

Ratio Spreads

Interactive Brokers Webcast



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- ❖ Types of Ratio Spreads
- ❖ Trading Examples
- ❖ Questions / Contact Info



Overview

- ❖ Ratio Spread is a general term used for a spread
- ❖ That uses the same type of options (Call or Put)
- ❖ Is long one strike and short another
- ❖ The number of long and short strikes is not equal



Call Options

XYZ at 42.50

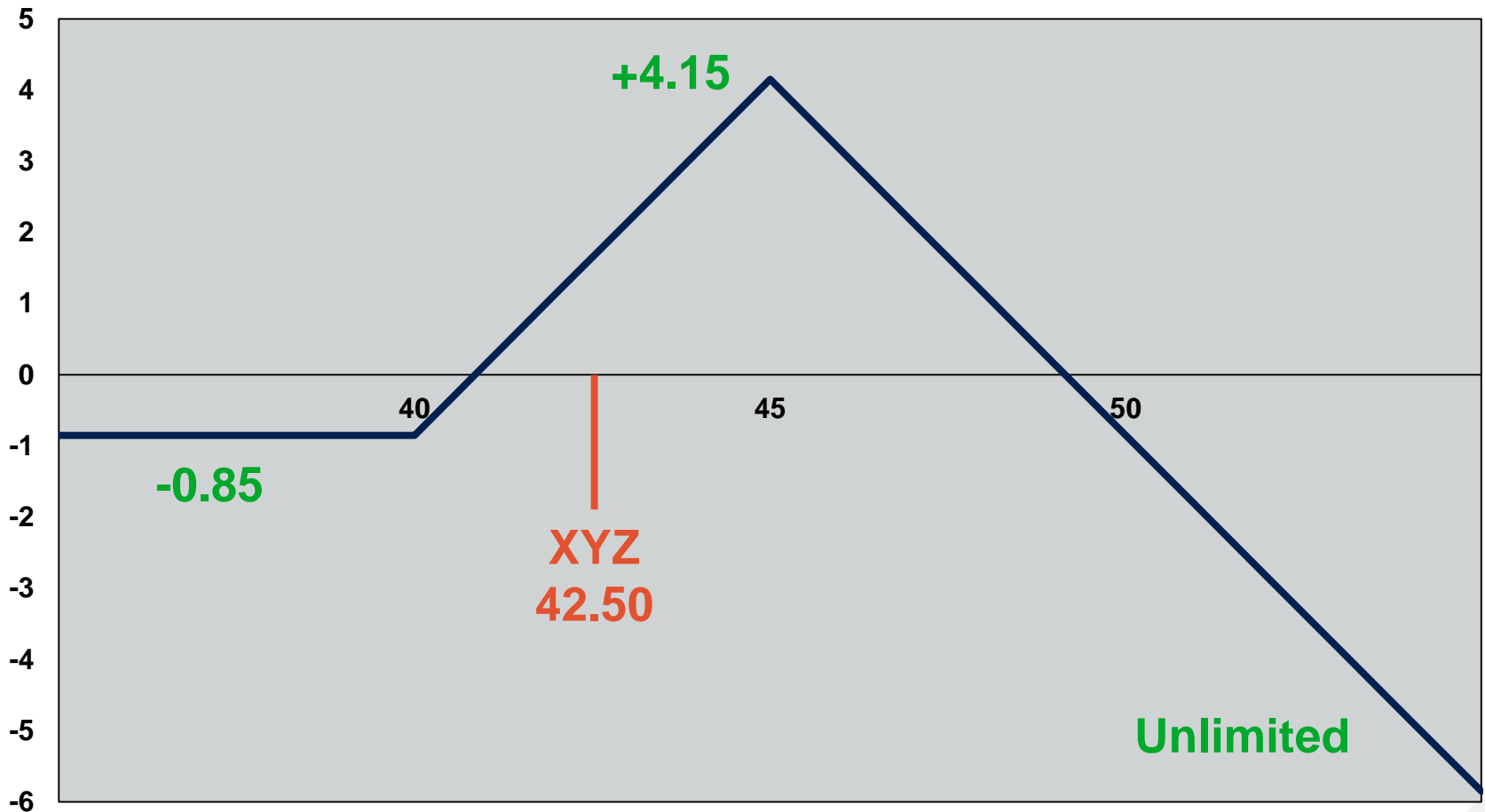
Buy 1 XYZ 40 Call at 3.95

Sell 2 XYZ 45 Calls at 1.55 ea (3.10)

