OPTION TRADING STRATEGIES

TABLE OF CONTENTS

1. BUY CALL 2
2. BUY PUT 3
3. SELL CALL 4
4. SELL PUT 5
5. BUY STRADDLE 6
6. SELL STRADDLE 8
7. LONG SYNTHETIC 10
8. SHORT SYNTHETIC 12
9. BULL CALL SPREAD 14
10. BULL PUT SPREAD 16
11. BEAR CALL SPREAD 18
12. BEAR PUT SPREAD 20
13. CALL BACKSPREAD 22
14. PUT BACKSPREAD 24
15. LONG COMBO 26
16. LONG STRANGLE 28
17. SHORT STRANGLE 30
18. STRAP 32
19. STRIP 34
20. LONG CALL LADDER 36
21. LONG PUT LADDER 38
22. SHORT CALL LADDER 40
23. SHORT PUT LADDER 42
24. LONG CALL BUTTERFLY 44
25. SHORT CALL BUTTERFLY 46
26. LONG CALL CONDOR 48
27. SHORT CALL CONDOR 50
28. COVERED CALL 52
29. COVERED PUT 54
30. COLLAR 56

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Buy Call

Buying or "Going Long" on a Call is a strategy that must be devised when the investor is bullish on the market direction moving up in the short term.

A Long Call Option is the simplest way to benefit if the investor believes that the market will make an upward move. It is the most common choice among first-time investors. "Being Long" on a Call Option means the investor will benefit if the underlying Stock/Index rallies. However, the risk is limited on the downside if the underlying Stock/Index makes a correction.

Investor View: Bullish on the Stock / Index.

Risk: Limited to the premium paid.

Reward: Unlimited.

Breakeven: Strike Price + premium paid.

Illustration

E.g Nifty is currently trading @ 5500. Investor is expecting the markets to rise from these levels. So buying Call Option of Nifty having Strike 5500 @ premium 50 will benefit the investor when Nifty goes above 5550.

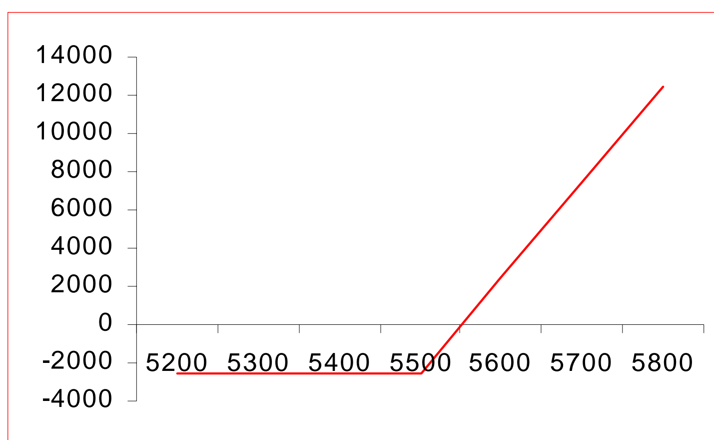
Strategy	Stock/Index	Type	Strike	Premium Outflow
Buy Call	NIFTY(Lot size 50)	Buy CALL	5500	50

The Payoff Schedule and Chart for the above is shown below.

Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5200	-2500
5300	-2500
5400	-2500
5500	-2500
5550	0
5600	2500
5700	7500
5800	12500
5900	17500

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5550 and risk is limited to a maximum of 2500 (calculated as Lot size * Premium Paid).

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Buy Put

Buying or "Going Long" on a Put is a strategy that must be devised when the investor is Bearish on the market direction going down in the short-term.

A Put Option gives the buyer of the Put a right to sell the Stock (to the Put Seller) at a pre-specified price and thereby limit his risk. "Being Long" on a Put Option means the investor will benefit if the underlying Stock/Index falls down. However, the risk is limited on the upside if the underlying Stock/Index rallies.

Investor View: Bearish on the Stock / Index.

Risk: Limited to the premium paid.

Reward: Unlimited.

Breakeven: Strike Price – premium paid.

Illustration

Eg. Nifty is currently trading @ 5500. Investor is expecting the markets to fall down from these levels. So buying a Put Option of Nifty Strike 5500 @ premium 50, the investor can gain if Nifty falls below 5450.

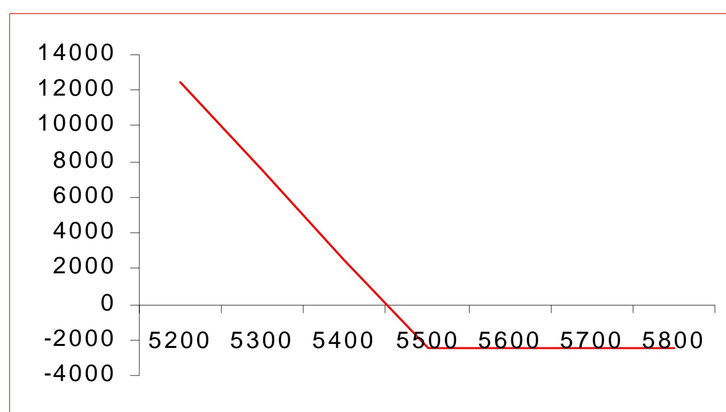
Strategy	Stock/Index	Type	Strike	Premium Outflow
Buy Put	NIFTY(Lot size 50)	Buy PUT	5500	50

The Payoff Schedule and Chart for the above is shown below.

Payoff Schedule

NIFTY @ Expiry	Net Payoff (Rs)
5100	17500
5200	12500
5300	7500
5400	2500
5450	0
5500	-2500
5600	-2500
5700	-2500
5800	-2500

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5450 and risk is limited to a maximum of 2500 (calculated as Lot size * Premium Paid)

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Sell Call

Selling or “Going Short” on a Call is a strategy that must be devised when the investor is not so bullish on the market. On selling a Call, the investor earns a Premium (from the buyer of the Call).

This position offers limited profit potential and the possibility of large losses on big advances in underlying prices. Although easy to execute it is a risky strategy since the seller of the Call is exposed to unlimited risk.

Investor View: Very Bearish on the Stock / Index.

Risk: Unlimited.

Reward: Limited to the premium received.

Breakeven: Strike Price + premium received.

Illustration

Eg. Nifty is currently trading @ 5500. Investor is expecting the markets to fall down drastically from these levels. So by selling a Call Option of Nifty having Strike 5500 @ premium 50, the investor can get an inflow of ₹ 50 and benefit if Nifty stays below 5550.

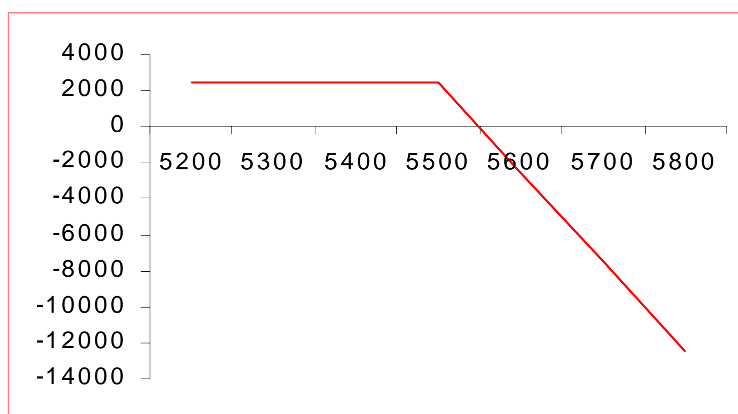
Strategy	Stock/Index	Type	Strike	Premium Inflow
Sell Call	NIFTY(Lot size 50)	Sell CALL	5500	50

The Payoff Schedule and Chart for the above is shown alongside.

Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5200	2500
5300	2500
5400	2500
5500	2500
5550	0
5600	-2500
5700	-7500
5800	-12500
5900	-17500

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5550 and risk is unlimited .It is important to note that irrespective of how much the market falls, the reward is limited to 2500 only.

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Sell Put

Selling or "Going Short" on a Put is a strategy that must be devised when the investor is Bullish on the market direction and expects the stock price to rise or stay sideways at the minimum

When investor sells a Put, he/she earns a Premium (from the buyer of the Put).If the underlying price increases beyond the Strike price, the short Put position will make a profit for the seller by the amount of the premium. But, if the price decreases below the Strike price, by more than the amount of the premium, the Put seller will lose money.

Investor View: Very Bullish on the Stock / Index.

Risk: Unlimited.

Reward: Limited to the premium received.

Breakeven: Strike Price – premium received.

Illustration

Eg. Nifty is currently trading @ 5500. Investor is Bullish on the market. So by going selling a Put Option of Nifty having Strike 5500 @ premium 50, the investor can gain if Nifty goes above 5550.

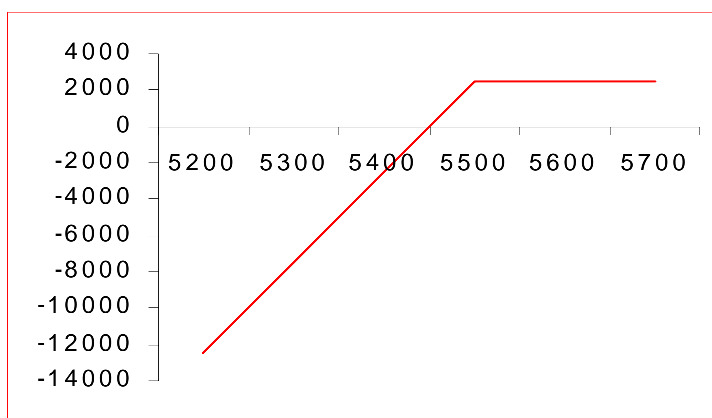
Strategy	Stock/Index	Type	Strike	Premium Inflow
Short Put	NIFTY(Lot size 50)	Sell PUT	5500	50

The Payoff Schedule and Chart for the above is shown alongside.

Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5100	-17500
5200	-12500
5300	-7500
5400	-2500
5450	0
5500	2500
5600	2500
5700	2500
5800	2500

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5450 and risk is unlimited. It is important to note that irrespective of how much the market gains, the reward is limited to 2500 only.

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Buy Straddle

Buy or Long Straddle is considered as a non-directional strategy and is used when the underlying is expected to show large movements in either direction i.e. Upside or Downside.

This strategy involves Buying a Call as well as Put on the same underlying for the same maturity and Strike Price. This strategy gives the investor an advantage of a movement in either direction — a soaring or plummeting value of the underlying.

Profits can be made in either direction if the underlying shows volatility to cover the cost of the trade. Loss is limited to the premium paid in buying the options.

All that the investor is looking out for, is the underlying to break out exponentially in either direction.

