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Bullish Spread Strategies



Toronto Stock Exchange | TSX Venture Exchange | **Montréal Exchange** | Natural Gas Exchange | Montréal Climate Exchange | Boston Options Exchange

Canadian Derivatives Clearing Corporation | TMX Datalinx | Equicom | PC Bond | Shorcan

Bull Call Spread Overview



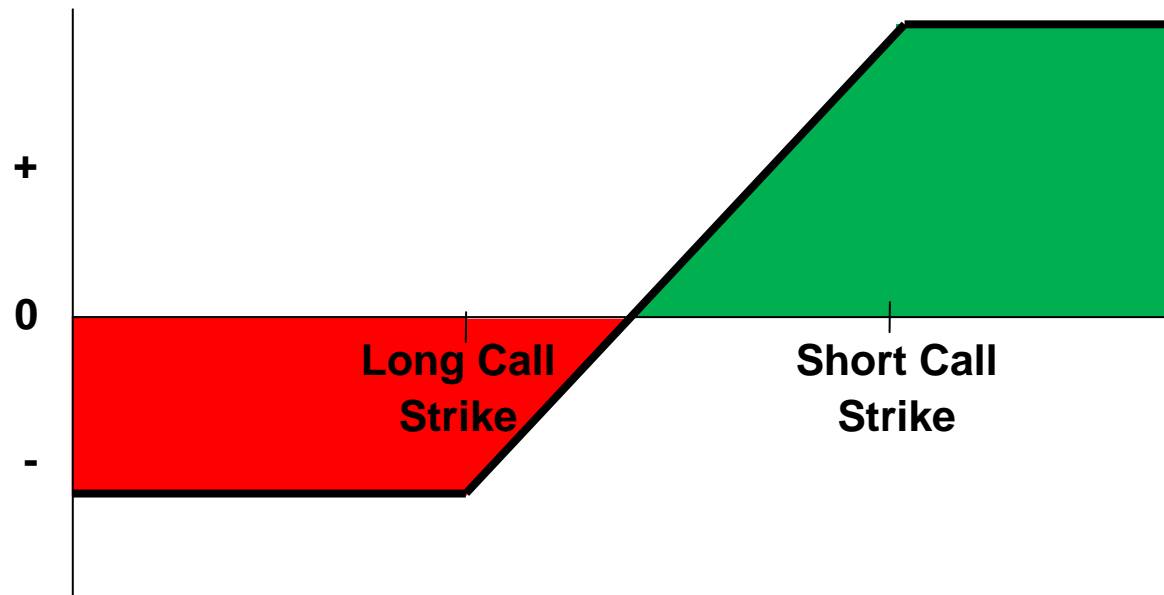
- Vertical spread
 - Long lower strike call
 - Short higher strike call
- Debit spread
 - Premium of the options sold is less than the premium of the option purchased.
- Objective
 - Trade a directional bias to the upside.



Bull Call Spread Risk/Reward Profile



- Maximum profit:
 - High strike – Low strike – Net premium paid
- Maximum loss:
 - Net premium paid



Bull Call Spread Contract Selection



- Expiration month selection should allow enough time for the anticipated move to take place.
- At-the-money & in-the-money strike prices:
 - Conservative
 - Expensive
- Out-of-the-money strike prices:
 - Greater profit potential
 - Smaller premium collected



