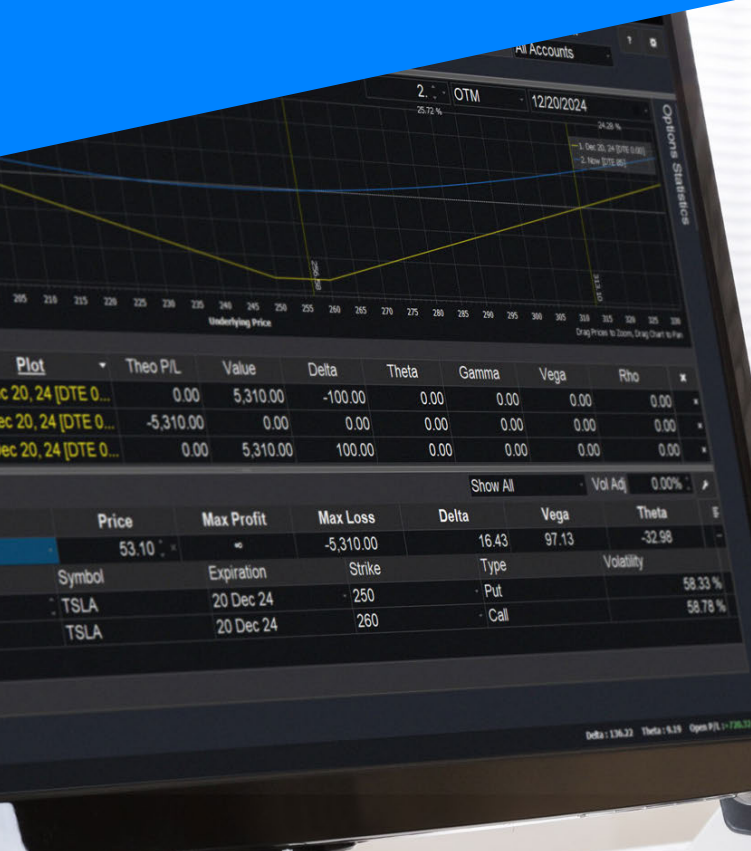
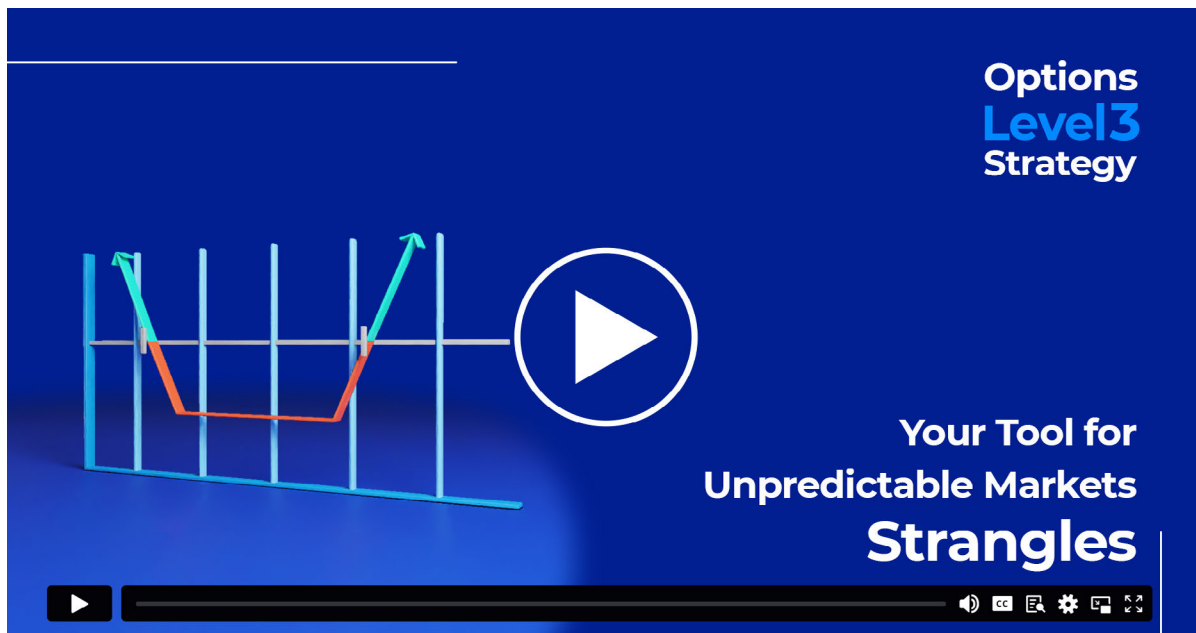




# Strangle Options: Your Tool for Unpredictable Markets



Options  
**Strategies**



## What is a strangle spread?

A long strangle is an options strategy that involves buying a call and a put option. Both options are out-of-the-money, on the same underlying security, and with the same expiration date. It is similar to a straddle except for the different strike prices.