Investor View: Neutral direction but expecting significant volatility in underlying movement.

Risk: Limited to the premium paid.

Reward: Unlimited.

Lower Breakeven: Strike Price - net premium paid.

Higher Breakeven: Strike Price + net premium paid.

Illustration

Eg. Nifty is currently trading @ 5500. Long Straddle can be created by Buying Call and Put Option for Strike 5500 having premium of 65 and 35 respectively. Net outflow of premium is 100.

Strategy	Stock/Index	Type	Strike	Premium Outflow
Buy Straddle	NIFTY(Lot size 50)	Buy CALL	5500	65
		Buy PUT	5500	35

The Payoff Schedule and Chart for the above is below.

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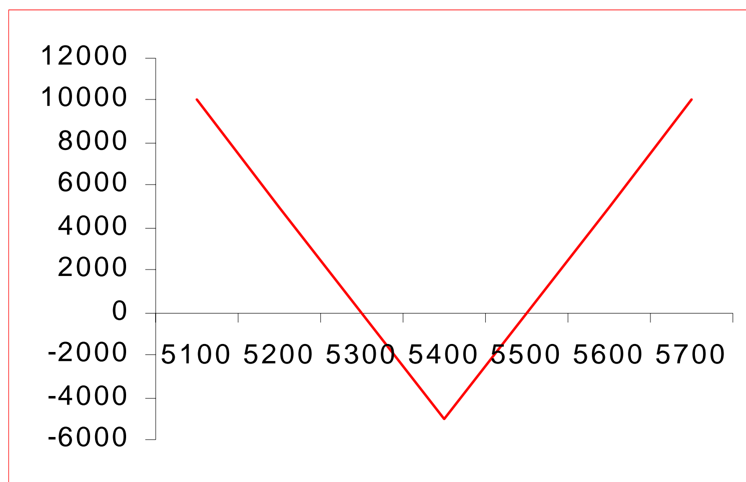
Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
4900	20000
5000	15000
5100	10000
5200	5000
5300	0
5400	-5000
5500	0
5600	5000
5700	10000
5800	15000
5900	20000

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5300 or 5500 and risk is limited to a maximum of 5000 (calculated as Lot size * Premium Paid).Here it is important to note that the premium is calculated as the sum of premium paid for the Call and Put option.

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Sell Straddle

Sell or Short Straddle is the opposite of Buy Straddle. It is used when the investor is expecting underlying to show no large movement. Investor expects the underlying to show little volatility Upside or Downside.

This strategy involves Selling a Call as well as Put on the same underlying for the same maturity and Strike Price. It creates a net income for the investor.

If the underlying does not move much in either direction, the investor retains the Premium as neither the Call nor the Put will be exercised. However, incase the underlying moves in either direction, up or down significantly, the investor's loss can be unlimited.

This is a risky strategy and should be carefully adopted only when the expected volatility in the market is limited.

Investor View: Neutral direction but expecting little volatility in underlying movement.

Risk: Unlimited.

Reward: Limited to the premium received.

Lower Breakeven: Strike Price - net premium received.

Higher Breakeven: Strike Price + net premium received.

Illustration

Eg. Nifty is currently trading @ 5600. Sell Straddle can be created by Selling Call and Put Option for Strike 5500 having premium of 65 and 35 respectively. Net inflow of premium is 100.

Strategy	Stock/Index	Type	Strike	Premium Inflow
Sell Straddle	NIFTY(Lot size 50)	Sell CALL	5600	65
		Sell PUT	5600	35

The Payoff Schedule and Chart for the above is below.

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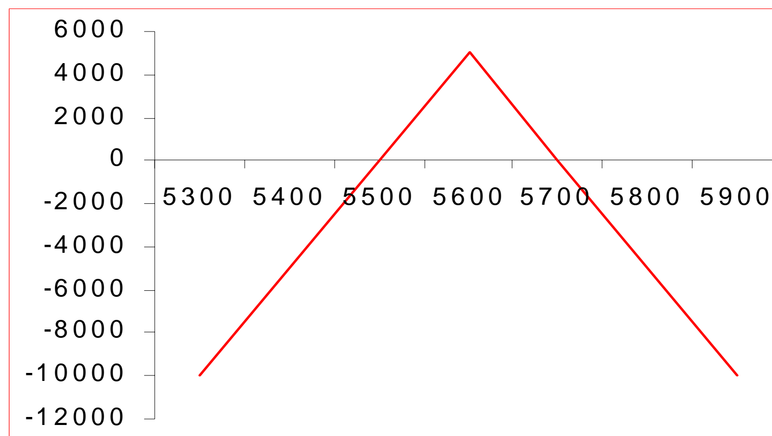
Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5100	-20000
5200	-15000
5300	-10000
5400	-5000
5500	0
5600	5000
5700	0
5800	-5000
5900	-10000
6000	-15000
6100	-20000

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5500 or 5700 and reward is limited to a maximum of 5000 (calculated as Lot size * Premium received). Here it is important to note that the premium is calculated as the sum of premium received for the Call and Put option. The risk in such a strategy is unlimited.

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Long Synthetic

Long Synthetic is a strategy to be used when the investor is bullish on the market direction.

This strategy involves buying a Call Option and selling a Put Option at the same Strike price. Both Options must have the same underlying security and expiration month.

Long Synthetic behaves exactly the same as being long on the underlying security.

The investor going for Long Synthetic strategy expects payoff characteristics similar to holding the stock or futures contract. It has the benefit of being much cheaper than buying the underlying outright.

Investor View: Bullish on direction of the Stock / Index.

Risk: Unlimited.

Reward: Unlimited.

Breakeven: Strike Price +/- net premium paid/ received.

Illustration

Eg. Nifty is currently trading @ 5500. A Long Synthetic can be created by selling Put Strike 5500 @ premium of 140 and buying Call Strike 5500 @ 100. Net inflow of premium is 40.

Strategy	Stock/Index	Type	Strike	Premium
Long Synthetic	NIFTY(Lot size 50)	Sell PUT	5500	140 (Inflow)
		Buy CALL	5500	100 (Outflow)

The Payoff Schedule and Chart for the above is below.

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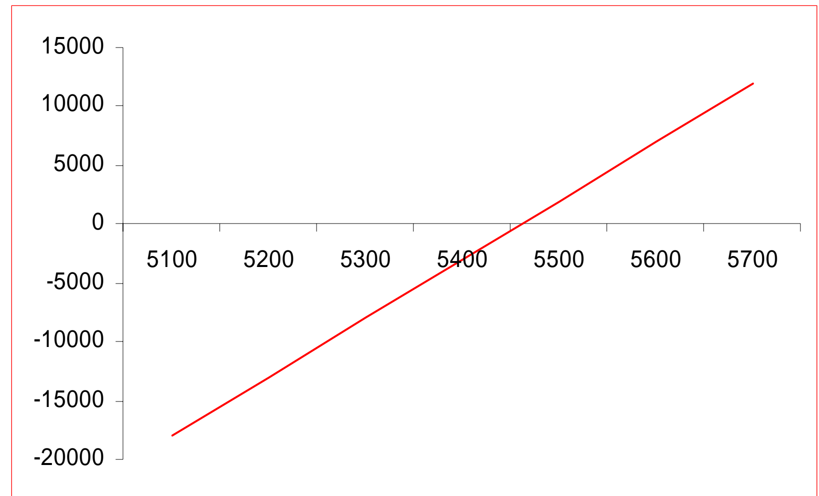
Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5000	-23000
5100	-18000
5200	-13000
5300	-8000
5400	-3000
5500	2000
5600	7000
5700	12000
5800	17000
5900	22000
6000	27000

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5460 (since net inflow is ₹ 40). In such a strategy, risk and reward is unlimited.

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Short Synthetic

Short Synthetic is a strategy to be used when the investor is bearish on the market direction and expects market to fall down in the near term.

This strategy involves Selling a Call Option and Buying a Put Option at the same Strike price. Both Options must have the same underlying security and expiration month.

Short Synthetic behaves exactly the same as being short on the underlying security.

The investor can go for Short Synthetic strategy expecting payoff characteristics similar to being short on the stock or future contract.

The risk and the reward are unlimited.

Investor View: Bearish on direction of the Stock / Index.

Risk: Unlimited.

Reward: Unlimited.

Breakeven: Strike Price +/- net premium paid/ received.

Illustration

Eg. Nifty is currently trading @ 5500. A Short Synthetic can be created by selling Call Strike 5500 @ premium of 140 and buying Put Strike 5500 @ 100. Net inflow of premium is 40.

Strategy	Stock/Index	Type	Strike	Premium
Short Synthetic	NIFTY(Lot size 50)	Buy PUT	5500	100 (Outflow)
		Sell CALL	5500	140 (Inflow)

The Payoff Schedule and Chart for the above is below.

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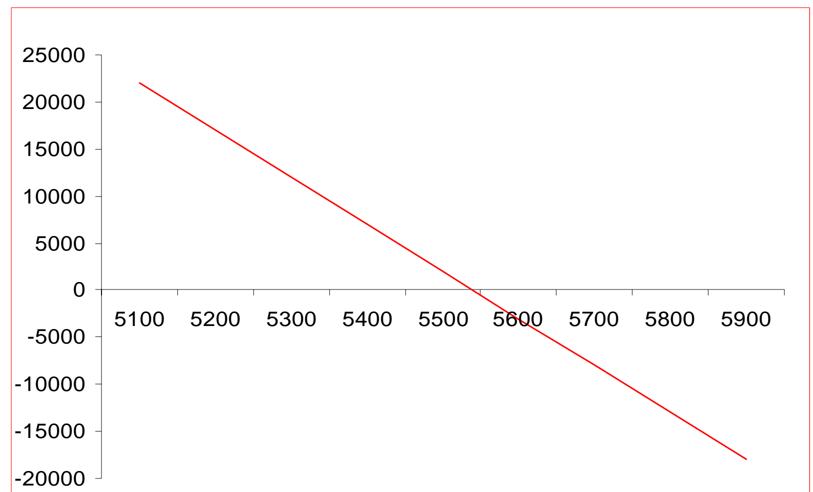
Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5000	27000
5100	22000
5200	17000
5300	12000
5400	7000
5500	2000
5540	0
5600	-3000
5700	-8000
5800	-13000
5900	-18000

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5540 (since net inflow is ₹40). In such a strategy, risk and reward is unlimited.

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Bull Call Spread

Bull Call Spread is a strategy that must be devised when the investor is moderately bullish on the market direction going up in the short-term.

A Bull Call Spread is formed by buying an “In-the-Money Call Option” (lower strike) and selling an “Out-of-the-Money Call Option” (higher strike). Both the call options must have the same underlying security and expiration month.