Net Debit = 0.85



Long 1 40 Call + Short 2 45 Calls Payout at Expiration



Call Options

XYZ at 42.50

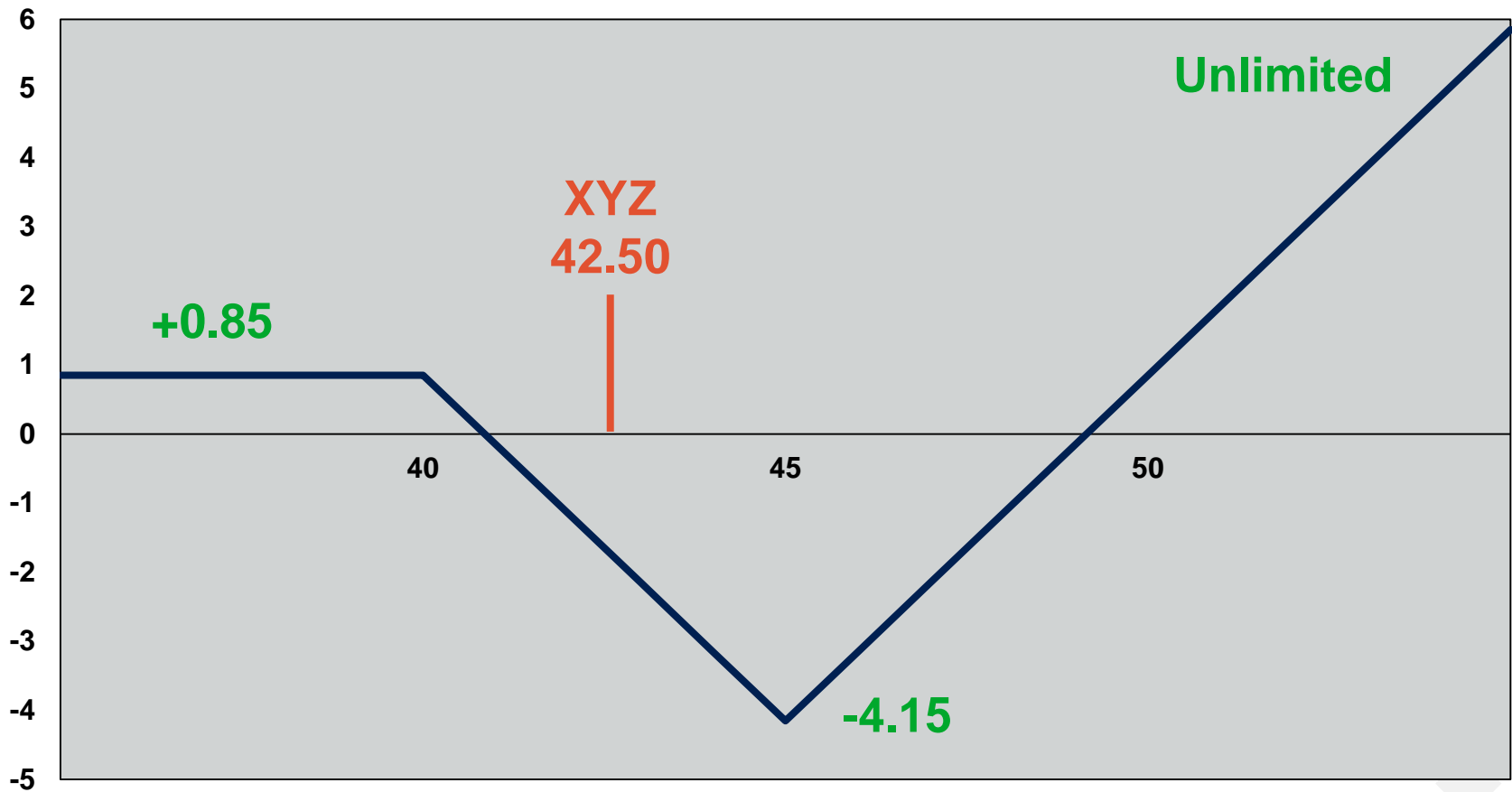
Sell 1 XYZ 40 Call at 3.95

Buy 2 XYZ 45 Calls at 1.55 ea (3.10)

