[**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**