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WHAT IS A PUT CALENDAR SPREAD

A PUT CALENDAR SPREAD IS

an options trading strategy that involves the simultaneous purchase and sale of put options with the same strike price but different expiration dates (also known as a horizontal or time spread). This strategy aims to capitalize on the different rates of time decay between short-term and long-term options.

LONG PUT CALENDAR SPREAD:

- **Long Put:** Buy a put option with a specific strike price and a longer expiration date.
- **Short Put:** Simultaneously sell a put option with the same strike price but a closer expiration date.

SHORT PUT CALENDAR SPREAD:

- **Short Put:** Sell a put option with a specific strike price and a longer expiration date.
- **Long Put:** Simultaneously buy a put option with the same strike price but a closer expiration date.

TIME DECAY DYNAMICS

- The primary profit driver for a put calendar spread is the difference in time decay between the short-term and long-term options. Options closer to expiration decay at a faster rate compared to those with more extended expiration periods.

PROFIT AND LOSS SCENARIOS

- The ideal scenario for a put calendar spread is for the underlying asset's price to remain relatively stable and close to the chosen strike price until the short-term option expires. This allows the trader to profit from the accelerated time decay of the short put while retaining the long put for potential further gains.