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**OPTIONS
INSTITUTE**

Interactive Brokers Webcast

Bearish Spreads

April 19, 2017

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Bearish Spreads

Outline

- **Bearish Vertical Spreads**
- **Trading Examples**
- **Summary / Q&A**

Bearish Vertical Spreads

Construction

A Bearish Vertical Spread may be structured in two ways –

All Put Options –

Long higher strike / short lower strike

Pay a **Debit** for initiating the trade

All Call Options –

Long higher strike / short lower strike

Receive a **Credit** for initiating trade

Bearish Vertical Spreads

Examples

Bear Put Spread –

Short 1 XYZ 25 Put at 5.20
Long 1 XYZ 30 Put at 7.50
Pay Debit of 2.50

Bear Call Spread –

Short 1 XYZ 55 Call at 7.00
Long 1 XYZ 60 Call at 5.00
Receive Credit of 2.00

Bearish Vertical Spreads

Call Spread Example

XYZ Trading at 44.00 –

Bearish outlook for XYZ

Target price of 40.00 in 45 Days

45 Day Option Pricing

	Bid	Ask
40 Call	4.70	4.75
45 Call	1.75	1.80
50 Call	0.45	0.50

Sell 1 40 Call at 4.70

Buy 1 45 Call at 1.80

Net Credit = 2.90

Bearish Vertical Spreads

Call Spread Example

Payoff at Expiration –

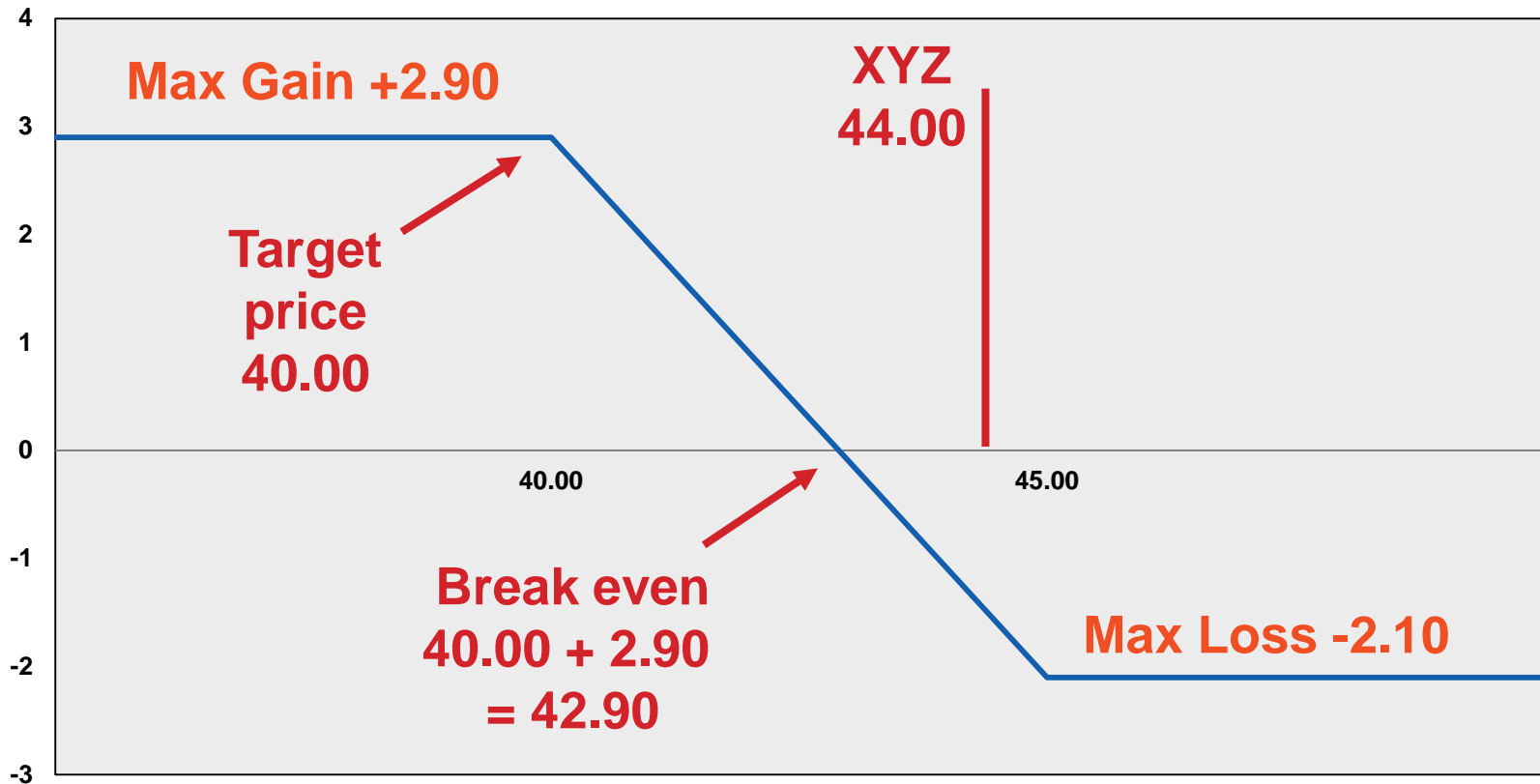
Stock	40 Call	45 Call	Credit	P/L
35	0.00	0.00	2.90	2.90
40	0.00	0.00	2.90	2.90
45	(5.00)	0.00	2.90	(2.10)
50	(10.00)	5.00	2.90	(2.10)
55	(15.00)	10.00	2.90	(2.10)

