

# **OPTIONS ADVANCED** STRATEGIES

- A long call is a great strategy for bullish traders who expect the stock price to rise significantly. It offers high reward potential with limited risk, making it one of the most popular strategies for both beginners and advanced traders.
- A short call is a risky but popular strategy for income generation in a flat or mildly bearish market. It allows you to earn a premium upfront, but it carries the risk of unlimited loss if the stock price rises sharply. Beginners should consider using this strategy only if it's a covered call, to manage the risk better.
- A long put is an effective strategy to profit from falling prices or hedge against potential losses in a stock. It offers limited risk and unlimited profit potential (limited only by how low the stock price can go). This strategy is useful when you are bearish on a stock or want to insure your portfolio against downside risk.
- A short put option is a good strategy if you expect the stock to remain stable or rise. It allows you to earn premium income, but it comes with the risk of substantial losses if the stock price falls. This strategy is suitable if you are bullish to neutral on a stock and don't mind owning it at the strike price.



A Bull Call Spread is an options strategy used when a trader expects a moderate increase in the price of the underlying asset. It involves buying a call option at a lower strike price and selling a call option at a higher strike price, both with the same expiration date. This strategy limits both the profit and loss but reduces the overall premium paid compared to buying a single call option.

#### How Bull Call Spread Works

- Buy 1 Call (Lower Strike) This gives you the right to buy the stock at a lower price.
- Sell 1 Call (Higher Strike) This generates some income and limits the cost of the bought call.
- Example of Bull Call Spread
- Stock Price of XYZ: ₹100
- Output Strike Price ₹95 for a premium of ₹10
- Sell 1 Call Option: Strike price ₹105 for a premium of ₹4
- Net Premium Paid
- $\bigcirc$  = ₹10 (premium paid) ₹4 (premium received)
  - = ₹6 (total cost or net debit).

#### **Payoff Scenarios**

Scenario 1: Stock Price at Expiration = ₹95 or Below

- Obstaction Both options expire worthless.
- $\bigcirc$  Loss = Net Premium Paid = ₹6.

### Scenario 2: Stock Price at Expiration = ₹100 (Between Strikes)

Output Payoff = ₹5 - ₹6 = -₹1 (Loss).

### Scenario 3: Stock Price at Expiration = ₹105 or Above

Output Description (Profit)
Output Description (Profit)

#### **Maximum Profit and Loss**

#### Max Profit:

- = Difference between strikes Net Premium Paid
- **○** = (₹105 ₹95) ₹6
- O = ₹4 per share.

#### Max Loss:

- $\bigcirc$  = Net Premium Paid = ₹6 per share.
- Breakeven Point
- = Lower Strike + Net Premium Paid
- **○** = ₹95 + ₹6 = ₹101.



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Prob. of Profit	35.43%	<b>s</b> 1,000 -				
Max. Profit	₹ +2,918 (23.47%)	Profit/				
Max. Loss	₹ -2,082 (-16.75%)	-1,000 -				1
Max. RR Ratio	1:1.4	-2,000 -				
Total PNL	25084.0 ₹0	-3,000			-	
Net Credit	₹0	22504	23010	23516	24022 2	4528 Underlyi
Estimated Margin/Premium	₹ +12,431					
		Positional Delta	15.44 The	ta: -137.07	Gamma: 0.01	Vear





A Bull Put Spread is an options strategy used when a trader expects the underlying asset's price to rise or stay above a certain level. This strategy involves:

- Selling a put option at a higher strike price (more expensive).
- Suying a put option at a lower strike price (cheaper).
- It creates a net credit since the premium received from selling the higher strike put is greater than the premium paid for the lower strike put. The profit is capped, but the risk is limited.

#### How Bull Put Spread Works

- Sell 1 Put Option (Higher Strike) Obligates you to buy the stock if the price drops below this strike.
- Buy 1 Put Option (Lower Strike) Limits your downside if the stock price drops significantly.

