

The image features a blue area chart on a white grid background. The chart shows an overall upward trend with some fluctuations. The CBOE logo is positioned in the upper left quadrant.

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Bearish Spreads
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Instructor – The Options Institute

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What is an Option Spread Trade?

A combination of positions in options that share an underlying market

Options combined with the underlying security may also be considered spread trades

The range of possibilities is endless

What is an Option Spread Trade?

Can be as basic as a Covered Call

Long VRM @ 53.50

Short 1 VRM Apr 55 Call @ 2.00

What is an Option Spread Trade?

May be more complex like a Broken Wing Butterfly

Long 1 ZOE 45 Call @ 6.60
Short 2 ZOE 50 Calls @ 3.70 ea.
Long 1 ZOE 60 Call @ 0.85

Very Bearish



Bear Spread –

Combination of two option contracts

One is purchased and the other is sold

Both are the same type (call or put)

Both have the same underlying market or stock

Both have same expiration

The difference is in the strikes

Very Bearish



Bear Spreads –
XYZ @ 37.00

Short 1 XYZ Jun 35 Put @ 1.75

Long 1 XYZ Jun 40 Put @ 4.70

Net Cost = 2.95

Short 1 XYZ Jun 35 Call @ 3.55

Long 1 XYZ Jun 40 Call @ 1.50

Net Income = 2.05

Very Bearish



Trade –

VRM is trading at 47.50

We believe that VRM will trade to 40.00 in the next eight weeks

June expiration is in six weeks

Sell 1 VRM Jun 40 Put @ 0.50

Buy 1 VRM Jun 45 Put @ 1.95

Net Cost = 1.45

Very Bearish



Short 1 VRM Jun 40 Put @ 0.50

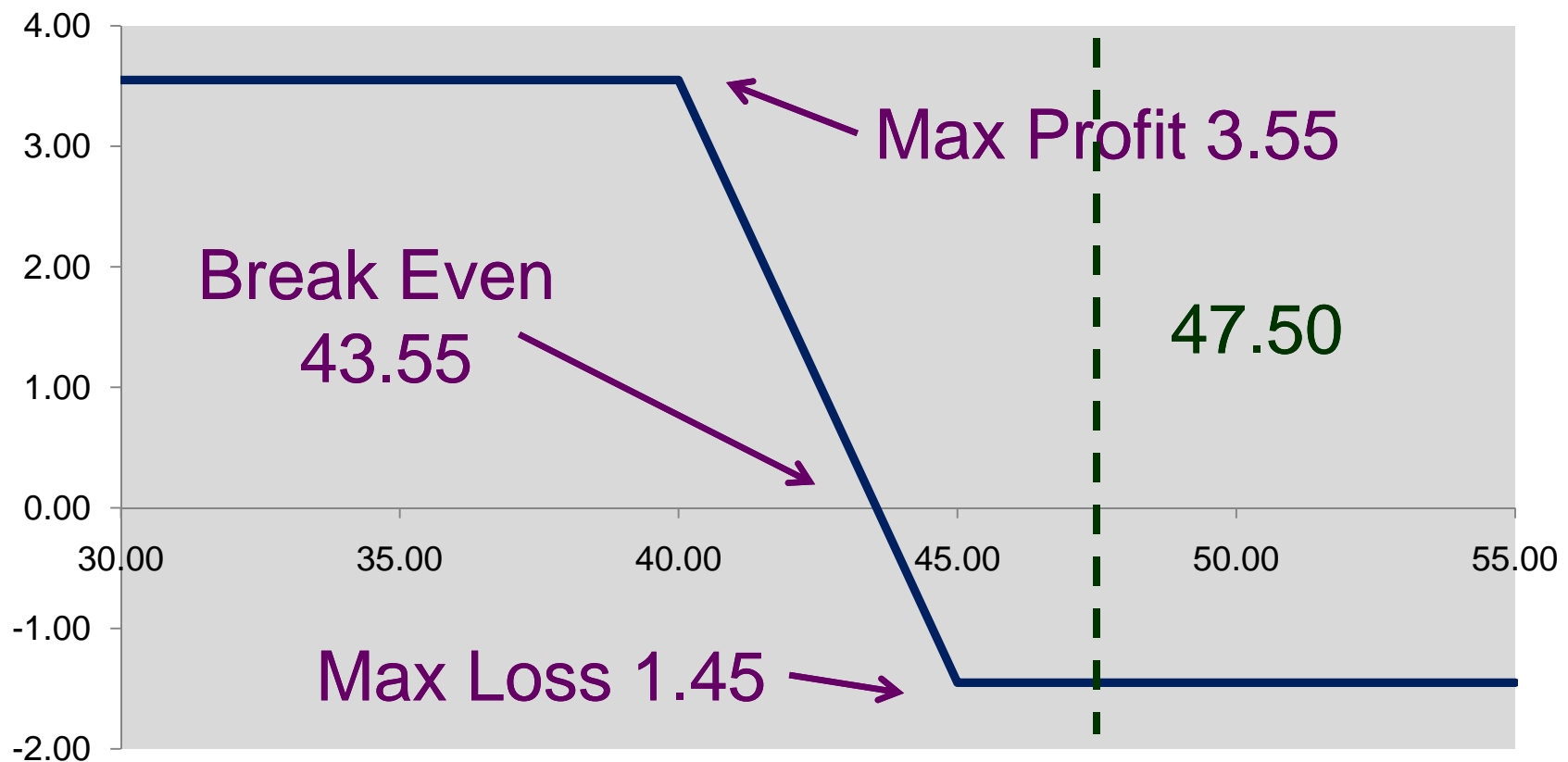
Long 1 VRM Jun 45 Put @ 1.95

VRM at Expiration	Short 1 VRM Jun 40 Put	Long 1 VRM Jun 45 Put	Cost	Profit / Loss
30.00	(10.00)	15.00	(1.45)	3.55
35.00	(5.00)	10.00	(1.45)	3.55
40.00	0.00	5.00	(1.45)	3.55
45.00	0.00	0.00	(1.45)	(1.45)
50.00	0.00	0.00	(1.45)	(1.45)
55.00	0.00	0.00	(1.45)	(1.45)

Very Bearish

Short 1 VRM Jun 40 Put @ 0.50

Long 1 VRM Jun 45 Put @ 1.95



Very Bearish



Short 1 VRM Jun 40 Put @ 0.50

Long 1 VRM Jun 45 Put @ 1.95

VRM Over 45.00 at Expiration –
Both Options Expire

VRM Between 40.00 and 45.00 –
45 Put In The Money

VRM Under 40.00 at Expiration –
Both Puts In The Money

Bearish to Neutral



Trade –

VRM is trading at 47.50

If we believe that VRM is at resistance and may not trade much higher for eight weeks

