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**OPTIONS
INSTITUTE**

Interactive Brokers Webcast

Bullish Spreads

March 15, 2017

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Bullish Spreads

Outline

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

Bullish Spreads

Examples

Bull Call Spread –

Long 1 XYZ 45 Call at 6.50
Short 1 XYZ 50 Call at 4.00
Pay Debit of 2.50

Bull Put Spread –

Long 1 XYZ 35 Put at 2.00
Short 1 XYZ 40 Put at 5.50
Receive Credit of 3.50

Bullish Spreads

Call Spread Example

XYZ Trading at 44.00 –

Bullish outlook for XYZ

Target price of 50.00 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

Buy 1 45 Call at 1.80

Sell 1 50 Call at 0.45

Net Cost = 1.35

Bullish Spreads

Call Spread Example

Payoff at Expiration –

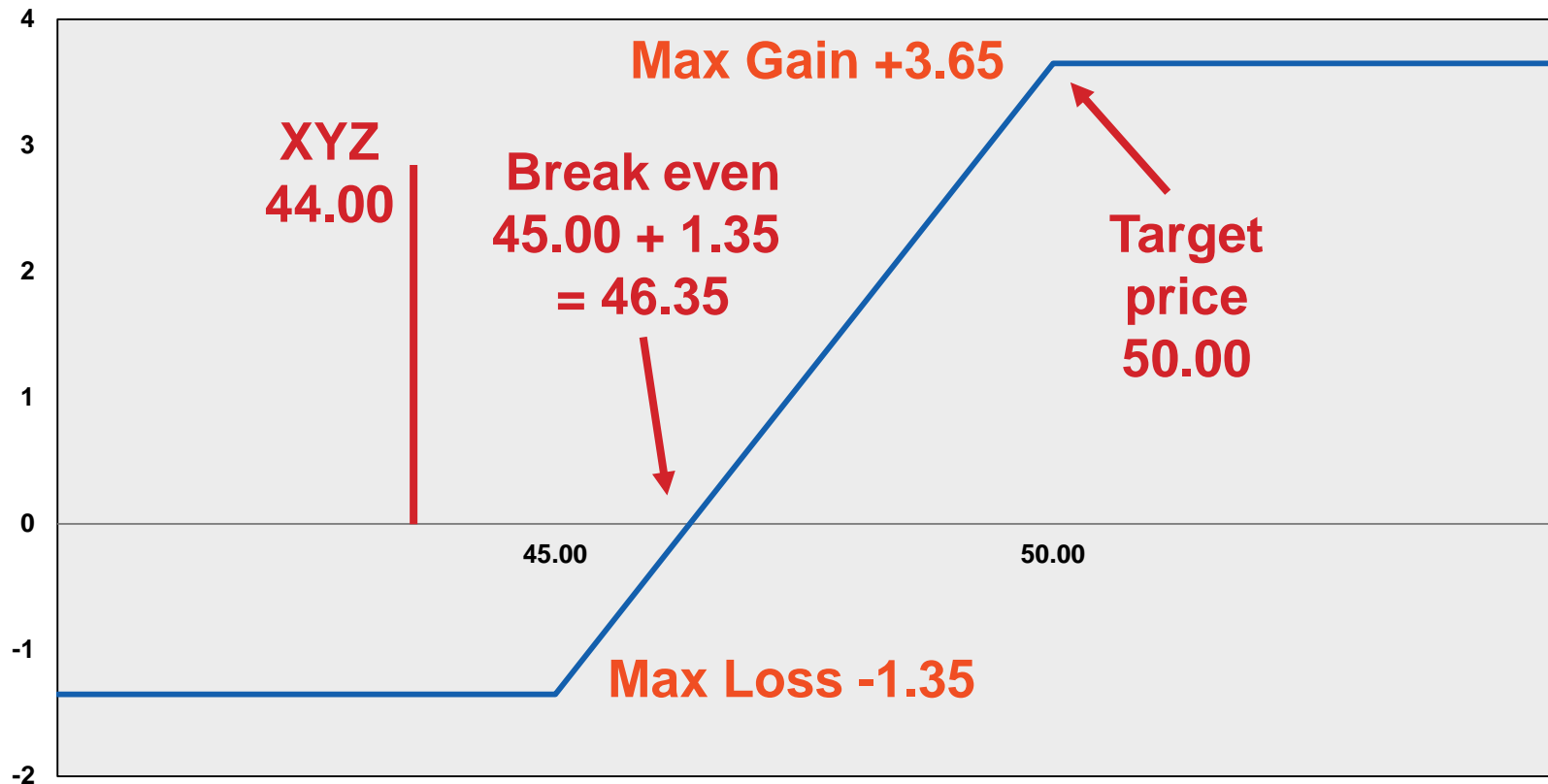
Stock	45 Call	50 Call	Trade Cost	P/L
40	0.00	0.00	(1.35)	(1.35)
45	0.00	0.00	(1.35)	(1.35)
50	5.00	0.00	(1.35)	3.65
55	10.00	(5.00)	(1.35)	3.65
60	15.00	(10.00)	(1.35)	3.65

