



# Options Strategies

Workshop Reference Guide



## How to use this guide

This reference guide is a tool to assist you in your learning during and after the Options Strategies workshop.

### During the Workshop

- Follow along with the presenter—the slides are in the guide.

### After the Workshop

- Continue using the guide as a reference of all you've learned.

## Keep the conversation going

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**Options involve risk and are not suitable for all investors. Options trading privileges in your account are subject to TD Ameritrade review and approval. Not all accountholders will qualify. Before trading options, a person should review the previously provided document *Characteristics and Risks of Standardized Options*.**

**There is no guarantee of a secondary (liquid) market for any option at any given time.**

# Important Information

**Spreads, straddles, and other multiple-leg options strategies** can entail substantial transaction costs, including multiple commissions, which may impact any potential return. These are advanced options strategies and often involve greater risk, and more complex risk, than basic options trades.

Supporting documentation for any claims, comparison, statistics, or other technical data will be supplied upon request.

***Carefully consider the investment objectives, risks, charges, and expenses of any exchange-traded fund (ETF) before investing. To obtain a prospectus containing this and other important information, contact your broker. Please read the prospectus carefully before investing.***

\$0 commission applies to online U.S. exchange-listed stocks, ETFs, and options trades. \$0.65 per options contract fee applies to options trades.

The examples that follow do not include transaction costs. Transaction costs (commissions and other fees) are important factors and should be considered when evaluating any options trade.

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# Options Strategies

James Boyd & Scott Thompson





## Our workshop goal:

- Reviewing the ins and outs of an options contract.
- Practicing trading options.
- Introducing ways to manage a portfolio of options.

# Workshop Agenda

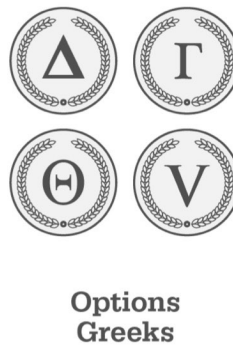
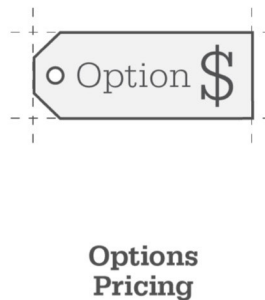
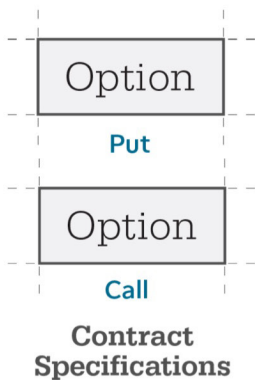
## Options Strategies

- Options basics
- Greeks
- Covered calls
- Cash-secured puts
- Short put verticals
- Short call verticals

# Options Basics

## Goals for this section:

- Learn the basics of an options contract.
- Differentiate between calls and puts.
- Identify how buying or selling options can change a trade's characteristics.
- Explore the various ways an options trade can end.
- Determine how changes in various factors can impact the price of an option.





## What Is an Option?

An options contract gives buyers the right to buy or sell a specified number of shares of a stock or ETF at a certain price (strike price) before a certain date (expiration).



Option

- ▼ **Underlying**  
XYZ
- ▼ **Quantity**  
100 shares
- ▼ **Premium**  
\$1.20
- ▼ **Strike Price**  
\$200
- ▼ **Expiration**  
July 2017

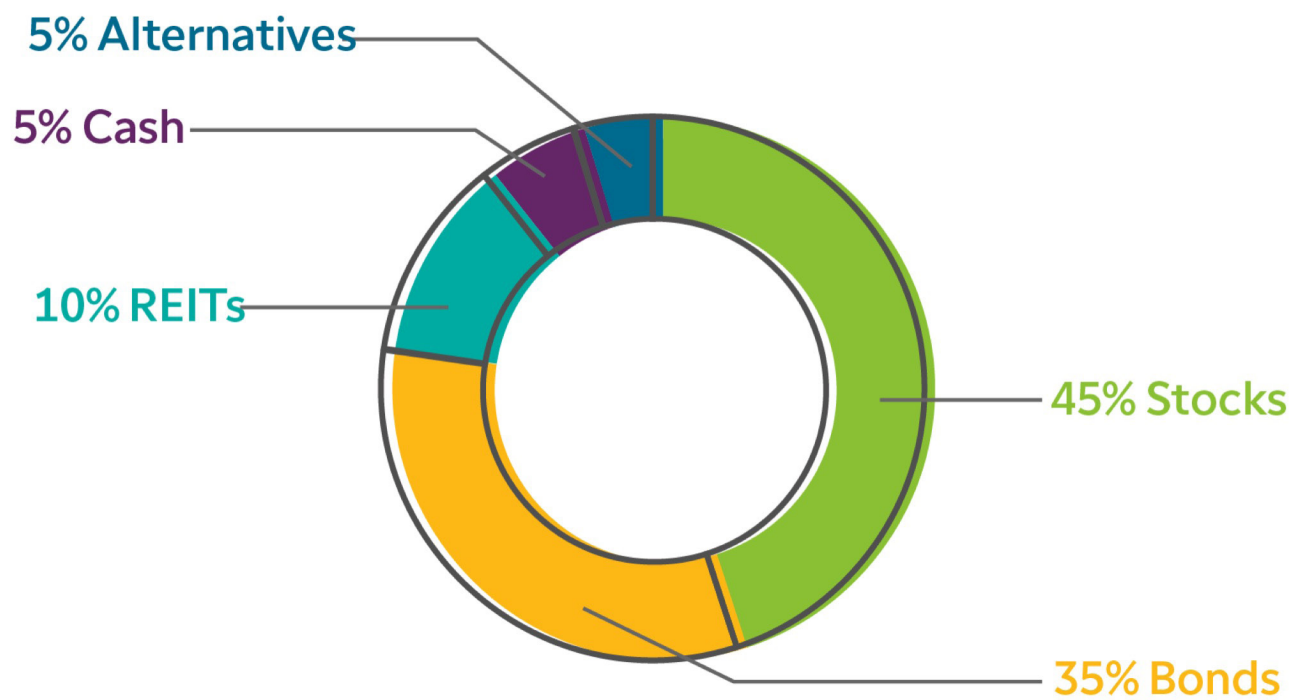
## The Options Multiplier

The total amount an investor pays for a single options contract equals the price of the options (premium) times the options multiplier (generally, 100).

$$\begin{array}{ccccc}
 \text{Premium} & \times & \text{Options} & = & \text{Amount} \\
 & & \text{Multiplier} & & \text{Investor Pays}^* \\
 | & & | & & | \\
 \mathbf{\$1.20} & & \mathbf{100} & & \mathbf{\$120}
 \end{array}$$

\*In this example,  $\$1.20 \times 100 = \$120$  plus transaction costs (brokerage commissions and fees).

## How Options Might Fit into a Portfolio



Example only. Not a recommendation. Asset allocation and diversification do not eliminate the risk of experiencing investment losses.

## Three Uses of Options in a Portfolio

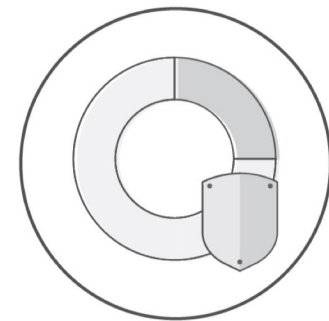
**Generate Income**



**Speculate**

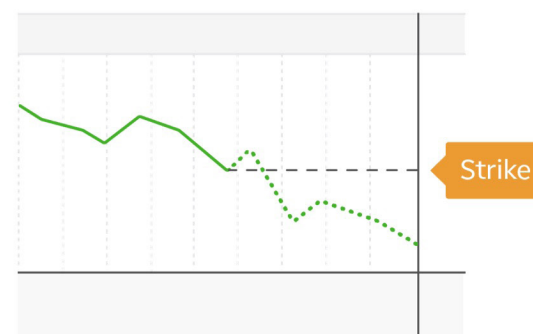
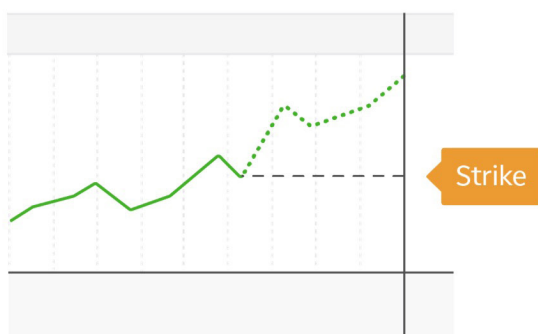


**Hedge**



# Two Types of Options: Calls and Puts

	Calls	Puts
<b>Buyer Rights</b>	Rights to <b>buy</b> underlying	Rights to <b>sell</b> underlying
<b>Seller Obligations</b>	Obligated to <b>sell</b> underlying	Obligated to <b>buy</b> underlying
<b>Bias</b>	Contract gains value when underlying <b>increases</b>	Contract gains value when underlying <b>decreases</b>

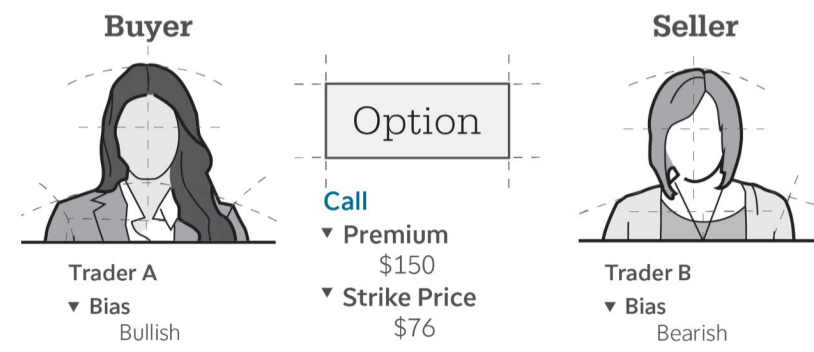
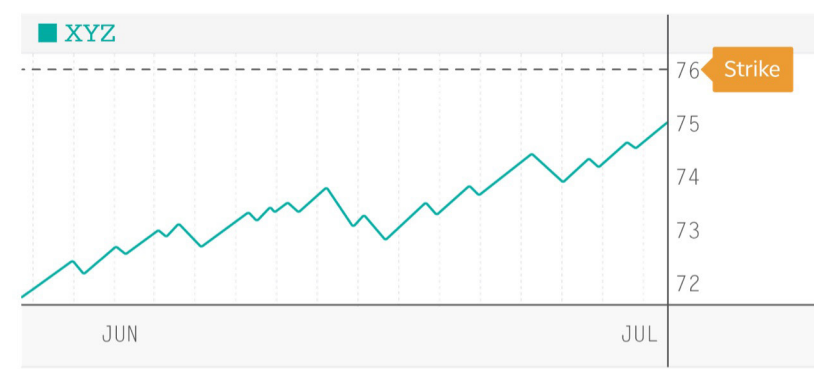




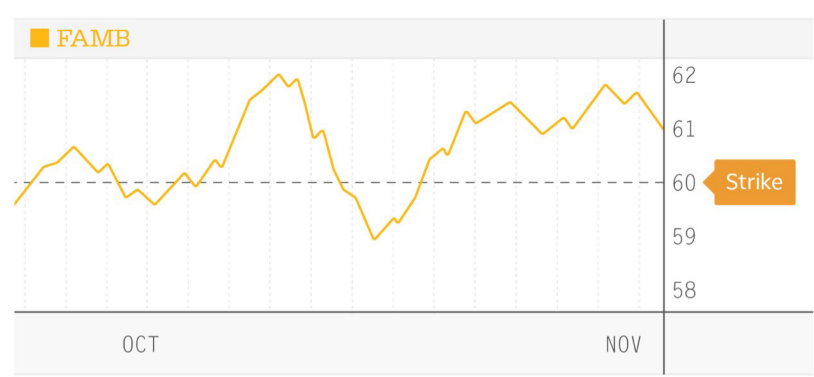
# Calls

What if...

- Price rises to \$78
- Price falls to \$74

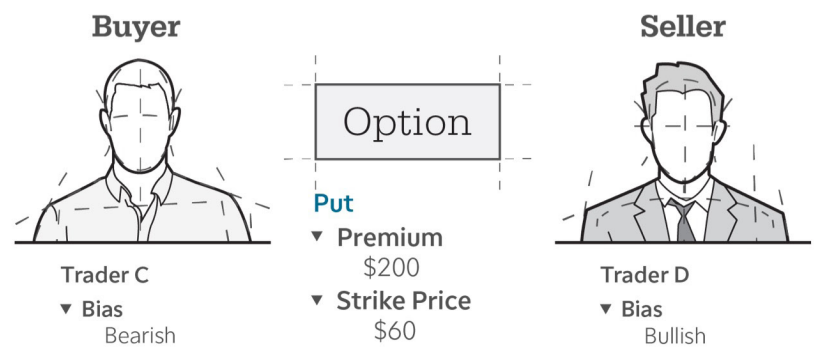


# Puts



What if...

- Price stays at \$61
- Price falls to \$58



# Long vs. Short

**Buyer**



**Seller**



	Call	Put
<b>▼ Long</b> <ul style="list-style-type: none"> <li>- Buyer of options contract</li> <li>- Has the right to exercise contract</li> </ul>	<b>▼ Long Call</b> <ul style="list-style-type: none"> <li>- Buying the right to buy underlying at strike price</li> <li>- Bullish</li> </ul>	<b>▼ Long Put</b> <ul style="list-style-type: none"> <li>- Buying the right to sell underlying at the strike price</li> <li>- Bearish</li> </ul>
<b>▼ Short</b> <ul style="list-style-type: none"> <li>- Seller of options contract</li> <li>- Obligated to fulfill contract if exercised</li> </ul>	<b>▼ Short Call</b> <ul style="list-style-type: none"> <li>- Obligated to sell the underlying at the strike price</li> <li>- Bearish</li> </ul>	<b>▼ Short Put</b> <ul style="list-style-type: none"> <li>- Obligated to buy the underlying at the strike price</li> <li>- Bullish</li> </ul>

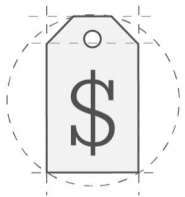
## Let's Try It



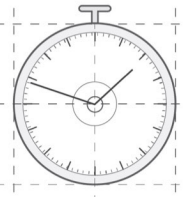
- Choose two stocks/ETFs—one for a long call and one for a long put.
- Place trades in paperMoney®.
- Follow along with me on your computers.

# Options Pricing

Trading options requires more than just looking at trend. The price of an option can be impacted by multiple factors.



- Price of the underlying:
  - Expensive stocks often have more expensive options premiums.



- Time:
  - This is how much time is left until expiration.
  - Time value decays faster as it nears expiration.



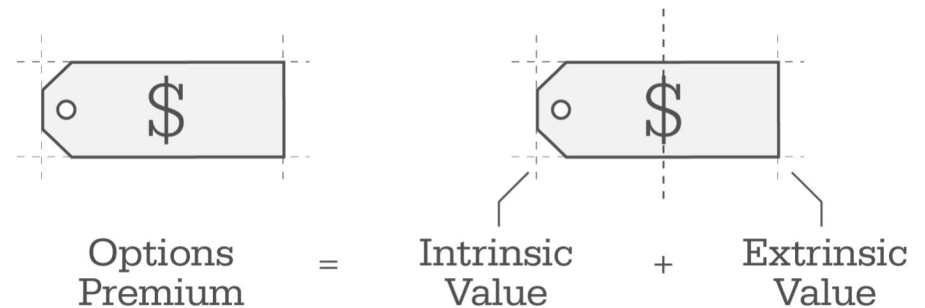
- Implied volatility:
  - This is how much price movement is expected by the market before expiration.
  - When expected volatility is high, options may be more expensive.