June expiration is in eight weeks

Sell 1 VRM Jun 50 Put @ 4.50

Buy 1 VRM Jun 55 Put @ 8.25

Net Cost = 3.75

Bearish to Neutral



Short 1 VRM Jun 50 Put @ 4.50

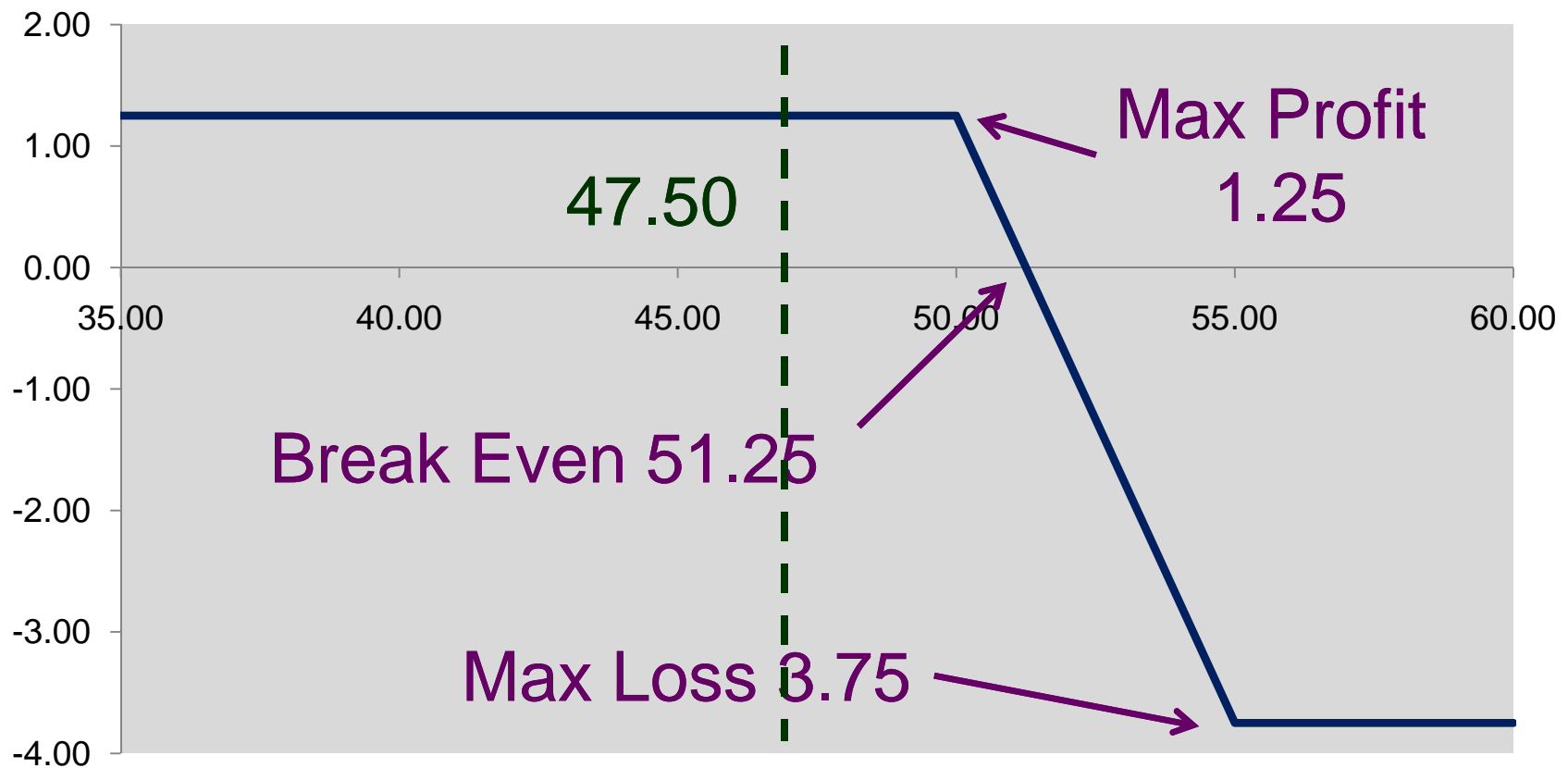
Long 1 VRM Jun 55 Put @ 8.25

ZOE at Expiration	Short 1 VRM Jun 50 Put	Long 1 VRM Jun 55 Put	Cost	Profit / Loss
35.00	(15.00)	20.00	(3.75)	1.25
40.00	(10.00)	15.00	(3.75)	1.25