Net Credit = 0.85



Short 1 40 Call + Long 2 45 Calls Payout at Expiration



Put Options

XYZ @ 42.50

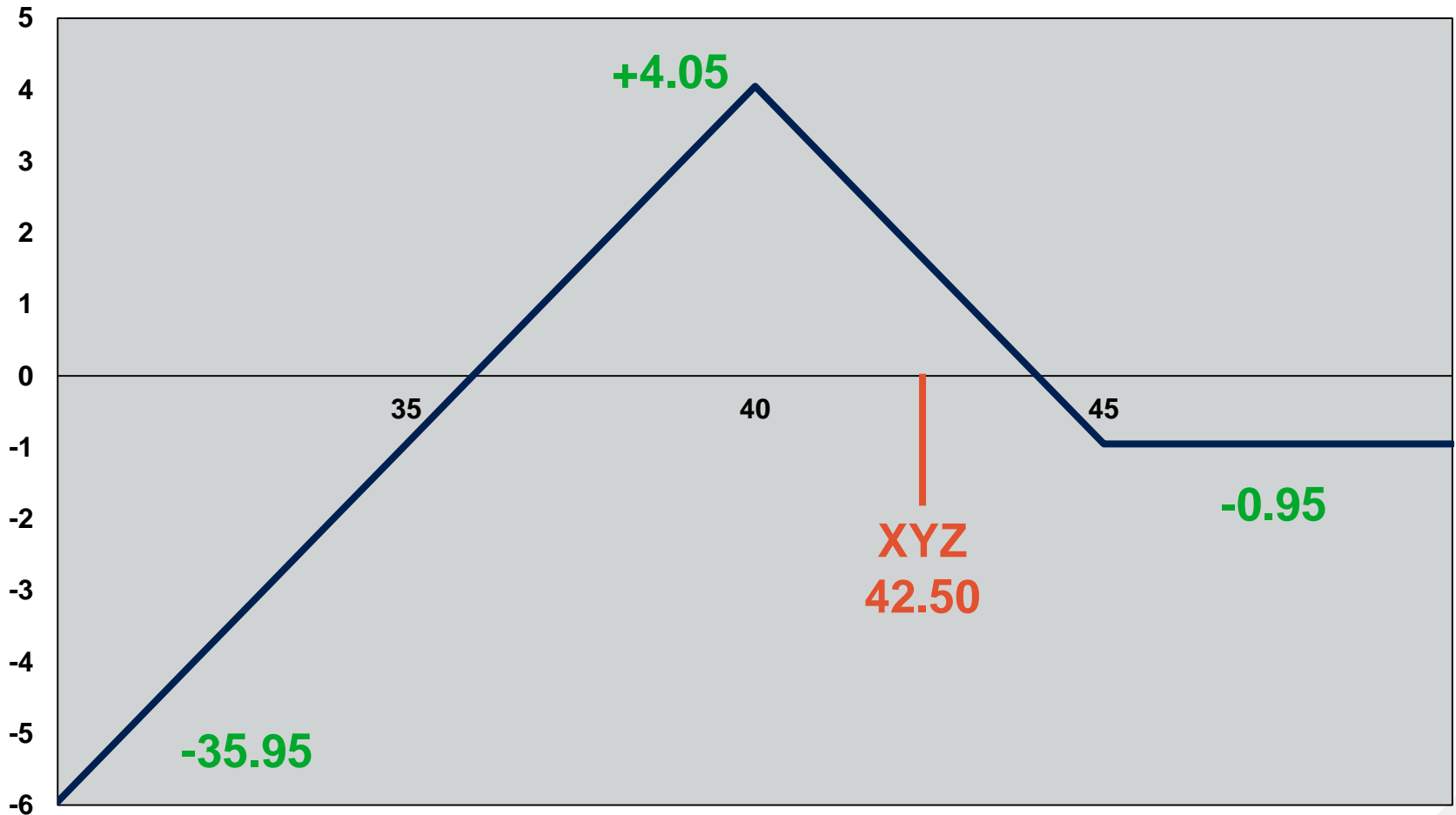
Sell 2 XYZ 40 Puts at 1.50 ea (3.00)

