

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 top left corner.

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Calendar and Diagonal Spreads

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In order to simplify the computations, commissions, fees, margin interest and taxes have not been included in the examples used in this presentation. These costs will impact the outcome of all stock and options transactions and must be considered prior to entering into any transactions. Multiple-leg strategies involve multiple commission charges.

Any strategies discussed, including examples using actual securities and price data, are strictly for illustrative and educational purposes only and are not to be construed as an endorsement, recommendation, or solicitation to buy or sell securities.

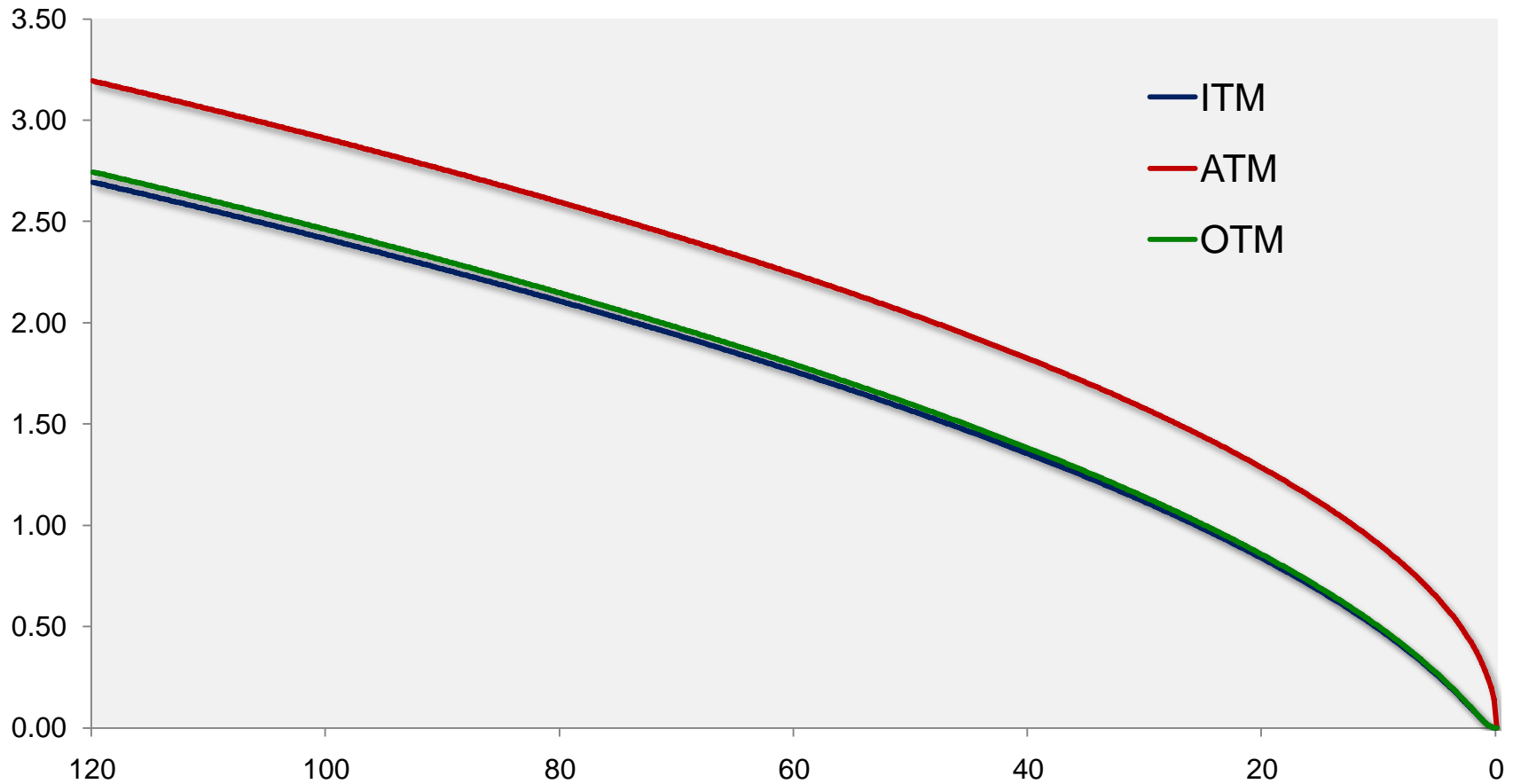
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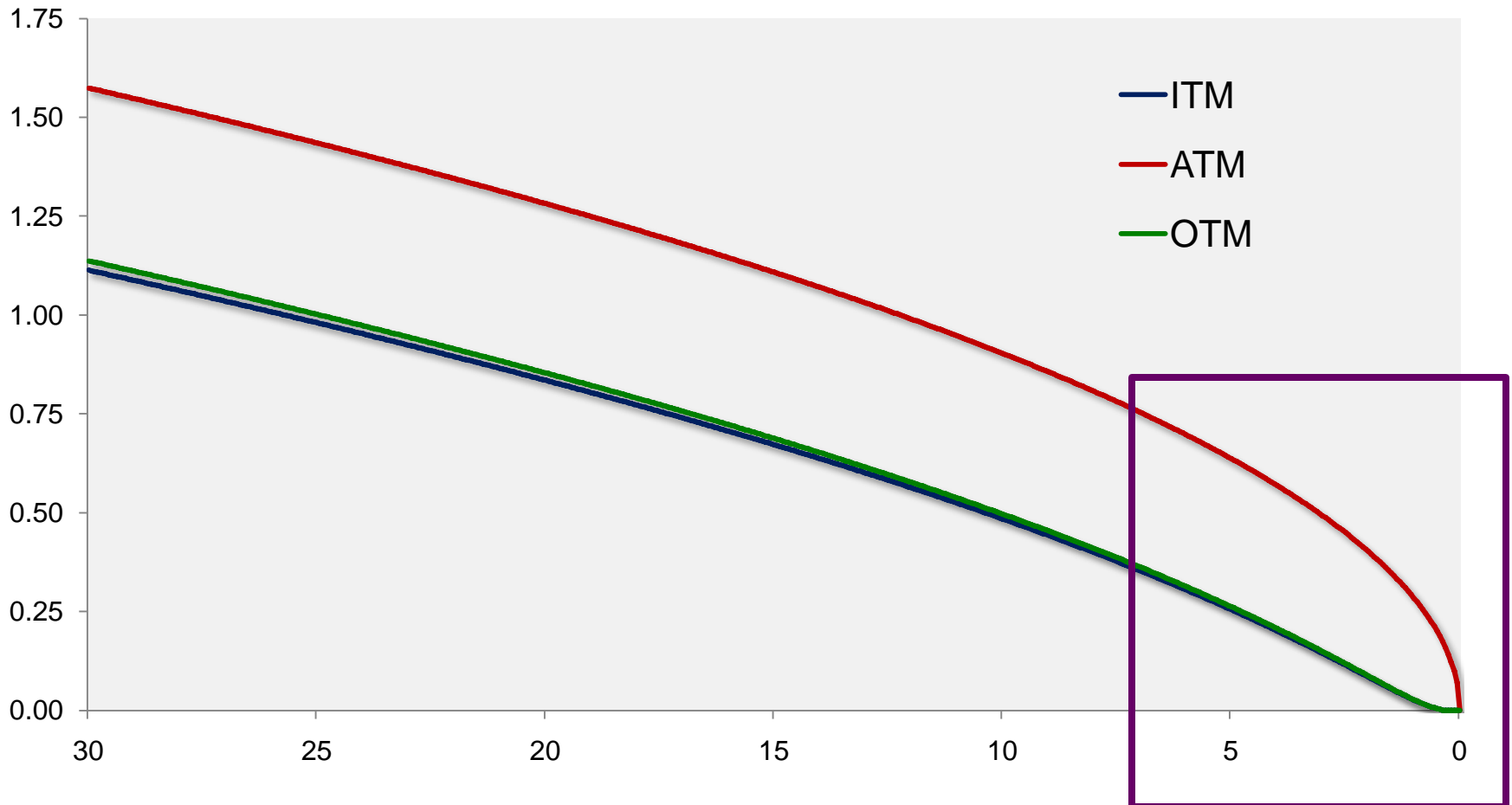
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- Review of Time Decay
- Calendar Spreads
- Diagonal Spreads
- LEAPS® Stock Substitute

