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F&O Options Strategies

Once you understand a single Call or Put, the real power of options comes from combining them. This module covers the essential strategies every options trader should know — for hedging, income, and defined-risk speculation.

1. Introduction — From Single Options to Strategies

In our earlier F&O Basics chapter, we covered the mechanics of a single Call or a single Put — the simplest possible options positions. In practice, however, experienced options traders rarely trade a single option in isolation. Instead, they combine two or more options (sometimes alongside the underlying stock itself) into a strategy, engineered to achieve a specific goal: limiting risk, generating income, or profiting from a very particular type of price movement.

KEY	Every strategy in this chapter is simply a different combination of the same building blocks you already know — long Calls, short Calls, long Puts, and short Puts. What changes is how they're combined, and that combination is what shapes the resulting risk and reward.

This module covers six of the most widely used options strategies: the Covered Call, the Protective Put, the Bull Call Spread, the Bear Put Spread, the Long Straddle, the Long Strangle, and the Iron Condor — along with a practical framework for choosing the right one based on your market view.

2. Why Combine Options?

Combining options serves three broad purposes, and most strategies you'll encounter fall into one (or a combination) of these categories.

- Hedging: Protecting an existing stock position from downside risk, often at the cost of giving up some potential upside.
- Income Generation: Collecting option premiums by selling options against a position or a defined-risk structure, typically in exchange for capping your own upside.
- Defined-Risk Speculation: Betting on a price direction or a big move, while capping your maximum possible loss to a known, fixed amount — unlike a naked short option, which we cautioned against in the previous chapter.

3. Covered Call

A Covered Call combines a stock you already own with selling a Call option against it. You collect the premium upfront, in exchange for agreeing to sell your shares at the strike price if the stock rises above it by expiry.

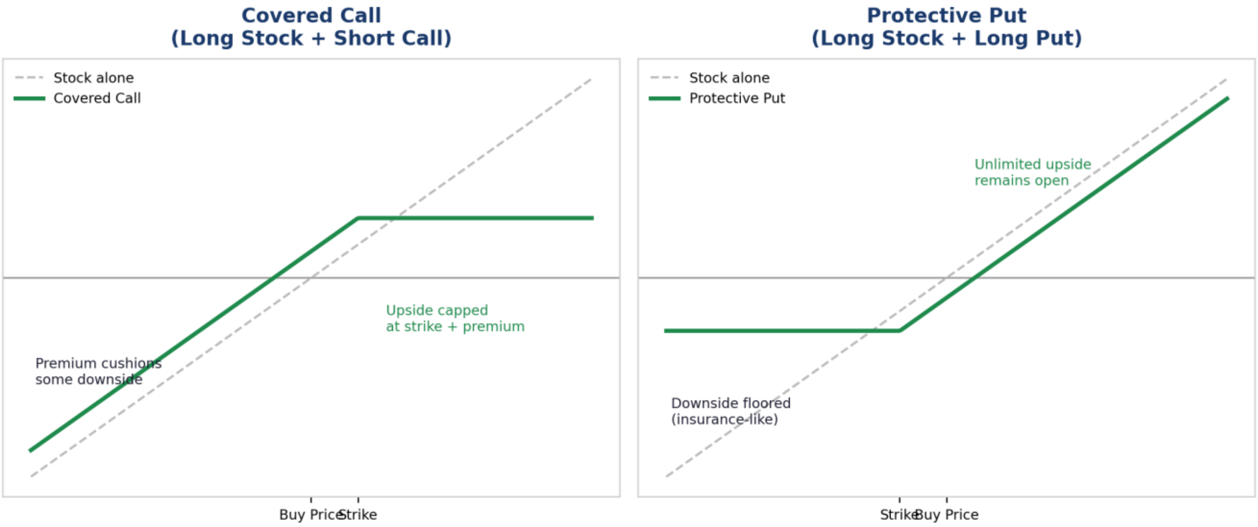

Fig 3.1 — Covered Call payoff (left) compared with Protective Put payoff (right).

