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§ SIMPLE OPTION STRATEGIES

OPTIONS CHEAT SHEET



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OPTIONS STRATEGIES

STRATEGY	DESCRIPTION	PROFIT/LOSS	NET POSITION @ EXPIRATION
Long Call	Consists of buying calls for investors who want a chance to participate in the underlying stock's expected appreciation during the term of the option.	The potential profit is unlimited, while the potential losses are limited to the premium paid for the call.	<p>Long Call Net Position</p>
Long Put	Consists of buying puts and will profit if the stock price moves lower. It is a candidate for bearish investors who want to participate in an anticipated downturn, but without the risk and inconveniences of selling the stock short.	The potential profit is significant, but the losses are limited to the premium paid.	<p>Long Put Net Position</p>
Covered Call	This strategy consists of writing (selling) a call that is covered by an equivalent long stock position (100 shares). It provides a small hedge on the stock and allows an investor to earn premium income, in return for temporarily forfeiting much of the stock's upside potential.	Maximum profit of the underlying stock is capped by the option's strike price and life. The main benefit is the option premium income which lowers the stock's break even cost.	<p>Covered Call Net Position</p>
Cash- Secured Put	A cash secured put involves writing (selling) a put option with the reserved cash. The strategy is to either collect the premium if the stock rises and expires out of the money or to collect the premium and purchase the stock at or below the strike price if it expires in the money.	Limited to the premium collected or a substantial loss if the seller is unwilling to purchase the underlying stock at the strike price if the stock expires in the money.	<p>Naked Put Net Position</p>
Collar	An investor writes a call option and buys a put option with the same expiration as a means to hedge a long position in the underlying stock. This strategy combines two other hedging strategies: protective puts and covered call writing.	Profit and loss are very limited, depending on the difference between the strikes. The issues for the protective collar investor concern mainly how to balance the level of protection against the cost of protection for a worrisome period.	<p>Collar Net Position</p>