#### **Example of Bull Put Spread**

- Stock Price: ₹100
- Sell 1 Put Option: Strike price ₹105, Premium = ₹8
- Output Option: Strike price ₹95, Premium = ₹3
- Net Credit Received
- Sector States (Premium received) ₹3 (premium paid)
  - = ₹5 (net premium credit).

#### **Payoff Scenarios**

Scenario 1: Stock Price at Expiration = ₹105 or Above

- O Both put options expire worthless.
- $\bigcirc$  **Profit** = Net Credit Received = ₹5.

### Scenario 2: Stock Price at Expiration = $\neq 100$ (Between Strikes)

- Output Payoff = ₹5 (loss) ₹5 (credit) = ₹0 (breakeven).

### Scenario 3: Stock Price at Expiration = ₹95 or Below

- Output Payoff = ₹10 ₹5 = -₹5 (Max Loss).

#### Maximum Profit and Loss

#### Max Profit:

 $\bigcirc$  = Net Credit Received = ₹5 per share.

#### Max Loss:

**O** = Difference between strikes - Net Credit Received

**(**₹105 - ₹95) - ₹5 = ₹5 per share.

#### **Breakeven Point:**

Strike - Net Credit Received = ₹105 - ₹5 = ₹100.



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Prob. of Profit	46.2%	/Loss	0			
Max. Profit	₹ +2,029 (11.81%)	-1,0	00 -			1
Max. Loss	₹ -2,971 (-17.29%)	-2,0	00 -			d.
Max. RR Ratio	1:0.68					
Breakevens	24919.0	-3,0	00			
Total PNL	₹0	-4,0	00 22504 2	23010 23516	24022 2	24528
Net Credit	₹+2,028.75					Underly
Estimated Margin/Premium	₹ +17,179					
		Position	al Delta: 15.23	Theta: -19.77	Gamma: -0.01	Veg





A Bear Call Spread is an options strategy used when a trader expects the underlying asset's price to decline or stay below a certain level. It involves:

- Selling a call option at a lower strike price (more expensive).
- Suying a call option at a higher strike price (cheaper).
- This strategy creates a net credit because the premium received from selling the lower strike call is higher than the premium paid for buying the higher strike call. It limits both the potential profit and loss.

#### How Bear Call Spread Works

- Sell 1 Call Option (Lower Strike) Obligation to sell if the price rises above the strike.
- Buy 1 Call Option (Higher Strike) Limits your loss if the stock rises significantly.

#### **Example of Bear Call Spread**

- Stock Price: ₹100
- Sell 1 Call Option: Strike price ₹95, Premium = ₹10
- Output Strike Price ₹105, Premium = ₹4
- Net Credit Received
- $\bigcirc$  = ₹10 (premium received) ₹4 (premium paid)
  - = ₹6 (net premium credit).

#### **Payoff Scenarios**

Scenario 1: Stock Price at Expiration = ₹95 or Below

- Obstaction Both options expire worthless.
- $\bigcirc$  Profit = Net Credit Received = ₹6.

### Scenario 2: Stock Price at Expiration = $\neq 100$ (Between Strikes)

⊙ ₹105 Call: Out-of-the-money, expires worthless. Output Payoff = ₹5 - ₹6 = -₹1 (Loss).

#### Scenario 3: Stock Price at Expiration = $\neq 105$ or Above

- Output Description (Max Loss)
  Output Description (Max Loss)

#### Maximum Profit and Loss

#### Max Profit:

 $\bigcirc$  = Net Credit Received = ₹6 per share.

#### Max Loss:

- Output: Difference between strikes Net Credit Received
- **(**₹105 ₹95) ₹6 = ₹4 per share.

#### **Breakeven Point:**

• Elower Strike + Net Credit Received **○** = ₹95 + ₹6 = ₹101.

#### When to Use a Bear Call Spread?

• Moderately Bearish Outlook: Expect the stock price to stay flat or decline slightly. O Defined Risk and Reward: Maximum loss and profit are known at the start. O Income Strategy: Used to generate premium income when volatility is low.