45.00	(5.00)	10.00	(3.75)	1.25
50.00	0.00	5.00	(3.75)	1.25
55.00	0.00	0.00	(3.75)	(3.75)
60.00	0.00	0.00	(3.75)	(3.75)

Bearish to Neutral

Short 1 VRM Jun 50 Put @ 4.50

Long 1 VRM Jun 55 Put @ 8.25



Bearish to Neutral



Short 1 VRM Jun 50 Put @ 4.50

Long 1 VRM Jun 55 Put @ 8.25

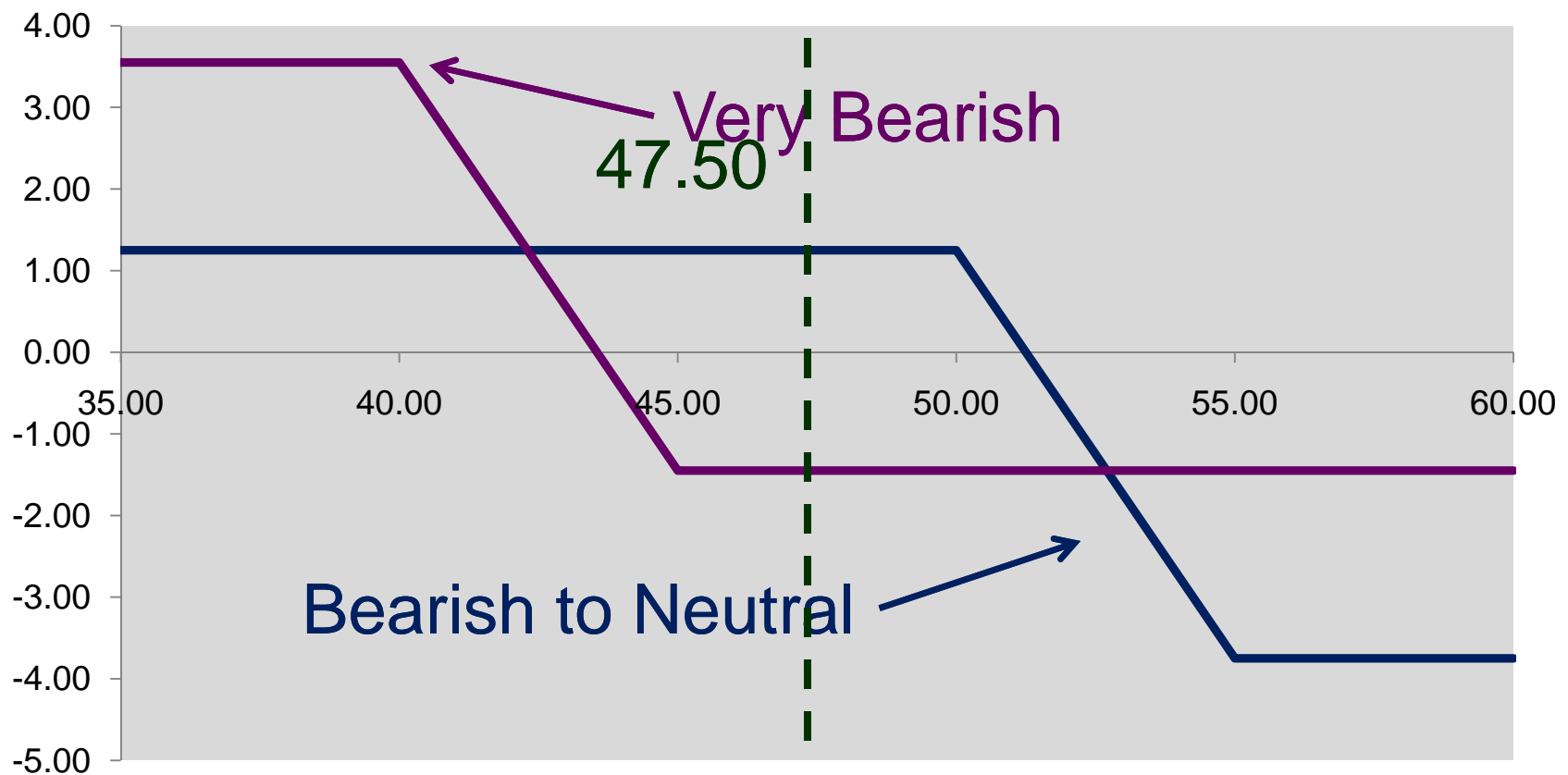
VRM Over 55.00 at Expiration –
Both Options expire