Recall – Target Price = 50.00

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Call Spread Example

Payoff Diagram –



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Put Spread Example

XYZ Trading at 44.00 –

Bullish outlook for XYZ

Target price of 50.00 in 45 Days

45 Day Option Pricing

	Bid	Ask
40 Put	0.65	0.70
45 Put	2.45	2.50
50 Put	6.15	6.20

Buy 1 45 Put at 2.50

Sell 1 50 Put at 6.15

Net Credit = 3.65

Bullish Spreads

Put Spread Example

Payoff at Expiration –

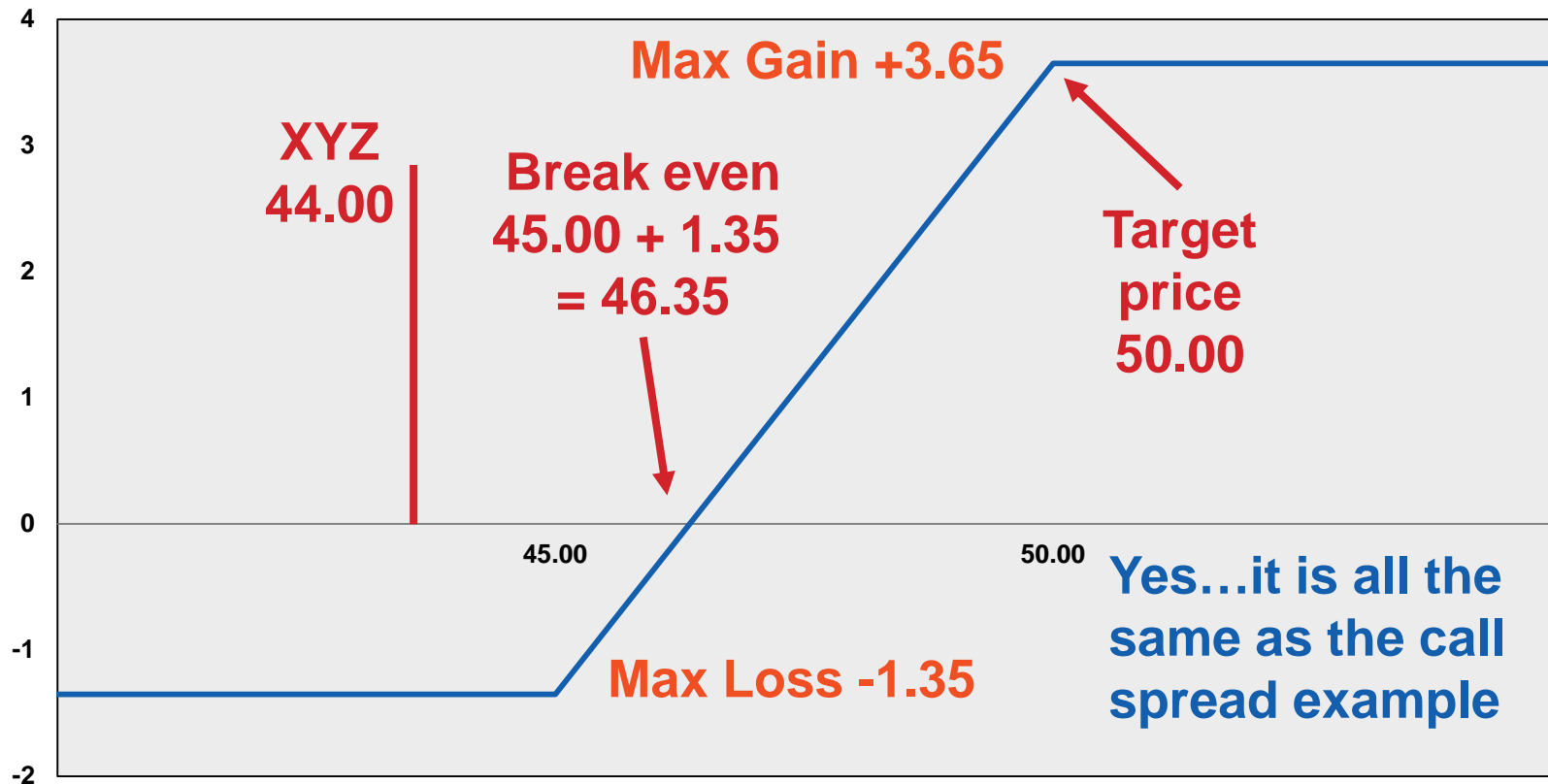
Stock	45 Put	50 Put	Credit	P/L
40	5.00	(10.00)	3.65	(1.35)
45	0.00	(5.00)	3.65	(1.35)
50	0.00	0.00	3.65	3.65
55	0.00	0.00	3.65	3.65
60	0.00	0.00	3.65	3.65

