



Sharechart Option Strategies

Option Strategies in ShareChart

December 2005

Disclaimer

Indicators in ShareChart provide useful technical analysis information that can be found in many technical analysis books. They do not take into account any specific investment objectives or financial needs. The contents of this manual are not involved in any recommendations or suggestions. Its accuracy and completeness cannot be guaranteed. Sharechart Pty Ltd, its directors and employees do not take any liability for any actions based on the indicators, or for any negligent misstatements, errors or omissions. It is recommended that further research and/or consultation with a licensed advisor be made before making an investment decision.

TABLE OF CONTENTS

TABLE OF CONTENTS.....	1
INTRODUCTION.....	2
LIST OF OPTION STRATEGIES	3
BEAR CALL SPREAD	3
BEAR PUT SPREAD.....	4
BULL CALL SPREAD	5
BULL PUT SPREAD.....	6
CALL BACK SPREAD	7
COVERED CALL.....	8
THE COLLAR	10
LONG CALL.....	11
LONG PUT	13
NAKED CALL	14
NAKED PUT.....	15
PROTECTIVE CALL.....	16
PROTECTIVE SPREAD	18
THE STRADDLE	19
Long Straddle	19
Short Straddle	20
THE STRANGLE	21
Long Strangle	21
Short Strangle	22

INTRODUCTION

Sharechart has included some of the most popular Option Trading Strategies. The strategies can be found under Derivatives < Option Strategies. Simply enter the necessary data, an easy to understand chart showing all of the critical points of the strategy will be formed.

The strategies can be used before entering a transaction, during a transaction or after the transaction is complete. Most often the strategies will be used before entering a transaction. The Option Trading Strategy calculators are excellent tools for working out the complex break even and profit levels.

The Option Trading Strategies function is an efficient tool that should be utilized by any trader contemplating entering an option strategy. The ease in which the Option Trading Strategy produces the critical points of the transaction make entering these strategies much less daunting and allows traders to analyze many more potential transactions.

The following are the list of option strategies in alphabetic order with their definition and how to use them.

Sharechart

Bear Call Spread

OPTION STRATEGIES

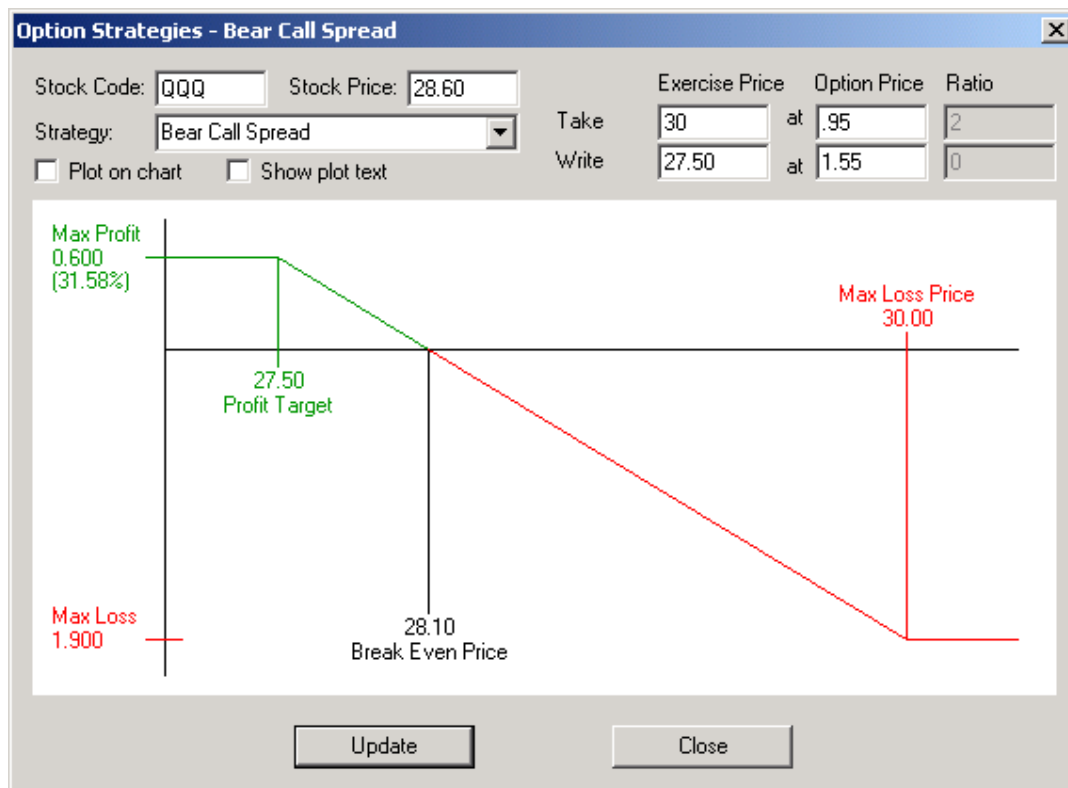
LIST OF OPTION STRATEGIES

BEAR CALL SPREAD

If you are feeling generally negative about a stock, bear spreads offer a low risk, low return strategy. The best way to build a Bear call spread is to use call options at or near the current market price of the stock. Bear call spreads will profit when the stock price goes down, and are typically created by selling at the money calls and buying out of the money calls.

Example: Using QQQ the Nasdaq 100 Tracking Index we can create a bear call spread using in the money options. With QQQ trading at \$28.60 you might buy ten \$30 Calls and sell ten \$27.50 Calls.

You would buy the \$30 Calls for \$.95 and sell the \$27.50 Calls for \$1.55. You would have a credit of \$600 (\$1550 - \$950) after setting this spread up, which is also your maximum profit. If the stock moves lower the calls will expire worthless and you will keep the \$600 premium.



Using ShareCharts Option Strategies for Bear Call Spreads the entire transaction can be seen clearly. Go to Derivatives < Option Strategies and select Bear Call Spread from the 'Strategy' Drop Down Box. Enter in all relevant parameters and click 'Update' to view the chart.

Bear Put Spread

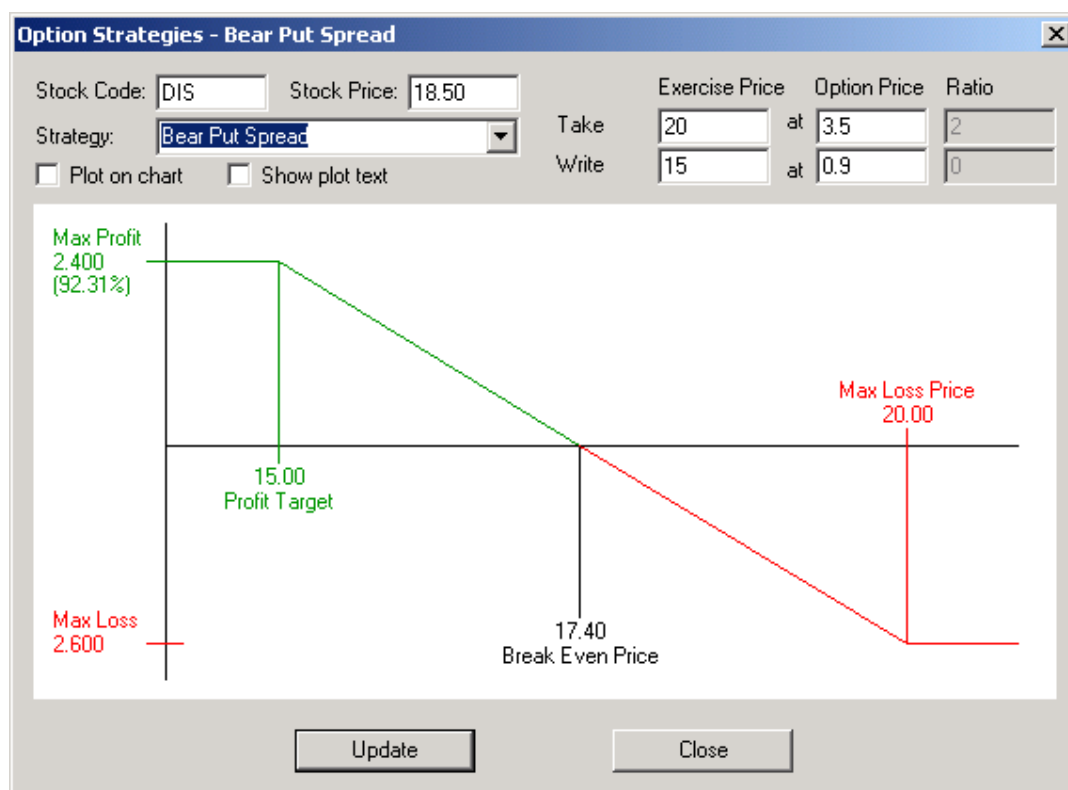
OPTION STRATEGIES

BEAR PUT SPREAD

If you are feeling generally negative about a stock, bear spreads offer a low risk, low return strategy. The best way to build a Bear put spread is to use put options at or near the current market price of the stock. Bear put spreads will profit when the underlying stock price goes down, and are typically created by buying at the money puts and selling out of the money puts.