This versatile approach can allow traders to potentially benefit from significant price changes without needing to predict the direction. As a debit spread, the strategy may also benefit from increased implied volatility.

The intention is to profit from a large price movement from the underlying security in either direction, with one of the options increasing in value above the initial cost to enter the strangle.

A short strangle, on the other hand, is a far riskier strategy that should only be attempted by experienced and well-funded traders. It involves selling an out-of-the-money call and put on the same security and expiration.

Short strangles look to benefit from the underlying price remaining between the short strikes until the expiration of the options. Due to the extreme risk of the naked short options, traders may opt for an iron condor to limit the risk. For more on iron condors, see our article in the TradeStation Options Education Center.

## Why use strangle spreads?

A trader may use a long strangle on a security with relatively low implied volatility that is expected to have a large price movement. Events such as earnings reports, court rulings, economic data releases, Federal Reserve announcements, product launches, or regulatory updates could trigger the move. The strangle is used to potentially profit from a large move in a stock's price.

They can also be used to hedge from an index or ETF's reaction to economic news. Other potential benefits of the strangle include limiting risk when there is uncertainty about the direction a market may move and offering potential profits from rising market volatility.

## Risks of strangle spreads

- 1 The underlying price may not react and move as much as needed to profit from the spread.
- 2 The price movement does not happen quickly enough, and the time decay erodes profits or creates a loss.
- 3 There may be higher costs due to multiple legs or trades (transaction fees).
- 4 Volatility drops, and the strangle may be closed for a loss.



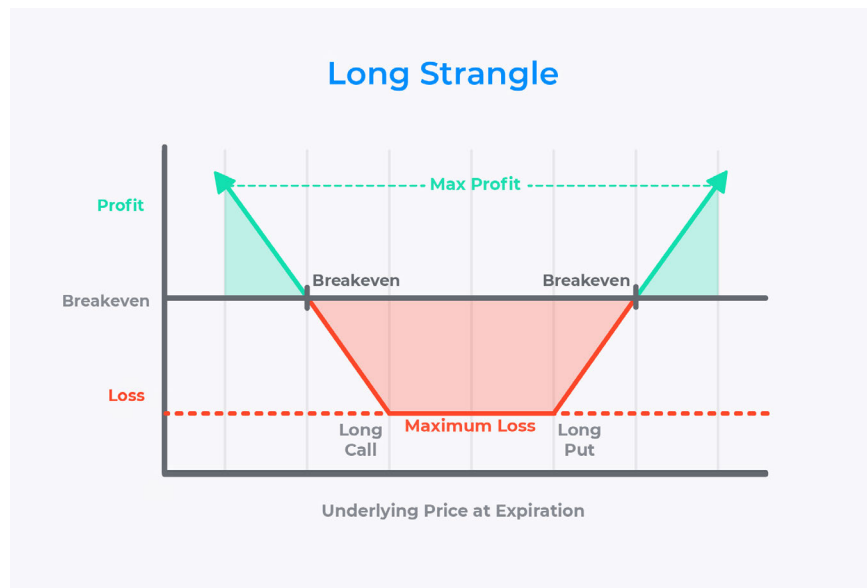
*Discover options strategies and empower your trading with the knowledge and skills to navigate dynamic market conditions.*

## How to create a long strangle

- 1 Buy a put option with a strike price below the underlying price.
- 2 Buy a call option with a strike price above the underlying price.
- 3 Both options should have the same expiration date.

