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WHAT IS A STRADDLE

A STRADDLE IS

an options trading strategy that involves trading both a call option and a put option with the same strike price and expiration date.

LONG STRADDLE

- **Structure:** An investor buys both a call and a put option on the same underlying asset, with the same strike price and expiration date.
- **Objective:** The investor expects a substantial price movement in the underlying asset but is unsure about the direction (up or down).
- **Risk:** The main risk with a long straddle is that the price movement may not be significant enough to cover the combined cost of the call and put options, leading to potential losses. Additionally, time decay can erode the value of both options.

SHORT STRADDLE

- **Structure:** An investor sells both a call and a put option on the same underlying asset, with the same strike price and expiration date.
- **Objective:** The investor expects the underlying asset's price to remain relatively stable within a certain range until the options expire.
- **Risk:** The primary risk with a short straddle is that if the underlying asset experiences a significant price movement, either upwards or downwards, the potential losses for the seller can be unlimited (theoretically).

RISKS OF A LONG STRADDLE

- **Low Volatility:** The main risk is that the price movement may not be significant enough for the straddle to be profitable.
- **Time Decay:** As time passes, the value of both options may decrease, especially if the price movement doesn't occur promptly.

RISKS OF A SHORT STRADDLE

- **Unlimited Risk:** If the underlying asset experiences a significant price movement, the potential losses for the seller can be unlimited (theoretically).
- **High Volatility:** Sharp price movements can lead to substantial losses for the seller, as they are exposed to volatility in the underlying asset.