Recall (again) – Target Price = 50.00

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Put Spread Example

Payoff Diagram –



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Call vs. Put Spread

Two major differences –

**Call spread initiated with a cost
Put spread resulted in income**

**The second difference relates
to what happens at expiration**

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Call vs. Put Spread

Target was 50.00 – assume the stock is over 50.00 at expiration

Call Spread –

Long 45 Call Exercised – Buy 100 Shares

Short 50 Call Assigned – Sell 100 Shares

Put Spread –

Long 45 Put Expires

Short 50 Put Expires

Many traders prefer
this outcome



Bullish Spreads

SPY Bull Put Spread

- Thursday November 12 – SPY at around 205.00 – down about 5 points on the week
- Seller of an eight day put spread came into the market looking for a slight rebound in the broad based market

Sell SPY Nov 20th 206 Put at 1.76

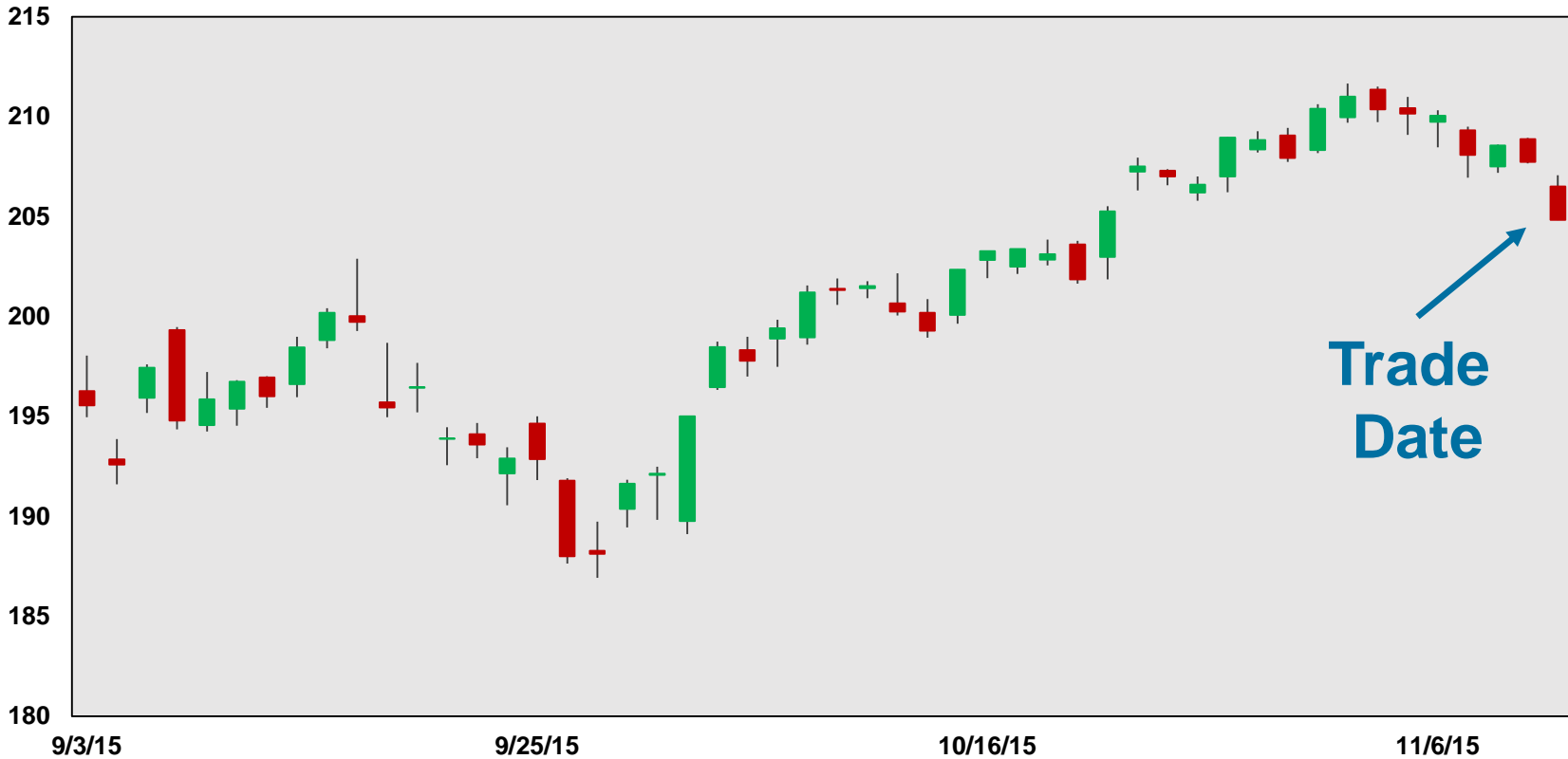
Buy SPY Nov 20th 204 Put at 1.15

Net Credit = 0.61

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SPY Price Chart

Daily Prices

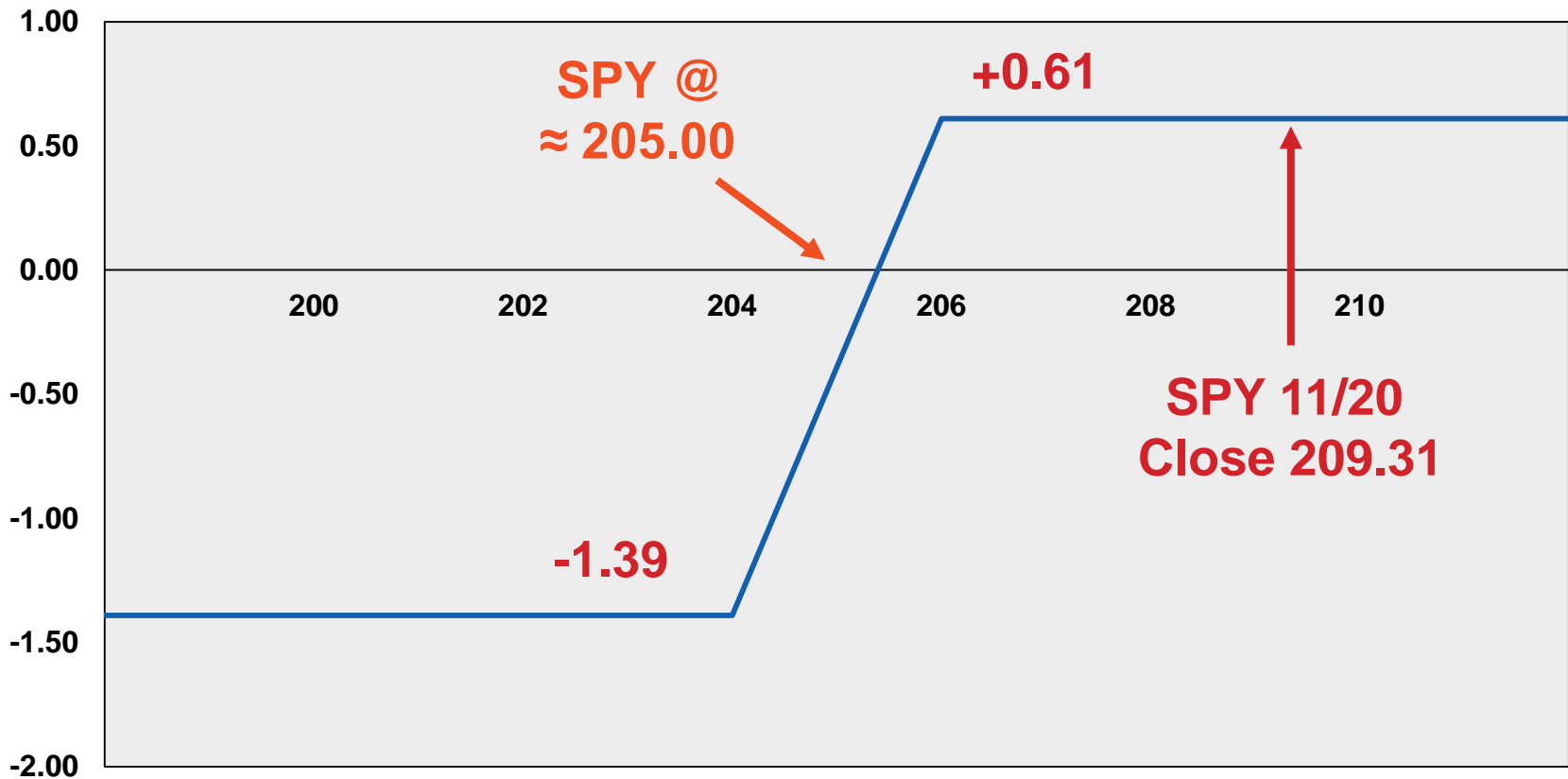


Data Source: Bloomberg

Bullish Spreads

SPY Bull Put Spread

Payoff Diagram



BBY Earnings

Long Call Spread

- **BBY reported earnings before the open on Thursday May 21st**
- **There was a buyer of an out of the money call spread late in the trading day on May 20th**