The net effect of the strategy is to bring down the cost and breakeven on a Buy Call (Long Call) strategy.

The investor will benefit if the underlying Stock/Index rallies. However, the risk is limited on the downside if the underlying Stock/Index makes a correction.

Investor view: Moderately bullish on the Stock/ Index.

Risk: Limited.

Reward: Limited to the net premium paid.

Breakeven: Strike price of Buy Call + net premium paid.

Illustration

Eg. Nifty is currently trading @ 5500. Investor is expecting the markets to rise from these levels. So buying Put Option of Nifty having Strike 5400 @ premium 150 and selling Call Option of Nifty having Strike 5600 @ premium 50 will help investor benefit if Nifty goes above 5500.

Strategy	Stock/Index	Type	Strike	Premium
Bull Call Spread	NIFTY(Lot size 50)	Buy CALL	5400	150 (Outflow)
		Sell CALL	5600	50 (Inflow)

The payoff schedule and chart for the above is shown below.

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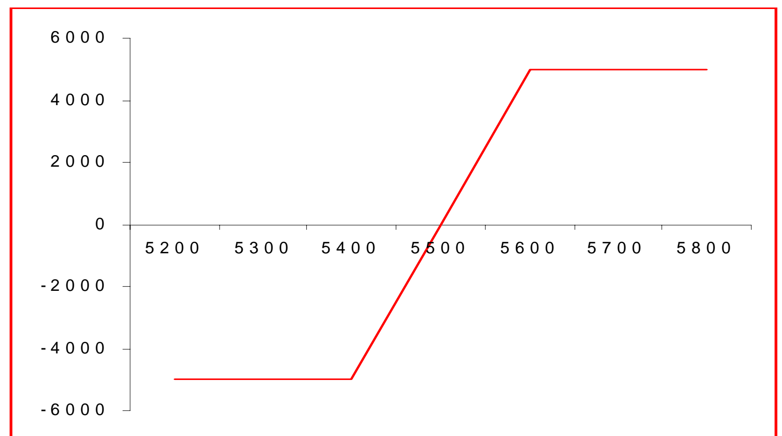
Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5100	-5000
5200	-5000
5300	-5000
5400	-5000
5500	0
5600	5000
5700	5000
5800	5000
5900	5000

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5500 and risk is limited to a maximum of 5000 (calculated as Lot size * Premium Paid).

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Bull Put Spread

Bull Put Spread is a strategy that must be devised when the investor is moderately bullish on the market direction going up in the short-term.

A Bull Put Spread is formed by buying an "Out-of-the-Money Put Option" (lower strike) and selling an "In-the-Money Put Option" (higher strike). Both Put options must have the same underlying security and expiration month.

The concept is to protect the downside of a Put sold by buying a lower strike Put, which acts as insurance for the Put sold.

This strategy is equivalent to the Bull Call but is done to earn a net credit (premium) and collect an income.

Investor view: Moderately bullish on the Stock/ Index.

Risk: Limited.

Reward: Limited to the premium received.

Breakeven: Strike price of Short Put - premium received.

Illustration

Eg. Nifty is currently trading @ 5500. Investor is expecting the markets to rise from these levels. By selling a Put Option of Nifty having Strike 5600 @ premium 150 and buying a Put Option of Nifty having Strike 5400 @ premium 50, the investor can get an inflow of the premium of ₹ 100 and benefit if Nifty stays above 5500.

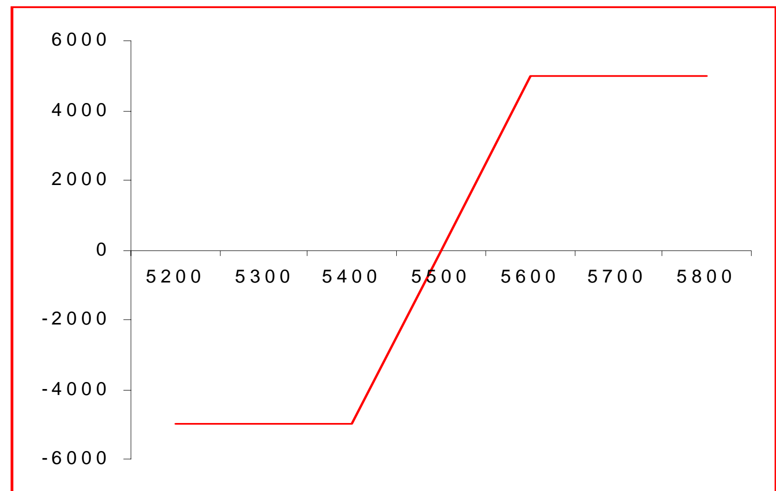
Strategy	Stock/Index	Type	Strike	Premium
Bull Put Spread	NIFTY(Lot size 50)	Sell PUT	5600	150 (Inflow)
		Buy PUT	5400	50 (Outflow)

The payoff schedule and chart for the above is shown below.

Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5100	-5000
5200	-5000
5300	-5000
5400	-5000
5500	0
5600	5000
5700	5000
5800	5000
5900	5000

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5500 and risk is limited to a maximum of 5000 (calculated as Lot size * Premium received). Payoff Schedule for Bull Call/Put Spread is the same. Only difference is that in Bull Put Spread there is an inflow of premium.

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Bear Call Spread

Bear Call Spread is a strategy that must be devised when the investor is moderately bearish on the market direction and is expecting the underlying to fall in the short-term.

A Bear Call Spread is formed by buying an "Out-of-the-Money Call Option" (higher strike) and selling an "In-the-Money Call Option" (lower strike). Both Call options must have the same underlying security and expiration month.

The investor receives a net credit because the Call bought is of a higher strike price than the Call sold.

The concept is to protect the downside of a Call sold by buying a Call of a higher strike price to insure the Call sold.

Investor view: Moderately bearish on the Stock/ Index.

Risk: Limited.

Reward: Limited to the net premium received.

Breakeven: Strike price of Short Call + premium received.

Illustration

Eg. Nifty is currently trading @ 5500. Investor is expecting the markets to fall down drastically from these levels. So, by selling a Call option of Nifty having Strike 5400@ premium 150 and buying a Call option of Nifty having Strike 5600 @ premium 50, the investor can get an inflow of the premium of ₹ 100 and benefit if Nifty stays below 5500.

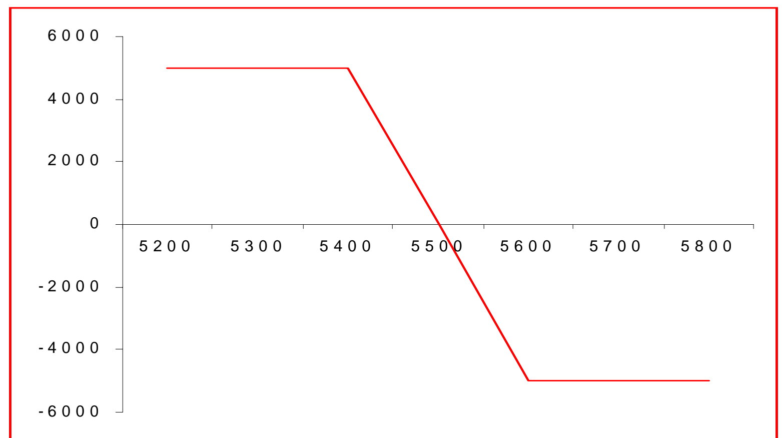
Strategy	Stock/Index	Type	Strike	Premium
Bear Call Spread	NIFTY(Lot size 50)	Sell CALL	5400	150 (Inflow)
		Buy CALL	5600	50 (Outflow)

The payoff schedule and chart for the above is shown below.

Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5100	5000
5200	5000
5300	5000
5400	5000
5500	0
5600	-5000
5700	-5000
5800	-5000
5900	-5000

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5500 and risk is limited to a maximum of 5000 (calculated as Lot size * Premium received).

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Bear Put Spread

Bear Put Spread is a strategy that must be devised when the investor is moderately bearish on the market direction and is expecting the underlying to fall in the short-term.

A Bear Put Spread is formed by buying an In-the-Money Put Option (higher strike) and selling Out-of-the-Money Put Option (lower strike). Both Put options must have the same underlying security and expiration month.

The investor has to pay a net premium because the Put bought is of a higher strike price than the Put sold.

The net effect of the strategy is to bring down the cost and raise the breakeven on buying a Put (Long Put).

Investor view: Moderately bearish on the Stock/ Index.

Risk: Limited to the premium paid.

Reward: Limited.

Breakeven: Strike price of Long Put - net premium paid.

Illustration

Eg. Nifty is currently trading @ 5500. Investor is expecting the markets to fall down drastically from these levels. So by selling a Put option of Nifty having strike 5400@ premium 50 and buying a Put option of Nifty having strike 5600 @ premium 150 will help investor benefit if Nifty stays below 5500.

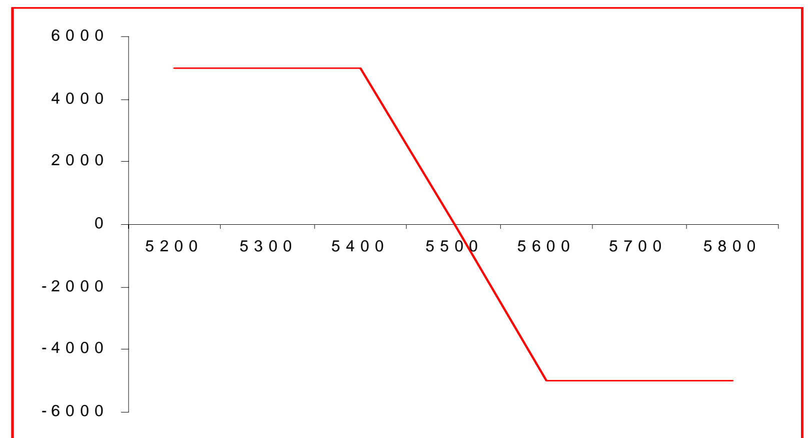
Strategy	Stock/Index	Type	Strike	Premium
Bear Put Spread	NIFTY(Lot size 50)	Sell PUT	5400	50 (Inflow)
		Buy PUT	5600	150 (Outflow)

The payoff schedule and chart for the above is shown below.

Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5100	-17500
5200	-12500
5300	-7500
5400	-2500
5450	0
5500	2500
5600	2500
5700	2500
5800	2500

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5500 and risk is limited to a maximum of 5000 (calculated as Lot size * Premium paid). Payoff Schedule for Bull Call/Put Spread is the same. Only difference is that in case of Bear Call Spread there is inflow of premium.

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Call Backspread

Investors must use "Call Backspread" strategy when they are bullish on market direction as well as volatility.