# Understanding Options Premium

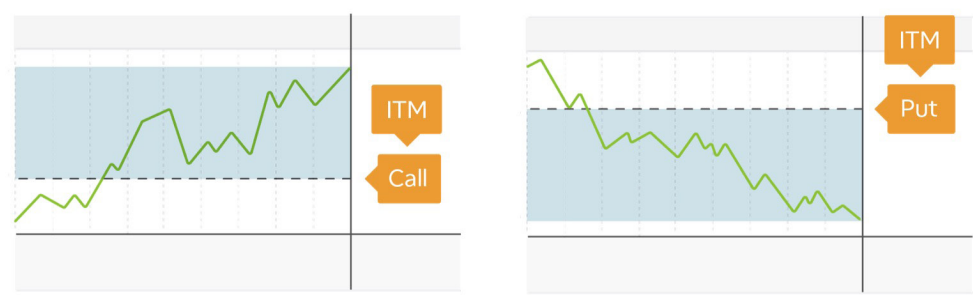
The options premium has two parts: intrinsic and extrinsic value.

- **Intrinsic value** is the difference between the strike price of the option and the market price of the underlying. This value can't be taken away.
- **Extrinsic value** is the value an option has because of time and implied volatility. This value melts away by expiration.

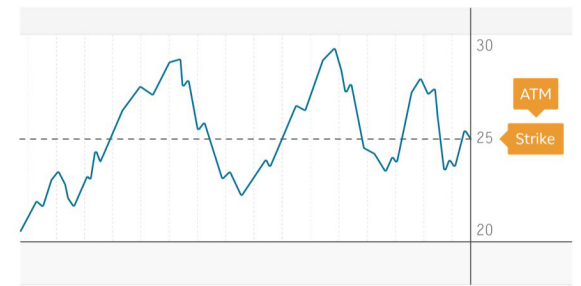


# Options Premium

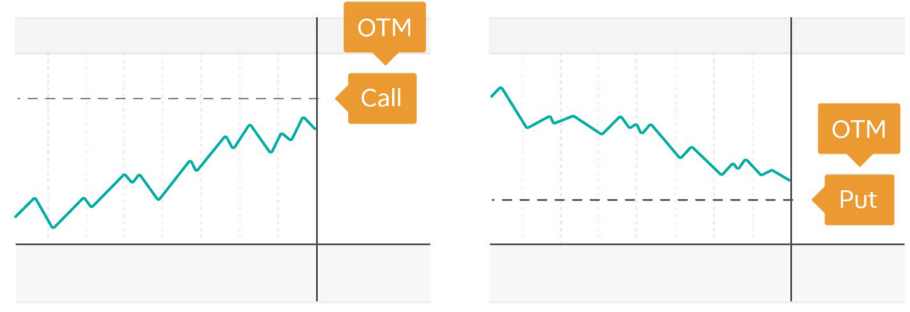
**In the money (ITM):**  
Option has intrinsic value



**At the money (ATM):**  
Strike closest to the current price of the underlying



**Out of the money (OTM):**  
Option has no intrinsic value

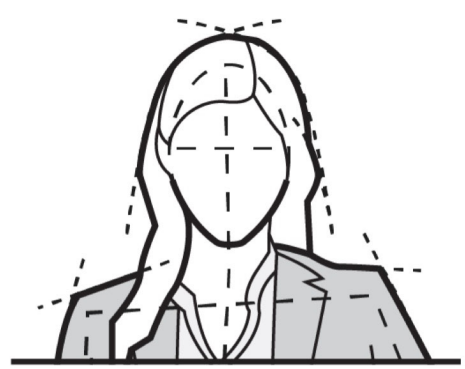


# How Options Trades Can End

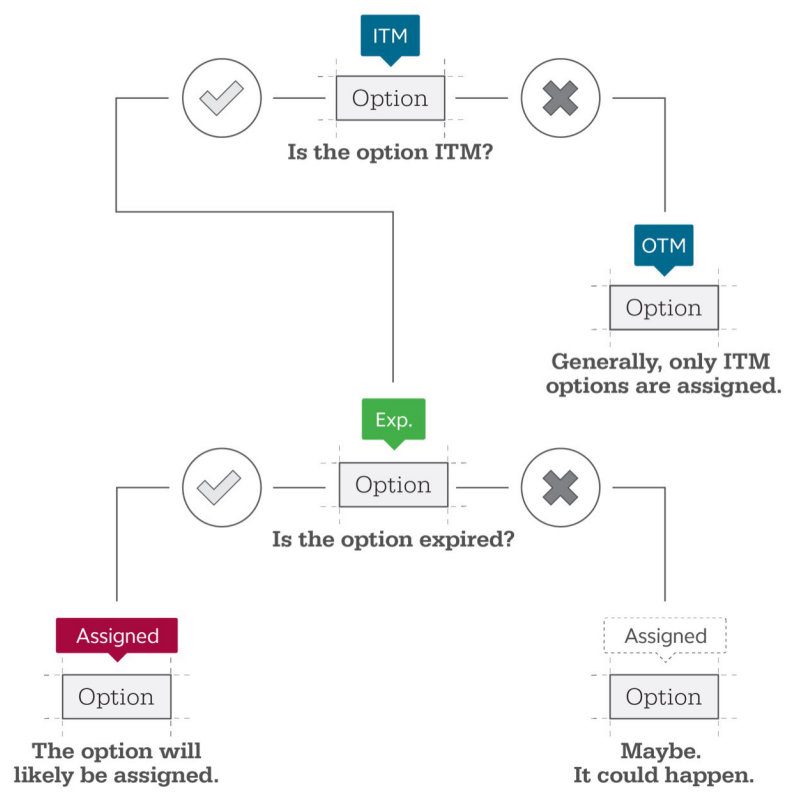
	Before Expiration	After Expiration
<b>Buyers</b>	<ul style="list-style-type: none"> <li>• Sell back to close trade</li> <li>• Roll to the next series</li> <li>• Exercise (ITM)</li> </ul>	<ul style="list-style-type: none"> <li>• Automatic exercise (ITM)</li> <li>• Let trade expire worthless (OTM)</li> </ul>
<b>Sellers</b>	<ul style="list-style-type: none"> <li>• Buy back to close trade</li> <li>• Roll to the next series</li> <li>• Early assignment</li> </ul>	<ul style="list-style-type: none"> <li>• Assignment (ITM)</li> <li>• Let trade expire worthless (OTM)</li> <li>• Pin risk (ATM)</li> </ul>

Rolling strategies can entail substantial transaction costs, including multiple commissions, which may impact any potential return. There is no guarantee of a secondary (liquid) market for any option at any given time. Short options can be assigned at any time up to expiration regardless of the in-the-money amount.

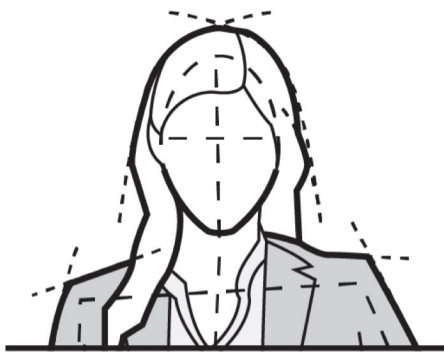
# Assignment



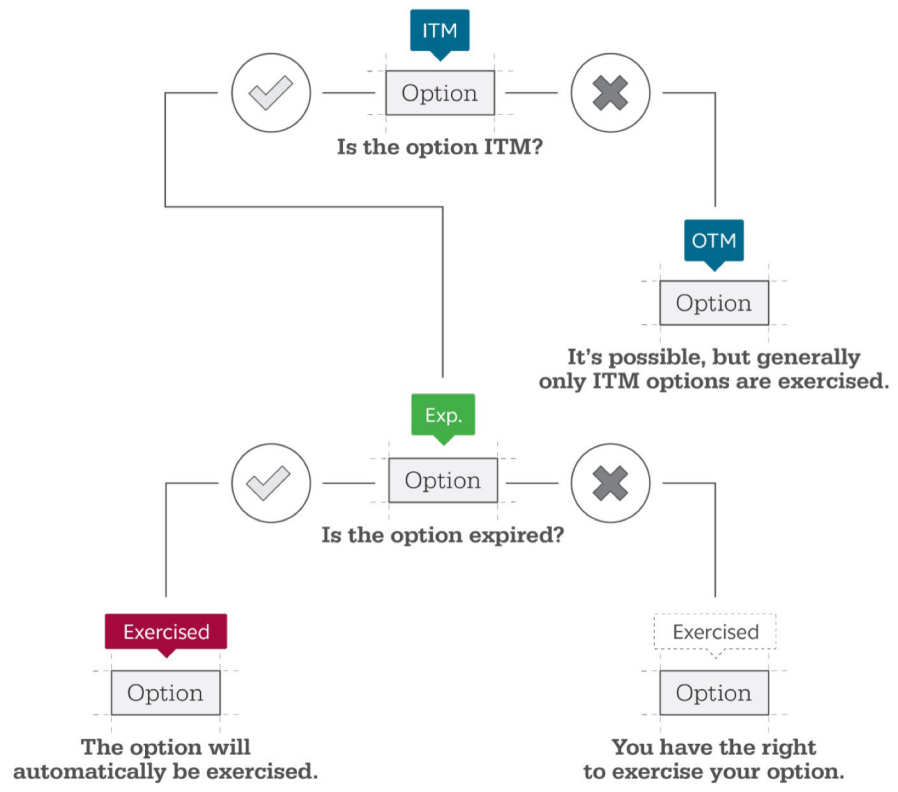
**I sold an option.  
Am I going to be assigned?**



# Exercised Options



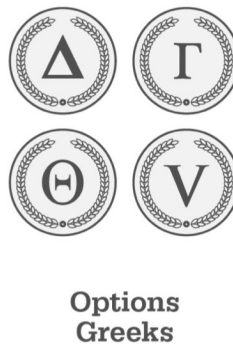
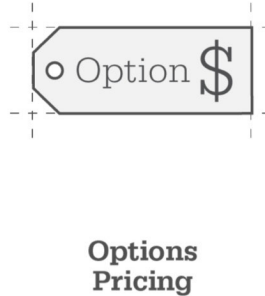
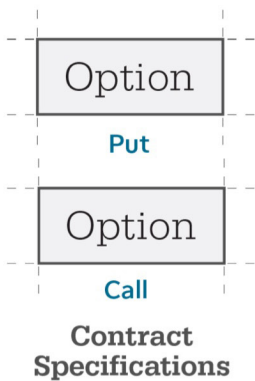
**I bought an option.  
Can it be exercised?**





## Goals recap:

- ✓ Learn the basics of an options contract.
- ✓ Differentiate between calls and puts.
- ✓ Identify how buying or selling options can change a trade's characteristics.
- ✓ Explore the various ways an options trade can end.
- ✓ Determine how changes in various factors can impact the price of an option.



# Workshop Agenda

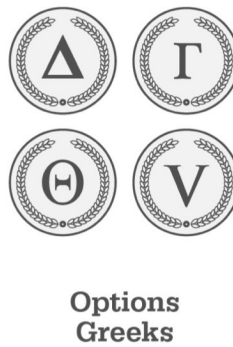
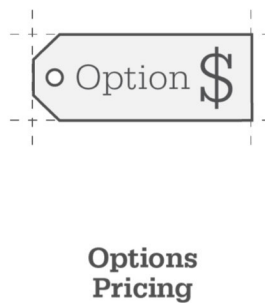
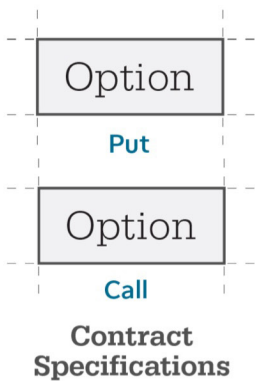
## Options Strategies

- ✓ Options basics
  - Greeks
  - Covered calls
  - Cash-secured puts
  - Short put verticals
  - Short call verticals

# Options Greeks

# Goals for this section:

Determine how changes in various factors can impact the options premium.



## Understanding How Prices Change

Options greeks help traders measure and understand how different factors can impact the options premium.



DELTA



GAMMA



THETA

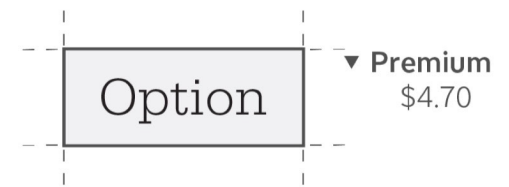
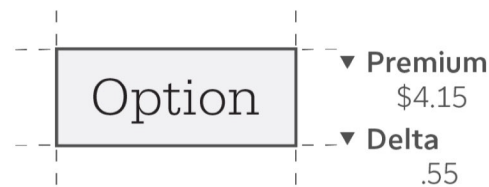


VEGA

# Options Greeks: Delta



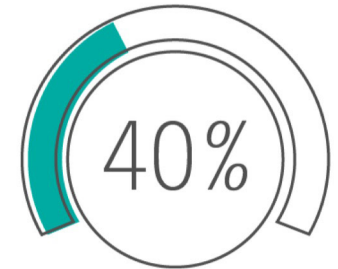
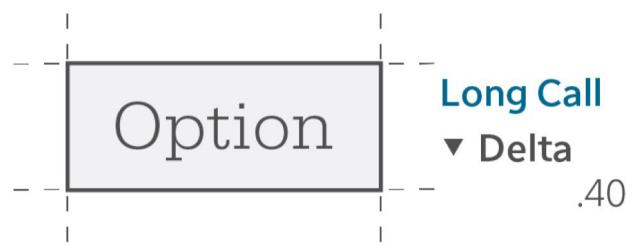
Delta measures how sensitive an option is to a \$1 change in the price of the underlying.





# Options Greeks: Delta

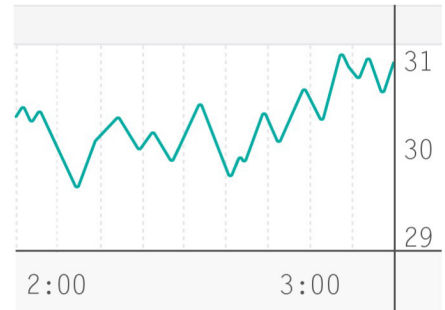
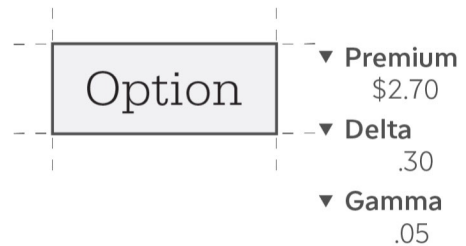
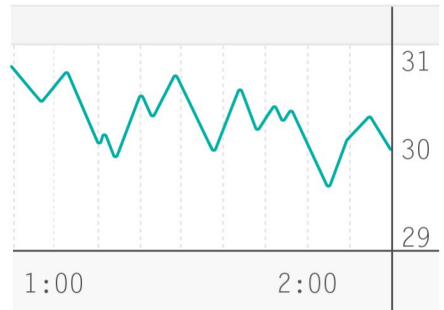
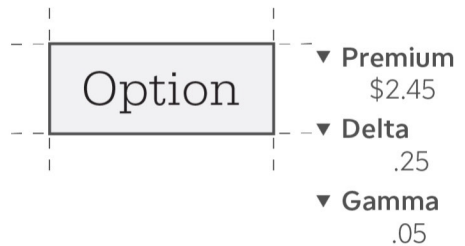
Delta is also used as a proxy to estimate the likelihood that an option will expire ITM.