Three year summary of BBY earnings reactions

Max	Min	Abs Avg.	Last Q
13.24%	-13.02%	5.73%	1.42%

Buy 1 BBY May 22nd 35.00 Call at 0.70

Sell 1 BBY May 22nd 36.50 Call at 0.25

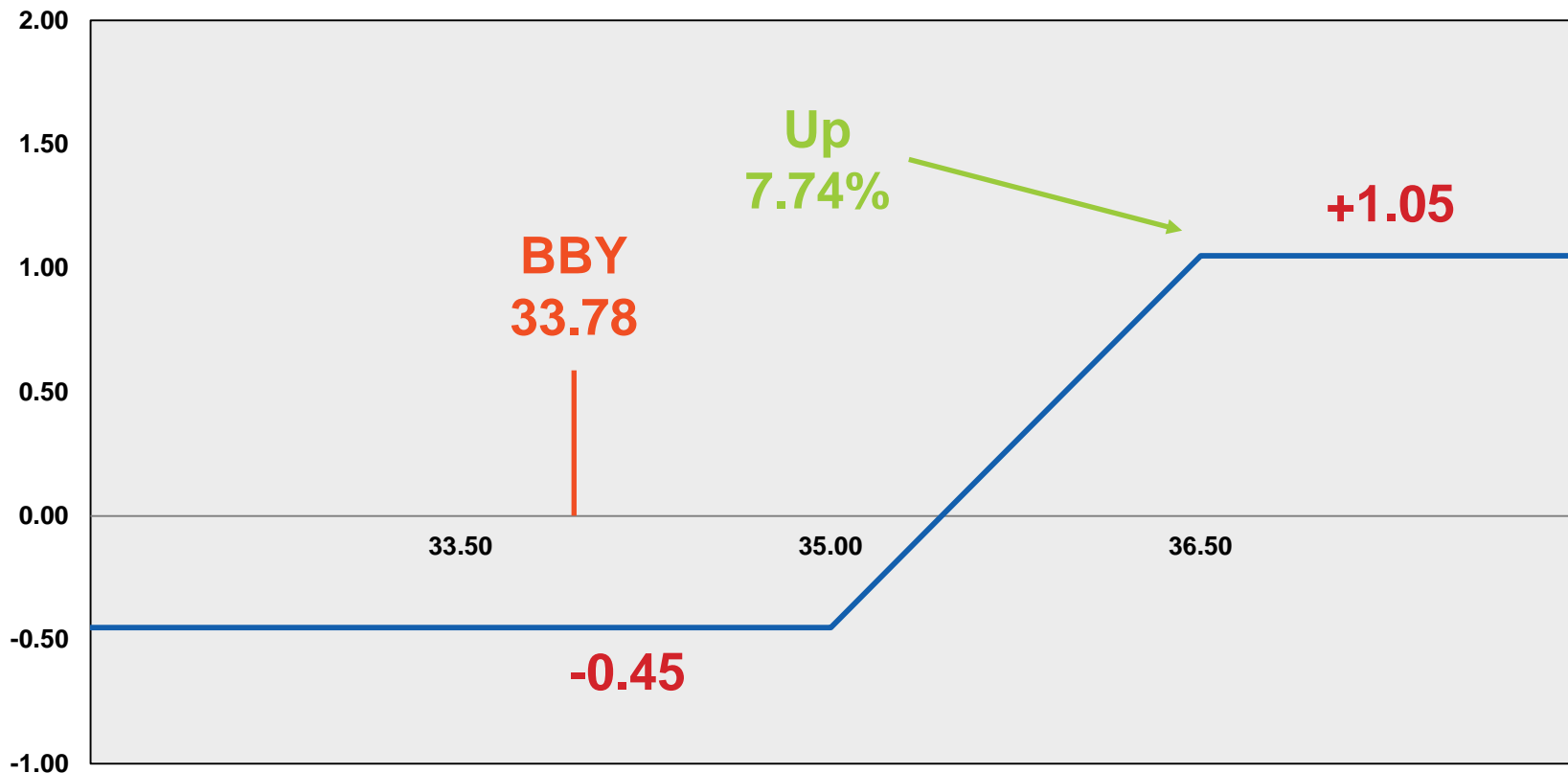
Net Debit = 0.45

Data Source: Bloomberg

BBY Earnings

Long Call Spread

Long 35.00 Call / Short 36.50 Call



BBY
33.78

Up
7.74%

+1.05

-0.45