Buy 1 XYZ 45 Put at 3.95

Net Debit = 0.95



Short 2 40 Puts + Long 1 45 Put Payoff at Expiration



Put Options

XYZ @ 42.50

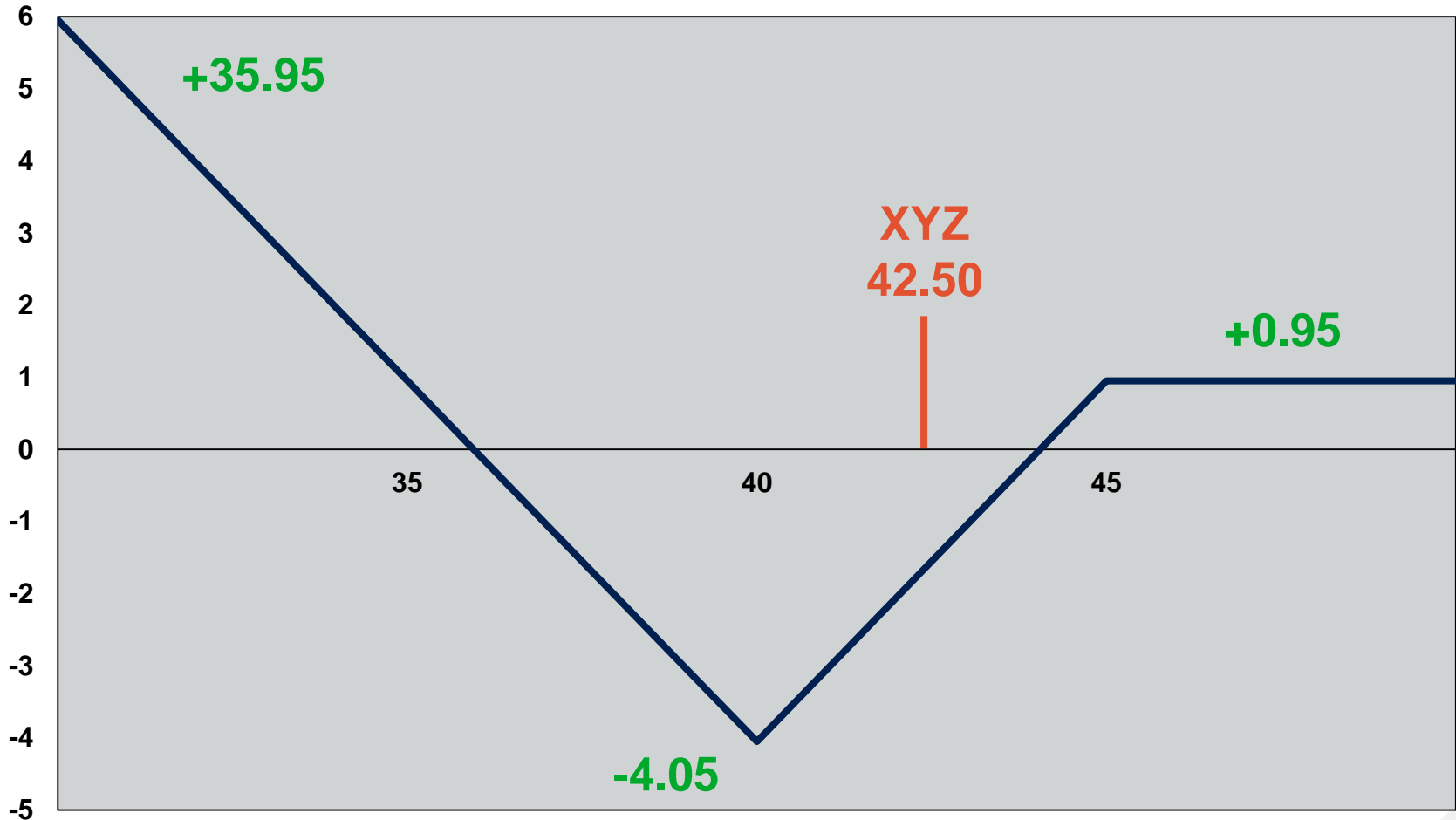
Buy 2 XYZ 40 Puts at 1.50 ea (3.00)

Sell 1 XYZ 45 Put at 3.95

Net Credit = 0.95



Long 2 40 Puts + Short 1 45 Put Payoff at Expiration



- ❖ AAPL reported earnings after the close Monday April 27
- ❖ A slightly bullish to neutral ratio spread trade came to the AAPL post just before the close