## Long strangle risk/reward profile

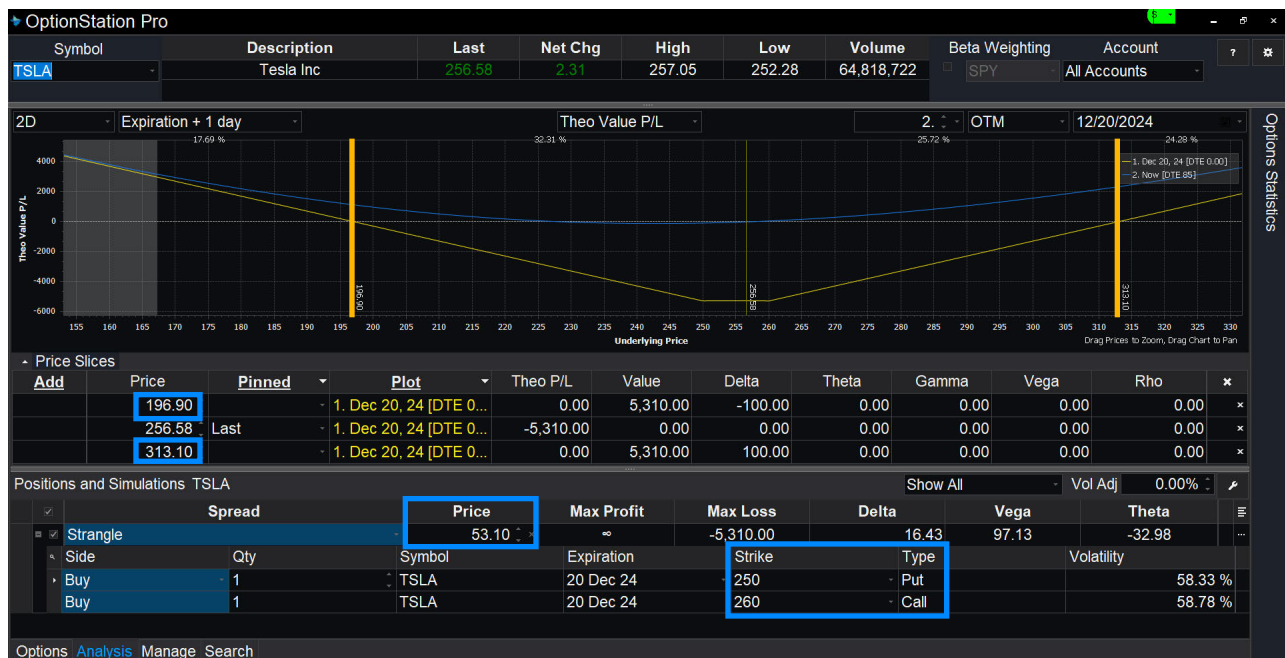
- 1 **Maximum profit:** Potentially unlimited.
- 2 **Breakeven:** The put strike minus the premium paid and the call strike plus the premium paid.
- 3 **Maximum Risk:** The premium paid for the spread.



## Choosing the strike prices

The choice of strike price is important for the desired potential outcome of a strangle. Here are some considerations:

- 1 The closer the strikes are to the underlying price, the higher the initial cost.
- 2 The farther the strikes are from the current price, the larger the price movement required for potential profit.



The narrow 250/260 strangle costs \$53.10. The breakeven prices are 196.90 and 313.10.

**Watch the Webinar – “Strangles: Taking Advantage of Price Swings and Volatility”.** Discover how strangles can be used to manage risk while trading a potentially large price move without knowing which direction it may go.



The wider 240/270 strangle costs \$44.12, but the breakeven points are farther at \$195.88 and \$314.12.

Your choice depends on your market outlook, expectation of price movement, and risk tolerance.

## Time decay and strangle spreads

Time decay, or theta, negatively impacts long strangles:

- 1 Short-term options lose value faster due to time decay, which works against you as the strangle buyer.
- 2 Long-term options lose time value more slowly, so choosing options with more time until expiration reduces the effects of time decay. You may recoup much of the time value when you close the strangle.
- 3 To minimize the effect of time decay, traders can buy longer-term options with 60 to 90 days until expiration and sell to close the strangle with at least 30 days remaining.

## How volatility affects strangle spreads

- 1 Increasing volatility usually benefits strangles, as the long options may gain value with a rise in implied volatility.
- 2 Decreasing volatility can hurt strangles, as a drop in implied volatility may reduce the value of the options.
- 3 Consider entering the strangle when implied volatility is relatively low, as volatility typically rises as an event approaches.

### Strategy example – long strangle

Using the RadarScreen® in the Strangle workspace to filter for candidates, Smartsheet Inc. (SMAR) appeared in the Implied Volatility % change-down filtered list with earnings scheduled in 41 days.

