Buy to Open: Buying a CALL / PUT option

Sell to Open: selling a CALL / PUT option (Covered Calls / Cash Secured Puts).

Buy to Close: Closing out the CALL / PUT option you sold.

Sell to Close: Closing out the CALL / PUT option you bought.

<https://www.tastylive.com/concepts-strategies/covered-call>

**Covered Call (Capped profit, limited upside potential).**

Imagine you own 100 shares of a stock and you want to generate some extra income from these shares.

This is where a covered call comes in.

1. **Own the Underlying Stock:** You already have 100 shares of the stock in your portfolio. This is the "cover" in a covered call.
2. **Sell a Call Option:** You sell a call option on those same 100 shares with a strike price slightly above the current stock price. This gives the buyer the right to buy your shares at that price before the option expires.

**How it Works:**

* **Stock price stays below the strike price:** The option expires worthless, and you keep the premium you received from selling the call. You also keep your shares.
* **Stock price rises slightly above the strike price:** The option buyer may exercise their right to buy your shares at the strike price. You still make a profit from the premium and the increase in the stock price up to the strike price.
* **Stock price rises significantly:** The option buyer will almost certainly exercise their right to buy your shares. You miss out on the larger gains above the strike price, but you still profit from the premium and the price increase up to the strike price.

**Key Takeaways:**

* **Limited Profit Potential:** Your maximum profit is capped at the strike price plus the premium received.
* **Limited Risk:** Your maximum loss is the purchase price of the stock minus the premium received.
* **Income Generation:** Covered calls are a popular strategy for generating income on stocks you already own.
* **Suitable for Neutral to Slightly Bullish Outlook:** This strategy works best when you expect the stock price to remain relatively stable or increase modestly.

**Example:**

You own 100 shares of XYZ stock currently trading at $50. You sell a call option with a strike price of $55 and receive a premium of $2 per share ($200 total).

* If XYZ stays below $55, you keep the $200 premium and your shares.
* If XYZ rises to $60, the option buyer will likely exercise, and you sell your shares for $55 each. Your profit is $5 per share from the price increase plus $2 per share from the premium, totaling $700.

**Important Note:** Like all options strategies, covered calls involve risks. It's essential to understand the potential downsides and consult with a financial advisor before implementing this strategy.

[**https://www.tastylive.com/concepts-strategies/naked-options**](https://www.tastylive.com/concepts-strategies/naked-options)

**High-Risk Strategies (Buying Naked Calls or Puts)**

When buying naked **calls** or **puts**, you’re speculating that the stock will move significantly in one direction (up for calls, down for puts). This strategy involves high risk because your entire investment could be lost if the stock does not move as expected. However, the reward is theoretically unlimited for calls (as stock prices can rise infinitely) and substantial for puts.

**Example:**

* **Stock**: XYZ is currently trading at $50.
* **Call Option**: Buy a $55 strike call option expiring in 30 days for $2.00 (premium).
  + **Scenario 1**: Stock price rises to $60 at expiration.
    - Intrinsic value = $60 - $55 = $5.
    - Profit = Intrinsic value ($5) - Premium paid ($2) = $3 per share or $300 for the contract (1 contract = 100 shares).
  + **Scenario 2**: Stock price stays below $55 at expiration.
    - Call option expires worthless.
    - Loss = Premium paid ($2) = $200.
* **Put Option**: Buy a $45 strike put option expiring in 30 days for $1.50 (premium).
  + **Scenario 1**: Stock price falls to $40 at expiration.
    - Intrinsic value = $45 - $40 = $5.
    - Profit = Intrinsic value ($5) - Premium paid ($1.50) = $3.50 per share or $350 for the contract.
  + **Scenario 2**: Stock price stays above $45 at expiration.
    - Put option expires worthless.
    - Loss = Premium paid ($1.50) = $150.

**Risk & Reward is both high when we buy naked PUTS or CALLS because we can make money only in one direction.**

**If you are a high-risk trader, you can buy calls or buy puts.**

**if you are low risk trader:**

**You can do Bull put Spread (when we sell puts) or**

**You can do Bear Call spread (when we sell calls)**

**By buying 1 strike above and 1 strike below the current price of the stock**

**Lower-Risk Strategies:**

<https://www.tastylive.com/concepts-strategies/bull-put-spread>

**Bull Put Spread (Price at Support, best for moderate price increases, Low-Risk Bullish Trade)**

This is a **credit spread**, used when you expect the stock price to rise or remain above a certain level.

**You sell a put option and buy another put option with lower-strike price** (with the same expiration date)

**Stock**: XYZ is trading at $50.

**Strategy**: Sell a $48 strike put for $2.50 and buy a $45 strike put for $1.00.

* **Net Credit**: $2.50 - $1.00 = $1.50 ($150 per contract).
* **Maximum loss**: Difference in strike prices ($48 - $45 = $3) - Net Credit ($1.50) = $1.50 ($150 per contract).
* **Maximum Profit**: The net credit received ($1.50 or $150 per contract).

**Scenarios**:

* **If stock stays above $48**: Both puts expire worthless. You keep the net credit = $150 profit.
* **If stock falls below $45**: Both puts are exercised. Loss = $150 (maximum risk).

