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OPTION SPREAD TRADING

We have demonstrated how well options function in unison with a stock position. They enhance potential gains, provide profit protection and limit the risk of the entire investment. They enable us to manage 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.

Spreads are strategies that do not involve the use of any security other than another option. Their positives are that they are inexpensive, offer protection for both buyer and seller and are in effect automatically hedged trades.

Spreads can provide large percentage returns with low risk and can be entered into with small capital outlay. 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 movements in implied volatility and even time decay. There are calendar or time spreads, diagonal spreads, ratio spreads and also vertical spreads, which we will discuss in depth here.

Spreads are more advanced and sophisticated than the strategies discussed in our beginner product "OPTIONS 101." Where certain spreads, like 1 to 1 vertical spreads, can be less risky than a buy-write, there are more variables to consider and control which makes trading the spread more complicated.

When you trade a spread you are dealing with three elements: the spread as a whole (which you can buy or sell) and its component parts – the option you buy and the option you sell.

Although the cost of most spreads is relatively inexpensive to initiate, they can provide a large percentage return and there is protection (limits) to both sides of the trade. Therefore, even experienced investors can profit from learning about spreads and their investment potential.

For more Information about option trading, please click here:
www.options-university.com

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