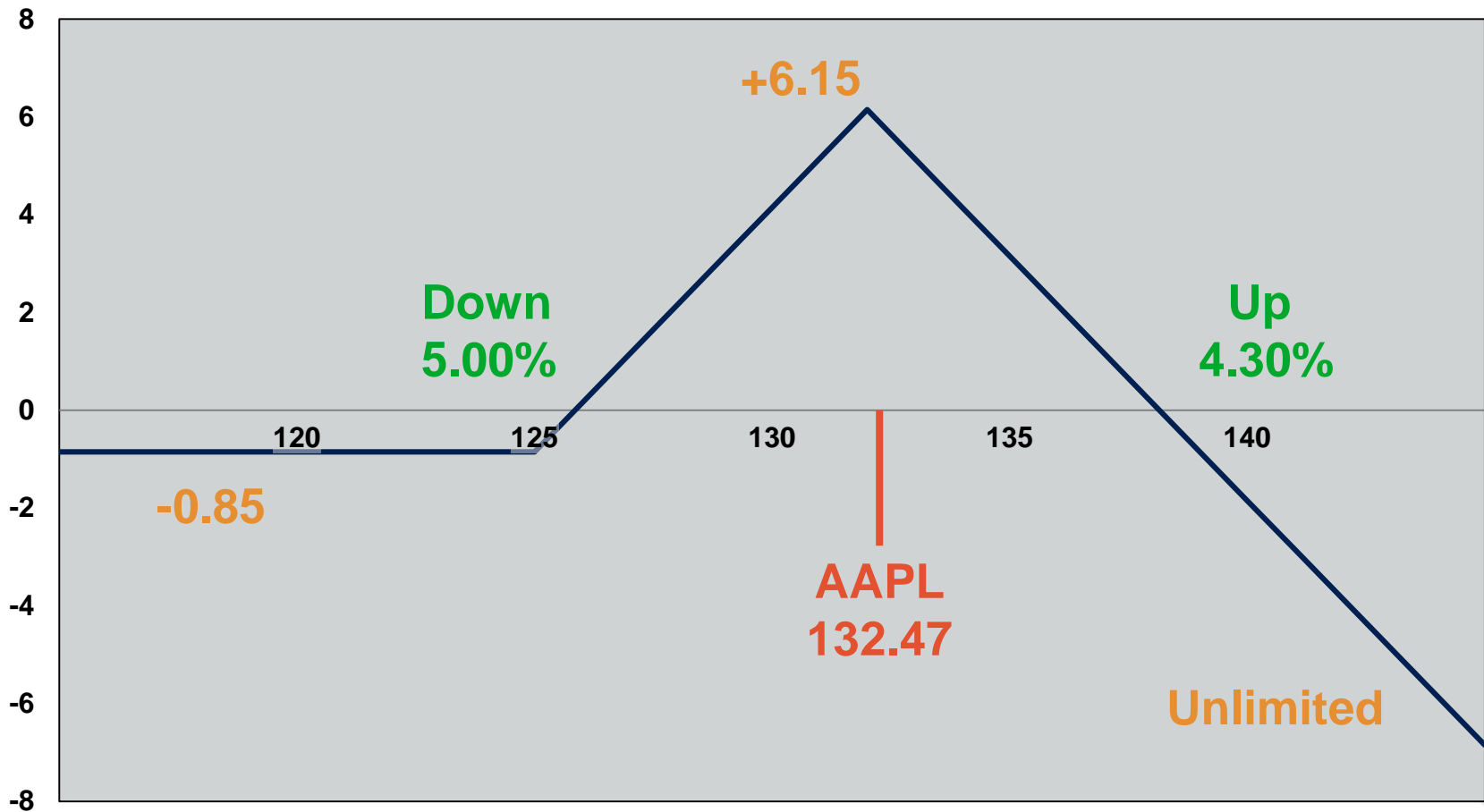
Three year summary of AAPL earnings reactions

