



TMX

**Montréal
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Bearish Spread Strategies



Bear Put Spread



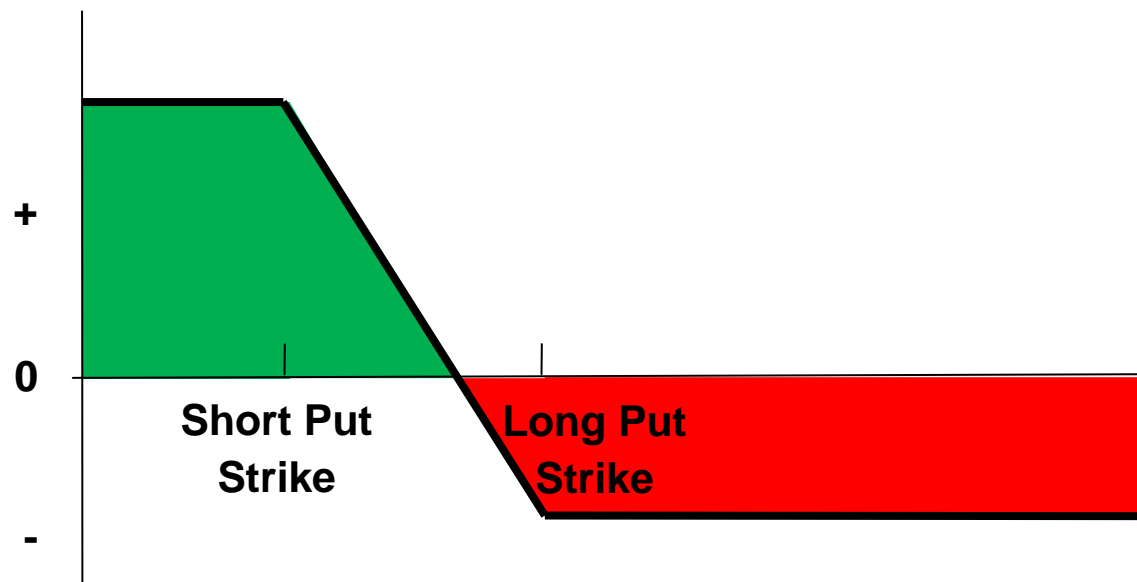
- Vertical Spread
 - Short lower strike put
 - Long higher strike put
- Debit Spread
 - Premium of the options sold is less than the premium of the option purchased.
- Objective
 - Trade a directional bias to the downside



Bear Put Spread Risk/Reward Profile



- Maximum Profit
 - High strike – low strike – net premium paid
- Maximum Loss
 - Net premium paid



