

## How Collar Strategy be Leaned?

Like other strategies, the collar can be leaned toward the investor's perception of the stock's direction and strength.

Let's look at the potential leans that can be taken. Say that you have a very strong feeling the XYZ is going to go up. Instead of buying a put and selling a call with strikes that are roughly equidistant from the stock price, you would sell a call that is further out-of-the-money.

This would allow more room for a larger increase in stock price because the stock would not be called away as early. You retain ownership for a longer period of time during the increasing price period.

Of course, by increasing the distance of the option's strike away from the stock, the amount of the call's premium will decrease. The overall effect is that you'll have to pay more to own the position. (You will pay out more money for the put than you will receive from the call.)

Again, we'll start with the same prices as in our original case, (stock \$28.00, Dec. 27.5 put \$1.00 and Dec. 30 call \$1.00) only now we will change the Dec. 30 call at \$1.00 to the Dec. 32.5 call at \$ .35.

In our other examples, we incurred no debit or credit from our option position. This time, with the bullish lean, a debit is incurred. The purchase of the Dec. 27.5 put for \$1.00 combined with the receipt of \$ .35 from the sale of the Dec. 32.5 call produces a \$ .65 debit.

Remember, this debit must be subtracted from the bottom line profit or added to the bottom line loss of the stock's capital result. This means that before you make any money from the position, the stock must trade up \$ .65.

If the stock stays stagnant you will lose \$ .65, and any capital loss you incur will be \$ .65 worse. Now back to the position in our previous example. With the selling of the Dec. 30 call, we had an upside potential of \$1.50. In this example things change.

As was stated, our maximum upside potential is calculated by setting the stock price at the strike price of the short call which is 32.5 in this case. With the stock at \$32.50 at expiration, you would have a \$4.00 stock gain since the stock was purchased for \$28.50.



Remembering your \$ .65 debit to enter the position, we subtract that from the \$4.00 and we have a total maximum profit of \$3.35. This is significantly more potential reward than our original example using the Dec. 30 call.

As in all trading situations that offer a higher potential reward, there comes a higher potential risk. If the stock stays at \$28.50, (the stagnant scenario) you have a loss of \$.65 in option costs.

In the down "scenario," calculating the maximum risk is done by setting the stock price at \$27.50 on expiration.

The stock, purchased at \$28.50 has lost \$1.00. The options, not neutral, resulted in a \$.65 loss. The total loss is \$1.65. In both the "stagnant" and "down" scenarios, the loss increased over that in our original example. As you can see, the higher potential gain is accompanied by an increased potential risk.

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