VRM Between 50.00 and 55.00 –
50 Put In The Money

VRM Under 50.00 at Expiration –
Both Puts In The Money

Bearish to Neutral

Very Bearish vs. Bearish to Neutral Comparison –



Bearish Diagonal Spread



Diagonal Spread –

Combination of two option contracts

One is purchased and the other is sold

Both are the same type (call or put)

Both have the same underlying market or stock

Both have different strike prices

Another difference is in expiration dates

Bearish Diagonal Spread



Diagonal Spread –
VRM @ 38.00

Short 1 VRM Jun 40 Put @ 2.35

Long 1 VRM Nov 45 Put @ 7.50

Net Cost = 5.15

Bearish Diagonal Spread



Trade –

ZOE is trading at 40.00

If we believe that ZOE will trade to 37.50 in the next eight weeks

We are bearish for the next six months

May expiration is in eight weeks

Sell 1 ZOE May 37.50 Put @ 1.00

Buy 1 ZOE Sep 45.00 Put @ 6.90

Net Cost = 5.90

Bearish Diagonal Spread



Short 1 ZOE May 37.50 Put @ 1.00

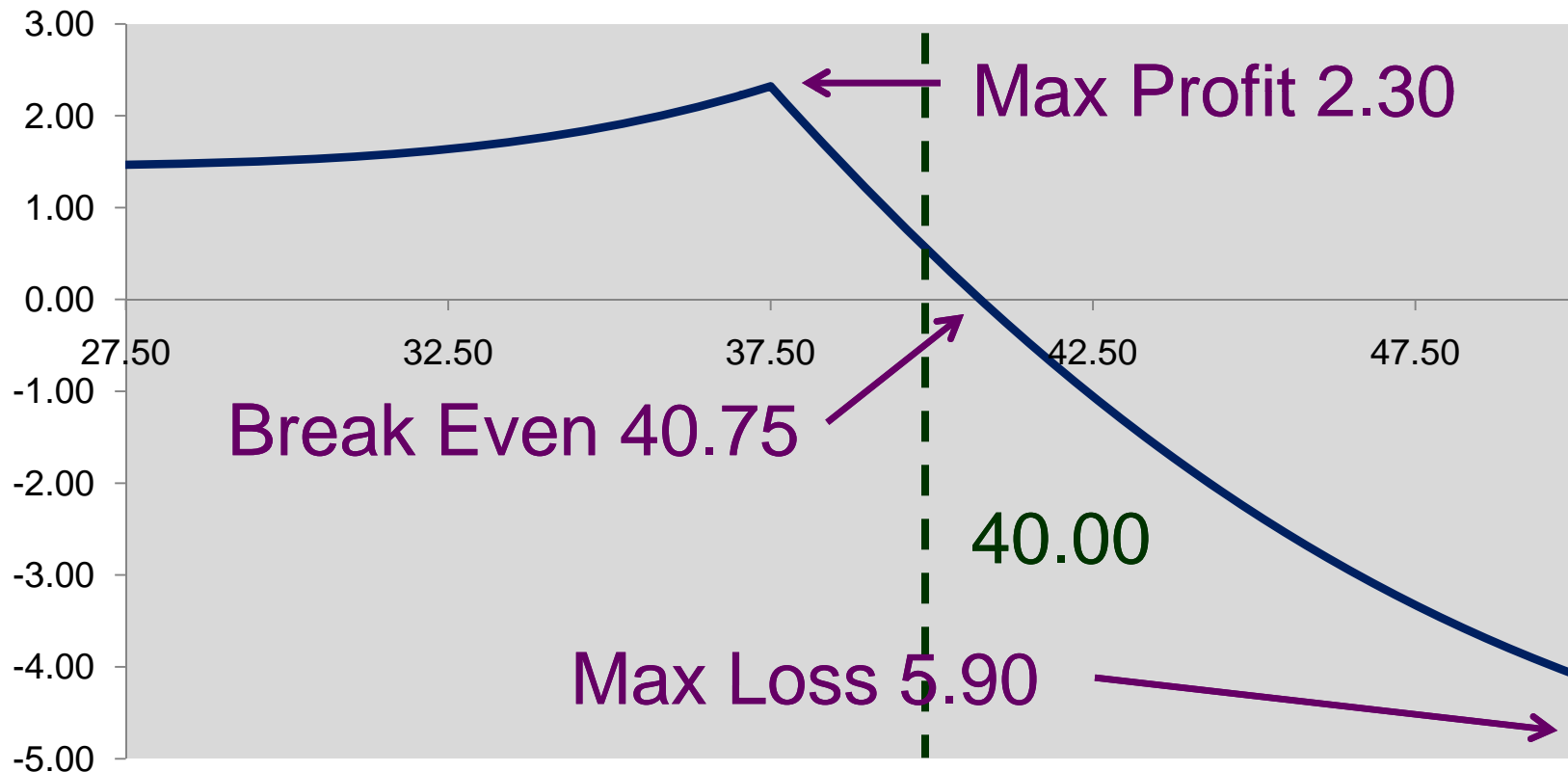
Long 1 ZOE Sep 45.00 Put @ 6.90

ZOE at May Expiration	Short 1 ZOE May 37.50 Put	Long 1 ZOE Sep 45.00 Put*	Cost	Profit / Loss
30.00	(7.50)	14.95	(5.90)	1.55
32.50	(5.00)	12.55	(5.90)	1.65
35.00	(2.50)	10.30	(5.90)	1.90
37.50	0.00	8.25	(5.90)	2.30
40.00	0.00	6.40	(5.90)	0.50
42.50	0.00	4.85	(5.90)	(1.05)
45.00	0.00	3.55	(5.90)	(2.35)

Bearish Diagonal Spread

Short 1 ZOE May 37.50 Put @ 1.00

Long 1 ZOE Sep 45.00 Put @ 6.90



Bearish Diagonal Spread



Short 1 ZOE May 37.50 Put @ 1.00

Long 1 ZOE Sep 45.00 Put @ 6.90

ZOE Below 37.50 near May Expiration –
May 37.50 Put is In The Money
Sep 45.00 Put is Open