Example: Using Disney World (DIS) we can create a Bear put spread using in the money options. With DIS trading at \$18.50 you might buy ten \$20 Puts and sell ten \$15 Puts.

You would buy the \$20 Puts for \$3.50 and sell the \$15 Puts for \$.90. The total cost of the trade will be \$2600, which is also the maximum loss. The maximum profit is \$2400 $((20 - 15) \times 1000) - 2600$.



Using ShareCharts Option Strategies for Bear Put Spreads the entire transaction can be seen clearly. Go to Derivatives < Option Strategies and select Bear Put Spread from the 'Strategy' Drop Down Box. Enter in all relevant parameters and click 'Update' to view the chart.

Bull Call Spread

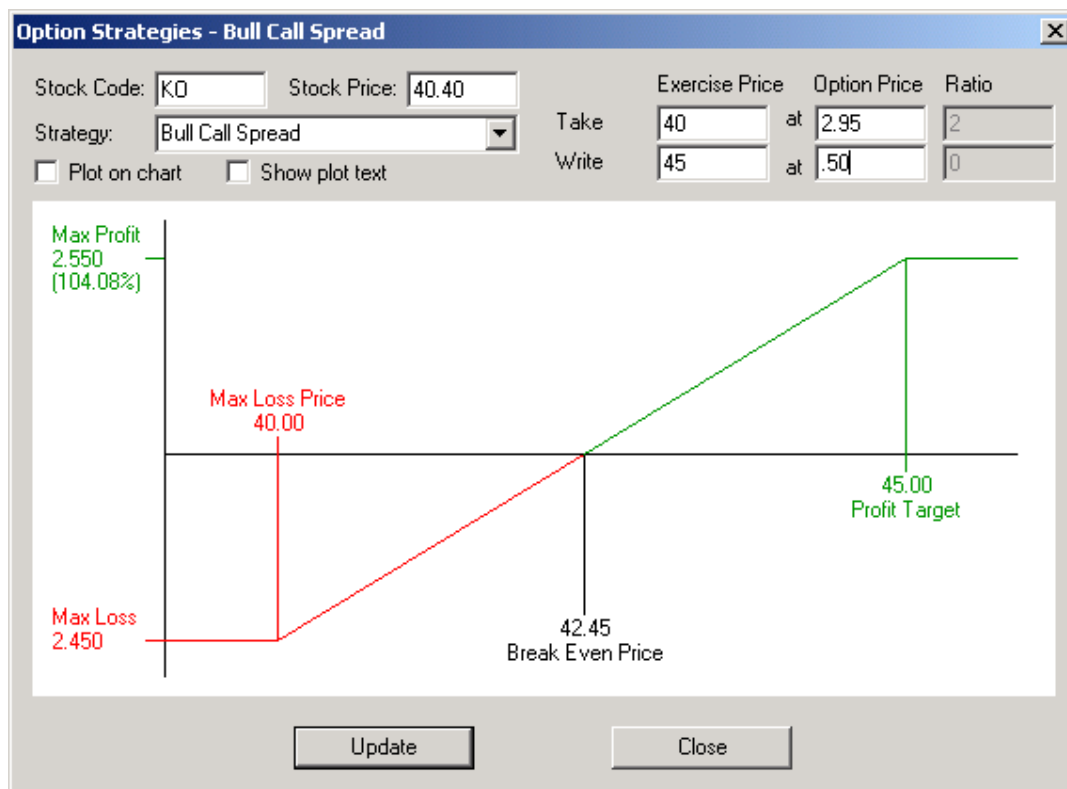
OPTION STRATEGIES

BULL CALL SPREAD

If you are feeling generally positive about a stock, bull spreads offer a low risk, low return strategy. The best way to build a bull spread is to use call options at or near the current market price of the stock. If the current price was \$33 you could buy a \$30 call and write a \$35 call.

Example: With Coca Cola (KO) trading at \$40.40, you could buy one \$40 Call and sell one \$45 Call. By selling the \$45 call you lower your exposure, but also lower the upside potential. The \$40 Call would cost \$2.95 and you sell the \$45 Call for \$.50. So your total cost, and the most you could lose, is \$245 ($\$2.95 \times 100 - \$.50 \times 100$).

The maximum profit would be \$255 ($(\$45 - \$40 - \$2.45) \times 100$). The limited upside is the price you pay for lowering your exposure, from \$295 to \$245, through the spread.



Using ShareCharts Option Strategies for Bull Call Spreads the entire transaction can be seen clearly. Go to Derivatives < Option Strategies and select Bull Call Spread from the 'Strategy' Drop Down Box. Enter in all relevant parameters and click 'Update' to view the chart.

Bull Put Spread

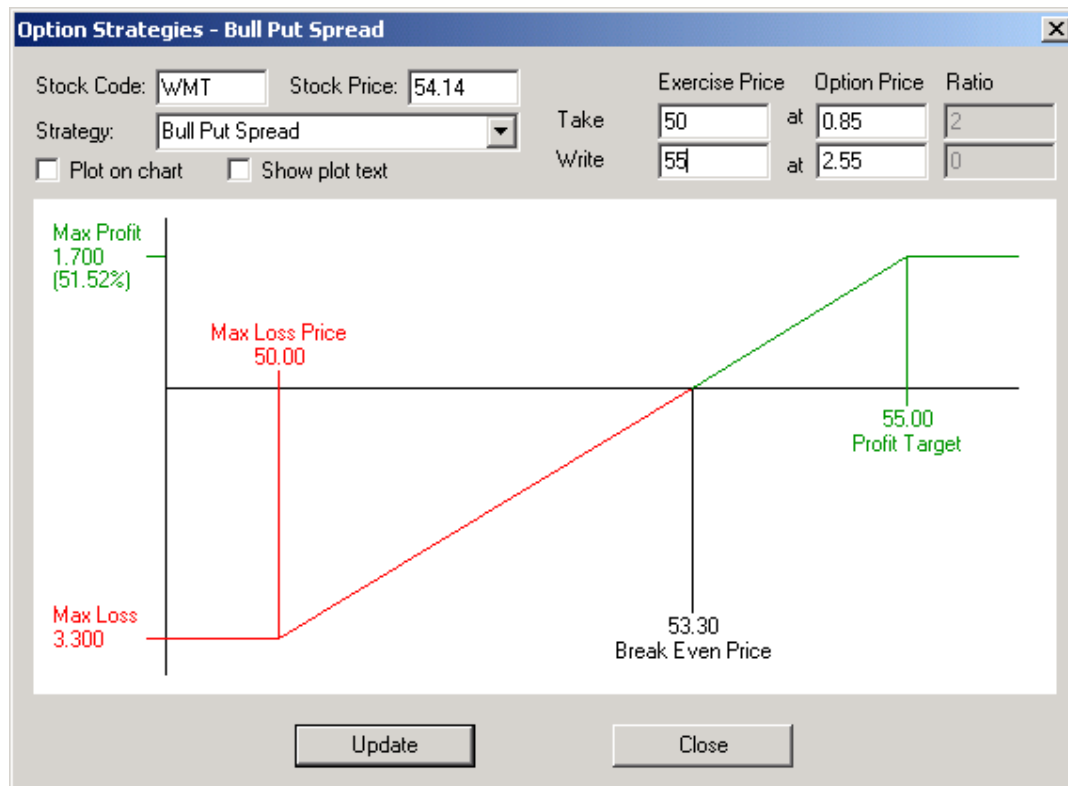
OPTION STRATEGIES

BULL PUT SPREAD

If you are feeling generally positive about a stock, bull spreads offer a low risk, low return strategy. One way to create a bull put spread is by using puts at or near the current market price.