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Prob. of Profit 64.51%	ss o
Max. Profit ₹ +2,082 (12.06%)	-1,000 -
Max. Loss ₹ -2,918 (-16.91%)	-2,000 -
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Breakevens 0-25083.0	-3,000 -
Total PNL ₹0	-4,000 22505 23011 23517 24023 24529
Net Credit ₹ +2,082.5	Underlyi
Estimated Margin/Premium ₹ +17,261	
	Positional Delta: -15.45 Theta: 137.95 Gamma: -0.01 Ver





A Bear Put Spread is an options strategy used when a trader expects the price of the underlying asset to decline moderately. It involves:

- Buying a put option at a higher strike price (more expensive).
- Selling a put option at a lower strike price (cheaper).
- This strategy limits both the profit potential and risk, making it suitable for traders with a moderately bearish outlook.

#### **How Bear Put Spread Works**

• Buy 1 Put Option (Higher Strike) – Gives you the right to sell the stock at a higher price.

• Sell 1 Put Option (Lower Strike) – Offsets part of the premium paid and limits the profit.

#### **Example of Bear Put Spread**

- Stock Price: ₹100
- Objective Buy 1 Put Option: Strike price ₹105, Premium = ₹8
- Sell 1 Put Option: Strike price ₹95, Premium = ₹3
- Net Premium Paid (Net Debit)
- $\bigcirc$  = ₹8 (premium paid) ₹3 (premium received)
  - = ₹5 (total cost or net debit).

#### **Payoff Scenarios**

Scenario 1: Stock Price at Expiration = ₹105 or Above

- O Both put options expire worthless.
- $\bigcirc$  Loss = Net Premium Paid = ₹5.

### Scenario 2: Stock Price at Expiration = $\neq 100$ (Between Strikes)

- ₹95 Put: Out-of-the-money, expires worthless.
- O Net Payoff = ₹5 ₹5 = ₹0 (breakeven).

#### Scenario 3: Stock Price at Expiration = ₹95 or Below

- $\bigcirc$  ₹95 Put: In-the-money, intrinsic value = ₹0 (since sold).
- O Net Payoff = ₹10 ₹5 = ₹5 (Max Profit).

### **Maximum Profit and Loss**

#### Max Profit:

- O = Difference between strikes Net Premium Paid
- (₹105 ₹95) ₹5 = ₹5 per share.

#### Max Loss:

(○) = Net Premium Paid = ₹5 per share.= (₹105 - ₹95) - ₹6 = ₹4 per share.

#### **Breakeven Point:**

- E Higher Strike Net Premium Paid
- **○** = ₹105 ₹5 = ₹100.

#### When to Use a Bear Put Spread?

O Moderately Bearish Outlook: Expect the stock to decline but not drastically. O Defined Risk and Reward: Known maximum loss and profit from the start. Output Cost Alternative: Selling the lower strike put offsets some of the premium cost.



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Proh of Profit	51 78%	s 2,000				1
Max. Profit	₹+4,731 (38.06%)	/1,000				
Max. Loss	₹ -2,769 (-22.27%)	ā o				
Max. RR Ratio	1:1.71	-1,000				
Breakevens	0-24889.0	-2,000				
Total PNL	₹0	-3,000 2	22503 23009	23515	24021	24527
Net Credit	₹0					Underly
Estimated Margin/Premium	₹ +12,431					





A straddle is a neutral options strategy where a trader buys both a call and a put option with the same strike price and expiration date. The goal is to profit from a significant movement in the stock price, regardless of the direction (up or down). This strategy is ideal when you expect high volatility but are unsure of the direction in which the price will move.

### How It Works

- Output is the strike of the rises.
- Buy a put option: This gives the right to sell the stock at the strike price if the price falls.
- Both the call and put have the same strike price and expiry date.
- You profit if the stock makes a large move (either up or down) beyond the breakeven points.

### Example

- Stock XYZ is currently trading at ₹100.
- Ou buy a call option with a strike price of ₹100 for a premium of ₹5.
- $\bigcirc$  You buy a put option with the same strike price of ₹100 for a premium of ₹4.
- O Total cost (or initial investment) = ₹9 (₹5 + ₹4).

a premium of ₹5. 100 for a premium of ₹4.

