

# OPTIONS TRADING CHEAT-SHEET

Hi, I've created this cheat sheet to be a quick go-to reference for your options trades. This cheat-sheet contains more than a dozen strategies for all market conditions with differing potential for profit and loss.

There are various ways to construct different strategies, but I have explained the most popular and best options strategies.

## BASIC STRATEGIES

### 1. Long call

Buy 1 Call at strike price A

The profit increases as the market rises. The break-even point will be the options strike price plus the premium paid for the option.

- **Max Profit** : Unlimited as the Stock's Price Rises
- **Max Loss** : Limited to the Net Premium Paid
- **Upside Profit at Expiration** :  $\text{Stock's Price} - \text{Strike Price} - \text{Premium Paid}$
- **When to Use** : When we expect a rise in the price of the stock

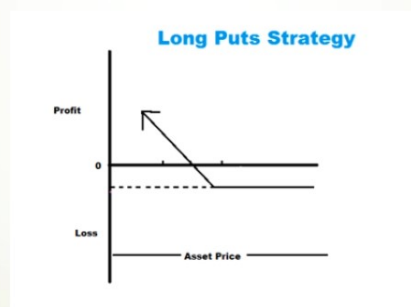
**Long calls strategy**

## 2. Long Put

Buy 1 Put at strike price A

The profit increases as the market falls. The break-even point will be the options strike price minus the premium paid for the option.

- **Max Profit** : Unlimited as the Stock's Price Falls
- **Max Loss** : Limited to the Net Premium Paid
- **Downside Profit at Expiration** :  $\text{Strike Price} - \text{Stock Price} - \text{Premium Paid}$
- **When to Use** : When we expect a Fall in the price of the stock  
When the Stock is in Downtrend  
When we get a Breakdown at Double Top or Head & Shoulder Pattern



### 3. Covered Calls

Buy underlying shares and Sell 1 Call of higher strike price.

Max profit will occur if the price of the stock is at or above the call strike at expiration date.  
Breakeven point will be the purchase price of the stock minus premium received.

- **Max Profit** : Limited
- **Max Loss** : Substantial
- **Upside Profit at Expiration if Assigned** : Premium Received + Difference Between Strike Price and Stock Purchase Price
- **Upside Profit at Expiration if not Assigned** : Any Gains in Stock Value + Premium Received
- **When to Use** : When we are Bullish on a Stock Price but Feel that Stock won't rise much over the life span of the call contract