It works well if the investor is bullish as well as bearish on the market with a bias to the upside.

This strategy involves selling an "In-the-Money Call Option" and buying two lots of "Out-of-the-Money Call Option". Both Call Options must have the same underlying security and expiration month.

"Call Backspread" is similar to Long Straddle except the payoff flattens out on the downside. Investor makes profit when prices fall, although the gains are greater if the market rallies.

Investor view: Bullish on direction as well as volatility of the Stock/ Index.

Risk: Limited to difference between the two Strikes -/+ net premium paid/ received.

Reward: Unlimited on upside and limited on downside.

Breakeven: Strike price of Long Call + Strike price of Long Call - Strike price of Short Call +/- net premium paid/ received. In case of net inflow of premium there is one more breakeven point which is calculated as (Strike price of Short Call + net premium received).

Illustration

Eg. Nifty is currently trading @ 5500. A Call Backspread can be created by selling Call strike 5400 @ premium of 210 and buying two lots Call strike 5600 @ 90 respectively. Net inflow of premium is 30.

Strategy	Stock/Index	Type	Strike	Premium
Call Backspread	NIFTY(Lot size 50)	Sell CALL	5400	210 (Inflow)
		Buy CALL - 2 Lots	5600	90*2 = 180 (Outflow)

The payoff schedule and chart for the above is shown below.

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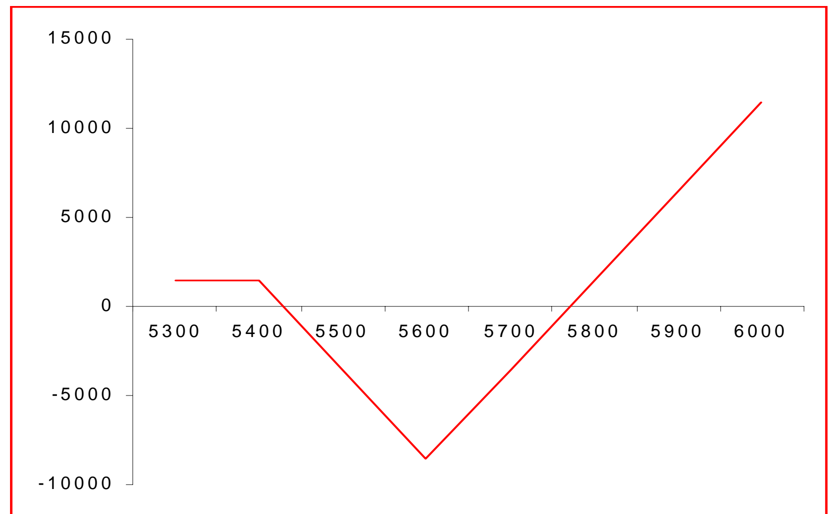
Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5200	1500
5300	1500
5400	1500
5430	0
5500	-3500
5600	-8500
5700	-3500
5770	0
5800	1500
5900	6500
6000	11500

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5430 or 5770 and risk is limited to a maximum of 8500 [calculated as (Buy Call Strike - Sell Call Strike – net premium received) * Lot Size].

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Put Backspread

"Put Backspread" is a strategy that must be devised when the investor is bearish on market direction and bullish on volatility.

It works well if the investor is bullish as well as bearish on the market with a bias to the downside.

This strategy involves selling an "In-the-Money Put Option" and buying two lots of "Out-of-the-Money Put Option". Both Put options must have the same underlying security and expiration month.

"Put Backspread" is similar to Long Straddle except the payoff flattens out on the upside. Investor makes profit when prices rise, although the gains are greater if the market falls.

Investor view: Bearish on direction and bullish on volatility of the Stock/ Index.

Risk: Limited to difference in Strike price of Short Put - Strike price of Long Put +/- net premium paid/received.

Reward: Unlimited on upside and limited on downside.

Breakeven: Strike price of Long Put + Strike price of Long Put - Strike price of Short Put +/- net premium received/paid. In case of net inflow of premium there is one more breakeven point which is calculated as (Strike price of Short Put - net premium received).

Illustration

Eg. Nifty is currently trading @ 5500. A Put Backspread can be created by buying two lots of Put strike 5400 @ premium of 70 and selling Call strike 5600 @ 160 respectively. Net inflow of premium is 20.

Strategy	Stock/Index	Type	Strike	Premium
Put Backspread	NIFTY(Lot size 50)	Buy PUT - 2 Lots	5400	70*2 = 140 (Outflow)
		Sell PUT	5600	160 (Inflow)

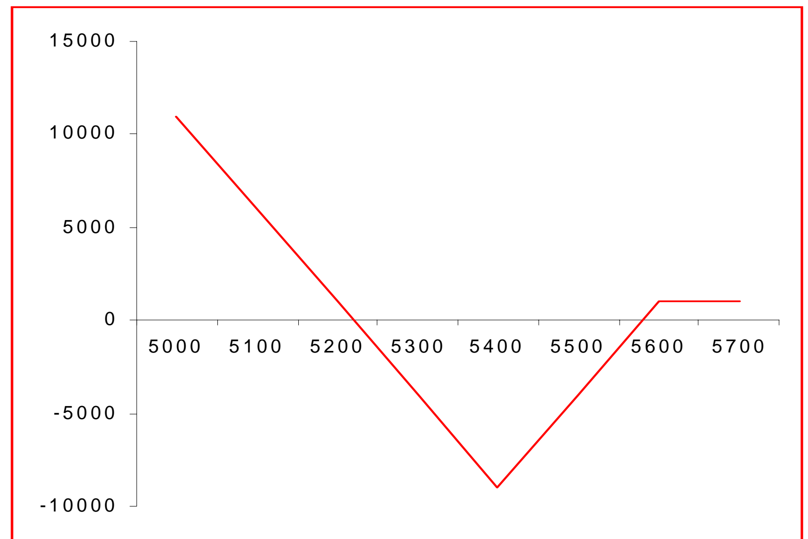
The payoff schedule and chart for the above is shown below.

HSBC InvestDirect

Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5000	11000
5100	6000
5200	1000
5220	0
5300	-4000
5400	-9000
5500	-4000
5580	0
5600	1000
5700	1000
5800	1000

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5220 or 5580 and risk is limited to a maximum of 8500 [calculated as (Sell Put Strike - Buy Put Strike - net premium received) * Lot Size].

Disclaimer

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Long Combo

Long Combo is a bullish strategy.

It involves selling an "Out-of-the-Money" (lower strike) Put Option and buying an "Out-of-the-Money" (higher strike) Call Option. Both options must have the same underlying security and expiration month.

It is an inexpensive trade, similar in pay-off of Long Stock, except there is a gap between the strikes.

As the stock price rises the strategy starts making profits.

Investor view: Bullish on the Stock/ Index.

Risk: Unlimited.

Reward: Unlimited.

Breakeven: Strike price of Long Call + net premium paid (in case there is outflow) **or** Strike price of Short Put – net premium received (in case there is inflow).

Illustration

Eg. Nifty is currently trading @ 5500. A Long combo can be created by selling Put Option for strike 5400 @ premium 60 and buying Call Option Strike 5600 @ premium 40 respectively. Investor will benefit if Nifty stays above 5600 levels.

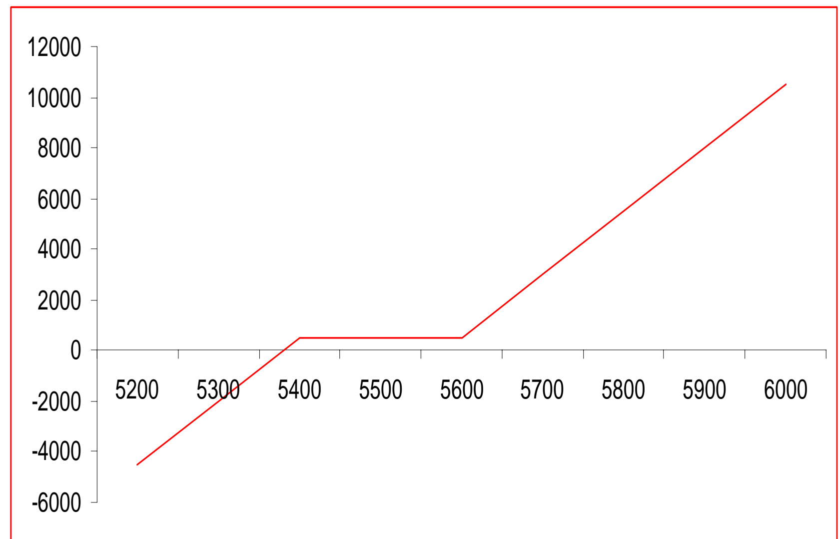
Strategy	Stock/Index	Type	Strike	Premium
Long Combo	NIFTY(Lot size 50)	Sell PUT	5400	60 (Inflow)
		Buy CALL	5600	40 (Outflow)

The payoff schedule and chart for the above is shown below.

Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5100	-7000
5200	-4500
5300	-2000
5380	0
5400	500
5500	500
5600	500
5700	3000
5800	5500
5900	8000
6000	10500

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5380. In such a strategy, risk and reward is unlimited.

Disclaimer

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Long Strangle

Long Strangle is a strategy to be used when the investor is Neutral on the market direction and bullish on volatility.

This strategy involves buying an "Out-of-the-Money Call Option" and buying an "Out-of-the-Money Put Option". Both options must have the same underlying security and expiration month.

Long Strangle is a slight modification to the Long Straddle to make it cheaper to execute.

The investor makes profit when the underlying makes significant movement on the upside or downside. The strategy has limited downside.

Investor view: Neutral on direction but bullish on volatility of the Stock/ Index.

Risk: Limited to net premium paid.

Reward: Unlimited.

Upper breakeven: Buy Call Strike price + net premium paid.

Lower breakeven: Buy Put Strike price – net premium paid.

Illustration

Eg. Nifty is currently trading @ 5500. A Long Strangle can be created by buying Put strike 5400 @ premium of 40 and buying Call strike 5600 @ 60 respectively. Net outflow of premium is 100.