#### **Possible Scenarios**

#### Scenario 1: Stock Rises to ₹120

- O The call option becomes profitable, with intrinsic value = ₹120 ₹100 = ₹20.
- The put option expires worthless.
- O Profit = ₹20 (call option) ₹9 (total premium) = ₹11 per share.

#### Scenario 2: Stock Falls to ₹80

- O The put option becomes profitable, with intrinsic value = ₹100 ₹80 = ₹20.
- The call option expires worthless.
- O Profit = ₹20 (put option) ₹9 (total premium) = ₹11 per share.

#### Scenario 3: Stock Stays at ₹100 (Strike Price)

- Both the call and put expire worthless.
- $\bigcirc$  Loss = Total premium paid = ₹9 per share.

#### **Breakeven Points**

- To calculate breakeven points:
- Opside Breakeven = Strike Price + Total Premium Paid
- **○** = ₹100 + ₹9 = ₹109
- Oownside Breakeven = Strike Price Total Premium Paid
- **○** = ₹100 ₹9 = ₹91
- O The strategy is profitable if the stock price moves beyond ₹109 or below ₹91.

#### **Key Benefits**

- Profit from Volatility: Works well in markets with high volatility, where the stock is expected to move significantly in either direction.
- $\bigcirc$  Limited Risk: The maximum loss is limited to the total premium paid (₹9 in the example).

#### Drawbacks

- High Cost: Since you are buying both a call and a put, the strategy involves a high premium cost.
- Time Decay: If the stock doesn't move significantly by expiry, both options lose value, resulting in a loss.

#### When to Use a Straddle?

- Earnings Announcements: When a company is about to announce earnings, and you expect a sharp move in the stock price.
- Events or News: Use before major events (e.g., elections, central bank meetings) that could cause significant price movement.
- Uncertain Market Conditions: When you expect volatility but aren't sure of the direction.

# Long Straddle Payoff chart



## Long Straddle Payoff chart

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Prob. of Profit	50.56%	<b>S</b> 10,000			
Max. Profit	₹ Undefined	Profit,		····	
Max. Loss	₹ -10,144 (-100.00%)	0			
Max. RR Ratio	NA				
Breakevens	24595.0-25405.0	-10,000 -			/
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Net Credit	₹0			Underl	yi
Estimated Margin/Premium	₹ +10,144				
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## Short Straddle

# Payoff chart



## Short Straddle Payoff chart

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Prob. of Profit	49.44%	s g		/
Max. Profit	₹+10,144 (12.01%)	-10,000	1	-
Max. Loss	₹ Undefined			
Max. RR Ratio	NA	-20,000 -	and the second s	
Breakevens	24595.0-25405.0			
Total PNL	₹0	e_,	23788 24109 2	4430 24751
Net Credit	₹+10,143.75			Une
Estimated Margin/Premium	₹+84,496			





A strangle is a neutral options strategy similar to a straddle, but with a key difference: the strike prices of the call and put options are different. This makes it less expensive than a straddle, but it also requires a larger price movement to become profitable. The goal is to profit from significant volatility in the stock price, regardless of direction.

### **How It Works**

- Buy a call option: Gives the right to buy the stock at a higher strike price.
- Output option: Gives the right to sell the stock at a lower strike price.
- Output is the same expiration date but different strike prices.
- You profit if the stock moves significantly either up or down, beyond the breakeven points.

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### Example

- Stock XYZ is currently trading at ₹100.
- $\bigcirc$  You buy a call option with a strike price of ₹110 for a premium of ₹4.
- $\bigcirc$  You buy a put option with a strike price of ₹90 for a premium of ₹3.
- O Total cost (initial investment) = ₹4 + ₹3 = ₹7.

a premium of ₹4. premium of ₹3.

#### Scenario 1: Stock Rises to ₹120

O The call option becomes profitable: ₹120 - ₹110 = ₹10.