ZOE Over 37.50 at May Expiration –
May 37.50 Put Expires
Sep 45.00 Put is Open

A decision needs to be made on the Sep Put

Bearish Diagonal Spread



Trading Choices –

Sell ZOE Sep 45 Put

Hold ZOE Sep 45 Put

Sell Another Closer Dated ZOE Put

Bearish Diagonal Spread



At May Expiration –

ZOE is trading at 40.00

Long 1 ZOE Sep 45.00 Put @ 6.40

If we believe that ZOE may trade to 37.50 in the
next four weeks

June expiration is in four weeks

Sell 1 ZOE Jun 37.50 Put @ 0.60

Net Running Cost = 5.30

Bearish Diagonal Spread



Short 1 ZOE Jun 37.50 Put @ 0.60

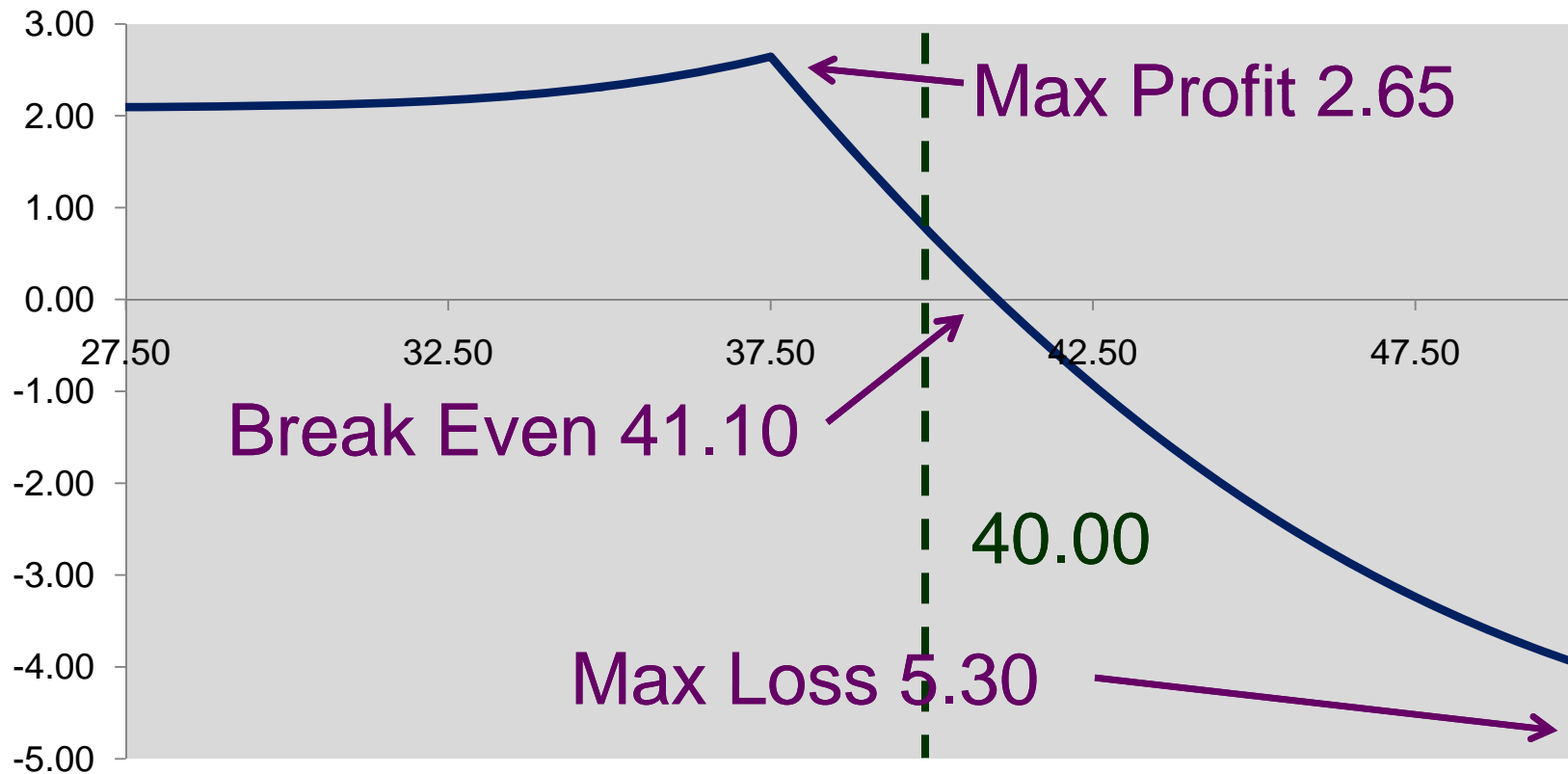
Long 1 ZOE Sep 45.00 Put @ 6.90*

ZOE at June Expiration	Short 1 ZOE Jun 37.50 Put	Long 1 ZOE Sep 45.00 Put*	Cost	Profit / Loss
30.00	(7.50)	14.95	(5.30)	2.05
32.50	(5.00)	12.50	(5.30)	2.20
35.00	(2.50)	10.10	(5.30)	2.30
37.50	0.00	7.95	(5.30)	2.65
40.00	0.00	6.00	(5.30)	0.70
42.50	0.00	4.35	(5.30)	(1.15)
45.00	0.00	3.05	(5.30)	(2.25)

Bearish Diagonal Spread

Short 1 ZOE Jun 37.50 Put @ 0.60

Long 1 ZOE Sep 45.00 Put @ 6.90



Bearish Diagonal Spread



Short 1 ZOE Jun 37.50 Put @ 0.60

Long 1 ZOE Sep 45.00 Put @ 6.90

ZOE Below 37.50 near June Expiration –
Jun 37.50 Put In The Money
Sep 45.00 Put is Open