Strategy	Stock/Index	Type	Strike	Premium
Long Strangle	NIFTY(Lot size 50)	Buy PUT	5400	40 (Outflow)
		Buy CALL	5600	60 (Outflow)

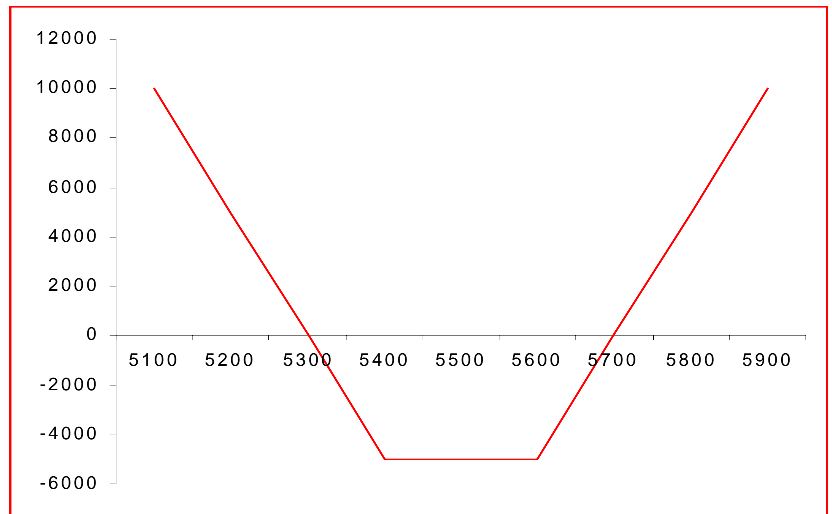
The payoff schedule and chart for the above is shown below.

HSBC InvestDirect

Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5000	15000
5100	10000
5200	5000
5300	0
5400	-5000
5500	-5000
5600	-5000
5700	0
5800	5000
5900	10000
6000	15000

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5300 or 5700 and risk is limited to a maximum of 5000 (calculated as Lot size * Premium Paid).Here it is important to note that the premium is calculated as the sum of premium paid for the Call and Put option.

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Short Strangle

Short Strangle is a strategy to be used when the investor is Neutral on the market direction and bearish on volatility expecting markets to trade in a narrow range.

This strategy involves selling an "Out-of-the-Money Call Option" and selling an "Out-of-the-Money Put Option". Both options must have the same underlying security and expiration month.

Short Strangle is a slight modification to the Short Straddle. The profit payoff region is much wider as compared to Short Straddle.

If the underlying stock does not show much of a movement, the investor of the Short Strangle gets to keep the premium.

Investor view: Neutral on direction and bearish on volatility of the Stock/ Index.

Risk: Unlimited.

Reward: Limited to net premium received.

Upper breakeven: Sell Call Strike price + net premium received.

Lower breakeven: Sell Put Strike price – net premium received.

Illustration

Eg. Nifty is currently trading @ 5500. A Short Strangle can be created by selling Put Strike 5400 @ premium of 80 and selling Call Strike 5600 @ 90 respectively. Net inflow of premium is 170.

Strategy	Stock/Index	Type	Strike	Premium
Short Strangle	NIFTY(Lot size 50)	Sell PUT	5400	80 (Inflow)
		Sell CALL	5600	90 (Inflow)

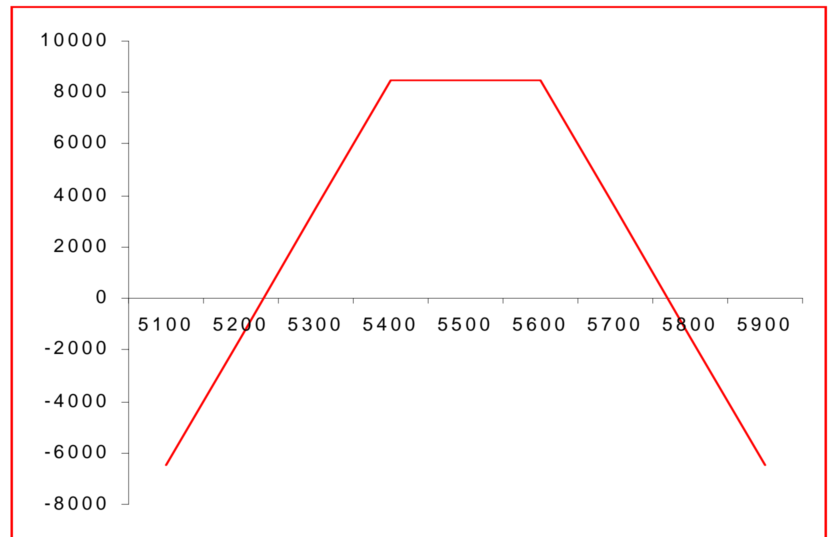
The payoff schedule and chart for the above is shown below.

HSBC InvestDirect

Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5000	-11500
5100	-6500
5200	-1500
5230	0
5300	3500
5400	8500
5500	8500
5600	8500
5700	3500
5770	0
5800	-1500
5900	-6500
6000	-11500

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5230 or 5770 and reward is limited to a maximum of 8500 (calculated as Lot size * Premium received).Here it is important to note that the premium is calculated as the sum of premium received for the Call and Put option. The risk in such a strategy is unlimited.

Disclaimer

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Strap

Investors must use Strap strategy when they are bullish on volatility and bullish on market direction going upwards.

This strategy involves buying two lots of "At-the-Money Call Option" and buying an "At-the-Money Put Option". Both options must have the same underlying security and expiration month.

Strap is similar to bullish version of the common Long Straddle.

Large profit is attainable with the Strap strategy when the underlying makes a strong move either upwards or downwards at expiration, with greater gains to be made with an upward move.

Investor view: Bullish on direction as well volatility of the Stock/ Index.

Risk: Limited to net premium paid.

Reward: Unlimited.

Upper breakeven: Strike price + (net premium paid/2).

Lower breakeven: Strike Price – net premium paid.

Illustration

Eg. Nifty is currently trading @ 5500. A Strap can be created by buying Put Strike 5500 @ premium of 120 and buying two lots of Call strike 5500 @ 125 respectively. Net outflow of premium is 370.

Strategy	Stock/Index	Type	Strike	Premium Outflow
Strap	NIFTY(Lot size 50)	Buy PUT	5500	120 (Outflow)
		Buy CALL - 2 Lots	5500	125*2=250 (Outflow)

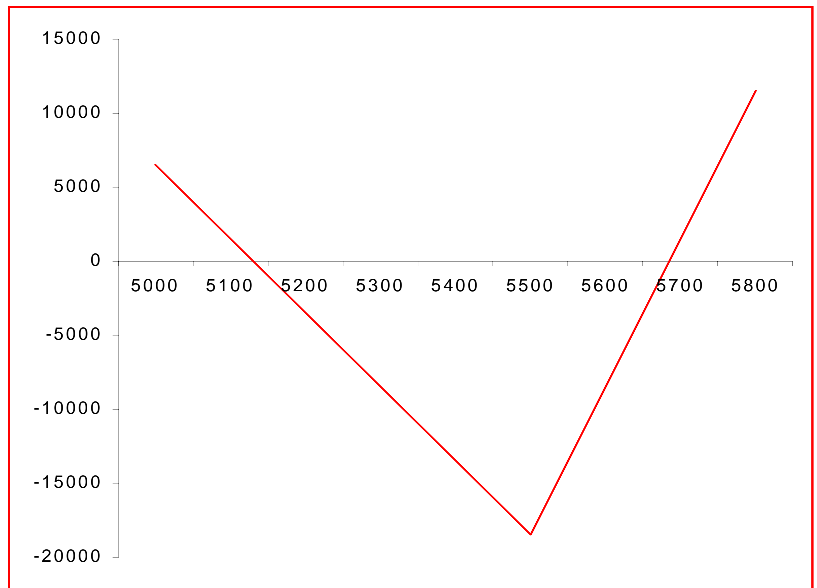
The payoff schedule and chart for the above is shown below.

HSBC InvestDirect

Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
4900	11500
5000	6500
5100	1500
5130	0
5200	-3500
5300	-8500
5400	-13500
5500	-18500
5600	-8500
5685	0
5700	1500
5800	11500
5900	21500

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5130 or 5685 and risk is limited to a maximum of 18500 (calculated as Lot Size * net premium paid).

Disclaimer

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Strip

Investors must use Strip strategy when they are bullish on volatility and bearish on market direction.

This strategy involves buying two lots of "At-the-Money Put Option" and buying an "At-the-Money Call Option". Both Options must have the same underlying security and expiration month.

Strip is similar to bearish version of the common Long Straddle.

Large profit is attainable with the Strip strategy when the underlying makes a strong move either upwards or downwards at expiration, with greater gains to be made with a downward move.

Investor view: Bearish on direction but bullish on volatility of the Stock/ Index.

Risk: Limited to net premium paid.

Reward: Unlimited.

Upper breakeven: Strike price + net premium paid.

Lower breakeven: Strike price – (net premium paid/2).

Illustration

Eg. Nifty is currently trading @ 5500. A Strip can be created by buying Call strike 5500 @ premium of 130 and buying two lots of Puts strike 5500 @ 125 respectively. Net outflow of premium is 380.

Strategy	Stock/Index	Type	Strike	Premium Outflow
Strip	NIFTY(Lot size 50)	Buy CALL	5500	130 (Outflow)
		Buy PUT - 2 Lots	5500	125*2=250 (Outflow)

The payoff schedule and chart for the above is shown below.

Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5100	21000
5200	11000
5300	1000
5310	0
5400	-9000
5500	-19000
5600	-14000
5700	-9000
5800	-4000
5880	0
5900	1000
6000	6000
6100	11000

Payoff Chart

In the above chart, the breakeven happens the moment Nifty crosses 5310 or 5880 and risk is limited to a maximum of 19000 (calculated as Lot Size * net premium paid).

Disclaimer

Long Call Ladder

Long Call Ladder is a strategy that must be devised when the investor is moderately bullish on the market direction and expects volatility to be less in the market.

A Long Call Ladder strategy is formed by buying “In-the-Money Call Option”, selling one “At-the-Money Call Option” and one “Out-of-the-Money Call Option”.

A Long Call Ladder is an extension of Bull Call Spread.

The investor will benefit if the underlying Stock/ Index remains between strike prices of the Call options.

Investor view: Neutral on direction and bearish on Stock/ Index volatility.

Risk: Unlimited.

Reward: Limited.

Breakeven: Total strike prices of Short Calls – strike price of Long Call +/– net premium received/ paid.

Illustration

Eg. Nifty is currently trading @ 5500. Buying Call Option of Nifty having Strike 5400 @ premium 200, selling Call Option of Nifty having Strike 5500 @ premium 130 and selling Call Option of Nifty having Strike 5600 @ premium 80 will help investor benefit if Nifty expiry happens between 5400 and 5600.

Strategy	Stock/Index	Type	Strike	Premium
Long Call Ladder	NIFTY(Lot size 50)	Buy CALL	5400	200 (Outflow)
		Sell CALL	5500	130 (Inflow)
		Sell CALL	5600	80 (Inflow)

The Payoff Schedule and Chart for the above is below.