- The put option expires worthless.
- O Profit = ₹10 ₹7 (total premium) = ₹3 per share.

#### Scenario 2: Stock Falls to ₹80

O The put option becomes profitable: ₹90 - ₹80 = ₹10.

- The call option expires worthless.
- O Profit = ₹10 ₹7 (total premium) = ₹3 per share.

#### Scenario 3: Stock Stays Around ₹100

• Both the call and put options expire worthless.

 $\bigcirc$  Loss = Total premium paid = ₹7 per share.

#### **Breakeven Points**

• To break even, the stock must move beyond these points:

- O Upside Breakeven = Call Strike Price + Total Premium Paid
- **○** = ₹110 + ₹7 = ₹117
- O Downside Breakeven = Put Strike Price Total Premium Paid
- **○** = ₹90 ₹7 = ₹83
- O The strategy is profitable if the stock price rises above ₹117 or falls below ₹83.

#### **Key Benefits**

- Output Cost than Straddle: Since the call and put have out-of-the-money strike prices, premiums are cheaper than a straddle.
- Profit from Volatility: Works well in volatile markets, as long as the stock makes a big move.

#### Drawbacks

- Larger Price Movement Required: Since the options are bought at different strike prices, the stock needs to move further to achieve profitability.
- Time Decay: If the stock doesn't move significantly by expiration, both options lose value, leading to a loss of the premium.

#### When to Use a Strangle?

- Earnings Announcements or Major Events: When you expect large price movement but are unsure of the direction.
- O High Volatility Scenarios: Use when you expect market turbulence, such as elections or central bank decisions.

# Long Strangle

## Payoff chart



## Long Strangle Payoff chart

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Prob. of Profit	46.85%	30,0 /1	00 -				
Max. Profit	₹ Undefined	<b>ijo 2</b> 0,0	00 -				
Max. Loss	-6,032 (-100.00%)	10.0	00 -				
Max. RR Ratio	NA						
Breakevens	24559.0-25441.0		0				
Total PNL	₹0	-10,0	22504 2	3015 23526	24037	24!	548
Net Credit	₹0			9999-0808 - STORE	10702255	U	nderlyi
Estimated Margin/Premium	₹ +6,032						
		Positiona	al Delta: -7.43	Theta: -1735.6	6 Gamm	na: 0.14	Veg



# Short Strangle

# Payoff chart



## Short Strangle Payoff chart

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Prob. of Profit	53.16%	<b>S</b> -5,000		t+0
Max. Profit	₹ +6,032 (7.56%)	Profit/	1	
Max. Loss	₹ Undefined	-10,000	/	
Max. RR Ratio	NA	-15,000		
Breakevens	24559.0-25441.0	12500		
Total PNL	₹0	-20,000 - 23914	24196 2447	8 24760 2
Net Credit	₹+6,032.5			Underlyin
Estimated Margin/Premium	₹ +79,748			





The Iron Condor is an advanced options strategy designed to profit from low volatility. It involves selling both a call spread and a put spread with different strike prices but the same expiration date. The goal is to profit if the underlying asset remains within a certain price range until the options expire. This strategy limits both risk and reward.

#### How It Works

- The Iron Condor consists of four options positions:
- Sell a lower strike put (short put)
- Buy a lower strike put (long put, for protection)
- Sell a higher strike call (short call)
- Buy a higher strike call (long call, for protection)
- All four options have the same expiration date, and the strike prices are selected to create two spreads:
- Put spread (bearish spread): A short put and a long put.
- Call spread (bullish spread): A short call and a long call.

#### Example

- Stock XYZ is trading at ₹100.
- You implement an Iron Condor with the following options:
- $\bigcirc$  Sell 1 put with a strike price of ₹95 for a premium of ₹3.
- $\bigcirc$  Buy 1 put with a strike price of ₹90 for a premium of ₹2.
- $\bigcirc$  Sell 1 call with a strike price of ₹105 for a premium of ₹4.
- Output Strike Strike Strike of ₹110 for a premium of ₹2.
- Net Premium Received
- **(₹3 + ₹4) (₹2 + ₹2)**
- $\bigcirc$  = ₹3 per share.

