22 in ’22 Option Strategies*

“If you don’t have an opinion,
don’t have a position.”

* Based on a CBOE Options Institute webcast: Portfolio Management with 22 Options Strategies” FEB 9, 2022

See also www.aaiisandiego.com/sub-groups/options-trading/ for ~ 25 recorded meetings and presentation slides

22 in '22 Option Strategies

Trade (sentiment) Categories

- Bearish
- Bullish
- Neutral
- Protective
- Collar
- Income

Trade Categories: Debit vs Credit

Paying for premium (theta negative, time value decay hurts)

- Long call
- Long put
- Debit spread
- Protective put

Receiving premium (theta positive, time value helps)

- Short call
- Short put
- Credit spread
- Covered call
- CSP
- Short straddles

Trades By Category

- **Bearish**

Long put

Bear put spread

Bear call spread

Synthetic short Stock

Trades By Category

- **Bullish**

Long call

Bull call spread

Synthetic long stock

Bullish Split Strike Spread

Trades By Category

- Neutral (non-directional)

Straddle/Strangle

Iron Condor

Iron Butterfly

1x2 Ratio Spread

Calendar

Trades By Category

- Protective

Long put (with stock)

Trades By Category

- **Income**

ATM buy/write

OTM buy/write

ATM 1 month put/write

ATM 1 week put/write

Covered combo

Trades By Category

- **Collars**

Collar put spread

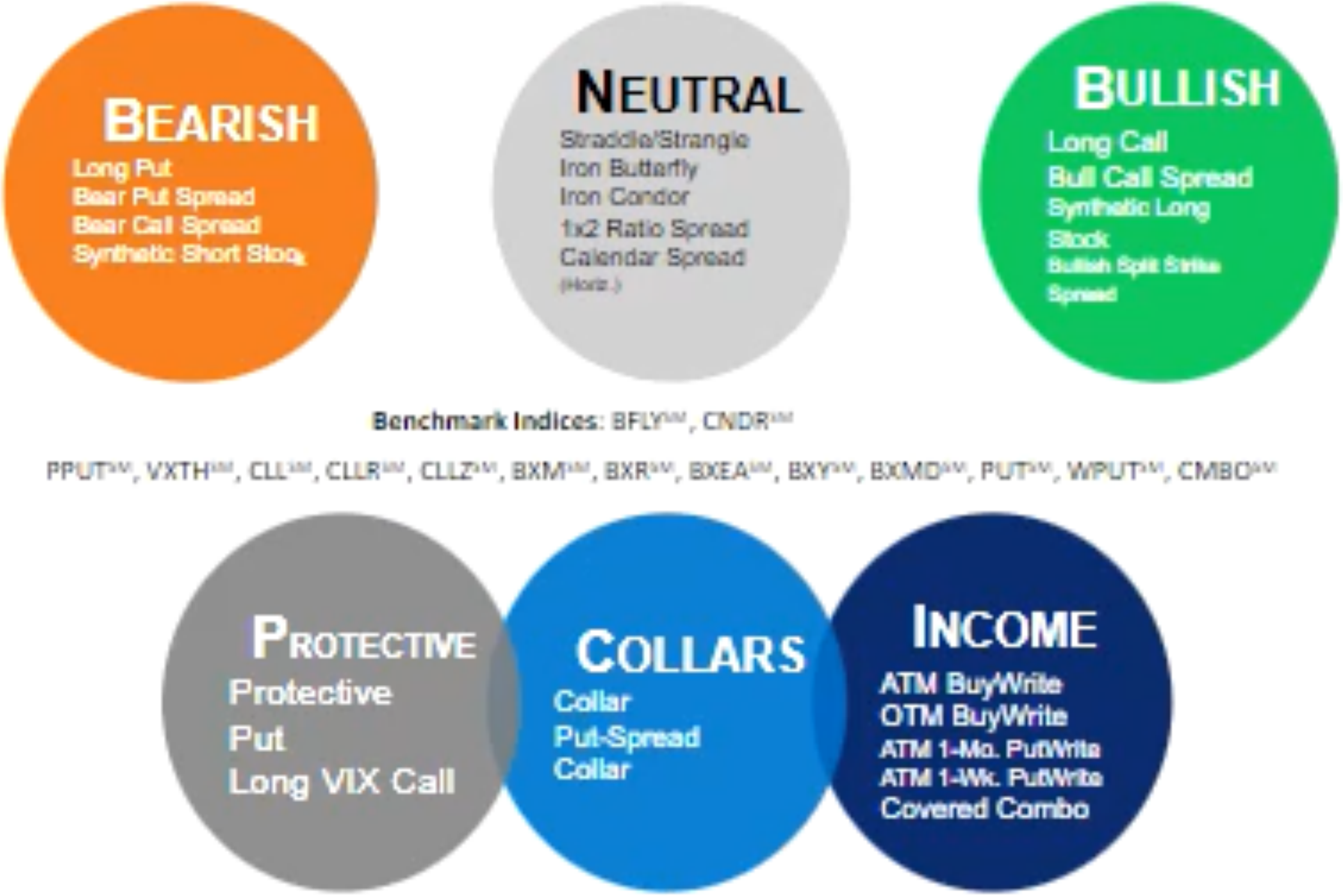
OTM buy/write

ATM 1 month put/write

ATM 1 week put/write

Covered combo

22 for '22 - Options Strategies



Bearish Strategies

BEARISH

Long Put
Bear Put Spread
Bear Call Spread
Synthetic Short Stock

#1 - Long Put Strategy