**Probability of Expiring ITM**

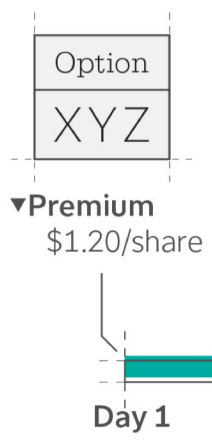
# Options Greeks: Gamma

Gamma measures how much delta may change with each \$1 move of the underlying.



# Options Greeks: Theta

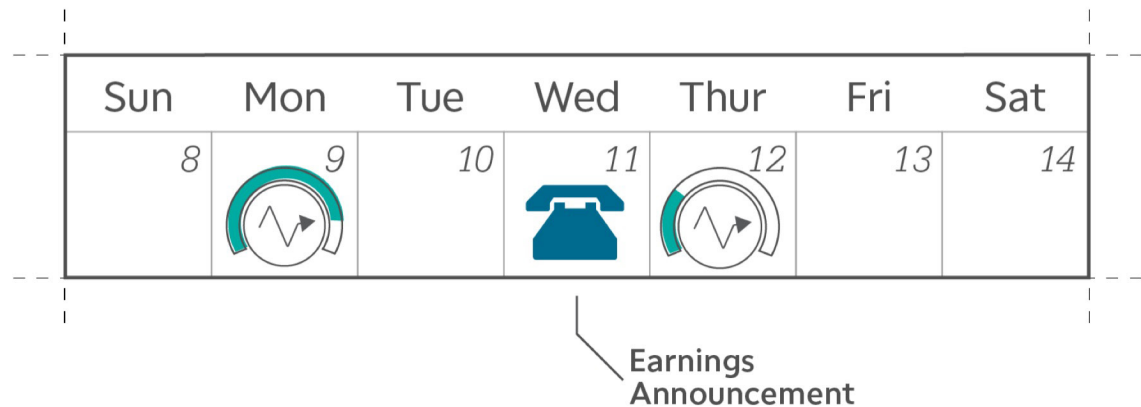
Theta measures how sensitive an option is to time decay.



# Options Greeks: Vega

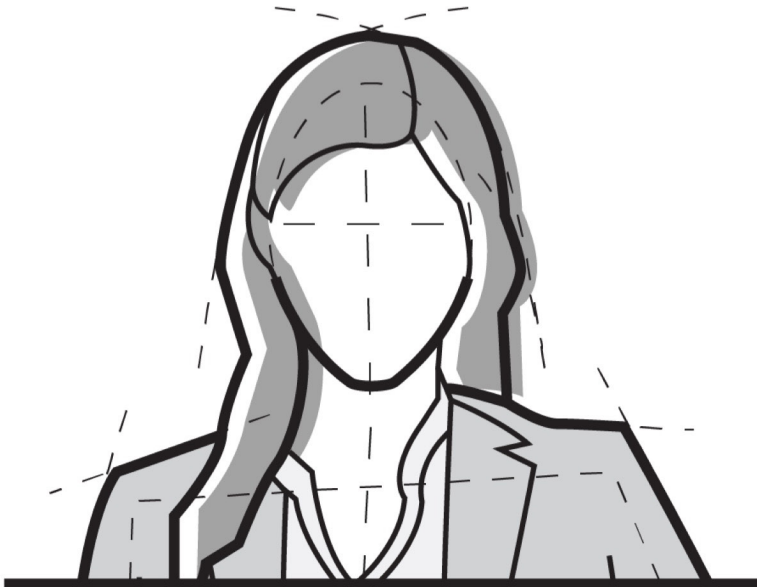


Vega measures how sensitive an option is to changes in the volatility of the underlying asset.



## Considerations When Buying Options

# Buyer

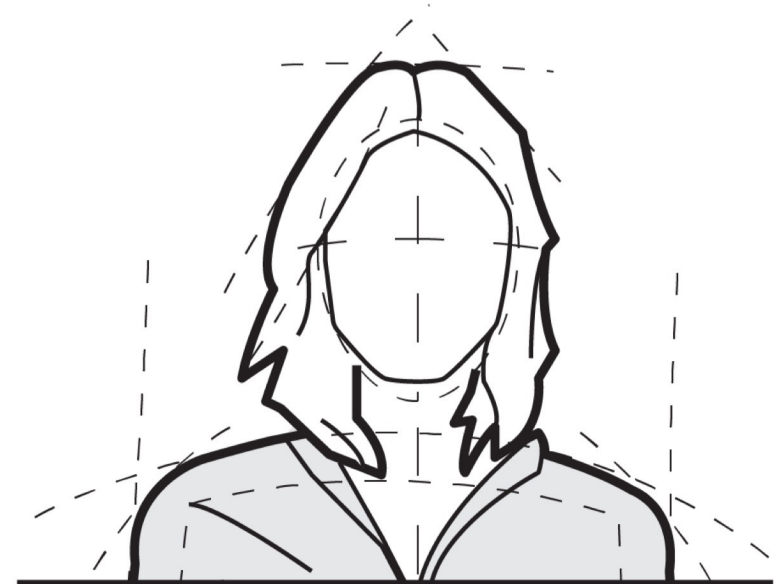


- How far do I expect the stock to go?
  - This impacts strike price.
- How long do I think it will take?
  - Time decay works against buyers.
- Is volatility working in my favor?
  - Relatively low volatility is favorable.
- Do I have a plan?
  - Entries, exits, position size, etc.

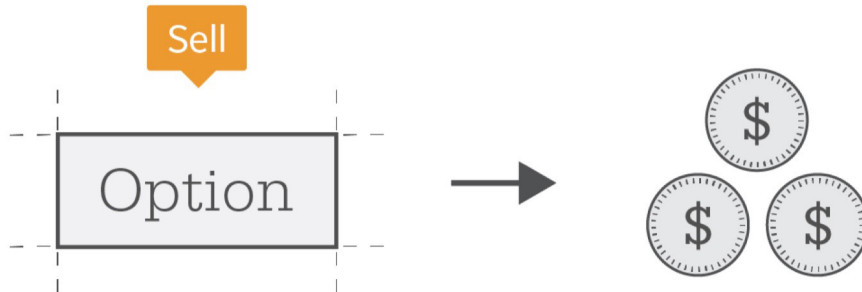
## Considerations When Selling Options

1. How far do I expect the stock to go?
  - This impacts strike price.
2. How long do I think it will take?
  - Time decay works for sellers.
3. Is volatility working in my favor?
  - Relatively high implied volatility is favorable.
4. Do I have a plan?
  - Entries, exits, position size, etc.

# Seller



## Generating Income with Options

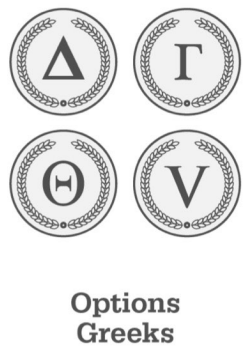
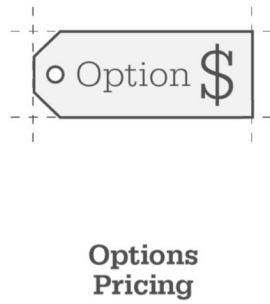
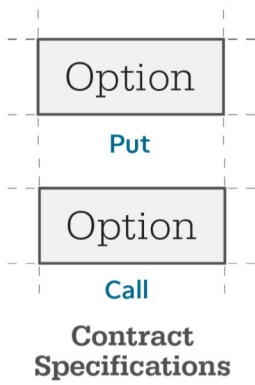


- What it is: Selling options to generate income through premium
- Pro: Collect premium
- Con: Assignment risk; obligated to buy or sell underlying if option is exercised



## Goals recap:

- ✓ Determine how changes in various factors can impact the options premium



# Workshop Agenda

## Options Strategies

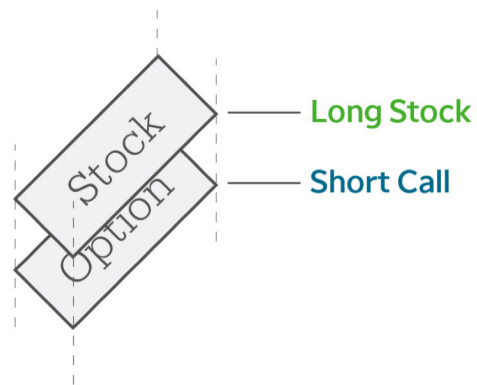
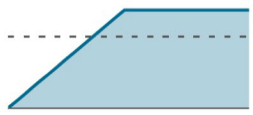
- ✓ Options basics
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# Covered Calls

## Goals for this section:

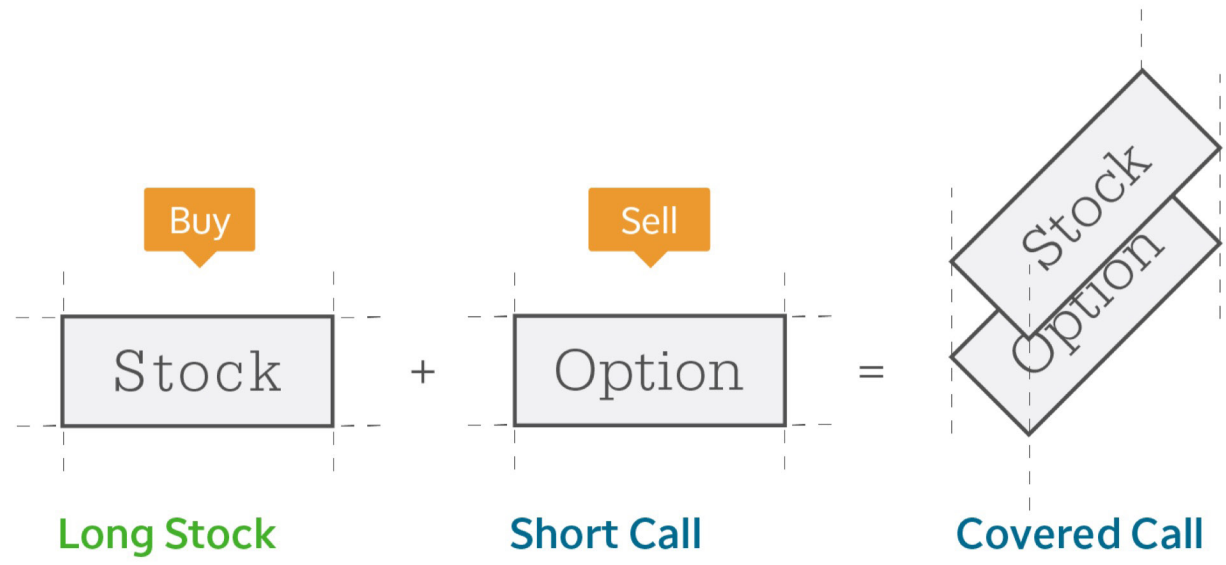
- Search for and evaluate securities that meet sample criteria.
- Calculate position size and plan exits.
- Practice placing covered call paper trades.

Investing Plan



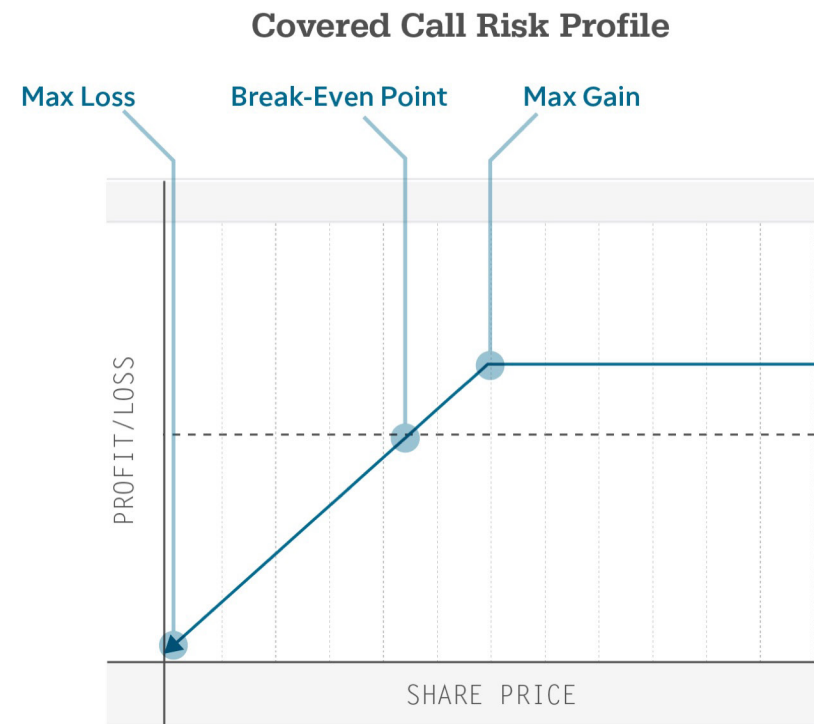
# Objective

To generate income by selling OTM calls on stocks you already own. Consider when conditions are favorable, rather than on a regular schedule.

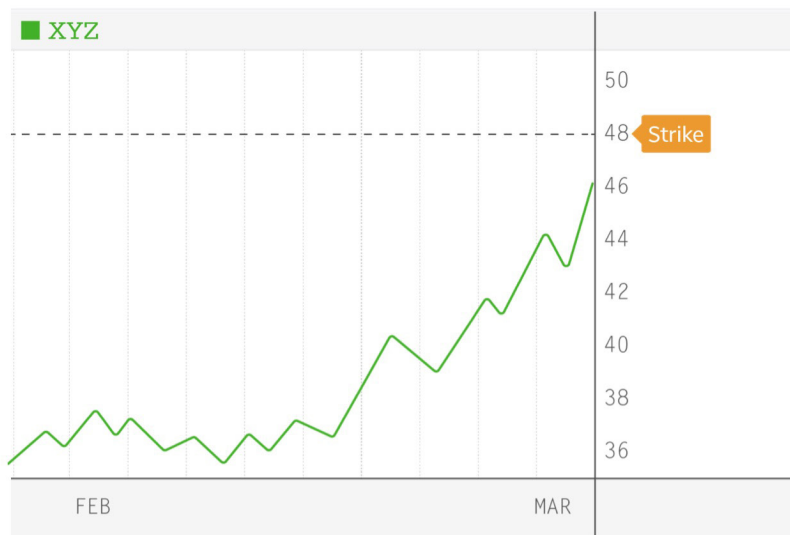


# Risk Profile

- **Max Gain:**
  - Premium + Gains in underlying up to strike price
- **Max Loss:**
  - Amount lost if underlying stock falls to zero
- **Break-Even Point:**
  - Purchase price of the stock - Premium



# Example



**Call**

▼ **Strike Price**

\$48

▼ **Premium**

\$1

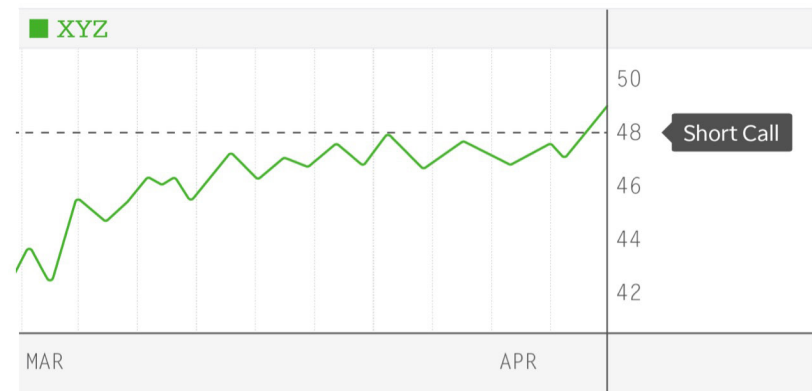
- You own 100 shares of XYZ stock at \$46 per share.
- You decide to sell a call contract.
- You sell the 48 strike that expires in 30 days for a credit of \$1.