Max	Min	Abs Avg.	Last Q
8.87%	-12.35%	5.12%	5.65%

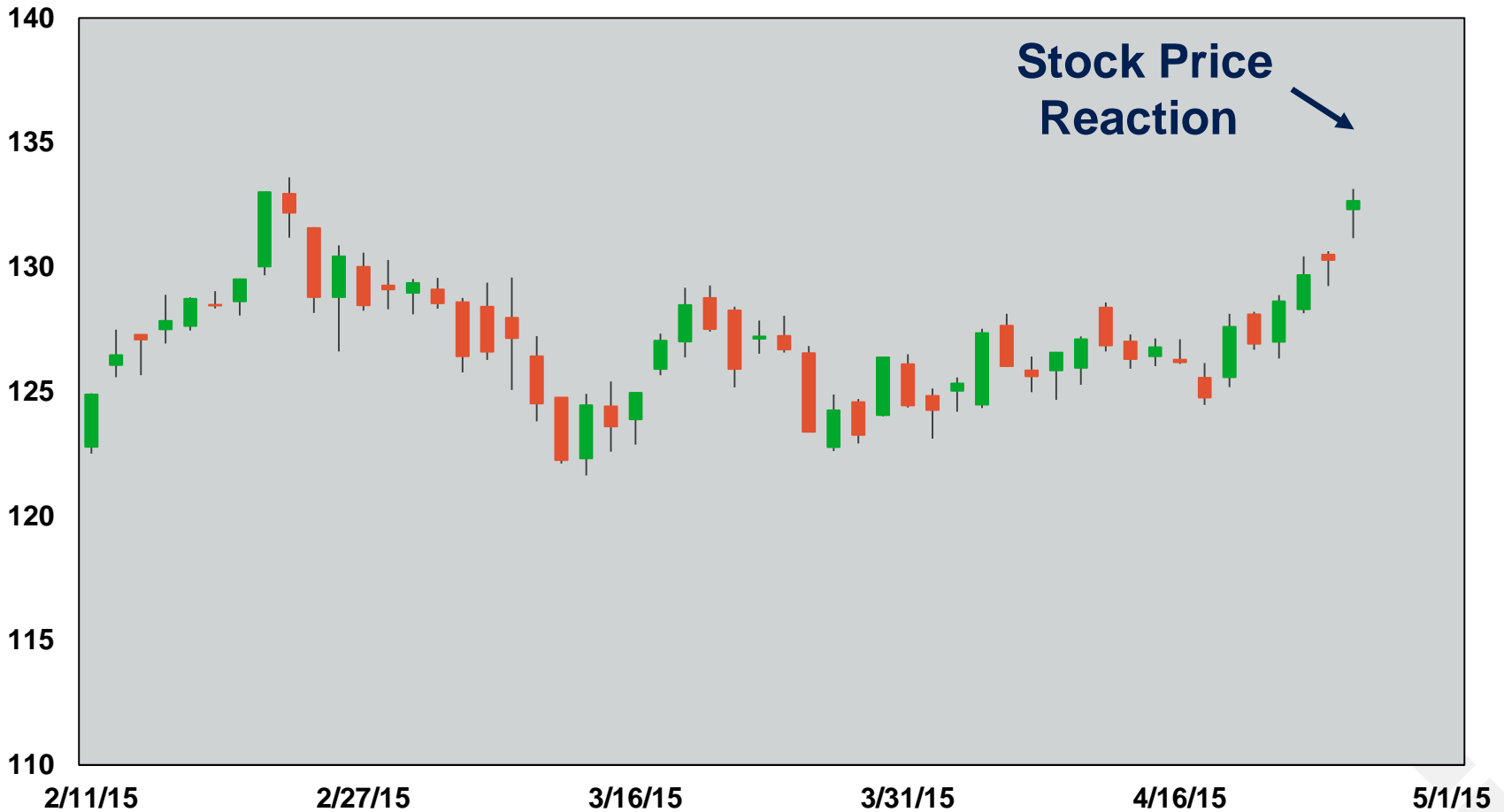
Buy 1 AAPL May 1st 125 Call at 8.45
Sell 2 AAPL May 1st 132 Calls at 3.80 ea
Net Debit = 0.85



Long 1 AAPL 125 Call + Short 2 AAPL 132 Calls Payoff at Expiration



Long 1 AAPL 125 Call + Short 2 AAPL 132 Calls Stock Price Reaction



- ❖ IBM reported earnings after the close Monday April 20 – stock at 166.48
- ❖ Trader with a moderately bullish outlook put on a ratio spread with a bullish bias 62 seconds before the close