Recall – Target Price = 40.00

Bearish Vertical Spreads

Call Spread Example

Payoff Diagram –



Bearish Vertical Spreads

Call Spread Example

XYZ Trading at 44.00 –

Neutral to bearish outlook for XYZ
Expect stock at 44.00 in 45 Days

45 Day Option Pricing

	Bid	Ask
40 Call	4.70	4.75
45 Call	1.75	1.80
50 Call	0.45	0.50

Sell 1 45 Call at 1.75
Buy 1 50 Call at 0.50
Net Credit = 1.25

Bearish Vertical Spreads

Call Spread Example

Payoff at Expiration –

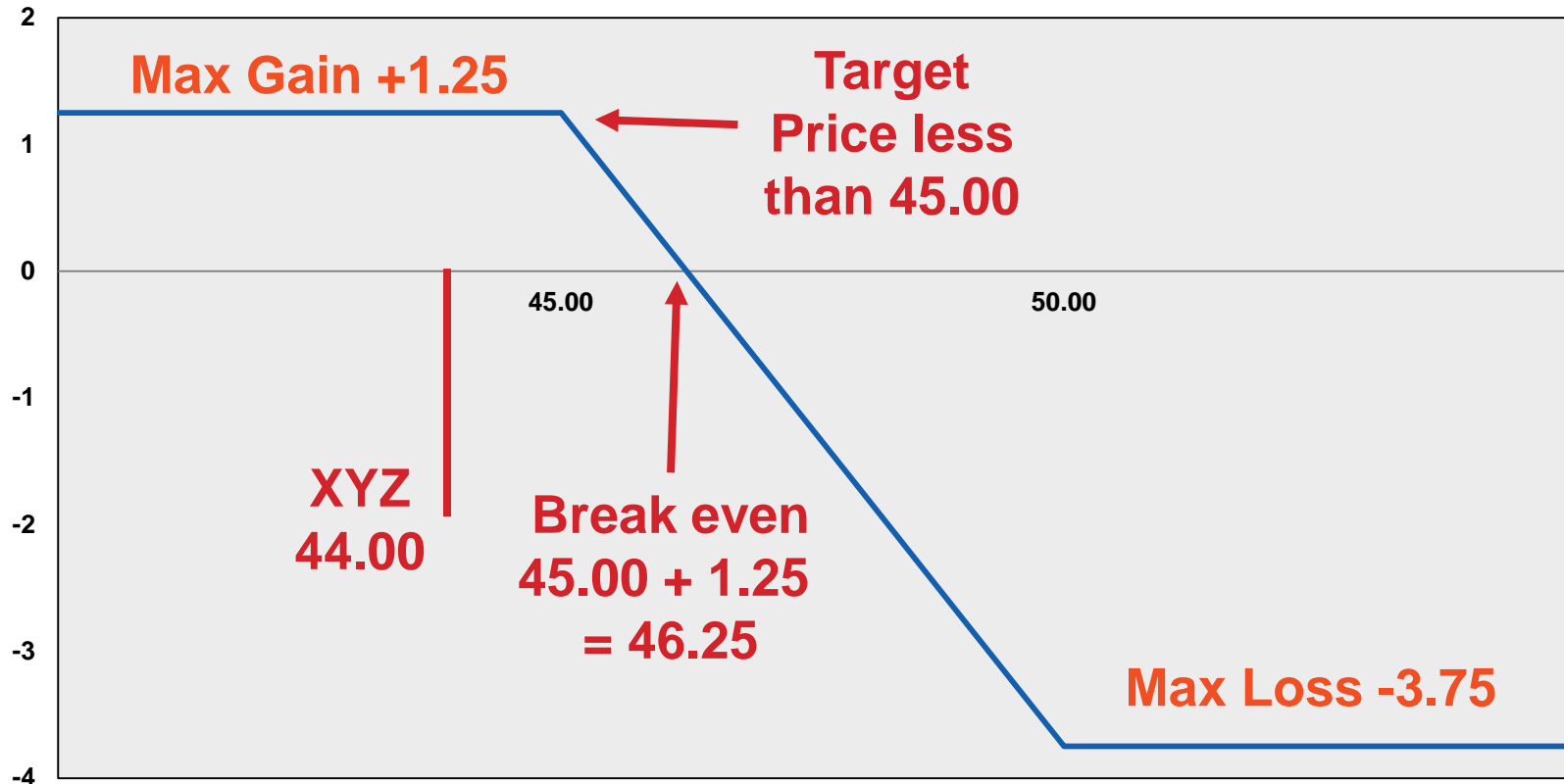
Stock	45 Call	50 Call	Credit	P/L
35	0.00	0.00	1.25	1.25
40	0.00	0.00	1.25	1.25
45	0.00	0.00	1.25	1.25
50	(5.00)	0.00	1.25	(3.75)
55	(10.00)	5.00	1.25	(3.75)