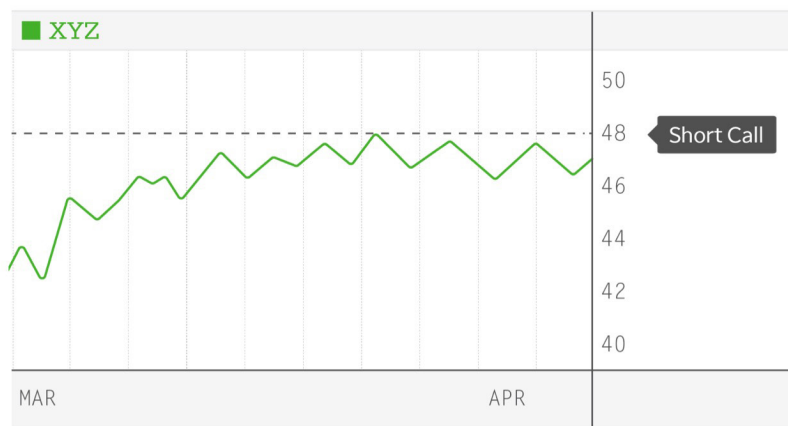
## What If the Stock Goes Up a Lot?



- Let's say the stock rises to \$49 prior to or at expiration:
  - Your option is ITM.
  - You'd likely be assigned to sell the shares for \$4,800 (less transaction costs).
  - Profits on the stock are capped at the strike price.



## What If the Stock Goes Up a Little?

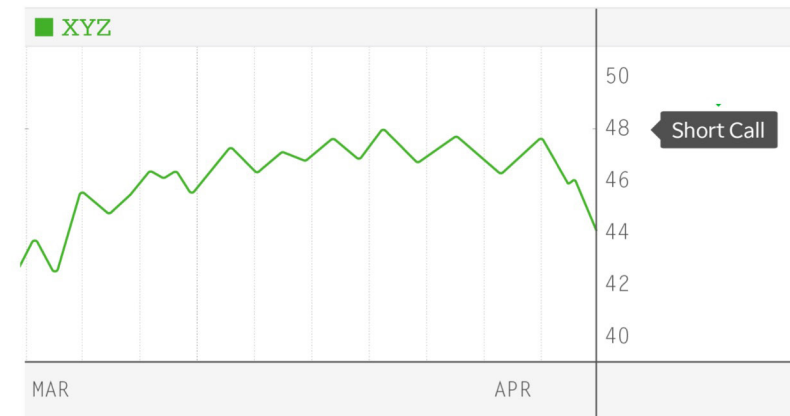


- Let's say the stock only rises to \$47 prior to or at expiration:
  - Your option is OTM.
  - It expires worthless.
  - You keep the premium of \$100 and the \$100 in stock price appreciation (less transaction costs).

## What If the Stock Goes Down?



- Let's say the stock falls to \$44 prior to or at expiration:
  - Your option is OTM.
  - It expires worthless.
  - You lose \$200 on the stock.
  - The \$100 premium received helps offset some of the loss.



## Common Pitfalls: Covered Calls

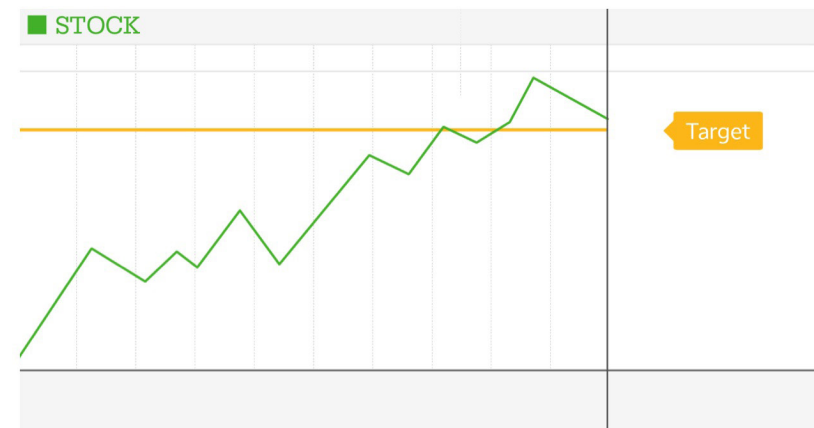


- Traders can become greedy when the stock is up near resistance.
- Traders may not realize the impact events can have on options—consider earnings, dividends, market drops.
- Traders may fail to understand that low volatility (\$VIX) typically means that stocks are up near resistance anyway. (This may be an opportunity to consider selling covered calls.)

# Sample Watch List Criteria



- Stocks/ETFs:
  - Consider equities you own that have already hit your price target.
  - Consider equities that you're okay with selling at the strike price if you're assigned.
- Options:
  - For liquidity, consider low bid/ask spreads (usually 10% or less of the ask price), often accompanied by high open interest, and volume.



$$(\text{Ask} - \text{Bid}) \div \text{Ask} = \text{Bid/Ask Spread (\%)}$$

CALLS		
Delta	Bid X	Ask X
.89	2.16	2.20

$$(\$2.20 - \$2.16) \div \$2.20 = 1.8\%$$

# Sample Entry Considerations: Options

- Expiration Selection:

- 20 to 50 days to expiration balances time decay and premium.

\$207.75 *OPTION CHAIN*

**Expiration**

- ▶ jun10 16 (17) 100 (*weeklys*)
- ▶ jun17 16 (24) 100
- ▶ jun24 16 (31) 100 (*weeklys*)
- ▶ jul01 16 (38) 100 (*weeklys*)
- ▶ jul08 16 (45) 100 (*weeklys*)
- ▶ jul15 16 (52) 100
- ▶ aug19 16 (87) 100

- Strike Selection:

- A delta between .30 and .40 balances probability of success and return.

\$207.75 *OPTION CHAIN*

**Expiration**

- ▼ jun17 (23) 100

*CALLS*

Delta	Bid X	Ask X	Expiration	Strike
0.43	2.23	2.28	jun17 16	209
0.40	1.99	2.02	jun17 16	209.5
0.37	1.75	1.79	jun17 16	210
0.34	1.53	1.57	jun17 16	210.5
0.31	1.32	1.35	jun17 16	211
0.29	1.13	1.17	jun17 16	211.5

## Money Management

Consider selling up to one call contract for every 100 shares of the stock you own.



The diagram illustrates the calculation for determining the maximum number of call contracts to sell based on the number of shares owned. It features two boxes: 'Stock' on the left and 'Option' on the right. Below the 'Stock' box is the text 'Number of Shares You Own'. Below the 'Option' box is the text 'Max # of Contracts to Sell'. A vertical line connects the 'Stock' box to its text, and another vertical line connects the 'Option' box to its text. The entire calculation is presented as an equation: 'Number of Shares You Own' followed by a division symbol (÷), the number '100', an equals sign (=), and 'Max # of Contracts to Sell'.

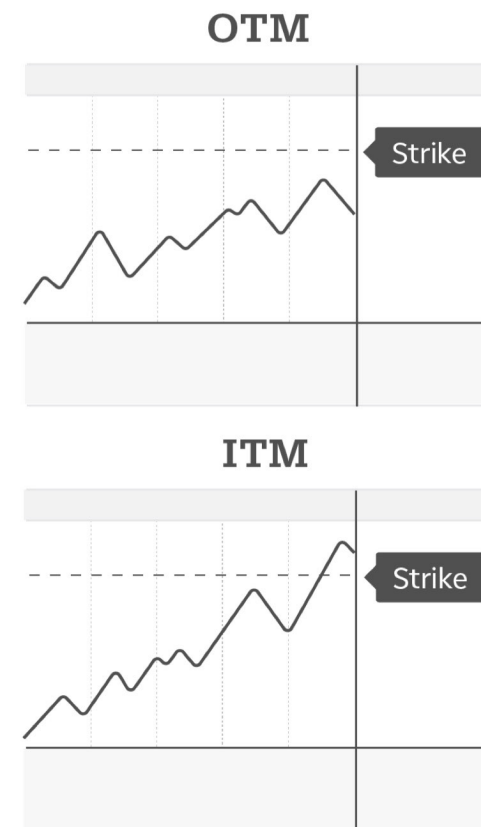
$$\text{Number of Shares You Own} \div 100 = \text{Max \# of Contracts to Sell}$$



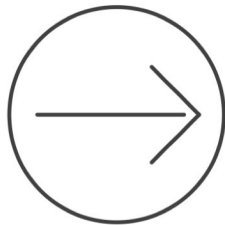
## Sample Exit Considerations

- If the option looks like it will expire **ITM**, you'll likely have to sell the stock.
- If you want to keep the stock:
  - Prior to expiration, consider rolling the option to the next month if you can do so for a credit.
  - Consider buying back the call.
- If the option looks like it will expire **OTM**, consider letting it expire worthless.

**Note:** If your stock exit rules are triggered, remember to buy back the call before selling the stock.



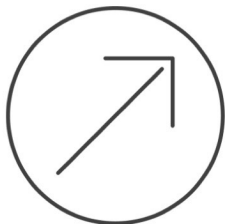
## If You Decide to Roll, Consider Your Short-Term Stock Outlook.



- Neutral:
  - Roll out
  - Keep the same strike



- Bearish:
  - Roll down
  - Sell a lower strike



- Bullish:
  - Roll up
  - Sell a higher strike

Note: Rolling will incur additional transaction costs.

# Routines

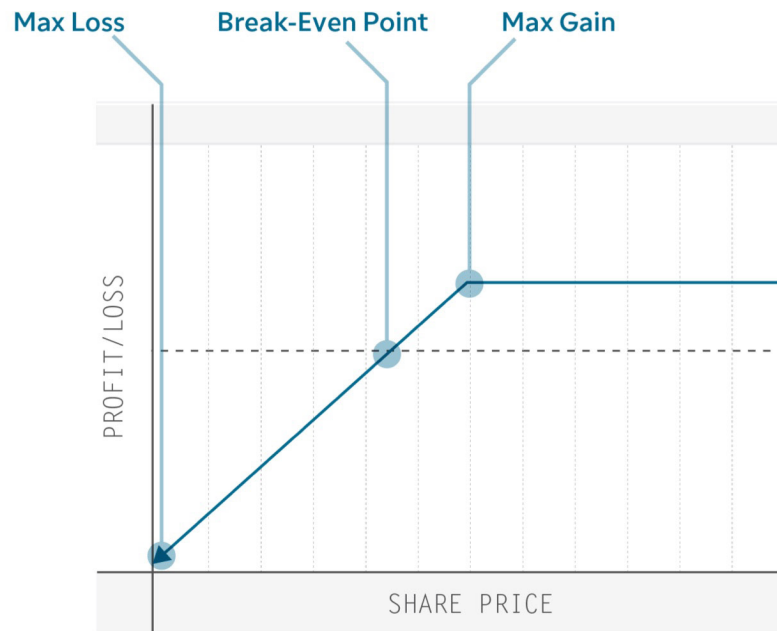
- Daily:
  - Consider monitoring your stock positions for setups and entries like parabolic moves and signs of weakness.
  - Consider monitoring open covered calls, and consider your exit rules for any options that are in the money.
  
- Quarterly:
  - Consider checking strategy performance against a benchmark, like the CBOE® S&P 500® BuyWrite Index (BXY).



# Execute the Strategy

20 min.

**Covered Call Risk Profile**

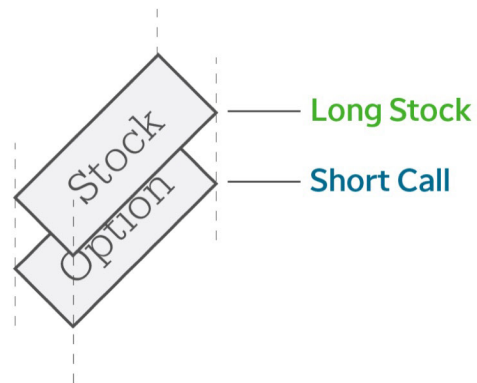
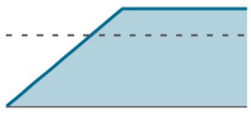


- Find two more trades.
- Share with a partner.
- Choose the best trade.
- Place that trade in paperMoney®.
- Enter it in the trade log.

## Goals recap:

- ✓ Search for and evaluate securities that meet sample criteria.
- ✓ Calculate position size and plan exits.
- ✓ Practice placing covered call paper trades.

