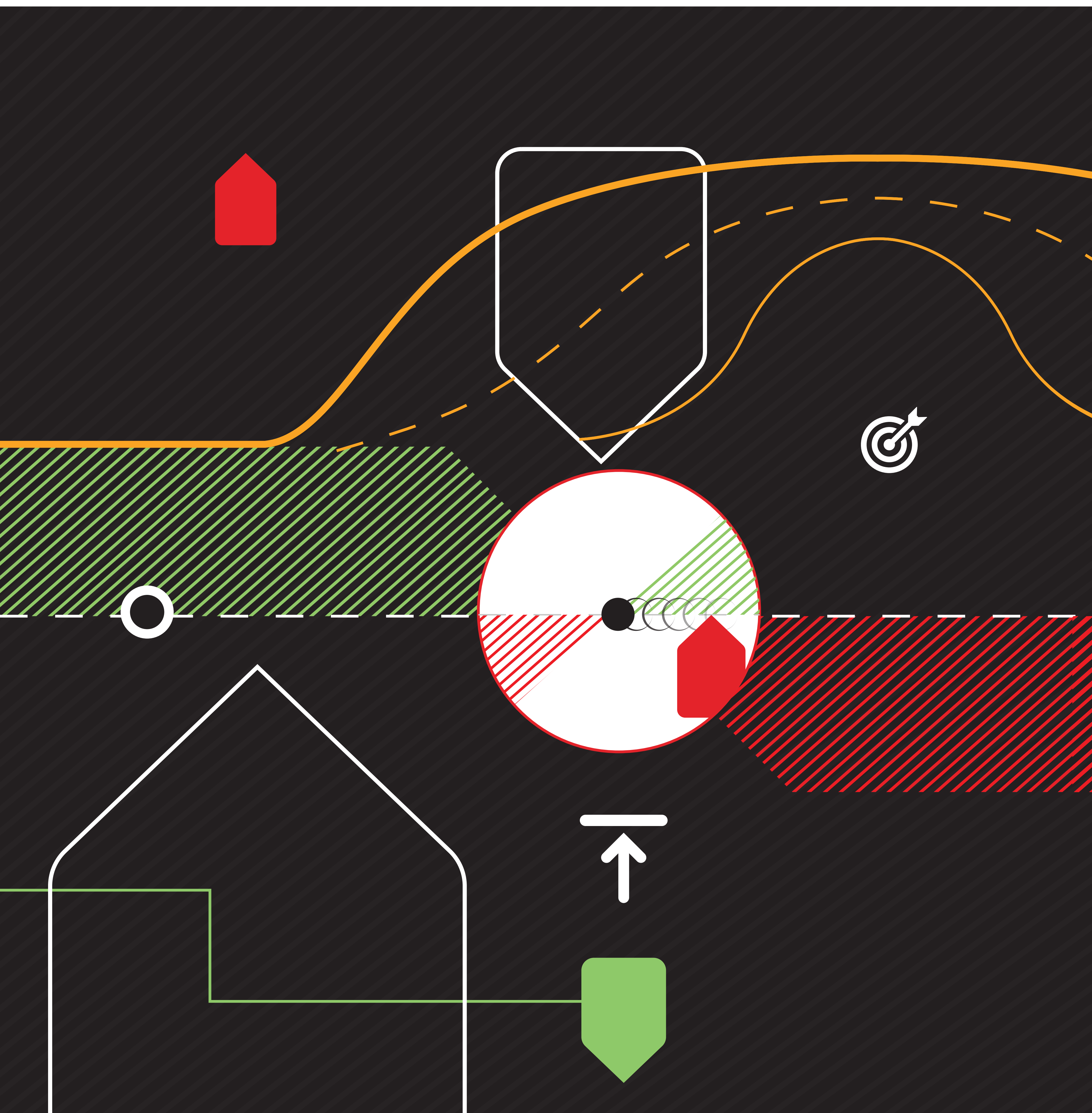
tastylive

OPTIONS STRATEGY GUIDE



tasty*live*

OPTIONS STRATEGY GUIDE

WHAT IS TASTY*LIVE*?

tasty*live* is a financial network unlike any other. We empower the retail trader with actionable financial content and education rooted in research and experience. Tune in to our live, original programming each day, take our free learning courses about options and futures trading, or catch up on your trading knowledge with our online resources produced by our team of seasoned traders. We'll help you navigate the markets, find actionable trade ideas, and stay chuckling all week long.

This Strategy Guide was created as a one-stop shop for everything you need to know about our favorite options trading strategies. We walk through the ins and outs of every strategy, including:

- Ideal market conditions and metrics to look for
- Steps for setting up the trade & target P/L
- Visual representations of the profit and loss zones
- Defensive tactics if the trade goes against you

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Graphics by Cassie Scroggins and Ariel Bonilla

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RISK TYPE		COMPLEXITY	
			LEVEL 1
	DEFINED		LEVEL 2
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			LEVEL 4

BULLISH STRATEGIES

BEARISH STRATEGIES

OMNIDIRECTIONAL STRATEGIES

NEUTRAL STRATEGIES

NEUTRAL-BULLISH

NEUTRAL-BEARISH

FOUNDATIONS

STOCKS VS. OPTIONS

Most investors still think of stock as a long-term investment; short-term stock trades can tie up a ton of capital, with the added difficulty of needing to pick stock price direction correctly and consistently. However, options trading allows us to shift our mindset from "where do I think this stock will go?" to "where do I think this stock will NOT go?".

Options trading is not a 50/50 bet in the short-term. Our style of options trading allows us to pick different prices to become long or short stock, known as strike prices, which allows us to have flexibility, and even make money if we're directionally wrong! And because options themselves usually require less capital than 100 shares of stock, traders can use options strategies to do more with their money.

WHAT IS A CALL OPTION?

A call option is a contract you can purchase that allows you to buy 100 shares of stock at the contract's expiration and strike price chosen if the stock price is above the strike price you selected.

Just like stock, you can short (sell) a call. If the stock price is above the strike price you choose at expiration, you would be obligated to provide 100 shares of stock at that strike price.

If you own a call and the price of the stock goes up above the strike price of your call, the value of the call goes up as well. The call now has more value than it did before because it allows you to buy the stock at a discount (your strike price). If the stock goes down below your strike, the value of the call option goes down as well. This is because at expiration if the stock price is below the call strike it renders the option useless and worthless. Why would anyone buy shares of stock at a higher price than what the market is currently offering? Answer: they wouldn't!

Learn more about how call options work & how to trade them.

WHAT IS A PUT OPTION?

Put options let the owner sell stock at a set price for a limited time, rather than buy it. A put contract owner wants the stock price to go down rather than up.

If you own a put, when the price of a stock goes down below the strike you've selected, you have the right to sell shares at a higher price than the current stock price. Many investors look at put contracts as a form of price protection, or insurance against stock they already own, since it allows them to "lock in a sales price" for their 100 shares of stock or more.

If the stock price goes up, the value of the put option goes down. If the stock price is above the put option at expiration, the put contract is worthless because investors could sell stock at a higher price in the market compared to the put strike.

Learn more about how put options work & how to trade them.

INTRINSIC & EXTRINSIC VALUE

Intrinsic value refers to real value at expiration. Call options have real value when the stock price is above the strike price. Put options have real value when the stock price is below the strike price.

Extrinsic value is the extra value associated with a contract based on time left to expiration, or the market's assumption of where the stock might go (implied volatility). Ultimately, the more time to expiration, the more extrinsic value there will be in an option.

When it comes down to it, option premium is really just made up of intrinsic and extrinsic value.

Learn more about intrinsic & extrinsic value.

COVERED CALL

Bullish stock position where we are selling an ATM/OTM call against 100 long shares of stock to reduce the cost basis of the shares. The short call risk is "covered" by the 100 shares of long stock we own.

DIRECTIONAL ASSUMPTION
Bullish

IV ENVIRONMENT
High

DAYS TO EXPIRATION
45

PROBABILITY OF PROFIT
50% to 70%

SETUP

1 Buy 100 shares of stock

100 S

STOCK PRICE

C

2 Sell an ATM/OTM call for every 100 shares

MAX PROFIT
Distance Between Stock Purchase & Short Call + Credit Received

MAX LOSS
Stock Purchase Price - Credit Received

PROFIT TARGET
50% of Max Profit

BREAKEVEN
Stock Purchase Price - Credit Received

EXAMPLE

With XYZ stock at $100, we may purchase 100 shares and sell the 105 call against the shares to reduce our breakeven price.

105 C

100 S

100

DELTA
Long

VEGA
Short

THETA
Long

GAMMA
Dynamic

TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

IDEAL

The stock moves up to the short call strike by the expiration of the contract. This results in max extrinsic value collected from the short call, as well as max value gained on the long shares up to the call strike.

100 S

C

NOT IDEAL

The stock goes down. This results in losses in the shares you own, although the short call will lose value and hedge the loss on those shares.

DEFENSIVE TACTICS

If the short call loses value, we can roll it out in time to add extrinsic value to the trade, reducing the cost basis on the shares further. We can also move the call strike down in the same cycle to achieve the same cost basis reduction result, or a combination of rolling out in time and down a few strikes. Avoid rolling the call below your breakeven on the trade overall to ensure potential profit if the stock rallies back.

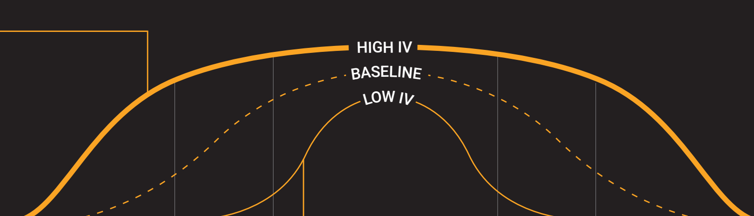
VOLATILITY

IF VOLATILITY EXPANDS

We may hold - this may result in an extrinsic value loss in the short call, but extrinsic value goes to zero by expiration. If this is paired with a stock price selloff, we can adjust the short call if desired.

IF VOLATILITY CONTRACTS

The short call may decrease in value and add profit to our position overall, especially if this is paired with a small bullish move.



EXPIRATION

100 S

ORIG

C

IF OTM AT EXPIRATION

The short call will expire worthless - we can deploy another one in a further expiration, or lean long with the shares.

IF ITM AT EXPIRATION

The short call will be exercised and "call away" the 100 shares of stock we own. The position will go away and we will realize max profit.

TAKEAWAYS

1. Covered calls are cost basis reduction strategies where we are limiting our upside profit potential to guarantee a credit and cost basis reduction on the shares. With this said, we should place our short call at a level we're comfortable capping our profit potential at.

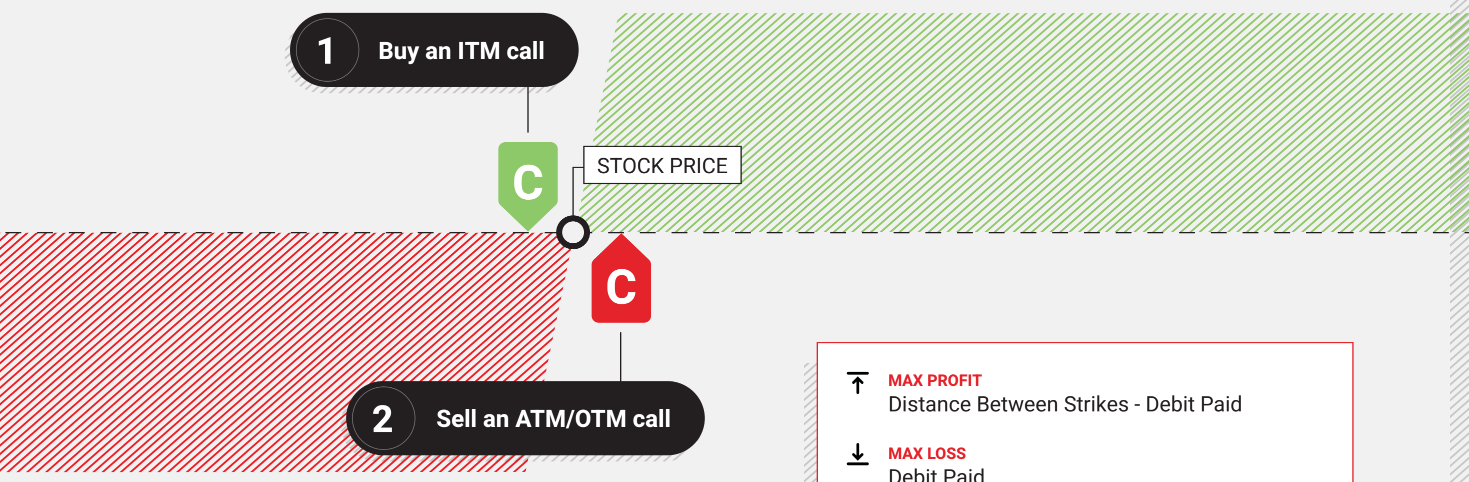
2. If we want to preserve our shares and avoid assignment, we can roll the short call out in time and up a few strikes for a small credit before the short call moves ITM. This moves the existing extrinsic value to the next cycle, and moving our short strike up gives us more potential profit on the shares.

LONG CALL VERTICAL SPREAD

Bullish defined risk debit trade where we are betting on the stock moving above our short call strike price by the expiration of our contract. Spread width depends on account size, risk tolerance, etc.

DIRECTIONAL ASSUMPTION	IV ENVIRONMENT	DAYS TO EXPIRATION	PROBABILITY OF PROFIT
Bullish	Any	45	40% to 60%

SETUP



MAX PROFIT
Distance Between Strikes - Debit Paid

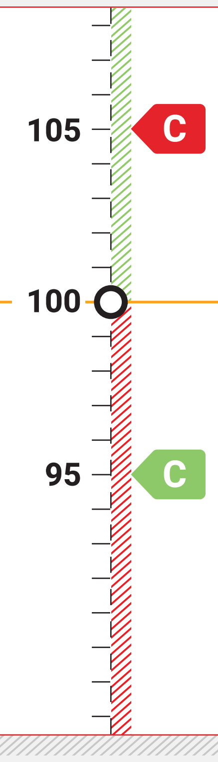
MAX LOSS
Debit Paid

PROFIT TARGET
50% of Max Profit

BREAKEVEN
Long Call Strike + Debit Paid

EXAMPLE

With XYZ stock at $100, we might look to buy a 95/105 call spread and pay around $5.00.



DELTA Long

VEGA Flat

THETA Flat

GAMMA Flat

TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

IDEAL

The stock increases in value. A long call spread is a directionally bullish position - so ideally the stock price rises so that the long call strike increases in value to a greater degree than the short call, resulting in a profit.

NOT IDEAL

The stock decreases in value. The value of the long call spread would decrease, which means the spread will be less valuable to sell to close compared to the original purchase price, which would result in a loss.

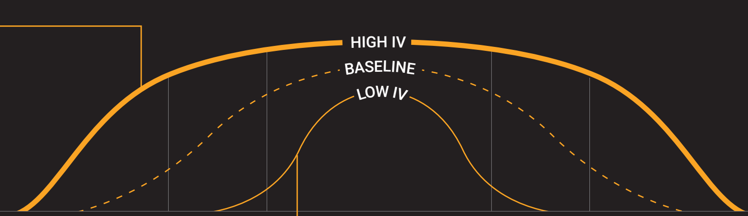
DEFENSIVE TACTICS

Long call spreads trade for a debit, which means extending duration actually increases risk since we'd pay another debit to roll the trade out in time. We can roll the short call down closer to the long call to reduce the net debit on the trade, but we don't roll below our breakeven price.

VOLATILITY

IF VOLATILITY EXPANDS

We may hold the position - this may be paired with a sell-off in the stock price, but our risk is capped at the debit paid so we typically let the trade play out. However, we can close the trade if our assumption has changed.



IF VOLATILITY CONTRACTS

We may hold the position - if this is paired with a bullish move in the stock price, we may see profit in the spread and we can close if we're happy with the trade.

EXPIRATION

IF ITM AT EXPIRATION

Both options will be trading for intrinsic value, and the trade will be at max profit. To avoid assignment fees and the possibility of one of the options moving OTM, close the trade prior to expiration.

IF OTM AT EXPIRATION

The trade will be at max loss, as both options will have lost all value. We let the trade expire worthless.

IF PARTIALLY ITM AT EXPIRATION

We either close the trade or roll out in time to extend it. We avoid letting these trades go through expiration because if the long call is ITM and the short call is OTM, we can come back to the market in the next trading session with 100 shares of stock.

TAKEAWAYS

1. Vertical spreads have a less volatile P/L because of the long option that defines our risk. If we see profit on the short option, we will see losses on the long option and vice versa. For this reason, we should expect to be in spread trades longer than naked options to reach profit targets.

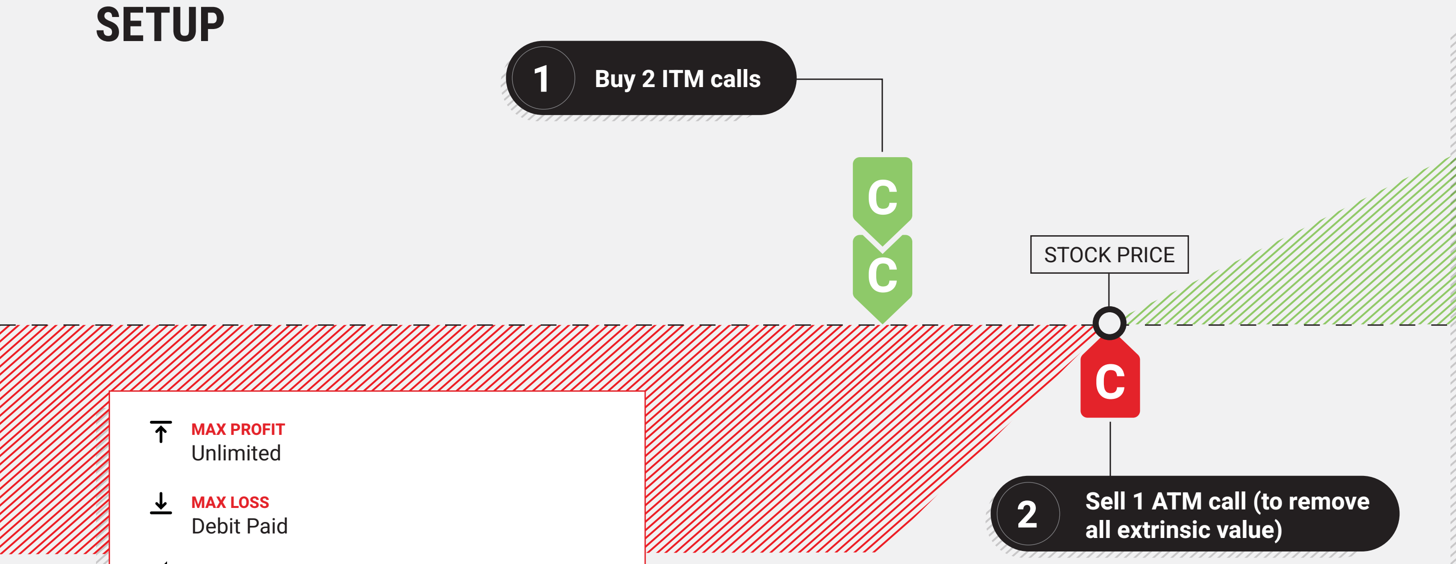
2. With spreads, it's important to realize that options will be exercised if they are ITM and held through expiration. If one strike is ITM and the other moves OTM, close the trade prior to expiration to avoid unwanted shares.

CALL ZEBRA

A bullish back-ratio spread, where we are buying two ITM calls and selling one ATM call to remove all extrinsic value and achieve 100 positive deltas. This strategy acts like a married put, since the most we can lose is the debit paid, and we have 100 shares of long stock profit potential.

DIRECTIONAL ASSUMPTION Bullish
IV ENVIRONMENT Any
DAYS TO EXPIRATION Any
PROBABILITY OF PROFIT 50%

SETUP



MAX PROFIT
Unlimited

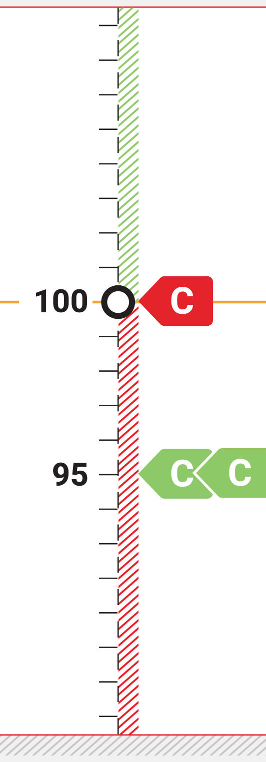
MAX LOSS
Debit Paid

PROFIT TARGET
25% of Debit Paid

BREAKEVEN
Short Call Strike + Any Extrinsic Value Paid

EXAMPLE

With XYZ stock at $100, we may buy two of the 95 calls and sell one 100 strike call for a debit with no extrinsic value.



DELTA Long / Dynamic
VEGA Flat
THETA Flat
GAMMA Dynamic

TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

IDEAL
The stock price moves up. This is a synthetic long stock position that acts like a married put, where you have 100 shares of upside profit potential with limited risk below your long call strikes. Unlike a married put, the call ZEBRA gives you defined risk without having to pay extrinsic value for the protection (if set up with zero extrinsic value on entry).

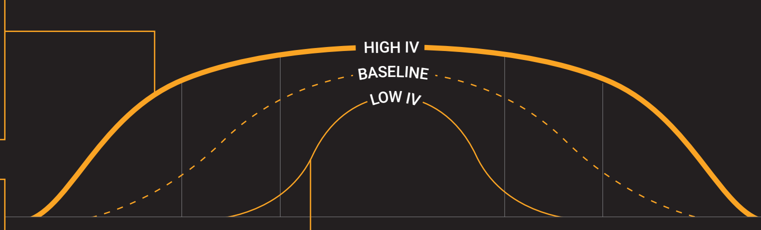
NOT IDEAL
The stock price moves down. The synthetic stock position will lose value at almost the same rate as owning 100 shares of stock, but losses will taper off below the long call strikes, since the most you can lose is the debit paid for the trade.

DEFENSIVE TACTICS
In an effort to reduce the cost of the trade, we can roll the short call down a few strikes if the stock sells off. This will reduce the long delta amount on a rally, but if that never happens, we reduce the overall debit paid on the trade by rolling the call down.

VOLATILITY

IF VOLATILITY EXPANDS
This trade will likely be unaffected as we start with zero extrinsic value, unless this is paired with a bearish move in the stock price, which could result in losses.

IF VOLATILITY CONTRACTS
The trade could be profitable if this is paired with a bullish move in the stock price.



EXPIRATION

ORIG

IF ITM AT EXPIRATION
We close the trade for a profit.

IF OTM AT EXPIRATION
We will realize max loss on the trade, which is the debit paid up front.

IF PARTIALLY ITM AT EXPIRATION
We close the trade and restructure in a later cycle if we want to stay in. We want to avoid assignment by closing the trade prior to expiration.

TAKEAWAYS

1 This can be a great long stock replacement strategy with limited risk if you're directionally correct. The risk profile for a call zebra is similar to a married put, since our risk is capped at the debit paid for the spread.

2 Long term cycles & high IV products will be more expensive trades on entry. Short term cycles and low IV products will be cheaper trades on entry. We still need the directional move to be profitable.

POOR MAN'S COVERED CALL

A bullish synthetic covered call strategy that consists of an ITM long-term call to replicate 100 shares of stock, with an ATM/OTM short call in a near-term cycle to reduce cost basis. Net debit should not exceed width between strikes.

DIRECTIONAL ASSUMPTION
Bullish

IV ENVIRONMENT
Low

DAYS TO EXPIRATION
45 to 60

PROBABILITY OF PROFIT
50% to 60%

SETUP

STOCK PRICE

1 Buy an ITM call in a long-term expiration cycle

2 Sell an OTM call in a near-term expiration cycle

MAX PROFIT
Distance Between Strikes - Debit Paid + Estimated Extrinsic Value in Long Option

MAX LOSS
Debit Paid

PROFIT TARGET
50% of Estimated Max Profit

BREAKEVEN
Long Call Strike + Debit Paid

EXAMPLE

With XYZ stock at $100, we may buy the 90 call in a long-term expiration and sell the 105 call in a near-term expiration.

105
100
90

DELTA
Long

VEGA
Long

THETA
Flat

GAMMA
Dynamic

TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

IDEAL
The stock moves up to the short call strike by the expiration of the contract. This results in max extrinsic value collected from the short call, as well as max value gained on the long call option that acts as a synthetic long stock position, plus any remaining extrinsic value in the long option as well.

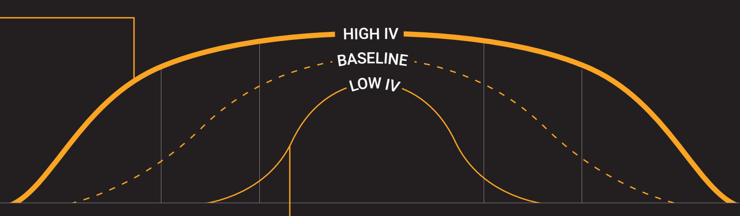
NOT IDEAL
The stock goes down. This results in losses on the long call you own, although the short call will lose value and hedge the loss on the long call, and you would not lose as much as owning 100 shares of stock if there is a big selloff.

DEFENSIVE TACTICS
If the short call loses value, we can roll it out in time to add extrinsic value to the trade, further reducing the cost basis on the position. We can also move the call strike down in the same cycle to achieve the same cost basis reduction result, or a combination of rolling out in time and down a few strikes. Avoid rolling the call below your breakeven on the trade overall to ensure potential profit if the stock rallies back.

VOLATILITY

IF VOLATILITY EXPANDS
We typically hold onto the trade - extrinsic value moves against us are temporary, but if this is paired with a stock selloff, we can adjust the short call if we want to.

IF VOLATILITY CONTRACTS
We can consider adjusting the short call if it has lost value by rolling it out in time or moving it closer to the long strike, but not below our breakeven point.



EXPIRATION

ORIG

IF OTM AT EXPIRATION
We will realize max loss on the trade, which is the debit paid up front.

IF ITM AT EXPIRATION
The trade will be at max profit - we close the trade.

TAKEAWAYS

1 Make sure the debit paid is no more than 75% the width of the strikes. If you pay a debit higher than the width of the strikes and there is a huge move where the spread moves ITM, you can lose money as the strikes lose extrinsic value and start to trade with pure intrinsic value.

2 The idea here is to buy a long-term low volatility contract and take advantage of heightened IV in the front-month by placing our short contract there. This setup can be very efficient for products with pending news, or big realized movements that pump up the near-term IV.

CALL CALENDAR SPREAD

A neutral, defined risk trade where we are betting on an increase in IV while the stock stays near our strikes, or for the stock to stay stagnant and our short premium to decay faster than our long premium.

