Cboe®

Global Derivatives

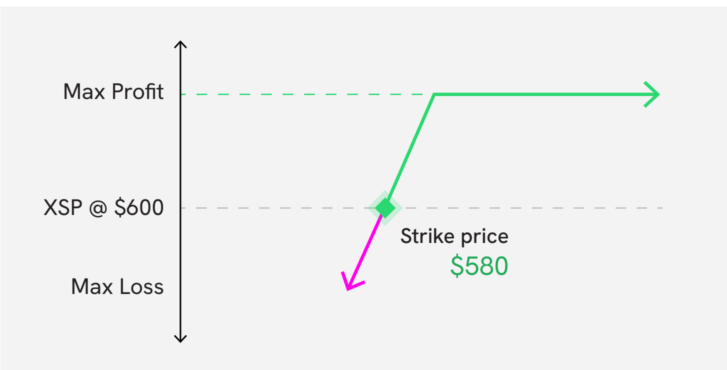
Advanced Options Trading Strategies

If you've gotten the hang of some common trading strategies like bear put spreads, bull call spreads, and iron condors, you may be ready to enhance your index options trading strategy. More advanced strategies could help you further optimize your portfolio. Having the ability to further customize your trades can help maximize your returns while reducing your risk. Let's dive into some more trading strategies you may want to consider.

Cash-Secured Put

GOAL: To generate income by collecting a premium for selling a put option, and the opportunity to buy the underlying asset at a lower price if the underlying's value decreases to the strike price.

A cash-secured put involves a trader selling a put option while setting aside enough cash to cover the potential obligation if the option is exercised. This strategy may be utilized by a trader who believes the value of an asset will remain stable or increase slightly.



XSP trading at $600

Sell one XSP put option with a strike price of **$580**

\+

Hold $58,000 to cover obligation if exercised (Strike price X Multiplier)

If XSP stays above $580 the put expires worthless. Maximum profit is the net premium received.

OR

If XSP stays at $580 the put expires worthless maximum profit is the net premium received.

OR

If XSP stays below $580, the option is exercised. Loss occurs if XSP falls below the break even point (strike price – premium).

Long Calendar Call Spread

GOAL: To profit from either minimal price movements near the strike, or a directional move toward the strike, while limiting risk in both cases.

A long calendar call spread is the combination of buying a longer-dated call and selling a shorter-dated call on the same underlying asset with the same strike price. This strategy uses time decay or Theta, as a mechanism to capture gains. An investor that expects minimal price movements in the underlying in the near-term but also anticipates longer-term volatility may choose the long calendar call spread to express that sentiment.

XSP trading at $600

Buy one longer-dated XSP call option with a strike price of **$600**

\+

Sell one shorter-dated **XSP** call option with a strike price of **$600**

If the XSP index price equals $600 on the expiration date of the short call, maximum profit is reached. The long call has the most time value when the index price equals the strike price. The short call expires worthless, and so the difference in price between the two calls is at its greatest.

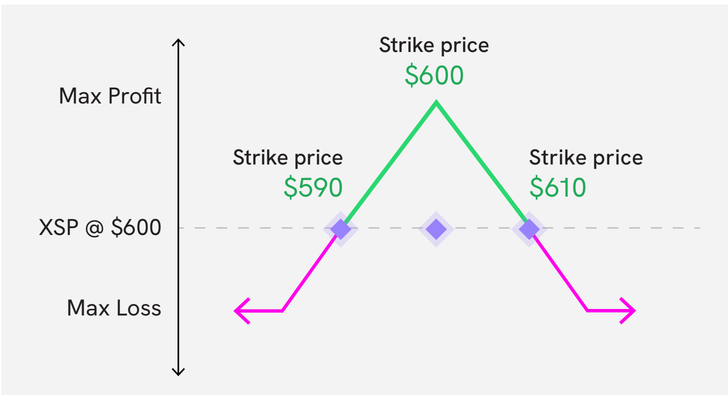
OR

If the XSP index price moves far from the strike price of the calls in either direction (up or down), the amount paid for the strategy (including commissions/fees) is lost. That's because the price of both calls approach zero (if the index goes down) or parity (if the index goes up), a difference of zero in both cases.

Call Butterfly Spread

GOAL: To profit from minimal asset price movement near the strike price of the short calls (center strike) with limited risk.

A call butterfly spread involves combining both bull and bear spreads. Specifically, a trader using a call butterfly spread will buy two call options and sell two call options with the same expiration dates but at three different strike prices. This strategy may be utilized by a trader who believes an asset's value will stay within a specific range.



XSP trading at $600

Buy one XSP call option with a strike price of **$590**

+

Sell two XSP call options with a strike price of **$600**

+

Buy one XSP call option with a strike price of **$610**

If XSP rises above $610, all call options are in-the-money. Loss is equal to the net premium paid for the spread.

OR

XSP closes at $600, the long 590 call is in the money. The short 600 call is at the money. The long 610 call is out-of-the-money. This results in the maximum profit which is the difference between the lower strike price and middle strike price minus the net premium paid.

OR

If XSP stays below $590, all options expire out-of-the-money. The loss is equal to the net premium paid for the spread.

For more information, visit Cboe.com