Strategy – Buy put options that may gain in value if the price of the stock or index moves lower.

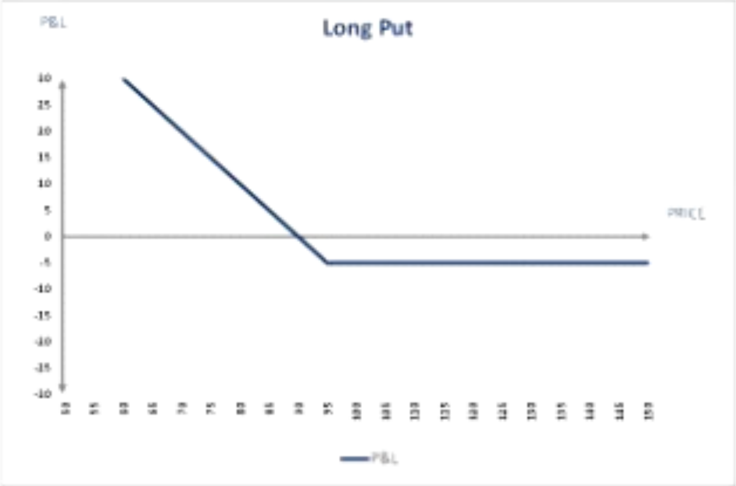
In return for paying a premium, the buyer of a put gets the right (not the obligation) to sell the underlying instrument at the strike price at any time until the expiration date.

Maximum Gain: The profit potential is limited but substantial. If the stock became worthless, the investor's profit could be the difference between the strike price and zero, less the premium paid, commissions and fees.

Comparison – the **Maximum Loss** is:

- For **put buyers** is the net amount of premium paid
- For **short stock sellers** the amount of potential loss is unlimited

Trade PnL



Risk profile at expiration

Stock Price

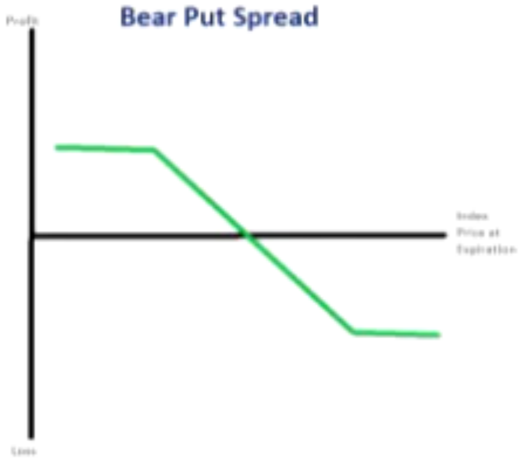
#2 - Bear Put Spread Strategy

Strategy: buy one put and sell another put, at a lower strike, to offset part of the upfront cost.

The spread generally is profitable if the stock price moves lower. The potential profit is limited, but so is the risk should the stock price rise.

Maximum Gain and Loss:

- Maximum gain: High strike - low strike - net premium paid
- Maximum loss: Net premium paid



#3 - Bear Call Spread Strategy

Strategy: A bear call spread consists of one short call with a lower strike price and one long call with a higher strike price. Both calls have the same underlying stock and the same expiration date.

A bear call spread is established for a net credit (or net amount received) and profits from either a declining stock price or time erosion or both.