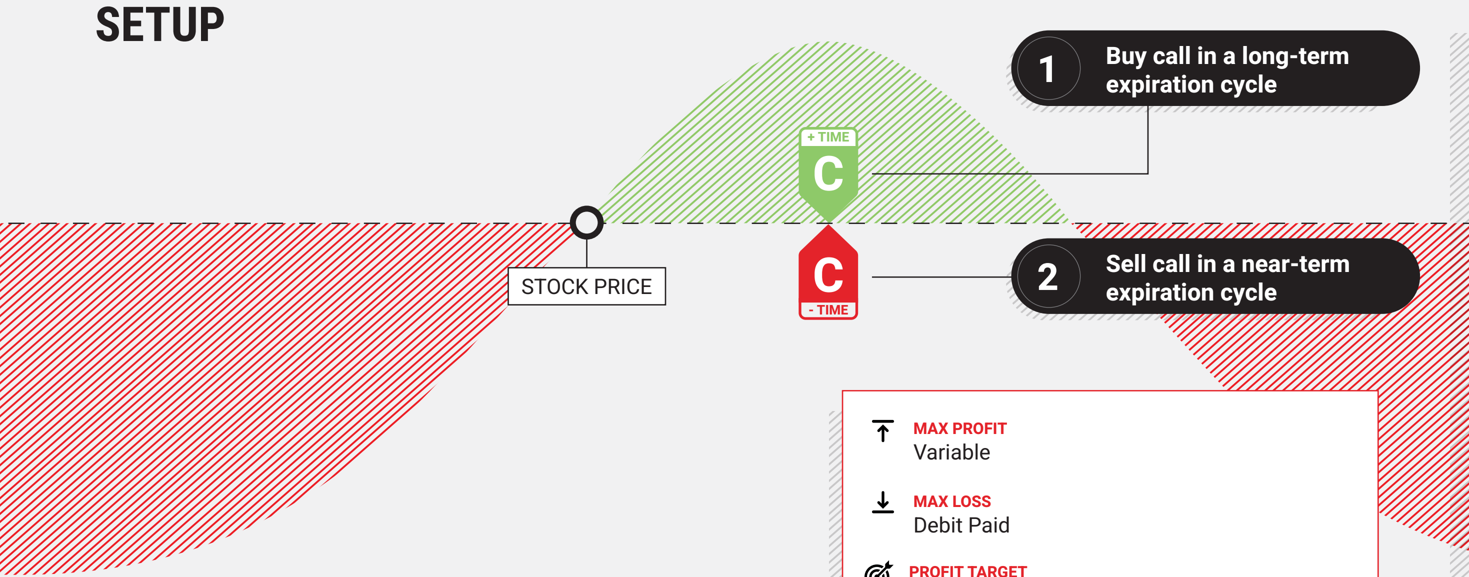
DIRECTIONAL ASSUMPTION
Bullish

IV ENVIRONMENT
Low

DAYS TO EXPIRATION
45

PROBABILITY OF PROFIT
N/A

SETUP



1 Buy call in a long-term expiration cycle

2 Sell call in a near-term expiration cycle

MAX PROFIT
Variable

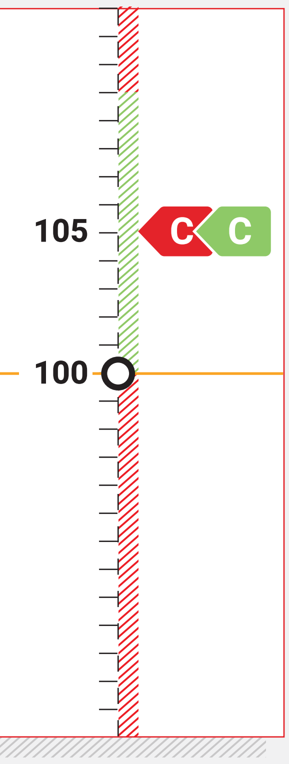
MAX LOSS
Debit Paid

PROFIT TARGET
10-25% of Debit Paid

BREAKEVEN
Variable

EXAMPLE

With XYZ stock at $100, we may buy the 105 call in a long-term expiration and sell the 105 call in a near-term expiration.



DELTA
Long

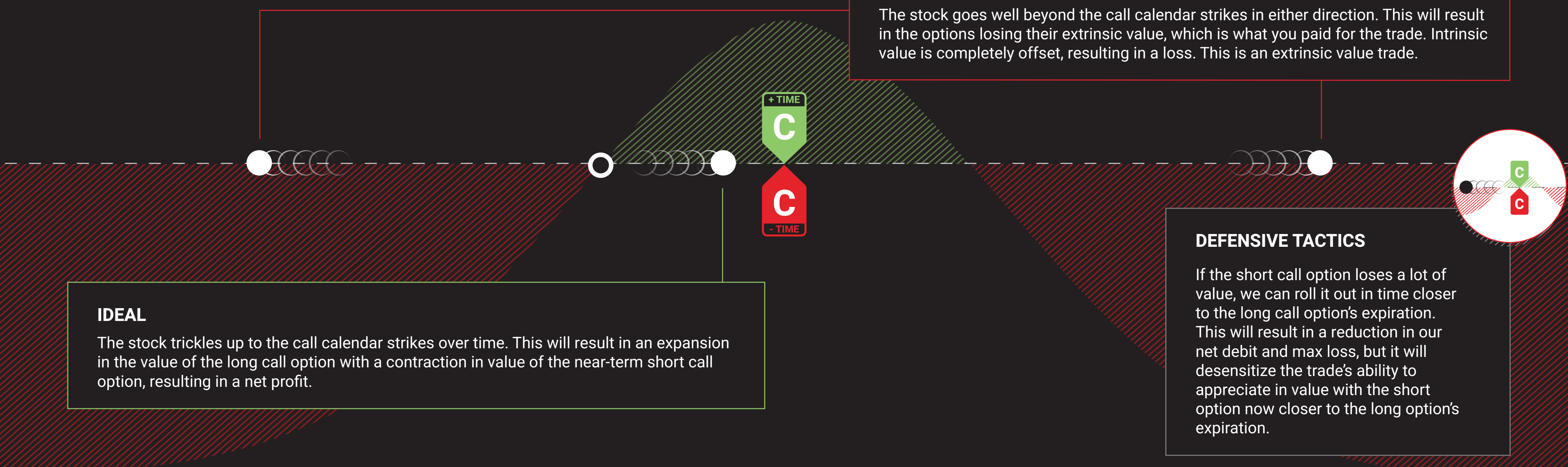
VEGA
Long

THETA
Short

GAMMA
Dynamic

TASTY*LIVE* APPROACH

HOW THE TRADE WORKS



NOT IDEAL
The stock goes well beyond the call calendar strikes in either direction. This will result in the options losing their extrinsic value, which is what you paid for the trade. Intrinsic value is completely offset, resulting in a loss. This is an extrinsic value trade.

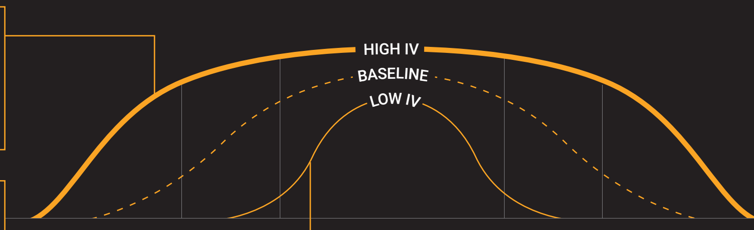
IDEAL
The stock trickles up to the call calendar strikes over time. This will result in an expansion in the value of the long call option with a contraction in value of the near-term short call option, resulting in a net profit.

DEFENSIVE TACTICS
If the short call option loses a lot of value, we can roll it out in time closer to the long call option's expiration. This will result in a reduction in our net debit and max loss, but it will desensitize the trade's ability to appreciate in value with the short option now closer to the long option's expiration.

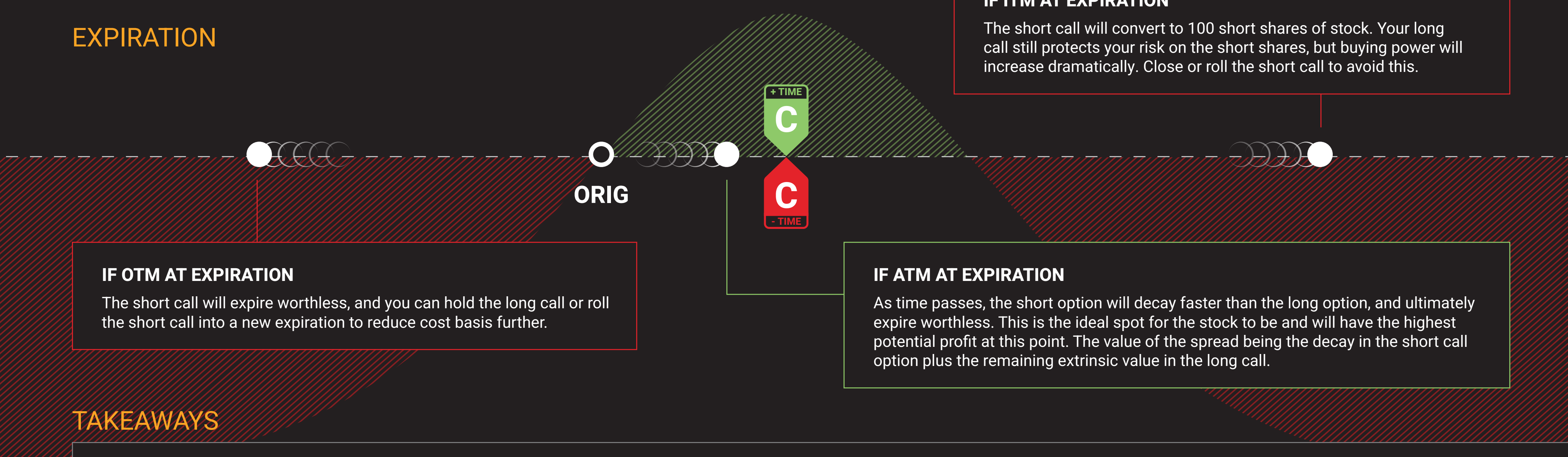
VOLATILITY

IF VOLATILITY EXPANDS
The call calendar could see a profit, as long as this expansion is not paired with a bearish move. A bearish move may have a greater effect than the increase in implied volatility.

IF VOLATILITY CONTRACTS
This could result in a profit if the contraction is paired with a bullish move, as the long option could still increase in value to a greater degree than the short option.



EXPIRATION



IF ITM AT EXPIRATION
The short call will convert to 100 short shares of stock. Your long call still protects your risk on the short shares, but buying power will increase dramatically. Close or roll the short call to avoid this.

IF OTM AT EXPIRATION
The short call will expire worthless, and you can hold the long call or roll the short call into a new expiration to reduce cost basis further.

IF ATM AT EXPIRATION
As time passes, the short option will decay faster than the long option, and ultimately expire worthless. This is the ideal spot for the stock to be and will have the highest potential profit at this point. The value of the spread being the decay in the short call option plus the remaining extrinsic value in the long call.

TAKEAWAYS

1 This strategy is typically not one we will hold to expiration, and we temper our profit target because the spread cannot go too far ITM or OTM.

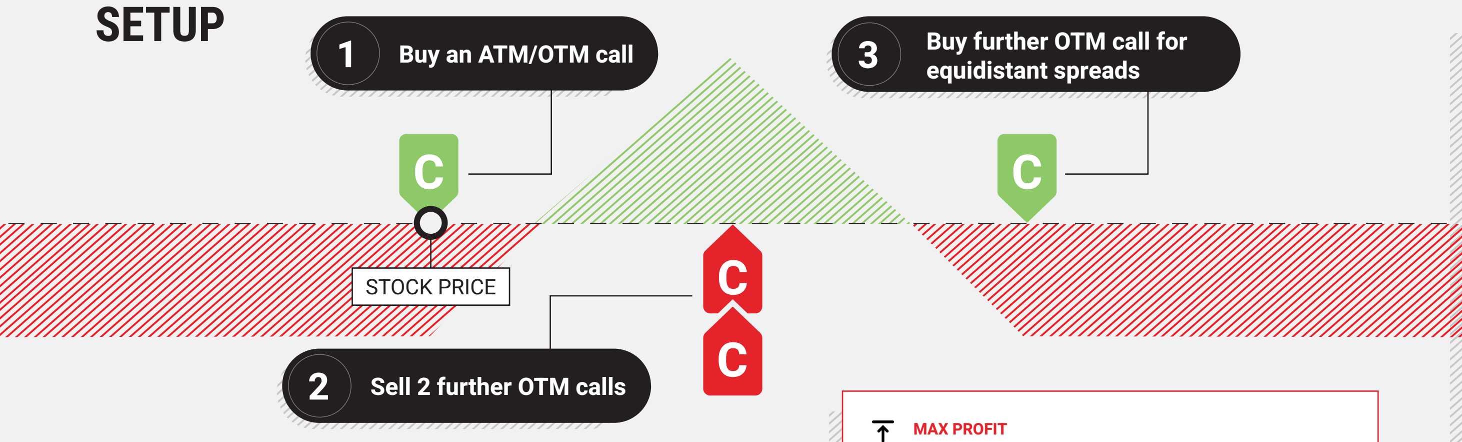
2 This is a short-term, vol expansion trade where we are purely trading the extrinsic value and IV spread between the short front-month option and the long back-month option. For this reason, we look for a quick exit if we see profitability and a move towards our spread.

CALL BUTTERFLY

Symmetrical long call spread and short call spread that share the same short strikes. This is a low probability trade because we pay for it up front and need the stock to be within our strikes at expiration.

DIRECTIONAL ASSUMPTION Bullish
IV ENVIRONMENT Any
DAYS TO EXPIRATION 15 to 45
PROBABILITY OF PROFIT 20% to 40%

SETUP



MAX PROFIT
Width of Long Spread - Debit Paid

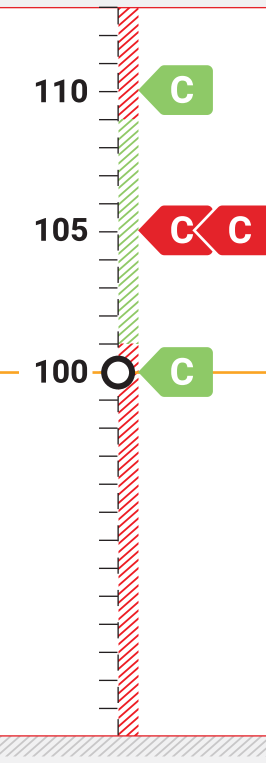
MAX LOSS
Debit Paid

PROFIT TARGET
25% of Long Spread Width

BREAKEVEN
Long Call Strike + Debit Paid

EXAMPLE

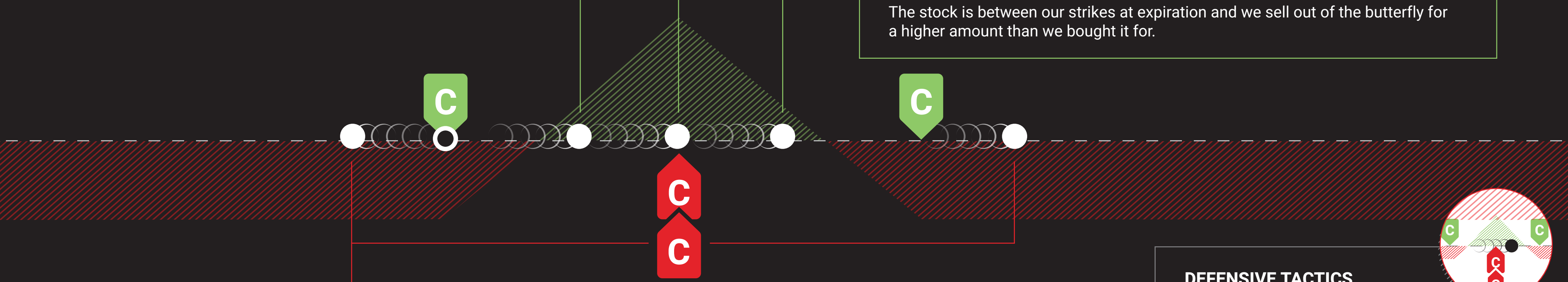
With XYZ stock at $100, we may buy the 100 call, sell two of the 105 calls, and buy one 110 call for a small debit.



DELTA Long / Dynamic
VEGA Long
THETA Short
GAMMA Dynamic

TASTY*LIVE* APPROACH

HOW THE TRADE WORKS



IDEAL
The stock is between our strikes at expiration and we sell out of the butterfly for a higher amount than we bought it for.

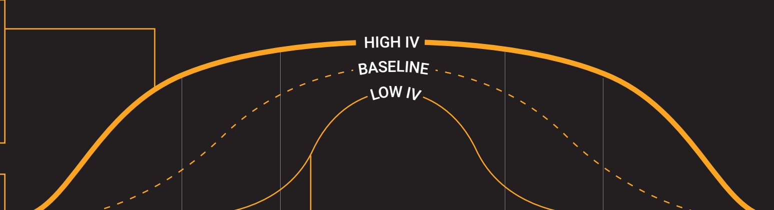
NOT IDEAL
The spread is completely ITM or OTM and we realize max loss of the debit paid up front.

DEFENSIVE TACTICS
If the long spread is ITM and near max value, we sell out of it to retain that value and either hold the credit spread, or manipulate the trade into something else like an iron condor.

VOLATILITY

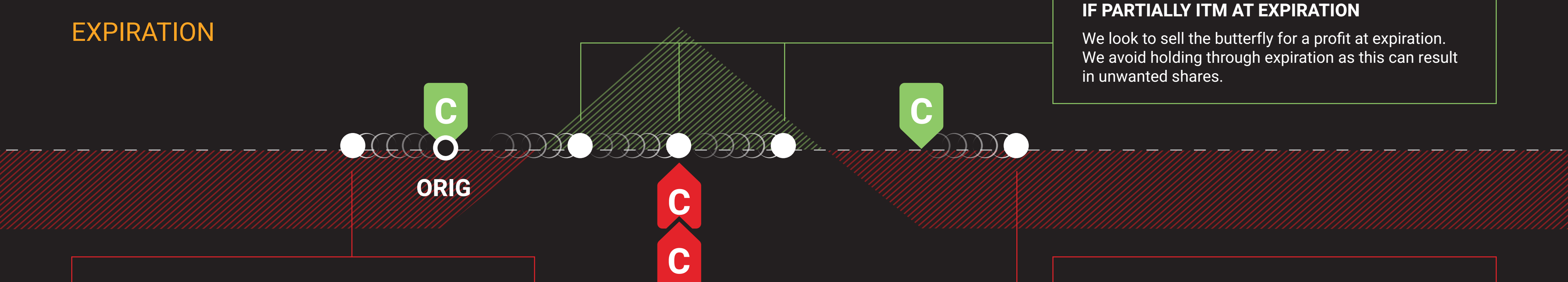
IF VOLATILITY EXPANDS
This trade will likely be unaffected - narrow defined risk trades do not have too much vega exposure.

IF VOLATILITY CONTRACTS
This trade will likely be unaffected - narrow defined risk trades do not have too much vega exposure.



EXPIRATION

IF PARTIALLY ITM AT EXPIRATION
We look to sell the butterfly for a profit at expiration. We avoid holding through expiration as this can result in unwanted shares.



IF OTM AT EXPIRATION
We close the trade for max loss to avoid assignment.

IF ITM AT EXPIRATION
We close the trade for max loss to avoid assignment.

TAKEAWAYS

1. These trades are low probability because the range of success is so small relative to the normal stock price movement for the cycle. We like to roll into equidistant butterflies from broken wing butterflies for this reason, as opposed to starting with them.

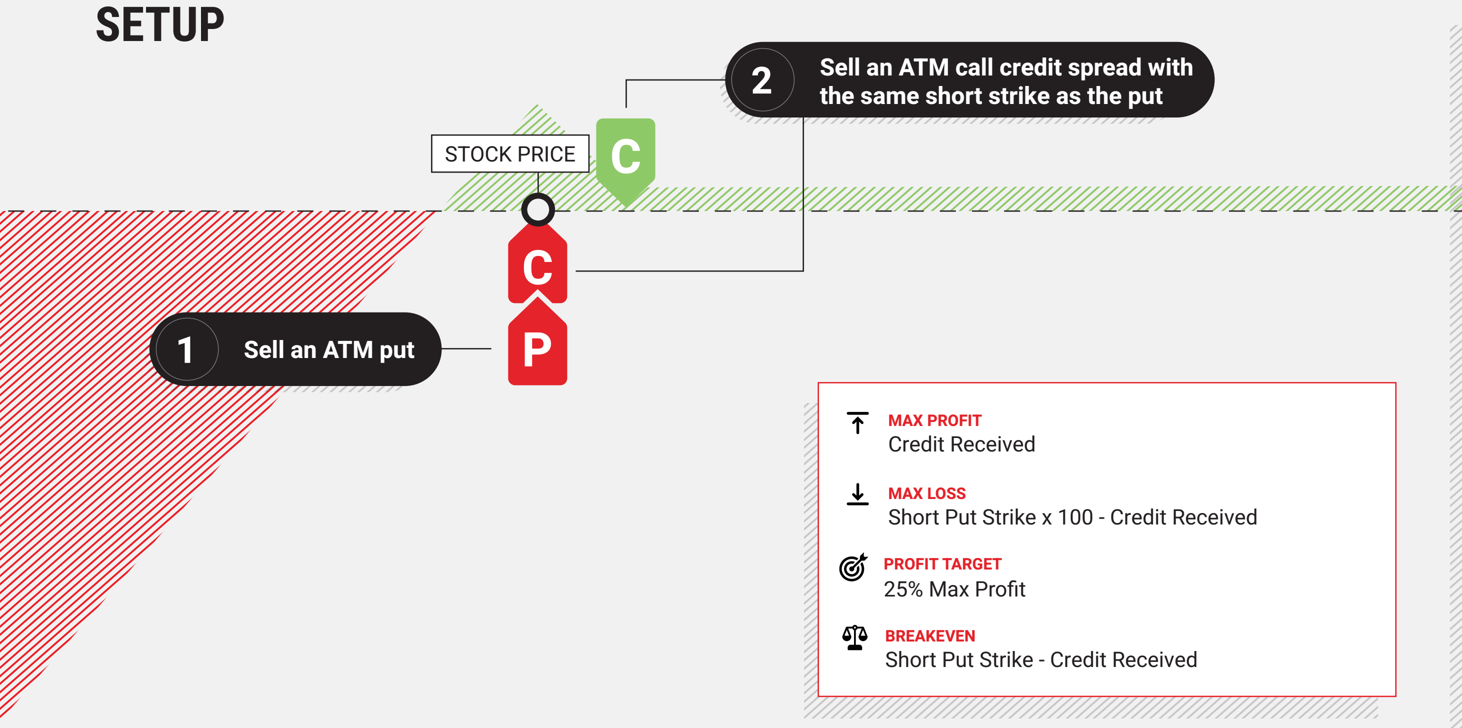
2. The less time we have to expiration, the more we can expect to get out of a butterfly if the stock price moves through it. Too much extrinsic value will prevent the trade from moving much at all.

BIG LIZARD

A bullish position that is constructed by selling an ATM short put combined with an ATM short call spread. The total credit received should be greater than the width of the call spread to remove upside risk entirely.

DIRECTIONAL ASSUMPTION	IV ENVIRONMENT	DAYS TO EXPIRATION	PROBABILITY OF PROFIT
Bullish	High	45	60% to 80%

SETUP



MAX PROFIT
Credit Received

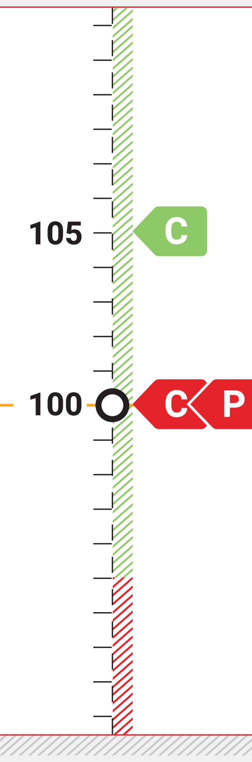
MAX LOSS
Short Put Strike x 100 - Credit Received

PROFIT TARGET
25% Max Profit

BREAKEVEN
Short Put Strike - Credit Received

EXAMPLE

With XYZ stock at $100, we may sell the 100 put and sell the 100/105 call spread for a credit over $5.00.



Δ DELTA
Long

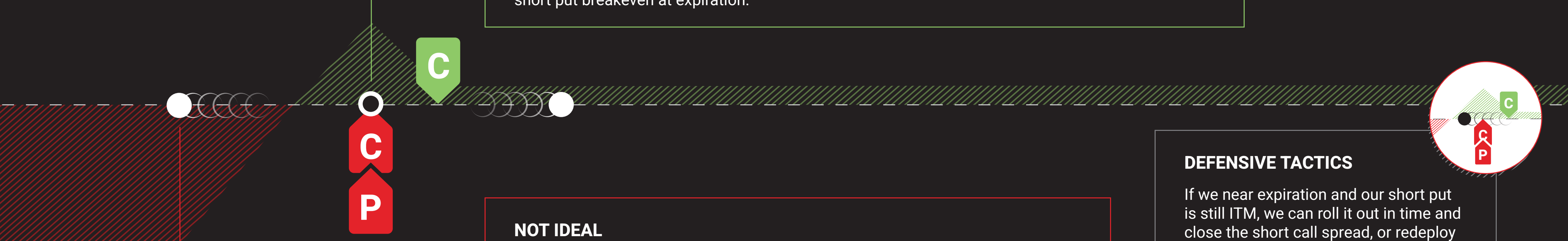
V VEGA
Short

θ THETA
Long

γ GAMMA
Short

TASTY*LIVE* APPROACH

HOW THE TRADE WORKS



IDEAL

The stock stays between our breakeven range. There is no risk to the upside if our net credit is greater than the width of the call credit spread, so the trade is profitable if the stock is above our short put breakeven at expiration.

NOT IDEAL

The stock goes down. We have a naked short put, so if the stock drops below our short put strike, we take on intrinsic value losses equivalent to 100 shares of stock, less the credit received from selling the big lizard up front.

DEFENSIVE TACTICS

If we near expiration and our short put is still ITM, we can roll it out in time and close the short call spread, or redeploy another call spread against the short put.

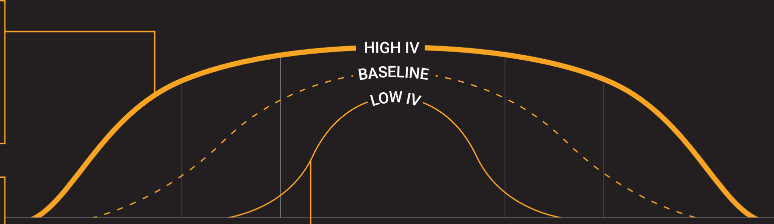
VOLATILITY

IF VOLATILITY EXPANDS

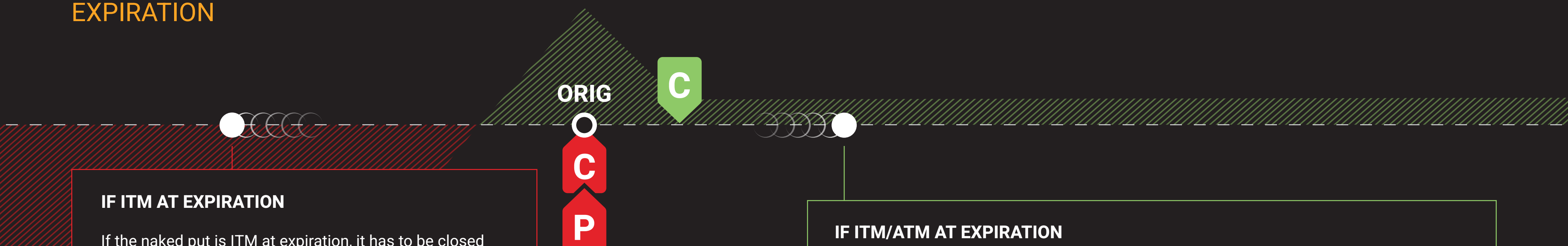
We may hold - this may result in an extrinsic value loss, but extrinsic value will always go to zero by expiration.

IF VOLATILITY CONTRACTS

We may have a winning trade - if we are happy with our profit target we can close the trade.



EXPIRATION



IF ITM AT EXPIRATION

If the naked put is ITM at expiration, it has to be closed or rolled out in time, otherwise it will turn into stock. If the call spread is fully ITM at expiration, it will get exercised/assigned and result in no position. We close or roll prior to expiration to avoid unwanted shares.

IF ITM/ATM AT EXPIRATION

Since the short options are placed at the same strike, one side of the position will always be ITM. To avoid taking potential assignment of shares, we close out the position which would be profitable if the call spread is ITM or if the stock is within our breakeven to the put side.

TAKEAWAYS

1. This trade will almost always be ITM at any time, so we temper our profit target to 25%, since even at expiration, one of these strikes will hold intrinsic value.

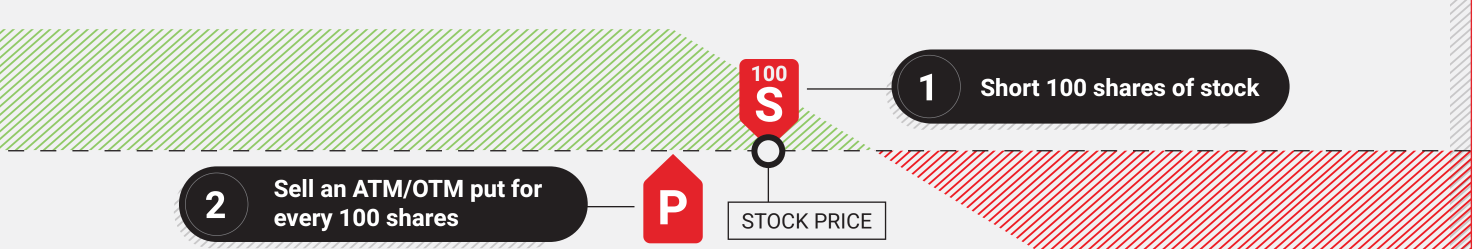
2. Ensure the credit received is wider than the width of the call spread, so that there is no risk to the upside. The big lizard call spread will be much wider than the jade lizard call spread since the short strikes are ATM.