Bear Put 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



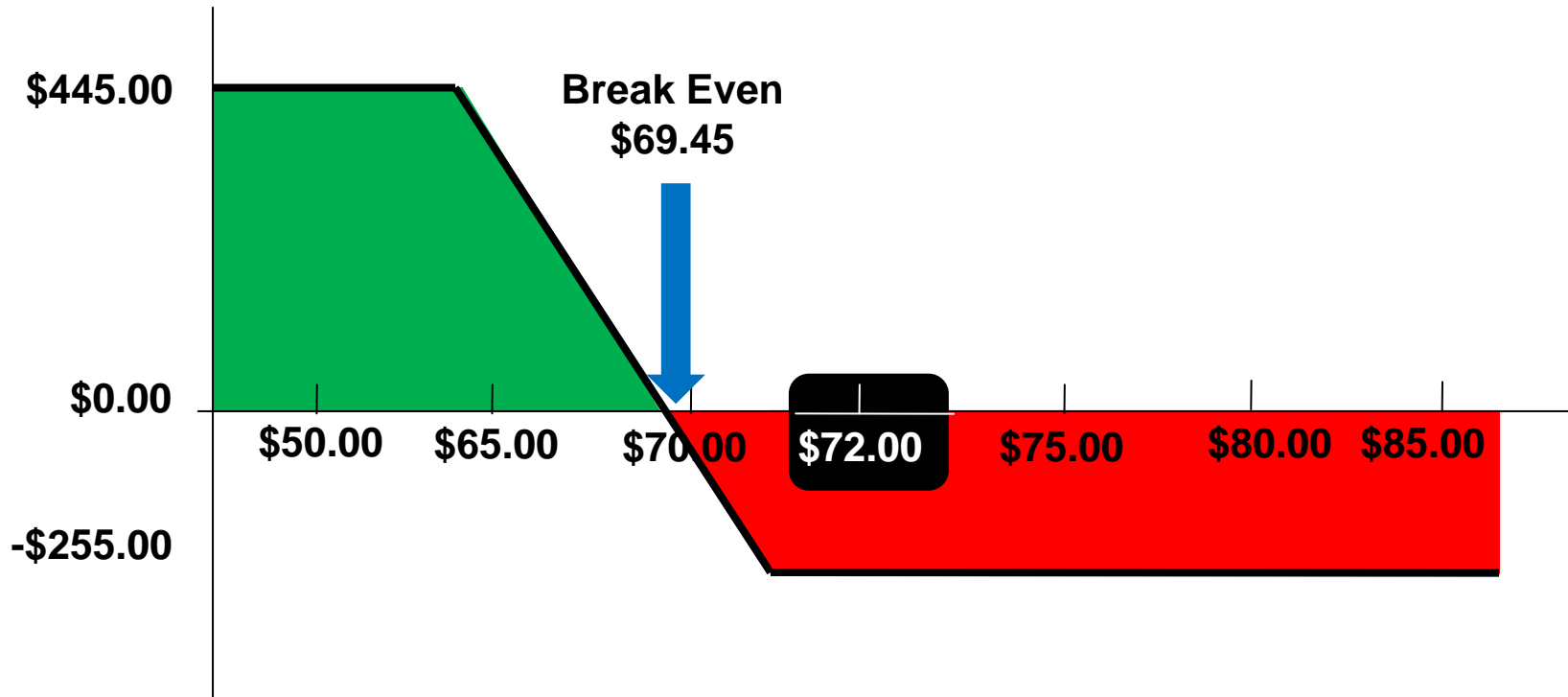
Bear Put Spread Example



- XYZ is trading at \$72.00.
- Buy 1, 3 month \$72.00 Put - \$5.30
- Sell 1, 3 month \$65.00 Put - \$2.75
- Net cost basis – \$2.55



Bear Put Spread Example



Bear Put Spread Example



Price at expiration	\$72 Put Profit (BUY)	\$65 Put Profit (SELL)	Net Spread Profit
\$55.00	\$1170.00	-\$725.00	\$445.00
\$60.00	\$670.00	-\$225.00	\$445.00
\$65.00 S	\$170.00	\$275.00	\$445.00
\$70.00	-\$330.00	\$275.00	-\$55.00
START → \$72.00 B	-\$530.00	\$275.00	-\$255.00
\$75.00	-\$530.00	\$275.00	-\$255.00
\$80.00	-\$530.00	\$275.00	-\$255.00



Bear Call Spread Overview



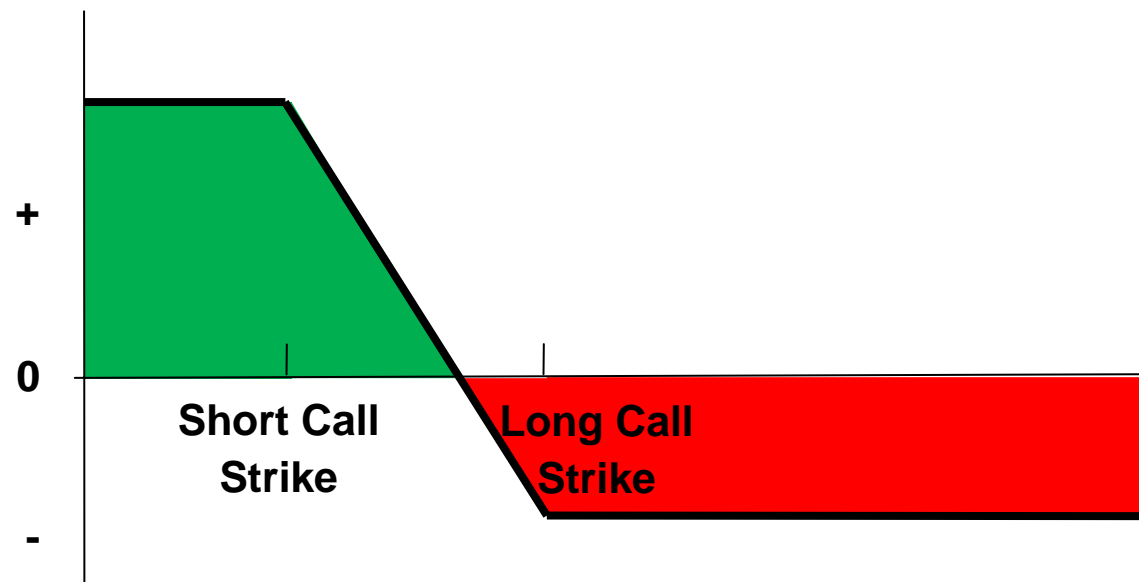
- Vertical Spread
 - Short lower strike call
 - Long higher strike call
- Credit Spread
 - Premium of the options sold is greater than the premium of the option purchased.
- Objective
 - Generate income



Bear Call Spread Risk/Reward Profile



- Maximum Profit
 - Net premium received
- Maximum Loss
 - High strike – low strike – net premium received



