ABOUT OIC

The Options Industry Council (OIC) is an industry resource provided by OCC, the world’s largest equity derivatives clearing organization. Its mission is to provide free and unbiased education to retail investors, financial advisors and institutions about the benefits and risks of exchange-listed options. OIC offers education which includes webinars, online classes, podcasts, videos, investing tools, and live help. OIC’s Roundtable is OIC’s advisory group and is comprised of representatives from the exchanges, member brokerage firms and OCC. For more information on the educational services OIC provides for investors, visit www.OptionsEducation.org.

Options involve risks and are not suitable for everyone. Individuals should not enter into options transactions until they have read and understood the risk disclosure document, Characteristics and Risks of Standardized Options, available by visiting OptionsEducation.org or by contacting your broker, any exchange on which options are traded, or The Options Clearing Corporation at 125 S. Franklin St., #1200, Chicago, IL 60606.

In order to simplify the calculations used in the examples in these materials, commissions, fees, margin, interest and taxes have not been included. These costs will impact the outcome of any stock and options transactions and must be considered prior to entering into any transactions. Investors should consult their tax advisor about any potential tax consequences.

Any strategies discussed, including examples using actual securities and price data, are strictly for illustrative and educational purposes and should not be construed as an endorsement, recommendation, or solicitation to buy or sell securities. Past performance is not a guarantee of future results.

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On behalf of OCC and The Options Industry Council (OIC), we are pleased to introduce the Options Strategies Quick Guide. This guide outlines a range of strategies for investing with options.

As the foundation for secure markets, it is important for OCC to ensure that the listed options markets remain vibrant, resilient and liquid in the eyes of regulators and the investing public. We believe that education is the key to prudent options investing, and that the tremendous growth of the U.S. listed options markets in recent years can be attributed, at least in part, to the value of this education.

We always are available to answer your questions and help you expand your knowledge of the listed options markets. For more information, or to contact OIC, please visit our website at OptionsEducation.org or emailing us at options@theocc.com

Thank you,

Craig Donohue
Executive Chairman and Chief Executive Officer, OCC

Mary Savoie
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HOW TO USE THIS BOOK

Each strategy has an accompanying graph showing profit and loss at expiration.

- The vertical axis shows the profit/loss scale.
- When the strategy line is below the horizontal axis, it assumes you paid for the position or had a loss. When it is above the horizontal axis, it assumes you received a credit for the position or had a profit.
- The dotted line indicates the strike price.
- The intersection of the strategy line and the horizontal axis is the break-even point (BEP) not including transaction costs, commissions, or margin (borrowing) costs.
- These graphs are not drawn to any specific scale and are meant only for illustrative and educational purposes.
- The risks/rewards described are generalizations and may be lesser or greater than indicated.
BREAK-EVEN POINT (BEP): The stock price(s) at which an option strategy results in neither a profit nor loss.

CALL: An option contract that gives the holder the right to buy the underlying security at a specified price for a certain, fixed period of time.

IN-THE-MONEY: A call option is in-the-money if the strike price is less than the market price of the underlying security. A put option is in-the-money if the strike price is greater than the market price of the underlying security.

LONG POSITION: A position wherein an investor is a net holder in a particular options series.

OUT-OF-THE-MONEY: A call option is out-of-the-money if the strike price is greater than the market price of the underlying security. A put option is out-of-the-money if the strike price is less than the market price of the underlying security.

PREMIUM: The price a put or call buyer must pay to a put or call seller (writer) for an option contract. Market supply and demand forces determine the premium.
**Put:** An option contract that gives the holder the right to sell the underlying security at a specified price for a certain, fixed period of time.

**Ratio Spread:** A multi-leg option trade of either all calls or all puts whereby the number of long options to short options is something other than 1:1. Typically, to manage risk, the number of short options is lower than the number of long options (i.e. 1 short call: 2 long calls).

**Short position:** A position wherein the investor is a net writer (seller) of a particular options series.

**Strike price or exercise price:** The stated price per share for which the underlying security may be purchased (in the case of a call) or sold (in the case of a put) by the option holder upon exercise of the option contract.

**Synthetic position:** A strategy involving two or more instruments that has the same risk/reward profile as a strategy involving only one instrument.

**Time decay or erosion:** A term used to describe how the time value of an option can “decay” or reduce with the passage of time.

**Volatility:** A measure of the fluctuation in the market price of the underlying security. Mathematically, volatility is the annualized standard deviation of returns.
bull strategy | LONG CALL

**Example:** Buy call

**Market Outlook:** Bullish

**Risk:** Limited

**Reward:** Unlimited

**Increase in Volatility:** Helps position

**Time Erosion:** Hurts position

**BEP:** Strike price plus premium paid
**Example:** Buy 1 call; sell 1 call at higher strike

**Market Outlook:** Bullish

**Risk:** Limited

**Reward:** Limited

**Increase in Volatility:** Helps or hurts depending on strikes chosen

**Time Erosion:** Helps or hurts depending on strikes chosen

**BEP:** Long call strike plus net premium paid
**Example:** Sell 1 put; buy 1 put at lower strike with same expiry

**Market Outlook:** Neutral to bullish

**Risk:** Limited

**Reward:** Limited

**Increase in Volatility:** Typically hurts position slightly

**Time Erosion:** Helps position

**BEP:** Short put strike minus credit received
bull strategy  |  COVERED CALL/BUY WRITE

**Example:** Buy stock; sell calls on a share-for-share basis

**Market Outlook:** Neutral to slightly bullish

**Risk:** Limited, but substantial (risk is from a fall in stock price)

**Reward:** Limited

**Increase in Volatility:** Hurts position

**Time Erosion:** Helps position

**BEP:** Starting stock price minus premium received
Example: Own 100 shares of stock; buy 1 put

Market Outlook: Cautiously bullish

Risk: Limited

Reward: Unlimited

Increase in Volatility: Helps position

Time Erosion: Hurts position

BEP: Starting stock price plus premium paid
bull strategy | CASH-SECURED SHORT PUT