COVERED PUT

Bearish stock position where we are selling an ATM/OTM put against 100 short shares of stock to improve the cost basis of the shares. The short put risk is "covered" by the 100 shares of stock we are short.

DIRECTIONAL ASSUMPTION Bearish
IV ENVIRONMENT High
DAYS TO EXPIRATION 45
PROBABILITY OF PROFIT 50% to 70%

SETUP



MAX PROFIT
Distance Between Short Stock & Short Put + Credit Received

MAX LOSS
Unlimited

PROFIT TARGET
50% of Max Profit

BREAKEVEN
Short Stock Price + Credit Received

EXAMPLE

With XYZ stock at $100, we may short 100 shares and sell the 95 put against the shares to reduce our breakeven price.

100 — 100 S
95 — P

DELTA Short
VEGA Short
THETA Long
GAMMA Dynamic

TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

NOT IDEAL
The stock goes up. This results in losses in the shares you are short, although the short put will lose value and hedge the loss on those shares.

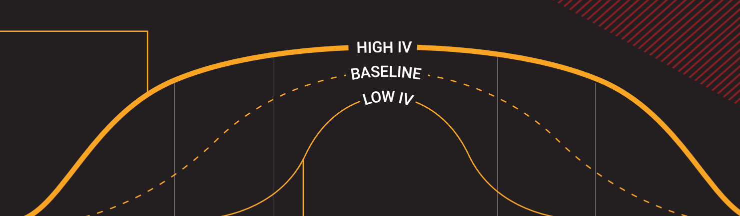
DEFENSIVE TACTICS
If the short put loses value, we can roll it out in time to add extrinsic value to the trade, improving the cost basis on the short shares to the upside. We can also move the put strike up in the same cycle to achieve the same cost basis reduction result, or a combination of rolling out in time and up a few strikes. Avoid rolling the put above your breakeven on the trade overall to ensure potential profit if the stock sells off.

IDEAL
The stock moves down to the short put strike by the expiration of the contract. This results in max extrinsic value collected from the short put, as well as max value gained on the short shares down to the put strike.

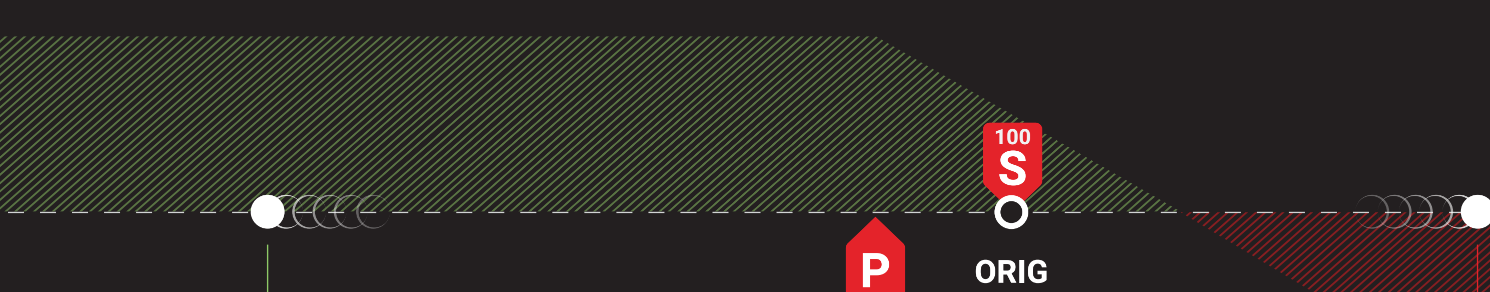
VOLATILITY

IF VOLATILITY EXPANDS
We may hold - this may result in an extrinsic value loss in the short put, but extrinsic value goes to zero by expiration. If this is paired with a stock price selloff, we may be able to close for a winner.

IF VOLATILITY CONTRACTS
The short put will likely lose a good amount of value, especially if this is paired with a bullish move. We can adjust the put to hedge our short shares if this is the case.



EXPIRATION



IF ITM AT EXPIRATION
The short put will be exercised and we will "be put" 100 shares of stock. This will offset our 100 short shares and we will realize max profit.

IF OTM AT EXPIRATION
The short put will expire worthless - we can deploy another one in a further expiration, or lean short with the shares.

TAKEAWAYS

1 Covered puts are cost basis reduction strategies where we are limiting our downside profit potential to guarantee a credit and cost basis reduction on the short shares. With this said, we should place our short put at a level we're comfortable capping our profit potential at.

2 If we want to preserve our short shares and avoid assignment, we can roll the short put out in time and down a few strikes for a small credit before the short put moves ITM. This moves the existing extrinsic value to the next cycle, and moving our short strike down gives us more potential profit on the short shares.

LONG PUT VERTICAL SPREAD

Bearish, defined risk debit trade where we are betting on the stock moving below our short put strike price by the expiration of our contract. Spread width depends on account size, risk tolerance, etc.

DIRECTIONAL ASSUMPTION
Bearish

IV ENVIRONMENT
Any

DAYS TO EXPIRATION
45

PROBABILITY OF PROFIT
50% to 60%

SETUP

1 Buy an ITM put

STOCK PRICE

2 Sell an ATM/OTM put

MAX PROFIT
Distance Between Strikes - Debit Paid

MAX LOSS
Debit Paid

PROFIT TARGET
50% of Max Profit

BREAKEVEN
Long Put Strike - Debit Paid

EXAMPLE

With XYZ stock at $100, we might look to buy a 105/95 put spread and pay around $5.00.

105

100

95

DELTA
Short

VEGA
Flat

THETA
Flat

GAMMA
Flat

TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

NOT IDEAL

The stock increases in value. The value of the long put spread would decrease in value, which means the spread would be less valuable to sell to close compared to the original purchase price, which would result in a loss.

DEFENSIVE TACTICS

Long put spreads are debit trades which means extending duration actually increases risk since we'd pay another debit to roll the trade out in time. We can roll the short put up closer to the long put to bring in more credit and reduce our net debit paid and reduce max profit potential, but we do not roll above our breakeven price.

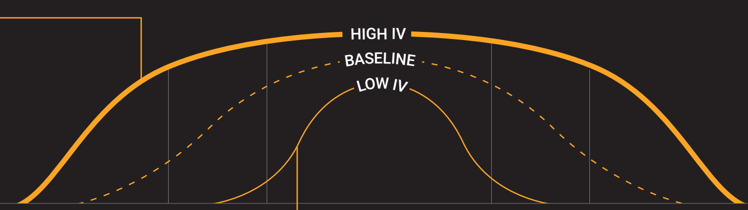
IDEAL

The stock decreases in value. A long put spread is a directionally bearish position - so ideally the stock price decreases so that the long put strike increases in value to a greater degree than the short put.

VOLATILITY

IF VOLATILITY EXPANDS

Extrinsic value may have increased - but this is primarily a bearish trade and if the increase in IV is paired with a bearish move, we may see profitability and can close if we are happy with the exit price.



IF VOLATILITY CONTRACTS

Extrinsic value may have decreased, but this could be paired with a rally in the product. We may consider holding the position, or rolling the short option up closer to the long option, but not above the breakeven price.

EXPIRATION

IF OTM AT EXPIRATION

The trade will be at max loss, as both options will have lost all of their value. We let the trade expire worthless.

ORIG

IF ITM AT EXPIRATION

The trade will be at max profit. We close the trade.

IF PARTIALLY ITM AT EXPIRATION

We either roll out in time to extend the trade or close it. We avoid letting these trades go through expiration, because if the long put is ITM and the short put is OTM we can come back to the market the next trading session with 100 shares of short stock.

TAKEAWAYS

1 Vertical spreads have a less volatile P/L because of the long option that defines our risk. If we see profit on the short option, we will see losses on the long option and vice versa. For this reason, we should expect to be in spread trades longer than naked options to reach profit targets.

2 With spreads, it's important to realize that options will be exercised if they are ITM and held through expiration. If one strike is ITM and the other moves OTM, close the trade prior to expiration to avoid unwanted shares.

PUT ZEBRA

A bearish back-ratio spread, where we are buying two ITM puts and selling one ATM put to remove all extrinsic value and achieve 100 negative deltas. This strategy acts like a married call, since the most we can lose is the debit paid, and we have 100 shares of short stock profit potential.

DIRECTIONAL ASSUMPTION Bearish
IV ENVIRONMENT Any
DAYS TO EXPIRATION Any
PROBABILITY OF PROFIT 50%

SETUP

1 Buy 2 ITM puts

STOCK PRICE

2 Sell 1 ATM put (to remove all extrinsic value)

MAX PROFIT
Unlimited

MAX LOSS
Debit Paid

PROFIT TARGET
25% of Debit Paid

BREAKEVEN
Short Put Strike - Any Extrinsic Value Paid

EXAMPLE

With XYZ stock at $100, we may buy two of the 105 puts and sell one 100 strike put for a debit with no extrinsic value.

105
100

DELTA
Short / Dynamic

VEGA
Flat

THETA
Flat

GAMMA
Dynamic

TASTYLIVE APPROACH

HOW THE TRADE WORKS

NOT IDEAL

The stock price moves up. The synthetic short stock position will lose value at almost the same rate as being short 100 shares of stock, but losses will taper off above the long put strikes, since the most you can lose is the debit paid for the trade.

IDEAL

The stock price moves down. This is a synthetic short stock position that acts like a married call, where you have 100 short shares of downside profit potential with limited risk above your long put strikes. Unlike a married call, the put ZEBRA gives you defined risk without having to pay extrinsic value for the protection (if set up with zero extrinsic value on entry).

DEFENSIVE TACTICS

In an effort to reduce the cost of the trade, we can roll the short put up a few strikes if the stock rallies. This will decrease the short delta amount on a selloff, but if that never happens, we reduce the overall debit paid on the trade by rolling the put up.

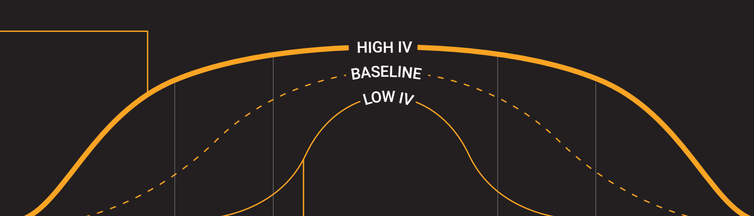
VOLATILITY

IF VOLATILITY EXPANDS

The trade could be profitable if this is paired with a bearish move in the stock price.

IF VOLATILITY CONTRACTS

This trade will likely be unaffected as we start with zero extrinsic value, unless this is paired with a bullish move in the stock price, which could result in losses.



EXPIRATION

ORIG

IF OTM AT EXPIRATION

We will realize max loss on the trade, which is the debit paid up front.

IF ITM AT EXPIRATION

We close the trade for a profit.

IF PARTIALLY ITM AT EXPIRATION

We close the trade and restructure in a later cycle if we want to stay in. We want to avoid assignment by closing the trade prior to expiration.

TAKEAWAYS

1 This can be a great short stock replacement strategy with limited risk if you're directionally correct. The risk profile for a put zebra is similar to a married call, since our risk is capped at the debit paid for the spread.

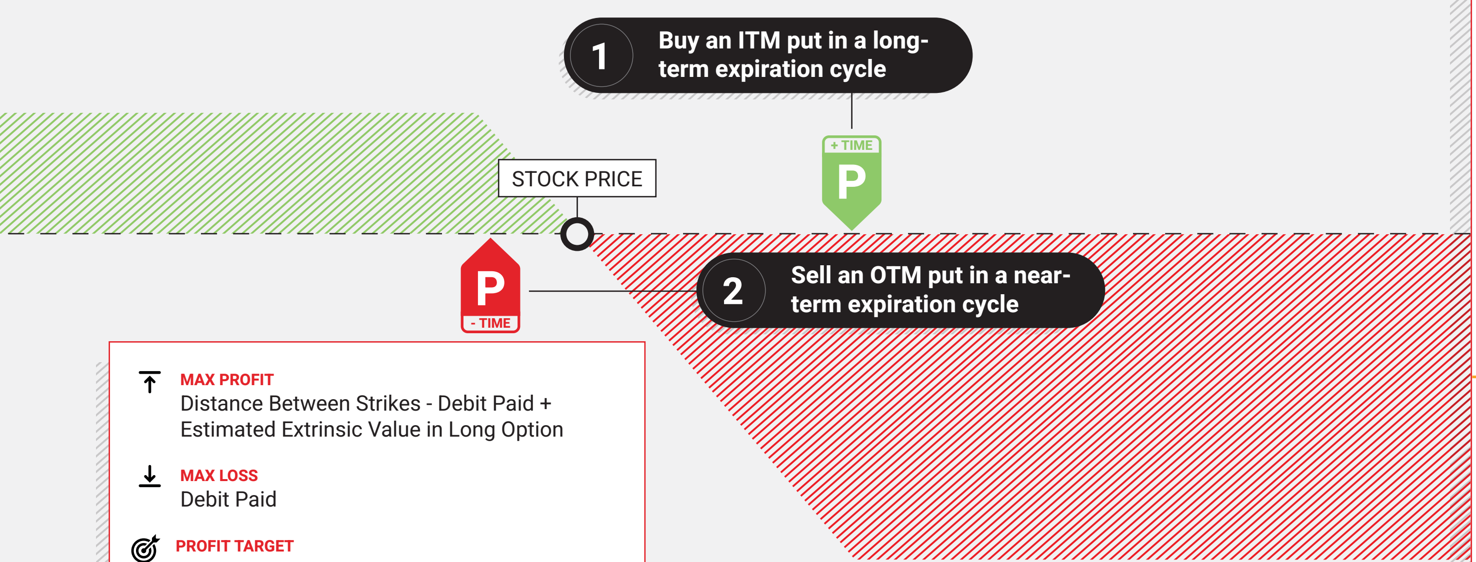
2 Long term cycles & high IV products will be more expensive trades on entry. Short term cycles and low IV products will be cheaper trades on entry. We still need the directional move to be profitable.

POOR MAN'S COVERED PUT

A bearish synthetic covered put strategy that consists of an ITM long-term put to replicate 100 shares of short stock, with an ATM/OTM short put in a near-term cycle to reduce cost basis. Net debit should not exceed width between strikes.

DIRECTIONAL ASSUMPTION Bearish
IV ENVIRONMENT Low
DAYS TO EXPIRATION 45 to 60
PROBABILITY OF PROFIT 50% to 60%

SETUP



MAX PROFIT
Distance Between Strikes - Debit Paid + Estimated Extrinsic Value in Long Option

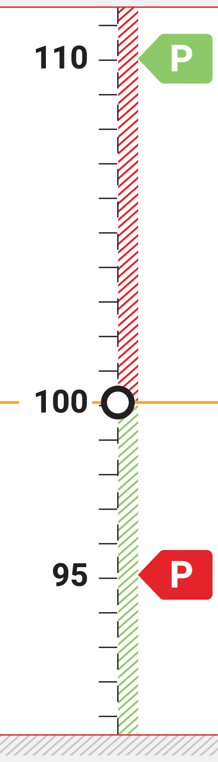
MAX LOSS
Debit Paid

PROFIT TARGET
50% of Estimated Max Profit

BREAKEVEN
Long Put Strike - Debit Paid

EXAMPLE

With XYZ stock at $100, we may buy the 110 put in a long-term expiration and sell the 95 put in a near-term expiration.

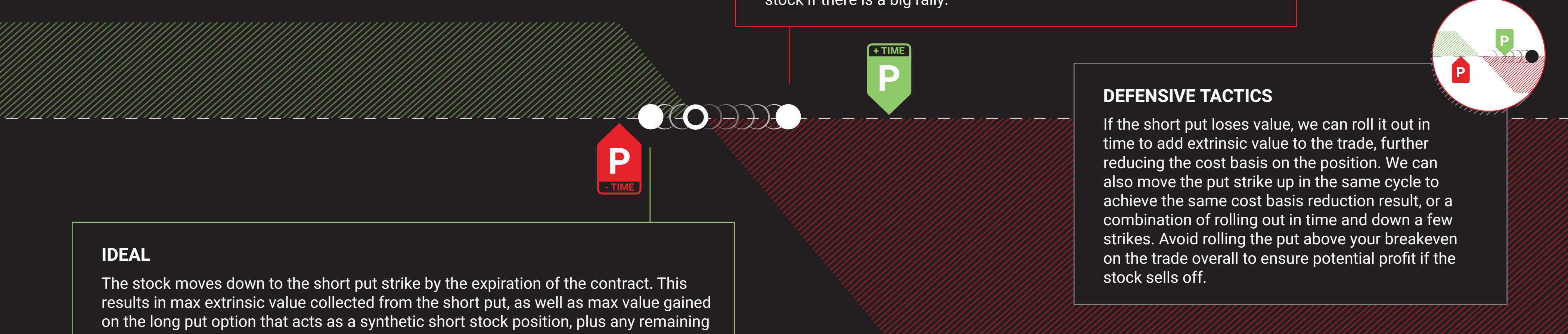


DELTA Short
VEGA Long
THETA Flat
GAMMA Dynamic

TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

NOT IDEAL
The stock goes up. This results in losses on the long put you own, although the short put will lose value and hedge the loss on the long put, and you would not lose as much as being short 100 shares of stock if there is a big rally.



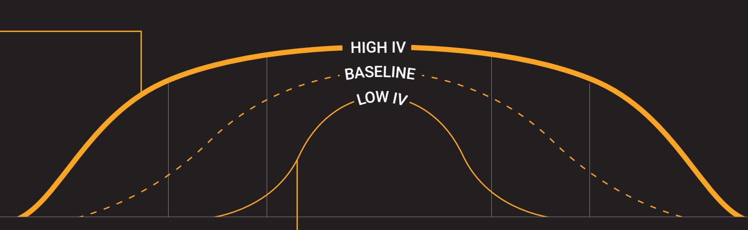
DEFENSIVE TACTICS
If the short put loses value, we can roll it out in time to add extrinsic value to the trade, further reducing the cost basis on the position. We can also move the put strike up in the same cycle to achieve the same cost basis reduction result, or a combination of rolling out in time and down a few strikes. Avoid rolling the put above your breakeven on the trade overall to ensure potential profit if the stock sells off.

IDEAL
The stock moves down to the short put strike by the expiration of the contract. This results in max extrinsic value collected from the short put, as well as max value gained on the long put option that acts as a synthetic short stock position, plus any remaining extrinsic value in the long option as well.

VOLATILITY

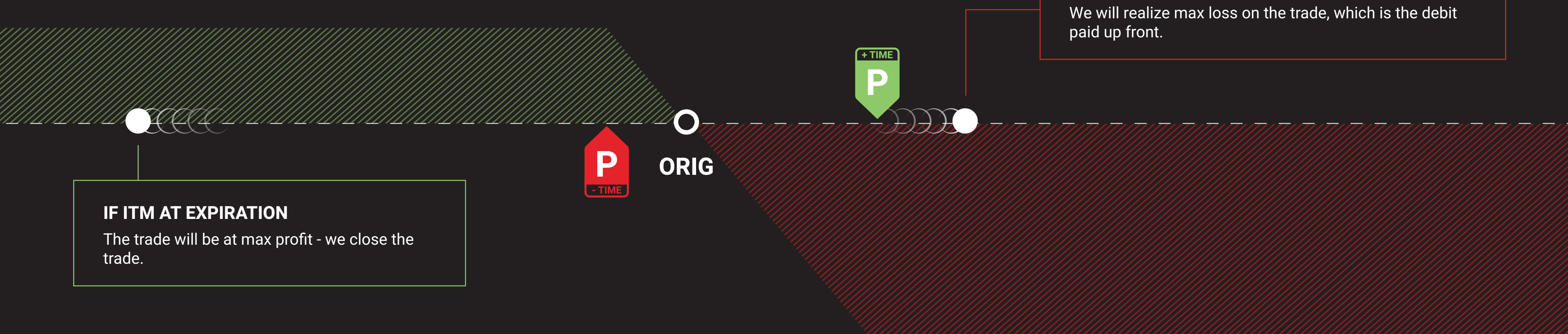
IF VOLATILITY EXPANDS
The long put may appreciate in value to a greater degree than the short put and the trade may become profitable, especially if this is paired with a bearish move.

IF VOLATILITY CONTRACTS
The long put may decrease in value to a greater degree than the short put, especially if this is paired with a bullish move. We typically hold if this is the case, or close if our assumption has changed.



EXPIRATION

IF OTM AT EXPIRATION
We will realize max loss on the trade, which is the debit paid up front.



IF ITM AT EXPIRATION
The trade will be at max profit - we close the trade.

TAKEAWAYS

1. Make sure the debit paid is no more than 75% the width of the strikes. If you pay a debit higher than the width of the strikes and there is a huge move where the spread moves ITM, you can lose money as the strikes lose extrinsic value and start to trade with pure intrinsic value.

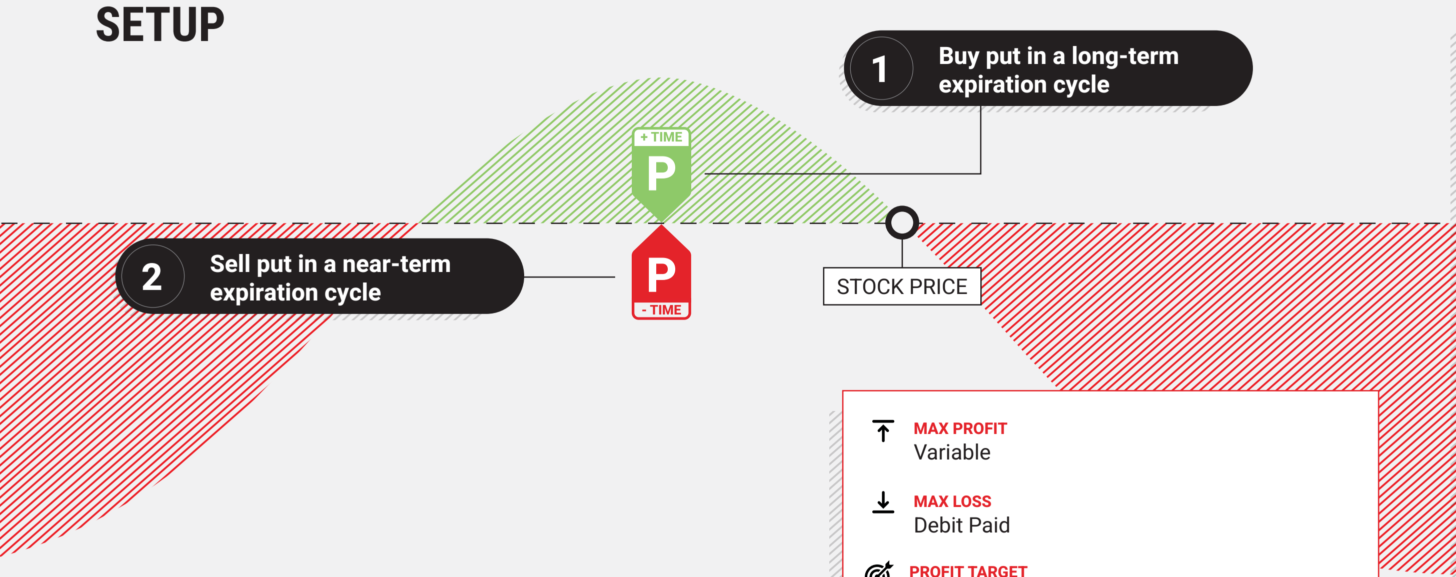
2. The idea here is to buy a long-term low volatility contract and take advantage of heightened IV in the front-month by placing our short contract there. This setup can be very efficient for products with pending news, or big realized movements that pump up the near-term IV.

PUT CALENDAR SPREAD

A neutral, defined risk trade where we are betting on an increase in IV while the stock stays near our strikes, or for the stock to stay stagnant and our short premium to decay faster than our long premium.

DIRECTIONAL ASSUMPTION	IV ENVIRONMENT	DAYS TO EXPIRATION	PROBABILITY OF PROFIT
Bearish	Low	45	N/A

SETUP



MAX PROFIT
Variable

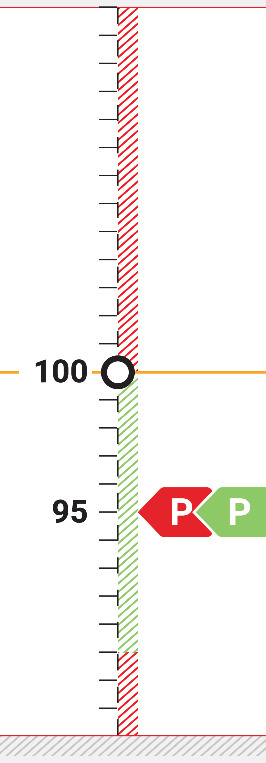
MAX LOSS
Debit Paid

PROFIT TARGET
10-25% of Debit Paid

BREAKEVEN
Variable

EXAMPLE

With XYZ stock at $100, we may buy the 95 put in a long-term expiration and sell the 95 put in a near-term expiration.



DELTA
Short

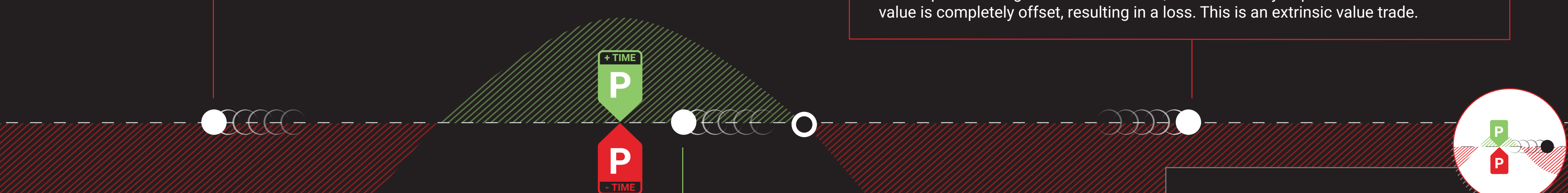
VEGA
Long

THETA
Short

GAMMA
Dynamic

TASTYLIVE APPROACH

HOW THE TRADE WORKS



NOT IDEAL

The stock goes well beyond the put calendar strikes in either direction. This will result in the options losing their extrinsic value, which is what you paid for the trade. Intrinsic value is completely offset, resulting in a loss. This is an extrinsic value trade.

IDEAL

The stock trickles down to the put calendar strikes over time. This will result in an expansion in the value of the long put option with a contraction in value of the near-term short put option, resulting in a net profit.

DEFENSIVE TACTICS

If the short put option loses a lot of value, we can roll it out in time closer to the long put option's expiration. This will result in a reduction in our net debit and max loss, but it will desensitize the trade's ability to appreciate in value with the short option now closer to the long option's expiration.

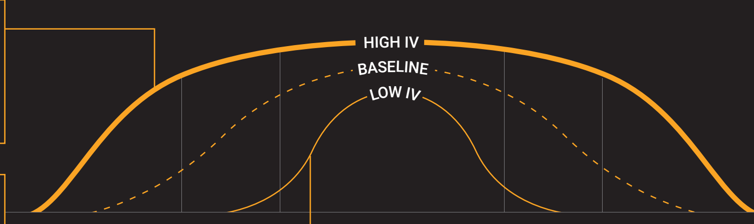
VOLATILITY

IF VOLATILITY EXPANDS

The put calendar will likely see a profit, especially if this is paired with a bearish move in the stock price.

IF VOLATILITY CONTRACTS

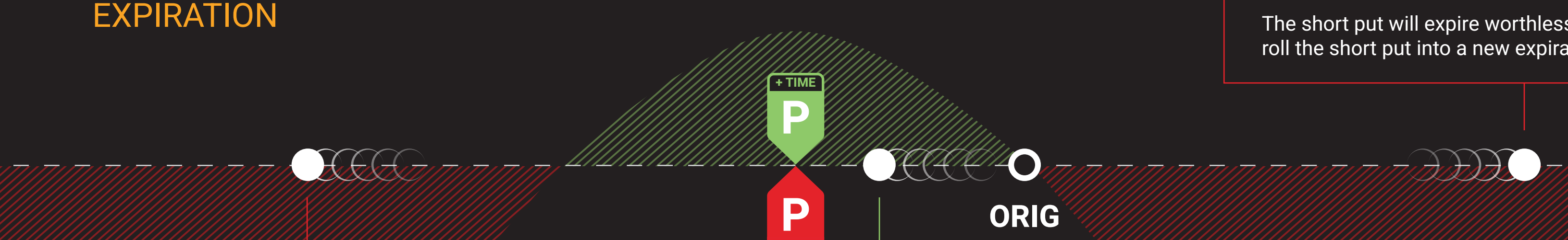
The put calendar will likely see losses, especially if this is paired with a bullish move moving the strikes further OTM.



