assigned early, especially near ex-dividend dates or when deep in the money.
- Exit: Buy back the spread to close, let it expire, or roll to a later date or higher strike.
- Volatility: Rising implied volatility hurts the position; falling implied volatility helps.
- Time decay: Time decay works in your favor as the option loses extrinsic value.
- Risk: Limited upside if the underlying rises significantly above the short call strike; the long call limits losses beyond the spread width.
- Tax: Premium is taxed as short-term capital gain when the trade closes or expires.

08 LONG CALL VERTICAL SPREAD

OVERVIEW

A long call vertical spread is a bullish strategy that profits when the underlying stock or ETF rises above the long call strike plus the net premium paid. It combines a long call with a lower strike short call to define risk and reduce the cost of the position. The spread can be used to hedge a short position or to speculate on a rise in price.

PAYOFF DIAGRAM

OPTIONS DIMENSIONS

- Direction: Long
- Volatility: Long
- Time: Long
- Underlying: Long
- Delta: Positive
- Theta: Negative
- Vega: Positive
- Assignment risk: None

SUMMARY

- Max profit: Spread width − net premium paid
- Max loss: Net premium paid
- Breakeven: Long call strike + net premium paid
- Margin: None beyond the premium paid
- Assignment: None; you can exercise the long call to buy shares at the strike price if you choose.
- Exit: Sell to close, let it expire, or exercise to buy shares.
- Volatility: Rising implied volatility helps the position; falling implied volatility hurts.
- Time decay: Time decay works against you as the option loses extrinsic value.
- Risk: Limited to the premium paid; the position can lose value quickly if the underlying falls or time passes without a move.
- Tax: Premium is taxed as short-term capital gain when the trade closes or expires.

09 COVERED CALL

OVERVIEW

A covered call is a bullish to neutral strategy that combines a long stock or ETF position with a short call to generate income. The short call caps upside potential at the strike price in exchange for the premium received. It can be used to enhance yield on holdings you expect to stay below a certain price, or to reduce the cost basis of a position over time.

PAYOFF DIAGRAM

OPTIONS DIMENSIONS

- Direction: Long
- Volatility: Short
- Time: Short
- Underlying: Long
- Delta: Positive
- Theta: Positive
- Vega: Negative
- Assignment risk: Yes, early assignment

SUMMARY

- Max profit: Strike price − stock price + credit received
- Max loss: Stock price − credit received
- Breakeven: Stock price − credit received
- Margin: Full cost of the stock position minus the credit received
- Assignment: Short call may be assigned early, especially near ex-dividend dates or when deep in the money.
- Exit: Sell the stock and buy back the call, let the call expire, or roll the call to a later date or higher strike.
- Volatility: Rising implied volatility hurts the position; falling implied volatility helps.
- Time decay: Time decay works in your favor as the option loses extrinsic value.
- Risk: Downside in the stock is only partially offset by the premium; upside is capped at the strike plus the premium.
- Tax: Premium is taxed as short-term capital gain when the trade closes or expires; stock gains are taxed separately.

10 COVERED PUT

OVERVIEW

A covered put is a bearish to neutral strategy that combines a short stock or ETF position with a short put to generate income. The short put caps downside potential at the strike price in exchange for the premium received. It can be used to enhance yield on holdings you expect to stay above a certain price, or to reduce the cost basis of a position over time.

PAYOFF DIAGRAM

OPTIONS DIMENSIONS

- Direction: Short
- Volatility: Short
- Time: Short
- Underlying: Short
- Delta: Negative
- Theta: Positive
- Vega: Negative
- Assignment risk: Yes, early assignment

SUMMARY

- Max profit: Stock price − strike price + credit received
- Max loss: Unlimited; hedged by the short stock
- Breakeven: Stock price − credit received
- Margin: Full cost of the stock position plus the short put margin minus the credit received
- Assignment: Short put may be assigned early, especially near ex-dividend dates or when deep in the money.
- Exit: Buy back the put and close the short stock, let the put expire, or roll the put to a later date or lower strike.
- Volatility: Rising implied volatility helps the position; falling implied volatility hurts.
- Time decay: Time decay works in your favor as the option loses extrinsic value.
- Risk: Upside in the stock is only partially offset by the premium; downside is capped at the strike minus the premium.
- Tax: Premium is taxed as short-term capital gain when the trade closes or expires; stock gains are taxed separately.