33.50

35.00

36.50

2.00

1.50

1.00

0.50

0.00

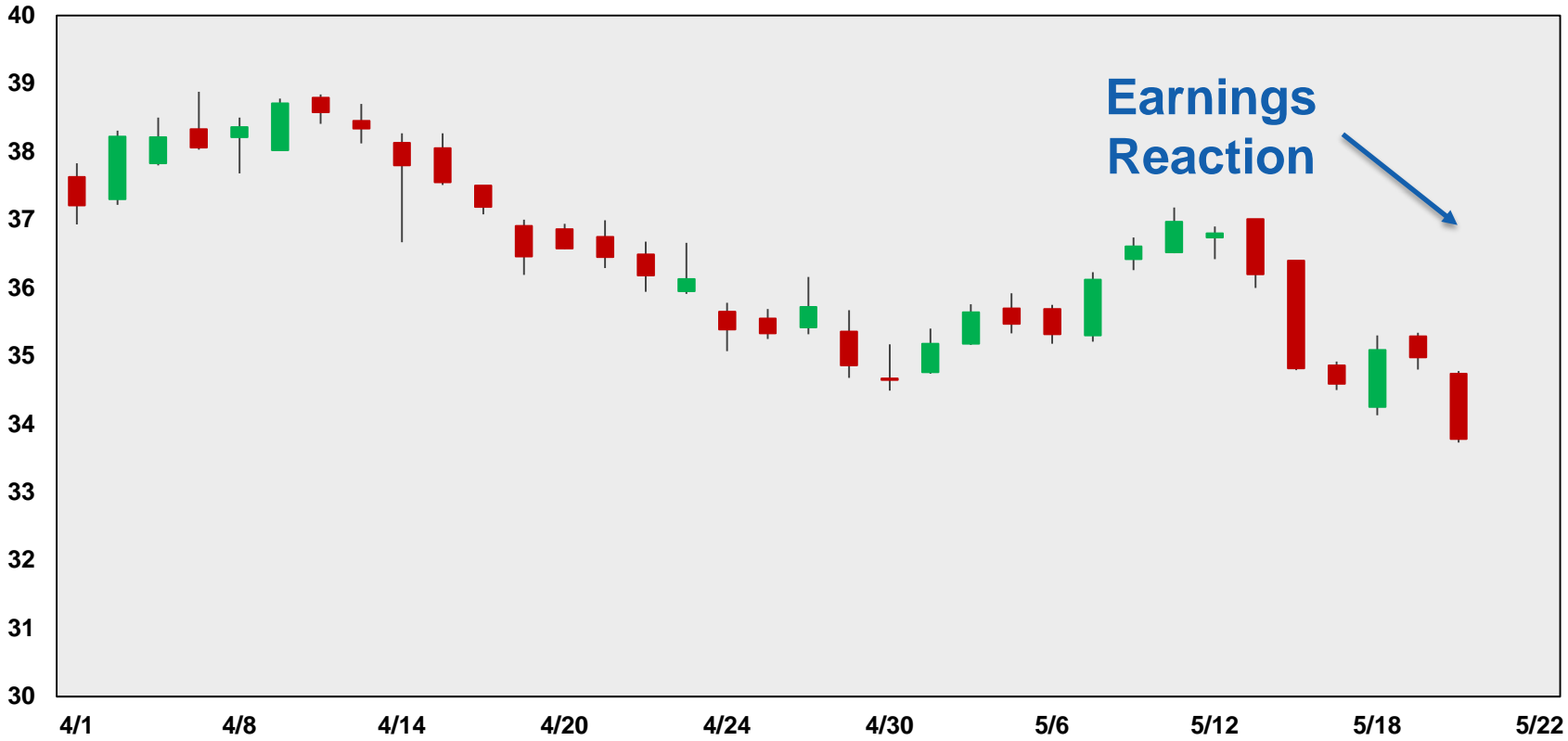
-0.50

-1.00

BBY Earnings

Price Action

Daily Prices



Data Source: Bloomberg

FDX Earnings

Bull Put Spread

- FDX Reported earnings Wednesday March 18 before the market open
- Later in the trading day, with FDX stock around 176.80 someone sold a bull put spread