ZOE Over 37.50 at June Expiration –
Jun 37.50 Put expires
Sep 45.00 Put is Open

A decision needs to be made on the Sep Put

Bearish Diagonal Spread



Trading Choices –

Sell ZOE Sep 45.00 Put

Hold ZOE Sep 45.00 Put

Sell Another Closer-Dated ZOE Put

Bearish Diagonal Spread



At June Expiration –

ZOE is trading at 37.50

Long 1 ZOE Sep 45.00 Put @ 7.95

If we believe ZOE is ready for a move lower

Decide to continue to hold the Sep 45.00 Put

No Trade

Net Running Cost = 5.30

Bearish Diagonal Spread



Running Profit Option Sales = 1.60

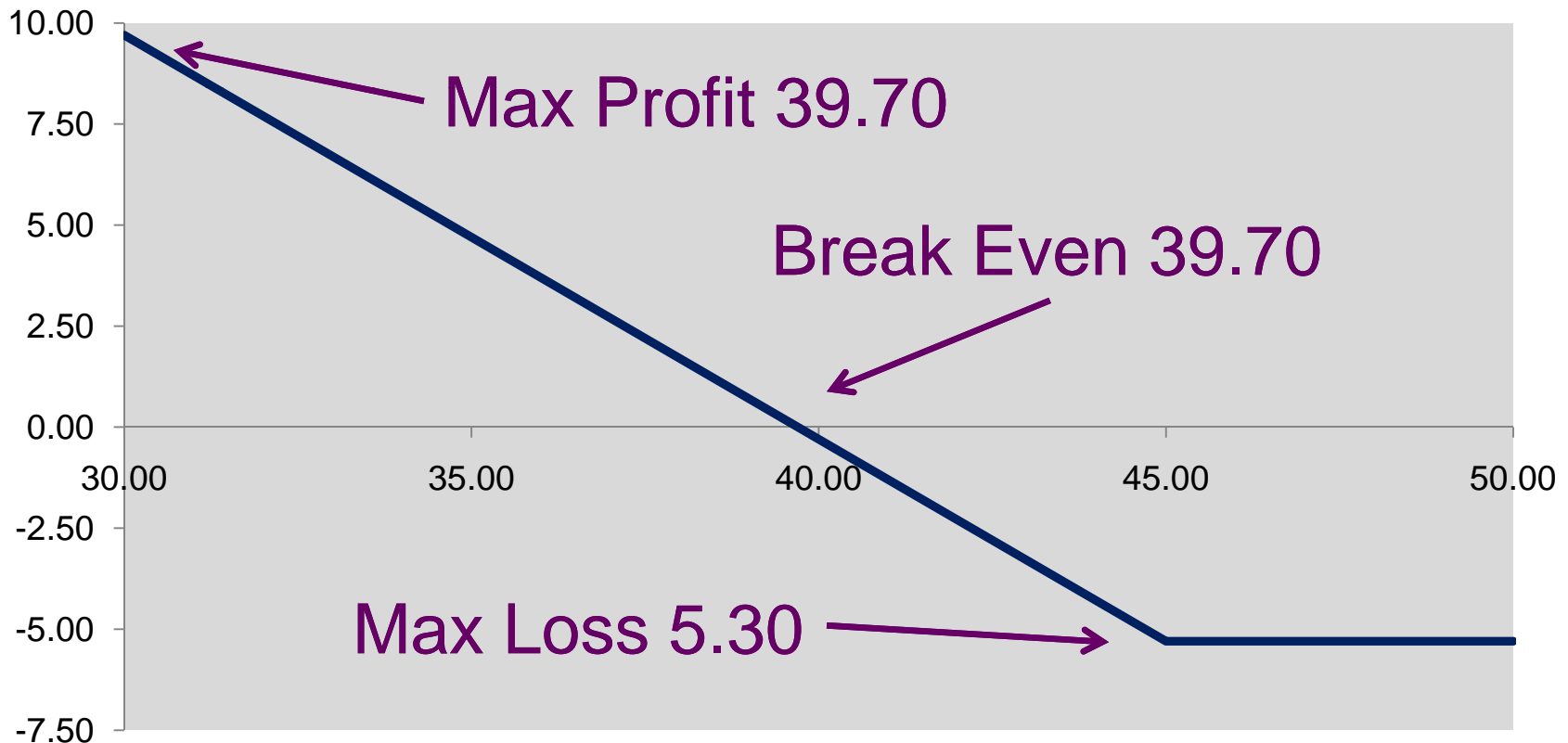
Long 1 ZOE Sep 45.00 Put @ 6.90*

ZOE at September Expiration	Long 1 ZOE Sep 45.00 Put	Net Profit From Option Sales	Original Option Cost	Profit / Loss
30.00	15.00	1.60	(6.90)	8.70
32.50	12.50	1.60	(6.90)	7.20
35.00	10.00	1.60	(6.90)	4.70
37.50	7.50	1.60	(6.90)	2.20
40.00	5.00	1.60	(6.90)	(0.30)
42.50	2.50	1.60	(6.90)	(2.80)
45.00	0.00	1.60	(6.90)	(5.30)

