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WHAT IS A PUT BUTTERFLY

A PUT BUTTERFLY IS

an options trading strategy that involves using three strike prices to create a position with limited risk and limited profit potential. It is constructed using a combination of long and short put options.

LONG PUT BUTTERFLY

1. **Components:**
   - Buy one lower strike put option.
   - Sell two middle strike put options.
   - Buy one higher strike put option.

2. **Key Note:**
   - The strike width between the lower/middle and middle/higher should be equivalent.

3. **Objective:**
   - The goal of a long put butterfly is to profit from minimal price movement in the underlying asset. It's a neutral strategy where you expect the underlying asset to stay close to the middle strike price.

4. **Breakeven Points:**
   - There are two breakeven points for a long put butterfly.
     - **Lower Breakeven:** Lowest strike + Net premium paid.
     - **Upper Breakeven:** Highest strike - Net premium paid.

5. **Risks:**
   - If the underlying asset moves significantly, the potential losses are limited to the initial premium paid.

SHORT PUT BUTTERFLY

1. **Components:**
    - Sell one lower strike put option.
    - Buy two middle strike put options.
    - Sell one higher strike put option.
2. **Key Note:**
    - The strike width between the lower/middle and middle/higher should be equivalent.
3. **Objective:**
    - The short put butterfly is a strategy used when an investor believes that the underlying asset will experience significant price movement. The goal is to profit from volatility.
4. **Breakeven Points:**
    - There are two breakeven points for a short put butterfly.
        - **Lower Breakeven:** Lowest strike + Net premium received.
        - **Upper Breakeven:** Highest strike - Net premium received.
5. **Risks:**
    - If the underlying asset does not make a substantial move in either direction, the potential losses are limited to the difference in strike prices and the premium received.