20. Bearish Strategies Revision.

Today we will revise all the Bearish strategies which we have covered till now.

1. Bear Call Spread.
2. Bear Put Spread.
3. Covered Put.
4. Put Backspread.
5. Protective Call.
6. Diagonal Bear Put Spread.

Let's revise above strategies one by one.

1. Bear Call Spread:

This strategy is employed when the options trader thinks that the price of the underlying asset will go down moderately in the near term. It is also known as the bear call credit spread as a credit is received upon entering the trade.

Bear Call Spread Construction:
Buy 1 OTM Call; Sell 1 ITM Call

2. Bear Put Spread:

In this strategy, the options trader expects that the price of the underlying asset will go down moderately in the near term. It can be implemented by buying a higher striking in-the-money put option and selling a lower striking out- of-the-money put option of the same underlying security with the same expiration date. By shorting the out-of-the-money put, the options trader reduces the cost of establishing the bearish position but forgoes the chance of making a large profit in the event that the underlying asset price plummets. The bear put spread options strategy is also known as the bear put debit spread as a debit is taken upon entering the trade.

Bear Put Spread Construction:
Buy 1 ITM Put; Sell 1 OTM Put

3. Covered Put:

It's a simple strategy in which trader write a put option while shorting the obligated shares of the underlying stock. This strategy can be constructed as follows.

Covered Put Construction:
Short 100 Shares; Sell 1 ATM Put.

4. Put Backspread:

This strategy involves selling a number of put options and buying more put options of the same underlying stock and expiration date at a lower strike price. It is an unlimited profit, limited risk options trading strategy that is taken when the options trader thinks that the underlying stock will experience significant downside movement in the near term. A 2:1 put backspread can be implemented by buying a number of puts at a higher strike and buying twice the number of puts at a lower strike.

Put Backspread Construction:
Sell 1 ITM Put; Buy 2 OTM Put

5. Protective Call:

It's a hedging strategy where the trader, who has an existing short position in the underlying security, buys call options to guard against a rise in the price of that security. It is usually employed when the trader is still bearish on the underlying but wary of uncertainties in the near term. The call option is thus purchased to protect unrealized gains on the existing short position in the underlying.

Construction for Protective Call:
Short 100 shares; Buy 1 ATM Call.

6. Diagonal Bear Put Spread:

Diagonal bear put spread is employed when the trader is bearish on the underlying stock over the longer term but is neutral to mildly bearish in the near term. It involves buying long-term puts and simultaneously writing an equal number of near-month puts of the same underlying stock with a lower strike. Construction of diagonal bear put spread is given as follows.
Buy 1 Long-Term ITM Put; Sell 1 Near Term OTM Put

Hope you have enjoyed all the strategies which we discussed till now. These strategies one can apply from time to time as per stock or market trend. Feel free to contact us on knowledge@grovalue.in for any queries related to Option strategies.