	Symbol	Imp Vol % Chg	Description	Last	Next Earning... Date	#Da...	Impl Volty- All ... IV All	Impl Vo... IV Avg	Impl Vo... IV/Hist...	Open Int - All Opts
1	SWN	-86.59%	Southwestern Energy	6.73	10/31/24	36	30.38%	127.96%	116.7%	118,715
2	SMAR	-79.55%	Smartsheet Inc	55.36	11/05/24	41	7.62%	38.92%	22.9%	68,471

The daily chart reveals that the stock typically gaps following earnings releases, and is experiencing lower-than-average volatility, which tends to rise as it approaches the announcement.



The January 17 options expire in 113 days, meaning there will be 72 days left after the earnings announcement. This extended timeframe means that the options will experience very little time decay. In contrast, if we chose the November options, the time decay would erode much of the premium as we approached the earnings date.

Symbol	Description	Last	Net Chg	High	Low	Volume	Beta Weighting	Account
SMAR	Smartsheet Inc	55.36	-0.10	55.60	55.36	24,056,730	SPY	All Accounts

CALLS														PUTS			
Pos	Theo V...	Vega	Theta	Gamma	Delta	Bid	Ask	Strike	Bid	Ask	Delta	Gamma	Theta	Vega	Theo V...	Pos	
18 Oct 24 (22d)															18.35%	(±2.03)	
15 Nov 24 (50d)															15.24%	(±2.52)	
17 Jan 25 (113d)															7.46%	(±1.84)	
	16.29	0.01	-0.01	0.003	0.98	15.65	16.30	35 / 40	15.65	16.30	0.98	0.003	-0.01	0.01	16.29		
	12.26	0.06	-0.01	0.021	0.90	10.75	12.10	40 / 45	10.75	12.10	0.90	0.021	-0.01	0.06	12.26		
	9.31	0.12	-0.02	0.045	0.75	6.10	8.45	45 / 50	6.10	8.45	0.75	0.045	-0.02	0.12	9.31		
	7.81	0.14	-0.01	0.189	0.64	1.45	1.85	50 / 55	1.45	1.85	0.64	0.189	-0.01	0.14	7.81		
	7.89	0.14	0.00	0.261	-0.12	0.25	0.45	55 / 60	0.25	0.45	-0.12	0.261	0.00	0.14	7.89		
	9.45	0.03	0.00	0.019	-0.96	4.15	5.00	60 / 65	4.15	5.00	-0.96	0.019	0.00	0.03	9.45		
	12.21	0.02	0.00	0.011	-0.97	7.45	11.80	65 / 70	7.45	11.80	-0.97	0.011	0.00	0.02	12.21		
	15.86	0.01	0.00	0.006	-0.98	12.45	16.75	70 / 75	12.45	16.75	-0.98	0.006	0.00	0.01	15.86		

