04. Basic Option Strategies and Payoffs

Option Trading Basics in 60 Minutes
An introductory overview of common option positions and their risk profiles.

1. Single-Leg Positions

- Buying a call: generally benefits from an upward move, with premium at risk.
- Buying a put: generally benefits from a downward move, with premium at risk.
- Selling options can create substantial or potentially unlimited risk depending on the position.

2. Defined-Risk Combinations

- Bull call spread: combines a long call and a short call at a higher strike.
- Bear put spread: combines a long put and a short put at a lower strike.
- Understand maximum loss, maximum profit and breakeven before use.

3. Payoff Diagrams

- Identify profit and loss at different underlying prices.
- Calculate breakeven using premiums and contract terms.
- Include fees, taxes and execution costs in examples.

Educational overview only. Options are complex, leveraged instruments and can result in substantial or total loss of the premium paid; some option strategies can carry much larger losses. This material is not investment advice or a recommendation to trade.