Recall – Expect stock < 45.00

Bearish Vertical Spreads

Call Spread Example

Payoff Diagram –



Bearish Vertical Spreads

Call Spread Comparison

40 / 45 Bear Call Spread

Risk = 2.10

Reward = 2.90

45 / 50 Bear Call Spread

Risk = 3.75

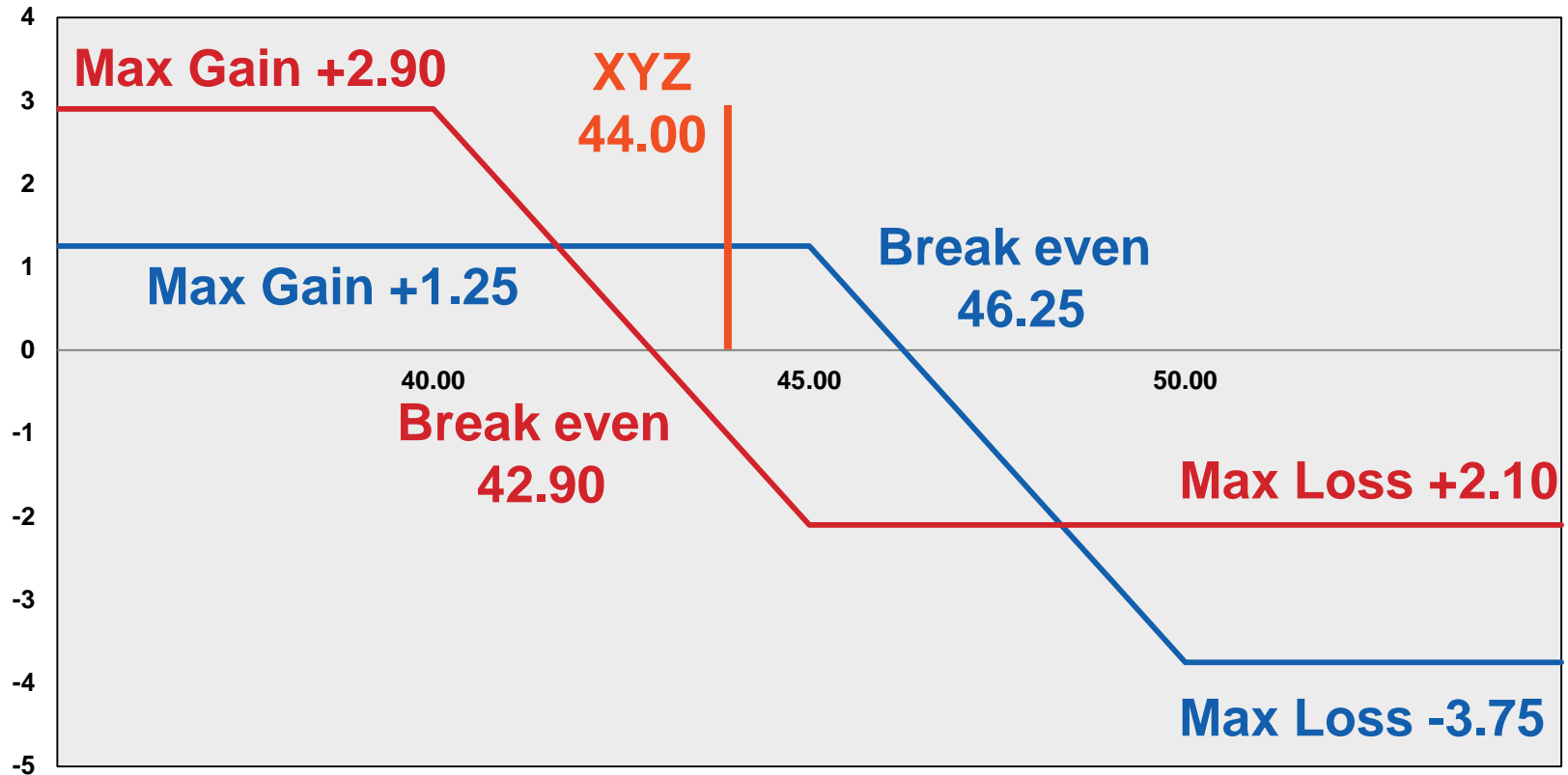
Reward = 1.25

This is explained better with a payoff diagram

Bearish Vertical Spreads

Call Spread Comparison

Payoff Diagrams –



TWTR Earnings

Bear Call Spreads