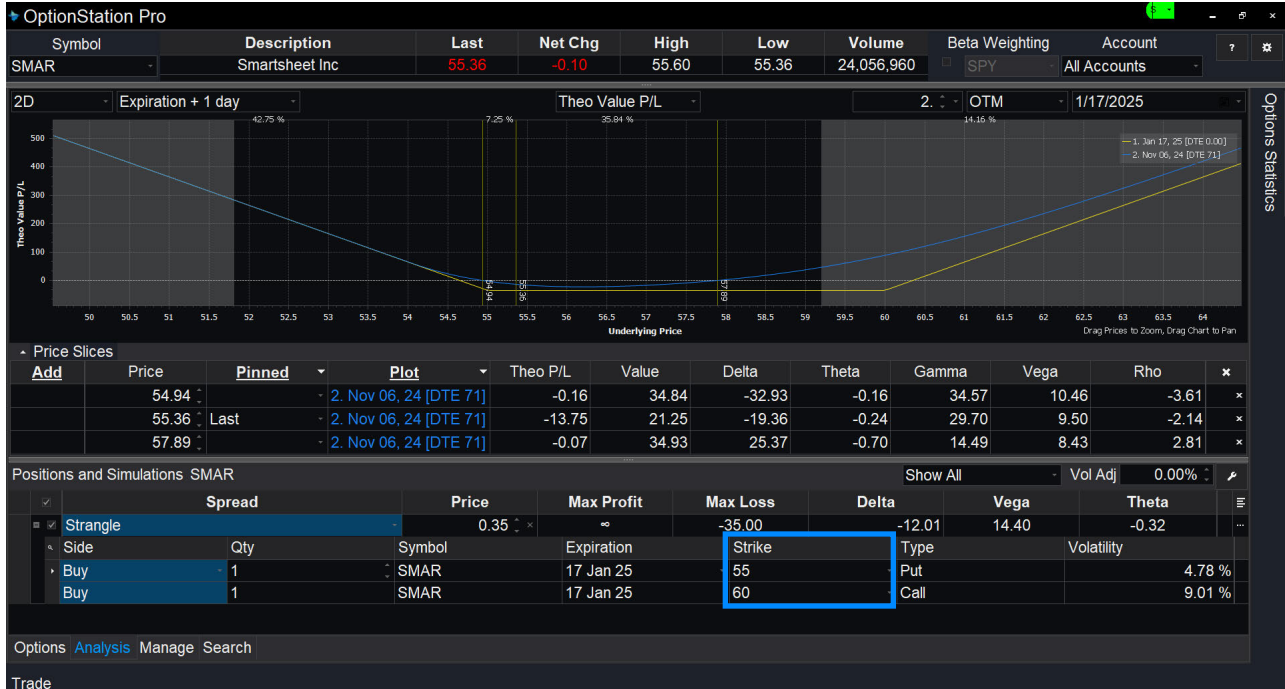
  

Trade						
Spread	Delta	Theta	Max Profit	Max Loss		
Strangle	-12	-0.32	∞	-35.00		
Side	Open / Close	Quantity	Symbol	Expiration	Strike	Type
Buy	Open	1	SMAR	17 Jan 25	55	Put
Buy	Open	1	SMAR	17 Jan 25	60	Call

Order Type	Limit Price	Stop Price	Route	Duration	Account Number
Limit	0.35	0.35	Intelligent	Day	SIM1097305M


We selected the 55 and 60 strikes for the strangle, and there is a slightly bearish bias since the 55 strike is closer to the current price. The 50/55 or 50/60 strike strangles could also be suitable options. Traders should analyze the various options and select the one that best meets their needs and risk tolerance.



Loading the strangle into the analysis tab of OptionStation Pro lets us see the risk profile and potential theoretical outcomes. The yellow line represents the profile on the options expiration date.

By adjusting the plot to the day after the earnings release, we can identify the probable breakeven prices and maximum loss should the price fail to move past the strike prices. Remember, there will still be time value left.

On November 6, the breakeven prices are \$54.94 and \$57.89. If the earnings cause SMAR to move past either, we may be able to sell the strangle for a profit. Conversely, if the price fails to move beyond either strike, we could sell and incur a loss limited to the time value of approximately -\$13.75 instead of the maximum potential loss of \$35.

 **Review options level** – Ready to take your options trading to the next level? Learn about your option level and make sure it's right for you. Boost your trading potential!

## Monitoring and exiting a long strangle spread

Strangles are extremely sensitive to time and momentum, they need regular supervision and possible adjustments throughout the trade. The strangle can be held until expiration, although the time value would be lost. If one option is in-the-money at expiration, it will be automatically exercised, and the trader will be responsible for the new position in the underlying. Ensure your account is well funded, and you are prepared to handle an exercise or assignment.

Strangles are commonly sold to close for either a profit or a loss before expiration. If the underlying price moves to or beyond a certain level, traders can use the activation rule tool to set a stop-loss or take-profit order. Explore the article and video in the Options Education Center for more information on activation rules.

Additionally, the strangle can be closed after the expected event to recover the time value and the possible intrinsic value gained.

## Practice with simulated trading

You can log in to Simulated Trading mode within TradeStation to practice placing, managing, and exiting strangles with various configurations without the risk of loss. As you become more familiar with these strategies, you can incorporate them into your live trading, starting with small positions.

## Conclusion

Strangles can be an effective tool in an options trader's arsenal, providing flexibility to hedge, and potentially profit from big market moves and increased volatility. However, like all trading strategies, they come with risks. It's crucial to thoroughly understand how strangles work before using them with real money.

Remember, successful options trading requires ongoing education and practice. Start by paper trading strangles using tools like TradeStation's Option Station. As you gain confidence, incorporate these strategies into your live trading plan.

By understanding this versatile approach, you'll be better equipped to handle various market conditions and potentially enhance your trading results.

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