

## [VERTICAL SPREADS](#)

### **Intrinsic Value and the Vertical Spread**

In looking at vertical spreads, an investor must take note of the fact that vertical spreads have an intrinsic value. This means that a vertical spread can be considered to be “in-the-money”. If a vertical spread has an intrinsic value then it can also have an extrinsic value. The maximum extrinsic value in a spread will deviate from spread to spread based on several factors. However, the maximum intrinsic value will equal the exact difference between the strikes at expiration as stated earlier. During a vertical spread’s life, its price will fluctuate between 0 and the value of the difference between the two strikes. The price of the spread, at any given time can be determined by the location of the stock and the time until expiration. At expiration, of course, all that will be left in terms of value for the two options will be the intrinsic value of each. Thus, the value of the spread will be the difference between each option’s intrinsic value at expiration.

Because vertical spreads have an intrinsic value, the term “moneyness” can be applied to them. Moneyness refers to whether or not and by how much an option, or a vertical spread, may be in-the-money or out-of-the-money. This is a term used mostly by floor traders, but is worth noting here.

For more Information about option trading, please click here:  
[www.options-university.com](http://www.options-university.com)