Example: If you had a bullish short term feeling about Wal Mart (WMT) while it was trading at \$54.14 you might create a bull put spread by selling the \$55 Put at \$2.55 and buying the \$50 Put for \$0.85.

The maximum profit would be \$170 ($((\$2.55 - \$0.85) \times 100)$), while the most you stand to lose is \$330 ($((\$55 - \$50 - \$1.7) \times 100)$).



Using ShareCharts Option Strategies for Bull Put Spreads the entire transaction can be seen clearly. Go to Derivatives < Option Strategies and select Bull put Spread from the 'Strategy' Drop Down Box. Enter in all relevant parameters and click 'Update' to view the chart.

Call Back Spread

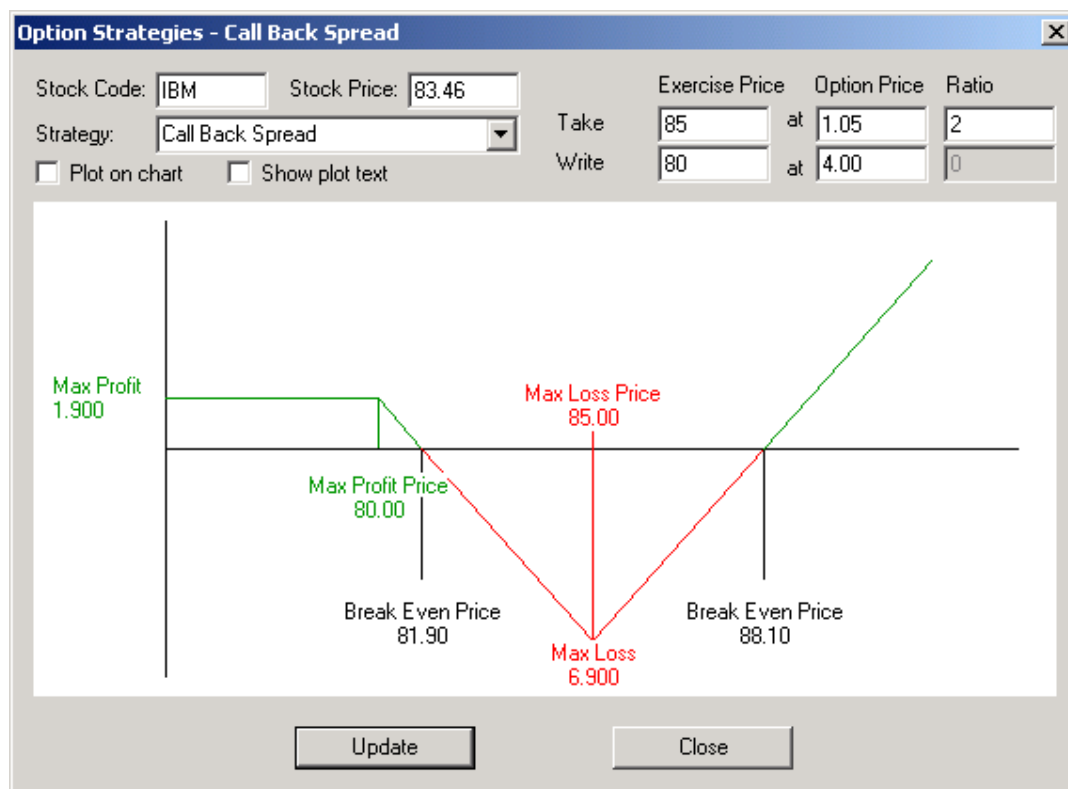
OPTION STRATEGIES

CALL BACK SPREAD

Call back spreads are ideal when you are expecting big moves in already volatile stocks. The strategy involves selling a call at a lower strike price, then buying a greater number of calls at a higher strike price. It is best conducted for a minimal debit or small credit, so if the stock drops you won't suffer either way. But, if the stock rallies you will have unlimited potential profits as you hold more long calls than short. To maximize the profit traders often use in the money options as they have a higher likelihood of finishing in the money.

Example: Using IBM we can create an in the money call back spread. In this case you might buy two \$85 Calls at \$1.05 and sell one \$80 Call for \$4.00.

You would receive \$190 ($\$4 - \2.10) x 100 shares) for entering the trade. If the stock drops below \$80 you keep the \$190. But the real money is made if the stock rallies; the break-even point of the trade is \$88.10, at this price the \$80 Calls are worth \$8.10, while the \$85 Calls are worth \$6.20 ($2 \times \$3.10$). Above \$88.10 the profit potential is unlimited.



Using ShareCharts Option Strategies for Call Back Spreads the entire transaction can be seen clearly. Go to Derivatives < Option Strategies and select Call Back Spread from the 'Strategy' Drop Down Box. Enter in all relevant parameters and click 'Update' to view the chart.

Covered Call

OPTION STRATEGIES

COVERED CALL

Selling calls against long stock positions is an excellent strategy for conservative investors to earn some extra income from their stock portfolio.

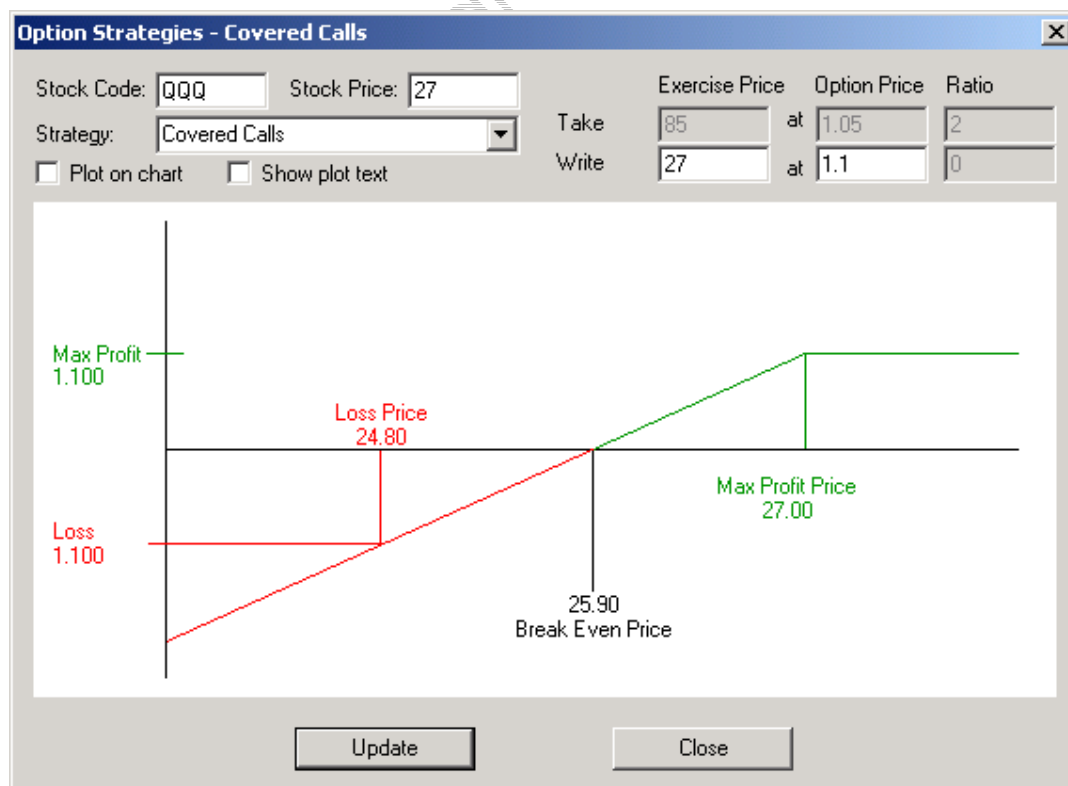
Example: Lets say you would like to purchase 100 shares of QQQ the Nasdaq 100 Tracking Stock with the stock trading at \$27. Happy with the overall growth rate you would like to hold the stock rather than sell it. Rather than just laying back and watching the capital appreciation grow you can use options to generate some additional income from your stocks. This transaction is called a Covered Call.