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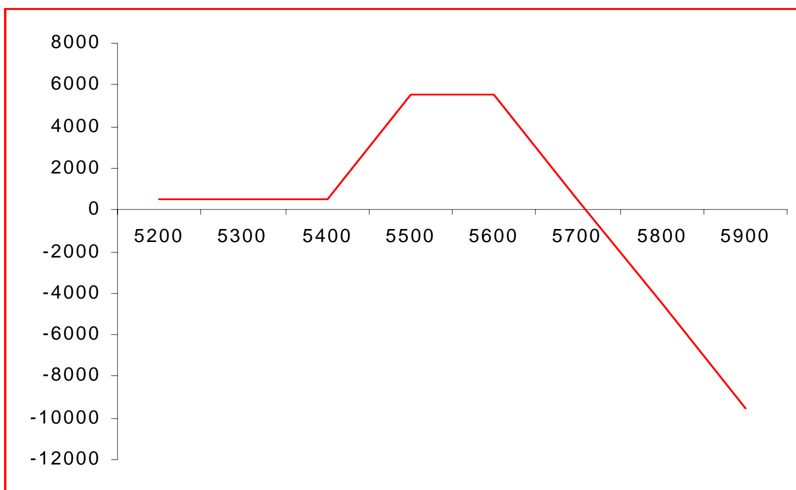
Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5100	500
5200	500
5300	500
5400	500
5500	5500
5600	5500
5700	500
5710	0
5800	-4500
5900	-9500
6000	-14500

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5710 (since net inflow is ₹ 10). The risk in such a strategy is unlimited.

In the above illustration there is a net inflow for the investor. If for any case there is a net outflow, there would be one lower breakeven point. The point will be calculated as (Buy Call Strike price + net premium paid).

Disclaimer

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Long Put Ladder

Long Put Ladder is a strategy that must be devised when the investor is moderately bearish on the market direction and expects volatility to be less in the market.

A Long Put Ladder strategy is formed by buying “In-the-Money Put Option”, selling one “At-the-Money Put Option” and one “Out-of-the-Money Put Option”.

A Long Put Ladder is an extension of Bear Put Spread.

The investor will benefit if the underlying Stock/ Index remains between Strike prices of the Put Options.

Investor view: Neutral on direction and bearish on Stock/ Index volatility.

Risk: Unlimited.

Reward: Limited.

Breakeven: Total Strike prices of Short Puts – Strike price of Long Put -/+ net premium received/paid.

Illustration

Eg. Nifty is currently trading @ 5500. Buying Put Option of Nifty having Strike 5600 @ premium 140, selling Put Option of Nifty having Strike 5400 @ premium 60 and selling Put Option of Nifty having Strike 5500 @ premium 100 will help investor benefit if Nifty expiry happens between 5400 and 5600.

Strategy	Stock/Index	Type	Strike	Premium
Long Put Ladder	NIFTY(Lot size 50)	Sell PUT	5400	60 (Inflow)
		Sell PUT	5500	100 (Inflow)
		Buy PUT	5600	140 (Outflow)

The Payoff Schedule and Chart for the above is below.

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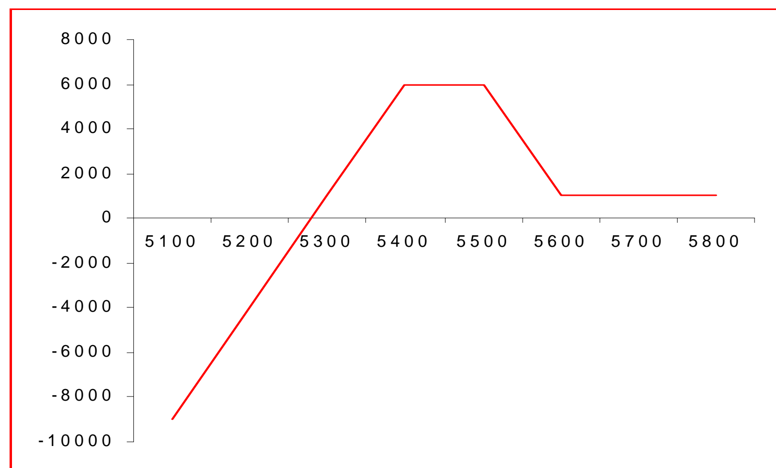
Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5100	-9000
5200	-4000
5280	0
5300	1000
5400	6000
5500	6000
5600	1000
5700	1000
5800	1000
5900	1000
6000	1000

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5280 (since net inflow is ₹ 20). The risk in such a strategy is unlimited. In the above illustration there is a net inflow for the investor.

If for any case there is a net outflow, there would be one higher breakeven point. The point will be calculated as (Buy Put Strike price - net premium paid).

Disclaimer

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Short Call Ladder

Short Call Ladder is a strategy that must be devised when the investor is moderately bullish on the market direction and expects volatility to be significant in the market.

A Short Call Ladder strategy is formed by selling "In-the-Money" Call Option, buying one "At-the-Money" Call Option and one "Out-of-the-Money" Call Option.

Maximum gain for the Short Call Ladder strategy is limited if the underlying goes down. Profit is limited to the net premium received.

However, if the underlying rallies explosively, potential profit is unlimited due to the extra Long Call.

Investor view: Neutral on direction and bullish on Stock/ Index volatility.

Risk: Limited.

Reward: Unlimited.

Breakeven: Total Strike prices of Long Calls - Strike price of Short Call -/+ net premium received/paid.

Illustration

Eg. Nifty is currently trading @ 5500. Selling Call Option of Nifty having Strike 5400 @ premium 200, buying Call Option of Nifty having Strike 5500 @ premium 130 and buying Call Option of Nifty having Strike 5600 @ premium 80 will help investor benefit if Nifty expiry happens above 5700.

Strategy	Stock/Index	Type	Strike	Premium
Short Call Ladder	NIFTY(Lot size 50)	Sell CALL	5400	200 (Inflow)
		Buy CALL	5500	130 (Outflow)
		Buy CALL	5600	80 (Outflow)

The Payoff Schedule and Chart for the above is below.

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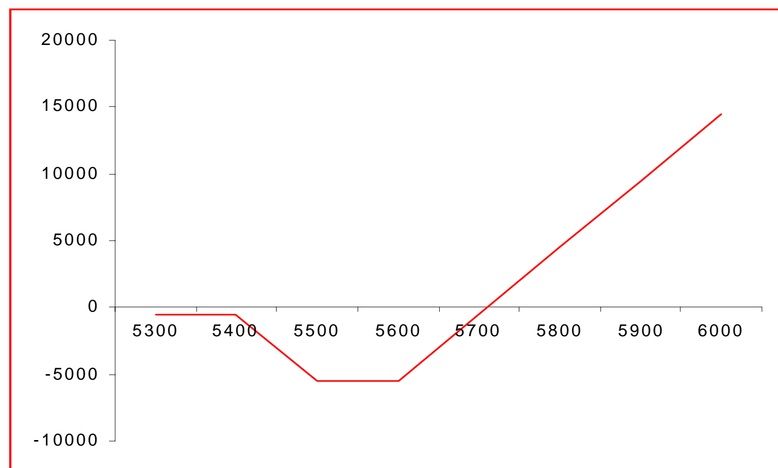
Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5100	-500
5200	-500
5300	-500
5400	-500
5500	-5500
5600	-5500
5700	-500
5710	0
5800	4500
5900	9500
6000	14500

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5710 (since net outflow is ₹ 10). The reward in such a strategy is unlimited. The risk is limited to 5500 [calculated as (Difference in strike prices + net premium paid) * Lot Size].

In the above illustration there is a net outflow for the investor. If for any other case there is a net inflow, there would be one lower breakeven point. The point will be calculated as (Sell Call Strike price + net premium received).

Disclaimer

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Short Put Ladder

Short Put Ladder is a strategy that must be devised when the investor is neutral to bearish on the market direction and expects volatility to be significant in the market.

A Short Put Ladder strategy is formed by selling "In-the-Money" Put Option, buying one "At-the-Money' Put Option and one "Out-of-the-Money" Put Option.

Maximum gain for the Short Put Ladder strategy is limited if the underlying goes up.

However, if the underlying rallies downwards, potential profit is unlimited due to the extra Long Put.

Investor view: Neutral on direction and bullish on Stock/ Index volatility.

Risk: Limited.

Reward: Unlimited.

Breakeven: Total Strike prices of Long Puts - Strike price of Short Put +/- net premium received/paid.

Illustration

Eg. Nifty is currently trading @ 5500. Selling Put Option of Nifty having Strike 5600 @ premium 140, buying Put Option of Nifty having Strike 5400 @ premium 60 and Put Option of Nifty having Strike 5500 @ premium 100 will help investor benefit if Nifty expiry happens below 5300.

Strategy	Stock/Index	Type	Strike	Premium
Short Put Ladder	NIFTY(Lot size 50)	Buy PUT	5400	60 (Outflow)
		Buy PUT	5500	100 (Outflow)
		Sell PUT	5600	140 (Inflow)

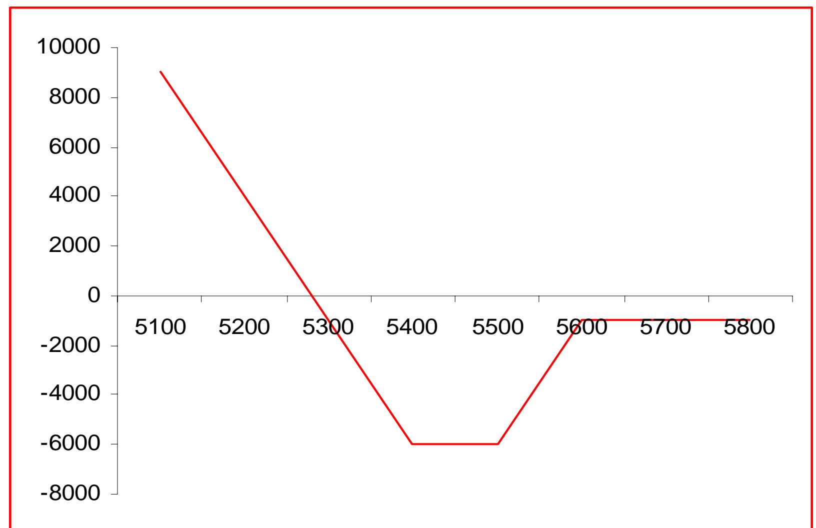
The Payoff Schedule and Chart for the above is below.

HSBC InvestDirect

Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5100	9000
5200	4000
5280	0
5300	-1000
5400	-6000
5500	-6000
5600	-1000
5700	-1000
5800	-1000
5900	-1000
6000	-1000

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5280 (since net outflow is ₹ 20). The reward in such a strategy is unlimited. The risk is limited to 6000 [calculated as (Difference in strike prices + net premium paid) * Lot Size].