STRATEGY	DESCRIPTION	PROFIT/LOSS	NET POSITION @ EXPIRATION
Bear Call Spread <i>(Credit Call Spread)</i>	Contains two calls with the same expiration but different strikes. The strike price of the short call is below the strike of the long call, and will generate a net cash inflow (net credit) at the outset.	Profit and loss are limited and well-defined. The initial net credit is also the maximum potential profit. Profits at expiration start to erode if the stock is above the lower strike price, and losses reach their maximum if the stock hits the higher strike price.	 <p>The graph shows the net position of a Bear Call Spread. The x-axis represents stock price from 0 to 70, and the y-axis represents profit/loss from negative to positive. The net position starts at a positive value (net credit) at price 0. It remains constant until the lower strike price of 55. At price 55, the net position begins to decrease linearly, crossing the zero line at price 60. It reaches its maximum negative value (maximum loss) at price 70.</p>
Bull Put Spread <i>(Credit Put Spread)</i>	Contains two puts with the same expiration but different strikes. The strike price of the short put is above the strike of the long put, and will generate a net cash inflow (net credit) at the outset.	Profit and loss are limited and well-defined. The initial net credit is also the maximum potential profit. Profits at expiration start to erode if the stock is below the higher (short put) strike, and losses reach their maximum if the stock falls to, or beyond, the lower (long put) strike.	 <p>The graph shows the net position of a Bull Put Spread. The x-axis represents stock price from 0 to 70, and the y-axis represents profit/loss from negative to positive. The net position starts at a negative value (net debit) at price 0. It remains constant until the lower strike price of 55. At price 55, the net position begins to increase linearly, crossing the zero line at price 60. It reaches its maximum positive value (maximum profit) at price 70.</p>
Bear Put Spread <i>(Debit Put Spread)</i>	Contains two puts with the same expiration but different strikes. The strike price of the short put is below the strike of the long put, and will require a net cash outlay (net debit) at the outset.	Profit and loss are limited and well-defined. The net premium paid at the outset establishes the maximum loss. The maximum profit is limited to the difference between the strike prices, less the debit paid to put on the position.	 <p>The graph shows the net position of a Bear Put Spread. The x-axis represents stock price from 0 to 70, and the y-axis represents profit/loss from negative to positive. The net position starts at a negative value (net debit) at price 0. It remains constant until the lower strike price of 55. At price 55, the net position begins to decrease linearly, crossing the zero line at price 60. It reaches its maximum negative value (maximum loss) at price 70.</p>
Bull Call Spread <i>(Debit Call Spread)</i>	Contains two calls with the same expiration but different strikes. The strike price of the short call is above the strike of the long call, and will require a net cash outlay (net debit) at the outset.	Profit and loss are limited and well-defined. The net premium paid at the outset establishes the maximum loss. The maximum profit is limited to the difference between the strike prices, less the debit paid to put on the position.	 <p>The graph shows the net position of a Bull Call Spread. The x-axis represents stock price from 0 to 70, and the y-axis represents profit/loss from negative to positive. The net position starts at a negative value (net debit) at price 0. It remains constant until the lower strike price of 55. At price 55, the net position begins to increase linearly, crossing the zero line at price 60. It reaches its maximum positive value (maximum profit) at price 70.</p>
Iron Condor	Made up of a Bear Call Spread (Credit Call Spread) and a Bull Put Spread (Credit Put Spread).	The primary benefit of using an Iron Condor is that margin for only one side of the trade is required for both a Bear Call Spread (Credit Call Spread) and a Bull Put Spread (Credit Put Spread) while benefiting from the potential profit of both.	 <p>The graph shows the net position of a Short Condor. The x-axis represents stock price from 0 to 70, and the y-axis represents profit/loss from negative to positive. The net position starts at a negative value (net debit) at price 0. It remains constant until the lower strike price of 55. At price 55, the net position begins to increase linearly, crossing the zero line at price 60. It reaches its maximum positive value (maximum profit) between price 60 and 65. At price 65, the net position begins to decrease linearly, crossing the zero line at price 70.</p>

EXPLANATION OF OPTIONS

Options are contracts that grant the right, but not the obligation to buy or sell an underlying asset at a set price on or before a certain date. The right to buy is called a **call option** and the right to sell is a **put option**. Each contract is typically worth 100 shares of the underlying stock. For Indexes and Futures, settlement at expiration is assigned on a cash basis since there is no asset as there would be for a stock.

OPTION TYPES

CALL OPTION

Gives its holder the right to buy 100 shares of the underlying security at the strike price, anytime before the option's expiration date. The writer (or seller) of the option has the obligation to sell the shares.

PUT OPTION

Gives its holder the right to sell 100 shares of the underlying security at the strike price, any time before the option's expiration date. The writer (or seller) of the option has the obligation to buy the shares.

Options can be sold or bought back by the holders at any time before they expire.



OPTIONS PRICING

**INTRINSIC VALUE
(CALLS)**

A call option is in-the-money when the underlying security's price is higher than the strike price.

**INTRINSIC
VALUE***

=

**CURRENT
STOCK PRICE**

-

**STRIKE
PRICE**

**INTRINSIC VALUE
(PUTS)**

A put option is in-the-money if the underlying security's price is less than the strike price.

**INTRINSIC
VALUE***

=

**STRIKE
PRICE**

-

**CURRENT
STOCK PRICE**

TIME VALUE

Time value is any premium in excess of intrinsic value before expiration.

**INTRINSIC
VALUE***

=

**OPTION
PREMIUM**

-

**INTRINSIC
VALUE***

***Only in-the-money options have intrinsic value.** It represents the difference between the current price of the underlying security and the option's exercise price, or strike price. The Intrinsic Value cannot be negative.