With the stock at \$27 you could sell one \$27 Call Option in the current month for \$1.10. Since each call is valid for 100 shares you would only be able to write the one contract.

Knowing that QQQ hasn't moved dramatically lately, you may be confident that the price will not move far above \$27. At expiration if QQQ is still below \$27 you will keep the \$110 you received from selling the calls and the 100 shares of stock. You can then go about writing another call for the following month.

Should QQQ rise unexpectedly above \$27 you will have two choices. You either buy the calls back and keep the stock, or let the stock be called away and sell your 100 QQQ (1 contract x 100 shares) at the strike price of \$27.

Most investors tend to write near month- covered calls for two reasons. One, the closer expiration is the less time the stock has to climb above the chosen strike price. Second, is the role time decay plays on the value of options. Within the last month of an options life time value decays more and more rapidly. Thus investors often sell options with one month remaining until expiration.



Covered Call

OPTION STRATEGIES

Using ShareCharts Option Strategies for Covered Calls the entire strategy can be seen clearly. Go to Derivatives < Option Strategies and select Covered Calls from the 'Strategy' Drop Down Box. Enter in all relevant parameters and click 'Update' to view the chart.

Sharechart

The Collar

OPTION STRATEGIES

THE COLLAR

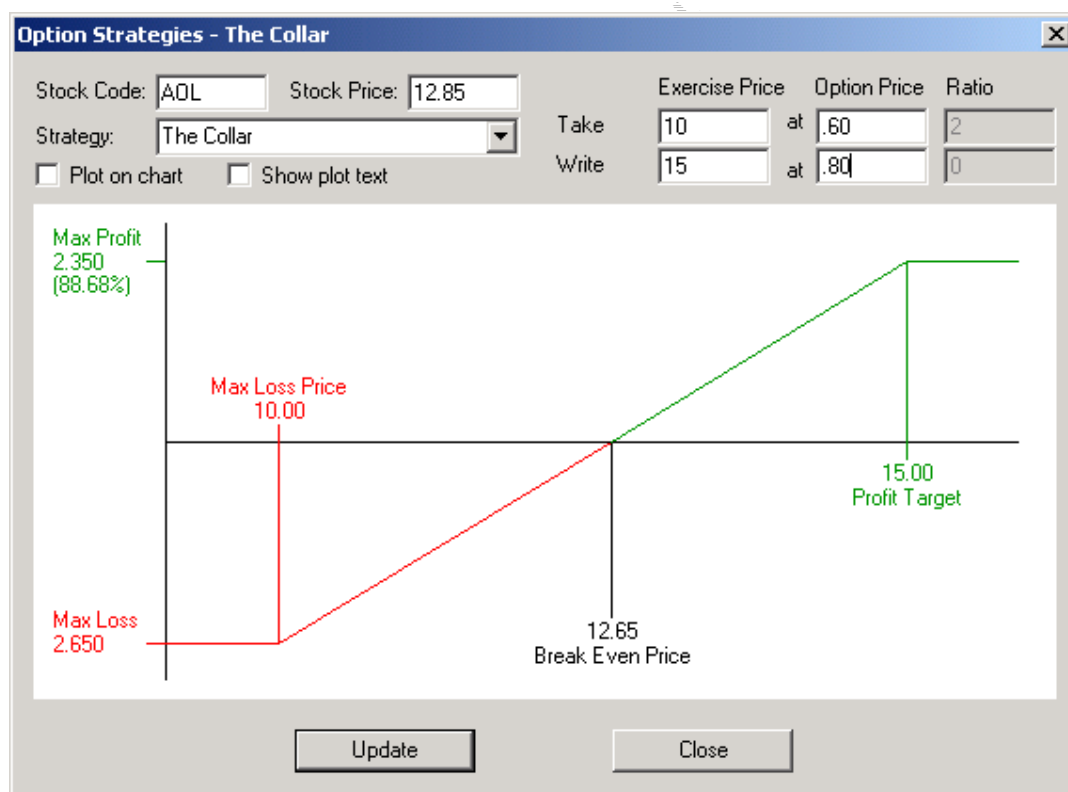
In order to protect existing stock positions traders will sometimes put on a position known as the collar, also known as a fence or cylinder.

When the stock position is long, the collar is created by combining covered calls and protective puts. From a profitability standpoint, the collar behaves just like a bull spread. The upside potential is limited beyond the strike price of the short call while the downside is protected by the long put.

Example: Say you have purchased 100 shares of Time Warner (AOL) at \$12.85 and would like to cover the downside with little cost. You would create a collar by buying one \$10 Put for \$.60 and selling one \$15 Call for \$.80.

The total cost of the trade is \$1265 ($(\$12.85 + \$0.60 - \$0.80) \times 100$ shares)

The breakeven price is at \$12.60 where drop in price is covered by premium received. The maximum profit is assumed when the stock is at \$15, above that the profit on the stock is exactly offset by the loss on the written call. The maximum loss occurs when the stock is at \$10. Below \$10 the profit from the put offsets the loss on the stock.



The collar is a great strategy for investors looking for a conservative strategy that offers a reasonable return with managed risk. The key to the strategy is selecting the appropriate Put and Call combination, which allows for profit, while still protecting the downside risk. Investors will often roll the options each month, and in doing so locking in a 3-5% profit each month. Rolling involves buying back the short calls and selling some new calls for the following month and perhaps a new strike price, and doing the same with the puts. Hence, adjusting the collar to the movement of the stock price.

Long Call

OPTION STRATEGIES

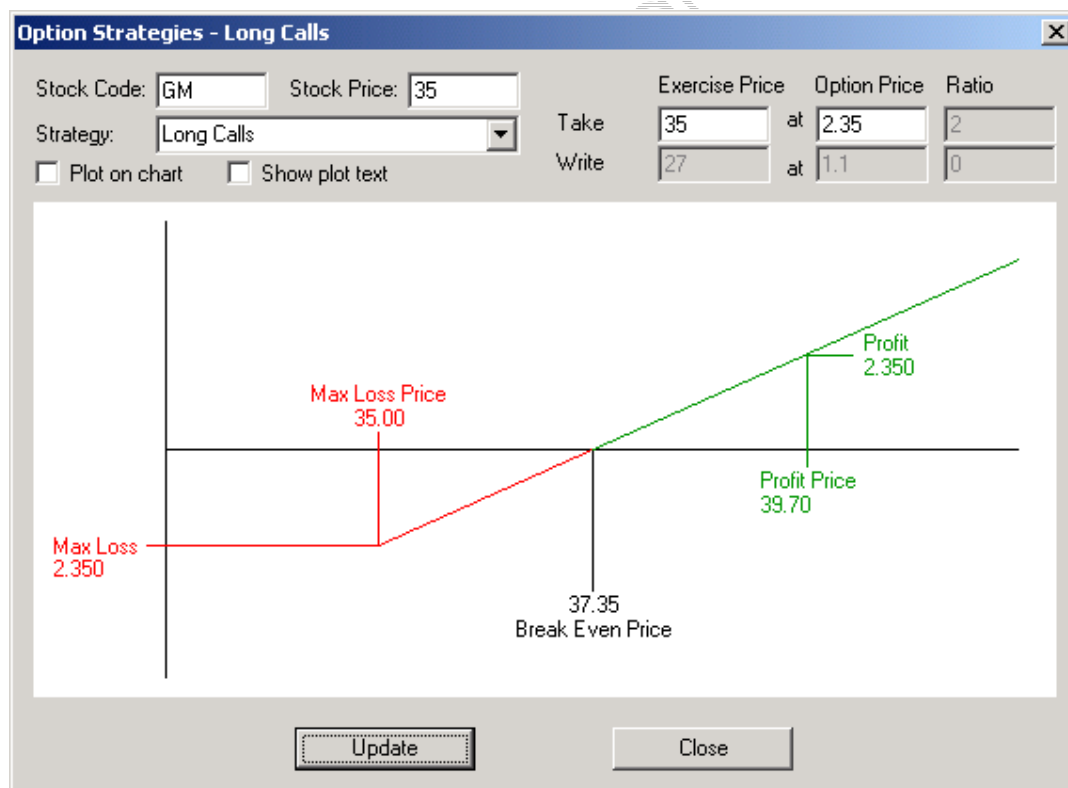
LONG CALL

Say you have a strong feeling that a particular stock is about to move higher. You can either purchase the stock, or purchase 'the right to purchase the stock', also known as a call option. Buying a call gives you the benefits of owning a stock, yet requires less capital than actually purchasing the stock. A call has a limited term and an expiration date.