Three year summary of IBM earnings reactions

Max	Min	Abs Avg.	Last Q
4.41%	-8.28%	4.15%	-3.10%

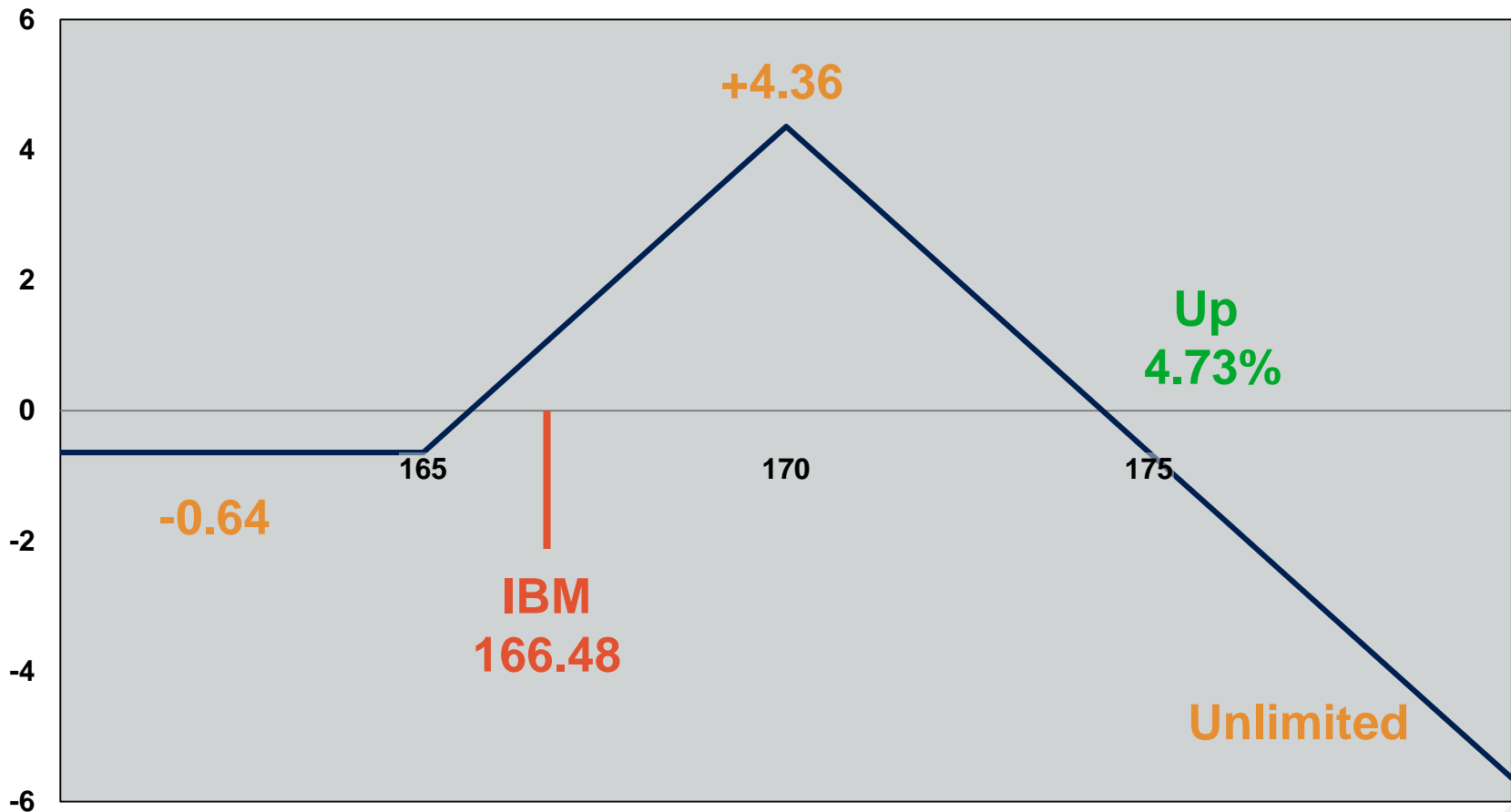
Buy 1 IBM Apr 24th 165 Call at 3.92

Sell 2 IBM Apr 24th 170 Calls at 1.64 each

Net Debit = 0.64



Long 1 IBM 165 Call + Short 2 IBM 170 Calls Payoff at Expiration



Long 1 IBM 165 Call + Short 2 IBM 170 Calls Stock Price Reaction



- ❖ Tuesday October 3rd – VIX at 9.55 / Nov 1st Future at 11.70
- ❖ Trader entered a ratio spread at a credit looking for a potential spike in volatility during the month of October
- ❖ If no spike came (it didn't) the trade would result in a profit equal to the credit received