Investors use the strategy for the chance to earn income with limited risk, and/or profit from a decline in the underlying stock's price.

Maximum Gain and Loss:

- The maximum **gain** is the net premium received
- The maximum loss: High strike - low strike - net premium received

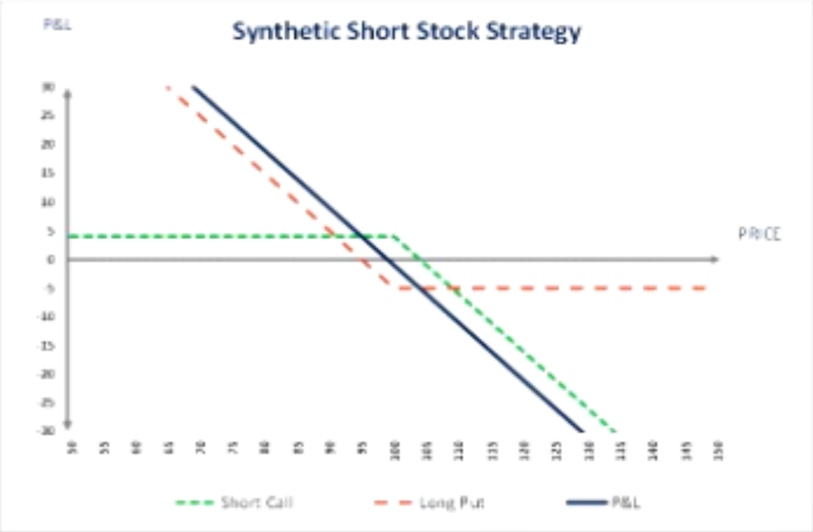
#4 - Synthetic Short Stock Strategy

Strategy: The synthetic short stock options strategy consists of simultaneously

- **selling call** options and
- **buying** the same number of **put** options at the same strike price.

Both options must be in the same expiration cycle.

As the strategy's name suggests, a synthetic short stock position replicates shorting 100 shares of stock and therefore has the same P&L profile.



Bearish Strategies

BEARISH
Long Put
Bear Put Spread
Bear Call Spread
Synthetic Short Stock

Bearish Options Strategies

Strategy	Compared to Short Stock Position	Pros (select)	Cons (select)
Long Put	Somewhat Like Being Short Stock (without the downside as Stock Price Rises)	Get Short Without Having to Borrow Stock / Limited Loss	Have To Pay Option Premium
Bear Put Spread	Somewhat Like Short Stock (within a range)	Get Short over a Targeted Range	Have to Pay Option Premium (but Less than for a Single Put)
Bear Call Spread	Somewhat Like Short Stock (within a range)	Get Short over a Targeted Range; Done for a Credit	Net Short Options Assignment Risk
Synthetic Short Stock (sell calls & buy puts)	Somewhat Like Short Stock (like it or not)	Gain Short Exposure for Net Option Premium	Options Expire

Bullish Strategies

#5 - Long Call Strategy

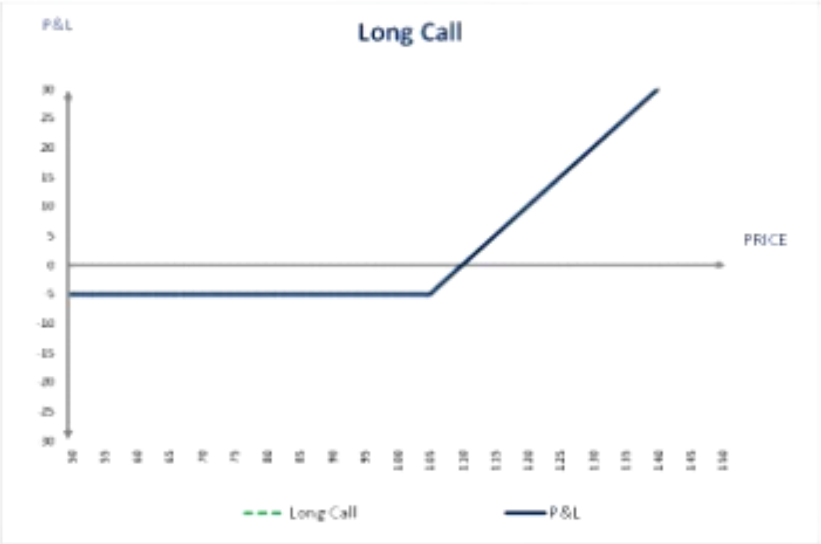
Strategy: buy call options.