**Important Considerations**

1. **Time Decay**: This strategy benefits from time decay because you receive a premium upfront. The options lose value over time, especially the short call, which helps increase profit as expiration approaches.
2. **Implied Volatility**: High implied volatility can increase premiums, which may result in a higher net credit at the start. However, if volatility drops, it can make it easier for the options to expire worthless, benefitting the trade.

<https://www.tastylive.com/concepts-strategies/bear-call-spread>

**Bear Call Spread (Price at Resistance, best for moderate price decreases, Low-Risk Bearish Trade)**

This is a **credit spread**, used when you expect the stock price to fall or remain below a certain level.

You sell a call option and **buy another call option with a higher strike price** (with the same expiration date)

**Stock**: XYZ is trading at $50.

**Strategy**: Sell a $52 strike call for $2.00 and buy a $55 strike call for $1.00.

* **Net Credit**: $2.00 - $1.00 = $1.00 ($100 per contract).
* **Maximum Risk**: Difference in strike prices ($55 - $52 = $3) - Net Credit ($1.00) = $2.00 ($200 per contract).
* **Maximum Profit**: The net credit received ($1.00 or $100 per contract).

**Scenarios**:

* **If stock stays below $52**: Both calls expire worthless. You keep the net credit = $100 profit.
* **If stock rises above $55**: Both calls are exercised. Loss = $200 (maximum risk).

**Important Considerations**

1. **Time Decay**: This strategy benefits from time decay because you receive a premium upfront. The options lose value over time, especially the short call, which helps increase profit as expiration approaches.
2. **Implied Volatility**: High implied volatility can increase premiums, which may result in a higher net credit at the start. However, if volatility drops, it can make it easier for the options to expire worthless, benefitting the trade.

**Summary of Risks and Rewards**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Trade Type | Risk | Reward | Best Market Condition | Price At |
| Naked Calls | Unlimited loss | Unlimited profit | Strongly bullish | Support |
| Naked Puts | High (to $0 stock price) | Substantial profit | Strongly bearish | Resistance |
| Bull Put Spread | Limited (strike difference - credit) | Limited (net credit) | Moderately bullish | Support |
| Bear Call Spread | Limited (strike difference - credit) | Limited (net credit) | Moderately bearish | Resistance |

Bull Put Spread and Bear Call Spread **(limited profit potential, careful strike selection, time decay works against)**

These strategies offer limited risk and limited reward, making them suitable for more conservative traders.

**SELLING OPTIONS LIKE ICE CREAM?**

An ice cream shops that buy a 5-gallon tub for, say, $50. Each tub has 100 scoops, and each of those scoops sells for $3

So, they pay $50 and collect $300!

Our long-dated put is the tub of ice cream that lasts for 120 days; (long dated **Buy Put** serves as insurance because as buyer you have the right to PUT the stock to seller at the strike price even if the stock is strike price – 50 lesser)

Each scoop is the weekly put we sell.

Let’s use Charles Schwab (SCHW) as an example:

SCHW is trading at $74.00

We **buy** a $70 put expiring in 120 days and past the next earnings date for $4.20

We **sell** next weeks at the money 74 put and collect $1.28

We have a tub of ice cream with 16 weekly scoops and the potential to collect $1.28!

If you had 1 contract (100 shares), you would pay $420 for the insurance and collect $2048.

If you had 5 contracts (500 shares), you would pay $2,100 for the insurance and collect $10,240.

If you had 10 contracts (1,000 shares), you would pay $4,200 for the insurance and collect $20,480; this is $1,280 a week.

**Day Trade: 10 Mins Trade** (Beginners Paper Trade)

**Learn and do. Don’t just watch videos, you want to Do after you learn. Do this for 2 weeks in paper trade.**

Use 8,23 EMA

There is lot of price gap between 8 and 23 EMA. If there is less gap then don’t trade and wait for opportunity to get in.

Call Option:

When and 8 and 23 are both going up.

When 8 EMA is having higher price than the price of 23 EMA

Exit when there are 2 consecutive candles crossing below 8 EMA (on the down side.)

Put Option:

When and 8 and 23 are both going down.

When 8 EMA is having lower price than the price of 23 EMA

Exit when there are 2 consecutive candles crossing above 8 EMA (on the upside side)

Placing the Trade

• Look to see which direction the 8 and 23day moving average is trending.

• If they are trending up you are going to buy Call options; if they are trending down you are going to buy Put options.

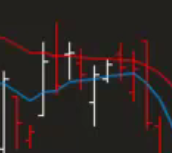
If you like what you see go to the option chain and see if you can find a few options to suit your needs. Be sure to pick an option that has an open interest of at least 100, expires in 45 or more days, and then invest roughly $500 into the trade.

To keep things simple, we are trading the at-the-money or slightly out-of-the-money option.

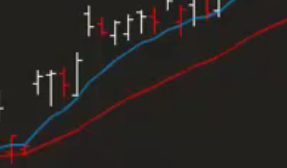
**Exit Criteria** Exit on 2 consecutive price closes above or below the 8-day moving average.

Red Blue both going opposite direction (No Trade).

Red going down, Blue Going Up.



Red Blue both going same direction (Trade).



The 7 Steps.

**What to Trade**

* 1. Fundamental Analysis
  2. Creating a Watch List

**When to Trade**

* 1. Technical Analysis
  2. Potential Trades
  3. Follow through

**How to Manage risks and Profits**

* 1. Exit Strategy

Money Management