Example: General Motors, (GM) is trading at \$35, it would take \$35,000 to buy 1000 shares of stock. However instead of buying the stock you could purchase a GM 'call option' with a strike price of 35 and expiration 1 month into the future. For example in May you could Buy 10 GM May Calls for \$2.35. This will enable you to participate in the anticipated upside movement of the stock while minimizing the downside risk of owning the stock.

Since each contract controls 100 shares, you have bought the right to purchase 1000 GM shares for \$35 per share. The price, \$2.35 is quoted on a per share basis, thus the contract cost is \$2350 (\$2.35 x 100 shares x 10 contracts).

If the stock price stays at or below \$35 by expiration the most you could lose is \$2350. On the other hand, if the stock rises to \$41 by expiration, the options will be trading at around \$6 (Current price: \$41 - Strike price: \$35). Your \$2350 investment will now be worth \$6000 (\$6 x 100 Shares x 10 contracts)



Using ShareCharts Option Strategies for Long Calls the entire transaction can be seen clearly. Go to Derivatives < Option Strategies and select Long Calls from the 'Strategy' Drop Down Box. Enter in all relevant parameters and click 'Update' to view the chart.

Long Call

OPTION STRATEGIES

If the stock price increases you have two options, sell or exercise the call option. Many choose to sell as it avoids the substantial cash outlay involved in exercising the call option. In our example of GM, to exercise you would pay \$35,000 ($\35×1000 shares) to buy the stock when you exercise the options. At the current market price of \$41, your shares would be worth \$41,000. Not including brokerage costs you would have a profit of \$3650 ($\$6000 - \2350), or 10.4%.

Compare this to selling the options. You will realize a profit without having to buy the shares. With the stock at \$41 the May 35 calls will have an approximate value of \$6 per contract. Thus, each option contract would have a value of \$600 (6×100 shares). With the total value being \$6000 ($\600×10 contracts), or 255% an excellent return for an investment of \$2350.

With the downside losses limited to the initial investment, and no limit to potential profits it is easy to see why call options are such an attractive strategy for bullish investors.

Sharechart

Long Put

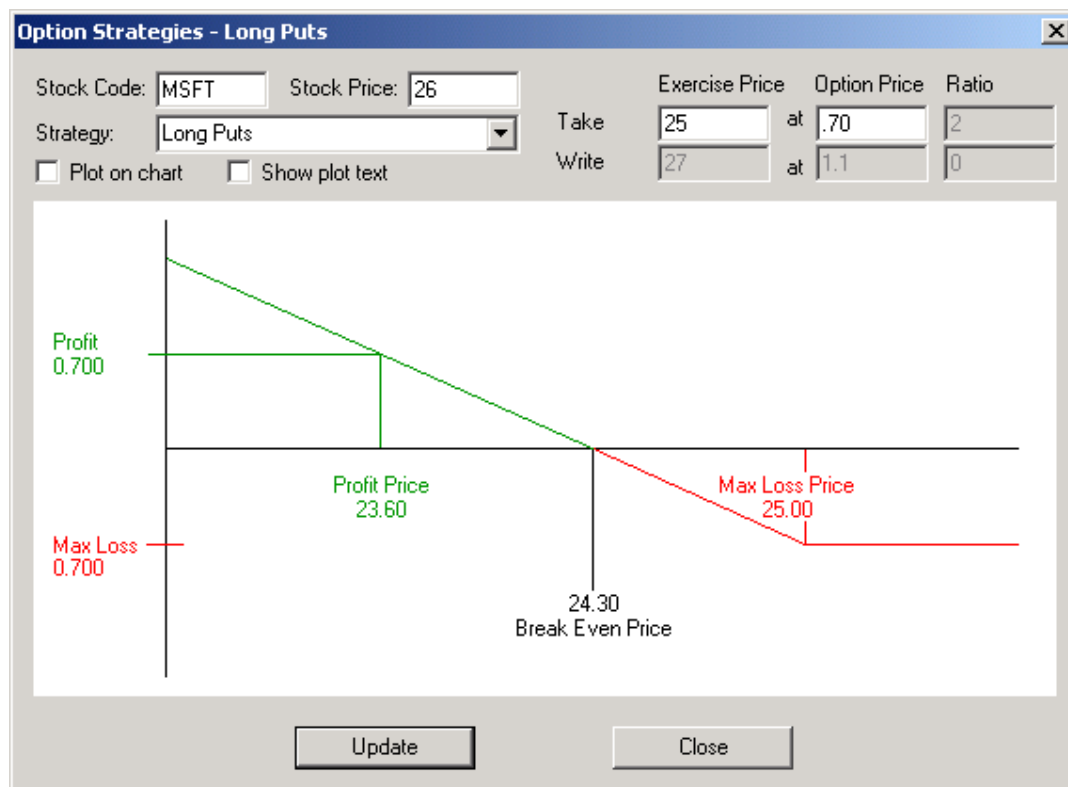
OPTION STRATEGIES

LONG PUT

Say you have a strong feeling a stock is about to move lower. You should consider entering a Put trade. A put will give you the right to sell a stock at a specified price. A call has a limited term and an expiration date.

Example: Take Microsoft trading at \$26. The 25 Put is trading for \$.70. For \$70 you could buy one MSFT 25 put (100 x .70). Each contract gives you control over 100 shares, so you now have the right to sell 100 shares at \$25 per share. If the stock stays at or above \$25 the most you stand to lose is the initial investment of \$70.

If the stock were to fall to \$21 at expiration your put would be worth \$4 (\$25 - \$21). So your put contract is worth \$400 (\$4 x 100 shares). Subtracting the initial premium you paid you have a profit of \$330.



