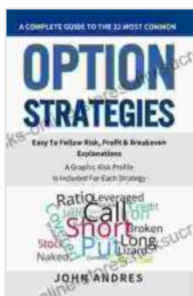
Complete Guide To The 32 Most Common Option Strategies

Options are a versatile investment tool that can be used for a variety of purposes, from hedging risk to generating income. However, the wide range of option strategies available can be daunting, even for experienced investors. This guide will provide a comprehensive overview of the 32 most common option strategies, explaining how each strategy works, what its risks and rewards are, and how to use it effectively.

A covered call is a strategy in which an investor sells (or "writes") a call option on a stock that they own. The call option gives the buyer the right, but not the obligation, to buy the stock at a specified price (the strike price) on or before a specified date (the expiration date). The covered call strategy generates income from the sale of the call option, but it also limits the investor's potential upside if the stock price rises above the strike price.

Risks:



A Complete Guide to the 32 Most Common Option Strategies: Easy to Follow Risk, Profit & Breakeven Explanations by John Andres

4 out of 5

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- The investor may lose the stock if the stock price falls below the strike price.
- The investor may miss out on potential profits if the stock price rises above the strike price.

Rewards:

- The investor generates income from the sale of the call option.
- The investor limits their potential losses if the stock price falls.

Uses:

- To generate income from a stock position.
- To hedge against the risk of a decline in the stock price.

A protective put is a strategy in which an investor buys a put option on a stock that they own. The put option gives the investor the right, but not the obligation, to sell the stock at a specified price (the strike price) on or before a specified date (the expiration date). The protective put strategy protects the investor from losses if the stock price falls below the strike price.

Risks:

- The investor pays a premium for the put option.

- The investor may lose money if the stock price rises above the strike price.

Rewards:

- The investor protects themselves from losses if the stock price falls.
- The investor may generate income if the stock price falls below the strike price.

Uses:

- To protect against the risk of a decline in the stock price.
- To generate income from a stock position.

A bull call spread is a strategy in which an investor buys a call option at a lower strike price and sells a call option at a higher strike price. The bull call spread strategy profits when the stock price rises above the lower strike price but below the higher strike price.

Risks:

- The investor may lose money if the stock price falls below the lower strike price.
- The investor may lose money if the stock price rises above the higher strike price.

Rewards:

- The investor profits when the stock price rises above the lower strike price but below the higher strike price.
- The investor limits their potential losses.

Uses:

- To bet on a moderate rise in the stock price.
- To hedge against the risk of a decline in the stock price.

A bear put spread is a strategy in which an investor buys a put option at a higher strike price and sells a put option at a lower strike price. The bear put spread strategy profits when the stock price falls below the higher strike price but above the lower strike price.

Risks:

- The investor may lose money if the stock price rises above the higher strike price.
- The investor may lose money if the stock price falls below the lower strike price.

Rewards:

- The investor profits when the stock price falls below the higher strike price but above the lower strike price.
- The investor limits their potential losses.

Uses:

- To bet on a moderate decline in the stock price.
- To hedge against the risk of a rise in the stock price.

A long straddle is a strategy in which an investor buys both a call option and a put option on the same stock at the same strike price. The long straddle strategy profits when the stock price moves significantly, either up or down.

Risks:

- The investor may lose money if the stock price does not move significantly.
- The investor pays a premium for both the call option and the put option.

Rewards:

- The investor profits when the stock price moves significantly, either up or down.
- The investor has unlimited profit potential.

Uses:

- To bet on a significant move in the stock price.
- To hedge against the risk of a large move in the stock price.

A short straddle is a strategy in which an investor sells both a call option and a put option on the same stock at the same strike price. The short

straddle strategy profits when the stock price does not move significantly.

Risks:

- The investor may lose money if the stock price moves significantly, either up or down.
- The investor collects a premium for both the call option and the put option.

Rewards:

- The investor profits when the stock price does not move significantly.
- The investor has limited profit potential.

Uses:

- To bet on a lack of volatility in the stock price.
- To hedge against the risk of a large move in the stock price.

A long strangle is a strategy in which an investor buys a call option at a higher strike price and a put option at a lower strike price. The long strangle strategy profits when the stock price moves significantly, either up or down.

Risks:

- The investor may lose money if the stock price does not move significantly.
- The investor pays a premium for both the call option and the put option.

Rewards:

- The investor profits when the stock price moves significantly, either up or down.
- The investor has unlimited profit potential.

Uses:

- To bet on a significant move in the stock price.
- To hedge against the risk of a large move in the stock price.

A short strangle is a strategy in which an investor sells a call option at a higher strike price and a put option at a lower strike price. The short strangle strategy profits when the stock price does not move significantly.

Risks:

- The investor may lose money if the stock price moves significantly, either up or down.
- The investor collects a premium for both the call option and the put option.

Rewards:

- The investor profits when the stock price does not move significantly.
- The investor has limited profit potential.

Uses:

- To bet on a lack of volatility in the stock price.
- To hedge against the risk of a large move in the stock price.

A butterfly spread is a strategy in which an investor buys one call option at a lower strike price, sells two call options at a middle strike price, and buys one call option at a higher strike price. The butterfly spread strategy profits when the stock price moves moderately, either up or down.

Risks:

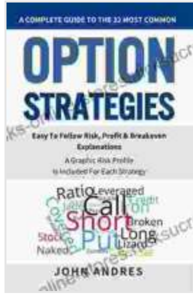
- The investor may lose money if the stock price does not move moderately.
- The investor pays a premium for the call options.

Rewards:

- The investor profits when the stock price moves moderately, either up or down.
- The investor has limited profit potential.

Uses:

- To bet on a moderate move in the stock price.
- To hedge



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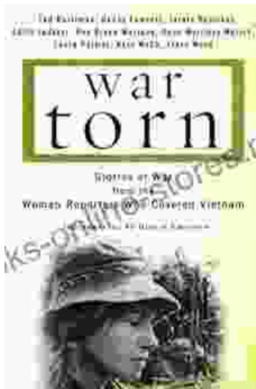

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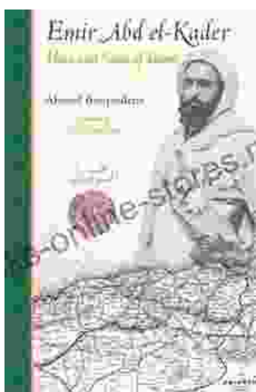

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