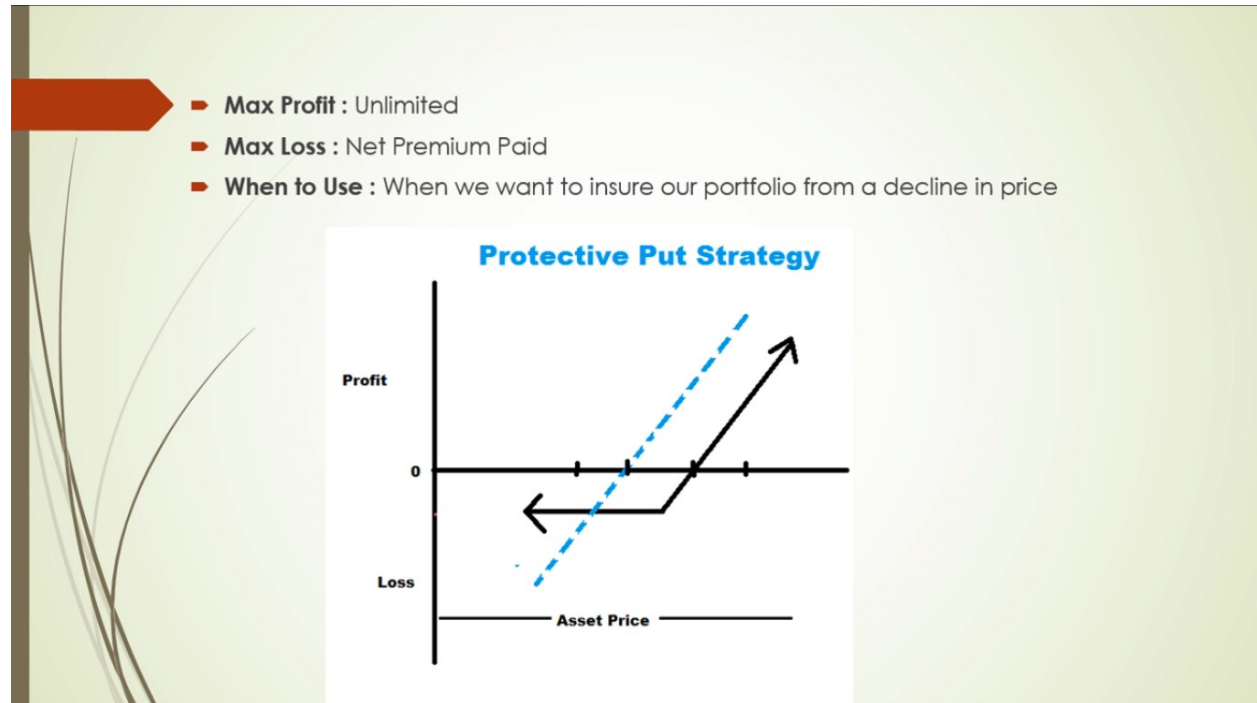
**Covered Calls Strategy**

The graph illustrates the profit and loss for a covered call strategy. The vertical axis represents Profit and Loss, with 0 in the middle. The horizontal axis represents Asset Price. A solid black line shows the strategy's performance: it starts at a loss (negative profit) and increases linearly until it reaches the breakeven point. After the breakeven point, the profit is limited and constant, represented by a horizontal line. A dashed blue line labeled 'Long stock' shows a continuous linear increase in profit as the asset price rises. An arrow points to the right along the horizontal part of the solid line, and another arrow points to the right along the dashed line.

#### 4. Protective Put

Buy stock and buy 1 Put of lower strike price.

It is a hedging strategy to protect the portfolio against a market correction. Breakeven will be the stock purchase price plus the premium paid.



#### 4. Writing Put

Sell 1 Put at strike price A.

We should use the strategy when our view is moderately bullish about the stock. The share price should not fall below the strike price A. If it does you are obligated to buy the option back to close. The break-even point will be the options strike price A, minus the premium received for the option.

- **Max Profit** : Limited to Premium Received
- **Max Loss** : Unlimited as the stock Price Falls, so A Strict Stop Loss should be employed at right place
- **When to Use** : When the Stock is in an Uptrend and at the end of it's Retracement Phase

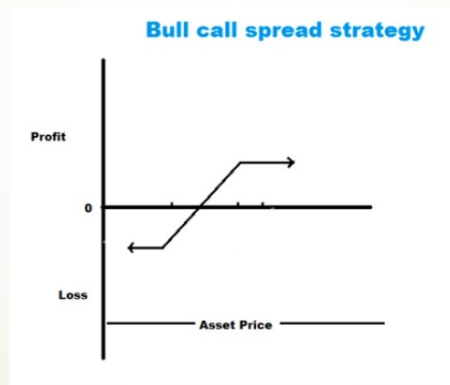


## OPTIONS SPREAD (Intermediate Level)

### 1. Bull Call Spread

Buy 1 Call at A and Sell 1 Call of higher strike B

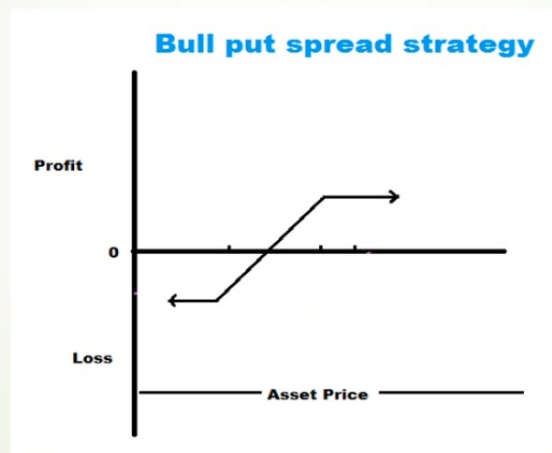
- **Max Profit** : Limited to Difference between Strike Prices – Net Debit Paid
- **Max Loss** : Limited to Net Debit Paid
- **When to Use** : When we are Moderately Bullish about the Prices