Investing Plan



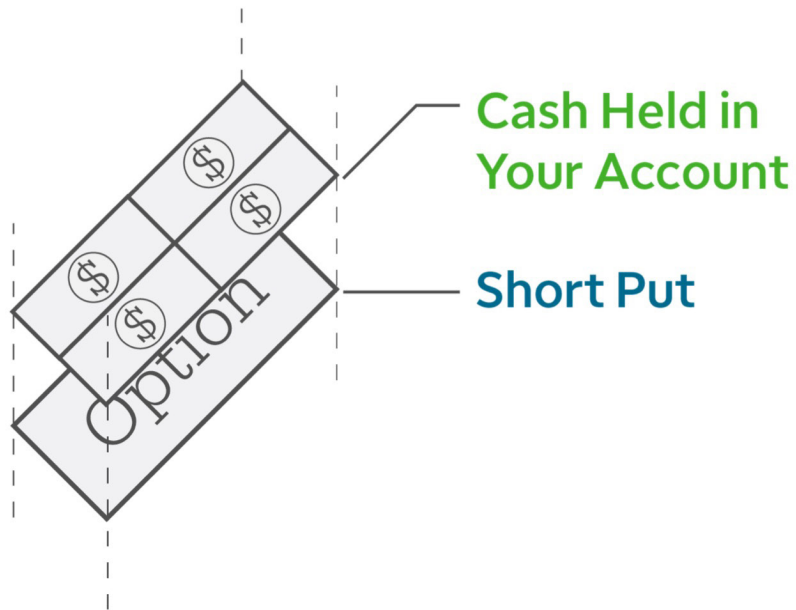
# Workshop Agenda

## Options Strategies

- ✓ Options basics
- ✓ Greeks
- ✓ Covered calls
  - Cash-secured puts
  - Short put verticals
  - Short call verticals

# Cash-Secured Puts

## Cash-Secured Put



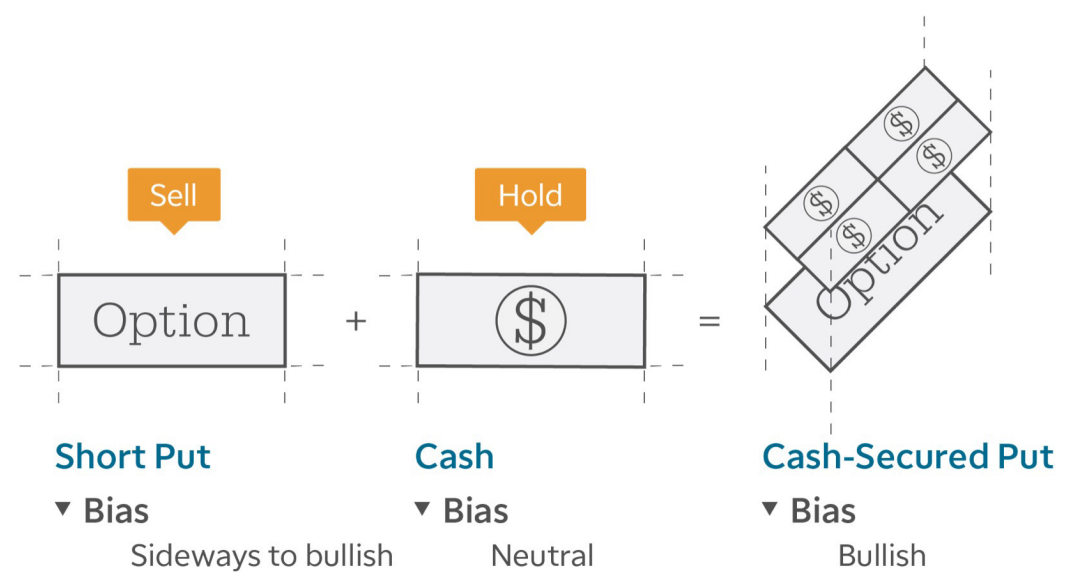
## Goals for this section:

- Search for and evaluate securities that meet sample criteria.
- Calculate position size and plan exits.
- Practice placing cash-secured put paper trades.



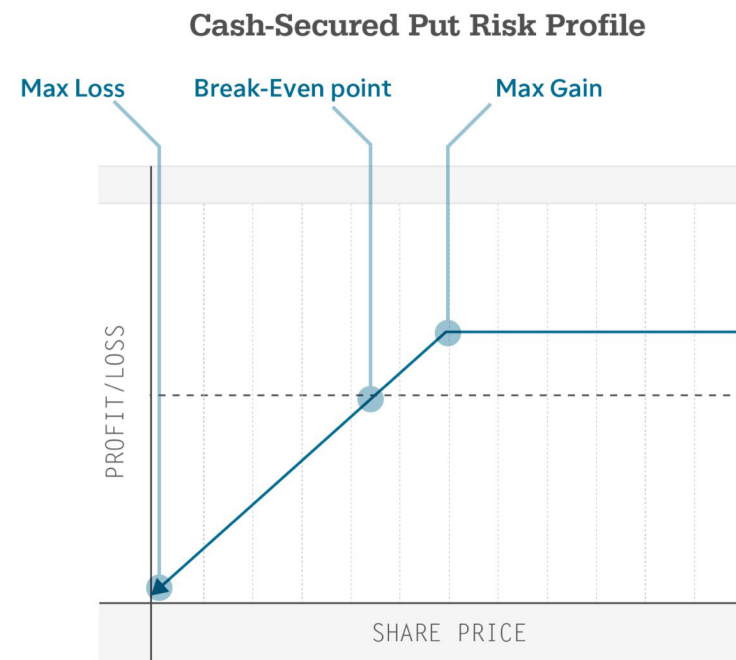
# Objectives

To generate income in hopes the option will expire worthless, **or** to build a stock position at a relative discount.

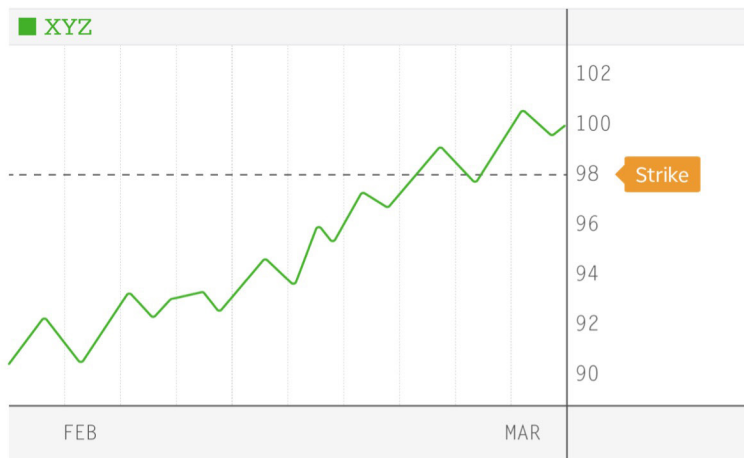


# Risk Profile

- **Max Gain:**
  - Premium received from selling the put
- **Max Loss:**
  - Losses in underlying if assigned and stock falls to zero
- **Break-Even Point:**
  - $\text{Strike price} - \text{Premium}$



# Example



Option

**Put**

- ▼ Strike Price  
\$98
- ▼ Premium  
\$2

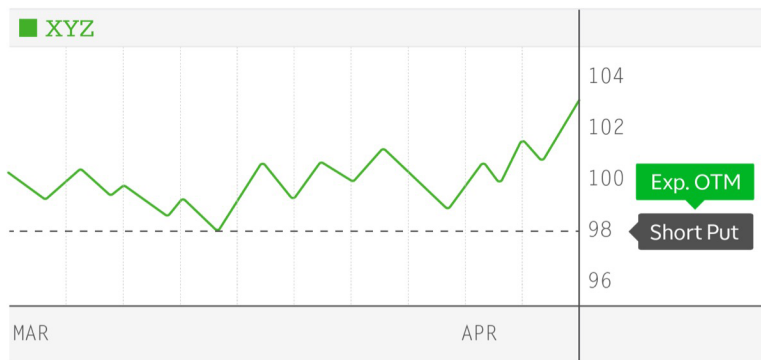
- You want to own 100 shares of XYZ stock. It's currently trading at \$100 per share.
- You choose the current month's 98 strike put option for a premium of \$2.
- You collect a total premium of \$200.
- You set aside \$9,800 in case of assignment.

## What If the Stock Goes Down a Lot?

- Let's say the stock falls from \$100 to \$90 prior to or at expiration:
  - Your option is ITM.
  - You'd likely be assigned to buy the shares for \$9,800.
  - The premium would offset some of the cost.
  - The stock price could continue to fall.



## What If the Stock Goes Up a Lot?



**Exp. OTM**

Option

**Short put**

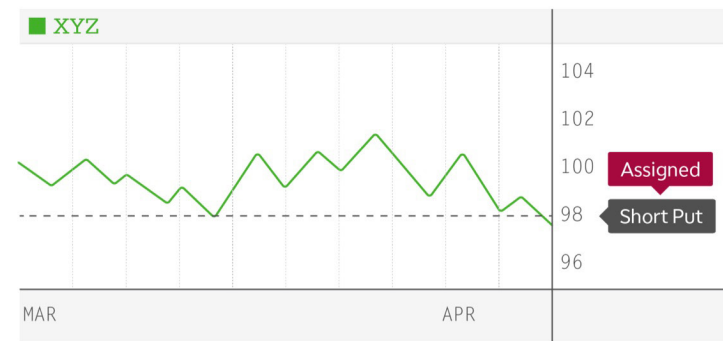
- ▼ **Strike Price**  
\$98
- ▼ **Premium**  
\$200 per contract

- Let's say the stock closes at \$103 at expiration:
  - Your option is OTM.
  - It expires worthless.
  - You miss the chance to buy the stock.
  - You keep the \$200 premium received (less transaction costs).

Short options can be assigned at any time up to expiration regardless of the in-the-money amount.

## What If the Stock Goes Down a Little?

- Let's say the stock closes at \$97.95 at expiration:
  - Your option is ITM.
  - You'd be assigned to buy the shares for \$9,800.
  - You purchase shares at a relative discount, but at a price higher than the current market.



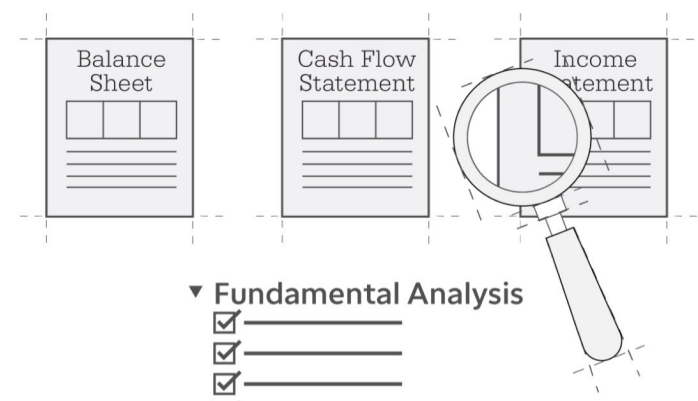
## Common Pitfalls: Cash-Secured Puts



- Traders may not recognize a stock pullback to longer-term horizontal support as an opportunity to sell a put. (These situations can have higher premiums because of higher volatility.)
- Traders often sell puts on stocks when implied volatility is too low.
- Traders may not clearly define: “Is this just a trade, or do I want to own the stock, especially if the market price of the stock is lower?”

# Sample Watch List Criteria

- Stocks/ETFs:
  - Consider equities that exhibit fundamental value.
  - Consider equities you're willing to own at the strike.
- Options:
  - For liquidity, consider low bid/ask spreads (usually 10% or less of the ask price), often accompanied by high open interest, and volume.



- ▼ Fundamental Analysis
- \_\_\_\_\_
  - \_\_\_\_\_
  - \_\_\_\_\_
  - \_\_\_\_\_
  - \_\_\_\_\_

$$(\text{Ask} - \text{Bid}) \div \text{Ask} = \text{Bid/Ask Spread (\%)}$$

PUTS		
Delta	Bid X	Ask X
.89	2.16	2.20

$$(\$2.20 - \$2.16) \div \$2.20 = 1.8\%$$



# Example Entry Considerations



- Expiration Selection:
  - 30 days balances time decay and premium.
- Strike Selection:
  - A delta between -.30 and -.40 balances probability of success and return.

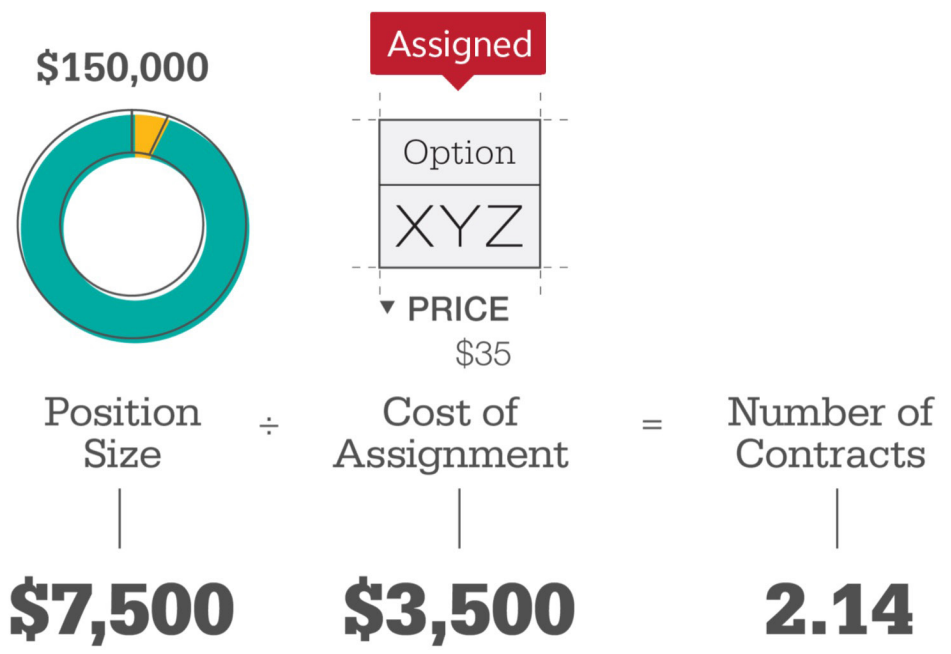
Expiration  
▼ jun17 (50) 100

*PUTS*

Expiration	Strike	Bid X	Ask X	Delta
jun17 16	209	1.13	1.17	-0.29
jun17 16	209.5	1.32	1.35	-0.31
jun17 16	210	1.53	1.57	-0.34
jun17 16	210.5	1.75	1.79	-0.37
jun17 16	211	1.99	2.02	-0.40
jun17 16	211.5	2.23	2.28	-0.43

# Money Management

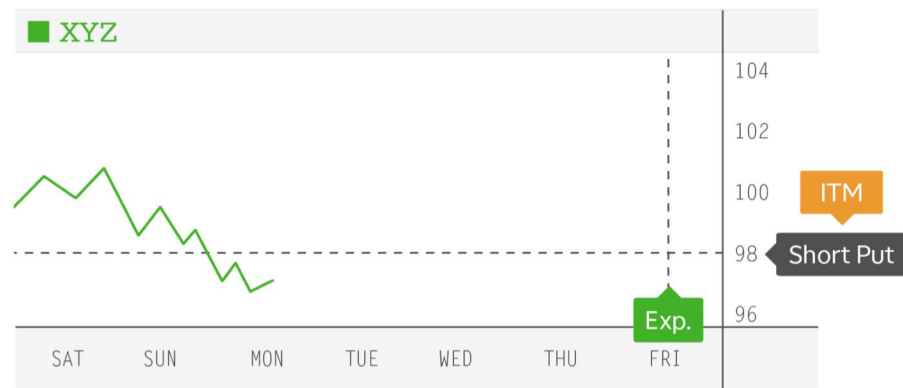
Determine for yourself how much you're willing to pay to purchase the shares should assignment occur—for example, 5% or 10% of your account value.



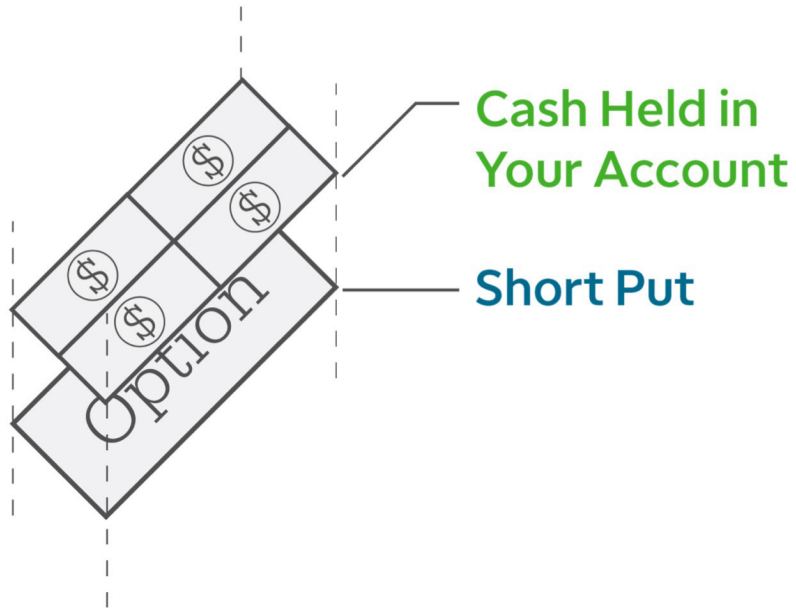
## Sample Exit Considerations



- Option is ITM within four days of expiration:
  - Consider accepting assignment, or
  - Consider rolling the option to the next month.
- Option looks like it will expire OTM:
  - Let it expire worthless.