In the above illustration there is a net outflow for the investor. If for any other case there is a net inflow, there would be one higher breakeven point. The point will be calculated as (Sell Put Strike price + net premium received).

Disclaimer

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Long Call Butterfly

Long Call Butterfly is a strategy that must be devised when the investor is neutral on the market direction and expects volatility to be less in the market.

A Long Call Butterfly strategy is formed by selling two At-the-Money Call Options, buying one Out-of-the-Money Call Option and one In-the-Money Call Option.

A Long Call Butterfly is similar to a Short Straddle except that here the investor's losses are limited.

The investor will benefit if the underlying Stock/ Index remains at the middle strike at expiration.

Investor view: Neutral on direction and bearish on Stock/ Index volatility.

Risk: Limited to the premium paid.

Reward: Limited.

Lower Breakeven: Strike price of Lower Strike Long Call + net premium paid.

Higher Breakeven: Strike Price of Higher Strike Long Call – net premium paid.

Illustration

Eg. Nifty is currently trading @ 5500. Buying Call Option of Nifty having Strike 5400 @ premium 200, Strike 5600 @ premium 80 and selling two lots of Call Option of Nifty having Strike 5500 @ premium 130 will help the investor benefit if Nifty expiry happens at 5500.

Strategy	Stock/Index	Type	Strike	Premium
Long Call Butterfly	NIFTY(Lot size 50)	Buy CALL	5400	200 (Outflow)
		Sell CALL – 2 lots	5500	130 (Inflow)
		Buy CALL	5600	80 (Outflow)

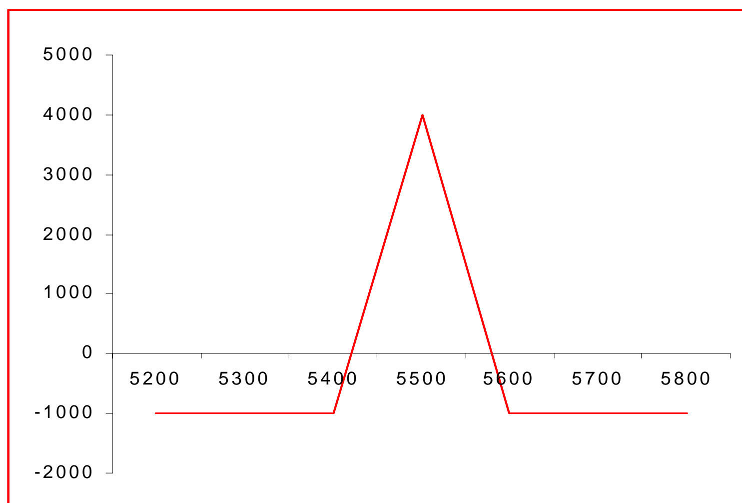
The Payoff Schedule and Chart for the above is below.

HSBC InvestDirect

Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5100	-1000
5200	-1000
5300	-1000
5400	-1000
5420	0
5500	4000
5580	0
5600	-1000
5700	-1000
5800	-1000
5900	-1000

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5420 or 5580.
The reward is limited to 4000 [calculated as (Difference in strike prices - net premium paid) * Lot Size].
The risk is limited to 1000 (calculated as Net premium paid * Lot Size).

Note: Similar strategy can be constructed using Put Options as well

Disclaimer

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Short Call Butterfly

Short Call Butterfly is a strategy that must be devised when the investor is neutral on the market direction and expects volatility to be significant in the market.

A Short Call Butterfly strategy is formed by buying two "At-the-Money Call" Options, selling one "Out-of-the-Money Call" Option and one "In-the-Money" Call Option.

Compared to Straddle and strangle, this strategy offers very small returns. The risk involved is slightly less as compared to them.

The investor will benefit if the underlying Stock/ Index finishes on either side of the upper and lower strike prices at expiration.

Investor view: Neutral on direction and bullish on Stock/ Index volatility.

Risk: Limited to difference between adjacent Strikes – net premium received.

Reward: Limited to the premium received.

Lower breakeven: Strike price of higher Strike Short Call + net premium received.

Higher breakeven: Strike price of Lower Strike Short Call - net premium received.

Illustration

Eg. Nifty is currently trading @ 5500. Selling Call Option of Nifty having Strike 5400 @ premium 200, Strike 5600 @ premium 80 and Buying 2 lots of Call Option of Nifty having Strike 5500 @ premium 130 will help the investor benefit if Nifty on expiry stays below 5400 or above 5600.

Strategy	Stock/Index	Type	Strike	Premium
Short Call Butterfly	NIFTY(Lot size 50)	Sell CALL	5400	200 (Inflow)
		Buy CALL – 2 lots	5500	130 (Outflow)
		Sell CALL	5600	80 (Inflow)

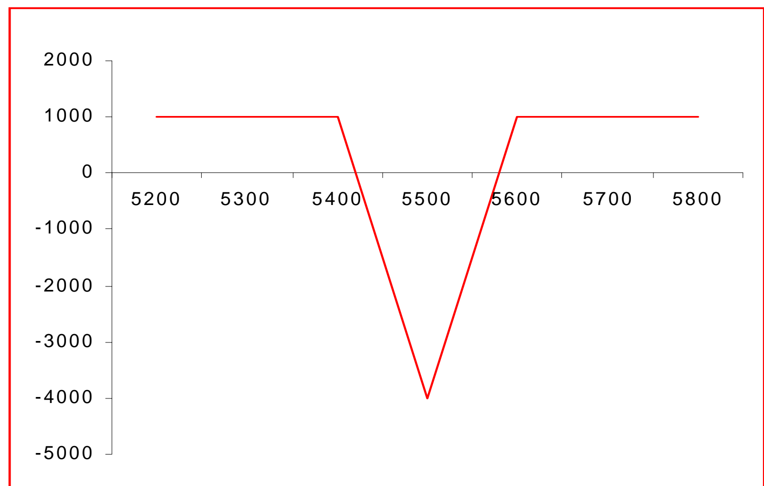
The Payoff Schedule and Chart for the above is below.

HSBC InvestDirect

Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5100	1000
5200	1000
5300	1000
5400	1000
5420	0
5500	-4000
5580	0
5600	1000
5700	1000
5800	1000
5900	1000

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5420 or 5580.
The reward is limited to 1000 (calculated as Net premium received * Lot Size).
The risk is limited to 4000 [calculated as (Difference in strike prices - net premium received) * Lot Size].

Note: Similar strategy can be constructed using Put Options as well

Disclaimer

HSBC InvestDirect

Long Call Condor

Long Call Condor is a strategy that must be devised when the investor is neutral on the market direction and expects volatility to be less in the market.

A Long Call Condor strategy is formed by buying Out-of-the-Money Call Option (lower strike), buying In-the-Money Call Option (lower strike), selling Out-of-the-Money Call Option (higher middle) and selling In-the-Money Call Option (higher middle). All Call Options must have the same underlying security and expiration month.

This strategy is very similar to a Long Call Butterfly. The difference is that the sold options have different strikes. The profit pay off profile is wider than that of the Long Butterfly.

Investor view: Neutral on direction and bearish on Stock/ Index volatility.

Risk: Limited.

Reward: Limited.

Lower breakeven: Lowest Strike + net premium paid.

Higher breakeven: Highest Strike – net premium paid.

Illustration

Eg. Nifty is currently trading @ 5500. Buying Call Option of Nifty having Strike 5300 @ premium 280, Strike 5700 @ premium 50 and Selling Call Option Strike 5400 @ premium 200, Strike 5600 @ premium 90 will help the investor benefit if Nifty trades between 5400 and 5600.

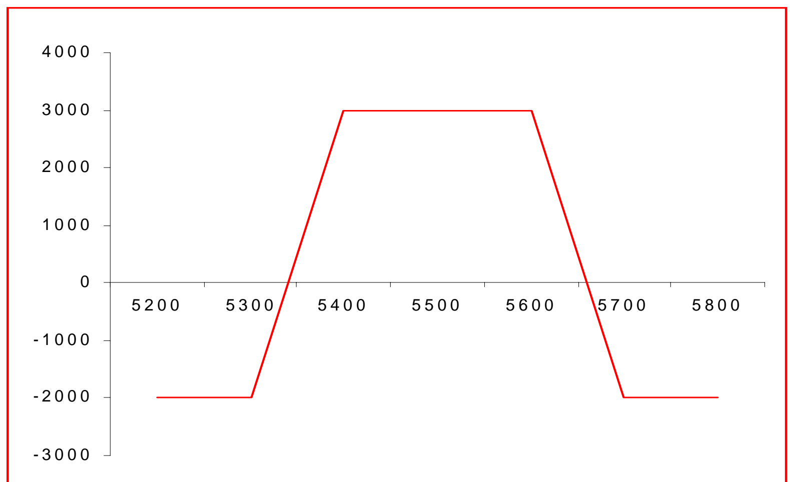
Strategy	Stock/Index	Type	Strike	Premium
Long Call Condor	NIFTY(Lot size 50)	Buy CALL	5300	280 (Outflow)
		Sell CALL	5400	200 (Inflow)
		Sell CALL	5600	90 (Inflow)
		Buy CALL	5700	50 (Outflow)

The Payoff Schedule and Chart for the above is below.

Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5100	-2000
5200	-2000
5300	-2000
5340	0
5400	3000
5500	3000
5600	3000
5660	0
5700	-2000
5800	-2000
5900	-2000

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5340 or 5660.
The reward is limited to 3000 [calculated as (Difference in adjacent Sell and Buy Call strike prices - net premium paid) * Lot Size].
The risk is limited to 2000 (calculated as Net premium paid * Lot Size).

Note: Similar strategy can be constructed using Put Options as well

Disclaimer

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Short Call Condor

Short Call Condor is a strategy that must be devised when the investor is neutral on the market direction and expects markets to break out of a trading range, but is not sure in which direction.

A Short Call Condor strategy is formed by selling an "Out-of-the-Money" Call Option (lower strike), selling "In-the-Money" Call Option (lower strike), buying "Out-of-the-Money" Call Option (higher middle) and buying "In-the-Money" Call Option (higher middle). All Call Options must have the same underlying security and expiration month.

This strategy is suitable in a volatile market. The maximum profit occurs if the underlying finishes on the either side of the Upper or Lower Strike prices at expiry.

Investor view: Neutral on direction, but expecting breakout in either direction.

Risk: Limited.

Reward: Limited.

Lower breakeven: Lowest Strike + net premium received

Higher breakeven: Highest Strike - net premium received.

