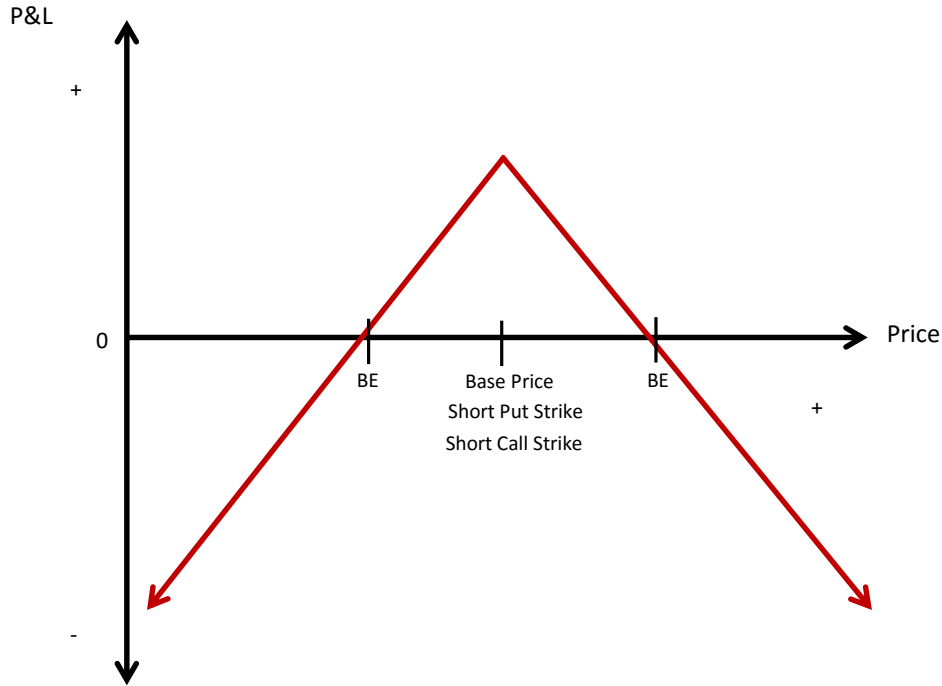


# Short Straddle Setup

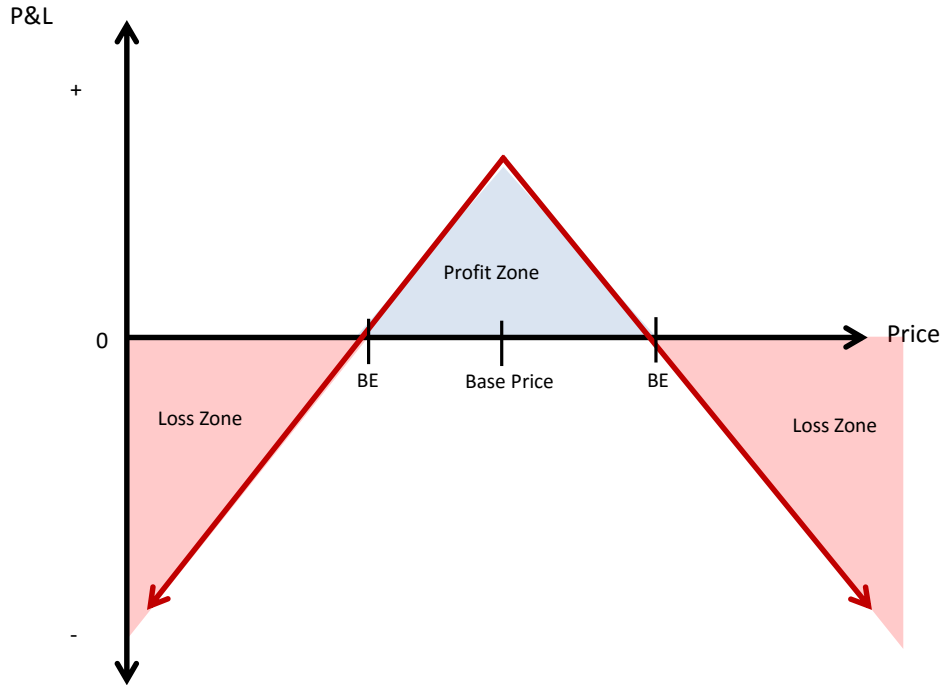
Short Straddle P&L Diagram

# Short Straddle P&L Diagram



- The transaction:
  - Sell (Short) Call
  - Sell (Short) Put
  - \*@ Same strike price
- ATM Straddles: Neutral Market outlook
- Trade Structure & Margin Requirement: Equivalent to an Iron Butterfly only without the hedge - hence bigger margin requirements and margin expansion risk here!
- Opening this trade means you expect price to more or less be around the area of your chosen strike within the time period of the option you sell

# Short Straddle P&L Diagram



- Net Seller Strategy. Your goal is to keep as much of the premium collected

- Advantages:

1. Only one side can lose. We take in 2x Credit for one side potential loss
2. Absence of hedge results in higher premium collected to compensate for higher potential risk we take

# Additional Points...

- Not suitable for smaller accounts simply because of
  - 1) the margin requirements of this naked strategy
  - 2) high potential losses can wipe out a very significant portion of a smaller account
- One of the favorite strategies when doing earnings play (opening a short straddle shortly before or near earnings announcement,) taking advantage of high IV to sell premiums and expecting a drop afterwards