EXPIRATION

IF OTM AT EXPIRATION

The short put will expire worthless, and you can hold the long put or roll the short put into a new expiration to reduce cost basis further.



IF ITM AT EXPIRATION

The short put will convert to 100 shares of stock. Your long put still protects your risk on the shares, but buying power will increase dramatically. Close or roll the short put to avoid this.

IF ATM AT EXPIRATION

As time passes, the short option will decay faster than the long option, and ultimately expire worthless. This is the ideal spot for the stock to be and will have the highest potential profit at this point. The value of the spread being the decay in the short put option plus the remaining extrinsic value in the long put.

TAKEAWAYS

1. This strategy is typically not one we will hold to expiration, and we temper our profit target because the spread cannot go too far ITM or OTM.

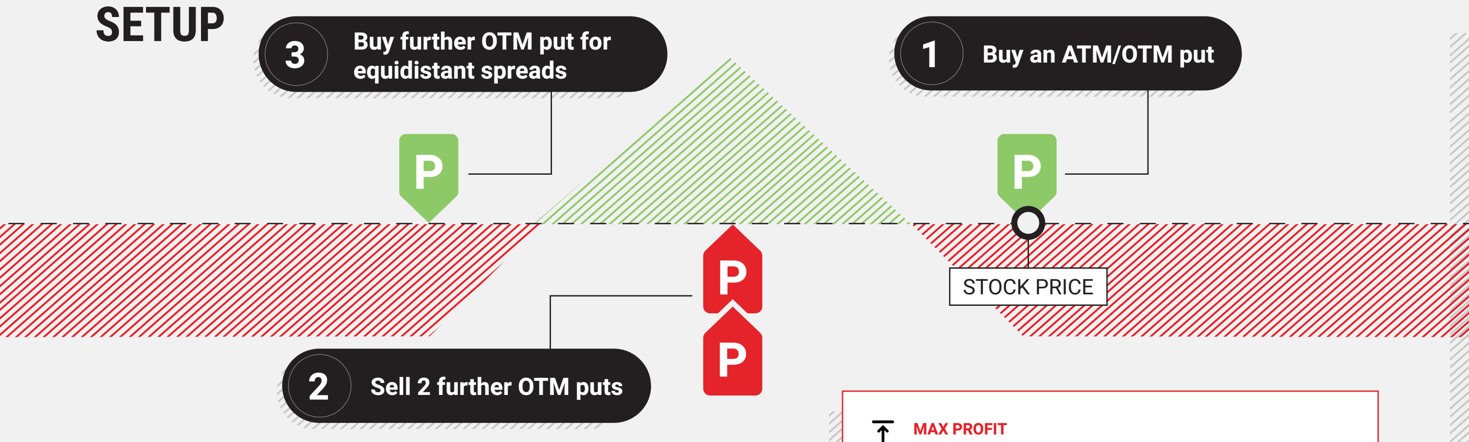
2. This is a short-term, vol expansion trade where we are purely trading the extrinsic value and IV spread between the short front-month option and the long back-month option. For this reason, we look for a quick exit if we see profitability and a move towards our spread.

PUT BUTTERFLY

Symmetrical long put spread and short put spread that share the same short strikes. This is a low probability trade because we pay for it up front and need the stock to be within our strikes at expiration.

DIRECTIONAL ASSUMPTION	IV ENVIRONMENT	DAYS TO EXPIRATION	PROBABILITY OF PROFIT
Bearish	Any	15 to 45	20% to 40%

SETUP



MAX PROFIT
Width of Long Spread - Debit Paid

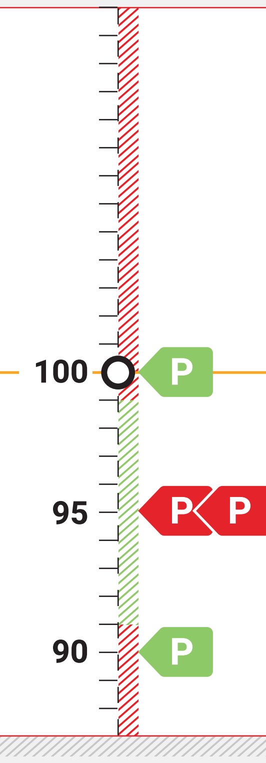
MAX LOSS
Debit Paid

PROFIT TARGET
25% of Long Spread Width

BREAKEVEN
Long Put Strike - Debit Paid

EXAMPLE

With XYZ stock at $100, we may buy the 100 put, sell two of the 95 puts, and buy one 90 put for a small debit.



DELTA
Short / Dynamic

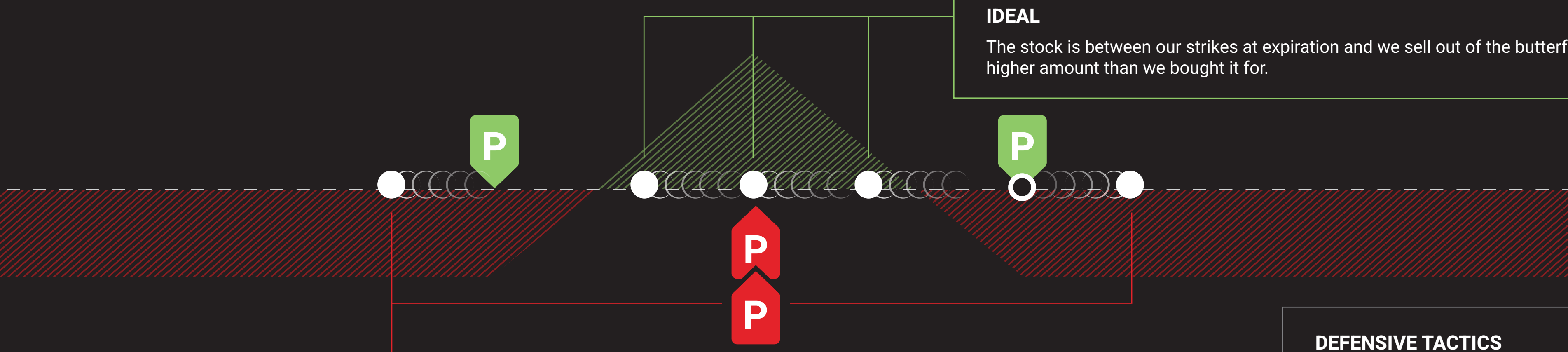
VEGA
Long

THETA
Short

GAMMA
Dynamic

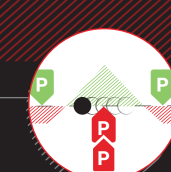
TASTY*LIVE* APPROACH

HOW THE TRADE WORKS



IDEAL
The stock is between our strikes at expiration and we sell out of the butterfly for a higher amount than we bought it for.

NOT IDEAL
The spread is completely ITM or OTM and we realize max loss of the debit paid up front.

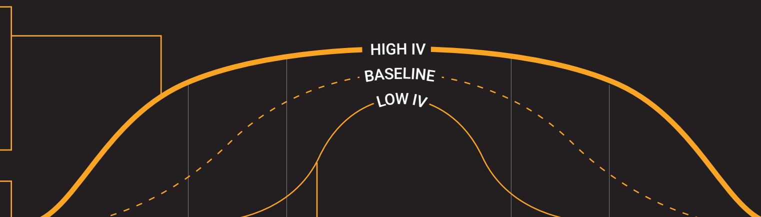


DEFENSIVE TACTICS
If the long spread is ITM and near max value, we sell out of it to retain that value and either hold the credit spread, or manipulate the trade into something else like an iron condor.

VOLATILITY

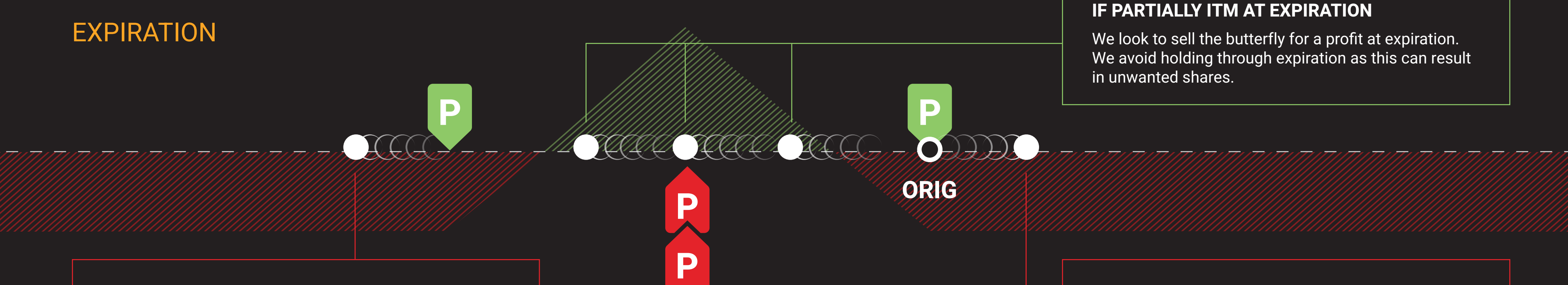
IF VOLATILITY EXPANDS
This trade will likely be unaffected - narrow defined risk trades do not have too much vega exposure.

IF VOLATILITY CONTRACTS
This trade will likely be unaffected - narrow defined risk trades do not have too much vega exposure.



EXPIRATION

IF PARTIALLY ITM AT EXPIRATION
We look to sell the butterfly for a profit at expiration. We avoid holding through expiration as this can result in unwanted shares.



IF ITM AT EXPIRATION
We close the trade for max loss to avoid assignment.

IF OTM AT EXPIRATION
We close the trade for max loss to avoid assignment.

TAKEAWAYS

1. These trades are low probability because the range of success is so small relative to the normal stock price movement for the cycle. We like to roll into equidistant butterflies from broken wing butterflies for this reason, as opposed to starting with them.

2. The less time we have to expiration, the more we can expect to get out of a butterfly if the stock price moves through it. Too much extrinsic value will prevent the trade from moving much at all.

REVERSE BIG LIZARD

A bearish position that is constructed by selling an ATM short call combined with an ATM short put spread. The total credit received should be greater than the width of the put spread to remove downside risk entirely.

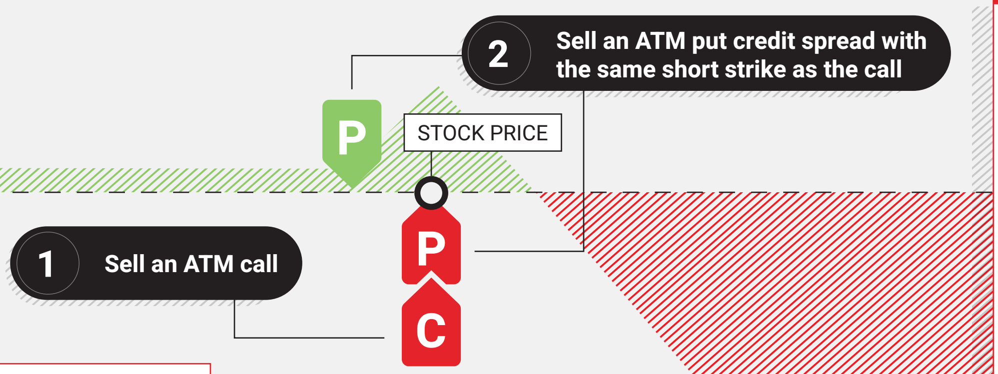
DIRECTIONAL ASSUMPTION Bearish

IV ENVIRONMENT High

DAYS TO EXPIRATION 45

PROBABILITY OF PROFIT 60% to 80%

SETUP



MAX PROFIT
Credit Received

MAX LOSS
Unlimited

PROFIT TARGET
25% Max Profit

BREAKEVEN
Short Call Strike - Credit Received

EXAMPLE

With XYZ stock at $100, we may sell the 100 call and sell the 100/95 put spread for a credit over $5.00.

100 P C

95 P

DELTA Short

VEGA Short

THETA Long

GAMMA Short

TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

IDEAL
The stock stays between our breakeven range. There is no risk to the downside if our net credit is greater than the width of the put credit spread, so the trade is profitable if the stock is below our short call breakeven at expiration.

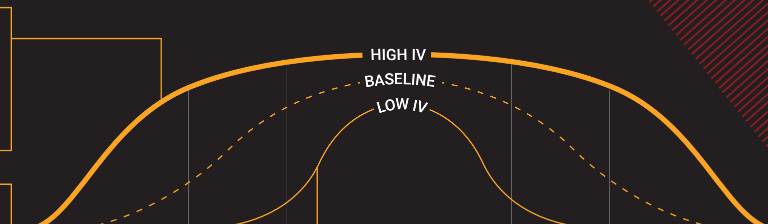
NOT IDEAL
The stock goes up. We have a naked short call, so if the stock increases in price above our short call strike, we take on intrinsic value losses equivalent to 100 shares of stock, less the credit received from selling the big lizard up front.

DEFENSIVE TACTICS
The position can be rolled out in time if the stock rallies above the short call. We can also consider closing the short put spread and rolling just the short call to get a more directionally short position.

VOLATILITY

IF VOLATILITY EXPANDS
We may hold - this may result in an extrinsic value loss, but extrinsic value will always go to zero by expiration.

IF VOLATILITY CONTRACTS
We may have a winning trade - if we are happy with our profit target we can close the trade.



EXPIRATION

IF ITM AT EXPIRATION
If the naked call is ITM at expiration, it has to be closed or rolled out in time, otherwise it will turn into short stock. If the put spread is fully ITM at expiration, it will get exercised/assigned and result in no position. We close or roll prior to expiration to avoid unwanted shares.

ORIG

IF ITM/ATM AT EXPIRATION
Since the short options are placed at the same strike, one side of the position will always be ITM. To avoid taking potential assignment of shares, we close out the position which would be profitable if the short put spread is ITM or if the stock is within our breakeven to the call side.

TAKEAWAYS

1 This trade will always be ITM at any time, so we temper our profit target to 25%, since even at expiration, one of these strikes will hold intrinsic value.

2 Ensure the credit received is wider than the width of the put spread, so that there is no risk to the downside. The reverse big lizard put spread will be much wider than the reverse jade lizard put spread since the short strikes are ATM.

PUT FRONT-RATIO SPREAD

Omnidirectional, undefined risk trade consisting of a long put spread with an extra short put to finance the trade and receive a net credit overall. No risk to the upside, but max profit at the short strike. Also known as a put ratio spread.

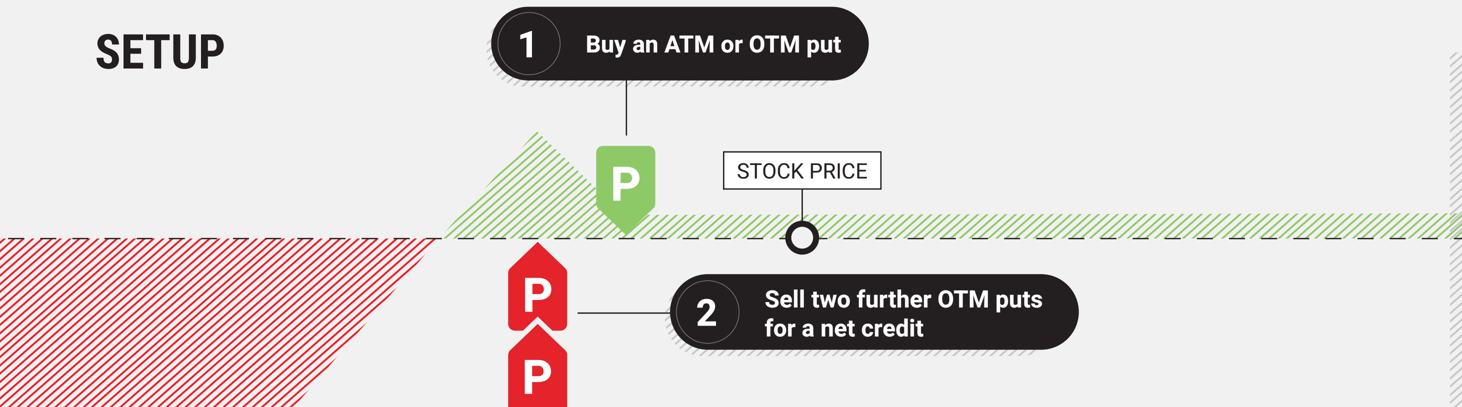
DIRECTIONAL ASSUMPTION
Omnidirectional

IV ENVIRONMENT
High

DAYS TO EXPIRATION
15 to 45

PROBABILITY OF PROFIT
60% to 80%

SETUP



MAX PROFIT
Width of Long Spread + Credit Received

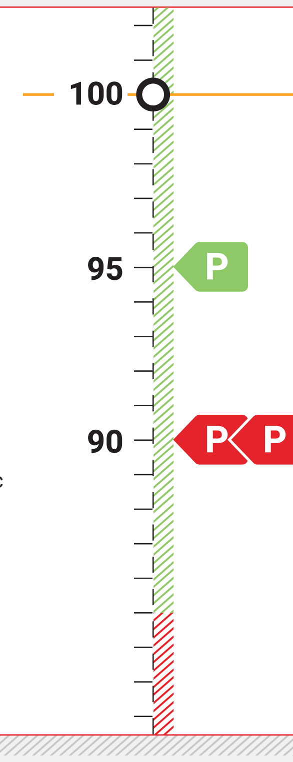
MAX LOSS
Breakeven Price x 100

PROFIT TARGET
50% of Credit Received or 25% of Long Spread Width

BREAKEVEN
Short Put Strike - (Long Spread Width + Credit Received)

EXAMPLE

With XYZ stock at $100, we may buy the 95 put and sell two of the 90 puts for a small credit.



DELTA
Long / Dynamic

VEGA
Short

THETA
Long

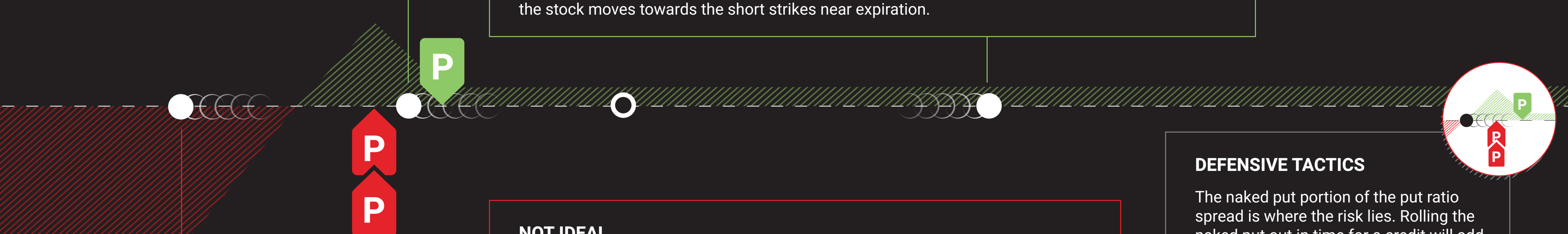
GAMMA
Dynamic

TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

IDEAL

The stock moves towards the short strikes at expiration. Put ratio spreads are omnidirectional trades, so they can be profitable from an increase in the stock price or a move down towards the short strikes. Max profit occurs when the long put spread is fully ITM at the short strike, so ideally the stock moves towards the short strikes near expiration.



NOT IDEAL

The stock moves well below the short strikes and below our breakevens. This results in the stock passing through our profit zone and into our loss zone, because we have a short put which has undefined risk.

DEFENSIVE TACTICS

The naked put portion of the put ratio spread is where the risk lies. Rolling the naked put out in time for a credit will add extrinsic value and more time without adding additional risk. The long put spread would be near max value if we're seeing losses overall. The long put spread can be closed for an additional credit against the remaining short put.

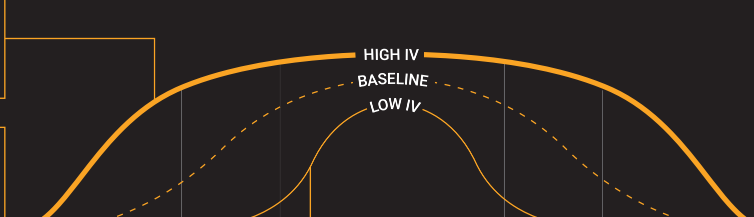
VOLATILITY

IF VOLATILITY EXPANDS

We may hold - this may result in an extrinsic value loss if paired with a bearish move in the stock price. However, extrinsic value will always go to zero by expiration.

IF VOLATILITY CONTRACTS

Our spread could lose value if volatility contraction is paired with a bullish stock price move. We can close for a profit, or we can look to purchase an OTM put to create a symmetrical butterfly. If we can buy the put for less than the credit received up front, we lock in a small profit and remove buying power and initial risk from the trade.



EXPIRATION

IF PARTIALLY ITM AT EXPIRATION

We can likely sell out of the long put spread for some sort of profit. We consider closing the entire trade if this is the case.

IF ITM AT EXPIRATION

We close the long put spread to secure value, and either roll the remaining short put out in time or consider closing the trade overall.

IF OTM AT EXPIRATION

All strikes will expire worthless and we keep the credit received on entry as profit.

TAKEAWAYS

1. For us to see profits on the long spread if it goes ITM, we need extrinsic value to be close to zero so we can realize the pure intrinsic value of the spread. If we see a move ITM too soon prior to expiration, we can see extrinsic value losses, even if we're in our max profit zone. For this reason, we may hold ratio spreads closer to expiration, since we pass through our profit zone before we hit our loss zone.

2. For earnings trade ratio spreads, we typically go into the weekly cycle which is atypical - this is because we want the stock to move towards our spread, and we need extrinsic value to be close to zero to see profits on the long spread if we get the desired stock price move in our favor.

CALL FRONT-RATIO SPREAD

Omnidirectional, undefined risk trade consisting of a long call spread with an extra short call to finance the trade and receive a net credit overall. No risk to the downside, but max profit at the short strike to the upside. Also known as a call ratio spread.

DIRECTIONAL ASSUMPTION
Omnidirectional

IV ENVIRONMENT
High

DAYS TO EXPIRATION
15 to 45

PROBABILITY OF PROFIT
60% to 80%

SETUP

1 Buy an ATM or OTM call

STOCK PRICE

2 Sell two further OTM calls for a net credit

MAX PROFIT
Width of Long Spread + Credit Received

MAX LOSS
Unlimited

PROFIT TARGET
50% of Credit Received or 25% of Long Spread Width

BREAKEVEN
Short Call Strike + (Long Spread Width + Credit Received)

EXAMPLE

With XYZ stock at $100, we may buy the 105 call and sell two of the 110 calls for a small credit.

110
105
100

DELTA
Short / Dynamic

VEGA
Short

THETA
Long

GAMMA
Dynamic

TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

IDEAL

The stock moves towards the short strikes at expiration. Call ratio spreads are omnidirectional trades, so they can be profitable from a decrease in the stock price or a move up towards the short strikes. Max profit occurs when the long call spread is fully ITM at the short strike, so ideally the stock moves towards the short strike near expiration.

NOT IDEAL

The stock moves well above the short strikes and above our breakevens. This results in the stock passing through our profit zone and into our loss zone, because our short call has undefined risk.

DEFENSIVE TACTICS

The naked call portion of the call ratio spread is where the risk lies. Rolling the naked call out in time for a credit will add extrinsic value and more time without adding additional risk. The long call spread would be near max value if we're seeing losses overall, and can be closed for an additional credit against the remaining short call.

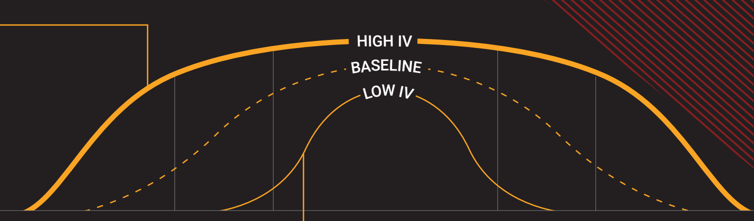
VOLATILITY

IF VOLATILITY EXPANDS

Our spread could be losing value if volatility expansion is paired with a bearish stock price move. We can close for a profit, or we can look to purchase an OTM call to create a symmetrical butterfly. If we can buy the call for less than the credit received up front, we lock in a small profit and remove buying power and initial risk from the trade.

IF VOLATILITY CONTRACTS

We may hold - this may result in an extrinsic value loss if volatility contraction is paired with a bullish move in the stock price, but extrinsic value will always go to zero by expiration.



EXPIRATION

IF PARTIALLY ITM AT EXPIRATION

We can likely sell out of the long call spread for some sort of profit. We consider closing the entire trade if this is the case.

ORIG

IF OTM AT EXPIRATION

All strikes will expire worthless and we keep the credit received on entry as profit.

IF ITM AT EXPIRATION

We close the long call spread to secure value, and either roll the remaining short call out in time or consider closing the trade overall.

TAKEAWAYS

1 For us to see profits on the long spread if it goes ITM, we need extrinsic value to be close to zero so we can realize the pure intrinsic value of the spread. If we see a move ITM too soon prior to expiration, we can see extrinsic value losses, even if we're in our max profit zone. For this reason, we may hold ratio spreads closer to expiration, since we pass through our profit zone before we hit our loss zone.

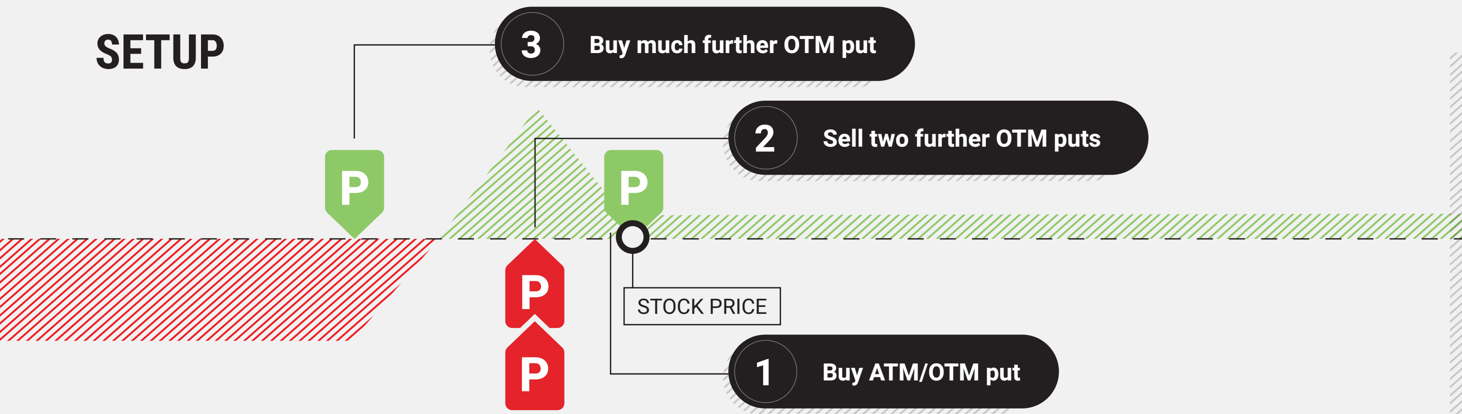
2 For earnings trade ratio spreads, we typically go into the weekly cycle which is atypical - this is because we want the stock to move towards our spread, and we need extrinsic value to be close to zero to see profits on the long spread if we get the desired stock price move in our favor.

PUT BROKEN WING BUTTERFLY

Omnidirectional, defined risk trade consisting of a long put spread with a wider OTM short put spread to finance the trade and receive a net credit overall. No risk to the upside, but max profit at the short strikes.

DIRECTIONAL ASSUMPTION Omnidirectional
IV ENVIRONMENT High
DAYS TO EXPIRATION 15 to 45
PROBABILITY OF PROFIT 60% to 80%

SETUP



MAX PROFIT
Width of Long Spread + Credit Received

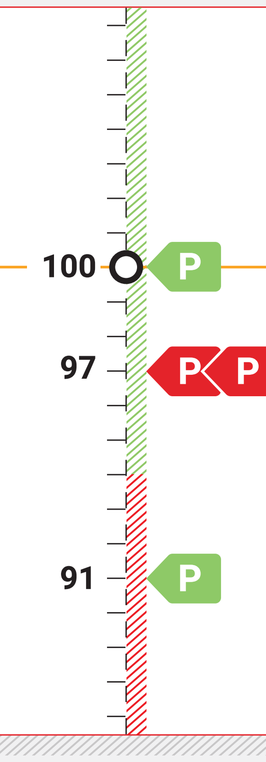
MAX LOSS
Short Spread - Long Spread - Credit Received

PROFIT TARGET
50% of Credit Received or 25% of Long Spread Width

BREAKEVEN
Short Put Strike - (Long Spread Width + Credit Received)

EXAMPLE

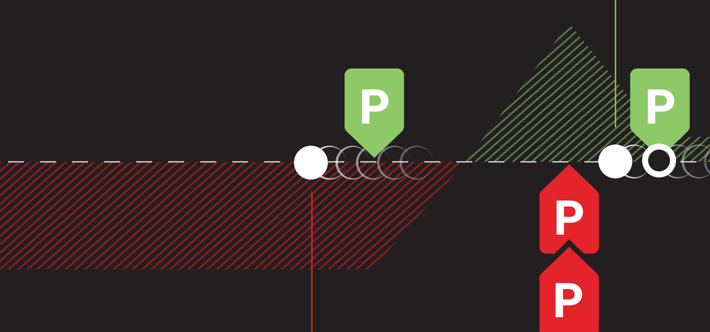
With XYZ stock at $100, we may buy the 100 put, sell two of the 97 puts and buy one 91 put for a small credit.