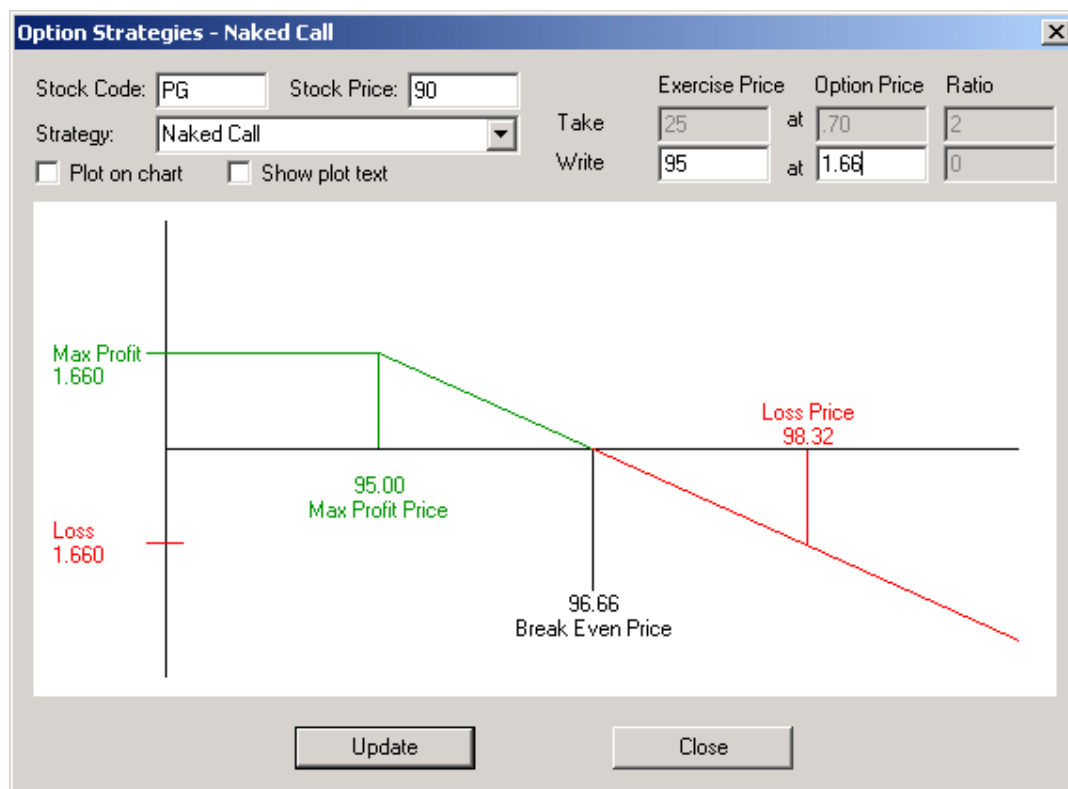
Using ShareCharts Option Strategies for Long Puts the entire transaction can be seen clearly. Go to Derivatives < Option Strategies and select Long Calls from the 'Strategy' Drop Down Box. Enter in all relevant parameters and click 'Update' to view the chart.

NAKED CALL

The selling of naked calls is one of the riskiest strategies of all. The potential loss is UNLIMITED. With covered calls the trader owns the underlying shares, writing naked options means the trader does not own the underlying stock, and therefore remains completely exposed to the upside risk.

However, if you are comfortable with this strategy, naked calls are the most effective strategy using near term options as they decay more quickly. That is what you want, the faster these options become worthless the better.

Example: Proctor and Gamble (PG) are trading at \$90.00. By selling the 95 Call for \$1.66 you will receive the \$166 option premium. This is your maximum profit. If at expiration the stock is at or below \$95 you will retain the full \$166. As the stock climbs towards \$96.66 you begin to lose profit, once it has gone through \$96.66 your losses will continue with no limit.



Using ShareChart Option Strategies we can see how the naked call has no limit to losses. Go to Derivatives < Option Strategies. Select 'Naked Call' from the Strategy drop down box. Enter in all parameters and click 'Update' to see the chart.

Naked Put

OPTION STRATEGIES

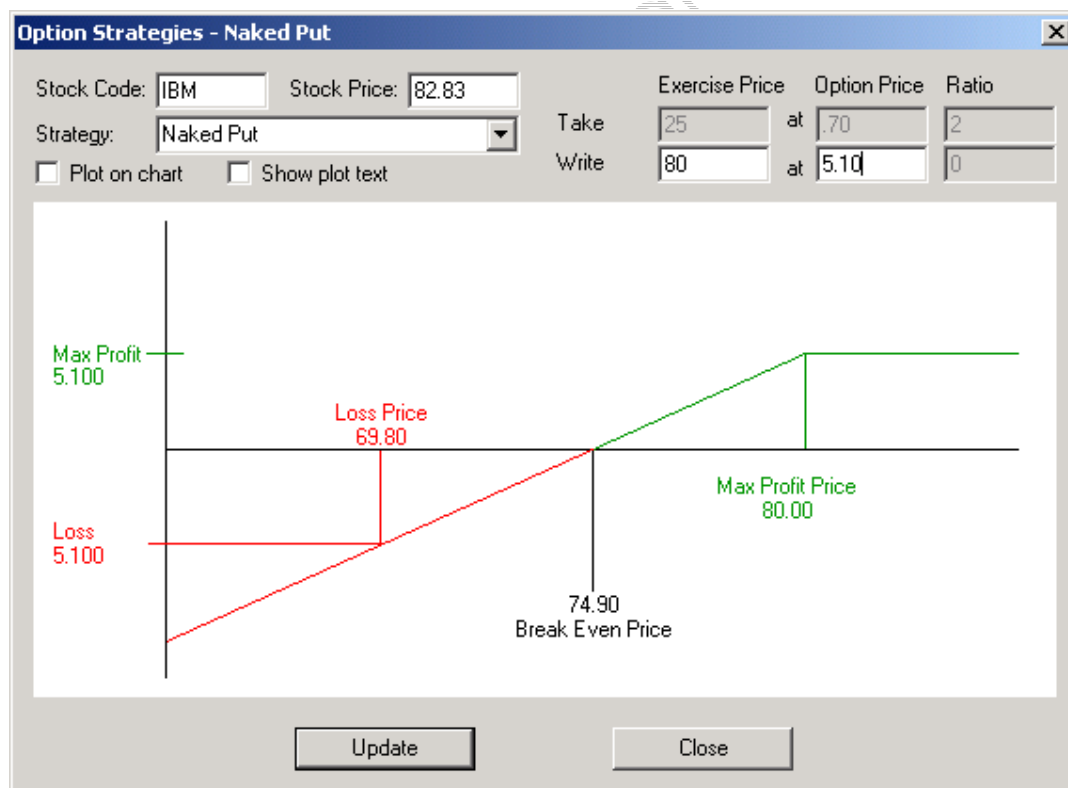
NAKED PUT

Lets look at naked puts, when a put option is assigned the seller (i.e. option writer) is obliged to buy shares at a fixed price, regardless of what the current market price is. For example the stock may be trading at \$19, but if the strike price of the option is \$28 the option seller must buy the stock for \$28.

It can now be seen why individual investors view this strategy as having limited reward and substantial risk. With the maximum profit limited to the premium received from selling the option. A Fund manager may view the strategy in a different way however.

By selling slightly out of the money puts, the stock will be able to be bought at a discount relative to the current market price if the stock moves down. While at the same time earning additional income from the premium associated with the options. If the stock rises the investor hasn't missed out entirely, they will keep the premium whilst the option will expire worthless.

Example: Say you were interested in buying International Business Machines (IBM), but think it is due for a correction from its current market price of \$82.83. By selling the \$80 puts for \$5.10 you will receive \$510 for each contract. If the stock drops to \$75 and the options are assigned to you, you will have to buy the stock for \$80. Your net cost though is only \$74.90 (\$80-\$5.10 premium) a bargain compared to buying the stock at \$82.83!



Using ShareCharts Option Strategies for Naked Puts the entire transaction can be seen clearly. Go to Derivatives < Option Strategies and select Naked Put from the 'Strategy' Drop Down Box. Enter in all relevant parameters and click 'Update' to view the chart.

Protective Call

OPTION STRATEGIES

PROTECTIVE CALL

With market volatility being high over the past few years investors are starting to see the value of using protective puts as part of their every day trading strategies.

