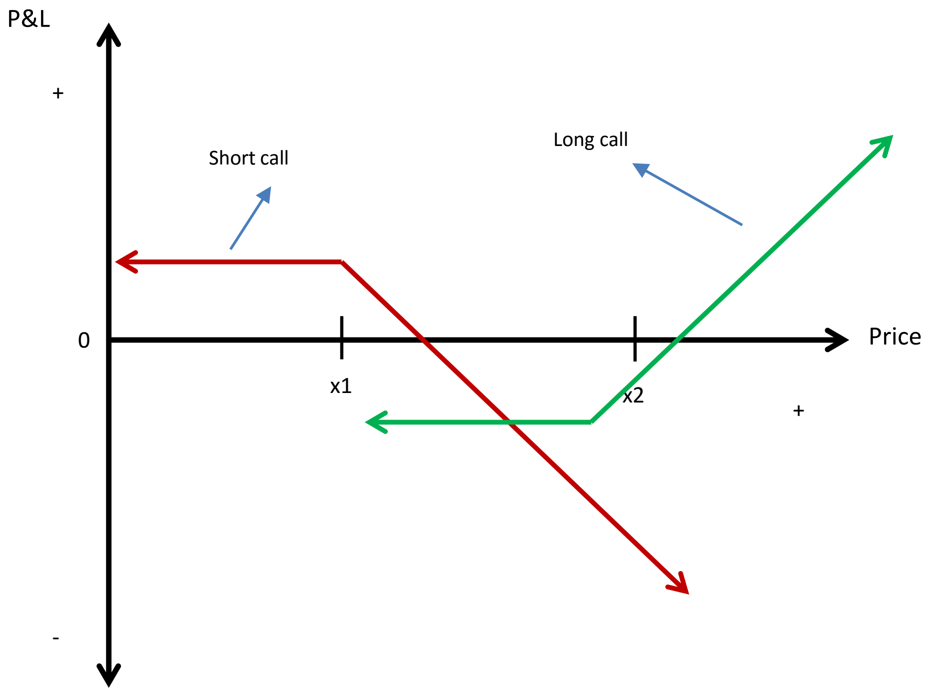
Options Basics
Call Credit Spread

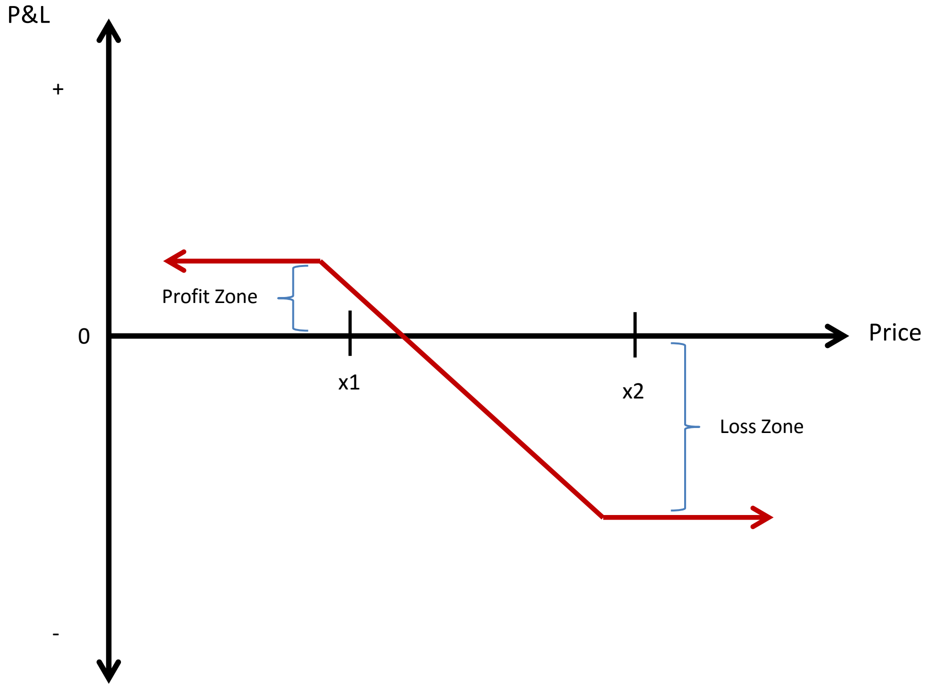
Call Credit Spread P&L Diagram

P&L Diagram



- Call Credit Spread:
  Short Call @ lower strike
  Long Call @ higher strike
- Long call is further OTM than the sold call
- Purpose: Hedge the sold Call option by purchasing a call at a higher strike price and set a max cap in case the transaction results in a loss
- As an option seller you should recieve a Net Credit, which will be your max win

P&L Diagram Seller (Writer)



- Effect of the whole transaction:
  max win: net credit recieved
  max loss: (diff in strikes * contract size)
  minus net credit recieved
- If Price at expiry is below the Strike Price, you get to keep the net credit
- If Price goes up more than you expected and your strike gets hit, your max loss is capped