#### **Possible Scenarios**

#### Scenario 1: Stock Stays Between ₹95 and ₹105

- $\bigcirc$  All options expire worthless, as the stock stays within the inner strike prices (₹95-₹105).
- $\bigcirc$  Profit = Total premium received = ₹3 per share.

#### Scenario 2: Stock Falls Below ₹90

- The put spread becomes fully in-the-money:
- Outomode Contension (Sector A state of the sector of t
- The call spread expires worthless.
- O Total Loss = ₹2 per share.

#### Scenario 3: Stock Rises Above ₹110

- O The call spread becomes fully in-the-money:
- Output Description (long call) ₹105 (short call) ₹3 (net premium) = ₹2 per share.
- O The put spread expires worthless.
- O Total Loss = ₹2 per share.

#### **Key Points**

- Maximum Profit
- $\bigcirc$  Occurs if the stock price stays between the inner strike prices (₹95 and ₹105).
- $\bigcirc$  Max Profit = Net premium received = ₹3 per share.

#### **Maximum Loss**

- Occurs if the stock price goes below ₹90 or above ₹110.
- Max Loss = Difference between strikes Net premium received
- = ₹5 ₹3 = ₹2 per share.

#### **Breakeven Points**

- Output Series Contended
  Lower Breakeven = ₹95 ₹3 = ₹92
- O Upper Breakeven = ₹105 + ₹3 = ₹108

#### When to Use the Iron Condor?

- Neutral Outlook: When you expect the stock to trade within a range.
- Low Volatility Markets: Ideal for stable markets where large price swings are unlikely.
- ( Time Decay Advantage: The options lose value over time, and you keep the premium if the options expire worthless.

#### **Key Benefits**

- O Limited Risk and Reward: Losses are capped, but so are profits.
- Time Decay Works in Your Favor: As time passes, the options lose value, benefiting the seller.
- (a) Profit from a Range-Bound Market: Ideal for traders expecting little price movement.

#### **Drawbacks**

- Requires Precision: Profitability depends on the stock staying within the range.
- Limited Profit Potential: Maximum profit is the net premium received.
- ( High Commissions: Since the strategy involves four options, transaction costs can be higher.

# Payoff Chart



## Iron Condor Payoff Chart

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A Butterfly Spread is an options strategy that allows traders to profit from low volatility when they expect the stock price to stay near a specific level. It involves buying and selling options at three different strike prices, typically creating a limited profit and loss scenario. There are two main types: Output Construction Construc • Short Butterfly Spread – Used when expecting high volatility. • We'll focus on the long butterfly spread, which is more common.

#### How a Long Butterfly Spread Works

- A long butterfly strategy combines bull and bear spreads using call or put options. Most often, it is executed with calls.
- Buy 1 lower strike call (out-of-the-money).
- Sell 2 calls at the middle strike (at-the-money).
- O Buy 1 higher strike call (out-of-the-money).
- All options should have the same expiration date. The middle strike is where the trader expects the stock to stay by expiration.

### Example

- Stock XYZ is currently trading at ₹100.
- You expect the stock to stay close to ₹100 by expiration, so you execute a long butterfly spread:
- $\bigcirc$  Buy 1 call with a ₹95 strike for a premium of ₹6.
- Sell 2 calls with a ₹100 strike for a premium of ₹3 each (total ₹6).
- $\bigcirc$  Buy 1 call with a ₹105 strike for a premium of ₹2.
- Net Premium Paid
- Solution = ₹6 (lower call) + ₹2 (higher call) ₹6 (sold calls)
- Sector State (Sector Sector Secto

#### **Possible Scenarios**

### Scenario 1: Stock Closes at ₹100 (Middle Strike)

- Obstact Bought Calls (₹95 and ₹105) expire out-of-the-money.
- O The sold calls (₹100 strike) expire worthless.
- O Profit = ₹3 (max intrinsic value) ₹2 (premium paid) = ₹1 per share.



