

Long Call & Put Options Strategic Actions Plans



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Using this Document

These Action Plans are designed to provide a synopsis of your possible actions when you are already in an open position.

The Two tables refer to basic Calls and Puts.

This is not designed as a training course but rather as a resource that highlights a few of the alternatives that are available to you after you have bought a basic options contract.

For inexperienced Options Trader, I hope this sparks your interest to delve into advanced strategies more.

For the experienced Options Trader. I hope you find this a useful Crib Card.

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Long Put Strategic Actions

Trade	Event	Stock View	Choice	Brokerage	Risks	Margin	Factors	Remarks
Long Puts	Stock price rises above your stop loss	Now Bullish	Sell Bought Puts and take the Loss.	Because you are just exiting a strategy you only have the one set of brokerage	Your risk is limited to the losses on exiting the strategy	No Margin Incurred	Are there fundamentals (Ex Dividend etc?)	Capital preservation is paramount!
Long Puts	Stock price rises above your stop loss	Now Bullish	Sell Puts closer to the stock price turning the strategy into a protected written Put	If you have to buy back this position you are now doubling your brokerage so you need to take the number of contracts you hold into account for profitability	Your risk is increased; If the stock price falls you will be liable for the difference between the sold and bought strike prices.	This is a credit spread and any premium received may have to be lodged as margin.	The amount of revenue from this choice needs to be profitable Time Decay is in your favour.	Why are you now bullish? Max profit occurs if the sold options expire worthless.
Long Puts	Stock price rises above your stop loss	Now Bullish	Sell Puts further out of the money turning the strategy into a Bear Put spread	You are now doubling your brokerage so you need to take the number of contracts you hold into account for profitability	Your risk is limited to the losses on entering the strategy	This is a debit spread so No Margin is Incurred	Deltas of Sold Puts must be approximately half the Delta of the bought Puts. Time Decay is against you.	Deltas are Important. Max profit Occurs once the stock price has reached the strike price of the sold option
Long Puts	Stock price rises above your stop loss	Now Bullish	Sell double the Puts further out of the money turning the strategy into a Ratio Put spread	If you have to buy back the position You are now doubling your brokerage so you need to take the number of contracts you hold into account for profits	Your risk is increased as you now have twice the sold options that you bought.	If the stock price falls you will be liable for margin	Delta on Sold Puts must not exceed half the delta of the bought puts. Time Decay is in your favour.	Deltas are Crucial. If the stock price falls sharply you must exit the strategy before the strike price of the sold options is exceeded. If the stock price rises you may be able to buy back the sold options cheaper

N.B.

1. THE ADVANTAGE OF A SPREAD TRADE OVER A STRAIGHT LONG OPTION IS THAT IT ALLOWS FOR FLUCTUATIONS IN THE STOCK PRICE. IT IS NOT AN EXCUSE TO IGNORE THE STOCK BREACHING RESISTANCE OR SUPPORT LEVELS!
2. EXPIRY DATES SHOULD ALWAYS BE TAKEN INTO CONSIDERATION FOR A BEAR PUT SPREAD YOU WANT TIME FOR THE STOCK TO MOVE, FOR A RATIO PUT SPREAD YOU WANT LESS TIME FOR THE STOCK TO MOVE
3. REMEMBER WHEN BUYING OR SELLING OPTIONS, HIGH VOLATILITY SHOULD INCREASE THE PRICE OF THE OPTION AND LOW VOLATILITY SHOULD DECREASE THE PRICE OF THE OPTION!

Long Call Strategic Actions

Trade	Event	Stock View	Choice	Brokerage	Risks	Margin	Factors	Remarks
Long Calls	Stock price falls below your stop loss	Now Bearish	Sell Bought Calls and take the Loss.	Because you are just exiting a strategy you only have the one set of brokerage	Your risk is limited to the losses on exiting the strategy	No Margin Incurred	Are there fundamentals (Ex Dividend etc?)	Capital preservation is paramount!
Long Calls	Stock price falls below your stop loss	Now Bearish	Sell Calls closer to the stock price turning the strategy into a protected written call	If you have to buy back this position you are now doubling your brokerage so you need to take the number of contracts you hold into account for profitability	Your risk is increased . If the stock price goes up you will be liable for the difference between the sold and bought strike prices.	This is a credit spread and any premium received may have to be lodged as margin.	The amount of revenue from this choice needs to be profitable Time Decay is in your favour.	Why are you now bearish? Max profit occurs if the sold options expire worthless.
Long Calls	Stock price falls below your stop loss	Still Bullish	Sell Calls further out of the money turning the strategy into a Bull Call spread	You are now doubling your brokerage so you need to take the number of contracts you hold into account for profitability	Your risk is limited to the losses on entering the strategy	This is a debit spread so No Margin is Incurred	Deltas of Sold calls must be approximately half the Delta of the bought calls. Time Decay is against you.	Deltas are Important. Max profit Occurs once the stock price has reached the strike price of the sold options
Long Calls	Stock price falls below your stop loss	Still Bullish	Sell double the Calls further out of the money turning the strategy into a Ratio Call spread	If you have to buy back the position You are now doubling your brokerage so you need to take the number of contracts you hold into account for profits	Your risk is increased as you now have twice the sold options that you bought.	If the stock price rises you will be liable for margin	Delta on Sold calls must not exceed half the delta of the bought option. Time Decay is in your favour.	Deltas are Crucial. If the stock price rises sharply you must exit the strategy before the strike price of the sold options is exceeded. If the stock price falls you may be able to buy back the sold options cheaper