- On February 5th TWTR Closed at 41.26 – scheduled to report earnings after the close
- Two different bearish trades came in late in the day

Three year summary of TWTR earnings reactions

Max	Min	Abs Avg.	Last Q
19.98%	-24.16%	15.64%	-9.84%

$$15.64\% = +/- 6.45$$

Data Source: Bloomberg

TWTR Earnings

Bull Put Spreads

Sell 1 TWTR Feb 6th 48 Call at 0.45
Buy 1 TWTR Feb 6th 50 Call at 0.22

Credit = 0.23
Risk = 1.77

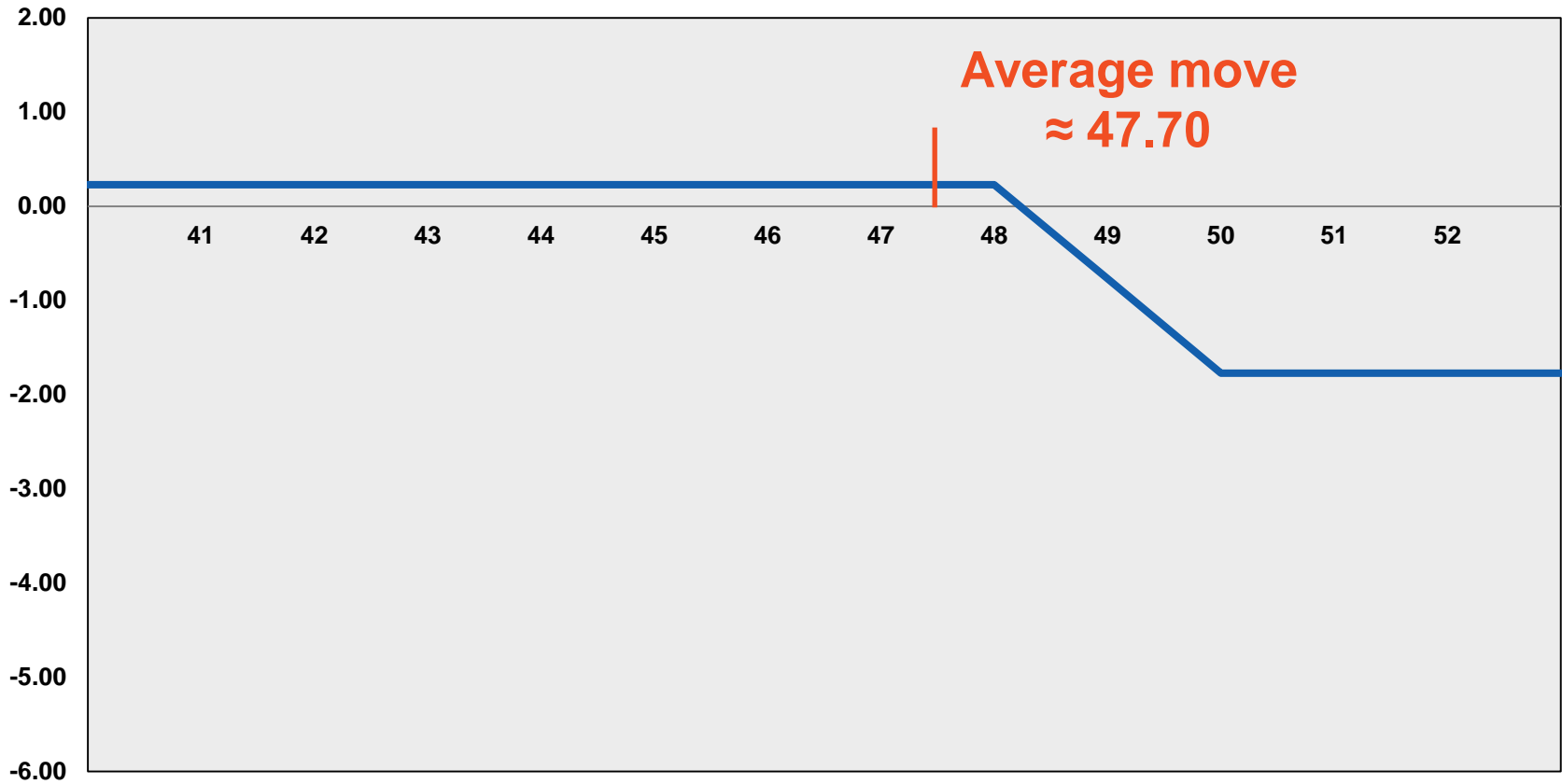
Sell 1 TWTR Feb 6th 45 Call at 0.97
Buy 1 TWTR Feb 6th 50 Call at 0.22