This strategy is best used when you are moderately bullish or neutral on a stock you already hold, and are comfortable capping your upside in exchange for generating regular income from the premiums collected.

- Maximum profit: Capped — the difference between the strike and your stock's buy price, plus the premium received.
- Maximum loss: The stock can still fall to zero; the premium collected only provides a small cushion, not full protection.

4. Protective Put

A Protective Put combines a stock you already own with buying a Put option, acting like insurance against a sharp decline. You pay a premium for the right to sell your shares at the strike price no matter how far the stock falls.

This strategy is best used when you want to stay invested in a stock for the long term but are concerned about a near-term risk — an upcoming earnings report, a broader market correction, or a specific event.

- Maximum profit: Unlimited — you keep full exposure to any upside in the stock, just like owning the stock outright.
- Maximum loss: Limited and known in advance — the difference between your stock's buy price and the Put's strike price, plus the premium paid.

> **Real-Life Analogy**
> A Protective Put works exactly like car insurance. You pay a small premium regularly, hoping you never need to use it. If nothing goes wrong, you simply lose the premium. But if there is an accident (a sharp market fall), the insurance (the Put) pays out and limits your loss to a known, predictable amount.

5. Bull Call Spread

A Bull Call Spread involves buying a Call at a lower strike price (K1) and simultaneously selling a Call at a higher strike price (K2), both with the same expiry. The premium received from the short Call partially offsets the cost of the long Call, reducing your net cost compared to buying a Call outright — at the expense of capping your maximum profit.

Fig 5.1 — Bull Call Spread payoff (left) and Bear Put Spread payoff (right).

- Best used when: You are moderately bullish and want a lower-cost, defined-risk way to bet on a limited upward move, rather than an unlimited (and more expensive) long Call.
- Maximum profit: Capped at the difference between K1 and K2, minus the net premium paid.
- Maximum loss: Capped at the net premium paid to establish the spread.

6. Bear Put Spread

The mirror image of the Bull Call Spread: buying a Put at a higher strike price (K2) and selling a Put at a lower strike price (K1), reducing your net cost compared to a standalone long Put, in exchange for a capped maximum profit.

- Best used when: You are moderately bearish and want a lower-cost, defined-risk way to bet on a limited downward move.
- Maximum profit: Capped at the difference between K1 and K2, minus the net premium paid.
- Maximum loss: Capped at the net premium paid to establish the spread.

TIP	Spreads (Bull Call and Bear Put) are popular precisely because they define your maximum loss upfront and typically cost less than buying a single option outright — a useful trade-off for traders who want defined risk without paying full price for unlimited upside they may not need.

7. Long Straddle

A Long Straddle involves buying both a Call and a Put at the same strike price and expiry. This strategy does not take a directional view at all — it profits from a large price move in either direction, and loses if the price stays relatively flat.