Bear Call Spread Contract Selection



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



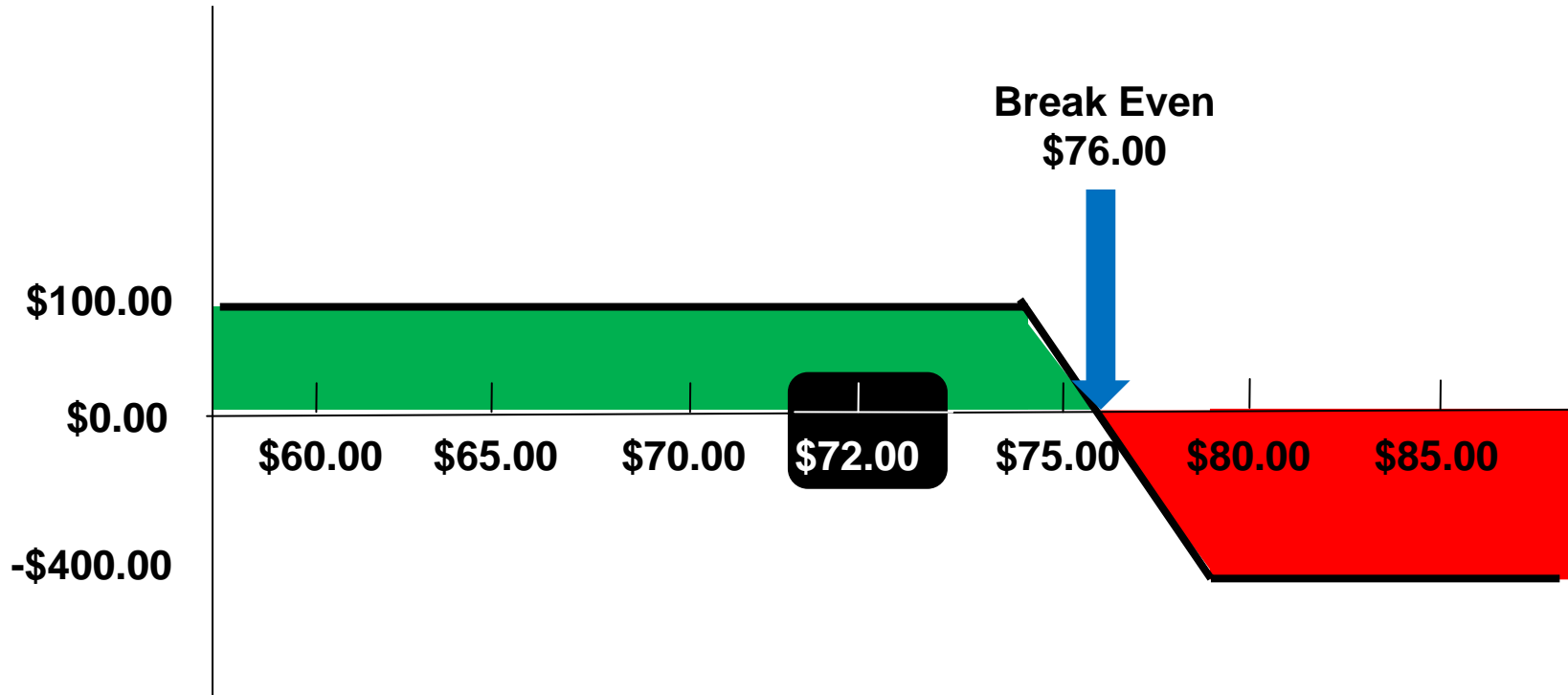
Bear Call Spread Example



- XYZ at \$72.00
- Sell 1, 1 month \$75.00 Call - \$3.00
- Buy 1, 1 month \$80.00 Call - \$2.00
- Net credit is \$1.00



Bear Call Spread Example



Bear Call Spread Example



Price at expiration	\$75 Call Profit (SELL)	\$80 Call Profit (BUY)	Net Spread Profit
\$65.00	\$300.00	-\$200.00	\$100.00
\$70.00	\$300.00	-\$200.00	\$100.00
\$72.00	\$300.00	-\$200.00	\$100.00
\$75.00 S	\$300.00	-\$200.00	\$100.00
\$76.00	\$200.00	-\$200.00	\$0.00
\$80.00 B	-\$200.00	-\$200.00	-\$400.00
\$85.00	-\$700.00	\$300.00	-\$400.00

START →

BREAK EVEN →



Comparison



Considerations	BEAR PUT Spread (3 months) Buy 72 Put, Sell 65 Put	BEAR CALL Spread (1 month) Sell 75 Call, Buy 80 Call
Outlook	Moderately bearish	Neutral to bearish
Objective	Trade a directional bias	Generate Cash Flow
Time	Negative impact	Positive Impact
Risk	\$2.55	\$4.00
Profit Potential	\$4.45	\$1.00