## 2. Bull Put Spread

Buy 1 Put at A and Sell 1 Put of higher strike B.

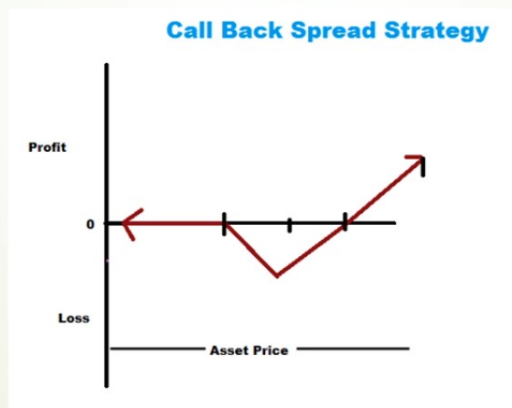
- **Max Profit** : Net Premium Received
- **Max Loss** : Limited to Difference between the Strike Prices – Net Premium Received
- **When to Use** : When we are Moderately Bullish about the Prices



### 3. Call Back Spread

Sell 1 Call at A and Buy 2 Calls at B

- **Max Profit** : Unlimited
- **Max Loss** : Difference between the Strike Pries – Net Credit Received
- **When to Use** : When we are expecting a Big Up Move in already Volatile Stock





#### 4. Bear Call Spread

Sell 1 Call at strike A and Buy 1 Call of higher strike B

- **Max Profit** : Net Premium Received
- **Max Loss** : Higher Strike Price – Lower Strike Price – Net Premium Received
- **When to Use** : When Stock is in Downtrend and We are Moderately Bearish

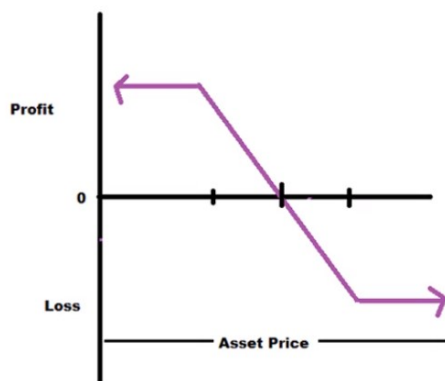


## 5. Bear Put Spread

Buy 1 Put of strike A and Sell 1 Put of lower strike B

- **Max Profit** : Difference between the Strike Prices - Net Premium Paid
- **Max Loss** : Net Premium Paid
- **When to Use** : Stock is in a downtrend and touching it's Resistance line

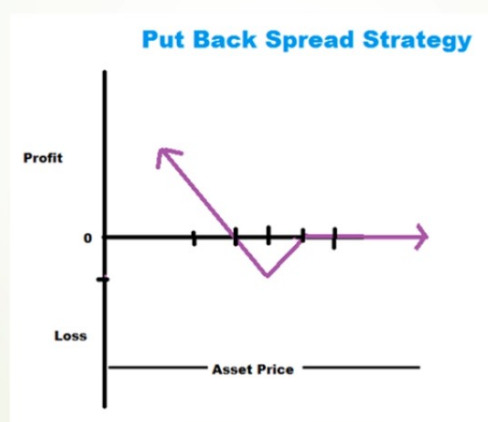
**Bear Put Spread Strategy**



## 6. Put Back Spread

Sell 1 Put of higher strike and Buy 2 Puts of lower strike.

