Welcome to Safe Option Strategies presentation of:

Straddles and Strangles
True Education Leads to
Better Trades

Straddles and Strangles

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The Straddle/Strangle Defined

- Debit Spread
- Buy to Open the Trade
- Long Call is Placed At or Just Out of the Money and Typically 90 Days or Longer Expiration.
- Long Put is Placed at the Same Strike Price (Straddle) or at a Lower Strike Price (Strangle) in the Same Month of Expiration.
- There is Not a Primary and Secondary Option in This Trade Unless There is a Very Bullish or Very Bearish Expectation.
- Cost Basis or Net Debit of the Trade is the Debit of the Long Call Plus the Debit of the Long Put.
- Max Risk = Cost Basis
- Max Reward = Unlimited Minus the Cost Basis to the Bullish Side; The Long Put Strike Price Minus the Cost Basis to the Bearish Side.
- Good Target ROI is 20-30%
- Good Target Time in the Trade is Under 8 weeks. Less Time is Better Due to Time Decay.
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Whatever direction the stock moves one option will gain value, and one option will lose value.

The stock needs to move farther in one direction or the other, than the strike price of the call or put, plus or minus the net debit in the trade, to guarantee profit.

The bigger the move (up or down) the better the chance of profit.
Current Price of the Stock $52.85

Long Call is placed at $55.00 Strike.

Long Put is placed at $50.00 Strike.

Straddle and Strangle

- Whatever direction the stock moves one option will gain value, and one option will lose value.
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Calculating Risk to Reward Ratio

1. Max Risk = The net debit of both options (the debit of the long call plus the debit of the long put). This is also our cost basis.

2. Max Reward = Unlimited to the up side. The strike of the long put minus the cost basis of the trade is the max profit to the down side.

3. Max ROI = The max reward divided by the max risk.
BTO $52.50 Strike Call for $6.25 debit.
BTO $52.50 Strike Puts for $5.90 debit.
Net Debit $12.15 (Cost Basis)
Max Risk = Net Debit
Max Reward is Unlimited to the upside; $40.35 to the downside (the strike of the long put minus the cost basis of the trade).
Max ROI is Unlimited up, 332% down.
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- BTO $55.00 Strike Call for $4.95 debit.
- BTO $50.00 Strike Puts for $4.45 debit.
- Net Debit $9.40 (Cost Basis)
- Max Risk = Net Debit
- Max Reward is Unlimited to the upside; $40.60 to the downside (the strike of the long put minus the cost basis of the trade).
- Max ROI is Unlimited up, 432% down.
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BTO Jan15 $55.00 Strike Call for $6.00 debit.
BTO Oct16 $55.00 Strike Puts for $3.34 debit.
Net Debit $10.35 (Cost Basis)
Max Risk = Net Debit
Max Reward is Unlimited to the upside; $44.65 to the downside (the strike of the long put minus the cost basis of the trade).
Max ROI is Unlimited up, 444% down.
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Ratio
Straddles and Strangles

• BTO $52.50 Strike Call for $6.25 debit. X2 = $12.50
• BTO $52.50 Strike Puts for $5.90 debit.
• Net Debit $18.40 (Cost Basis)
• Max Risk = Net Debit
• Max Reward is Unlimited to the upside; $34.10 to the downside (the strike of the long put minus the cost basis of the trade).
• Max ROI is Unlimited up, 185% down.
Defining our Exit Strategy

1. Straddles and Strangles can make a lot of money, but targeting 20-30% ROI is best for this trade.

2. Setting up this trade between earnings reports is ideal because IV (implied volatility) is usually at its lowest. Being in the trade for 4-6 weeks is not uncommon.

3. The Adjustment or Secondary Exit will be covered in “Adjusting Straddles and Strangles”.

Summary

1. When a typically volatile stock is moving in a tight range there is an expectation that a break out is likely to occur.

2. The straddle or strangle works best when there is an earnings event of some other significant event scheduled (i.e. retail report or FDA drug approval) before the expiration date of the options.

3. A good target ROI is 20-30% and a good expectation of time spent in the trade is 4-6 weeks.