Bullish Diagonal Spread

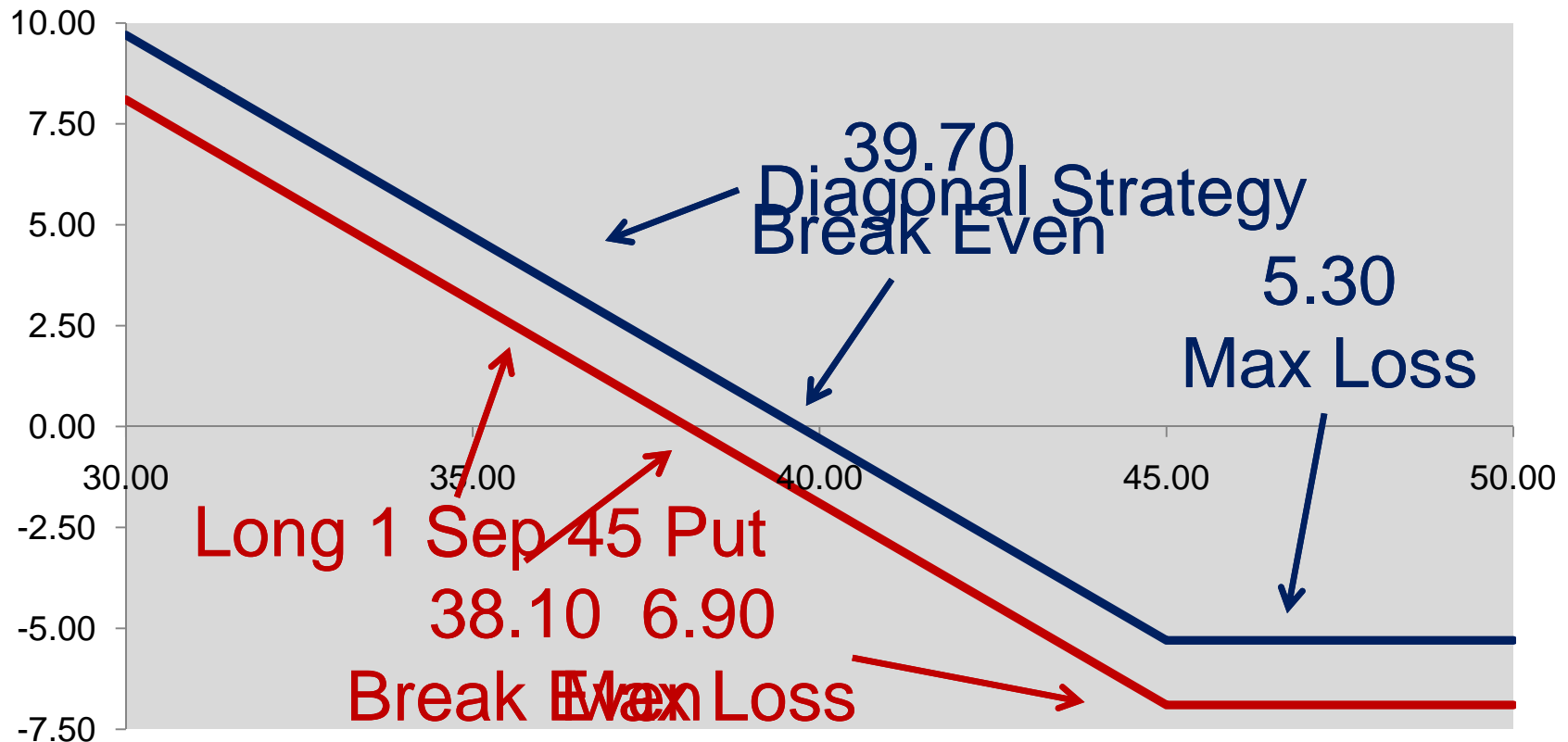
Running Profit Option Sales = 1.60

Long 1 ZOE Sep 45.00 Put @ 6.90



Bearish Diagonal Spread

Diagonal Strategy vs. Long ZOE Sep 45 Put



- Each spread trade should begin with a price and time outlook
- Bear spreads are strategies that allow a trader to benefit from a precise bearish forecast
- Diagonal spreads can help a trader capitalize from time decay of the short option in the trade
- Diagonal spreads may also be created by opportunistically selling shorter dated options strategically against a long option position that has more time to expiration

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