DELTA Long / Dynamic
VEGA Short
THETA Long
GAMMA Dynamic

TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

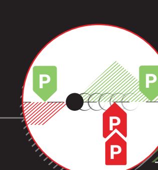


IDEAL

Put broken wing butterflies are similar to put ratio spreads, but are defined risk. Max profit occurs at the short strikes, where the long put spread would realize max value and the short put spread would be worthless at expiration. The spread has no risk to the upside if entered for a credit, so the position can also be profitable with an upside move in the stock.

NOT IDEAL

If the spread moves fully ITM at expiration, you will realize max loss on the trade. Additionally, if the stock price moves too quickly towards the spread, you can see an extrinsic value loss on the trade since the bulk of the potential profit on a trade like this requires extrinsic value to be low. For that reason, we look to remove risk if the spread moves further OTM by rolling into a symmetrical butterfly for a debit that's less than the credit received upon entry.



DEFENSIVE TACTICS

If the long spread is ITM and near max value, we sell out of it to retain that value and either hold the credit spread, or adjust the trade into something else like an iron condor.

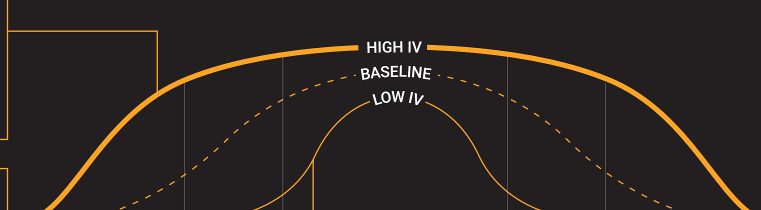
VOLATILITY

IF VOLATILITY EXPANDS

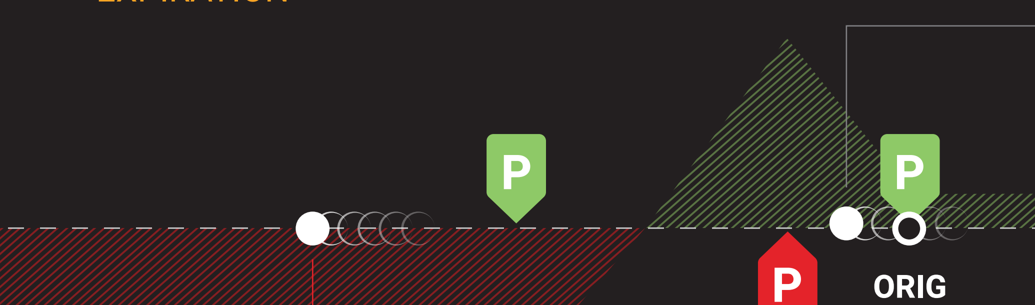
This trade doesn't have a ton of exposure to vega since it's defined risk, but this could result in an extrinsic value marked loss.

IF VOLATILITY CONTRACTS

This trade doesn't have a ton of exposure to vega since it's defined risk, but this may make it easier to "fly off" the risk by rolling into a symmetrical butterfly for a debit that's less than the credit received upon entry.



EXPIRATION



IF PARTIALLY ITM AT EXPIRATION

We can sell out of the spread for a profit if we're in our profit zone, since our long spread will increase in value and the short spread will decrease in value if it is OTM.

IF ITM AT EXPIRATION

The trade would be at max loss if it is completely ITM. We close the trade to avoid assignment and move on.

IF OTM AT EXPIRATION

The strikes would expire worthless and we can keep our credit collected up front as profit.

TAKEAWAYS

1. Put Broken Wing Butterflies are frequently used in products that have put skew, because we can make them wider or collect a larger credit up front.

2. Broken Wing Butterflies don't appreciate in value too much until closer to expiration when extrinsic value gets closer to zero, so our initial goal with BWBs is to remove risk by rolling into a symmetrical butterfly if the spread moves further OTM. If we can do this for a debit less than the initial credit received, we lock in a small profit and remove initial risk from the trade.

CALL BROKEN WING BUTTERFLY

Omnidirectional, defined risk trade consisting of a long call spread with a wider OTM short call spread to finance the trade and receive a net credit overall. No risk to the downside, but max profit at the short strikes.

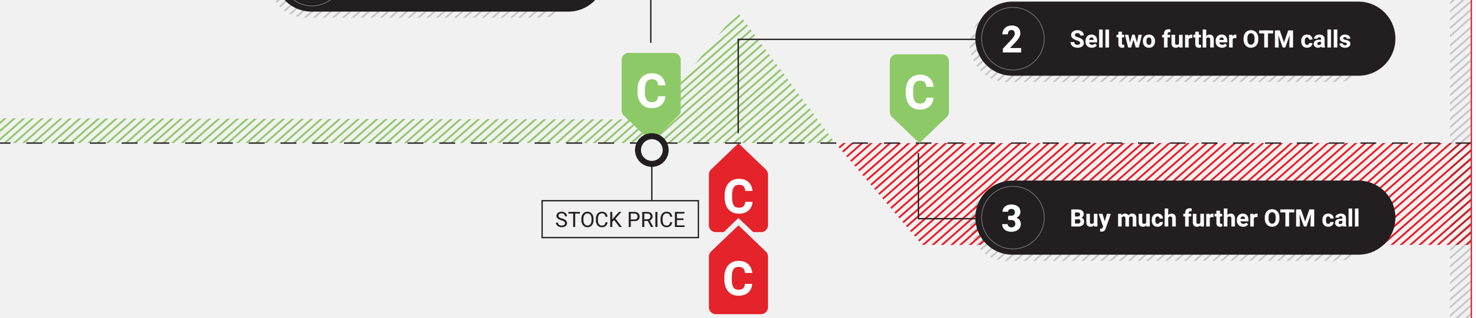
DIRECTIONAL ASSUMPTION Omnidirectional
IV ENVIRONMENT High
DAYS TO EXPIRATION 15 to 45
PROBABILITY OF PROFIT 60% to 80%

SETUP

1 Buy ATM/OTM call

2 Sell two further OTM calls

3 Buy much further OTM call



MAX PROFIT
Width of Long Spread + Credit Received

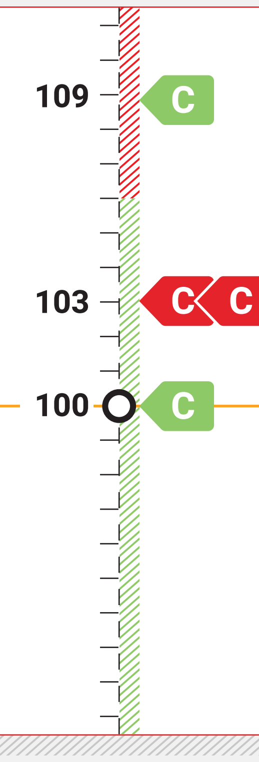
MAX LOSS
Short Spread - Long Spread - Credit Received

PROFIT TARGET
50% of Credit Received or 25% of Long Spread Width

BREAKEVEN
Short Call Strike + (Long Spread Width + Credit Received)

EXAMPLE

With XYZ stock at $100, we may buy the 100 call, sell two of the 103 calls, and buy one 109 call for a small credit.



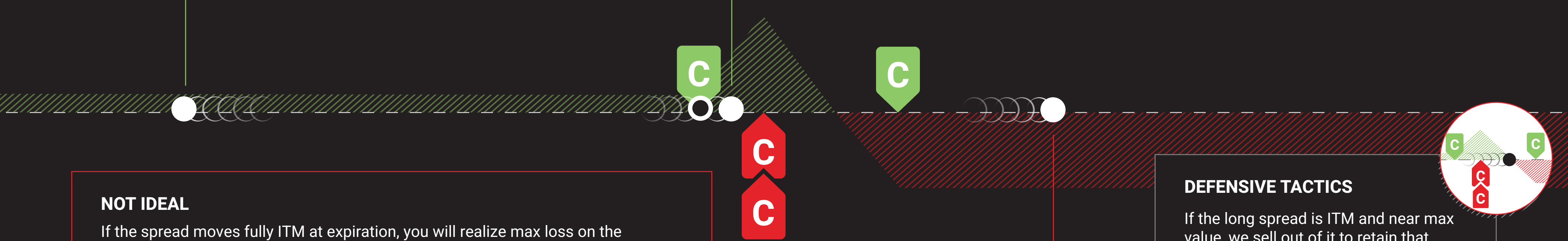
DELTA Short / Dynamic
VEGA Short
THETA Long
GAMMA Dynamic

TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

IDEAL

Call broken wing butterflies are similar to call ratio spreads, but are defined risk. Max profit would occur at the short strikes, where the long call spread would realize max value and the short call spread would be worthless at expiration. The spread has no risk to the downside if routed for a credit so the position can also be profitable with a downside move in the stock.



NOT IDEAL

If the spread moves fully ITM at expiration, you will realize max loss on the trade. Additionally, if the stock price moves too quickly towards the spread, you can see an extrinsic value loss on the trade since the bulk of the potential profit on a trade like this requires extrinsic value to be low. For that reason, we look to remove risk if the spread moves further OTM by rolling into a symmetrical butterfly for a debit less than the credit received up front.

DEFENSIVE TACTICS

If the long spread is ITM and near max value, we sell out of it to retain that value and either hold the credit spread, or manipulate the trade into something else like an iron condor.

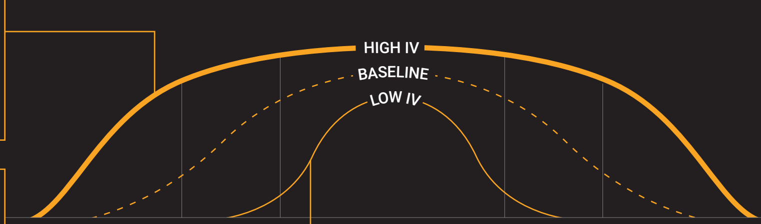
VOLATILITY

IF VOLATILITY EXPANDS

This trade doesn't have a ton of exposure to vega since it's defined risk, but this could result in an extrinsic value marked loss.

IF VOLATILITY CONTRACTS

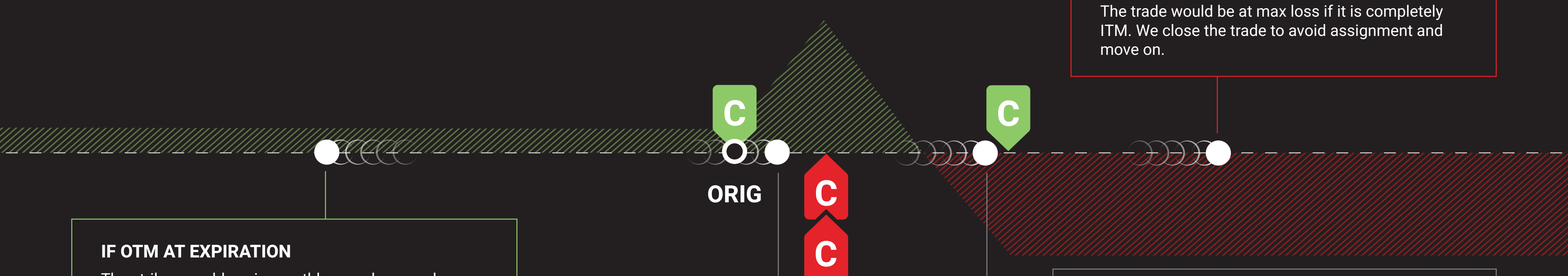
This trade doesn't have a ton of exposure to vega since it's defined risk, but this may make it easier to "fly off" the risk by rolling into symmetrical butterfly for a debit less than the credit received up front.



EXPIRATION

IF ITM AT EXPIRATION

The trade would be at max loss if it is completely ITM. We close the trade to avoid assignment and move on.



IF OTM AT EXPIRATION

The strikes would expire worthless and we can keep our credit collected up front as profit.

IF PARTIALLY ITM AT EXPIRATION

We can sell out of the spread for a profit if we're in our profit zone, since our long spread will increase in value and the short spread will decrease in value if it is OTM.

TAKEAWAYS

1 Call Broken Wing Butterflies are frequently used in products that have call skew, because we can make them wider or collect a larger credit up front.

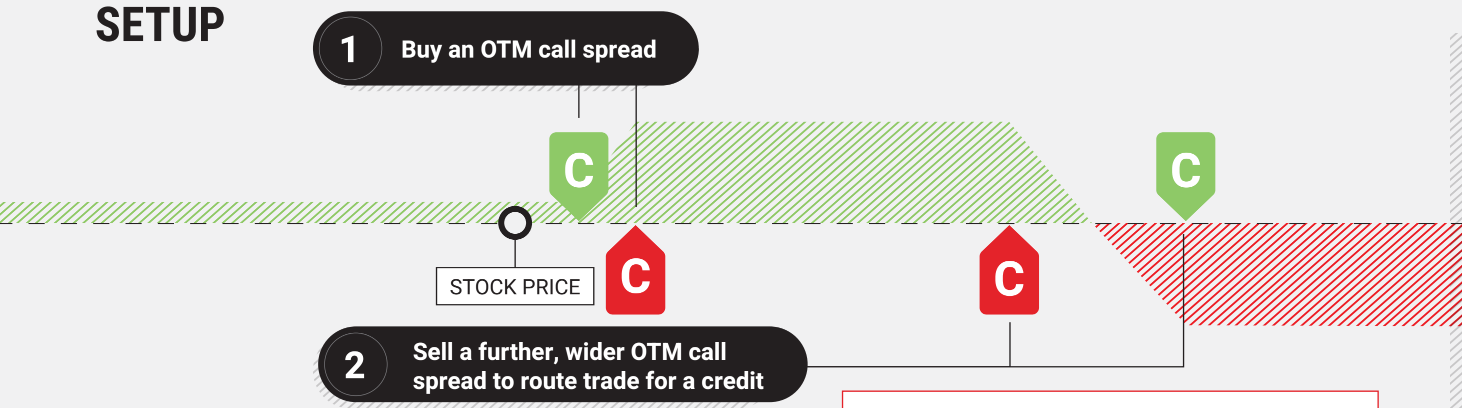
2 Broken Wing Butterflies don't appreciate in value too much until closer to expiration when extrinsic value gets closer to zero, so our initial goal with BWBs is to remove risk by rolling into a symmetrical butterfly if the spread moves further OTM. If we can do this for a debit less than the initial credit received, we lock in a small profit and remove initial risk from the trade.

CALL BROKEN HEART BUTTERFLY

A disconnected Call Broken Wing Butterfly where we separate the long and short call spreads for a wide max profit space to the upside, but still route for a credit to keep probability of success high.

DIRECTIONAL ASSUMPTION Omnidirectional
IV ENVIRONMENT High
DAYS TO EXPIRATION 45
PROBABILITY OF PROFIT 60% to 80%

SETUP



MAX PROFIT
Width of Long Spread + Credit Received

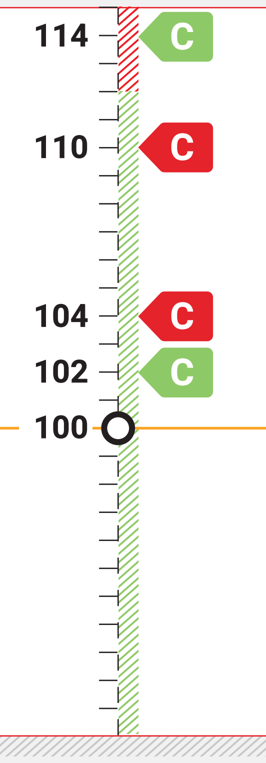
MAX LOSS
Short Spread - Long Spread - Credit Received

PROFIT TARGET
25%-50% of Long Spread Width

BREAKEVEN
Add Long Spread Width & Credit Recieved to Short Call Strike

EXAMPLE

With XYZ stock at $100, we may buy the 102/104 call spread and sell the 110/114 call spread for a small credit.

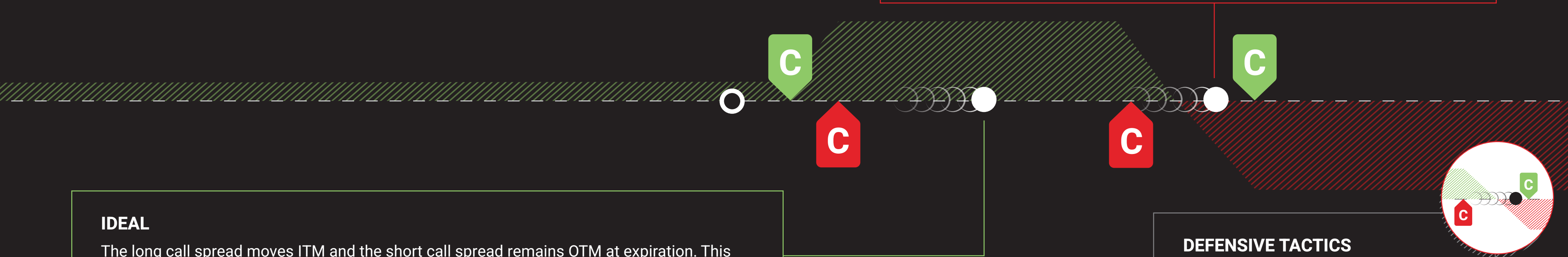


DELTA Flat / Dynamic
VEGA Short
THETA Long
GAMMA Dynamic

TASTYLIVE APPROACH

HOW THE TRADE WORKS

NOT IDEAL
The short call spread moves ITM at expiration, as that results in max loss.



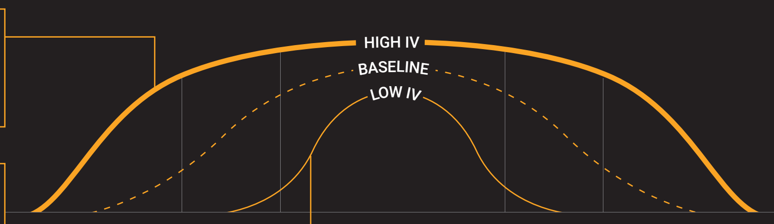
IDEAL
The long call spread moves ITM and the short call spread remains OTM at expiration. This results in max profit, as the long call spread appreciates to full value and the short call spread expires worthless.

DEFENSIVE TACTICS
We can sell out of our long call spread to retain value and roll the short call spread out in time. We can use that short call spread and turn the position into an iron condor, or reverse jade lizard, by adding a short put spread in that new expiration.

VOLATILITY

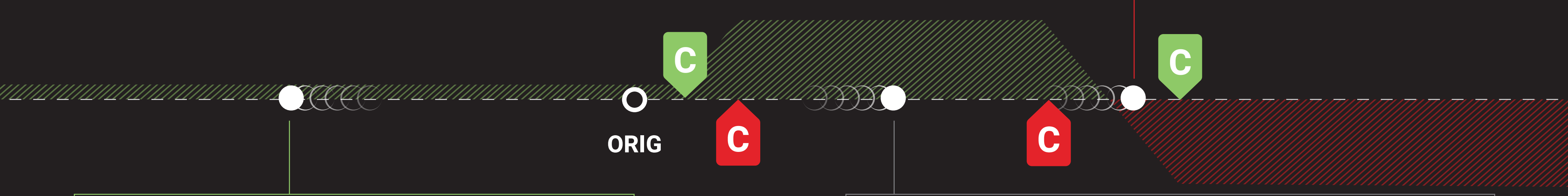
IF VOLATILITY EXPANDS
The trade will likely be unaffected - narrow spread trades have low exposure to greeks.

IF VOLATILITY CONTRACTS
The trade will likely be unaffected - narrow spread trades have low exposure to greeks.



IF ITM AT EXPIRATION
If completely ITM at expiration, the trade will realize max loss. If just the long spread is ITM and the short spread is OTM, the trade will be at max profit.

EXPIRATION



IF OTM AT EXPIRATION
The trade will expire worthless and we keep the credit collected up front as profit.

IF PARTIALLY ITM AT EXPIRATION
We close the trade or roll it out in time to avoid assignment - we don't want to have unwanted shares if one option expires ITM and the other OTM in a spread.

TAKEAWAYS

1. We give up almost all credit up front on this trade so that we can create a large distance between the long and short spread. This means we may have to hold closer to expiration to see decent profitability, and we need a directional move so the long spread moves ATM/ITM.

2. If there is call skew, where OTM calls are trading for a higher premium than equidistant OTM puts, the distance between the long and short spread can be maximized and we can still route the trade for a credit. For this reason, we like to place these trades on the skewed side if it aligns with our directional assumption.

PUT BROKEN HEART BUTTERFLY

A disconnected Put Broken Wing Butterfly where we separate the long and short put spreads for a wide max profit space to the downside, but still route for a credit to keep probability of success high.

DIRECTIONAL ASSUMPTION
Omnidirectional

IV ENVIRONMENT
High

DAYS TO EXPIRATION
45

PROBABILITY OF PROFIT
60% to 80%

SETUP

1 Buy an OTM put spread

2 Sell a further, wider OTM put spread to route trade for a credit

MAX PROFIT
Width of Long Spread + Credit Received

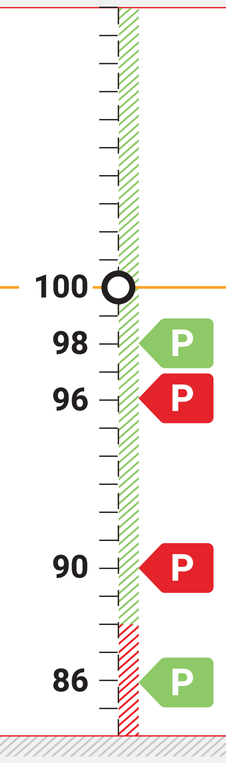
MAX LOSS
Short Spread - Long Spread - Credit Received

PROFIT TARGET
25%-50% of Long Spread Width

BREAKEVEN
Subtract Long Spread Width & Credit Received from Short Put Strike

EXAMPLE

With XYZ stock at $100, we may buy the 98/96 put spread and sell the 90/86 put spread for a small credit.



DELTA
Flat / Dynamic

VEGA
Short

THETA
Long

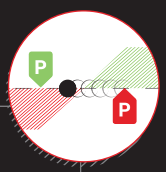
GAMMA
Dynamic

TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

IDEAL
The long put spread moves ITM and the short put spread remains OTM at expiration. This results in max profit, as the long put spread appreciates to full value and the short put spread expires worthless.

NOT IDEAL
The short put spread moves ITM at expiration, as that results in max loss.

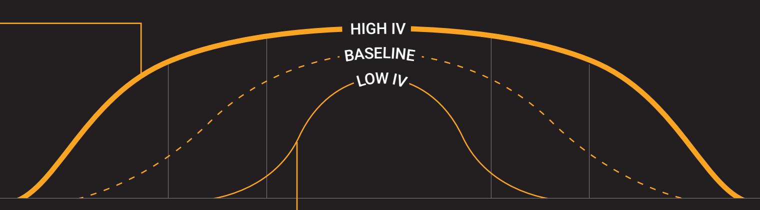


DEFENSIVE TACTICS
We can sell out of our long put spread to retain value and roll the short put spread out in time. We can use that short put spread and turn the position into an iron condor, or jade lizard, by adding a short call spread in that new expiration.

VOLATILITY

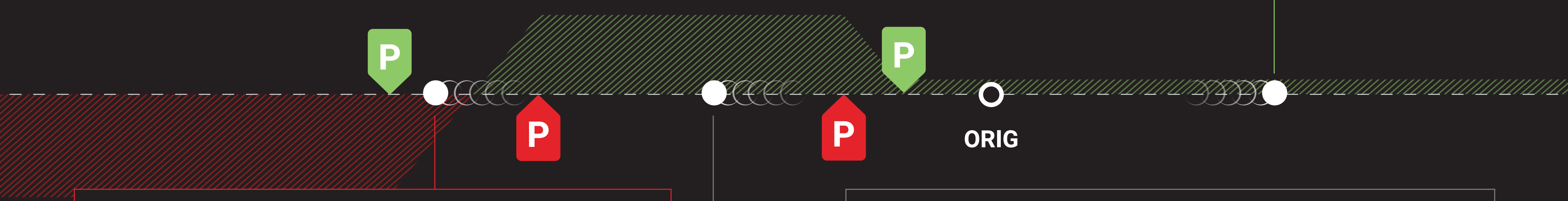
IF VOLATILITY EXPANDS
The trade will likely be unaffected - narrow spread trades have low exposure to greeks.

IF VOLATILITY CONTRACTS
The trade will likely be unaffected - narrow spread trades have low exposure to greeks.



EXPIRATION

IF OTM AT EXPIRATION
The trade will expire worthless and we keep the credit collected up front as profit.



IF ITM AT EXPIRATION
If completely ITM at expiration, the trade will realize max loss. If just the long spread is ITM and the short spread is OTM, the trade will be at max profit.

IF PARTIALLY ITM AT EXPIRATION
We close the trade or roll it out in time to avoid assignment - we don't want to have unwanted shares if one option expires ITM and the other OTM in a spread.

TAKEAWAYS

1 We give up almost all credit up front on this trade so that we can create a large distance between the long and short spread. This means we may have to hold closer to expiration to see decent profitability, and we need a directional move so the long spread moves ATM/ITM.

2 If there is put skew, where OTM puts are trading for a higher premium than equidistant OTM calls, the distance between the long and short spread can be maximized and we can still route the trade for a credit. For this reason, we like to place these trades on the skewed side if it aligns with our directional assumption.

SHORT STRANGLE

Neutral, undefined risk strategy consisting of an OTM short put and an OTM short call. We want the stock to stay between our strikes through expiration so the options expire worthless and we keep the credit received up front as profit.

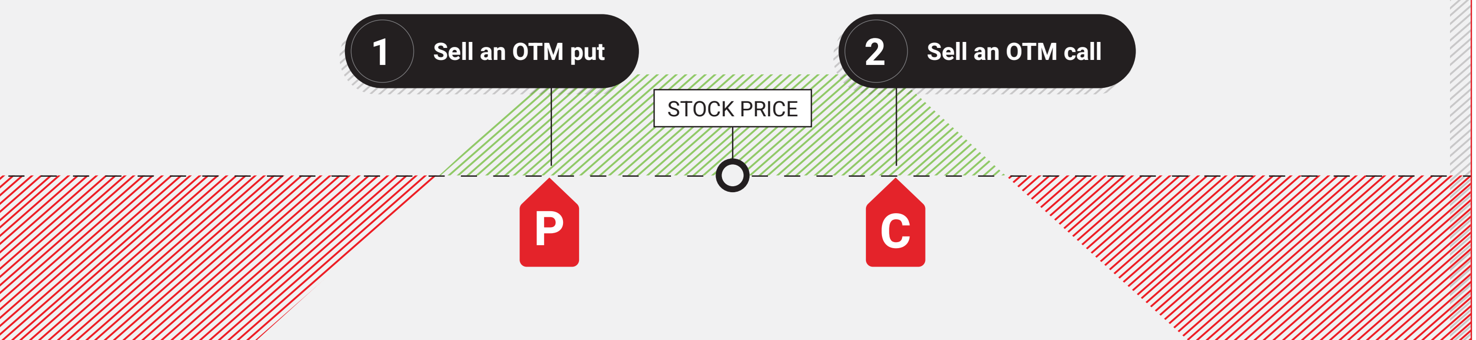
DIRECTIONAL ASSUMPTION
Neutral

IV ENVIRONMENT
High

DAYS TO EXPIRATION
45

PROBABILITY OF PROFIT
60% to 80%

SETUP



MAX PROFIT
Credit Received

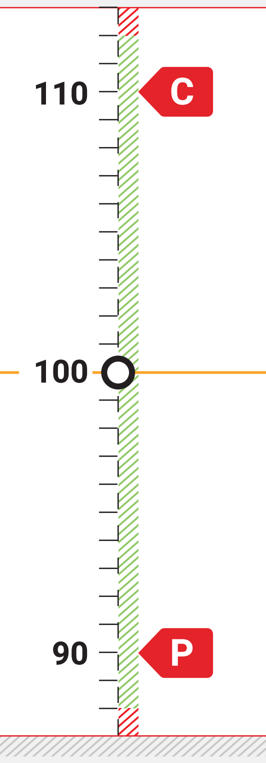
MAX LOSS
Unlimited

PROFIT TARGET
50% of Max Profit

BREAKEVEN
Put Strike - Credit Received
Call Strike + Credit Received

EXAMPLE

With XYZ stock at $100, we might sell the 90 put and 110 call. We do not aim for a specific target credit, but trust the premium will be sufficient if the market is liquid.