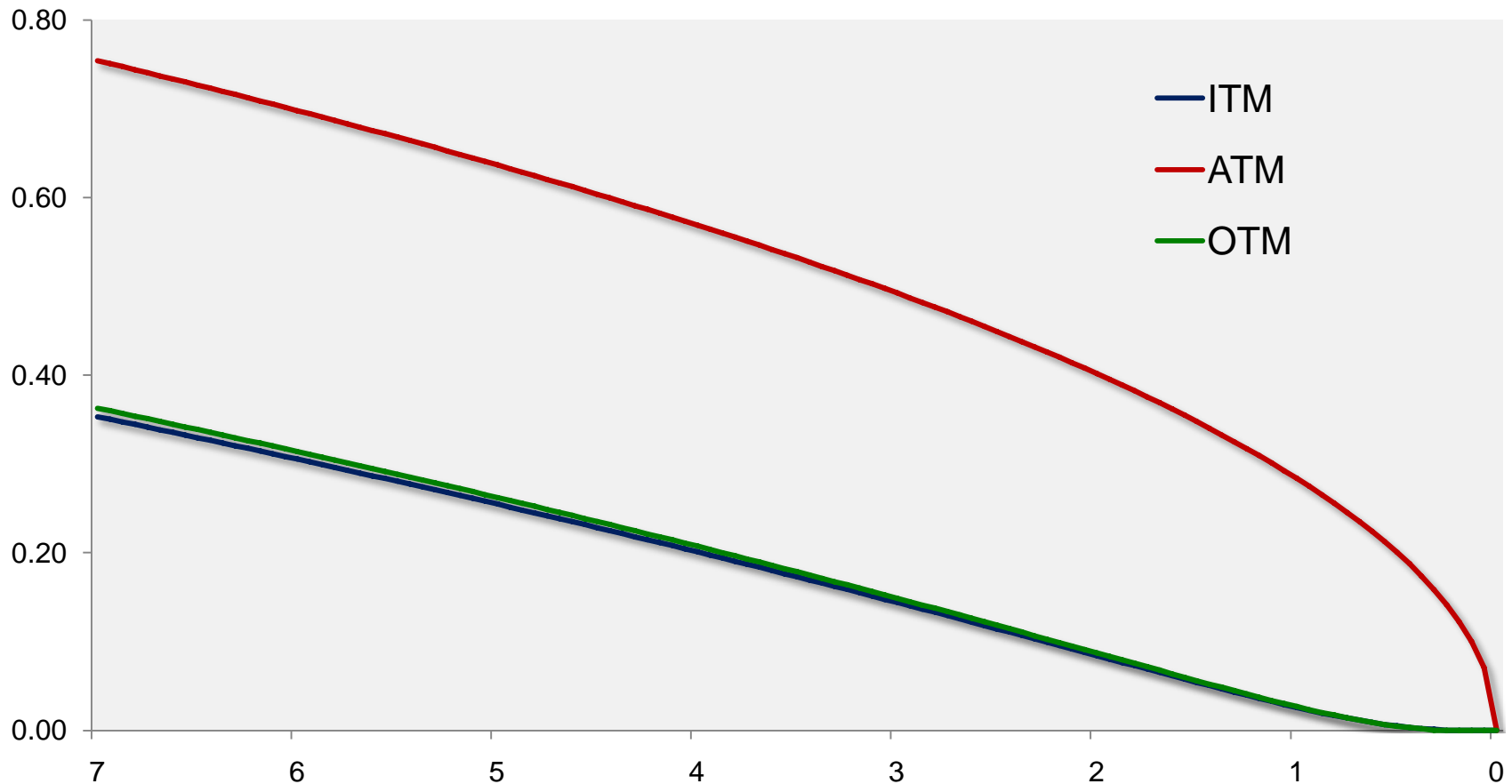
120 Day Time Value Behavior –



30 Day Time Value Behavior –



7 Day Time Value Behavior –



XYZ – At-The-Money Time Decay –

Days to Expiration	Stock Price	XYZ 40 Call	XYZ 40 Put
7	40.00	0.67	0.66
6	40.00	0.62	0.61
5	40.00	0.57	0.56
4	40.00	0.51	0.50
3	40.00	0.44	0.43
2	40.00	0.36	0.35
1	40.00	0.25	0.24
0	40.00	0.00	0.00