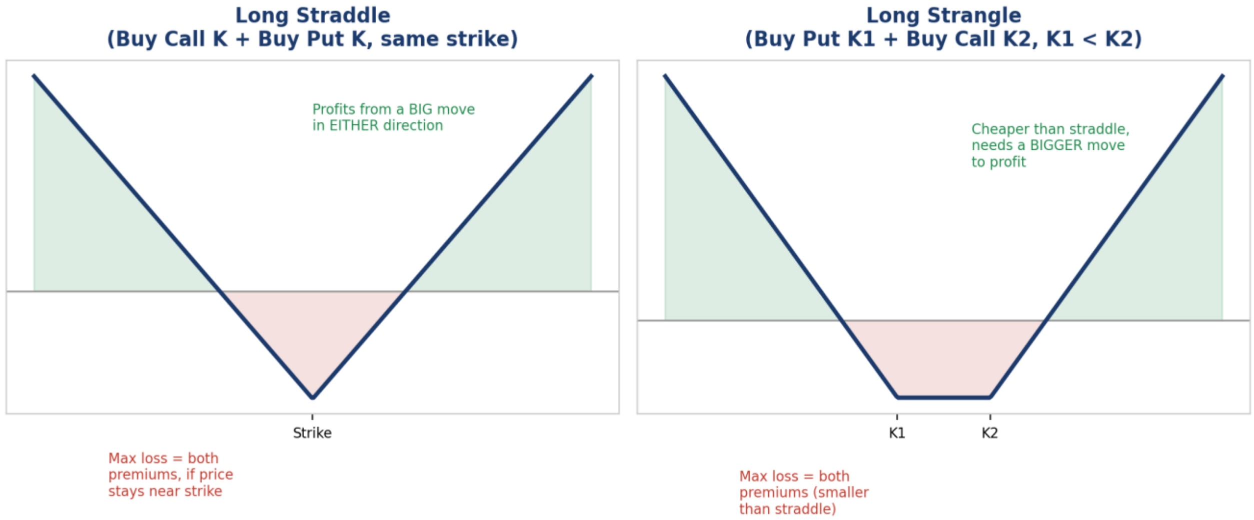

Fig 7.1 — Long Straddle payoff (left) and Long Strangle payoff (right).

This strategy is commonly used ahead of a known event with an uncertain outcome — a company's quarterly results, a major economic announcement, or an election — where a large move is expected but the direction is unclear.

- Maximum profit: Unlimited on the upside; large (though not unlimited) on the downside.
- Maximum loss: Capped at the total premium paid for both the Call and the Put, if the price finishes very close to the strike at expiry.

8. Long Strangle

Similar to a Long Straddle, but using a lower-strike Put and a higher-strike Call instead of the same strike for both. Because both options are further out-of-the-money at the time of purchase, the total premium paid is lower than a straddle — but the underlying price needs to move even further before the position becomes profitable.

- Best used when: You expect a large move but want to reduce the upfront cost compared to a straddle, and are comfortable needing a bigger move to break even.
- Maximum profit: Unlimited on the upside; large on the downside — similar to a straddle, but requiring a larger move.
- Maximum loss: Capped at the total premium paid, which is lower than an equivalent straddle.

9. Iron Condor

An Iron Condor combines four options: selling a Put and a Call closer to the current price (collecting premium), while buying a further out-of-the-money Put and Call for protection. It profits when the underlying stays within a defined range through expiry — essentially the opposite market view from a straddle or strangle.