DELTA
Flat

VEGA
Short

THETA
Long

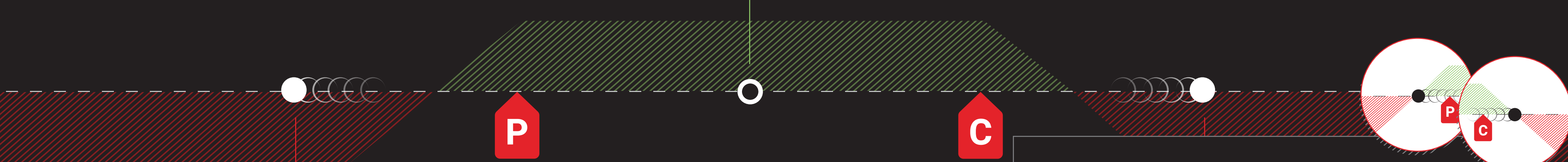
GAMMA
Short

TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

IDEAL

The stock stays between our strikes as time passes. This results in extrinsic value decay on both sides and the trade can be bought back for a profit over time.



NOT IDEAL

The stock moves outside of one of our strikes. The trade now moves from neutral to directional. We can start to see losses as the "tested" side increases in value because the stock price has moved closer to that side.

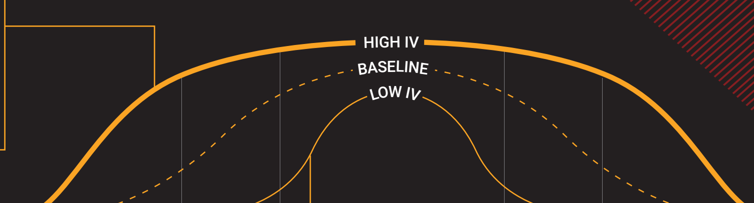
DEFENSIVE TACTICS

Strangles are undefined risk trades and they can be adjusted very easily. If the stock moves towards or past one of our strikes, we can roll the other "untested" side closer to the "tested" side to pick up additional credit and reduce the delta of the position. We can also roll both strikes out in time to add more credit, or a combination of both of these tactics. If the trade is small enough upon entry, it enables us to adjust perpetually, such that we can pick up a large credit that offsets our breakevens well beyond our strikes.

VOLATILITY

IF VOLATILITY EXPANDS

Extrinsic value may have increased - we could see a marked extrinsic value loss, but our strikes could still be OTM. We hold in this case as these options will expire worthless if the stock stays between our strikes.



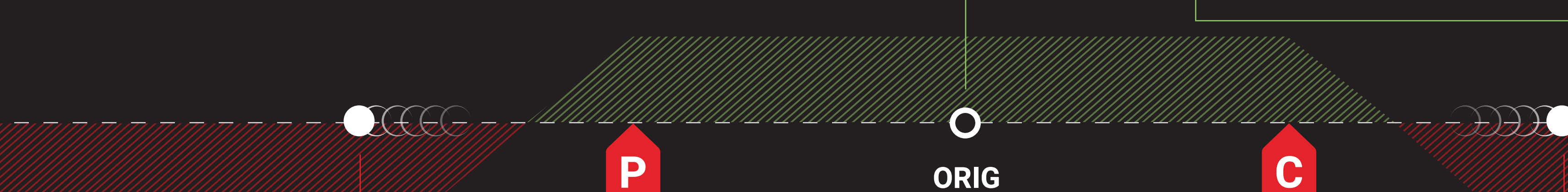
IF VOLATILITY CONTRACTS

Extrinsic value will likely contract - in this case, we close the trade if it's net profitable at a percentage we're happy with.

EXPIRATION

IF OTM AT EXPIRATION

Both strikes will expire worthless and we will realize max profit.



IF ITM AT EXPIRATION

We can roll the strikes out in time to add credit and duration to the trade, or close the trade if our assumption has changed.

TAKEAWAYS

1. As the market moves, we may see profitability on one side of a strangle and losses on the other. Realize that this is a neutral strategy because the short put hedges the short call and vice versa.

2. Strangles take risk on both sides of the market, so being tested is pretty normal. We need to trade small so that we can roll losers out in time and adjust the strikes if we want to, as time & extrinsic value credit are our biggest assets in this type of trade.

SHORT STRADDLE

Neutral, undefined risk strategy consisting of an ATM short put and an ATM short call. We want the stock to stay between our breakeven points through expiration.

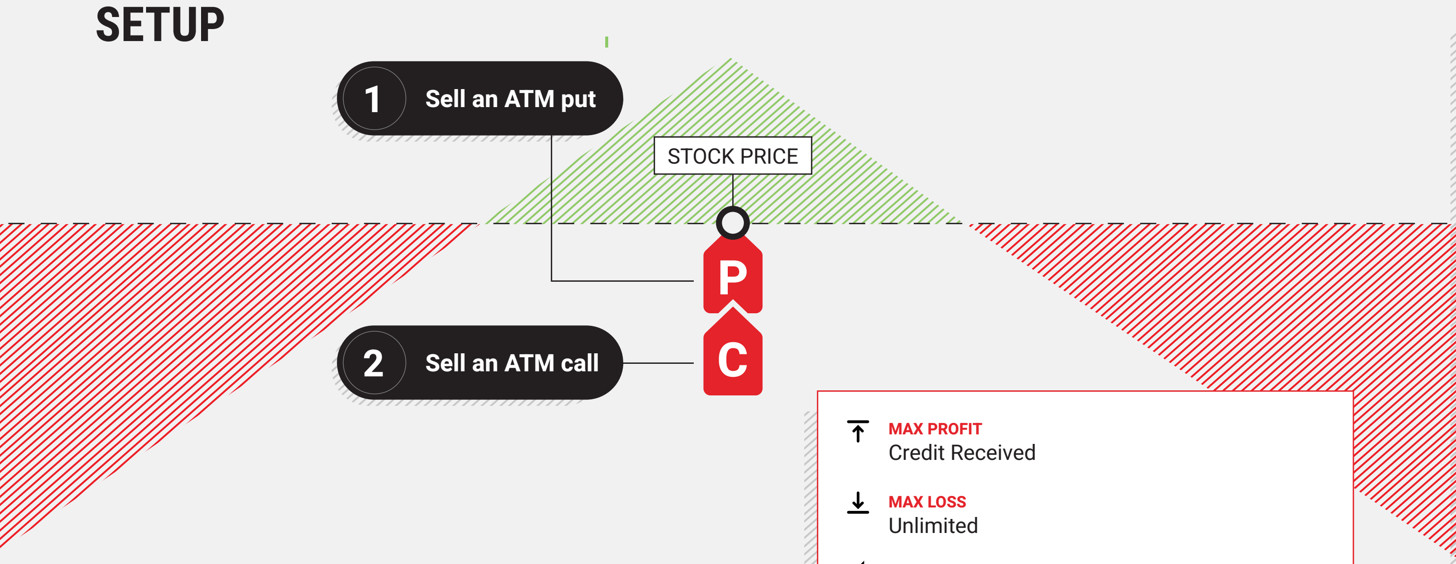
DIRECTIONAL ASSUMPTION
Neutral

IV ENVIRONMENT
High

DAYS TO EXPIRATION
45

PROBABILITY OF PROFIT
50% to 60%

SETUP



MAX PROFIT
Credit Received

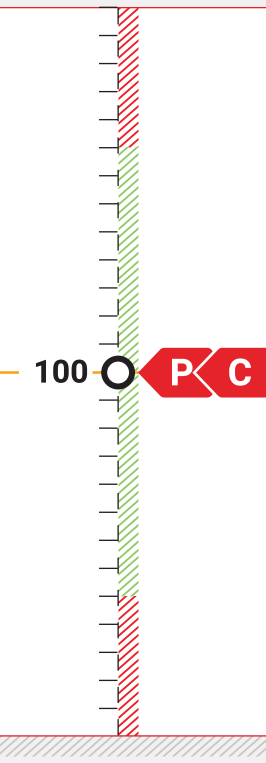
MAX LOSS
Unlimited

PROFIT TARGET
25% of Max Profit

BREAKEVEN
Put Strike - Credit Received
Call Strike + Credit Received

EXAMPLE

With XYZ stock at $100, we may sell the 100 put and call. We do not aim for a specific target credit, but trust the premium will be sufficient if the market is liquid.



DELTA Flat

VEGA Short

THETA Long

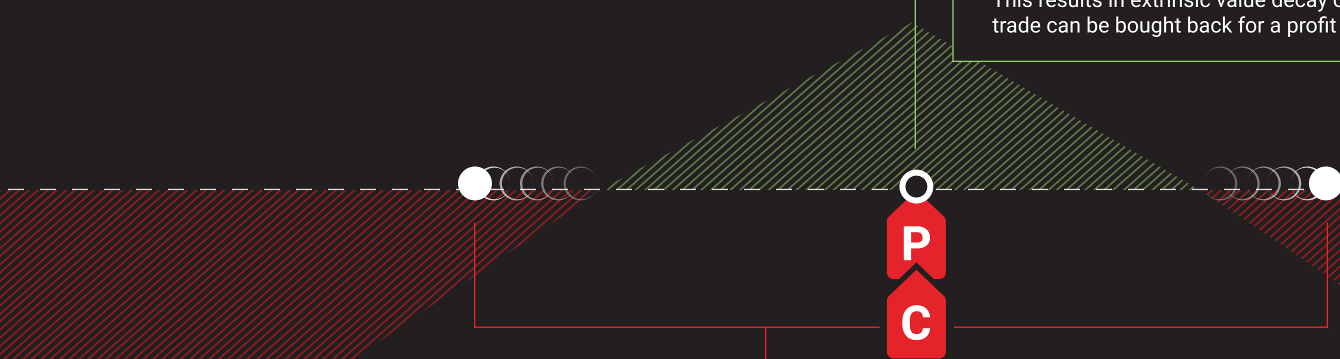
GAMMA Short

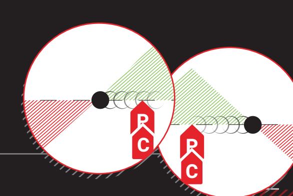
TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

IDEAL

The stock stays between our breakeven points as time passes. This results in extrinsic value decay on both sides, and the trade can be bought back for a profit over time.





DEFENSIVE TACTICS

Straddles are undefined risk trades and they can be adjusted very easily. If the stock moves towards or past our breakeven point, we can roll the other "untested" side beyond the "tested" side (inversion) to pick up additional credit and reduce the delta of the position. We can also roll both strikes out in time to add more credit, or use a combination of both of these tactics. If our trade is small upon entry, it enables us to adjust perpetually. We can pick up a large credit that offsets our breakevens well beyond our strikes.

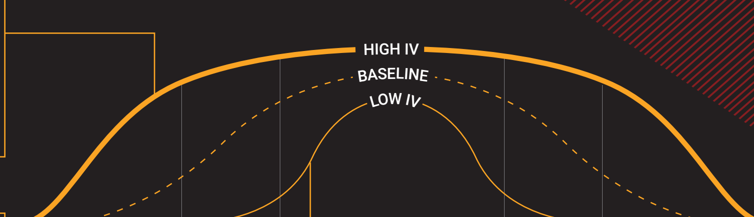
NOT IDEAL

The stock moves outside of one of our breakeven points. The trade moves from neutral to directional if this happens, and we can start to see losses as the "tested" side increases in value as the stock price moves closer to that side.

VOLATILITY

IF VOLATILITY EXPANDS

Extrinsic value may have increased, and we could see a marked extrinsic value loss. However, the stock could still be within our breakeven points, so we should hold because extrinsic value will decay to zero as we approach expiration.



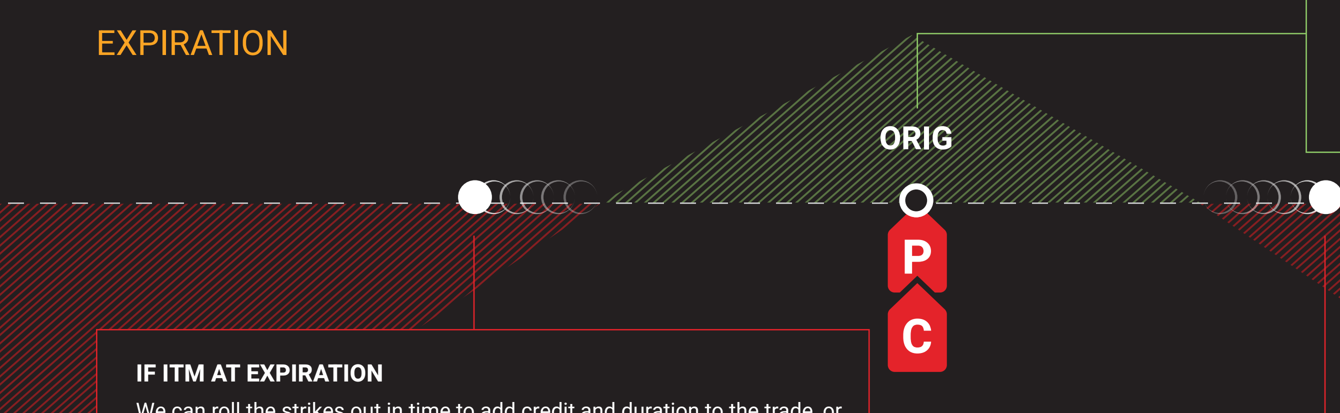
IF VOLATILITY CONTRACTS

We may be able to close the trade for a net profit if the stock has not moved much. Straddles have strong vega exposure, so this could be ideal and we can close for a profit if we see it.

EXPIRATION

IF OTM AT EXPIRATION

This strategy will always have one strike that is ITM, so we have to close the trade, or roll the trade prior to expiration to avoid assignment of shares.



IF ITM AT EXPIRATION

We can roll the strikes out in time to add credit and duration to the trade, or close the trade if our assumption has changed.

TAKEAWAYS

1 Straddles will always have an ITM option, so we temper our profit target expectations, since this is not a trade that will expire worthless in almost all cases. We still focus on time and extrinsic value collection though, as that boosts our breakeven prices well past our strikes over time.

2 Typically, we reserve straddles for high IV & IVR stocks, so that our credit collection is very high, and our breakevens are wide. This is not a strategy we would deploy in a low IV environment.

IRON CONDOR

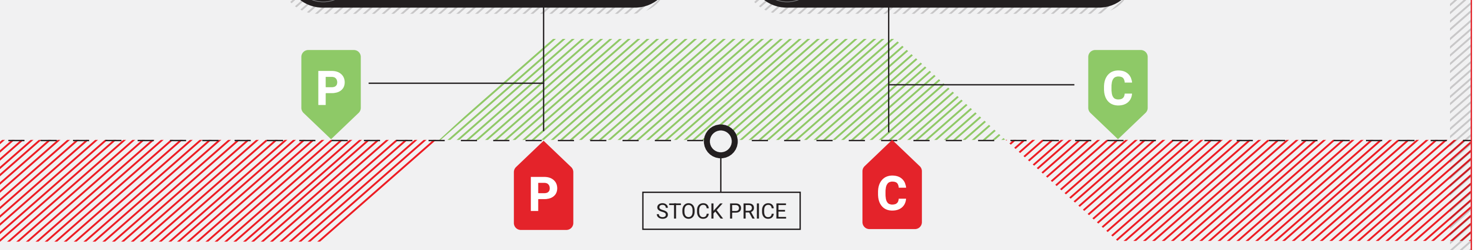
Neutral, defined risk strategy consisting of an OTM put credit spread and OTM call credit spread, where we want the stock to stay between our short strikes through expiration. We aim to collect 1/3rd the width of the strikes.

DIRECTIONAL ASSUMPTION	IV ENVIRONMENT	DAYS TO EXPIRATION	PROBABILITY OF PROFIT
Neutral	High	45	60% to 80%

SETUP

1 Sell an OTM put spread

2 Sell an OTM call spread



MAX PROFIT
Credit Received

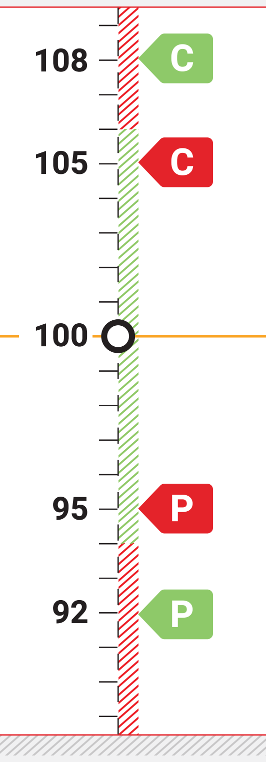
MAX LOSS
Widest Spread - Credit Received

PROFIT TARGET
50% of Max Profit

BREAKEVEN
Short Put Strike - Credit
Short Call Strike + Credit

EXAMPLE

With XYZ stock at $100, we may sell the 95/92 put spread and the 105/108 call spread and look to collect $1.00.



DELTA Flat

VEGA Short

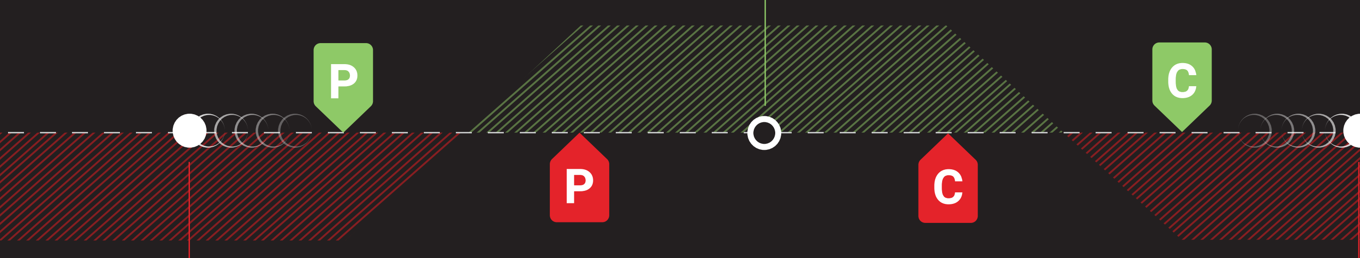
THETA Long

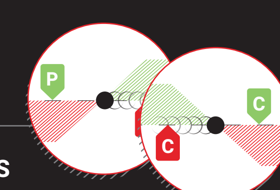
GAMMA Flat

TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

IDEAL
The stock stays between our strikes as time passes. This results in extrinsic value decay on both sides and the trade can be bought back for a profit over time.



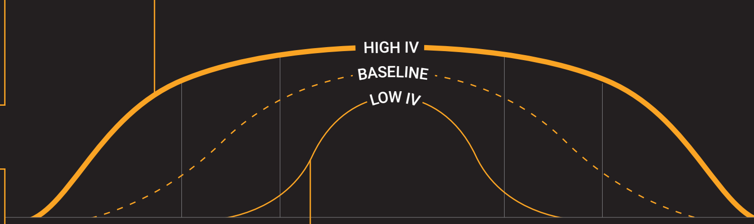


DEFENSIVE TACTICS
Defensive management is limited with defined risk credit trades, but we can roll a spread out in time for a credit if it is not ITM yet. If one of our spreads begins to be tested, we can roll it out in time. We can also close or roll the untested side if we want to extend duration and add credit to the trade to reduce max loss.

NOT IDEAL
The stock moves outside of one of our credit spreads. This will go from a neutral to a directional trade if this happens, and we can start to see losses as the "tested" side increases in value as the stock price moves closer to that side.

VOLATILITY

IF VOLATILITY EXPANDS
We may hold - this may result in an extrinsic value loss, but extrinsic value will always go to zero by expiration.



IF VOLATILITY CONTRACTS
Close for a winner if we reach our desired profit target and the stock is still between our strikes.

EXPIRATION

IF OTM AT EXPIRATION
Close for profit to remove risk and secure the profit in the position.

IF ITM AT EXPIRATION
Close for a loss to avoid assignment fees and the stock moving between our spread after hours, which could result in unwanted shares on Monday.

TAKEAWAYS

1 Be mindful of liquidity. With 4 legs to this trade, the most liquid products are best to reduce slippage.

2 Select strikes that create a wide range of profitability while still collecting around 1/3rd the width of the spread. Defensive management is limited, so the best defense is a wide profit range up front.

DYNAMIC WIDTH IRON CONDOR

Neutral, defined risk strategy consisting of an OTM put credit spread and OTM call credit spread. We want the stock to stay between our strikes through expiration.

DIRECTIONAL ASSUMPTION
Neutral

IV ENVIRONMENT
High

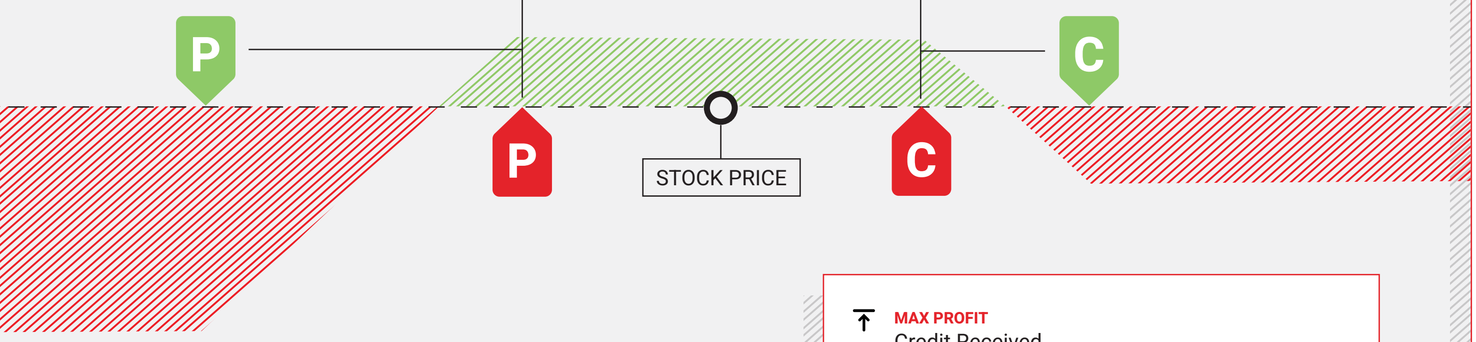
DAYS TO EXPIRATION
45

PROBABILITY OF PROFIT
60% to 80%

SETUP

1 Sell an OTM put spread

2 Sell an OTM call spread



MAX PROFIT
Credit Received

MAX LOSS
Widest Spread - Credit Received

PROFIT TARGET
50% of Max Profit

BREAKEVEN
Short Put Strike - Credit Received
Short Call Strike + Credit Received

EXAMPLE

With XYZ stock at $100, we may sell the 97/90 put spread and the 107/110 call spread and look to collect $2.00 overall.

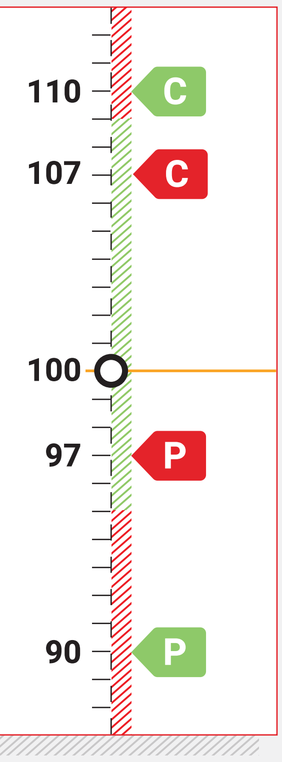
We aim to set strikes so that the short option deltas match, and the long option deltas match.

DELTA
Flat

VEGA
Short

THETA
Long

GAMMA
Flat

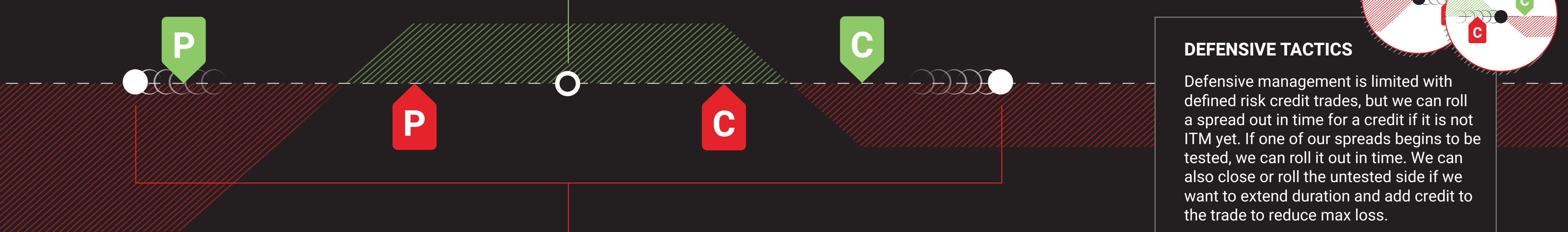


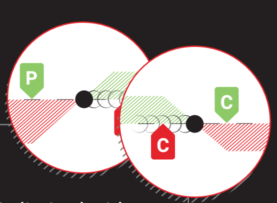
TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

IDEAL

The stock stays between our strikes as time passes. This results in extrinsic value decay on both sides, and the trade can be bought back for a profit over time.





DEFENSIVE TACTICS

Defensive management is limited with defined risk credit trades, but we can roll a spread out in time for a credit if it is not ITM yet. If one of our spreads begins to be tested, we can roll it out in time. We can also close or roll the untested side if we want to extend duration and add credit to the trade to reduce max loss.

NOT IDEAL

The stock moves outside of one of our credit spreads. The trade goes from neutral to directional if this happens, and we can start to see losses as the "tested" side increases in value as the stock price moves closer to that side.

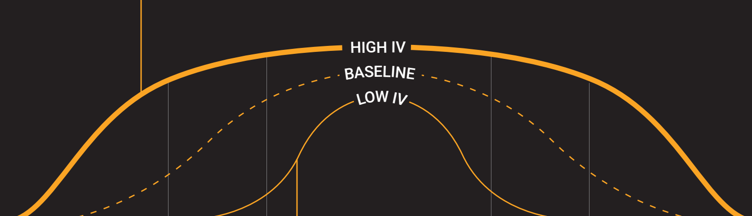
VOLATILITY

IF VOLATILITY EXPANDS

We may hold - this may result in an extrinsic value loss, but extrinsic value will always go to zero by expiration.

IF VOLATILITY CONTRACTS

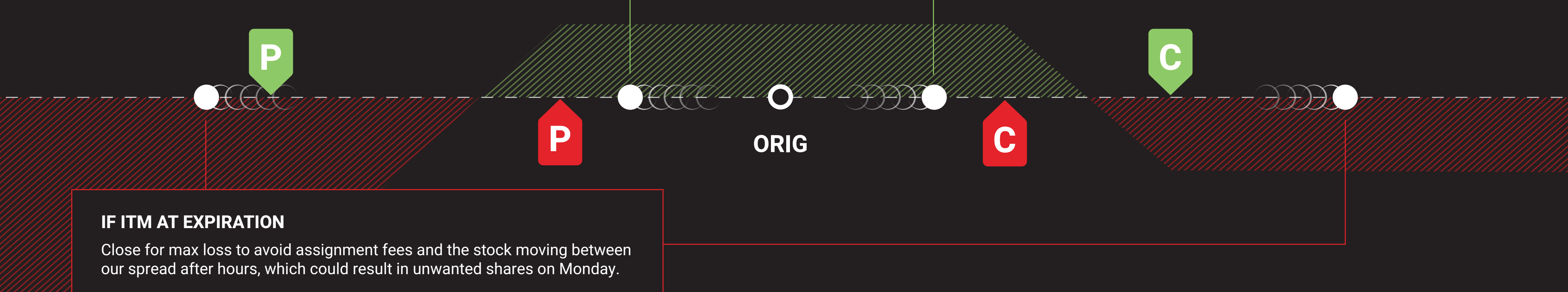
Close for a winner if we reach our desired profit target and the stock is still between our strikes.



EXPIRATION

IF OTM AT EXPIRATION

Close the position for profit which will also remove any expiration risk.



