

INTRODUCTION TO OPTIONS STRATEGIES

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OPTION INVESTING CONSIDERATIONS

Success with Options Trading Depends on 5 Main Factors:

Direction (Bullish / Neutral / Bearish)

Magnitude (Strong View / Moderate View)

Time Horizon (Maturity / Time Decay of Options)

Volatility Prior to Expiration (Upward Trend / Downward Trend)

Personal Risk Tolerance (Risk Adverse / Risk Seeking)

RISK / REWARD CONSIDERATIONS

	In-The Money TM Options	At-The Money TM Options	Out-Of-The- Money TM Options
Initial Cost	Highest	In-Between	Lowest
Payout	Highest Dollar Return	In-Between	Highest Percentage Return
Volatility Change (Prior to Expiration)	Smallest Percentage and Dollar Impact on Option Price	Greatest Dollar Impact on Option Price	Greatest Percentage Impact on Option Price
Time Decay	Lowest	Highest	In-Between

DIRECTIONAL STRATEGIES

	Bearish	Moderately Bearish	Neutral	Moderately Bullish	Bullish
Buy (Less Risky)	<ul style="list-style-type: none"> ● ATM Put ● OTM Put 	<ul style="list-style-type: none"> ● Put Spread (Buy ATM Put / Sell OTM Put) 		<ul style="list-style-type: none"> ● Stock ● Call Spread (Buy ATM Call / Sell OTM Call) 	<ul style="list-style-type: none"> ● Stock ● ATM Call ● OTM Call
Sell (More Risky)	<ul style="list-style-type: none"> ● Stock ● ATM Call ● ITM Call 	<ul style="list-style-type: none"> ● Stock ● OTM Call ● Call Spread (Sell ATM Call / Buy OTM Call) 	<ul style="list-style-type: none"> ● ATM Put ● ATM Call ● Straddle (Sell ATM Put / ATM Call) ● Strangle (Sell OTM Put / OTM Call) 	<ul style="list-style-type: none"> ● OTM Put ● Put Spread (Sell ATM Put / Buy OTM Put) 	<ul style="list-style-type: none"> ● ATM Put ● ITM Put

The Above Table is Not Exhaustive. It Merely Provides the Most Commonly Used Strategies.

BULLISH STRATEGIES

Long Call

Buy ATM Call

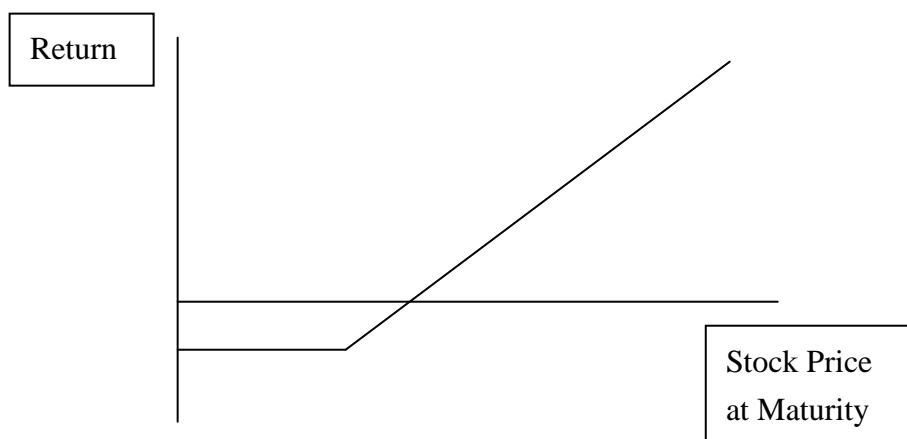
Market View: Bullish

Benefits:

- Maximum Loss Limited
- Unlimited Upside
- Leverage
- Volatility Increases

Considerations:

- Time Decay



- Volatile Stock Has a High Call Option Price
- Breakeven Level Higher than Current Stock Price
- Volatility Decreases