Credit = 0.75
Risk = 4.25

TWTR Earnings

Bear Call Spreads

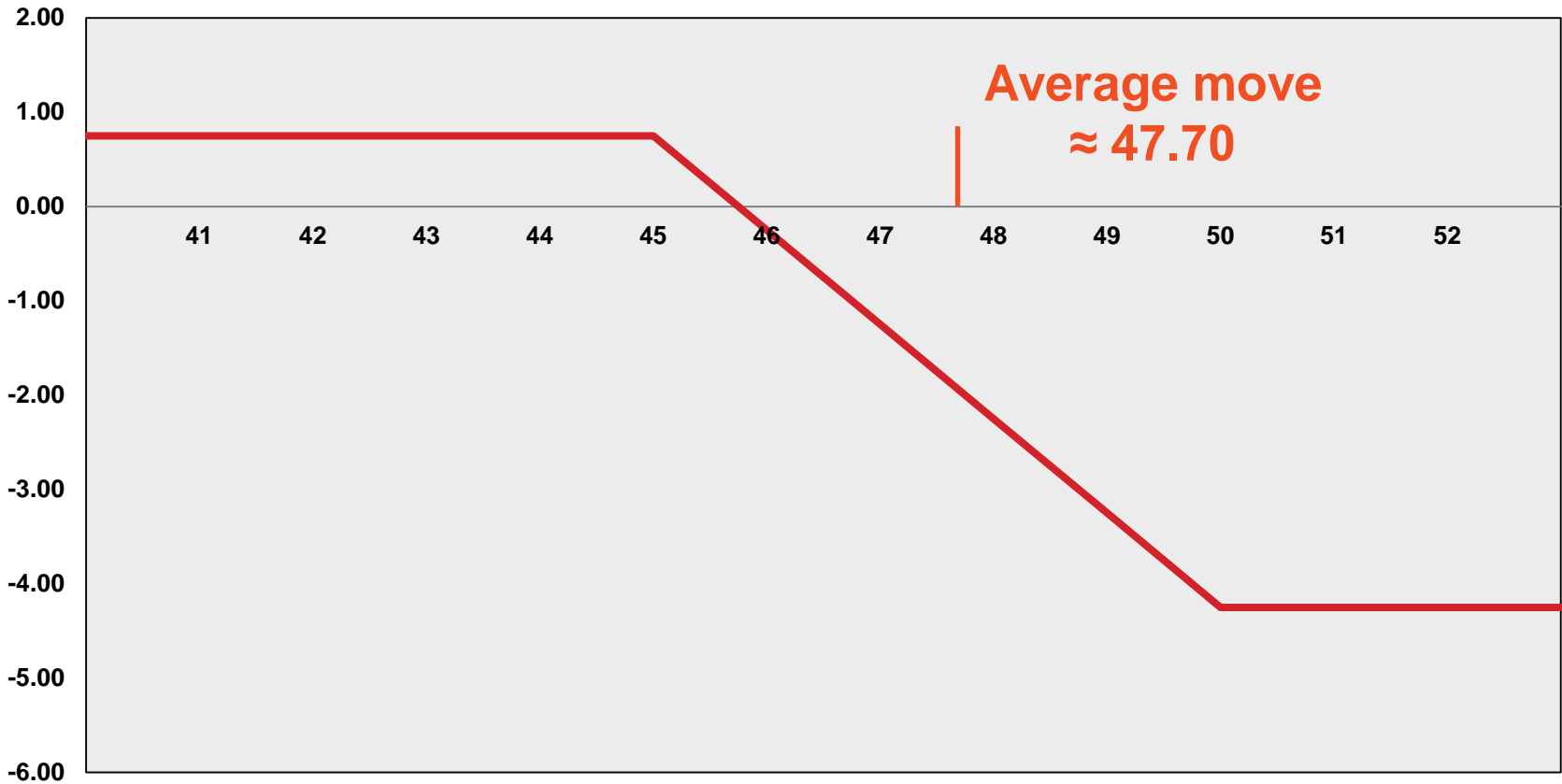
TWTR Feb 6th 48 / 50 Bear Call Spread



TWTR Earnings

Bear Call Spreads

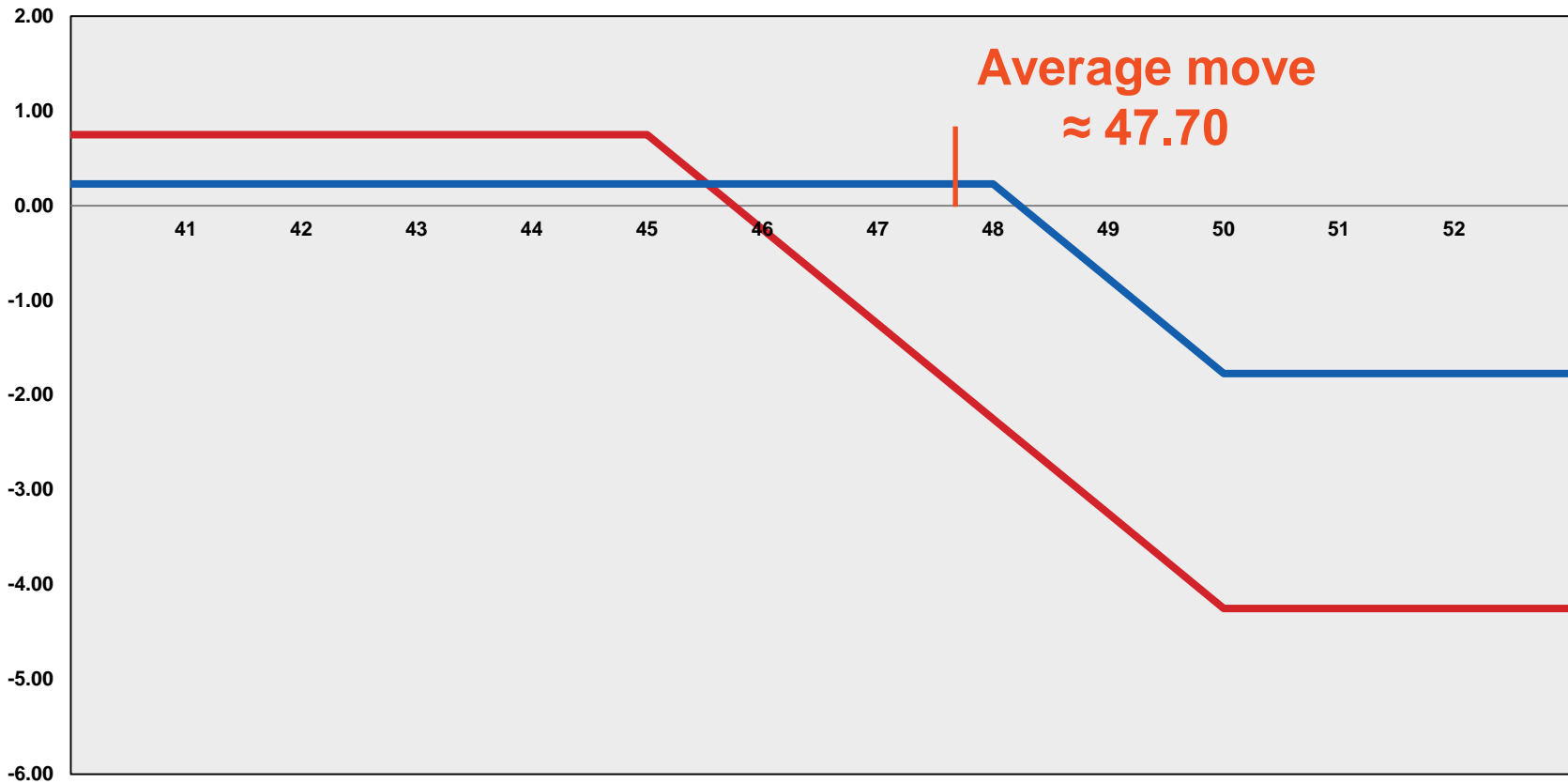