THE GREEKS

DELTA



The option's delta is the rate of change of the price of the option with respect to its underlying security's price. The delta of an option ranges in value from 0 to 1 for calls (0 to -1 for puts) and reflects the increase or decrease in the price of the option in response to a 1 point movement of the underlying asset price. Far out-of-the-money options have delta values close to 0 while deep in-the-money options have deltas that are close to 1. Delta is also often used as a probability factor the strike price may end up "in the money" at expiration. So a delta of .10 means approximately that there is a 10% probability that the associated strike price will end up in the money at expiration.

GAMMA



The option's gamma is a measure of the rate of change of its delta. The gamma of an option is expressed as a percentage or decimal and reflects the change in the delta in response to a one point movement of the underlying stock price.

Like the delta, the gamma is constantly changing, even with tiny movements of the underlying stock price. It generally is at its peak value when the stock price is near the strike price of the option and decreases as the option goes deeper into or out of the money. Options that are very deeply into or out of the money have gamma values close to 0.

THETA



The option's theta is a measurement of the option's time decay. The theta measures the rate at which options lose their value, specifically the time value, as the expiration date draws nearer. Generally expressed as a negative number, the theta of an option reflects the amount by which the option's value will decrease every day. The closer the Strike is to expiration, the greater the rate of premium decay.

VEGA



The option's vega is a measure of the impact of changes in the underlying volatility on the option price. Specifically, the vega of an option expresses the change in the price of the option for every 1% change in underlying volatility.

Options tend to be more expensive when volatility is higher. Thus, whenever volatility goes up, the price of the option goes up and when volatility drops, the price of the option will also fall. Therefore, when calculating the new option price due to volatility changes, we add the vega when volatility goes up but subtract it when the volatility falls.

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OPTIONS EXPIRATION



WEEKLY, QUARTERLY, END OF MONTH INDEX OPTIONS

- On the last trading day, trading in expiring SPXW Weeklys closes at 3:00 p.m. (Chicago time). All non-expiring SPXW Weeklys continue to trade until 3:15 p.m. (Chicago time).
- As for all Weeklys, SPXW Weeklys will not be listed if they would expire on the same day on which a different expiration already exists, i.e., standard 3rd Friday, End of Month or Quarterly expirations. In addition, if the listing or expiration dates fall on a holiday, the dates will be adjusted as follows in the below chart.

SPXW	LIST DATE	IF HOLIDAY	EXPIRATION DATE	IF HOLIDAY
Friday EOW	Thursday	Prior Day	Friday	Prior Day
Wednesday Weeklys	Tuesday	Prior Day	Wednesday	Prior Day
Monday Weeklys	Friday	Prior Day	Monday	Following Day



MONTHLY OPTIONS

- **American Style:** Third Friday of the Month and stop trading at 4 PM Eastern.
- **European Style:** Third Friday of the month and stop trading the third Thursday of the month at 4 PM Eastern, *however options prices are affected by overnight futures trading. So options that are out of the money (OTM) after trading stops, may be in the money (ITM) at the time of settlement on Friday morning.*
- Expire at time of settlement on the third Friday morning of the month.



AMERICAN STYLE OPTIONS

- Can be exercised at any time and automatically exercised if \$.01 ITM at time of expiration.
- Settlement could occur after time of expiration during after hours trading.



EUROPEAN STYLE OPTIONS

- Can only be exercised at time of expiration and automatically exercised if \$.01 ITM.



SETTLEMENT

- Equity Options are settled with Stock, while Index Options are settled in cash.

PATTERN DAY TRADER (PDT)

You must be aware of the PDT restrictions since SPX Options do fall under the FINRA Regulations. In order not to fall under the PDT restrictions, you are required to maintain over \$25,000 in your trading account. If you fall below \$25,000, **you are only allowed to make three day-trades within a five day period.** If you exceed three day-trades within a five day period, your account will be flagged by your broker as a Pattern Day Trader.

Example trades are: Buy to open and sell to close. Selling to open an Iron Condor and buying to close each spread separately constitutes two day trades.