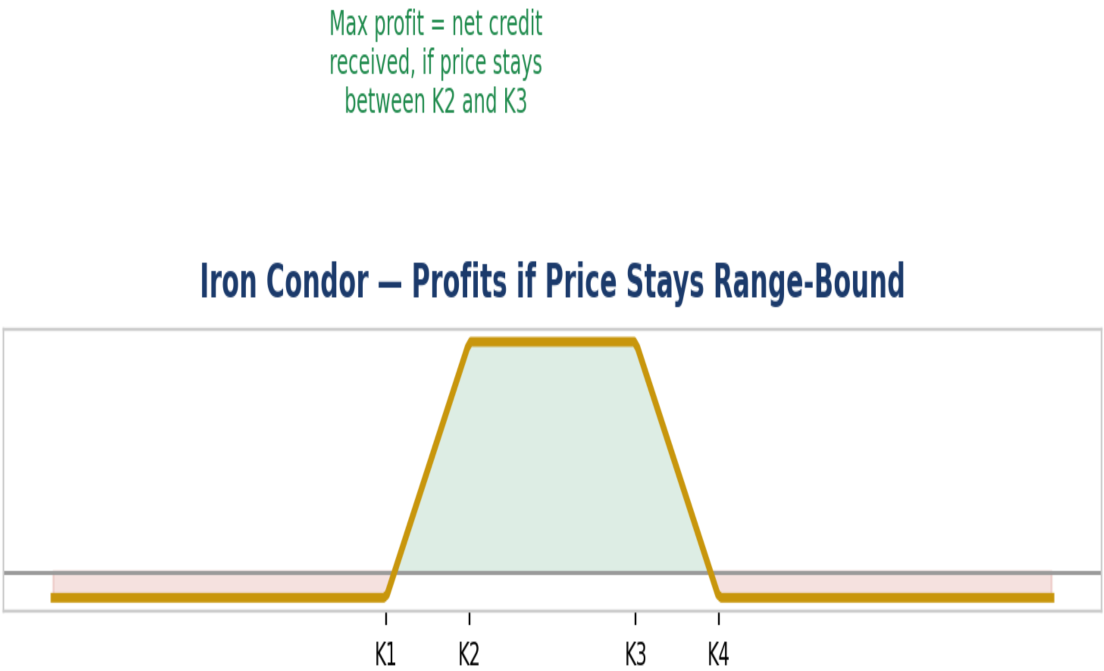

Fig 9.1 — Iron Condor payoff: maximum profit in a defined middle range, with capped risk on both sides.

This is a more advanced, four-leg strategy, but it is included here because it is extremely popular among Indian options traders for generating income from index options like Nifty and Bank Nifty during range-bound, low-volatility periods.

- Best used when: You expect the underlying to stay range-bound with low volatility through expiry.
- Maximum profit: The net credit received when opening the position, achieved if price stays between the two short strikes at expiry.
- Maximum loss: Capped and known in advance, defined by the width between the long and short strikes on either side.

10. Choosing the Right Strategy Based on Market View

Your Market View	Suitable Strategy
Own a stock, moderately bullish, want income	Covered Call
Own a stock, want downside protection	Protective Put
Moderately bullish, want lower-cost defined risk	Bull Call Spread
Moderately bearish, want lower-cost defined risk	Bear Put Spread
Expect a big move, direction unclear (e.g. before results)	Long Straddle or Long Strangle
Expect the market to stay range-bound	Iron Condor

11. Common Mistakes

- Using a straddle/strangle without a specific catalyst: Buying premium hoping for 'some' big move, without a concrete reason to expect one, often just bleeds value to time decay.
- Ignoring the impact of implied volatility: Options priced with high implied volatility (common right before major events) can make straddles and strangles expensive, reducing their profit potential even if the move happens.
- Closing spreads too early out of impatience: Exiting a defined-risk spread at a small loss before giving the intended thesis time to play out, based on short-term noise.
- Forgetting a covered call's true opportunity cost: Being forced to sell a stock at the strike price during a sudden, sharp rally, missing out on further upside.
- Overcomplicating with too many legs too soon: Attempting a four-leg Iron Condor before being fully comfortable with simple, single-option payoffs and basic two-leg spreads.

12. Quick Reference — Strategy Cheat Sheet

Strategy	Legs	Market View	Max Loss
Covered Call	Long stock + Short Call	Neutral to moderately bullish	Large (stock can fall to zero)
Protective Put	Long stock + Long Put	Bullish, but want downside protection	Limited and known upfront
Bull Call Spread	Long Call + Short Call (higher strike)	Moderately bullish	Net premium paid
Bear Put Spread	Long Put + Short Put (lower strike)	Moderately bearish	Net premium paid
Long Straddle	Long Call + Long Put (same strike)	Big move expected, direction unclear	Total premium paid
Long Strangle	Long Put (lower) + Long Call (higher)	Big move expected, lower cost than straddle	Total premium paid
Iron Condor	Short Put + Long Put + Short Call + Long Call	Range-bound, low volatility	Capped, defined by strike widths

13. Chapter Summary

Here is everything you learned in this module in one concise recap:

- Options strategies combine multiple Calls and/or Puts (sometimes with the underlying stock) to hedge, generate income, or speculate with defined risk.
- A Covered Call generates income against a stock you own but caps your upside; a Protective Put insures a stock you own against downside risk.
- Bull Call and Bear Put spreads offer lower-cost, defined-risk ways to bet on a moderate directional move, capping both profit and loss.

- Long Straddles and Strangles profit from a large move in either direction, and are best used around a specific catalyst or event.
- An Iron Condor profits when the underlying stays range-bound, with capped risk on both sides — a popular income strategy on Indian index options.
- Choosing the right strategy starts with your market view — direction, magnitude, and volatility expectation — not simply picking a strategy at random.

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