XYZ – In-The-Money Time Decay –

Days to Expiration	Stock Price	XYZ 39 Call	XYZ 41 Put
7	40.00	1.28	1.28
6	40.00	1.24	1.24
5	40.00	1.20	1.19
4	40.00	1.15	1.14
3	40.00	1.10	1.09
2	40.00	1.06	1.05
1	40.00	1.01	1.01
0	40.00	1.00	1.00

- Based on different factors – time value deteriorates at different rates
- This difference in time decay may be taken advantage of through spread trades
- Consideration should always be given to having time decay working for you when choosing a strategy

VRM @ 40.00

- 30 Days to November expiration
- 90 Days to January expiration
- Neutral on VRM for next 30 days

Sell 1 VRM Nov 40 Call @ 1.15

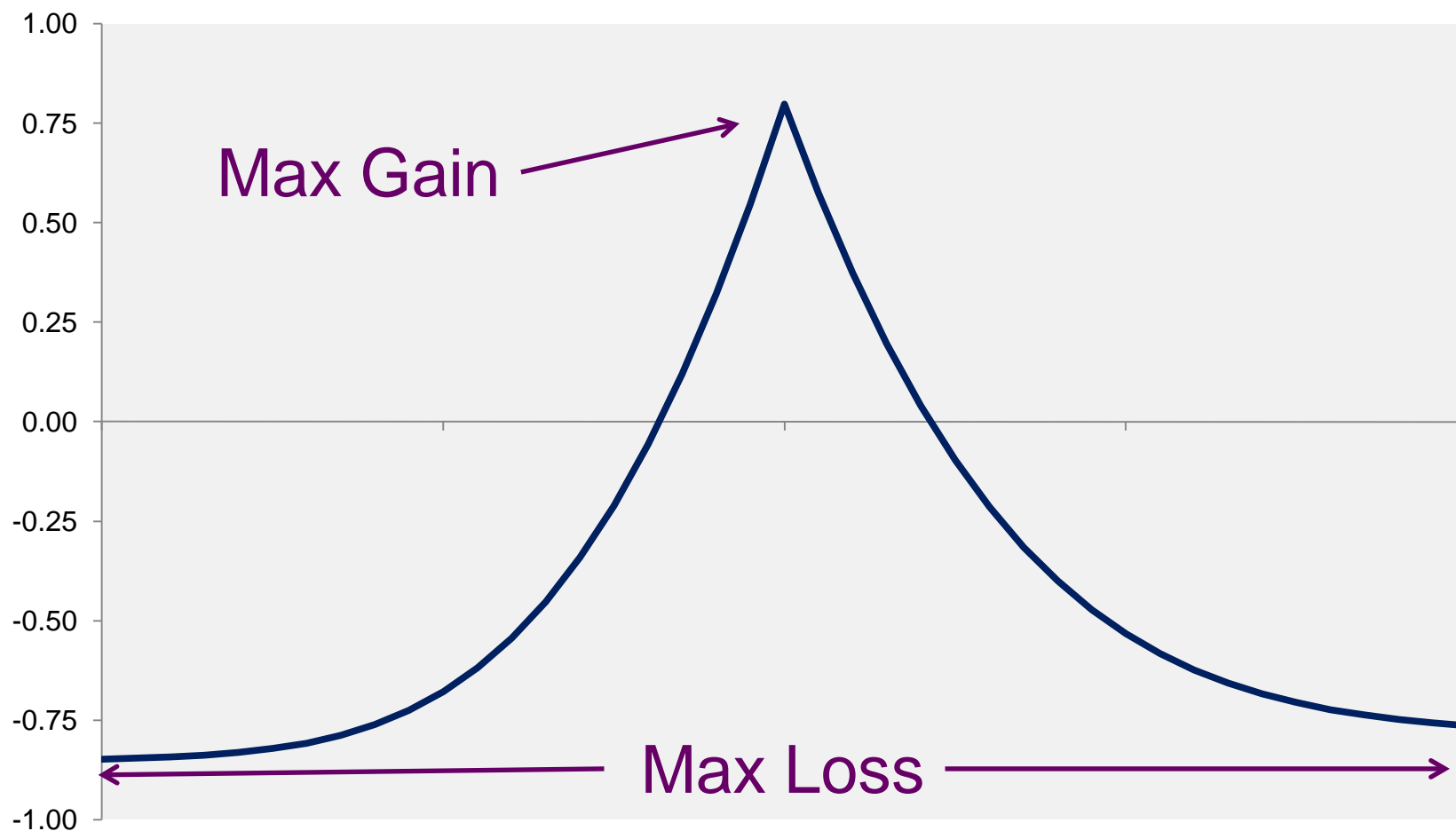
Buy 1 VRM Jan 40 Call @ 2.00

Net Cost = 0.85

November Expiration Payout Table –

VRM	Short 1 VRM Nov 40 Call	Long 1 VRM Jan 40 Call	Debit	P/L
30.00	0.00	0.05	(0.85)	(0.80)
35.00	0.00	0.15	(0.85)	(0.70)
40.00	0.00	1.65	(0.85)	0.80
45.00	(5.00)	5.30	(0.85)	(0.55)
50.00	(10.00)	10.10	(0.85)	(0.75)

Payout Diagram –



Trading Decision 1 –

If VRM is over 40.00 at expiration –

- Cover short option to avoid assignment

Trading Decision 2 –

Jan 40 Call position open at November expiration

- Trade Complete – Sell Jan 40 Call
- Bullish on VRM – no trade – hold long call
- Neutral on VRM – Sell Dec 40 Call – create new calendar spread

- Long one option – short another option
- Both are same type (put or call)