In return for paying a premium, the buyer of a call gets the right (not the obligation) to buy the underlying instrument at the strike price at any time until the expiration date.

In the near term a call buyer is bullish, anticipating gains in the underlying stock during the life of the option.

Maximum Gain and Loss:

- Maximum gain is unlimited
- Maximum loss is the net premium paid



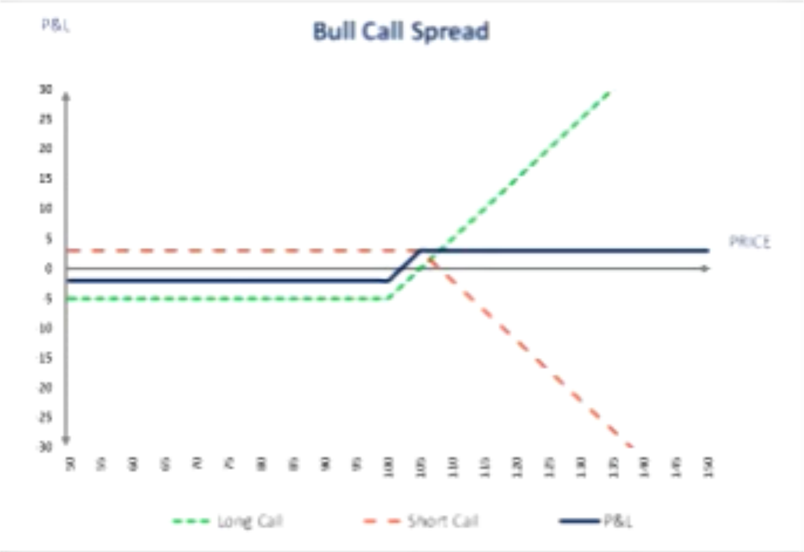
#6 - Bull Call Spread Strategy

Strategy: A bull call spread consists of one long call with a lower strike price and one short call with a higher strike price. Both calls have the same underlying stock and the same expiration date.

A bull call spread is established for a net debit (or net cost) and profits as the underlying stock rises in price.

Maximum Gain and Loss:

Profit is limited above the strike price of the short call, and potential loss is limited below the strike price of long call.



#7 - Synthetic Long Stock Strategy

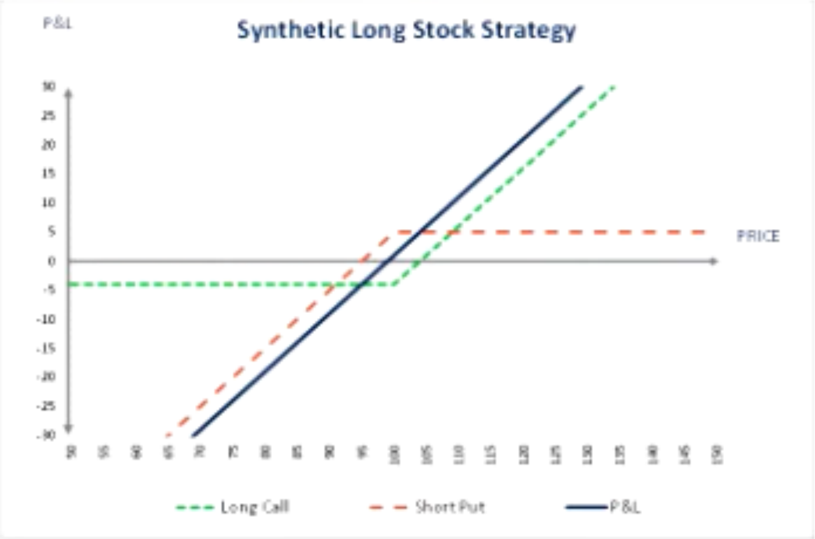
Strategy: combines two option positions:

- long call option(s) and
- short put option(s) with the same strike and expiration.