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2. EXPIRY DATES SHOULD ALWAYS BE TAKEN INTO CONSIDERATION FOR A BEAR PUT SPREAD YOU WANT TIME FOR THE STOCK TO MOVE, FOR A RATIO PUT SPREAD YOU WANT LESS TIME FOR THE STOCK TO MOVE.
3. REMEMBER WHEN BUYING OR SELLING OPTIONS, HIGH VOLATILITY SHOULD INCREASE THE PRICE OF THE OPTION AND LOW VOLATILITY SHOULD DECREASE THE PRICE OF THE OPTION!

Glossary

At the money: When the strike price of an option is equal (or nearly equal) to the market price of the underlying stock.

Bearish: Believing that a particular stock, sector or the overall market is about to fall.

Bear Put spread: Buying one Put Option and selling another Put Option (for the same underlying stock) further out of the money, with the same month of expiry. Reduces cost to enter a trade but also limits potential profits.

Brokerage: The fee that you pay to the broker (Online or Full Service) for them to facilitate the trade.

Bullish: Believing that a particular stock, sector or the overall market is about to rise.

Bull Call spread: Buying one Call Option and selling another Call Option (for the same underlying stock) further out of the money with the same month of expiry. Reduces cost to enter a trade but also limits potential profits.

Call Option: A contract that gives the buyer the Option (But not the obligation) to purchase a set stock at a set price until a set date.

Capital preservation: Protecting the cash in your trading bank.

Credit Spread: A Spread Option Position in which the price of the option sold is greater than the price of the option bought.

Debit spread: A Spread Option Position in which the price of the option bought is greater than the price of the option sold.

Delta: The rate of change in the option premium given a change in the stock price.

Dividend: A payment declared by the board (of directors) of a company that is given to its shareholders out of the company's current or retained earnings.

Expiration Date: The day on which an option expires (ceases to trade) and becomes worthless if not exercised.

Ex Dividend: The period of time between the announcement of the dividend and the payment of the dividend

Fundamentals: Any factors that could be considered important to the understanding of a particular business (e.g. the gold price could be a fundamental for a gold mine stock)

In the Money: Situation in which an Option's strike price is below the current market price of the stock (for a Call Option) or above the current market price of the stock (for a Put Option).

Intrinsic Value: The amount by which an Option is “In the Money”. Calculated by taking the difference between the strike price of stock and the market price of the stock.

Long (Long Position): The State of actual owning a commodity or Options Contract

Margin: The amount of equity required for an investment in stocks or other securities purchased on credit.

Out of the money: When the strike price of a Call Option is higher than the market price of the stock or the strike price of a Put Option is lower than the market price of the stock

Premium: The amount that the buyer of an option pays to the seller

Protected Written Call: Writing a Call Option on an underlying stock at one strike price whilst buying another Call Option on the same stock with a higher Strike Price.

Put Option: A contract that gives the buyer the Option (But not the obligation) to sell a set stock at a set price until a set date.

Ratio Call spread: An Options Strategy in which someone buys a quantity of Call Options and sells a larger quantity of Call Options on the same stock at a higher strike price.

Ratio Put spread: An Options Strategy in which someone buys a quantity of Put Options and sells a larger quantity of Put Options on the same stock at a lower strike price.

Short (Position): The state of having sold a commodity or Options Contract

Short Call Options: A Stock Option strategy in which an investor sells a Call on shares (that are either currently owned or not yet owned).

Stop loss: A stop order for which the specified price of the stock is below the current market price and the order is to sell

Strike price: The specified price on an option contract at which the contract may be exercised.

Time Decay: The ratio of the change in an option’s price to the decrease in its time to expiration

Protected written Put: Writing a Put Option (on an underlying stock) at one strike price whilst buying another Put Option on the same stock with a lower Strike Price.