**Example:** Sell 1 put; hold cash equal to strike price x 100

**Market Outlook:** Neutral to slightly bullish

**Risk:** Limited, but substantial

**Reward:** Limited

**Increase in Volatility:** Hurts position

**Time Erosion:** Helps position

**BEP:** Strike price minus premium received
**Example**: Buy put  
**Market Outlook**: Bearish  
**Risk**: Limited  
**Reward**: Limited, but substantial  
**Increase in Volatility**: Helps position  
**Time Erosion**: Hurts position  
**BEP**: Strike price minus premium paid
Example: Sell 1 put; buy 1 put at higher strike

Market Outlook: Bearish

Risk: Limited

Reward: Limited

Increase in Volatility: Helps or hurts depending on strikes chosen

Time Erosion: Helps or hurts depending on strikes chosen

BEP: Long put strike minus net premium paid
**Example:** Sell 1 call; buy 1 call at higher strike

**Market Outlook:**
Neutral to bearish

**Risk:** Limited

**Reward:** Limited

**Increase in Volatility:**
Typically hurts position slightly

**Time Erosion:** Helps position

**BEP:** Short call strike plus credit received
neutral strategy | COLLAR

Example: Own stock, protect by purchasing 1 put and selling 1 call with a higher strike

Market Outlook: Neutral to slightly bullish

Risk: Limited

Reward: Limited

Increase in Volatility: Effect varies, none in most cases

Time Erosion: Effect varies

BEP: In principle, breaks even if, at expiration, the stock is above/(below) its initial level by
**Example:** Sell 1 call; sell 1 put at same strike

**Market Outlook:** Neutral

**Risk:** Unlimited

**Reward:** Limited

**Increase in Volatility:** Hurts position

**Time Erosion:** Helps position

**BEP:** Two BEPs
1. Call strike plus premium received
2. Put strike minus premium received
neutral strategy | SHORT STRANGLE

**Example:** Sell 1 call with higher strike; sell 1 put with lower strike

**Market Outlook:** Neutral

**Risk:** Unlimited

**Reward:** Limited

**Increase in Volatility:** Hurts position

**Time Erosion:** Helps position

**BEP:** Two BEPs
1. Call strike plus premium received
2. Put strike minus premium received
**Example:** Sell 1 call; buy 1 call at higher strike; sell 1 put; buy 1 put at lower strike; all options have the same expiry. Underlying price typically between short call and short put strikes.

**Market Outlook:** Range bound or neutral

**Risk:** Limited

**Reward:** Limited

**Increase in Volatility:** Typically hurts position

**Time Erosion:** Helps position

**BEP:** Two BEPs
1. Short call strike plus credit received
2. Short put strike minus credit received
neutral strategy  CALENDAR SPREAD

**Example:** Sell 1 call; buy 1 call at same strike but longer expiration; also can be done with puts

**Market Outlook:** Near term neutral (if strikes = stock price); can be slanted bullish (with OTM call options) or bearish (with OTM put options)

**Risk:** Limited

**Reward:** Limited; substantial after near term expiry

**Increase in Volatility:** Helps position

**Time Erosion:** Helps until near term option expiry

**BEP:** Varies; after near term expiry long call strike plus debit paid or (if done with puts) long put strike minus debit paid
**Example:** Own stock; sell one call; sell one put; underlying price typically between short call and short put strikes

**Market Outlook:** Range bound or neutral, moderately bullish; willing to buy more shares and sell existing shares

**Risk:** Limited, but substantial

**Reward:** Limited

**Increase in Volatility:** Typically hurts position

**Time Erosion:** Typically helps position

**BEP:** Initial stock price (or average price if assigned) minus net premium received
**Example:** Sell 2 calls; buy 1 call at next lower strike; buy 1 call at next higher strike (the strikes are equidistant)

**Market Outlook:** Neutral around strike

**Risk:** Limited

**Reward:** Limited

**Increase in Volatility:** Typically hurts position

**Time Erosion:** Typically helps position

**BEP:** Two BEPs
1. Lower long call strike plus net premium paid
2. Higher long call strike minus net premium paid
**Example:** Buy 1 call; buy 1 put at same strike

**Market Outlook:** Large move in either direction

**Risk:** Limited

**Reward:** Unlimited

**Increase in Volatility:** Helps position

**Time Erosion:** Hurts position

**BEP:** Two BEPs
1. Call strike plus premium paid
2. Put strike minus premium paid
Example: Buy 1 call with higher strike; buy 1 put with lower strike

Market Outlook: Large move in either direction

Risk: Limited

Reward: Unlimited

Increase in Volatility: Helps position

Time Erosion: Hurts position

BEP: Two BEPs
1. Call strike plus premium paid
2. Put strike minus premium paid
**Example:** Sell 1 call; buy 2 calls at higher strike

**Market Outlook:** Bullish

**Risk:** Limited

**Reward:** Unlimited

**Increase in Volatility:** Typically helps position

**Time Erosion:** Typically hurts position

**BEP:** Varies, depends if established for a credit or debit. If done for a credit, two BEP’s with the lower BEP being the short strike plus the credit
Example: Sell 1 put; buy 2 puts at lower strike
Market Outlook: Bearish
Risk: Limited
Reward: Limited, but substantial
Increase in Volatility: Typically helps position
Time Erosion: Typically hurts position
BEP: Varies, depends if established for a credit or debit. If done for a credit, two BEP’s and the higher BEP is the short strike minus the credit