Comparison:

The net result simulates a comparable long **stock position's** risk and reward. The principal differences are:

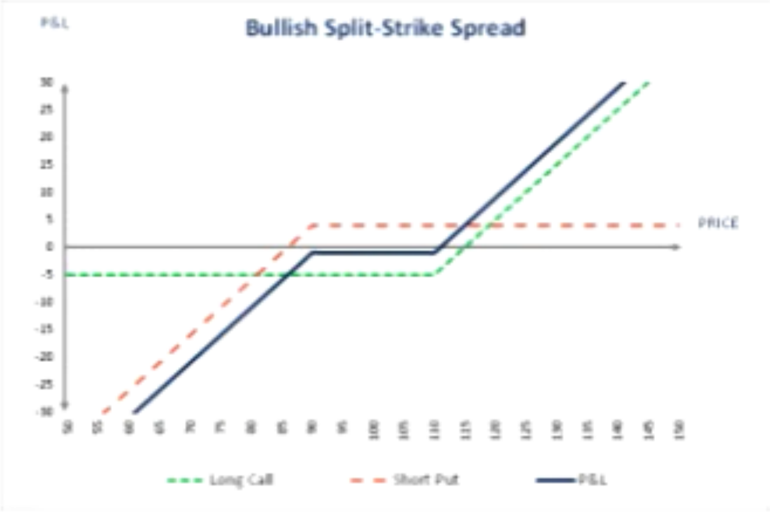
- the smaller capital outlay,
- the time limitation imposed by the term of the options, and
- the absence of a stock owner's rights: voting and dividends



#8 - Bullish Split-Strike Spread Strategy

Strategy: A bullish split-strike position consists of one long call with a higher strike price and one short put with a lower strike price. Both options have the same underlying stock and the same expiration date, but different strikes.

A bullish split-strike position can be established for either a net debit (net cost) or a net credit (net receipt), Profit potential is unlimited, and potential loss is substantial.



Bullish Strategies

BULLISH

- Long Call
- Bull Call Spread
- Synthetic Long Stock
- Bullish Split Strike Spread

Bullish Options Strategies

Strategy	Compared to Stock Position	Pros (select)	Cons (select)
Long Call	Somewhat Like Being Long Stock (without the downside as Stock Price Falls)	Loss Limited to Option Premium	Have to Pay Option Premium
Bull Call Spread	Somewhat Like Being Long Stock (within a range)	More Targeted Investment	Have to Pay Option Premium (but less then for a Single Call)
Synthetic Long Stock	Somewhat Like Being Long Stock (like it or not) for a Fraction of the Upfront Cost	Upfront Cost is the Net Option Premium	Downside Risk; No Dividends/Voting; Options Expire
Bullish Split Strike Spread	Somewhat Like Being Long Stock Outside of a Range	Strategy for Anticipating a Larger Up Move	Lower Net Option Premium; Downside Risk

Neutral Strategies

NEUTRAL

Straddle/Strangle
Iron Butterfly
Iron Condor
1x2 Ratio Spread
Calendar Spread (Horiz.)

#9 - Short Straddle/Strangle Strategy

Strategy: This **short straddle** strategy involves selling uncovered calls (bearish) and selling uncovered puts (bullish), both with the same expiration and strike price.

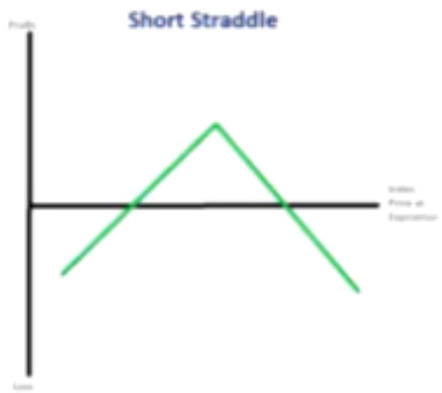
Maximum Gain and Loss:

- The maximum **gain** is limited to the amount of net premium received (if stock price is at strike price at expiration.)
- The maximum **loss** is substantial if the stock has big moves up or down.

Strategy: This **short strangle** strategy involves selling uncovered calls (bearish) and selling uncovered puts (bullish), both with the same expiration, but the call strike price is above the put strike price.

Maximum Gain and Loss:

- The maximum **gain** is limited to the amount of net premium received.
- The maximum **loss** is substantial if the stock has big moves up or down.