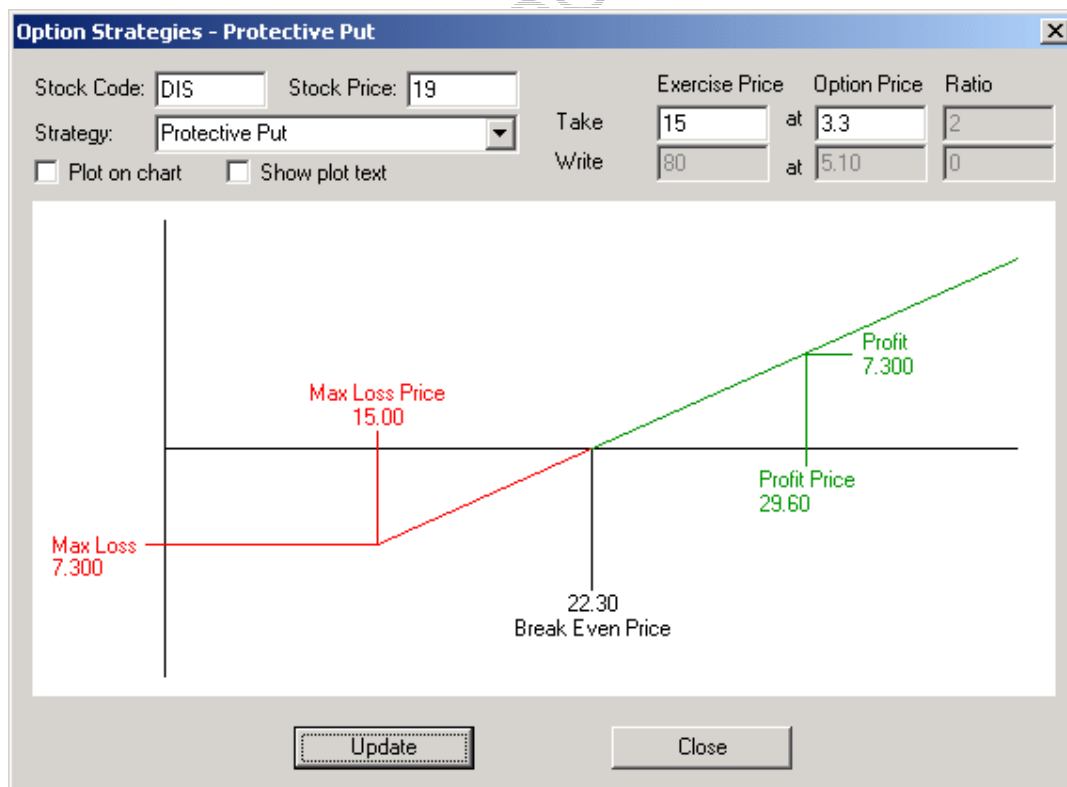
The rewards can be great from investing in highly volatile stocks such as technology and bio- tech stocks, but the risk is also greater. By adding put options to your strategy you can be better positioned for any direction the market may take.

The strategy is fairly simple and inexpensive for the insurance value received. For every 100 stocks you buy, buy one protective put contract one or two strike prices below the current market price. If you buy a stock for \$35 you would buy the \$32.5 or the \$30 put, so that if the stock price plummeted you can sell the stock for close to what you paid for it.

If the stock jumps you will participate in the upswing less the amount you paid for the protective puts. Thus, the put acts as an insurance policy.

Example: Looking at The Walt Disney Company (DIS) trading at \$19. It would take \$1900 to buy 100 shares. If you buy the shares your downside risk, is theoretically \$1900, with a potentially unlimited upside reward. By buying one protective put, which covers all 100 shares, you limit the amount you can lose should the stock fall.

If the stock moves higher you might want to roll up your option. This is done by selling off the original put and buying another put at a higher strike price. Thus, locking in profits and increasing your downside protection.



Protective Call

OPTION STRATEGIES

Using ShareCharts Option Strategies for Protective Puts the entire transaction can be seen clearly. Go to Derivatives < Option Strategies and select Protective Put from the 'Strategy' Drop Down Box. Enter in all relevant parameters and click 'Update' to view the chart.

Sharechart

Protective Spread

OPTION STRATEGIES

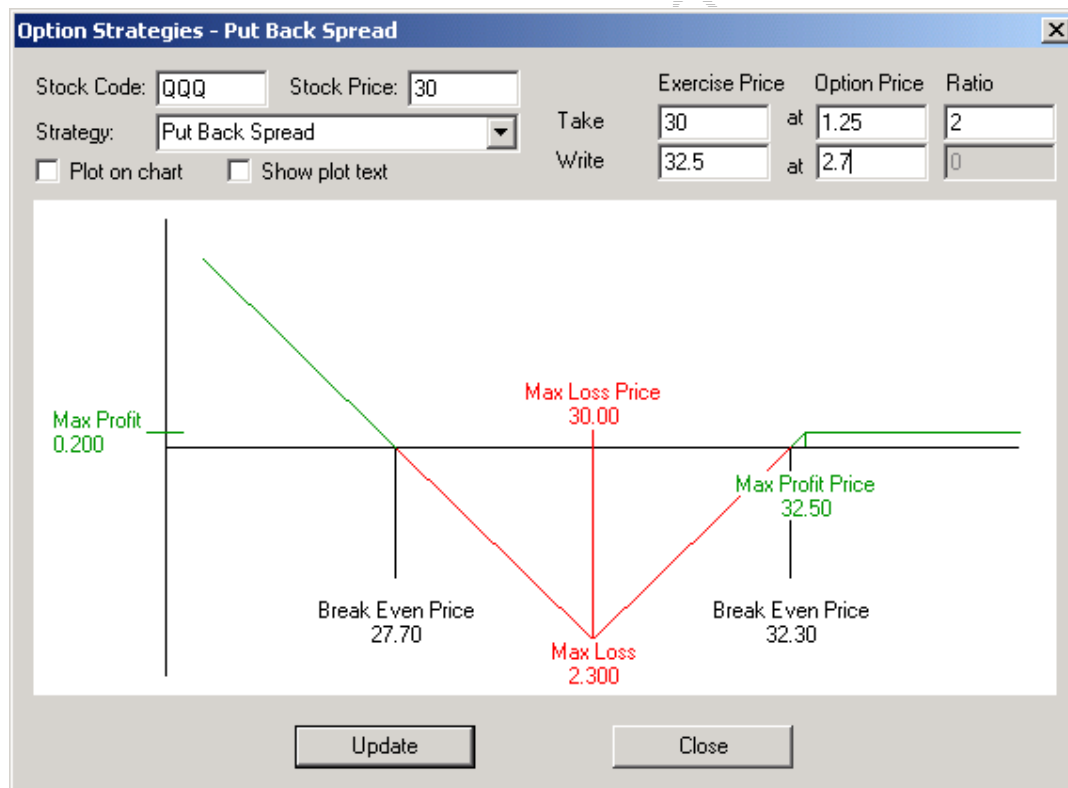
PROTECTIVE SPREAD

Put Back Spreads are excellent strategies when you are expecting a big downward movement in an already volatile stock. The strategy involves selling a put at a higher strike price and buying a greater number of puts at a lower strike price.

Ideally this strategy will be initiated for a minimal debit or possibly a small credit. So if the stock gains ground you won't suffer much either way. If the stock drops the profit potential will be significant as you have more long puts than short. To maximize profit from this strategy many traders use in the money options as they have a higher chance of finishing in the money at expiration.

Example: Using QQQ the Nasdaq 100 Index we can create a put back spread using in the money options. With QQQ trading at \$30, you might buy 2 of the \$30 Puts at \$1.25 and selling one \$32.5 Put at \$2.70.

In this trade we would receive a credit of \$20 (\$270 - \$250). If the stock goes above \$30 you would profit \$20. However, the good money is made if the stock made a large move down. The downside breakeven is \$27.50, at this price the 30 puts would be worth \$2.50 each and the 32.5 put would be worth \$5. Below \$27.50 the profit potential growth is unlimited.



Using ShareCharts Option Strategies for Put Back Spread the entire transaction can be seen clearly. Go to Derivatives < Option Strategies and select Put Back Spread from the 'Strategy' Drop Down Box. Enter in all relevant parameters and click 'Update' to view the chart.

THE STRADDLE

Short and Long Straddles differ in their response to market movement. They are both however seen as neutral strategies. The short straddle will achieve maximum profit if the market moves sideways. The long straddle benefits if the market moves in any direction. Since the impacts on profit are the same whether the market moves up or down the long straddle can be seen as a neutral strategy.

Long Straddle

If you have the feeling that a stock is about to make a big move in either direction the long straddle is the strategy to use. By simultaneously buying the same number of Puts and Calls at the current stock price, option traders can capitalize on large movements in either direction.

Say we had a stock trading at \$70 per share, to prepare for the large movement you would buy both the 70 Calls and the 70 Puts. If the stock drops to \$40 by expiration the Puts are worth \$30 and the Calls are worth \$0. If the stock were to rally to \$100 the Calls would be worth \$30 and the Puts would be worth \$0.

