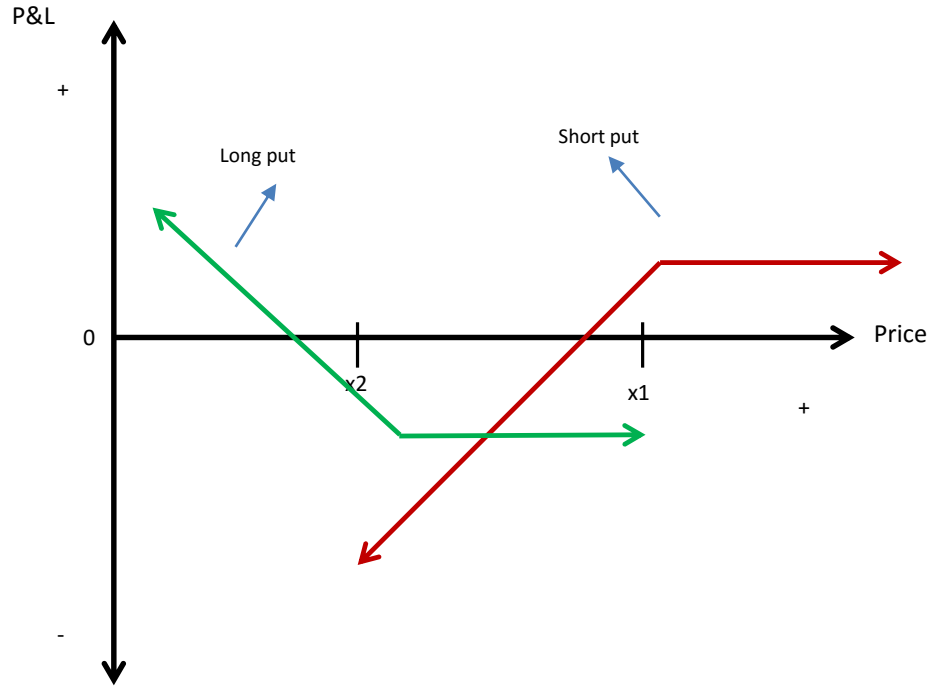


Options Basics

Put Credit Spread

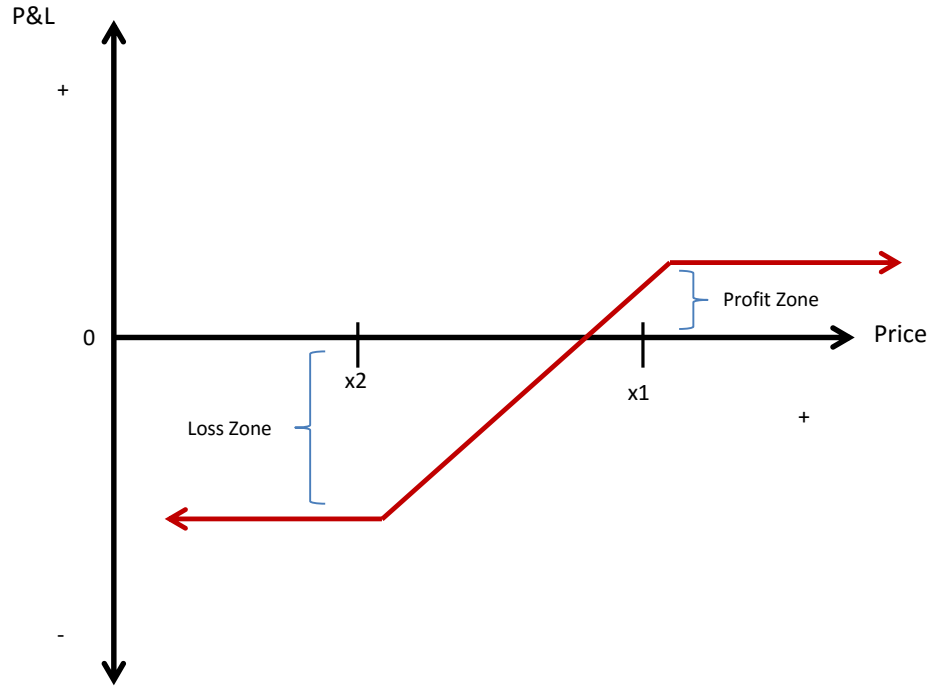
Put Credit Spread P&L Diagram

P&L Diagram



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

P&L Diagram Seller (Writer)



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