## Cash-Secured Put



## Goals recap:

- ✓ Search for and evaluate securities that meet sample criteria.
- ✓ Calculate position size and plan exits.
- ✓ Practice placing cash-secured put paper trades.

# Workshop Agenda

## Options Strategies

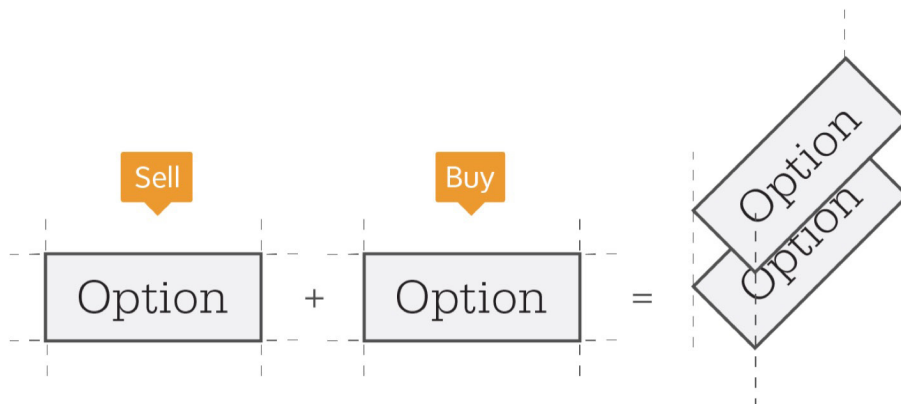
- ✓ Options basics
- ✓ Greeks
- ✓ Covered calls
- ✓ Cash-secured puts
  - Short put verticals
  - Short call verticals

# Short Put Verticals

## Goals for this section:

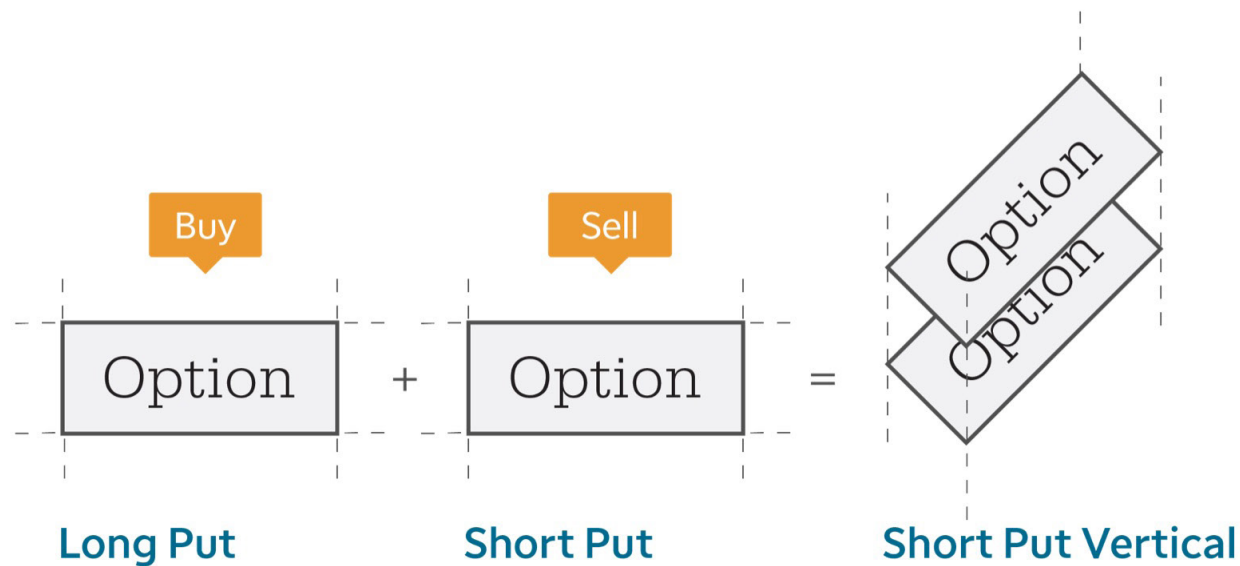
- Search for and evaluate securities that meet sample criteria.
- Calculate position size and plan exits.
- Practice placing short put vertical paper trades.

Spreads and other multiple-leg options strategies can entail substantial transaction costs, including multiple commissions, which may impact any potential return.



## Objective

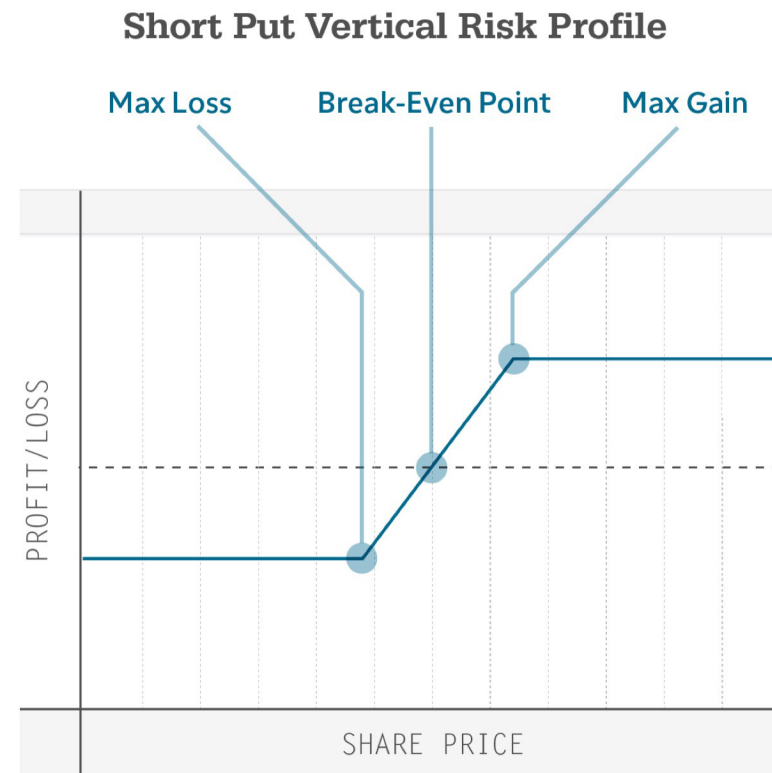
To potentially profit from sideways-trending and uptrending stocks or ETFs by selling a put option at one strike to capture time decay and also buying a put option at a lower strike to limit risk.



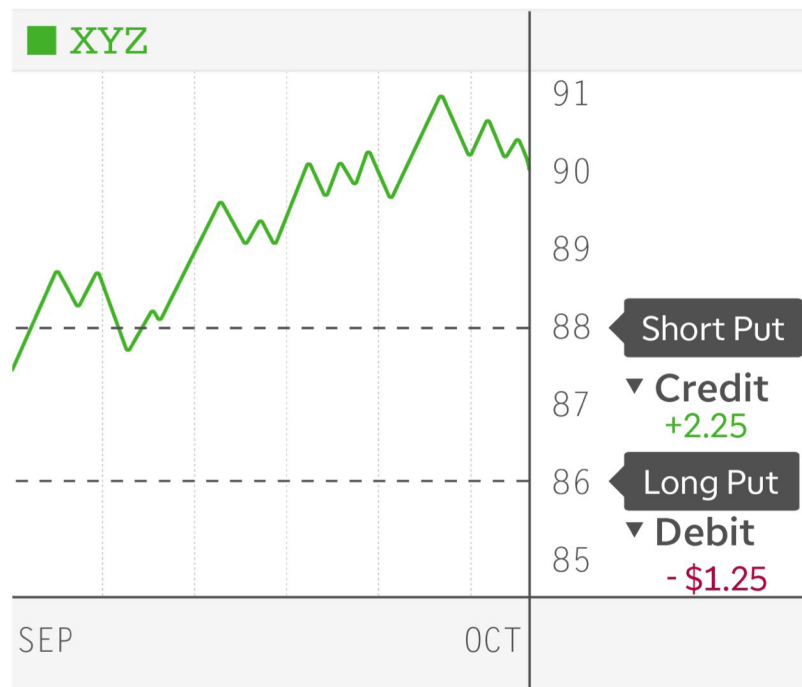


# Risk Profile

- Max Gain:
  - Net credit (difference between two premiums)
- Max Loss:
  - (Short strike – Long strike) – Net credit
- Break-Even Point:
  - Short strike – Net credit



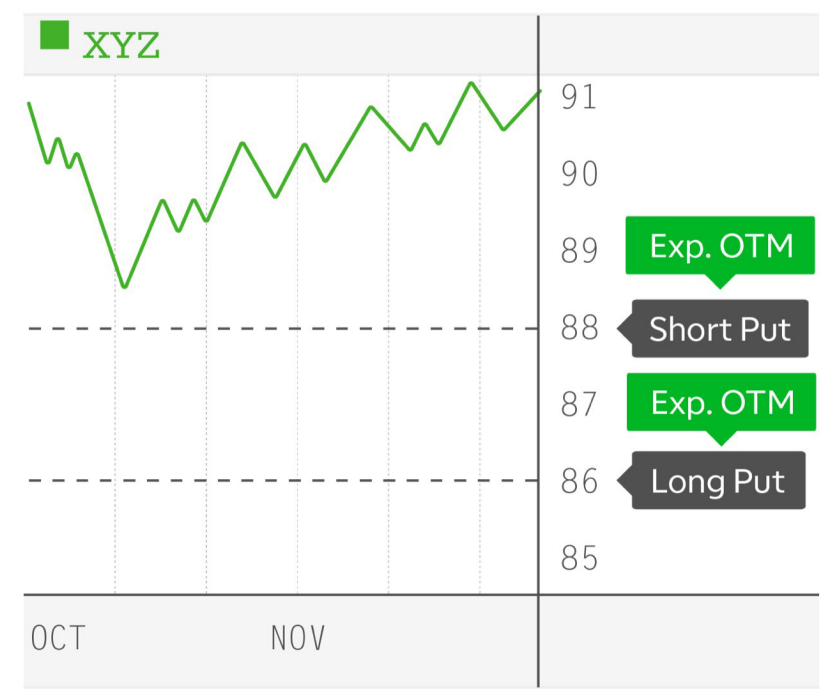
## Example



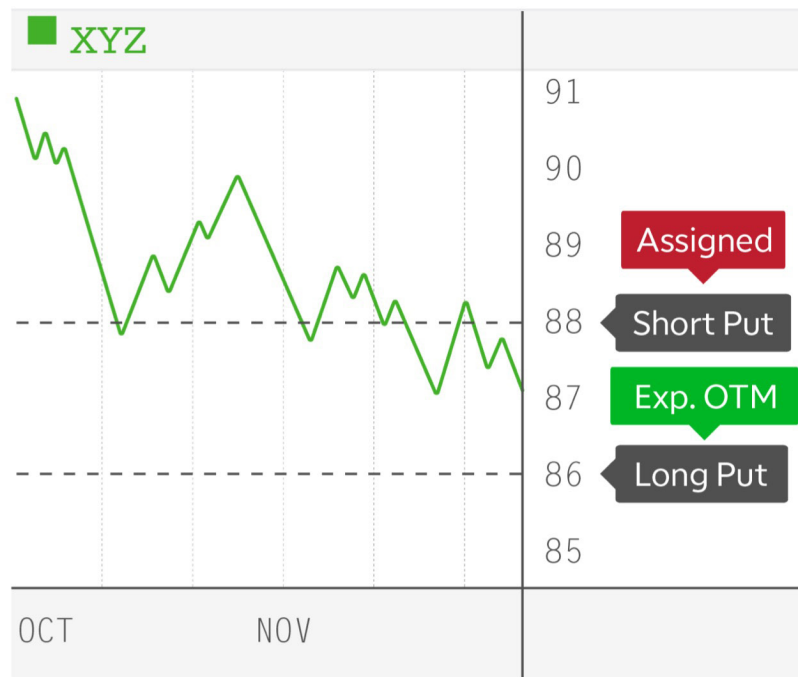
- XYZ is trading at \$90 per share.
- You sell the 88 strike put option for a premium of \$2.25.
- You buy the 86 strike put for \$1.25.
- You collect a total premium of \$100 (\$1 credit x 100).

## What If the Stock Goes Up?

- Let's say the stock closes at \$91 at expiration:
  - Both options are OTM.
  - Both expire worthless.
  - The profit is capped at \$100 (the credit received).



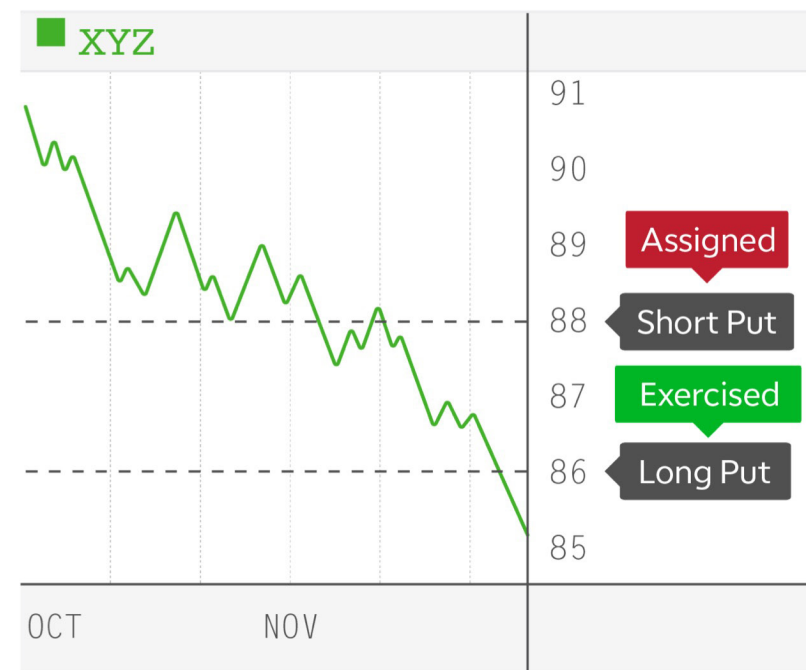
## What If the Stock Goes Down a Little?



- Let's say the stock closes at \$87 at expiration:
  - The short put is ITM and gets assigned.
  - The long put is OTM and expires worthless.
  - You'll have to buy the stock at \$88 and either hold it or sell it back at whatever price the market gives you.
  - The short option can be assigned at any time up to expiration regardless of the in-the-money amount.

## What If the Stock Goes Down a Lot?

- Let's say the stock closes at \$85 at expiration:
  - The short put is ITM and gets assigned.
  - The long put is ITM and is automatically exercised.
  - Your total loss is \$100 (distance between the spread minus the net credit).
  - The short option can be assigned at any time up to expiration regardless of the in-the-money amount.



