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The Options Industry Council (OIC) was created to educate the investing public and brokers about the benefits and risks of exchange-traded options. In an effort to demystify this versatile but complex product, OIC conducts hundreds of seminars throughout the year, distributes educational software and brochures, and maintains a Web site focused on options education. OIC was formed in 1992. Today, its sponsors include the American Stock Exchange, the Chicago Board Options Exchange, the International Securities Exchange, the Pacific Exchange, the Philadelphia Stock Exchange and The Options Clearing Corporation. These participants have one goal in mind for the options investing public: to provide a financially sound and efficient marketplace where investors can hedge investment risk and find new opportunities for profiting from market participation. Education is one of many factors that assist in accomplishing that goal.
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.
Bull Strategies
**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
bull strategy | CALL BACKSPREAD

**Example:** Sell 1 call; buy 2 calls at higher strike

**Market Outlook:** Very bullish

**Risk:** Limited

**Reward:** Unlimited

**Increase in Volatility:** Typically helps position

**Time Erosion:** Typically hurts position

**BEP:** Two BEPs
1. Short call strike plus net premium received
2. Long call strike plus net premium 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
bull strategy | PROTECTIVE/MARRIED PUT

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
Bull Strategy | BULL SPLIT-STRIKE COMBO

**Example:** Buy 1 call; sell 1 put at lower strike

**Market Outlook:** Bullish

**Risk:** Limited, but substantial

**Reward:** Unlimited

**Increase in Volatility:** Typically helps position

**Time Erosion:** Typically hurts position

**BEP:** Two BEPs
1. Long call plus premium paid
2. If established at a credit, short put minus premium received

Note: This strategy is similar to a Synthetic Long Stock when the strikes are identical.
Bear Strategies
bear strategy | LONG PUT

**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
**BEAR PUT SPREAD**

**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 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:** Two BEPs
1. Short put strike minus premium received
2. Long put strike minus maximum risk
**Example:** Buy 1 put; sell 1 call at higher strike

**Market Outlook:** Bearish

**Risk:** Unlimited

**Reward:** Limited, but substantial

**Increase in Volatility:** Neutral

**Time Erosion:** Neutral

**BEP:** Two BEPs

1. Short call strike plus net premium received
   or
2. Long put strike minus net premium paid

Note: This strategy is similar to a Synthetic Short Stock, if established at a debit.
Neutral Strategies
**Example:** Own stock, protect by purchasing 1 put and selling 1 call with a higher strike

**Market Outlook:** Neutral

**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 the amount of the debit/(credit)
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** | **LONG STRADDLE**

**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; buy 1 put at 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; sell 1 put at 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:** Buy 1 call; sell 2 calls at higher strike

**Market Outlook:** Neutral to slightly bullish

**Risk:** Unlimited

**Reward:** Limited

**Increase in Volatility:** Typically hurts position

**Time Erosion:** Typically helps position

**BEP:** Two BEPs
1. Long call strike plus/(minus) net premium paid/(received)
2. Short calls strike plus the maximum profit potential

The maximum profit potential is limited to the difference between the strikes plus/(minus) the premium received/(paid).
**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 short call strike plus net premium paid
2. Higher short call strike minus net premium paid
**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.
**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.
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