Illustration

Eg. Nifty is currently trading @ 5500. Selling Call Option of Nifty having Strike 5300 @ premium 280, Strike 5700 @ premium 50 and Buying Call Option Strike 5400 @ premium 200, Strike 5600 @ premium 90 will help investor benefit if Nifty on expiry stays below 5300 or above 5700.

Strategy	Stock/Index	Type	Strike	Premium
Short Call Condor	NIFTY(Lot size 50)	Sell CALL	5300	280 (Inflow)
		Buy CALL	5400	200 (Outflow)
		Buy CALL	5600	90 (Outflow)
		Sell CALL	5700	50 (Inflow)

The Payoff Schedule and Chart for the above is below.

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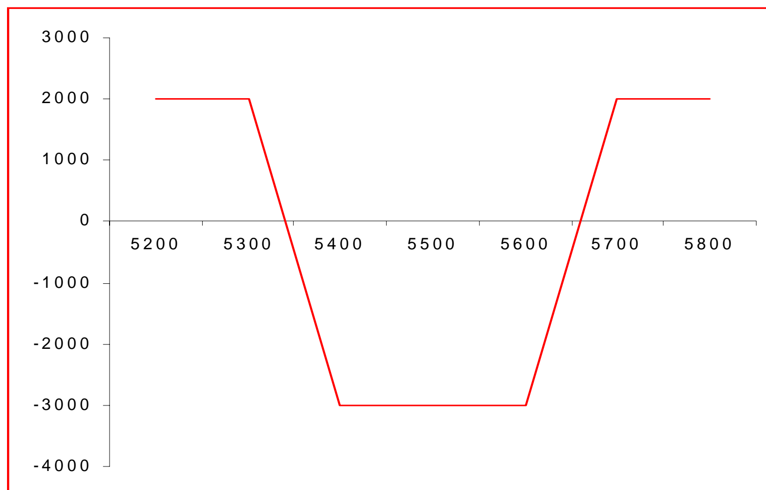
Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
5100	2000
5200	2000
5300	2000
5340	0
5400	-3000
5500	-3000
5600	-3000
5660	0
5700	2000
5800	2000
5900	2000

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5340 or 5660.
The reward is limited to 2000 (calculated as Net premium received * Lot Size).
The risk is limited to 3000 [calculated as (Difference in adjacent Sell and Buy Call strike prices - net premium received) * Lot Size].

Note: Similar strategy can be constructed using Put Options as well

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Covered Call

Covered Call is a strategy that is devised when the investor is holding shares in the underlying and feels that the underlying position is good for "medium to long term" but is moderately bullish on the near term.

In Covered Call, an investor sells a Call Option on a stock he owns. This leads to an inflow of premium for the investor. The profit increases as the underlying rises, but gets capped after it reaches the Strike price.

If the underlying crosses the Strike price, the Call Option will start making losses and payoff will be capped. Investor can use this strategy as an income in a neutral market.

Investor view: Neutral to bullish on direction.

Risk: Limited.

Reward: Limited.

Breakeven: Stock Price – premium received.

Illustration

Eg. Nifty is currently trading @ 5400. Investor has bought one lot of Nifty Futures @ 5300. Covered Call strategy can be initiated by selling Call Option Strike 5500 @ 50. Investor is not expecting the underlying to cross 5500.

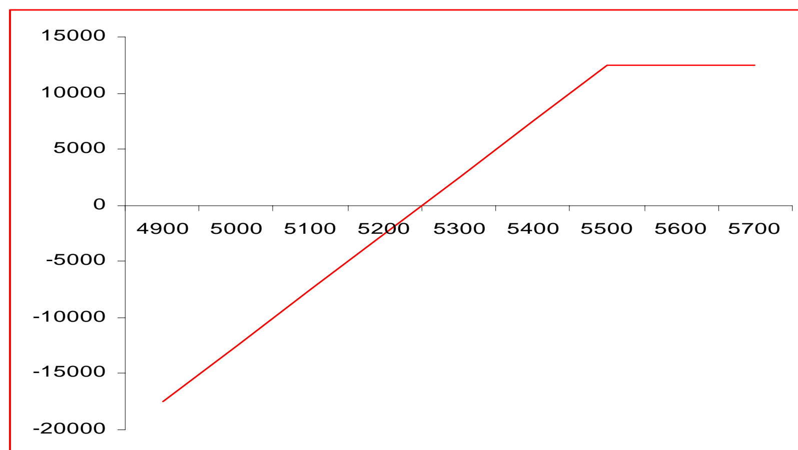
Strategy	Stock/Index	Type	Strike	Premium
Covered Call	NIFTY(Lot size 50)	Buy Underlying	5300	5300*50 (Outflow)
		Sell CALL	5500	50 (Inflow)

The Payoff Schedule and Chart for the above is below.

Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
4900	-17500
5000	-12500
5100	-7500
5200	-2500
5250	0
5300	2500
5400	7500
5500	12500
5600	12500
5700	12500

Payoff Chart



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In the above chart, the breakeven happens the moment Nifty crosses 5250.
The reward is limited to 12500 [calculated as (Difference in adjacent Sell Call strike price and Underlying Buy price - premium received) * Lot Size]. The risk is unlimited.

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Covered Put

Covered Put is a strategy that is devised when an investor is intending to short shares in the underlying and feels that the price of an underlying Stock/ Index is going to remain range bound or move down.

In Covered Put, an investor sells a Put Option on a stock he is short on. This leads to an inflow of premium for the investor. The profit is capped till the underlying remains below the Strike price. If the underlying crosses the Strike price, the Put Option will start making loss and there could be a chance of unlimited loss.

The investor can use this strategy as an income in a neutral market.

Investor view: Neutral to bearish on direction.

Risk: Unlimited.

Reward: Limited.

Breakeven: Stock price + premium received

Illustration

Eg. Nifty is currently trading @ 5400. The investor has sold one lot of Nifty Futures @ 5500. Covered Put strategy can be initiated by selling Put Option Strike 5300 @ 50. Investor is not expecting the underlying to cross 5300.

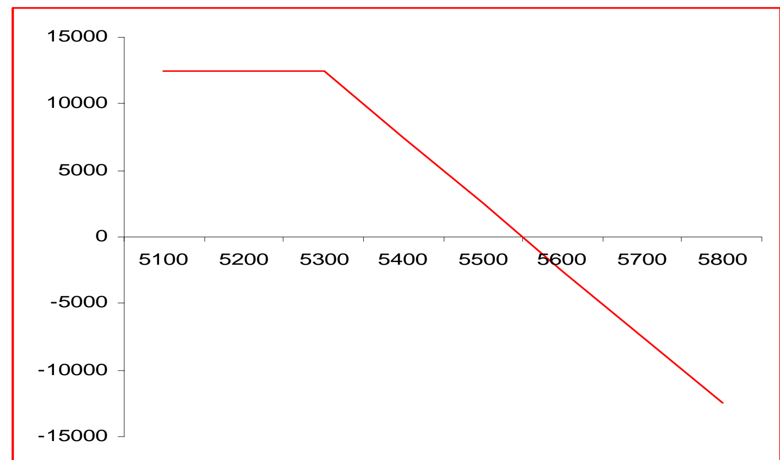
Strategy	Stock/Index	Type	Strike	Premium
Covered Put	NIFTY(Lot size 50)	Sell PUT	5300	50 (Inflow)
		Sell Underlying	5500	5500*50 (Inflow)

The Payoff Schedule and Chart for the above is below.

Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
4900	12500
5000	12500
5100	12500
5200	12500
5300	12500
5400	7500
5500	2500
5550	0
5600	-2500
5700	-7500

Payoff Chart



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In the above chart, the breakeven happens the moment Nifty crosses 5250.
The reward is limited to 12500 [calculated as (Difference in adjacent Sell Call strike price and Underlying Buy price + premium received) * Lot Size]. The risk is unlimited.

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Collar

Collar is a strategy that is devised when an investor is holding shares in the underlying and feels that the underlying position is good for "medium to long term" but is moderately bullish on the near term.

In Collar, an investor sells a Call option on a stock he owns. The investor also buys a Put Option to insure against the fall in the price of the underlying. This is a low risk strategy since the Put prevents downside risk. The profits are also capped on the upside because the Call sold prevents profits when the underlying rallies.

Investor view: Neutral to bullish on direction.

Risk: Limited.

Reward: Limited.

Breakeven: Stock Price – Call premium + Put premium

Illustration

Eg. Nifty is currently trading @ 5400. Investor has bought one lot of Nifty Futures @ 5400. Collar can be initiated by selling Call Option Strike 5500 @ 70 and buying Put Option Strike 5300 @ 50. The investor benefits if Nifty stays above 5500.

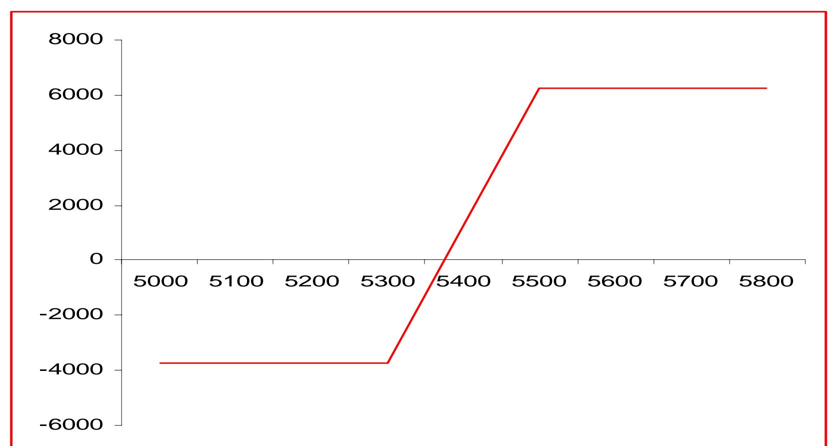
Strategy	Stock/Index	Type	Strike	Premium
Collar	NIFTY(Lot size 50)	Buy PUT	5300	50 (Outflow)
		Buy Underlying	5400	5400*50 (Outflow)
		Sell CALL	5500	75 (Inflow)

The Payoff Schedule and Chart for the above is below.

Payoff Schedule

NIFTY @ Expiry	Net Payoff (₹)
4900	-3750
5000	-3750
5100	-3750
5200	-3750
5300	-3750
5375	0
5400	1250
5500	6250
5600	6250
5700	6250
5800	6250

Payoff Chart



In the above chart, the breakeven happens the moment Nifty crosses 5375.
The reward is limited to 6250 [calculated as (Difference in adjacent Sell Call strike price and Underlying Buy price + premium received) * Lot Size].
The risk is limited to 3750 [calculated as (Difference in adjacent Underlying Buy price and Buy Put strike price - premium received) * Lot Size].

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