IF ITM AT EXPIRATION

Close for max loss to avoid assignment fees and the stock moving between our spread after hours, which could result in unwanted shares on Monday.

TAKEAWAYS

1. If there is skew in the market, dynamic width iron condors will always have different spread widths on the call side and put side, so one side will have more risk than the other. This strategy will still operate like a normal iron condor, but it will account for skew in the market.

2. Select strikes that create a wide range of profitability while still collecting around 1/3rd the width of the spread. Defensive management is limited, so the best defense is a wide profit range up front.

IRON FLY

Neutral, defined risk strategy consisting of an ATM put credit spread and ATM call credit spread. We want the stock to stay between our breakeven prices through expiration.

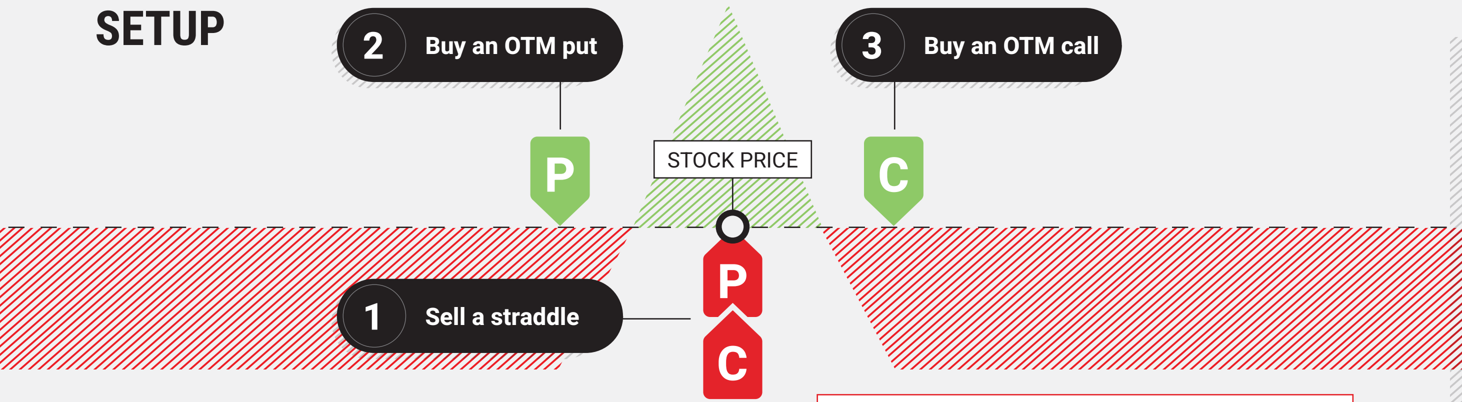
DIRECTIONAL ASSUMPTION
Neutral

IV ENVIRONMENT
High

DAYS TO EXPIRATION
45

PROBABILITY OF PROFIT
60% to 80%

SETUP



MAX PROFIT
Credit Received

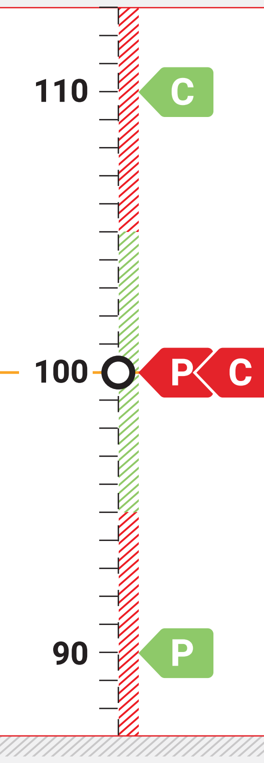
MAX LOSS
Widest Spread - Credit Received

PROFIT TARGET
25% of Max Profit

BREAKEVEN
Short Put Strike - Credit Received
Short Call Strike + Credit Received

EXAMPLE

With XYZ stock at $100, we may sell the 100/90 put spread and the 100/110 call spread and look to collect $5.00.



DELTA
Flat

VEGA
Short

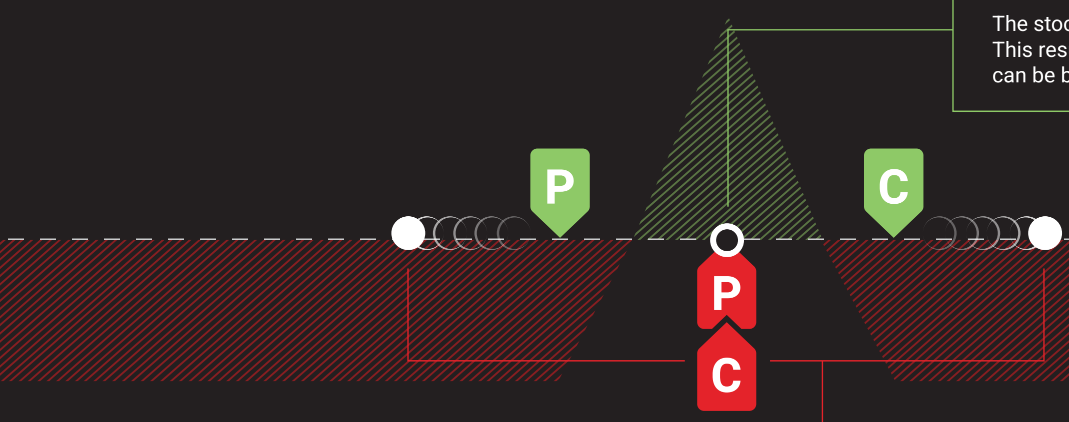
THETA
Long

GAMMA
Flat

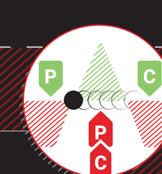
TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

IDEAL
The stock stays between our breakeven points as time passes. This results in extrinsic value decay on both sides and the trade can be bought back for a profit over time.



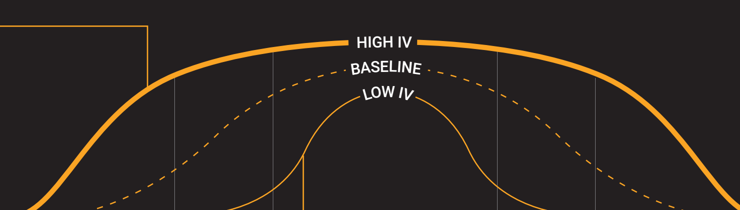
NOT IDEAL
The stock moves outside of one of our breakeven points. The trade goes from neutral to directional if this happens. We can start to see losses as the "tested" side increases in value as the stock price moves closer to that side.



DEFENSIVE TACTICS
Iron flies are like a defined-risk straddle. Because of this, management is limited compared to an undefined risk trade. If one of the sides is completely ITM, it cannot be rolled for a credit, so there is not much we can do with this trade if the stock moves outside of our long strikes without manipulating risk.

VOLATILITY

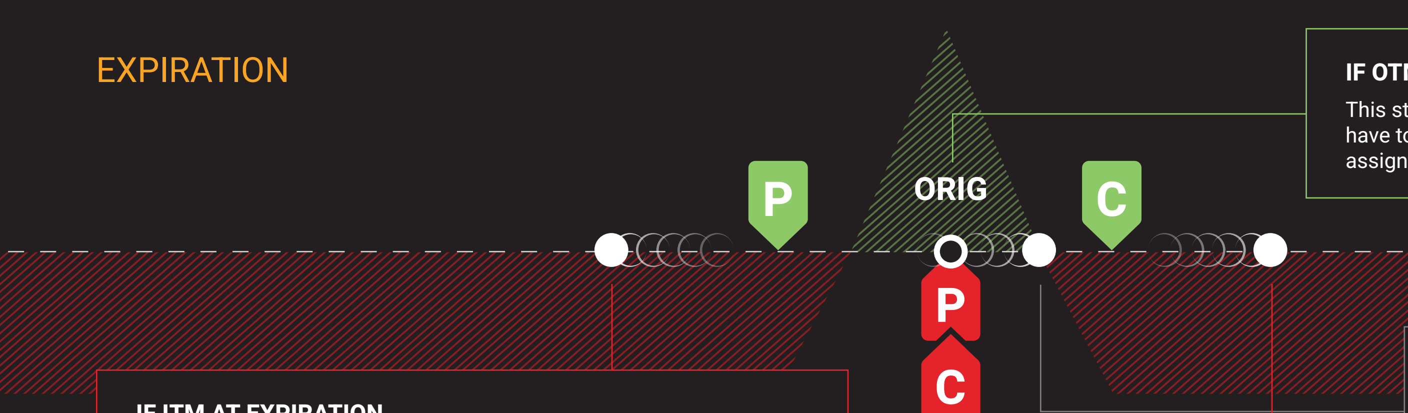
IF VOLATILITY EXPANDS
We may hold - this may result in an extrinsic value loss. However, if the stock is still within our breakeven points, we know that the trade can be profitable at expiration.



IF VOLATILITY CONTRACTS
The extrinsic value may collapse to a point where we can buy the trade back for 25% of max profit, which is our target.

EXPIRATION

IF OTM AT EXPIRATION
This strategy will always have one strike that is ITM, so we have to either close or roll the trade prior to expiration to avoid assignment of shares.



IF ITM AT EXPIRATION
If the spread is completely ITM at expiration, we can close the trade to avoid assignment and move on.

IF PARTIALLY ITM AT EXPIRATION
We can still see profitability if we are within our breakeven ranges. We close the trade for a profit if this is the case to avoid assignment.

TAKEAWAYS

1. With spreads, it's important to realize that options will be exercised if they are ITM and held through expiration. If one strike is ITM and the other moves OTM, close the trade prior to expiration to avoid unwanted shares.

2. Target risk:reward is 1:1 so that we do not have an impractical spread width. Defensive management is limited, so we want to have a nice wide breakeven range.

SHORT NAKED PUT

Neutral-Bullish undefined risk credit trade where we're betting against the stock moving below our strike price by the expiration of our contract.

DIRECTIONAL ASSUMPTION
Neutral-Bullish

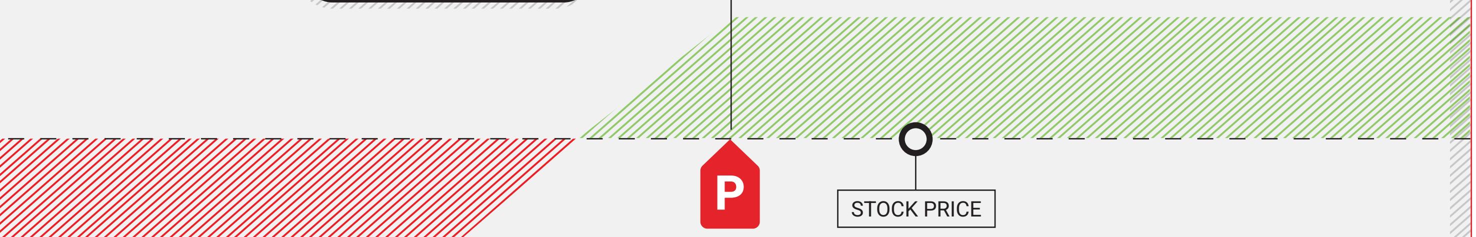
IV ENVIRONMENT
High

DAYS TO EXPIRATION
45

PROBABILITY OF PROFIT
60% to 80%

SETUP

1 Sell an OTM put



MAX PROFIT
Credit Received

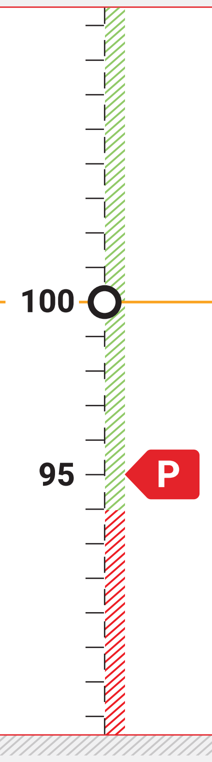
MAX LOSS
Put Strike x 100 - Credit Received

PROFIT TARGET
50% of Max Profit

BREAKEVEN
Put Strike - Credit Received

EXAMPLE

With XYZ stock at $100, we might sell a 95 strike put and look to collect $1.00 in credit.



DELTA
Long

VEGA
Short

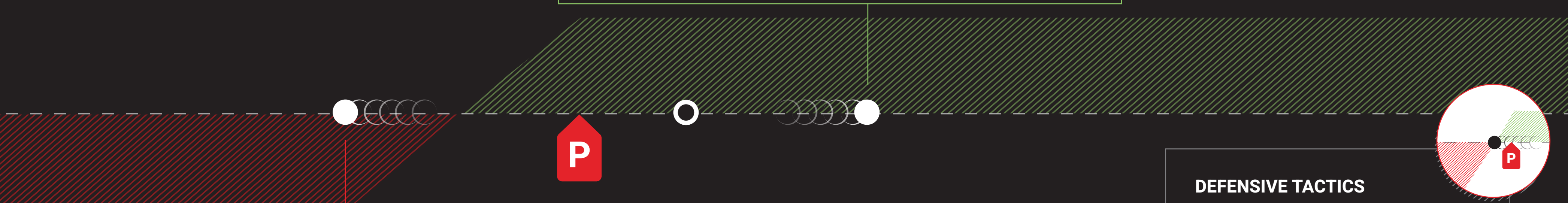
THETA
Long

GAMMA
Short

TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

IDEAL
The stock increases in value. As time passes, and if volatility decreases, the extrinsic value of the put will decrease. As long as we buy back the put for less than we sold it for, we lock in a profit.



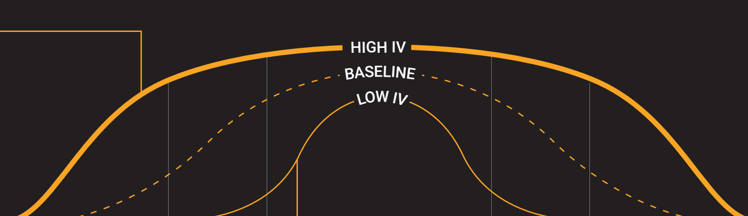
NOT IDEAL
The stock decreases in value. As the stock goes down, the value of the put option will increase, which means you may see losses if the option is worth more than you sold it for to start the trade.

DEFENSIVE TACTICS
Short naked options can always be rolled out in time for a credit without adding any additional risk. Rolling out in time extends duration and increases extrinsic value in the position, which lowers your breakeven on the trade overall.

VOLATILITY

IF VOLATILITY EXPANDS
We may hold - this may result in an extrinsic value loss, but extrinsic value will always go to zero by expiration.

IF VOLATILITY CONTRACTS
Close for a winner if we reach our desired profit target and the strike is still OTM.



EXPIRATION

IF OTM AT EXPIRATION
The put will expire worthless, and we keep the credit received up front as profit.

IF ITM AT EXPIRATION
If the option is ITM through expiration, the put seller will be put 100 shares of that stock at the strike price. To avoid this, we roll out the position in time or close it.

TAKEAWAYS

1 Short puts can be profitable if the stock stays the same, goes up, or even goes down a little bit as long as the strike remains OTM through expiration. The many ways to be profitable translates to a high probability trade when sold OTM.

2 If a short put goes ITM, it will replicate the same risk profile as a covered call on the same strike, so many traders tend to roll short puts perpetually vs closing for a loss. However, everyone has a different risk tolerance.

SHORT PUT VERTICAL SPREAD

Neutral-Bullish defined risk credit trade where we are betting against the stock moving below our short strike price by the expiration of our contract. Spread width depends on account size, risk tolerance, etc.

DIRECTIONAL ASSUMPTION	IV ENVIRONMENT	DAYS TO EXPIRATION	PROBABILITY OF PROFIT
Neutral-Bullish	High	45	60% to 80%

SETUP

1 Sell an OTM/ATM put

2 Buy a further OTM put

STOCK PRICE

MAX PROFIT
Credit Received

MAX LOSS
Distance Between Strikes - Credit Received

PROFIT TARGET
50% of Max Profit

BREAKEVEN
Short Put Strike - Credit Received

EXAMPLE

With XYZ stock at $100, we might sell a 95/90 put spread and look to collect $1.65.

100

95

90

DELTA Long

VEGA Short

THETA Long

GAMMA Flat

TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

IDEAL

The stock increases in value. A short put spread is a directionally bullish position so ideally the stock rises, time passes, volatility contracts, or a combination of the three so the spread loses value over time.

NOT IDEAL

The stock decreases in value. The value of the short put spread can increase, which means the spread will be more expensive compared to the original opening sale price, which would result in a loss.

DEFENSIVE TACTICS

If the spread is OTM/ATM, rolling out to a farther expiration can be done for a credit, which adds time to the trade, reduces max loss, and increases max profit if the new spread expires OTM.

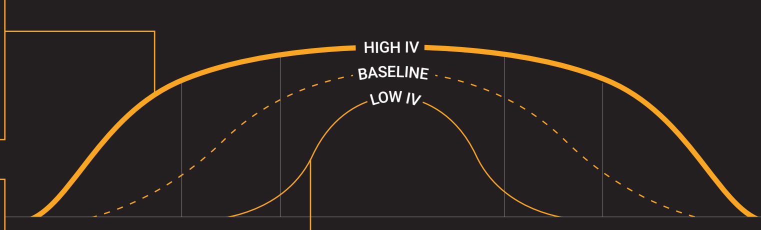
VOLATILITY

IF VOLATILITY EXPANDS

We may hold - this may result in an extrinsic value loss, but extrinsic value will always go to zero by expiration.

IF VOLATILITY CONTRACTS

This could result in a profitable trade, as extrinsic value goes down across the board, so we may consider closing if the trade is profitable.



EXPIRATION

IF OTM AT EXPIRATION

The trade will realize max profit - we can close it to remove risk, or let it expire worthless if we believe it will remain OTM.

ORIG

IF ITM AT EXPIRATION

We close the trade - holding a put spread through expiration will result in both options being exercised resulting in no position, but we close the trade for max loss to avoid assignment.

IF PARTIALLY ITM AT EXPIRATION

We either roll out in time to extend the trade or close it. We avoid letting these trades go through expiration because if the short put is ITM and the long put is OTM, we can come back to the market the next trading session with 100 shares of stock.

TAKEAWAYS

1 Vertical spreads have a less volatile P/L because of the long option that defines our risk. If we see profit on the short option, we will see losses on the long option and vice versa. For this reason, we should expect to be in spread trades longer than naked options to reach profit targets.

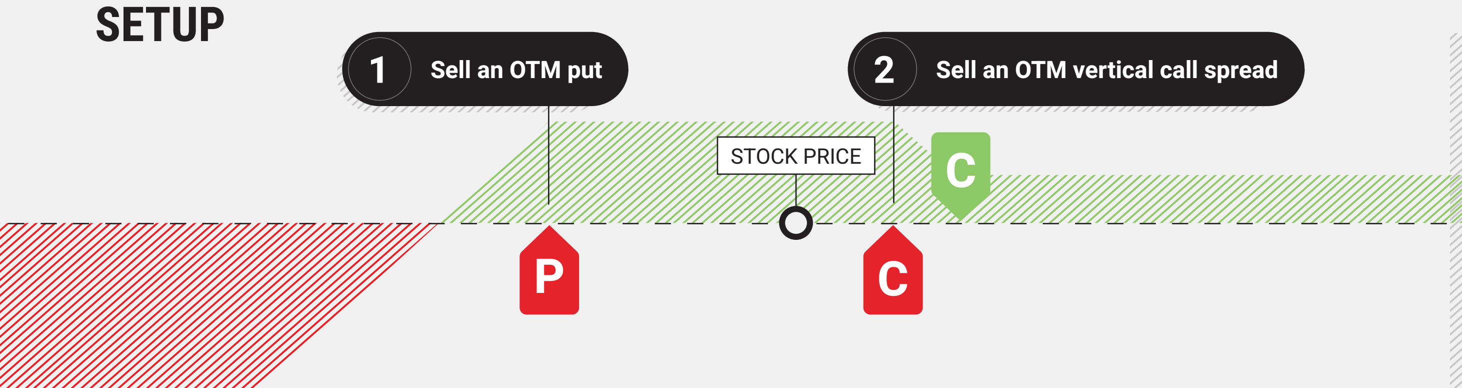
2 With spreads, it's important to realize that options will be exercised if they are ITM and held through expiration. If one strike is ITM and the other moves OTM, close the trade prior to expiration to avoid unwanted shares.

JADE LIZARD

A bullish position that is constructed by selling an OTM short put combined with an OTM short call spread, where the total credit received is greater than the width of the call spread to remove upside risk entirely.

DIRECTIONAL ASSUMPTION Neutral-Bullish
IV ENVIRONMENT High
DAYS TO EXPIRATION 45
PROBABILITY OF PROFIT 60% to 80%

SETUP



MAX PROFIT
Credit Received

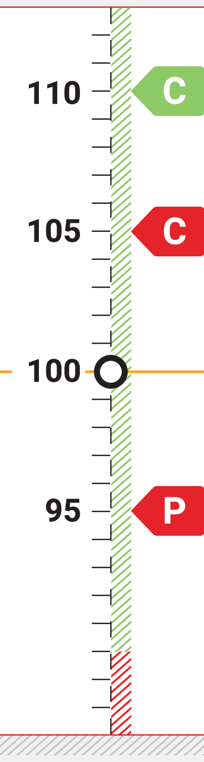
MAX LOSS
Short Put Strike x 100 - Credit Received

PROFIT TARGET
50% of Max Profit

BREAKEVEN
Short Put Strike - Credit Received

EXAMPLE

With XYZ stock at $100, we may sell the 95 put and sell the 105/110 call spread for a credit over $5.00.



DELTA Long
VEGA Short
THETA Long
GAMMA Short

TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

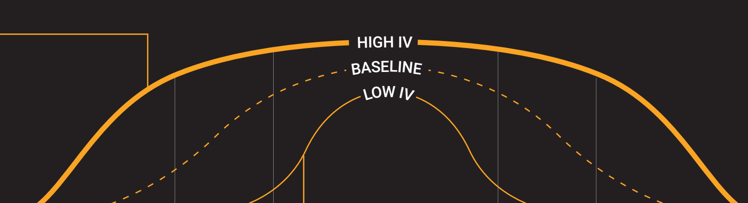
IDEAL
The stock stays between our short strikes. There is no risk to the upside if our net credit is greater than the width of the call credit spread, but max profit is realized if all options expire OTM.

NOT IDEAL
The stock goes down. We have a naked short put, so if the stock drops below our short put strike, we take on intrinsic value losses equivalent to 100 shares of stock, less the credit received from selling the jade lizard up front.

DEFENSIVE TACTICS
If the short put is ITM, we can either roll that out in time, or roll the call spread down to defend the short put. We just ensure that there is no risk to the upside by keeping the net credit higher than the width of the call spread we roll to.

VOLATILITY

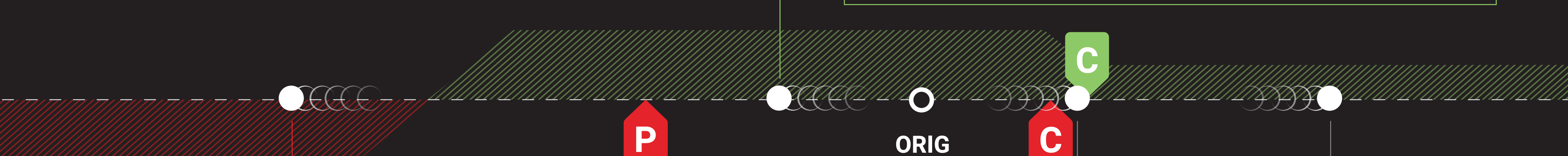
IF VOLATILITY EXPANDS
We may hold - this may result in an extrinsic value loss, but extrinsic value will always go to zero by expiration.



IF VOLATILITY CONTRACTS
We look to close the position for a profit if our strikes are still OTM.

EXPIRATION

IF OTM AT EXPIRATION
All options will expire worthless and we'll keep the credit received up front as profit.



IF ITM AT EXPIRATION
The short put can be rolled out in time if we don't mind being bullish on the product for another cycle, and we can roll the call spread out in time as well if we want to keep that portion of the trade on.

IF PARTIALLY ITM AT EXPIRATION
We typically close the trade for a profit to ensure we do not end up with short shares in the next trading session.

TAKEAWAYS

1 The most important aspect of the jade lizard is to ensure the net credit received is greater than the width of the call spread - this ensures we have no risk to the upside, and increases our probability of profit substantially.

2 Because we are taking risk on the call side in this trade, ensure that the premium we are collecting on the call spread is around 1/3rd the width. There is no reason to take risk on the call side or reduce our potential max profit if we're not collecting a fair amount to do so.

SHORT NAKED CALL

Neutral-Bearish undefined risk credit trade where we are betting against the stock moving above our strike price by the expiration of our contract.

DIRECTIONAL ASSUMPTION Neutral-Bearish
IV ENVIRONMENT High
DAYS TO EXPIRATION 45
PROBABILITY OF PROFIT 60% to 80%

SETUP

1 Sell an OTM call

STOCK PRICE

C

MAX PROFIT Credit Received
MAX LOSS Unlimited
PROFIT TARGET 50% of Max Profit
BREAKEVEN Call Strike + Credit Received

EXAMPLE

With XYZ stock at $100, we might sell a 105 strike call and look to collect $1.00 in credit.

105 C

100

DELTA Short
VEGA Short
THETA Long
GAMMA Short

TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

IDEAL

The stock decreases in value. As time passes, and if volatility decreases, the extrinsic value of the call will decrease. As long as we buy back the call for less than we sold it for, we lock in a profit.

DEFENSIVE TACTICS

Short naked options can usually be rolled out in time for a credit without adding any additional risk. Rolling out in time extends duration and increases extrinsic value in the position, which improves your breakeven on the trade overall.

C

NOT IDEAL

The stock increases in value. As the stock goes up, the value of the call will increase, which means you may see losses if the option is worth more than you sold it for when you opened the trade.

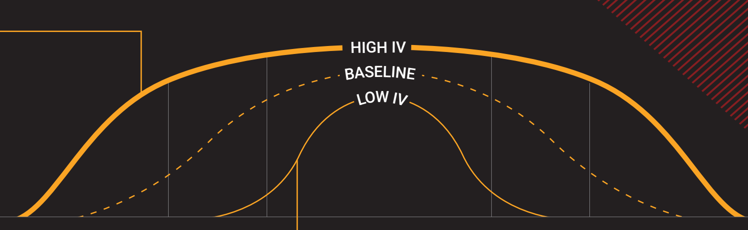
VOLATILITY

IF VOLATILITY EXPANDS

We may hold - this may result in an extrinsic value loss, but extrinsic value will always go to zero by expiration.

IF VOLATILITY CONTRACTS

Close for a winner if we reach our desired profit target and the strike is still OTM.



EXPIRATION

IF ITM AT EXPIRATION

If the option is ITM through expiration, the call seller will be short 100 shares of that stock at the strike price. To avoid this, we roll the position out in time or close it.

ORIG

C

IF OTM AT EXPIRATION

The call will expire worthless, and we keep the credit received up front as profit.

TAKEAWAYS

1 Short calls can be profitable if the stock stays the same, goes down, or even goes up a little bit as long as the strike remains OTM through expiration. The many ways to be profitable translates to a high probability trade when sold OTM.

2 Short ITM calls could be subject to additional assignment risk due to dividends. If you're trading a dividend stock and have an ITM short call with an upcoming dividend, ensure that your short call's extrinsic value is more than the expected dividend. If it is less, consider rolling the position out in time to add extrinsic value and remove dividend assignment risk.

SHORT CALL VERTICAL SPREAD

Neutral-Bearish defined risk credit trade where we are betting against the stock moving above our short strike price by the expiration of our contract. Spread width depends on account size, risk tolerance, etc.