- Difference number one is strike price
- Difference number two is in the expiration date

Short 1 XYZ Nov 50 Call
Long 1 XYZ Dec 40 Call

VRM @ 40.00

- 30 Days to November expiration
- 90 Days to January expiration
- Neutral to Bullish on VRM for next 30 days

Sell 1 VRM Nov 40 Call @ 1.15

Buy 1 VRM Jan 30 Call @ 10.10

Net Cost = 8.95

Diagonal Spread

November Expiration Payout Table –

VRM	Short 1 VRM Nov 40 Call	Long 1 VRM Jan 30 Call	Debit	P/L
30.00	0.00	1.25	(8.95)	(7.70)
35.00	0.00	5.15	(8.95)	(3.80)
40.00	0.00	10.05	(8.95)	1.20
45.00	(5.00)	15.05	(8.95)	1.10
50.00	(10.00)	20.00	(8.95)	1.05

Payout Diagram –



Trading Decision 1 –

If VRM is over 40.00 at expiration –

- Cover short option to avoid assignment

Trading Decision 2 –

Jan 30 Call position open at November expiration

- Trade Complete – Sell Jan 40 Call
- Bullish on VRM – no trade – hold long call
- Neutral on VRM – Sell Dec 40 Call – create new calendar spread

Long-term Equity Anticipatory Securities –

- Long dated options with expirations over nine months in the future
- LEAPS can be used as a substitute for the long stock leg of a covered call
- Be aware – no voting rights and no right to a dividend accompany LEAPS ownership

Late February 2012 – VRM @ 38.50

- Long term bullish on VRM
- Believe stock has resistance at 40.00
- This resistance should hold for the next few weeks