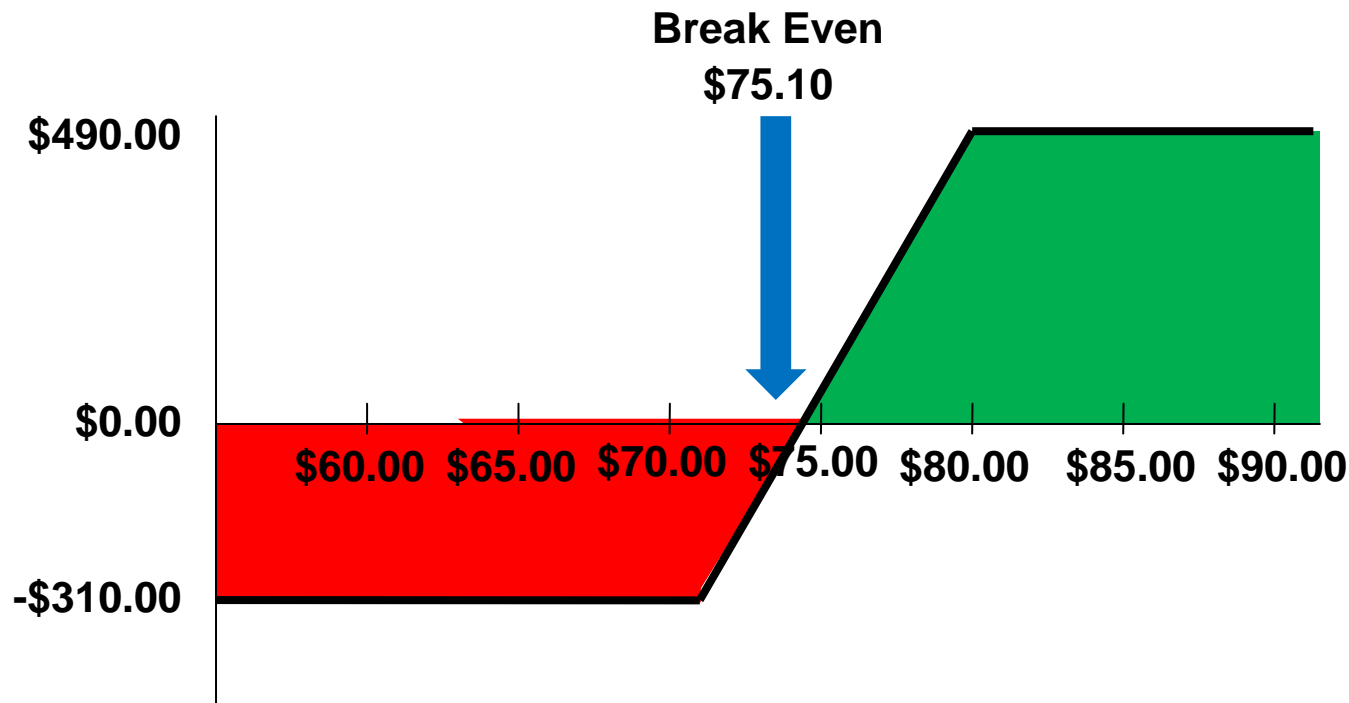
Bull Call Spread Example



- XYZ is trading at \$72.00.
- Buy one 3-month \$72.00 call @ \$5.70
- Sell one 3-month \$80.00 call @ \$2.60
- Net debit is \$3.10.



Bull Call Spread Example



Bull Call Spread Example



Price at Expiration	72-Call Profit (Buy)	80-Call Profit (Sell)	Net Spread Profit
\$65.00	-\$570.00	\$260.00	-\$310.00
\$70.00	-\$570.00	\$260.00	-\$310.00
START → \$72.00	-\$570.00	\$260.00	-\$310.00
\$75.00	-\$270.00	\$260.00	\$10.00
\$80.00	\$230.00	\$260.00	\$490.00
\$85.00	\$730.00	-\$240.00	\$490.00
\$90.00	\$1230.00	-\$740.00	\$490.00



Bull Put Spread Overview



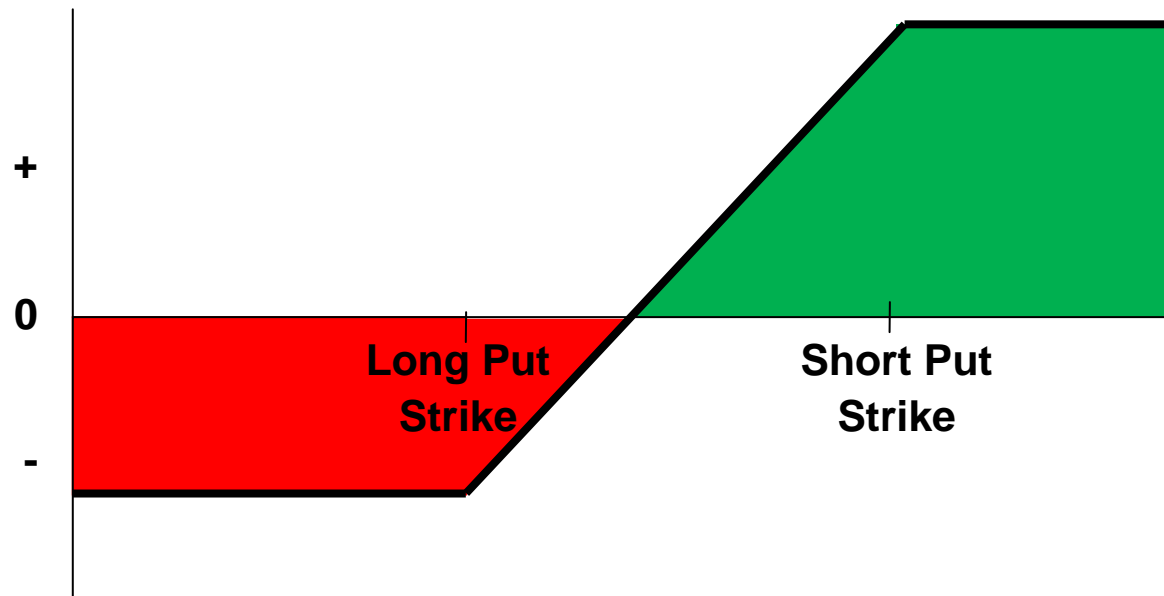
- Vertical spread
 - Long lower strike put
 - Short higher strike put
- Credit spread
 - Premium of the option sold is greater than the premium of the option purchased.
- Objective
 - Generate income