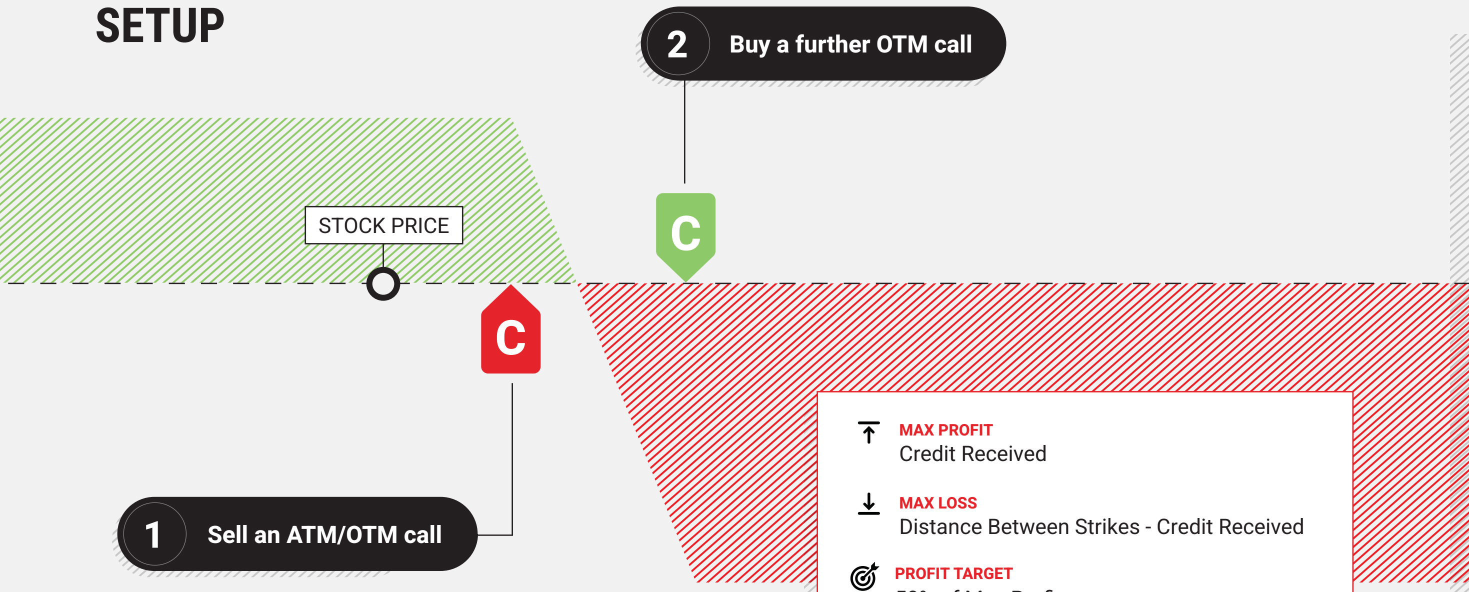
DIRECTIONAL ASSUMPTION Neutral-Bearish

IV ENVIRONMENT High

DAYS TO EXPIRATION 45

PROBABILITY OF PROFIT 60% to 80%

SETUP



MAX PROFIT
Credit Received

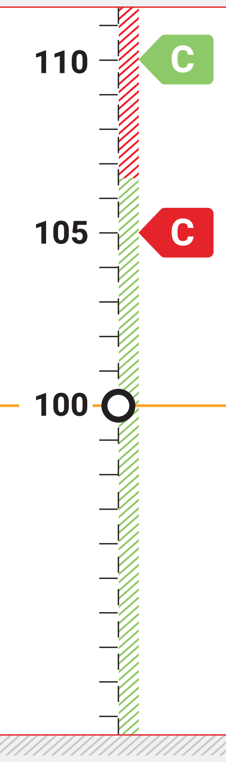
MAX LOSS
Distance Between Strikes - Credit Received

PROFIT TARGET
50% of Max Profit

BREAKEVEN
Call Strike + Credit Received

EXAMPLE

With XYZ stock at $100, we might sell a 105/110 call spread and look to collect $1.65.



Δ DELTA Short

V VEGA Short

θ THETA Long

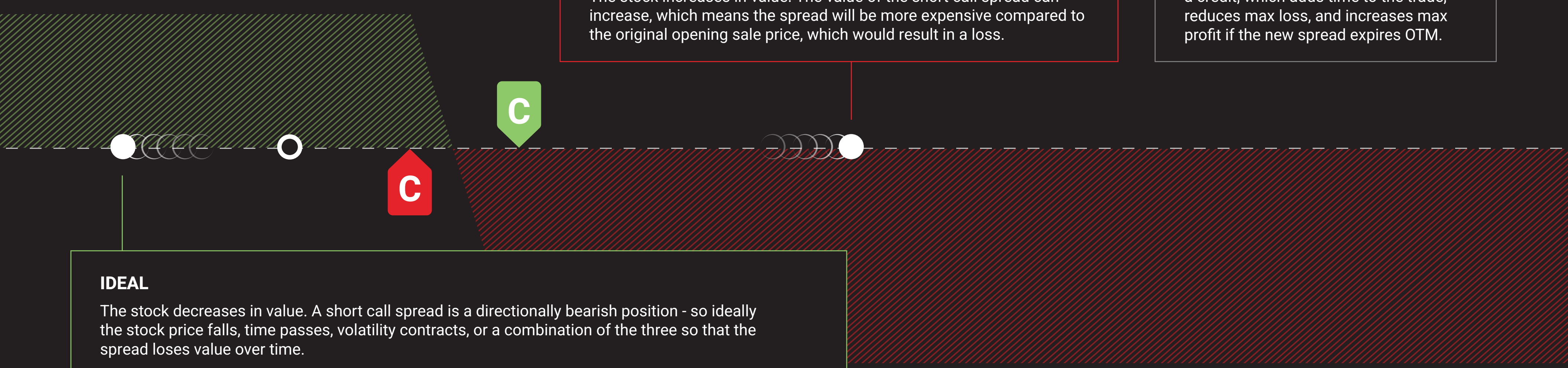
γ GAMMA Flat

TASTYLIVE APPROACH

HOW THE TRADE WORKS

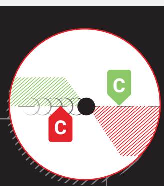
NOT IDEAL

The stock increases in value. The value of the short call spread can increase, which means the spread will be more expensive compared to the original opening sale price, which would result in a loss.



DEFENSIVE TACTICS

If the spread is OTM/ATM, rolling out to a further expiration can be done for a credit, which adds time to the trade, reduces max loss, and increases max profit if the new spread expires OTM.



IDEAL

The stock decreases in value. A short call spread is a directionally bearish position - so ideally the stock price falls, time passes, volatility contracts, or a combination of the three so that the spread loses value over time.

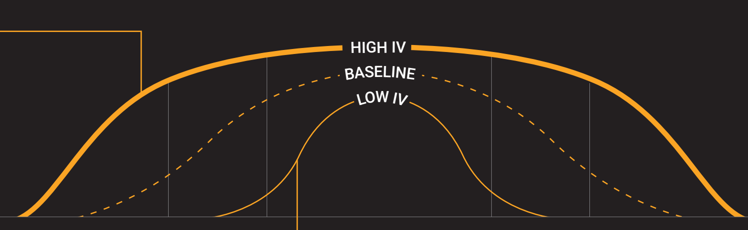
VOLATILITY

IF VOLATILITY EXPANDS

The trade may increase in extrinsic value, but if the increase in IV is paired with a selloff, the trade could be profitable and we can close for a winner.

IF VOLATILITY CONTRACTS

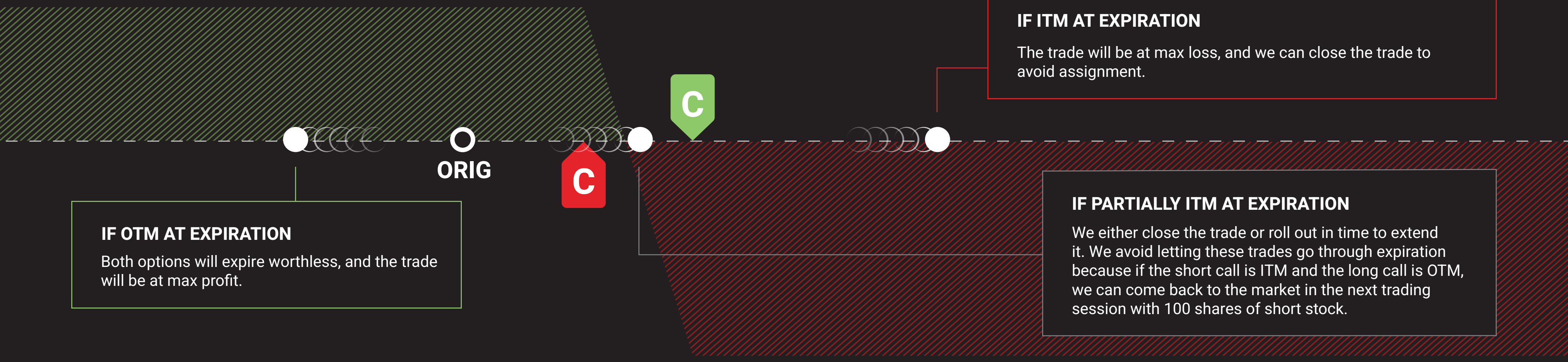
The trade may lose value, unless this is paired with a bullish move that could offset the extrinsic value contraction.



EXPIRATION

IF ITM AT EXPIRATION

The trade will be at max loss, and we can close the trade to avoid assignment.



IF OTM AT EXPIRATION

Both options will expire worthless, and the trade will be at max profit.

IF PARTIALLY ITM AT EXPIRATION

We either close the trade or roll out in time to extend it. We avoid letting these trades go through expiration because if the short call is ITM and the long call is OTM, we can come back to the market in the next trading session with 100 shares of short stock.

TAKEAWAYS

1 Vertical spreads have a less volatile P/L because of the long option that defines our risk. If we see profit on the short option, we will see losses on the long option and vice versa. For this reason, we should expect to be in spread trades longer than naked options to reach profit targets.

2 With spreads, it's important to realize that options will be exercised if they are ITM and held through expiration. If one strike is ITM and the other moves OTM, close the trade prior to expiration to avoid unwanted shares.

REVERSE JADE LIZARD

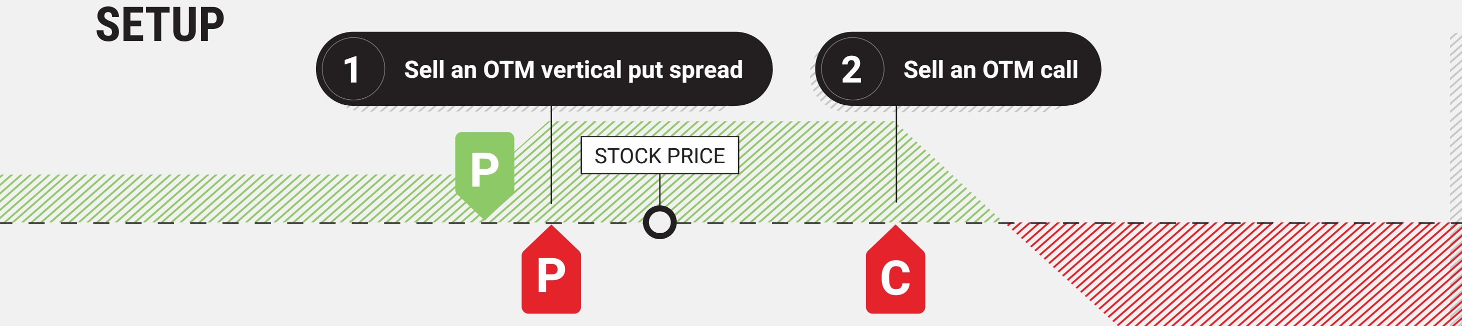
A bearish position that is constructed by selling an OTM call combined with an OTM short put spread, where the total credit received is greater than the width of the put spread to remove downside risk entirely.

DIRECTIONAL ASSUMPTION	IV ENVIRONMENT	DAYS TO EXPIRATION	PROBABILITY OF PROFIT
Neutral-Bearish	High	45	60% to 80%

SETUP

1 Sell an OTM vertical put spread

2 Sell an OTM call



MAX PROFIT
Credit Received

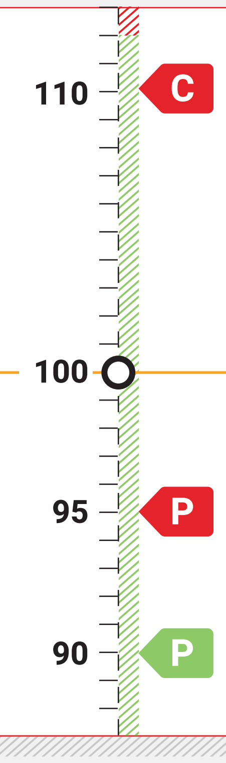
MAX LOSS
Unlimited

PROFIT TARGET
50% of Max Profit

BREAKEVEN
Short Call Strike + Credit Received

EXAMPLE

With XYZ stock at $100, we may sell the 110 call and sell the 95/90 put spread for a credit over $5.00.



DELTA
Short

VEGA
Short

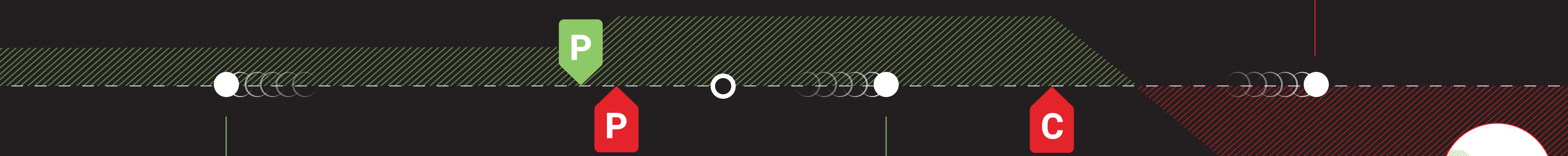
THETA
Long

GAMMA
Short

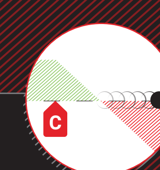
TASTY*LIVE* APPROACH

HOW THE TRADE WORKS

NOT IDEAL
The stock goes up. We have a naked short call, so if the stock rallies above our short call strike, we take on intrinsic value losses equivalent to 100 short shares of stock, less the credit received from selling the reverse jade lizard up front.



IDEAL
The stock stays between our short strikes. There is no risk to the downside if our net credit is greater than the width of the put credit spread, but max profit is realized if all options expire OTM.

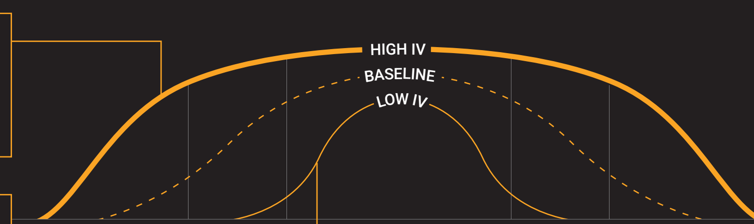


DEFENSIVE TACTICS
If the short call is ITM, we can either roll that out in time, or roll the put spread up to defend the short call. We just ensure that there is no risk to the downside by keeping the net credit higher than the width of the put spread we roll to.

VOLATILITY

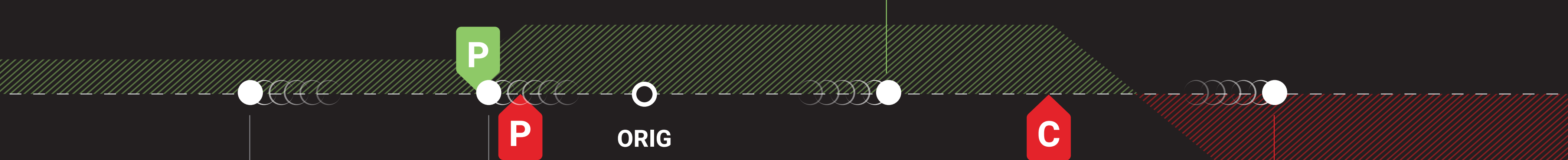
IF VOLATILITY EXPANDS
We may hold - this may result in an extrinsic value loss, but extrinsic value will always go to zero by expiration.

IF VOLATILITY CONTRACTS
We look to close the position for a profit if our strikes are still OTM.



EXPIRATION

IF OTM AT EXPIRATION
All options will expire worthless and we'll keep the credit received up front as profit.



IF PARTIALLY ITM AT EXPIRATION
We typically close the trade for a profit to ensure we do not end up with shares in the next trading session.

IF ITM AT EXPIRATION
The short call can be rolled out in time if we don't mind being bearish on the product for another cycle, and we can roll the put spread out in time as well if we want to keep that portion of the trade on.

TAKEAWAYS

1 The most important aspect of the reverse jade lizard is to ensure the net credit received is greater than the width of the put spread - this ensures we have no risk to the downside, and increases our probability of profit substantially.

2 Because we are taking risk on the put side in this trade, ensure that the premium we are collecting on the put spread is around 1/3rd the width. There is no reason to take risk on that side or reduce our potential max profit if we're not collecting a fair amount to do so.

GLOSSARY

DIRECTIONAL ASSUMPTION the outlook a trader chooses based on whether they want an underlying to increase (bullish), decrease (bearish), or remain unchanged in price (neutral). Directional assumption can be based on market awareness, statistical analysis, trading style, and more.

BEING LONG When you are long something, it means you purchased it (an option, a spread, a stock, a futures contract) to open the trade and you want it to increase in value. If you're long a put, you want the contract to increase in value with the stock price dropping, and if you're long a call you want it to increase in value with the stock price rising.

BEING SHORT When you are short something, it means you sold it (an option, a spread, a stock, a futures contract) to open the trade and you want it to decrease in value. If you're short a put, you want the contract to decrease in value with the stock price rising or time passing. If you're short a call, you want it to decrease in value with the stock price dropping or time passing.

BEING BULLISH A directional assumption that the price of an underlying will increase in price over a given timeframe.

BEING BEARISH A directional assumption that the price of an underlying will decrease in price over a given timeframe.

IV ENVIRONMENT Implied volatility (IV) in the market refers to the forecasted magnitude of potential movement away from the underlying price in a year's time.

IV is not a static metric, but it's helpful in traders understanding ranges from a statistical perspective to help with risk management, buying power etc

Low implied volatility environments tell us that the market isn't expecting the stock price to move much from the current stock price over the course of a year. Whereas, a high implied volatility environment tells us that the market is expecting large movements from the current stock price over the course of the next twelve months.

DAYS TO EXPIRATION The number of days until an option or futures contract expires. Unlike stock or ETFs, options and futures have a date at which they cease to trade. Traders can select from shorter duration or longer term trades based on their trading style, investment goals, and assumption over the given timeframe they are trading.

PROBABILITY OF PROFIT The likelihood of making at least $.01 on a position. This metric can be altered based on strategy, strike selection, trade price, and more.

MAXIMUM PROFIT The greatest possible amount a position can make.

MAXIMUM LOSS The greatest possible amount a position can lose.

PROFIT TARGET A feasible amount a trader can hope to make in a given position. Profit targets can be impacted by trade price, capital required, risk tolerance, days in the trade, and more.

BREAKEVEN The price(s) at which a position is neither making or losing money. There are different calculations for breakeven prices based on trade price (credit or debit paid), strategy complexity, and whether or not a position has been rolled.

EXTRINSIC VALUE Extrinsic value, also referred to as "time value" or "risk premium," is everything that is not intrinsic value. Because the intrinsic value is always known, extrinsic value is equal to the total option premium less intrinsic value. The extrinsic value of an option therefore fluctuates based on supply and demand (i.e. the market price of volatility). Total Option Value = Extrinsic Value + Intrinsic Value

DELTA The rate of change in an option's theoretical value for a $1 change in the price of the underlying security, all else equal. Delta helps us get a better understanding of our directional exposure, our share equivalency in an options position, and can also be used as a proxy for estimating probability of expiring ITM.

VEGA The rate of change in an option's extrinsic value given a 1% change in implied volatility, all else equal. Long options have positive vega as they'd benefit from an increase in IV. Short options have negative vega. Vega values will be positive or negative depending on the strategy being implemented, where the strategy's strikes are in relation to the underlying price, and whether implied volatility is expanding or contracting.

GLOSSARY (CONT.)

THETA The rate of decay of an option's extrinsic value, given a one-day passage of time, all else equal. Positive theta comes from option selling since it is beneficial to the seller, and negative theta comes from option buying as decaying extrinsic value is bad for an option buyer. Since the markets are constantly moving, it's important to understand the concept of theta but don't overthink it - theta is generally a weak contributor to daily changes in an options price.

GAMMA The rate of change of an option's delta, given a $1.00 move in the underlying, all else equal. Long option holders benefit from gamma. For option sellers, Gamma can accelerate losses and decelerate directional gains.

VOLATILITY EXPANSION/ CONTRACTION Volatility expansion - an increase in volatility which is often signified by the widening of prices, and increases in daily trading ranges. Volatility expansion will aide long premium trades (like debit spreads) and hinder short premium trades (like credit spreads). Volatility contraction is just the opposite: a reduction in volatility, with more compact trading ranges and cheaper option prices. IV expansion and contraction are not dependent on price direction, but rather is dependent on magnitude of price moves.

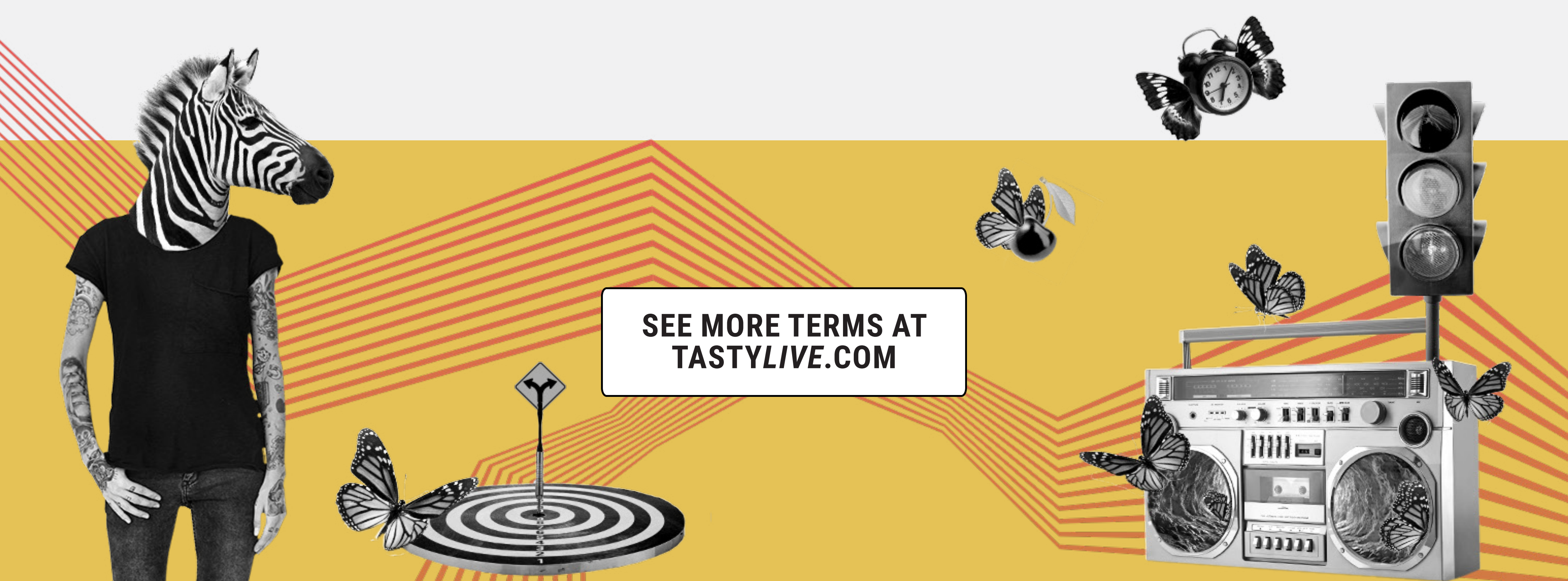
DAYS TO EXPIRATION The number of days until an option or futures contract expires. Unlike stock or ETFs, options and futures have a date at which they cease to trade. Traders can select from shorter duration or longer term trades based on their trading style, investment goals, and assumption over the given timeframe they are trading.

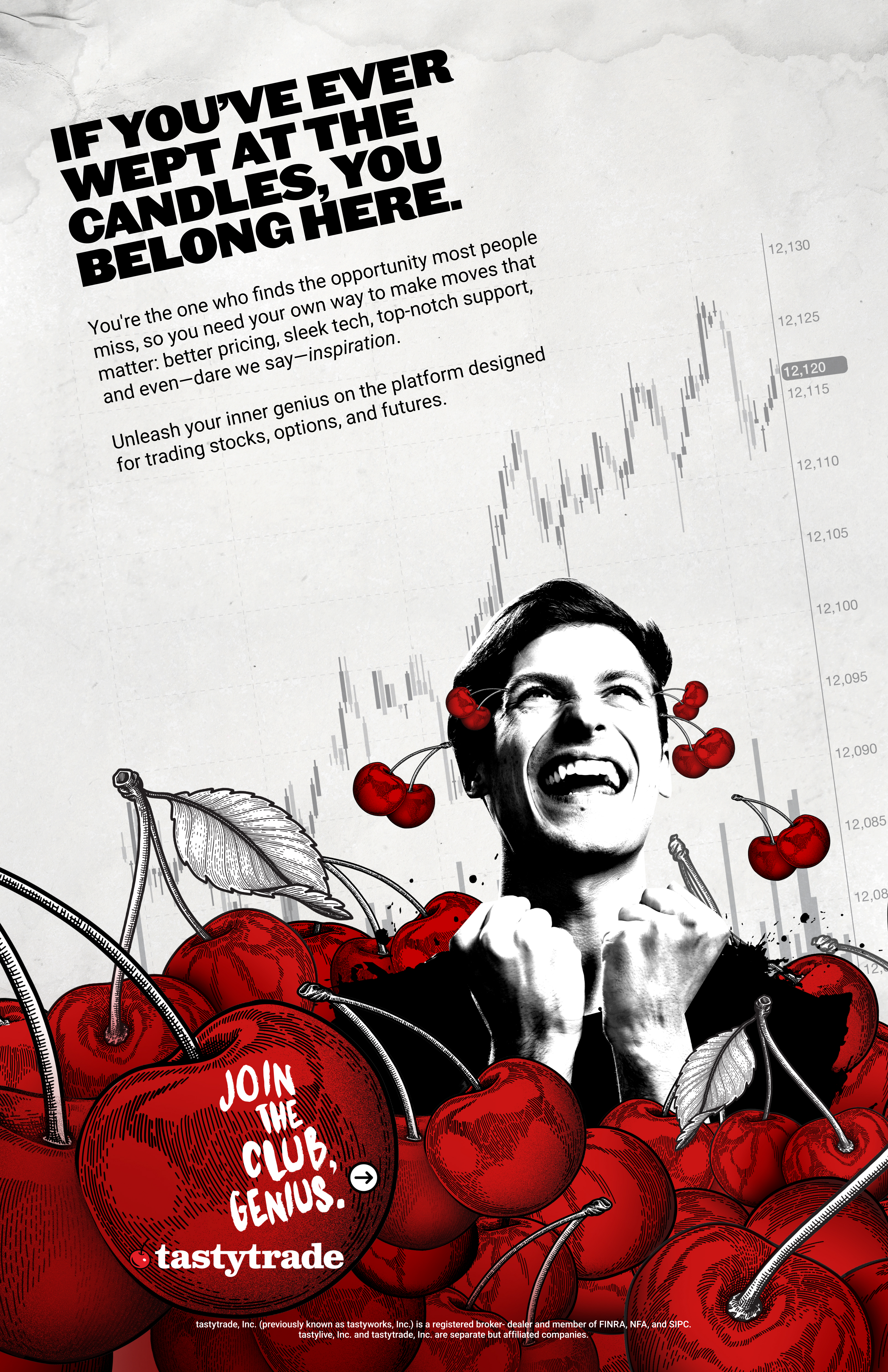
ITM If an option is in-the-money (ITM), it means it has real value at expiration to the option owner. In call options, an ITM strike or contract would be trading below the underlying price. In put options, an ITM strike or contract would be trading above the underlying price.

ATM An at-the-money (ATM) option is a contract that is trading very close to the underlying price, and is very close to being ITM. For example, if XYZ is trading at $99.38 and the option chain had $1 wide strikes, the at the money contracts would be the $99 and $100 strikes. ATM strikes have the highest extrinsic value compared to OTM or ITM strikes because of the uncertainty of the option being ITM at expiration.

OTM An out-of-the-money (OTM) is an option that does not have intrinsic value, and is purely extrinsic value. In call options, an OTM strike or contract would be trading above the underlying price. In put options, an OTM strike or contract would be trading below the underlying price. All of this extrinsic value goes away by expiration if the option remains OTM.

INTRINSIC VALUE The intrinsic value of an in-the-money (ITM) option is equal to the difference between the strike price and the market value of the underlying security. For example, the $35 strike call with the underlying trading $40 has an intrinsic value of $5. Out-of-the-money (OTM) options do not have intrinsic value, only extrinsic value.

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You're the one who finds the opportunity most people miss, so you need your own way to make moves that matter: better pricing, sleek tech, top-notch support, and even—dare we say—*inspiration*.
Unleash your inner genius on the platform designed for trading stocks, options, and futures.
12,130
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