BULLISH STRATEGIES

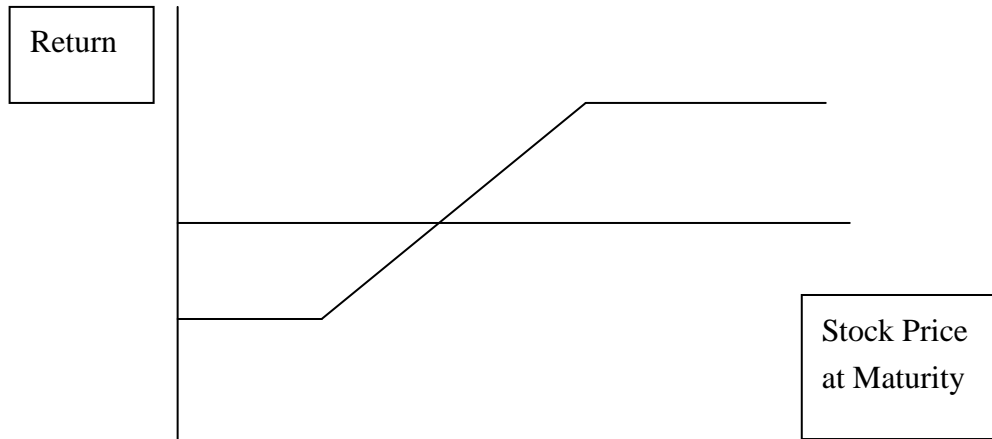
Long Call Spread

Buy ATM Call & Sell OTM Call

Market View: Moderately Bullish

Benefits:

- Maximum Loss Limited
- Lower Cost
- Lower Breakeven Level than Call Option
- Volatility Increases



Considerations:

- Time Decay
- Upside Limited
- Higher Breakeven Level than Current Stock Price
- Volatility Decreases