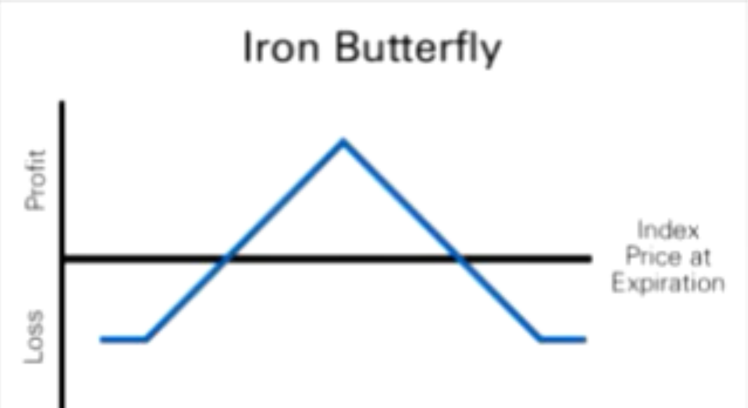
#10 – Short Iron Butterfly Strategy

Strategy: long a call at an upper strike, short a put and short a call at a middle strike, and long a put at a lower strike.

The investor is looking for the underlying index stock to trade in a narrow range (inside the wings) during the life of the options.

Maximum Gain and Loss:

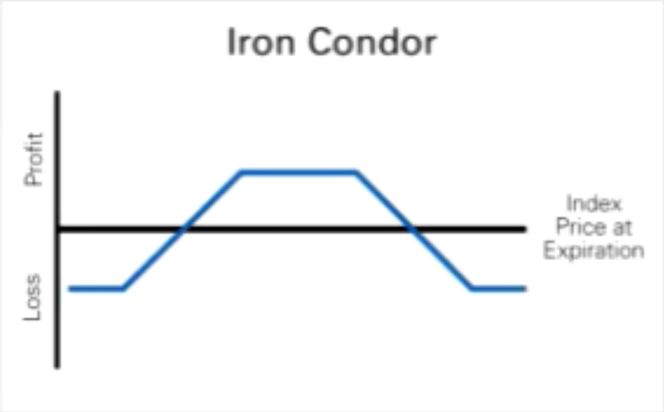
- The maximum **gain** is limited to the amount of net premium received (if stock price is at strike price at expiration.)
- The maximum **loss** is: High strike - middle strike - net premium received



#11 - Short Iron Condor Strategy

Short Iron Condor Strategy: sell one call while buying another call with a higher strike and sell one put while buying another put with a lower strike

- Delta-neutral, defined-risk strategy; anticipates that stock or index will remain within a specific price range
- **Four-legged** option strategy combining two out-of-the-money (OTM) credit spreads
- Short **call** vertical spread placed above resistance
- Short **put** vertical spread placed below support
- Typically created using **technical analysis** to determine the price range or a statistical model that uses theoretical probabilities or a combination of both.
- **Index options** are often used for iron condors:
    - **European-style** (exercisable only at expiry) &
    - **Settled in cash.**



#11 - Short Iron Condor – Pros and Cons

Pros	Cons
• Profit if underlying stays within a range: up, down or sideways	• Limited upside potential with risk > reward
• Defined risk, reward and probability	• Tend to appear in low-volatility environments
• Cash credit with premiums received at onset	• Four legs equals four times the contracts > fees
• Well suited to a technical or statistical approach to trade set up	• Slow to produce returns
• Benefit from time decay & volatility contraction	• OTM contract < less liquidity = larger bid/ask spreads

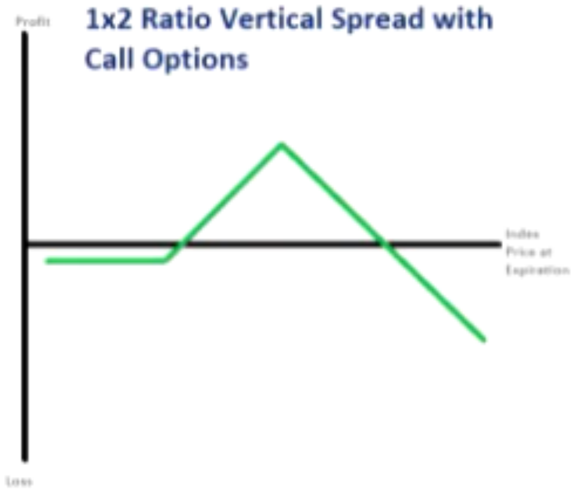
#11 - Short Iron Condor Strategy (continued)

- Ideally, all options will expire worthless at expiration
- If price breaks through either support or resistance, consider closing the threatened spread to minimize loss
- Time is on your side with iron condors, don't sweat the lack of movement day after day, it's what you want
- Index iron condors can be treated as binary positions and left alone until expiration (maximum gain, maximum loss, or something in between)

#12 - 1x2 Ratio Vertical Spread Strategy

Strategy: buying one lower-strike call and selling two higher-strike calls.