#### Scenario 2: Stock Closes Below ₹95 or Above ₹105

- All options expire worthless.
- $\bigcirc$  Loss = Total premium paid = ₹2 per share.

#### Scenario 3: Stock Closes Between ₹95 and ₹105

- O The ₹95 call gains intrinsic value as the stock rises, while the ₹105 call stays worthless.
- If the stock is at ₹98 or ₹102, partial profits/losses occur depending on the intrinsic value of the in-the-money calls.

#### **Breakeven Points**

- Output Description (Strike + Net Premium Paid = ₹95 + ₹2 = ₹97)
- Opper Breakeven = Higher Strike Net Premium Paid = ₹105 ₹2 = ₹103
- $\bigcirc$  You profit if the stock stays between ₹97 and ₹103 by expiration.

#### **Maximum Profit and Loss**

Max Profit: Occurs if the stock closes at the middle strike price (₹100).
 Max Profit = Difference between strikes - Net Premium Paid

**(○)** = ₹5 - ₹2 = ₹3 per share.

ys worthless. e intrinsic value of the in-the-money calls.

- Output State And A State A
- O Max Loss = ₹2 per share (the net premium paid).

#### When to Use a Long Butterfly Spread?

- Neutral to Low Volatility Outlook: When you expect the stock to stay near the middle strike price by expiration.
- Cost-Effective Trade: Provides exposure to potential profits with limited risk.
- Events with Predictable Outcomes: Useful before earnings announcements or reports where you expect minimal surprises.

#### **Key Benefits**

- Limited Risk and Reward: You know your maximum loss (the premium paid) and maximum profit.
- Low Cost: The premium required is typically lower than other strategies.
- Profits from Stability: Works best in low-volatility markets.

#### Drawbacks

- Low Probability of Max Profit: For maximum profit, the stock must close exactly at the middle strike price.
- Time Decay: Works against you if the stock doesn't stay near the middle strike until expiration.
- Limited Profit Potential: Even with the best outcome, the profit is capped.

# **Butterfly Strategy** Payoff Chart



## Butterfly Strategy Payoff Chart

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#### Risk Return Premium paid Unlimited Long Unlimited Premium received Short



- O The straddle strategy allows traders to profit from large price movements in either direction. It's a useful strategy in volatile markets but requires a significant price move to cover the high premium costs. While the risk is limited to the total premium paid, the potential profit is theoretically unlimited if the stock moves far enough beyond the breakeven points.
- A strangle strategy is ideal for traders who expect significant price movements but want to reduce the cost compared to a straddle. While both risk and cost are lower, it requires a larger price move to become profitable. The maximum loss is limited to the total premium paid, but the profit potential is unlimited as the stock can move significantly beyond the breakeven points.
- The Iron Condor strategy is a popular choice for traders looking to profit from stable markets with limited volatility. It offers limited risk and limited profit, making it suitable for range-bound scenarios. However, it requires careful planning of strike prices to maximize the probability of success.
- A butterfly spread is an ideal strategy for traders expecting little movement in the underlying asset. It offers limited risk and limited reward. If the stock stays close to the middle strike price, you can achieve the maximum profit, but if the stock moves significantly, the loss is capped at the net premium paid. This strategy is a low-cost way to profit from market stability.

- Bull Call spread strategy works well if the trader expects moderate bullish movement in the stock but wants to limit risk. It balances profit potential with reduced cost through the sale of a higher strike call.
- A bull put spread is a strategy used when you expect the underlying asset to stay flat or rise moderately. This strategy provides limited profit and limited risk and works well when you expect a mildly bullish market.
- A bear call spread is a strategy used when you expect the underlying asset's price to decline or stay below a certain level. This strategy provides limited profit and risk and is ideal when you expect a mildly bearish market.
- A bear put spread is a strategy used when you expect the underlying asset's price to decline moderately. This strategy provides limited profit and risk and is ideal when you expect moderate bearish movement.