- **Max Profit** : Unlimited when Price Falls
- **Max Loss** : Short Put Strike Price – Long Put Strike Price – Net Credit Received
- **When to Use** : When Stock is in Long Term Downtrend and Touching it's Resistance Line

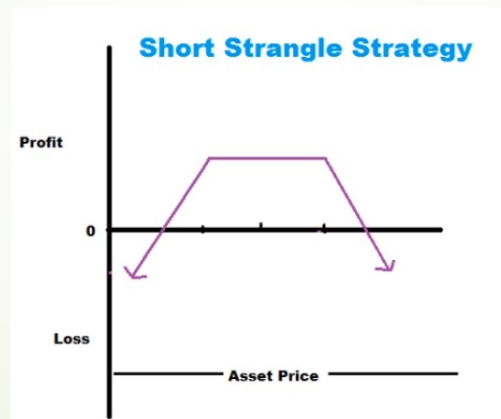


## NEUTRAL STRATEGIES (Pro Level)

### 1. Short strangle

Sell 1 Call of higher strike B and Sell 1 Put of lower strike A

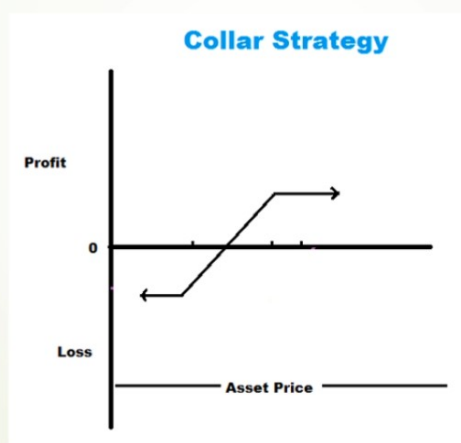
- **Max Profit** : Net Premium Received
- **Max Loss** : Unlimited as Market Moves in Either Direction so a Strict Stop Loss is Must
- **When to Use** : The Stock is moving in a Sideways Range and there is hardly any big movement in stock prices



## 2. Collar Strategy

Buy underlying shares Buy 1 Put of lower strike A and Sell a Call of higher strike B

- **Max Profit :** ( Strike Price of Short Call – Purchase Price of Stock ) + Net Premium Received
- **Max Loss :** ( Purchase Price of Stock – Stock Price of Long Put ) – Net Premium Received
- **When to Use :** To Protect an Existing Stock Position in a Bullish Environment



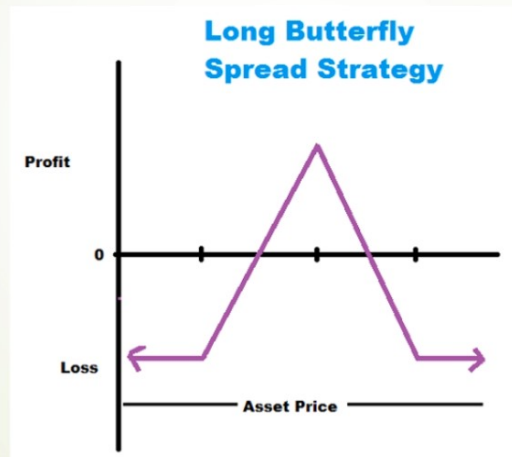
### 3. LONG BUTTERFLY

Construction (any of the following):

Buy 1 Call at A and Sell 2 Calls at B and Buy 1 Call at C.

Buy 1 Put at A and Sell 2 Puts at B and Buy 1 Put at C.

- **Max Profit** : ( Middle Strike Price – Lower Strike Price ) – Net Premium Paid
- **Max Loss** : Net Premium Paid
- **When to Use** : in a Forecast of Narrow Trading Range



#### 4. LONG STRADDLE

Buy 1 Call at A and Buy 1 Put at A.

- **Max Profit** : Unlimited as Market Moves in Either Direction
- **Max Loss** : Limited to Net Premium Paid
- **When to Use** : The Price of underlying stock is either expected to Fall or Rise Substantially in a short period of time

