

Spreads, Straddles, and Strangles in - The Stock Replacement Covered Call Strategy

We have demonstrated how well options function in unison with a stock position. They enhance potential gains and provide profit protection. They enable us to manage specific risk in a single stock as well as an entire portfolio. But, as good as options are in conjunction with stocks, they can be even better when traded against each other.

There are many option strategies that do not involve the use of any security other than another option, like spreads, straddles and strangles, for example.

A **spread** involves the purchase of one option in conjunction with the sale of another option. There are many types of spreads. Some take advantage of stock movements while others are set up to take advantage of implied volatility movements. Some are even designed to take advantage of a stock staying still. There are vertical spreads, calendar or time spreads, diagonal spreads and ratio spreads just to name a few. Spreads can provide large percentage returns with low risk and can be entered into with small capital outlay.

Straddles involve the buying (long) or selling (short) of a call and a put (usually at-the-money) in the same stock, in the same expiration month, and the same strike.

Strangles involve the buying (long) or selling (short) of an out-of-the-money call and an out-of-the-money put in the same stock and in the same expiration month.

These are both trades in which you can take advantage of stock or volatility movements (in the case of being long) or lack of stock or volatility movements (in the case of being short) during the period of time until expiration. Both straddles and strangles are considered premium precision plays.

These trades are considered more advanced and sophisticated than the strategies previously discussed in this course. Certain **spreads**, such as 1 to 1 vertical spreads, can actually be less risky than some of the strategies discussed above, but spreads generally do have more variables to consider, and this makes them more difficult to trade.



The [straddles](#) and [strangles](#) sometimes involve much more risk and many more variables to take into consideration. So, these trades are considered very sophisticated and should not be entered into by untrained novices.

For this reason, we will not be covering these strategies in more detail here, but will be introducing them to you in our members' area and in future releases - once you have had time to master your option basics.

For more Information about option trading, please click here:
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