The investor's risk is unlimited, because the position has an uncovered short call, and the stock price can rise indefinitely



#13 – Long Call Calendar Spread Strategy - Horizontal

Strategy: Short one call option and long a second call option with a longer-dated expiration. For horizontal calendar spreads, the calls have the same strike price (while diagonal calendar spreads have different strike prices).

The investor could be looking for either a steady to slightly declining stock price during the life of the near-term short option, and then a move higher during the life of the far- term long option, or a sharp move upward in implied volatility.

Neutral Strategies

NEUTRAL

Straddle/Strangle
Iron Butterfly
Iron Condor
1x2 Ratio Spread
Calendar Spread (Horiz.)

Neutral Options Strategies

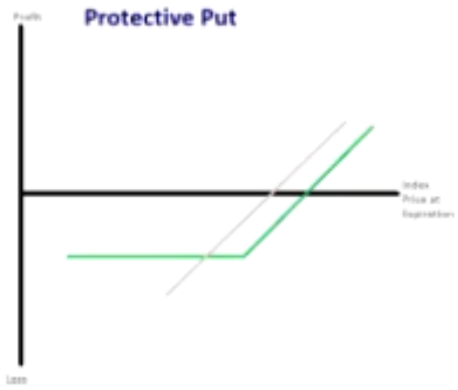
Strategy	Compared to Stock Position	Pros (select)	Cons (select)
Short Straddle/ Strangle	The trader expects movement but feels the range is overstated by the premiums received	Implied volatility usually overstated, highest extrinsic = greatest time decay	Unlimited risk, vol expansion risk, overnight gap risk, profit limited to credit, "supervised"
Iron Butterfly	The trader desires no movement; any move higher or lower will affect P&L	Defined risk, higher probability of some return, benefits from time passing	Low probability of maximum profit, big moves create bigger moves (vol expansion risk)
Iron Condor	The trader acounts for some movement but contained within a range	Defined risk, defined reward, can be treated as binary, volatility contraction play	Slow to generate returns, OTM options tend to have lower liquity and larger spreads
1x2 Ratio Spread	The trader expects any upward move to be below the short strikes.	Profitable in a slightly bullish or neutral environment. larger credit, faster time decay, adjustable	More complex to manage, gamma risk, gap risk, equity risk exposure technically "uncovered"
Calendar Spread (Horizontal)	The trader expects the stock to eventually move higher but stagnate for a period of time leading up to expiration of the short leg	Benefits from: time decay, expanding volatility and increasing interest rates	Gamma risk, complex to manage short leg, gap risk, unimpressive risk/reward ratio

#14 - Protective Put Strategy

Strategy: Adding a long put position to a long stock position. Many protective put buyers are concerned about a sharp temporary decline in the stock price, but are bullish on the long-term prospects for the stock or index. The protective put buyer retains the upside potential of the stock, while limiting the downside risk.

Maximum Gain and Loss:

- The potential gains with this strategy potentially are unlimited if the stock price rises.
- The maximum loss is limited. If the purchase price of the stock was the same as the strike price of the option, then the loss should be limited to the premium paid for the put option.



* The grey straight line represents a stock position

Income Strategies

INCOME

ATM BuyWrite
OTM BuyWrite
ATM 1-Mo. PutWrite
ATM 1-Wk. PutWrite
Covered Combo

#16 - ATM Buy-Write Strategy

Strategy: Hold a stock portfolio and sell at-the-money (ATM) covered call options.

The strategy of selling ATM covered calls may have the potential to generate more premium than selling OTM covered calls on the same stock

#17 - OTM Buy-Write Strategy

Strategy: Hold a stock portfolio and sell out-of-the-money (OTM) covered call options.

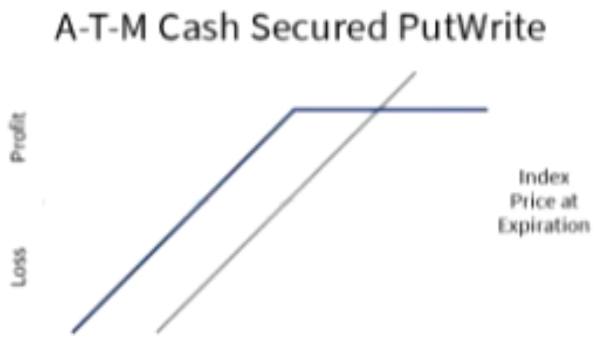
During bull markets the strategy of selling OTM covered calls may have the potential to participate in more upside moves for the stock than the strategy of selling ATM covered calls on the same stock

#18 - ATM 1-Mo. Cash-Secured Put-Write Strategy

Strategy: Sell at-the-money (ATM) cash-secured put options with one month to expiration, and hold Treasury bills.