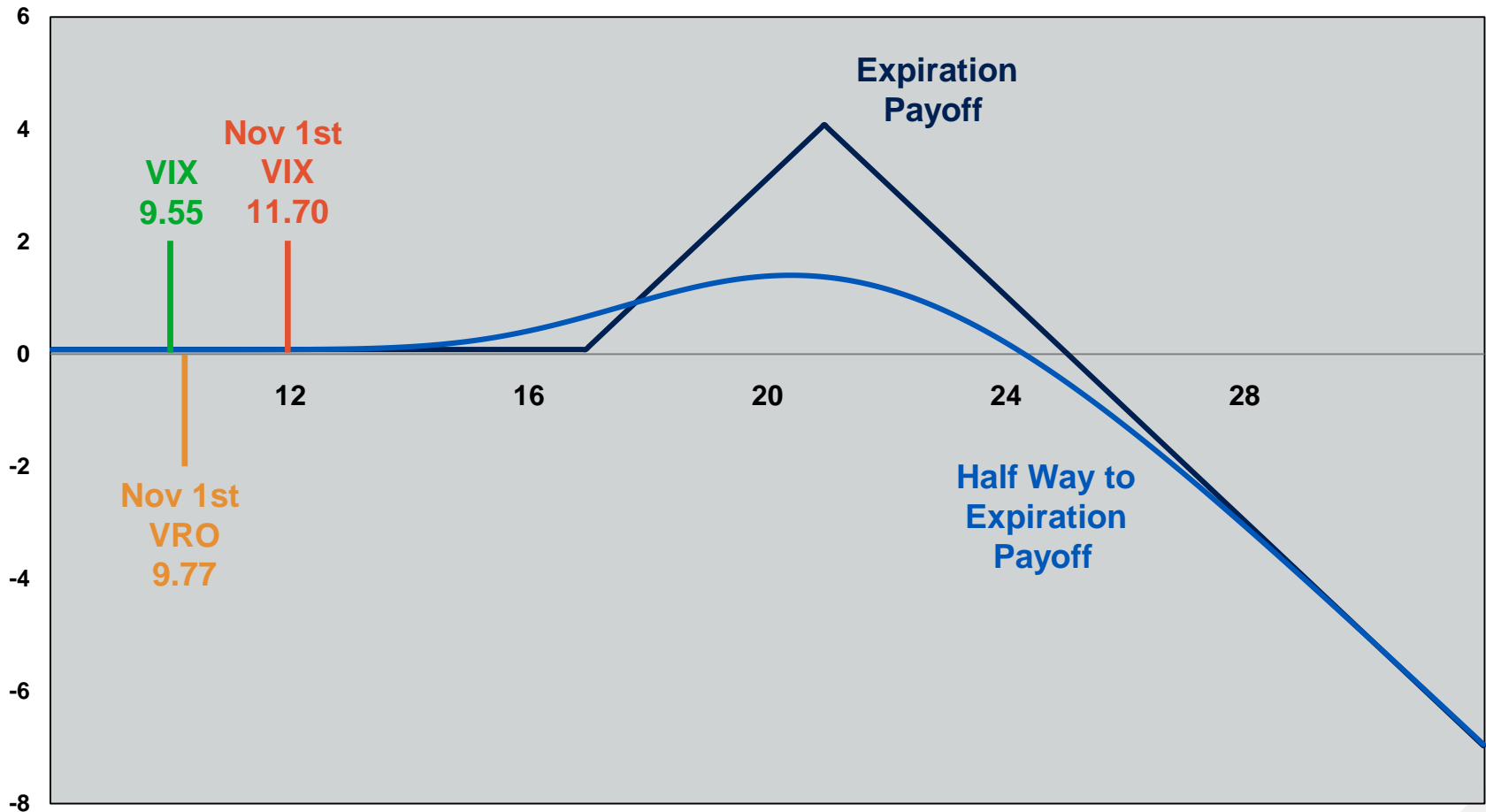
Buy 1 VIX Nov 1st 17 Call at 0.40

Sell 2 VIX Nov 1st 21 Calls at 0.24 each

Net Credit = 0.08



Long 1 VIX 17 Call + Short 2 VIX 21 Calls Potential Payoffs



Questions?

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