Bull Put Spread Risk/Reward Profile



- Maximum profit:
 - Net premium received
- Maximum loss:
 - High strike – Low strike – Net premium received



Bull Put Spread Contract Selection



- Near-term expiration month benefit from rapid time decay.
- At-the-money & in-the-money strike prices:
 - Generates greater income
 - Greater chance of being assigned
- Out-of-the-money strike prices:
 - Higher probability of options expiring worthless
 - Smaller premium



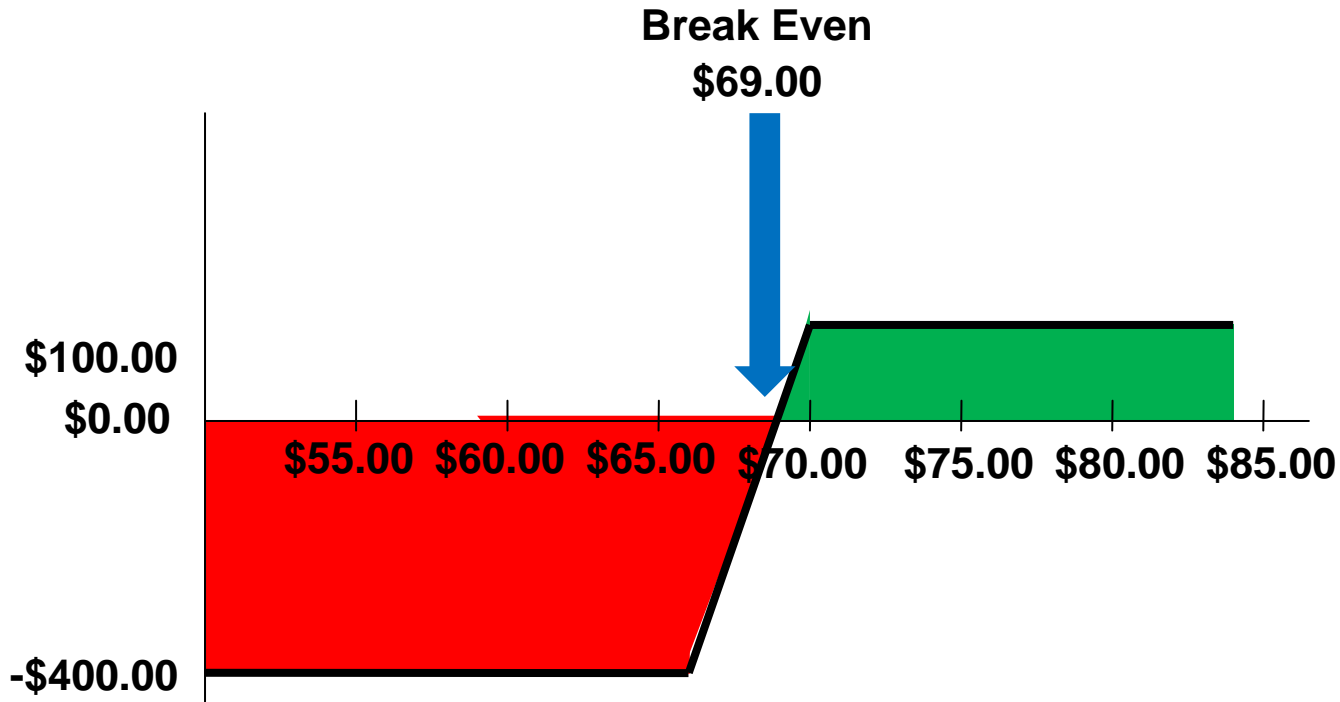
Bull Put Spread Example



- XYZ is trading at \$72.00.
- Sell one 1-month \$70.00 put @ \$2.00
- Buy one 1-month \$65.00 put @ \$1.00
- Net credit is \$1.00.



Bull Put Spread Example



Bull Put Spread Example



Price at expiration	70-Put Profit (Sell)	65-Put Profit (Buy)	Net Spread Profit
\$60.00	-\$800.00	\$400.00	-\$400.00
\$65.00	-\$300.00	-\$100.00	-\$400.00
BREAK EVEN → \$69.00	\$100.00	-\$100.00	\$0.00
\$70.00	\$200.00	-\$100.00	\$100.00
START → \$72.00	\$200.00	-\$100.00	\$100.00
\$75.00	\$200.00	-\$100.00	\$100.00
\$80.00	\$200.00	-\$100.00	\$100.00



Comparison



Considerations	BULL CALL Spread (3 months) Buy 72 Call, Sell 80 Call	BULL PUT Spread (1 month) Buy 65 Put, Sell 70 Put
Outlook	Moderately bullish	Neutral to bullish
Objective	Trade a directional bias	Generate cash flow
Time	Negative impact	Positive impact
Risk	\$3.10	\$4.00
Profit Potential	\$4.90	\$1.00