## Common Pitfalls: Short Put Verticals

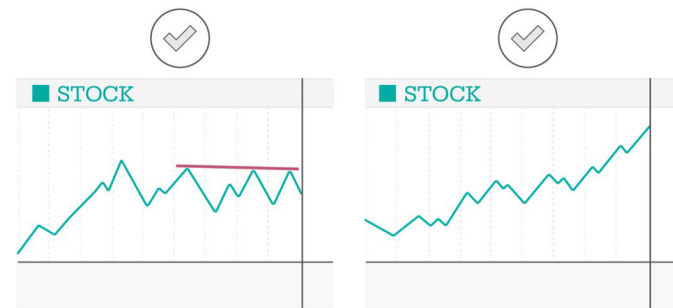


- Traders may fail to realize that if the stock is between the strikes at any time prior to expiration, they may be obligated to buy the stock at the strike of the short put. It behaves like a short put strategy.
- Traders may fail to understand how much a stock may fluctuate before expiration, making it difficult to forecast the likeliness of experiencing either the max gain or loss.
- Traders may fail to understand that this strategy could be used when the stock has been sold off down to support—here the volatility is higher, possibly creating higher probabilities and higher premiums.

# Sample Watch List Criteria



- Stocks/ETFs:
  - Consider equities that are trending up or sideways.
- Options:
  - For liquidity, consider low bid/ask spreads (10% or less of the ask price), often accompanied by high open interest, and volume.



$$(\text{Ask} - \text{Bid}) \div \text{Ask} = \text{Bid/Ask Spread (\%)}$$

PUTS		
Delta	Bid X	Ask X
.89	2.16	2.20

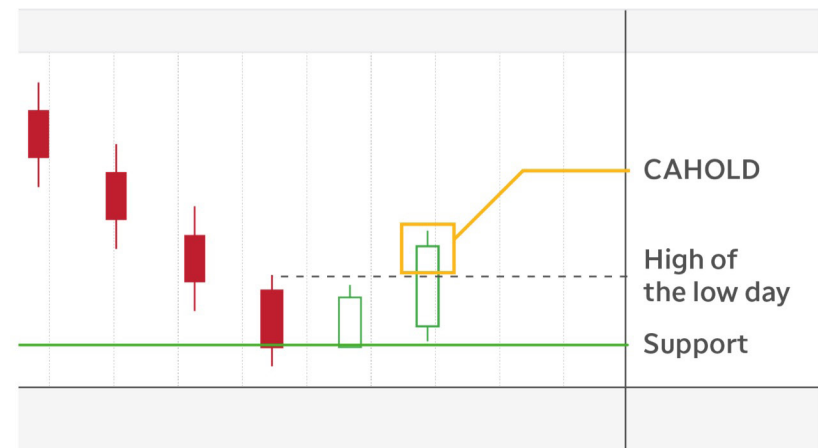
$$(\$2.20 - \$2.16) \div \$2.20 = 1.8\%$$

# Sample Entry Consideration: Underlying

Identify support and resistance.

Consider entering on:

- A bullish candle/bar at horizontal or diagonal support.
- A close above the high of the low day (CAHOLD).





# Sample Entry Considerations: Options

- Expiration Selection:
  - 20 to 50 days to expiration balances time decay and premium.
- Strike Selection:
  - Short put:
    - Low deltas can potentially increase probability of success.
  - Long put:
    - Below but close to the short strike balances risk and return.

Expiration	
▶	jun 16(12)
▶	jul 16(42)
▶	oct 16(132)
▶	jan 17(222)

PUTS	
	Strike
	56
Long	57
	58
Short	59

XYZ OPTION CHAIN		
Delta	Strike	
.40	56	
.39	57	
.37	58	
.36	59	
.32	60	
.30	61	

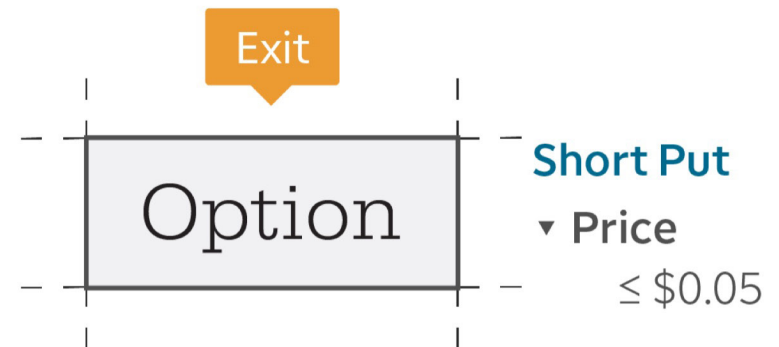
# Money Management



- Consider a portfolio risk of 1% to 2%.
- Calculate the trade risk.
- Use portfolio risk and trade risk to calculate the number of spreads.

## Sample Exit Considerations

- Near expiration:
  - If both options are OTM:
    - Consider closing the position when the bid price of the short strike is \$0.05 or less.
- On last trading day before expiration:
  - If only the short strike is ITM:
    - Consider buying back the short strike.
    - Consider letting the long strike expire worthless.
  - If both strikes are ITM:
    - Consider letting the trade go to assignment/exercise.
    - Commissions, exercise, and assignment fees will impact potential returns.



## Sample Routines

### ▼ Exit Rules

<input type="checkbox"/>	_____
<input type="checkbox"/>	_____
<input type="checkbox"/>	_____
<input type="checkbox"/>	_____
<input type="checkbox"/>	_____

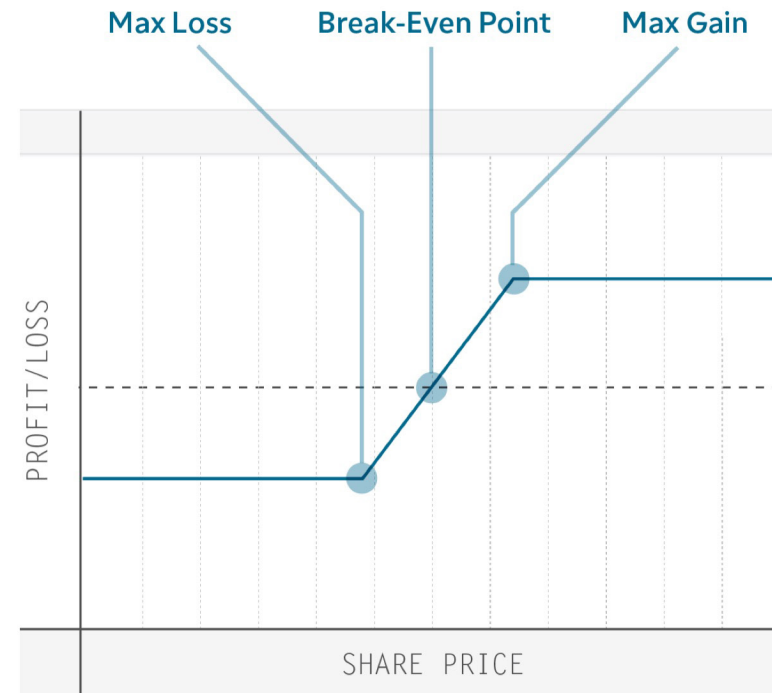
- Daily:
  - Consider checking watch list for new entry opportunities.
  - Consider monitoring open short put verticals, and consider your exit rules.
- Weekly:
  - Consider conducting searches and updating your watch list.
- Quarterly:
  - Consider checking portfolio performance against a benchmark, like the S&P 500®.

# Execute the Strategy

20 min.

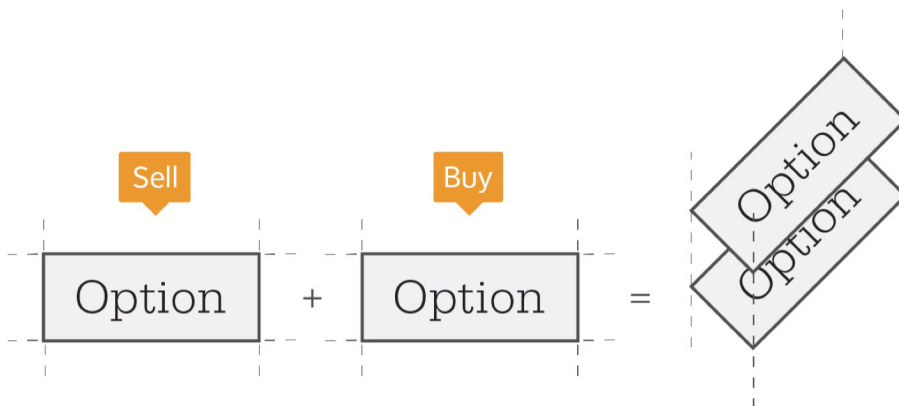
- Find two more trades.
- Share with a partner.
- Choose the best trade.
- Place that trade in paperMoney®.
- Enter it in the trade log.

**Short Put Vertical Risk Profile**



## Goals recap:

- ✓ Search for and evaluate securities that meet sample criteria.
- ✓ Calculate position size and plan exits.
- ✓ Practice placing short put vertical paper trades.



# Workshop Agenda

## Options Strategies

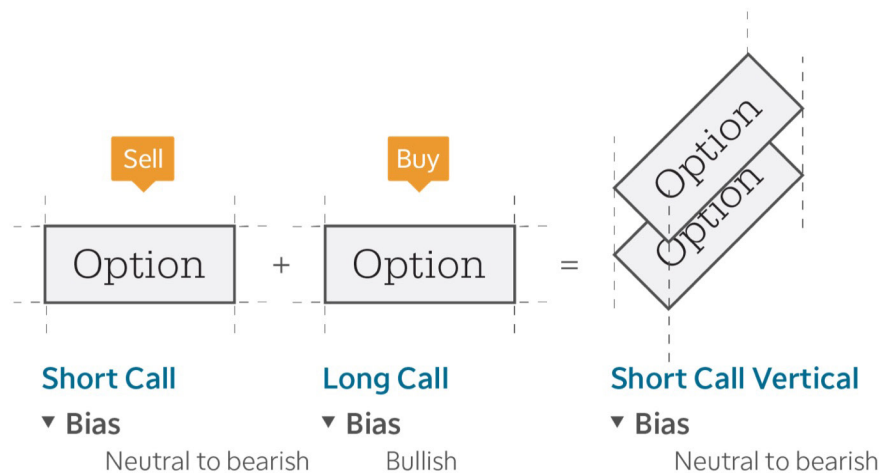
- ✓ Options basics
- ✓ Greeks
- ✓ Covered calls
- ✓ Cash-secured puts
- ✓ Short put verticals
- Short call verticals

# Short Call Verticals



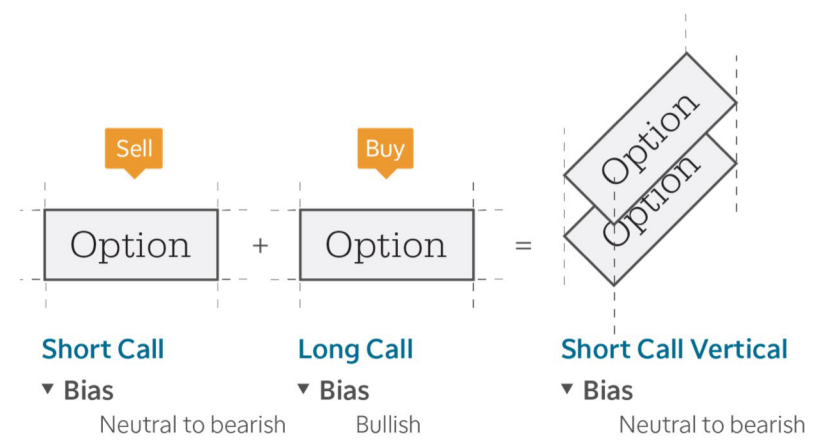
## Goals for this section:

- Search for and evaluate securities that meet sample criteria.
- Calculate position size and plan exits.
- Practice placing short call vertical paper trades.



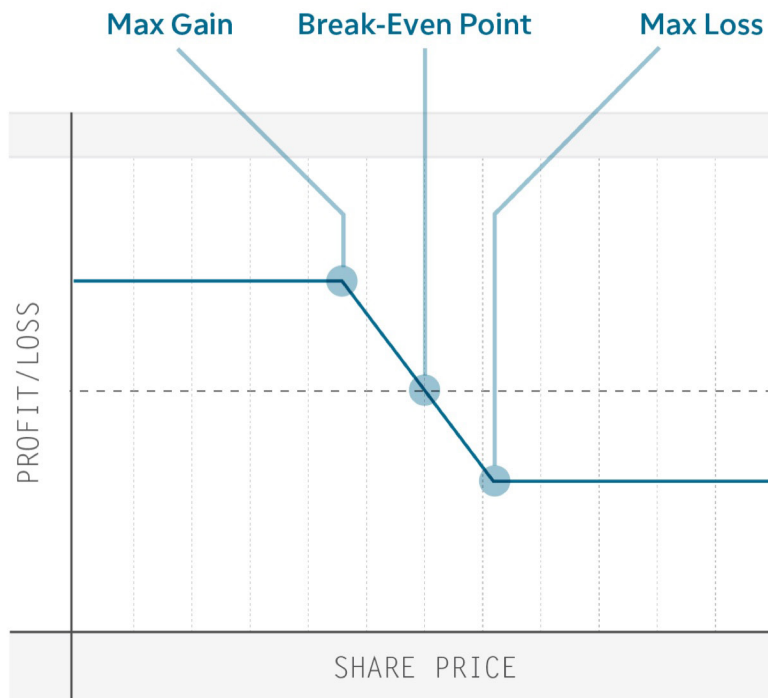
# Objective

To potentially profit from sideways-trending and downtrending stocks or ETFs by selling a call and buying another call that is further OTM to limit risk.



# Risk Profile

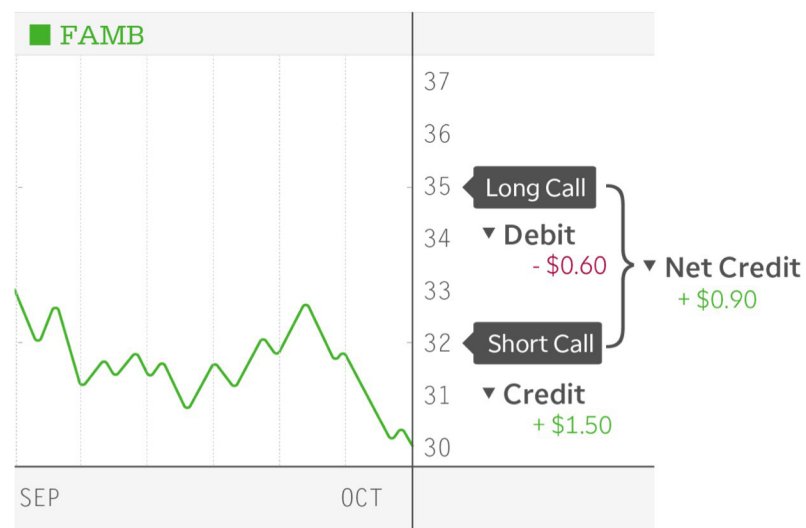
## Short Call Vertical Risk Profile



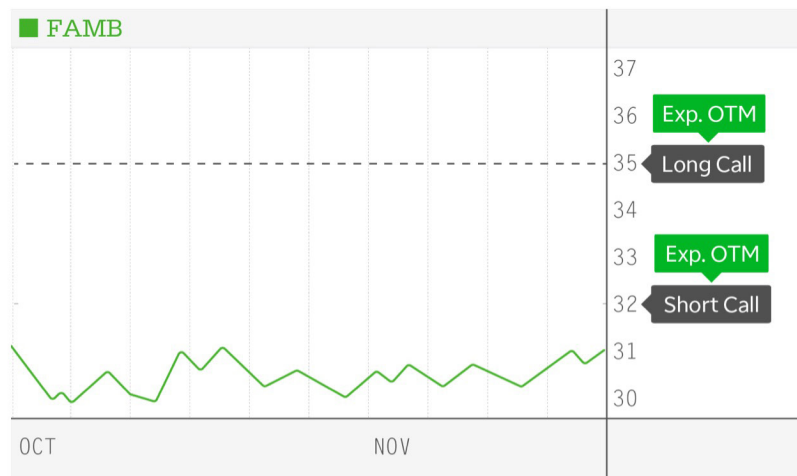
- Max Gain:
  - Net credit (difference between two premiums)
- Max Loss:
  - (Short strike - Long strike) - Net credit
- Break-Even Point:
  - Short strike + Net credit

## Example

- FAMB is trading at \$30 per share.
- You sell a 32 call for a premium of \$1.50.
- You buy a 35 call for \$0.60.
- You collect a total premium of \$90 (\$0.90 credit x 100).