Brokers have different guidelines for how to address a flagged account, but most will allow you to lift the flag a certain number of times if you agree that you are not a Pattern Day Trader. However, **your account can be restricted up to three months to only allowing you to only close positions and not open them.**

OPTIONS TERMINOLOGY

AMERICAN OPTIONS

Options that can be exercised at any point during the life of the contract. Most exchange-traded options are American.

AT-THE-MONEY

An option whose strike price is equal to the market price of the underlying security.

BUY TO OPEN (BTO)

This is where a trade or position is initiated and it is a buy order.

BUY TO CLOSE (BTC)

This is where a trade or position that is open is an order to close.

CALL

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

CONTRACT

An option that represents 100 shares of an underlying stock. Other asset classes such as Indexes and Futures, use other multipliers associated with those asset classes.

COVERED CALL

An option strategy in which the writer of a call option holds a long position in the underlying security on a share-for-share basis.

COVERED PUT

An option in which the writer of a put option holds a short position in the underlying security on a share-for-share basis.

COVERED WRITER

An option seller who owns the option's underlying security as a hedge against the option.

DATE OF EXPIRATION

The date that an option becomes void. Most options expire at the close of business (4:00 p.m. ET) on the third Friday of the expiration month.

DERIVATIVE

An investment product that derives its value from an underlying asset. Options are derivatives.

EARLY EXERCISE

The exercise of an option before its expiration date. Early exercise can only occur with American-style options.

EUROPEAN OPTIONS

An option that can only be exercised automatically during a particular time period just before its expiration and not any other time.

HOLDER

An investor who buys an option and makes a premium payment to the writer.

IN-THE-MONEY (ITM)

An option that has an intrinsic value. A call option is considered in-the-money if the underlying security is higher than the strike price.

LEAPS

(Long-term Equity Anticipation Securities) – LEAPS are publicly traded options that have expiration dates longer than one year.

LISTED OPTION

A put or call option that is traded on an options exchange. The terms of the option, including strike price and expiration date, are standardized by the exchange.

NAKED OPTION

An option position in which the writer of the option does not have an offsetting position in the underlying security, thereby having no protection against adverse price moves.

OPEN INTEREST

The total number of outstanding option contracts in the exchange market on a particular day.

OPTION

A financial derivative that gives the holder the right, but not the obligation, to either buy or sell a fixed amount of a security or other financial asset at an agreed-upon price (the strike price) on or before a specified date.

OUT-OF-THE-MONEY (OTM)

An option with no intrinsic value, that would be worthless if it expired on that day. A call option is out-of-the-money when the strike price is higher than the market price of the underlying security. A put option is out-of-the-money when the strike price is lower than the market price of the underlying security.

OVER-THE-COUNTER (OTC)

An option that is not traded over an exchange. An over-the-counter option has no standardization of strike prices and expiration dates.

PREMIUM

The total cost of the option. An option holder pays a premium to the option writer in exchange for the right, but not the obligation, to exercise the option. The option's premium is its intrinsic value combined with its time value.

PUT

An option that gives the holder the right to sell the underlying security at a particular price for a specified, fixed period of time.

SELL TO CLOSE (STC)

This is trade or position that you sell to close.

SELL TO OPEN (STO)

This is a trade or position that you sell to open.

STRIKE PRICE

The agreed-upon price at which an option can be exercised. The strike price for a call option is the price at which the security can be bought (prior to the expiration date); the strike price for a put option is the price at which the security can be sold (before the expiration date). The strike price is sometimes called the exercise price.

TERMS

The collective conditions of an options contract that define the strike price, expiration date and the underlying security.

UNDERLYING SECURITY

The security that is subject to being bought or sold upon the exercise of an option.

WRITER

An investor who sells an option and who collects the premium payment from the buyer. Writers are obligated to buy or sell if the holder chooses to exercise the option.

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