TWTR Feb 6th 45 / 50 Bear Call Spread



TWTR Earnings

Bear Call Spreads

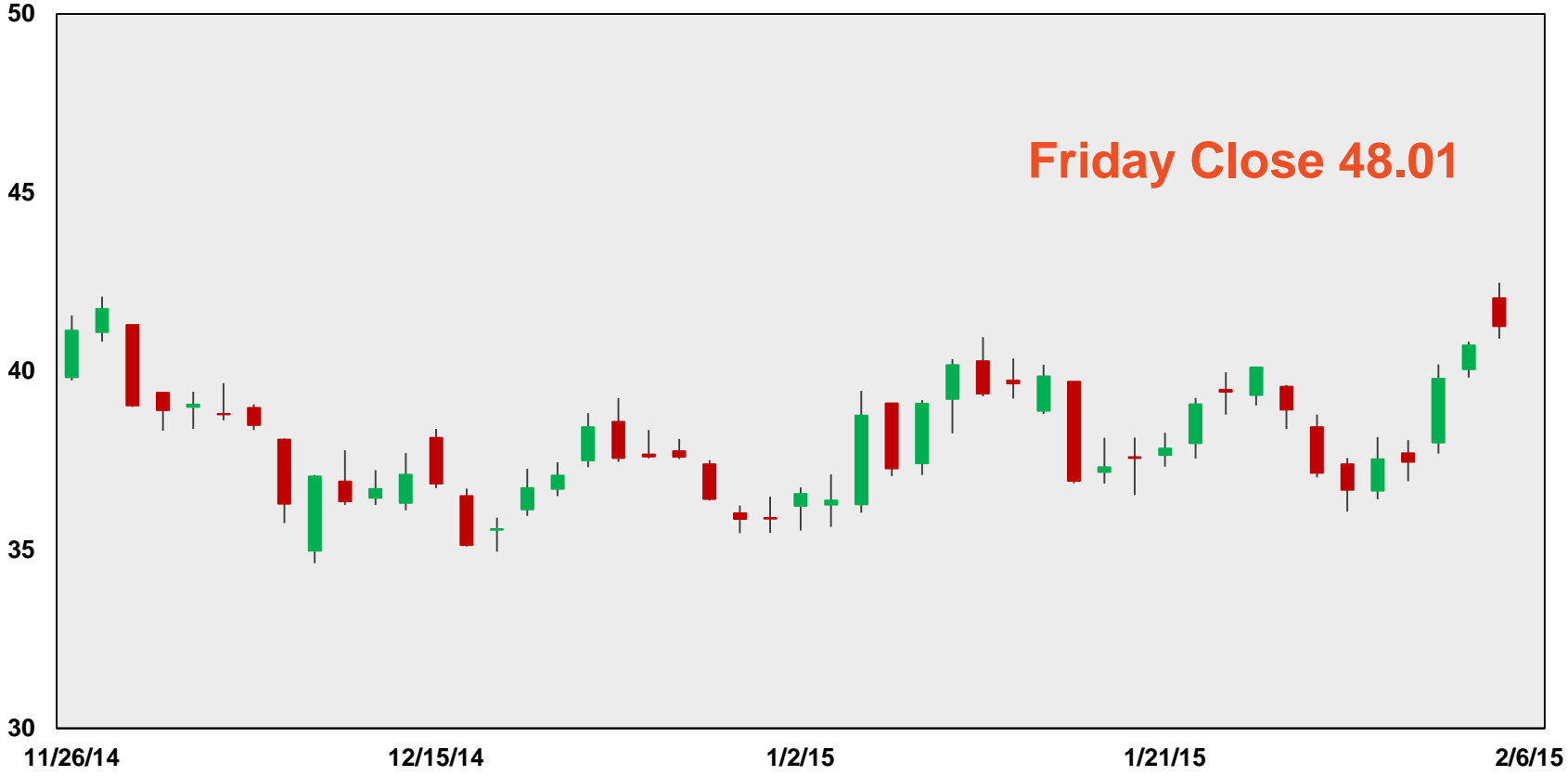
Spread Comparison



TWTR Earnings

Price Action

Daily Prices



Friday Close 48.01

Data Source: Bloomberg

TWTR Earnings

Summary

- **Two bearish spreads based on the same event**
- **One is actually more neutral and one is actually more of a bearish trade**
- **The neutral trade was ‘wrong’ and still turned out well**