BULLISH STRATEGIES

Example: ATM Call vs. ATM / 125% Call Spread

Underlying Stock Assumptions

Price:	\$100	Dividend:	0%
Volatility:	30%	Interest Rate:	6%

Option Model Output

6 Months ATM European Call Price: \$9.79

6 Months 125% Strike European Call Price: \$2.25

ATM / 125% Call Spread Price = $\$9.79 - \$2.25 =$ \$7.54



BULLISH STRATEGIES

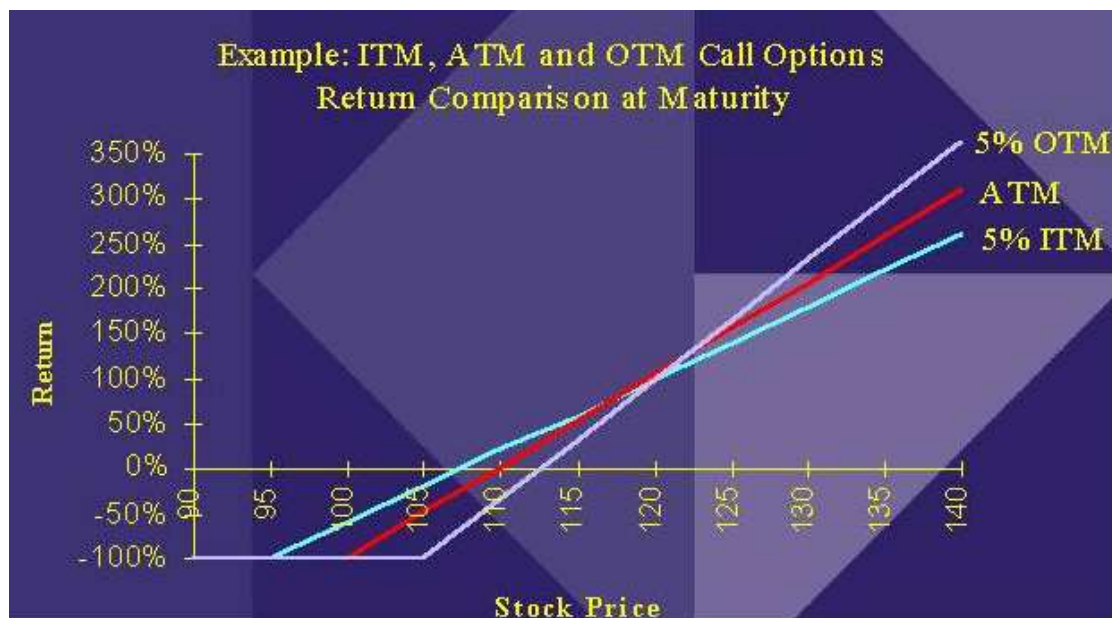
Example: ITM, ATM and OTM Call Options

Underlying Stock Assumptions

Price:	\$100	Dividend:	0%
Volatility:	30%	Interest Rate:	6%

Option Model Output

6 Months 5% ITM European Call Price:	\$12.51
6 Months ATM European Call Price:	\$9.79
6 Months 5% OTM European Call Price:	\$7.53



BULLISH STRATEGIES

Short Put

Sell ATM Put

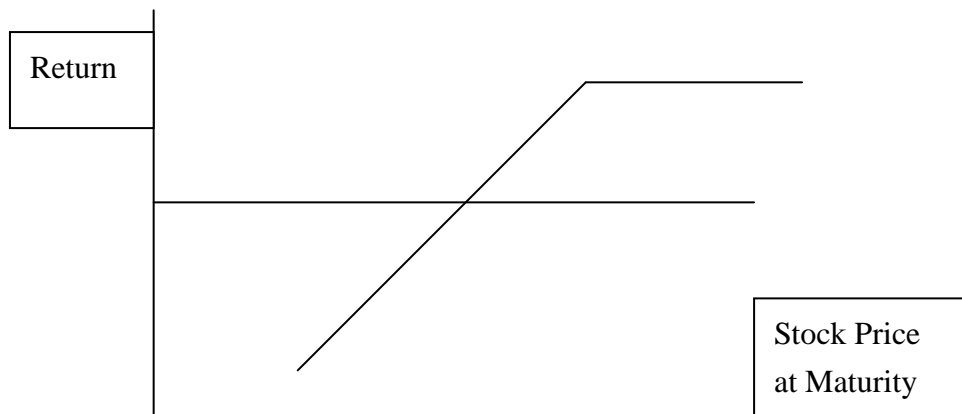
Market View: Moderately Bullish

Benefits:

- Time Decay
- Profitable Even if Stock Stays Unchanged
- Volatility Decreases

Considerations:

- Upside Limited
- Loss Unlimited
- Volatility Increases



NETUTRAL STRATEGIES

Short Straddle

Sell ATM Call / Sell ATM Put

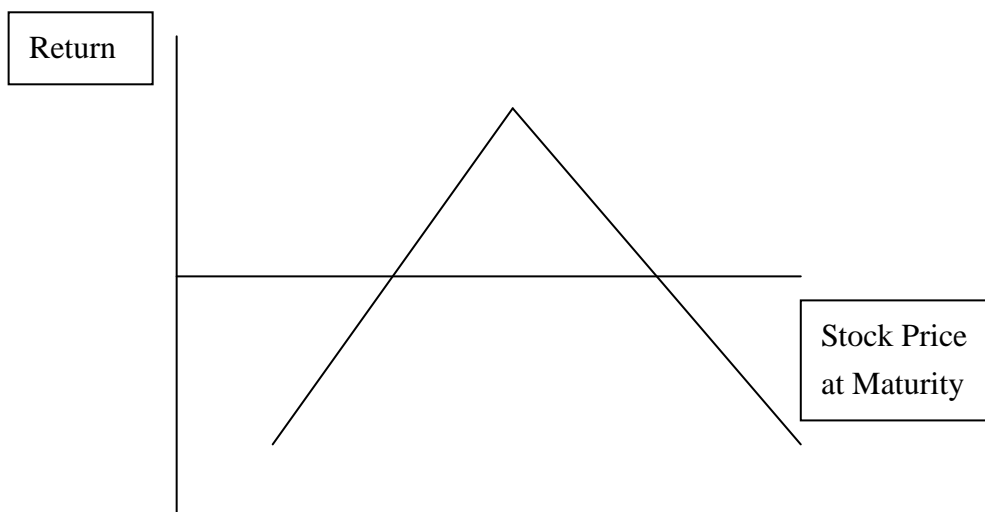
Market View: Neutral

Benefits:

- Profitable in Small Range
- Time Decay
- Volatility Decreases

Considerations:

- Upside Limited
- Loss Unlimited
- Volatility Increases



NEUTRAL STRATEGIES

Short Strangle

Sell OTM Call / Sell OTM Put

Market View: Neutral

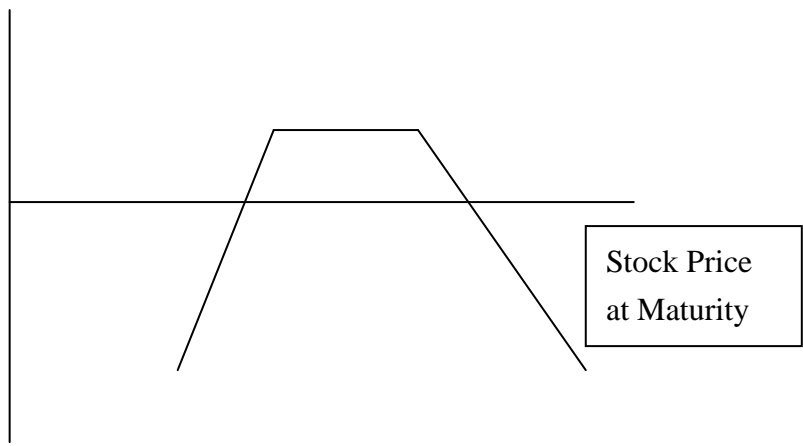
Benefits:

- Profitable in Larger Range Compared with Straddle
- Time Decay
- Volatility Decreases

Return

Considerations:

- Upside Limited
- Upside Less than a Straddle
- Loss Unlimited
- Volatility Increases



BEARISH STRATEGIES

Short Call

Sell ATM Call

Market View: Moderately Bearish

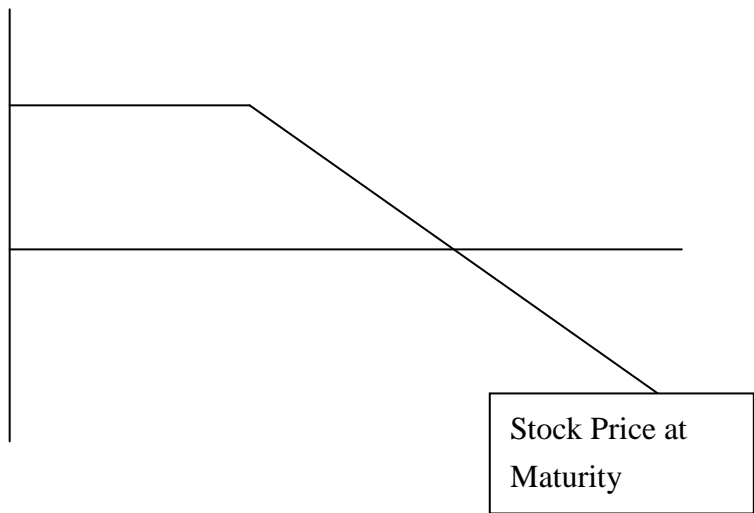
Benefits:

- Time Decay
- Profitable Even if Stock Stays Unchanged
- Volatility Decreases

Return

Considerations:

- Upside Limited
- Loss Unlimited
- Volatility Increases



BEARISH STRATEGIES

Long Put

But ATM Put

Market View: Bearish

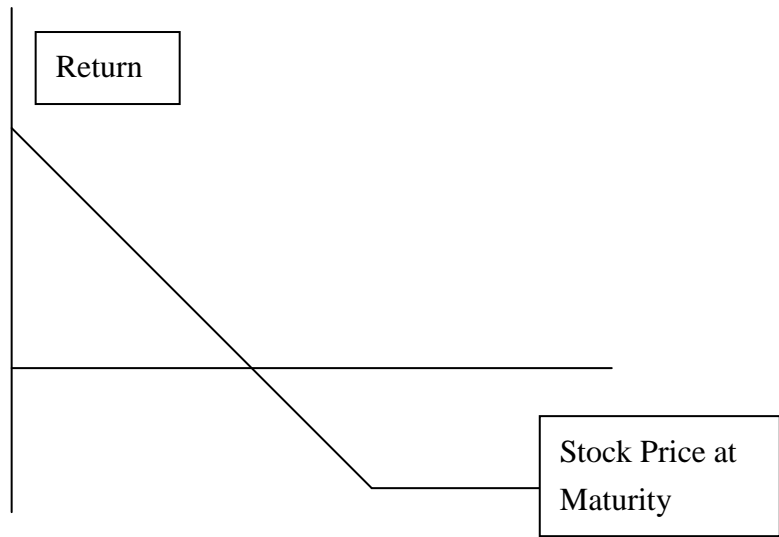
Benefits:

- Maximum Loss Limited
- Leverage

- High Potential Return
- Volatility Increases

Considerations:

- Time Decay
- Volatile Stock Has High Put Option Price
- Breakeven Higher than Short Stock
- Volatility Decreases



YIELD ENHANCEMENT STRATEGY

“Over-Write” Strategy

Sell Call Against Long Stock Position

Objective:

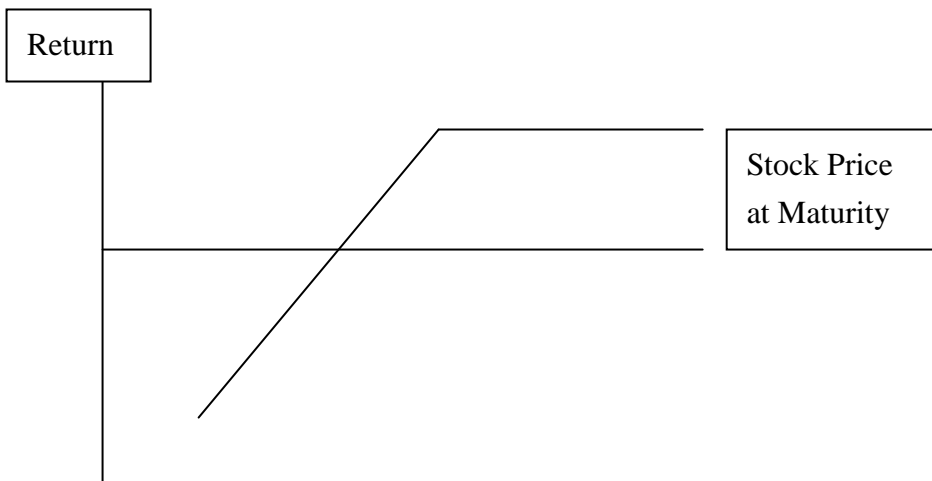
Enhance Return on a Stock Given a Neutral to Slightly Bullish View

Benefits:

- Maintains Current Ownership of Stock
- Collects Option Premium
- Enhances Return if Investor View is Correct

Considerations:

- Upside Limited – Stock “Called Away” if Closes Above Strike
- Similar Downside Risk as Stock



PROTECTION STRATEGY

Protective Put

Buy Put Against Long Stock Position

Objective:

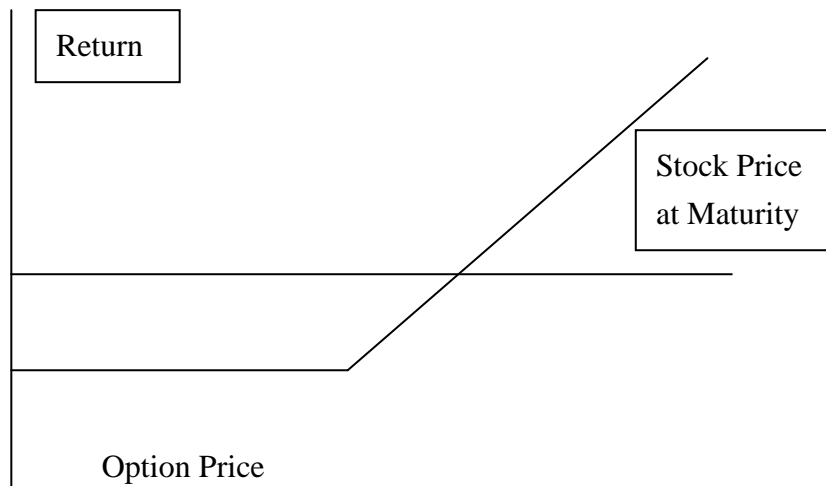
Protect Against Downside Risk of a Stock Position

Benefits:

- Maintains Ownership of Stock
- Participates Fully on Stock Gain
- “Peace of Mind” if Stock Goes Down

Considerations:

- Pays Option Premium
- Time Decay
- Volatile Stock Has a High Put



Risk Reversal Strategy

Risk Reversal

“Over-Write” + Protected Put

Objective:

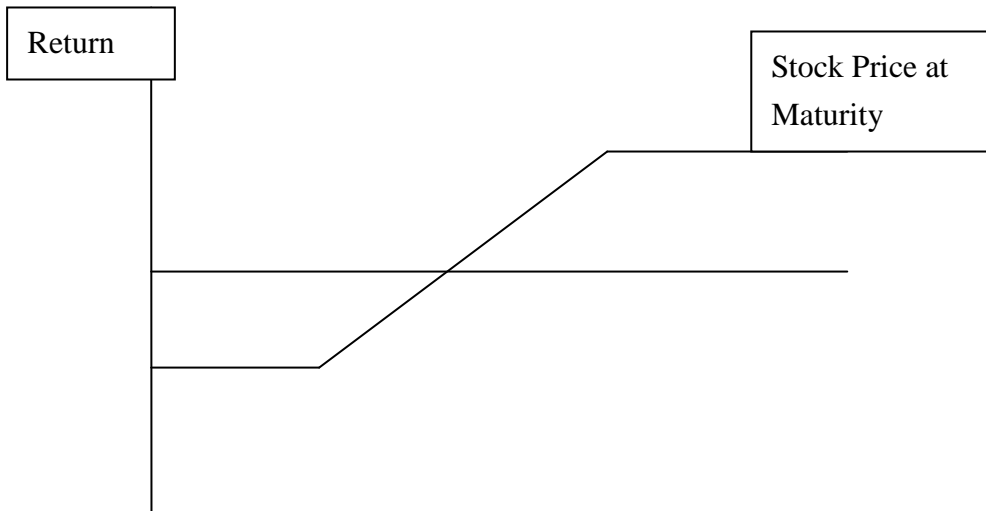
Reduce Downside Risk and Upside Exposure of a Stock Position

Benefits:

- Maintains Current Ownership of Stock
- “Peace of Mind” if Stock Goes Down
- Pays Little or No Option Premium

Considerations:

- Some Time Decay if Pay Option Premium
- Upside Limited – Stock “Called Away” if Closes Above Strike



SUMMARY

- Success with Options Trading Depends on an Investor's View on: Market Direction and its Magnitude, Time Horizon, Volatility, and Personal Risk / Reward Tradeoff.
- The Decision to Buy or Sell, and the Optimal Option Strategy to Employ, Must Coincide with the Investor's View.
- Other Factors that Need to be Considered Include the Maturity and the Strike Price of the Option.