Buy 1 VRM Jan 2014 LEAPS 30 Call @ 10.40

Sell 1 VRM Apr 40 Call @ 0.85

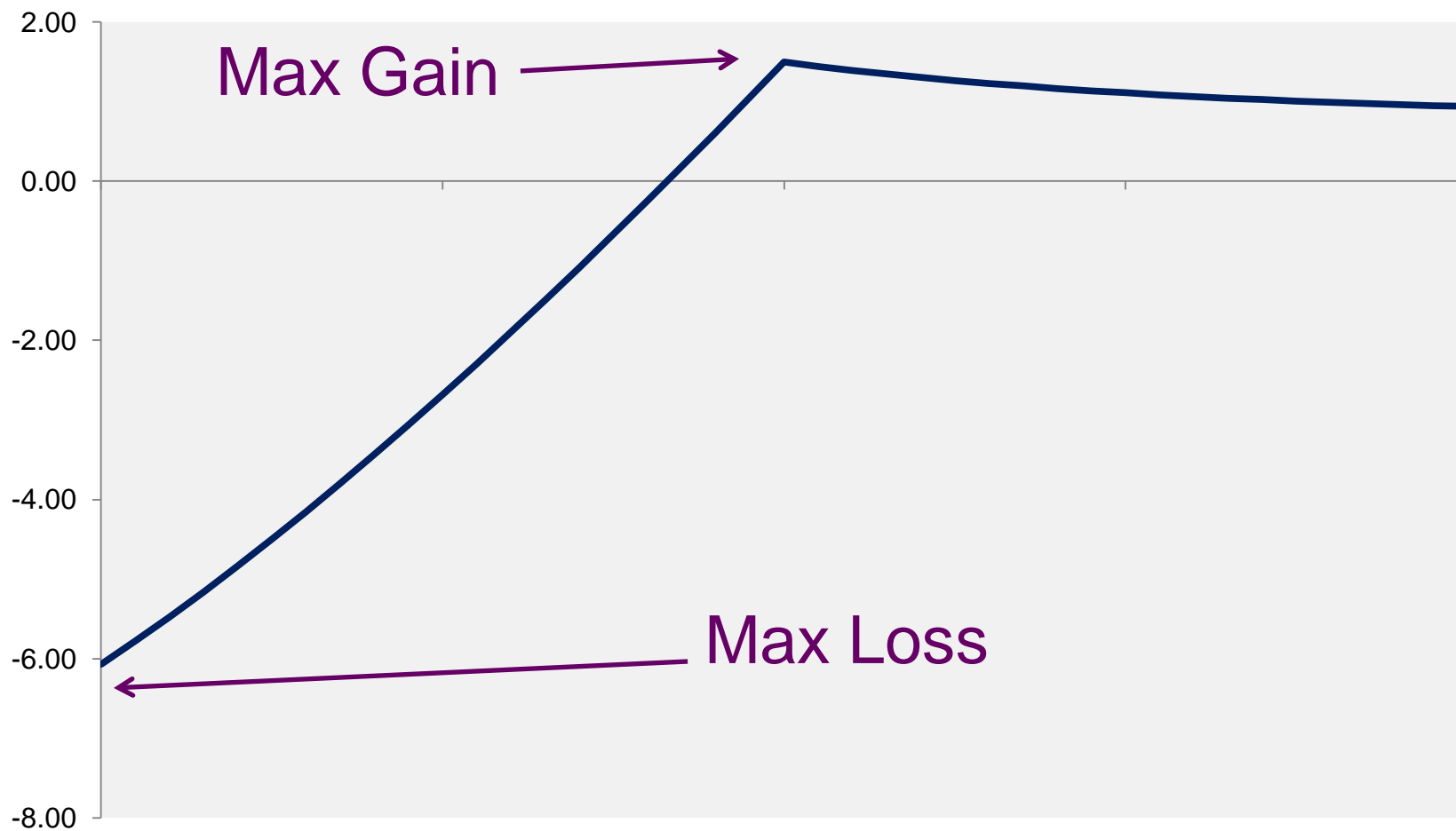
Time Value $10.40 - 8.50 = 1.90$

LEAPS Diagonal

April Expiration –

VRM	Jan 2014 LEAPS 30 Call Value	Apr 40 Call Value	Spread Cost	Net P/L
30.00	4.15	0.00	(9.55)	(5.40)
35.00	7.55	0.00	(9.55)	(2.00)
38.50	10.30	0.00	(9.55)	0.75
40.00	11.60	0.00	(9.55)	2.05
45.00	16.05	(5.00)	(9.55)	1.50

April Expiration



Trading Decision 1 –

If VRM is over 40.00 at expiration –

- Cover short option to avoid assignment

Trading Decision 2 –

LEAPS Call position open at November expiration

- Near term bullish on VRM – no trade – hold long LEAPS
- Near term neutral on VRM – Sell another call – create new diagonal spread
- Not bullish on VRM anymore – Sell LEAPS

Summary –

- Trade allows the benefit of long term stock ownership combined with generating income
- Due to long life of LEAPS call there may be multiple option selling opportunities over the life of a trade
- Stocks that have both LEAPS and Weeklys listed may be attractive for this strategy

- When selling options a trader can have the opportunity to take advantage of time decay
- Multiple strikes and expiration dates create a wide variety of opportunities
- With the introduction and popularity of Weeklys the ability to benefit from time decay has greatly expanded

Questions?

Links –

www.cboe.com/leaps

www.cboe.com/weeklys

Me –

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