Russell 2000 Index Option Trade

Bear Call Spread

Friday February 12, 2016

RUT @ 960

Sell RUT Mar 18th 1060 Call at 2.90

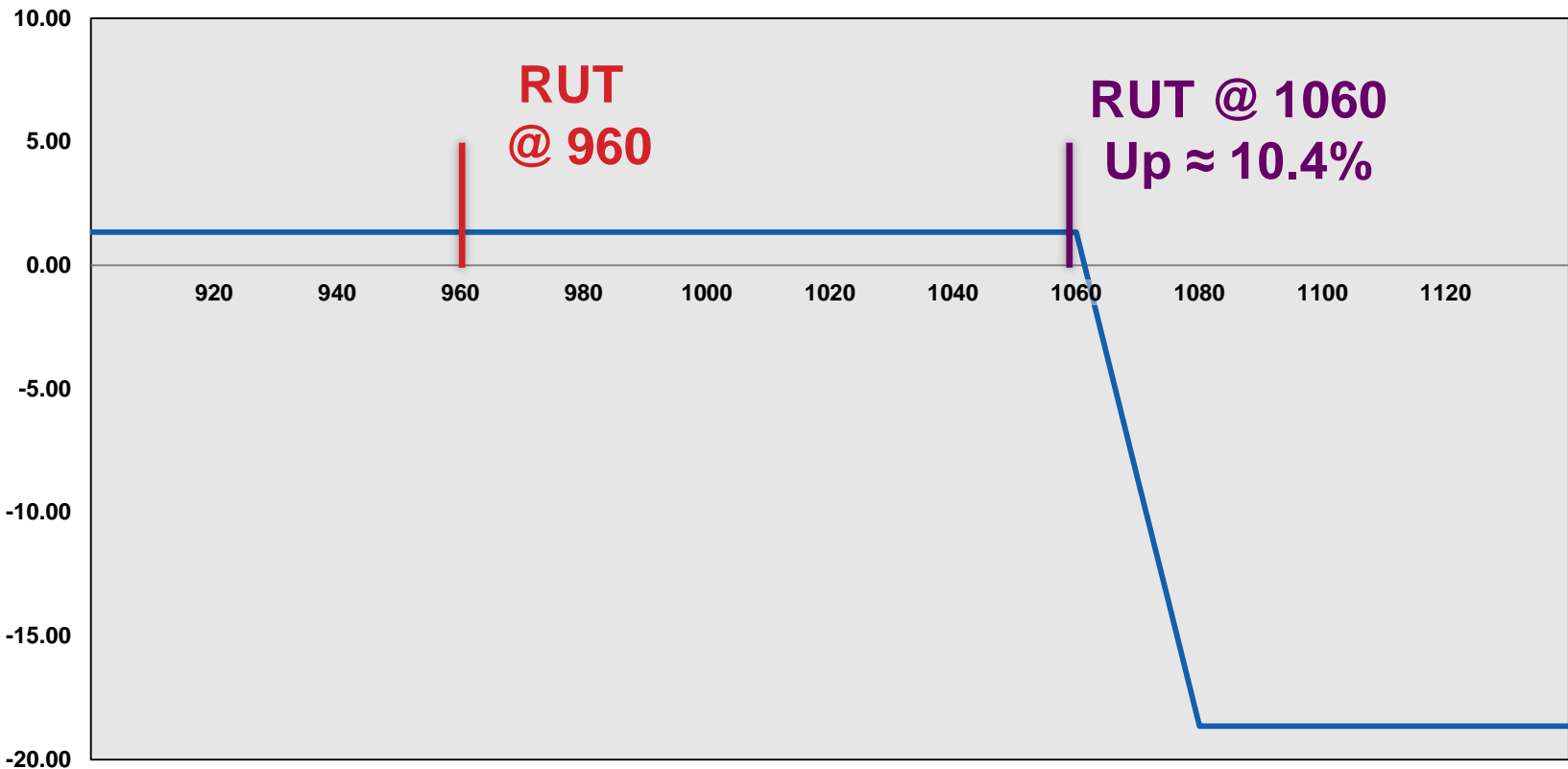
Buy RUT Mar 18th 1080 Call at 1.55

Net Credit = 1.35

Russell 2000 Index Option Trade

Bear Call Spread

RUT Mar 18th 1060 / 1080 Bear Call Spread



Bearish Spreads

Questions / Links / Contact

Questions?

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