#19 - ATM 1-Week Cash-Secured Put-Write Strategy

Strategy: Sell short-dated at-the-money (ATM) cash-secured put options with one week to expiration, and hold Treasury bills.



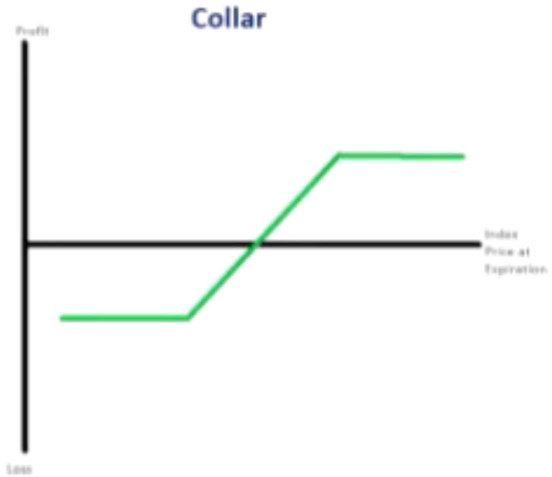
#20 - Covered Combo Strategy

Strategy: Sell covered calls and cash-secured puts on the same underlying.

#21 - Collar Strategy

Strategy: Hold a stock portfolio, sell OTM calls and buy OTM puts on the stock portfolio.

- The investor gains protection against a market pullback without liquidating any of the individual stocks in the portfolio.
- The sale of the call offsets some or all of the cost of the put, determining both upside and downside profit and loss potential.
  - The put purchase provides protection against a market downturn.
  - The sale of the call caps the upside on the long portfolio
  - The result is a narrowing of the potential profit and loss distribution to the range between the strikes, foregoing upside to protect the downside.



Income Strategies

INCOME

ATM BuyWrite
OTM BuyWrite
ATM 1-Mo. PutWrite
ATM 1-Wk. PutWrite
Covered Combo

Options Strategies for Income

Strategy	Compared to Stock Position	Pros (select)	Cons (select)
ATM BuyWrite	Income-focused with greatly reduced upside	Generates immediate credit, ATM options have highest extrinsic value, lowers BE point	Downside risk, dividend risk, profit capped at current price
OTM BuyWrite	Reduced upside potential in exchange for the premium credit	Generates immediate credit, some upside potential, lowers BE point	Downside risk, dividend risk, profit capped at strike, assignment "risk"
ATM 1-Month PutWrite	Income-focused but also a possible acquisition strategy	Generates immediate credit, ATM options have highest extrinsic value, lowers BE point	downside risk, dividend risk, profit limited to credit, volatiity expansion risk
ATM 1-Week PutWrite	Income-focused taking advantage of steeper time decay	Generates immediate credit, higher time decay, easier to roll	Downside risk, profit limited to credit, volatility expansion risk
Covered Combo	Confidence in the stock's current pricing, willing to add to position or willing to sell at higher levels.	Two sources of premium credits, "buy on dip" mentality, volatility contraction opportunity	"Buy on dip" mentality, volatility expansion risk, dividend risk on both legs

Collar Strategies

COLLARS

Zero-Cost Collar
Put-Spread
Collar

#22 - Put-Spread Collar Strategy

Strategy:

1. Hold a stock portfolio,
2. Sell OTM calls on the portfolio,
3. Buy OTM or ATM puts on the stock portfolio,
4. Sell farther OTM puts on the stock portfolio.

Collar Strategies

COLLARS

Zero-Cost Collar
Put-Spread Collar

Collar Options Strategies

Strategy	Compared to Stock Position	Pros (select)	Cons (select)
Collar	Somewhat Like Long Stock (Within a Predetermined Range)	Some Stock Upside; Limited Loss; Often Premium Neutral	Stock Upside is Limited; FOMO
Put-Spread Collar	Somewhat Like Long Stock, Get Some Downside Protection by Selling Off Upside	Upside (in a Range); Avoids Buying an Expensive Put	Curtail Upside, but Downside Still Exists