## What If the Stock Goes Up a Little?



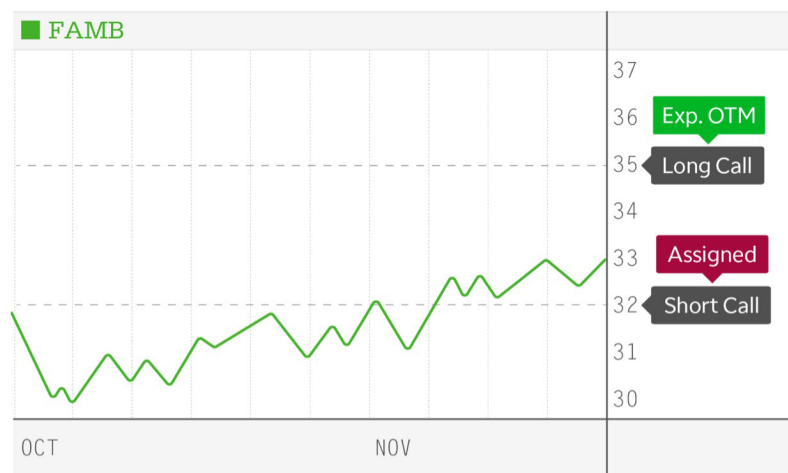
- Let's say the stock closes at \$31 at expiration:
  - Both options are OTM.
  - Both expire worthless.
  - The profit is capped at \$90 (the credit received).

## What If the Stock Goes Up a Bit More?

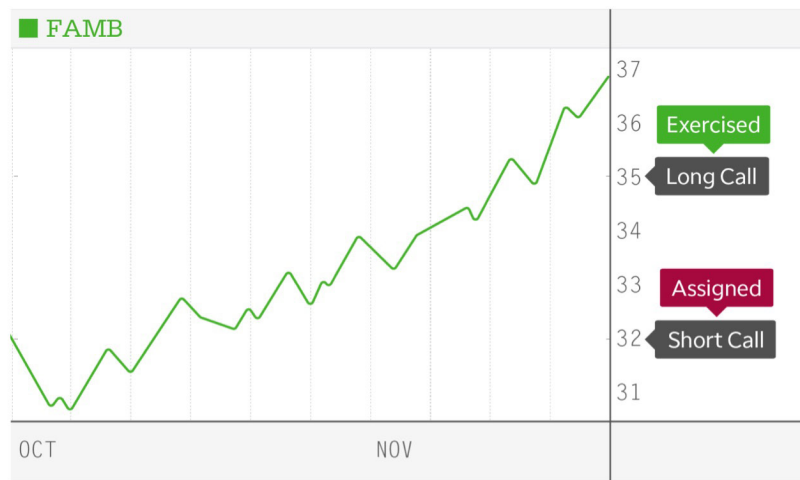


- Let's say the stock closes at \$33 at expiration:

- The short call is ITM and gets assigned.
- The long call is OTM and expires worthless.
- You'll have to sell the stock at \$32 if assigned.
- The short option can be assigned at any time up to expiration regardless of the in-the-money amount.



## What If the Stock Goes Up a Lot?



- Let's say the stock closes at \$37 at expiration:
  - The short call is ITM and gets assigned.
  - The long call is ITM and is automatically exercised.
  - Your total loss is \$210 (distance between the spread minus the net credit).
  - The short option can be assigned at any time up to expiration regardless of the in-the-money amount.

$$\begin{array}{rcc}
 \text{Distance between} & - & \text{Net Credit} & = & \text{Loss} \\
 \text{the Spread} & & \text{per Spread} & & \text{per Spread} \\
 | & & | & & | \\
 \mathbf{\$300} & & \mathbf{\$90} & & \mathbf{\$210}
 \end{array}$$

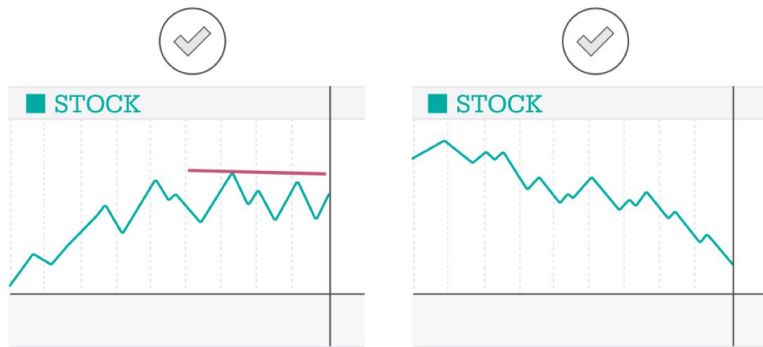
## Common Pitfalls: Short Call Verticals

- Traders may fail to realize that if the underlying is between the two strikes any time prior to or at expiration, they might be obligated to sell the shares at the strike of the short call.
- Traders may fail to understand how much a stock may fluctuate before expiration, making it difficult to forecast the likeliness of experiencing either the max gain or loss.
- Traders may fail to understand that this strategy is often used as a directional trade when the underlying has risen to resistance and has a bearish tilt.





# Sample Watch List Criteria



**( Ask - Bid ) ÷ Ask = Bid/Ask Spread (%)**

CALLS		
Delta	Bid X	Ask X
.89	2.16	2.20

$(\$2.20 - \$2.16) \div \$2.20 = 1.8\%$



- **Stocks/ETFs:**
  - Consider equities that are trending down or sideways.
- **Options:**
  - For liquidity, consider low bid/ask spreads (10% or less of the ask price), often accompanied by high open interest, and volume.

There is no guarantee of a secondary (liquid) market for any option at any given time.

# Sample Entry Considerations: Options

- Expiration Selection:
  - 20 to 50 days to expiration balances time decay and premium.
- Strike Selection:
  - Short strike:
    - Low deltas can potentially increase probability of success.
  - Long strike:
    - Above but close to the short strike balances risk and return.

-----  
**Expiration**

- ▶ jun 16(12)
  - ▶ jul 16(42)
  - ▶ oct 16(132)
  - ▶ jan 17(222)
- 

**XYZ**

OPTION CHAIN

Delta	Strike
.40	56
.39	57
.37	20
.36	22
.32	60
.30	61

CALLS

	Strike
	19
Short	20
	21
▼ Long	22
Higher premium, lower risk	23
	24
▼ Long	25
Lower premium, higher risk	26

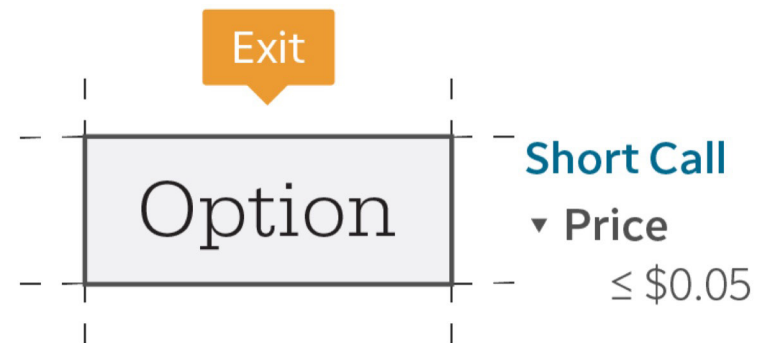
# Money Management



- Consider a portfolio risk of 1% to 2%.
- Calculate the trade risk.
- Use portfolio risk and trade risk to calculate the number of spreads.

## Sample Exit Considerations

- Near expiration:
  - If both options are OTM:
    - Consider closing or rolling the position when the bid price of the short call is \$0.05 or less.
- On last trading day before expiration:
  - If only the short option is ITM:
    - Consider closing both sides of the trade.
    - Consider closing the short option and letting the long option expire worthless.
  - If both strikes are ITM:
    - Consider letting the trade go to assignment/exercise.
    - Commissions, exercise, and assignment fees will impact potential returns.



There is no guarantee of a secondary (liquid) market for any option at any given time.  
 Rolling can entail substantial transaction costs, including multiple commissions, which may impact any potential return.

## Sample Routines

### ▼ Exit Rules

<input type="checkbox"/>	_____
<input type="checkbox"/>	_____
<input type="checkbox"/>	_____
<input type="checkbox"/>	_____
<input type="checkbox"/>	_____

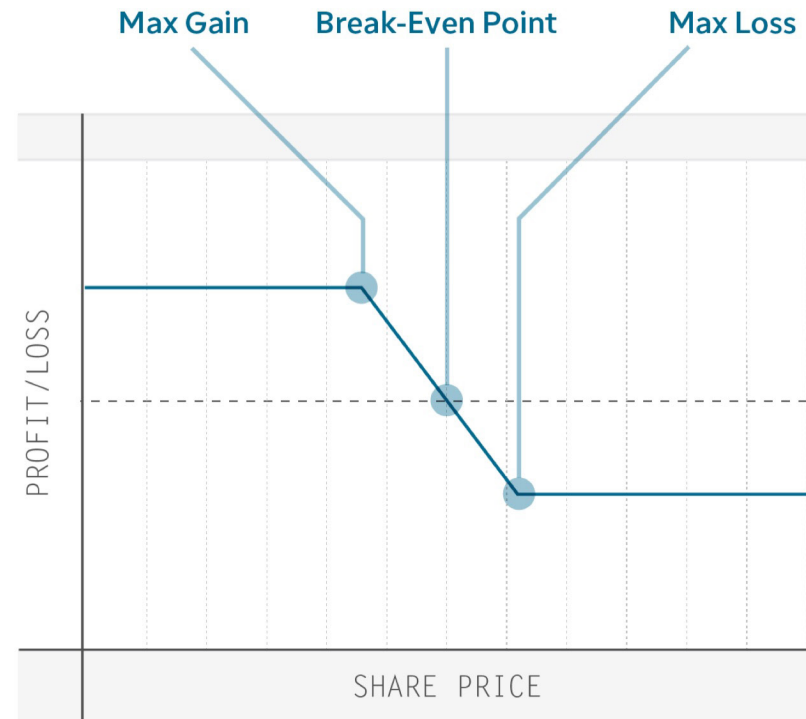
- Daily:
  - Consider checking watch list for new entry opportunities.
  - Consider monitoring open short call verticals, and consider your exit rules.
- Weekly:
  - Consider conducting searches and updating your watch list.
- Quarterly:
  - Consider checking portfolio performance against a benchmark, like the S&P 500®.

# Execute the Strategy

20 min.

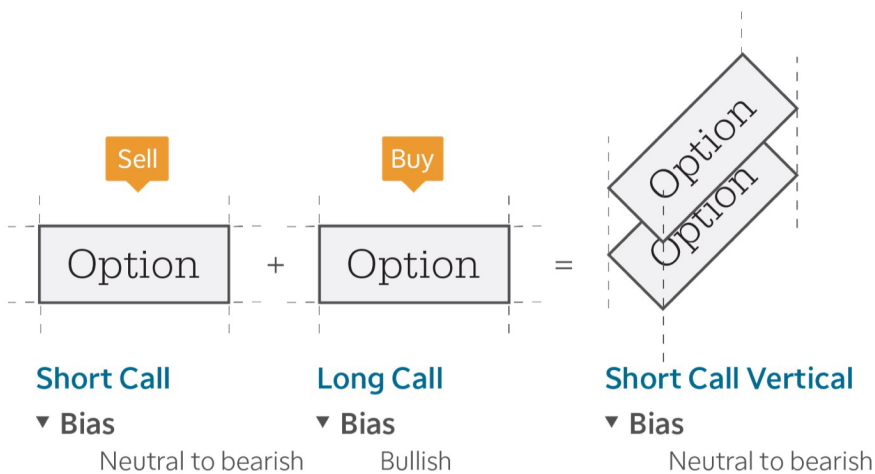
- Find two more trades.
- Share with a partner.
- Choose the best trade.
- Place that trade in paperMoney®.
- Enter it in the trade log.

**Short Call Vertical Risk Profile**



## Goals recap:

- ✓ Search for and evaluate securities that meet sample criteria.
- ✓ Calculate position size and plan exits.
- ✓ Practice placing short call vertical paper trades.



Spreads and other multiple-leg options strategies can entail substantial transaction costs, including multiple commissions, which may impact any potential return.

# Workshop Agenda

## Options Strategies

- ✓ Options basics
- ✓ Greeks
- ✓ Covered calls
- ✓ Cash-secured puts
- ✓ Short put verticals
- ✓ Short call verticals

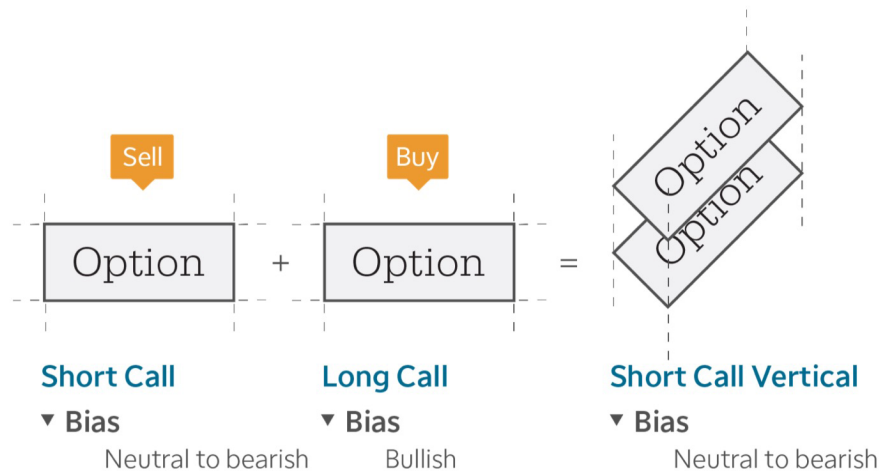




# Wrap-Up

# Our workshop goal:

Together, we learned about options strategies designed for growth.



Spreads and other multiple-leg options strategies can entail substantial transaction costs, including multiple commissions, which may impact any potential return.