Three year summary of FDX earnings reactions

Max	Min	Abs Avg.	Last Q
6.16%	-6.89%	3.08%	-3.72%

Buy 1 FDX Mar 20th 170.00 Put at 0.91

Sell 1 FDX Mar 20th 172.50 Call at 1.46

Net Credit = 0.55

Data Source: Bloomberg

FDX Earnings

Bull Put Spread

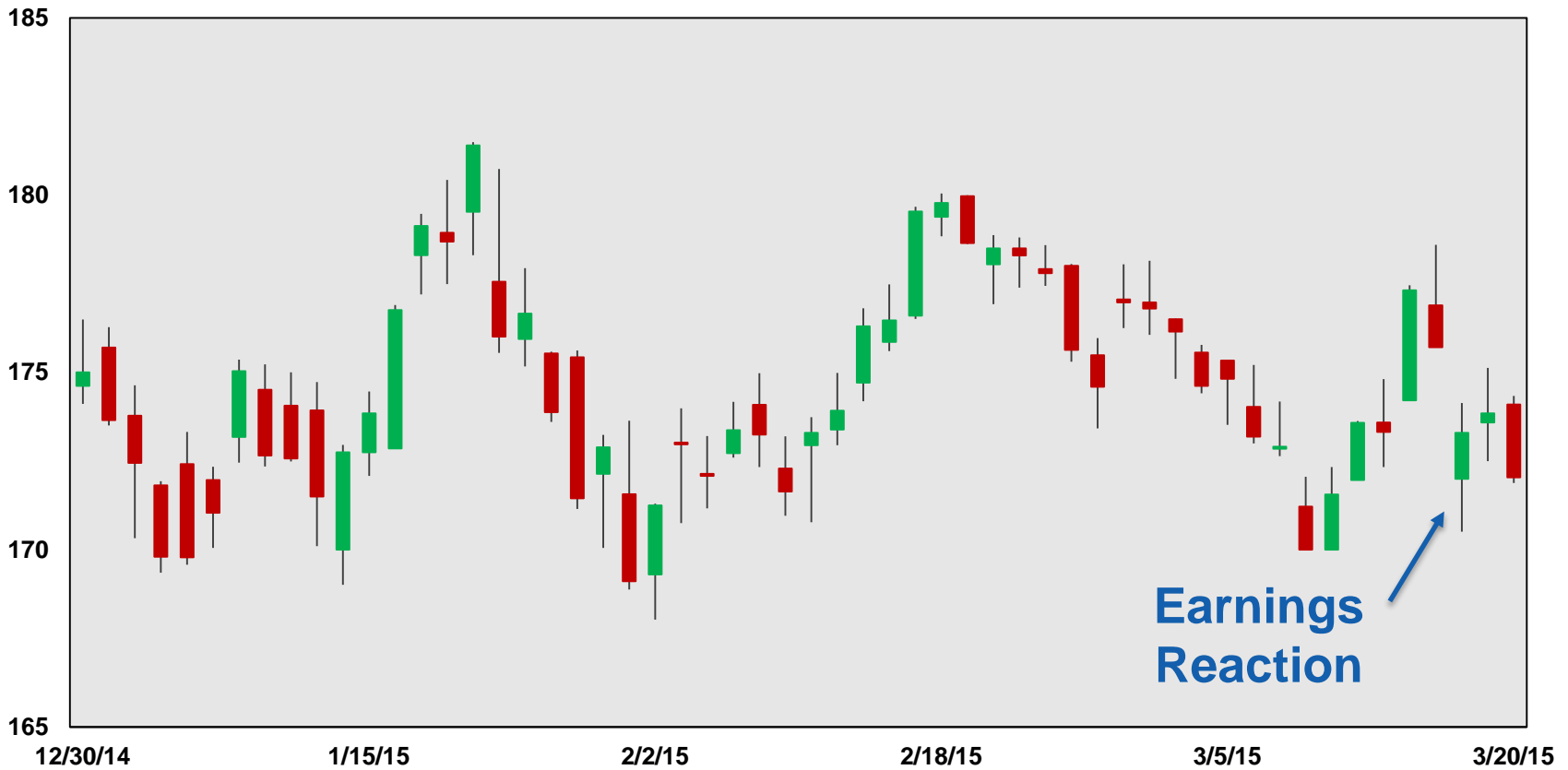
Short 1 172.50 Put / Long 1 170.00 Put



FDX Earnings

Price Action

Daily Prices



Earnings Reaction

Data Source: Bloomberg

Bullish Spreads

Summary

- **Bullish vertical spreads may be created using either call options or put options**
- **Many traders prefer put option as they receive a credit but also because both options expire OTM if the forecast is correct**
- **A final benefit of vertical spreads is the ability to offset the time value of options though taking in premium**

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Questions / Links / Contact

Questions?

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