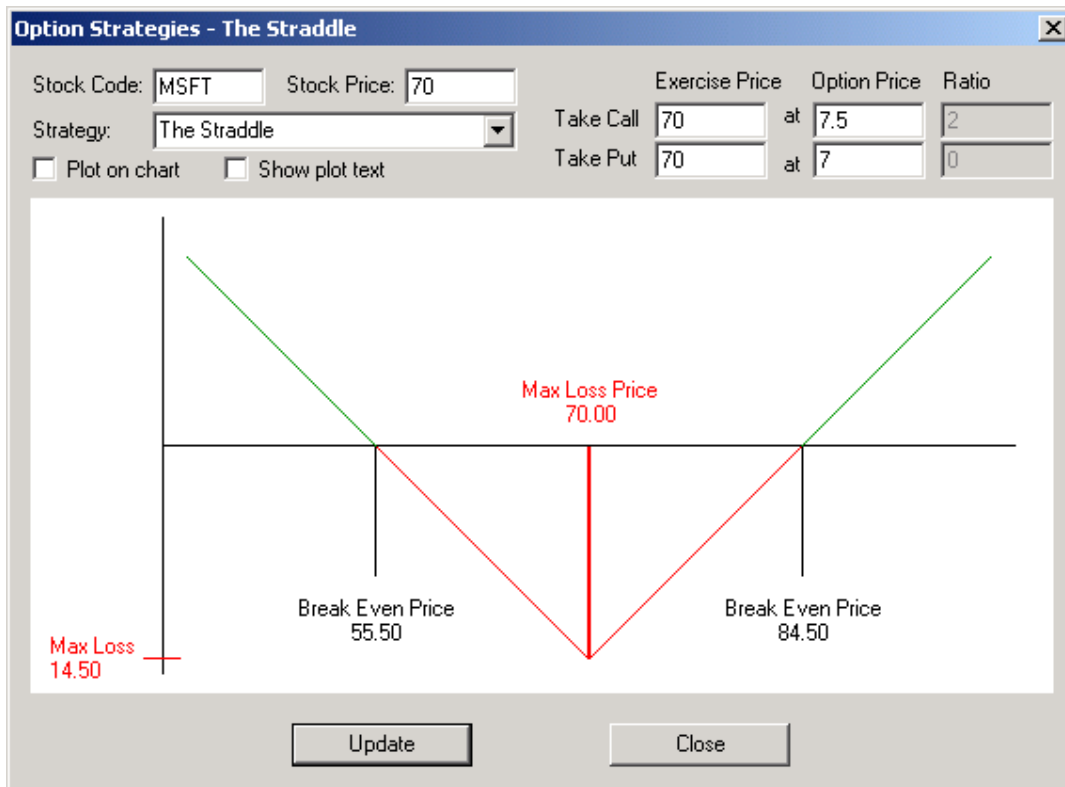
The greatest risk is that the stock stays at \$70 where both options expire worthless.

Example: Buy ten 70 Calls for \$7.50, and buy ten 70 Puts at \$7.00, so each straddle will cost \$1450 to set up. This \$1450 is the most you can lose if the share price remains at \$70. The upside breakeven is $70 + 14.5 = 84.5$ (Straddle Strike + Straddle Cost), the downside breakeven $70 - 14.5 = 55.5$ (Straddle Strike - Straddle Cost).

Given this, the straddle will show a profit so long as the stock moves above \$84.5 or below \$55.5. Between these two prices the straddle will show a loss, with the maximum being at the strike price where neither option has any value.

The Straddle

OPTION STRATEGIES



ShareChart only covers long straddles.

Short Straddle

The short straddle is the opposite too the long straddle. You need to be fairly certain that the stock is not going to move in either direction, as if it does the risk on either side is unlimited. Luckily, the long butterfly meets the same objectives with much less risk.

However, lets assess the short straddle. With the short saddle you are selling two options. If the stock were at \$70 we would sell the 70 Call and sell the 70 Put. So to realize profit we need the stock to remain within a range.

The greatest risk is that the stock makes a large move in either direction, as we would be forced to provide the shares.

Example: Sell 70 Call for \$6.50 and sell the 70 Put for \$5.75, so each straddle costs \$12.25. The upside breakeven point is $70 + 12.25 = 82.25$ (Straddle Strike + Straddle Cost), the downside breakeven is $70 - 12.25 = 57.75$ (Straddle Strike - Straddle Cost).

Given this, the short straddle will show a profit so long as the share price stays between \$82.25 and \$57.75. Above or below these prices the position will begin to show unlimited losses in either direction.

ShareChart does not cover short straddle because of the unlimited loss.

The Strangle

OPTION STRATEGIES

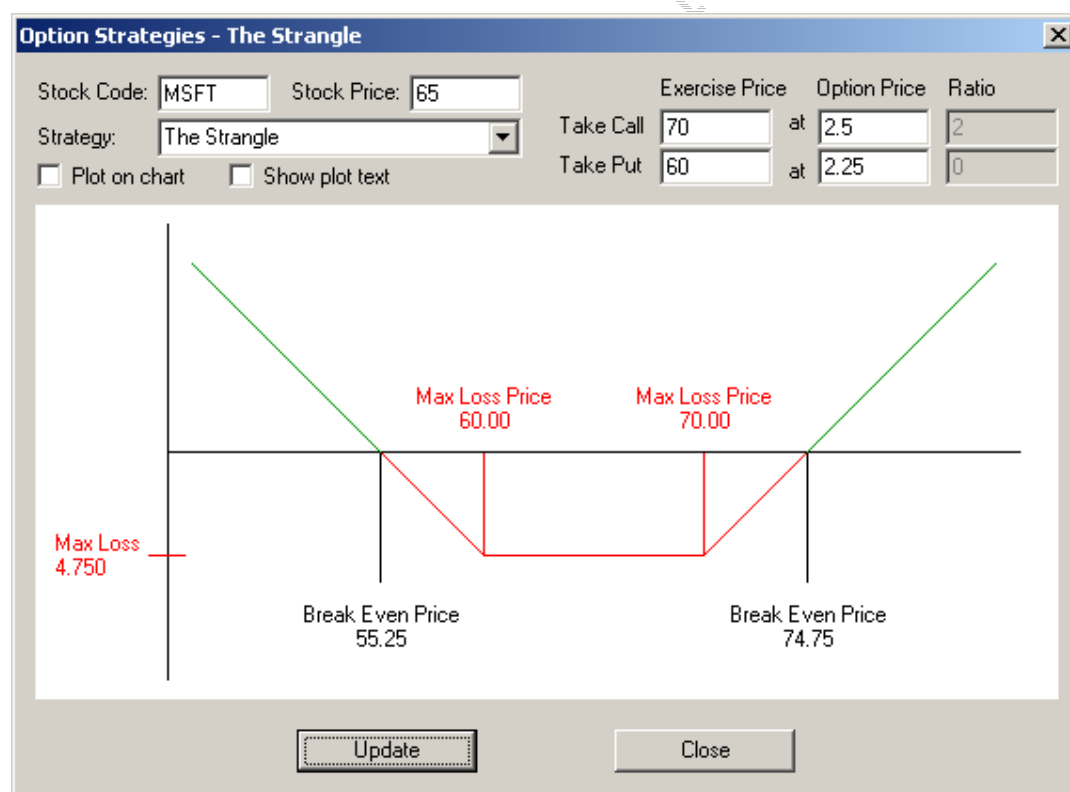
THE STRANGLE

Long and short strangles differ in their response to market movements. They are however both neutral strategies. The long strangle achieves maximum profit when the market moves in either direction; it does not matter whether the move is \$10 up or \$10 down the movement will have the same impact on profit. The short strangle relies on the market moving sideways to achieve maximum profits, therefore is also a neutral strategy.

Long Strangle

Long strangles can be compared to long straddles, in the way in which they rely on market movements in either direction for profit. Strangles are less risky due to being initiated with less expensive near the money options rather than at the money options.

Example: If we imagine a stock trading at \$65 per share. We would buy one 60 Put at \$2.25 and one 70 Call at \$2.50. The Strangle would have a cost of \$475 $((2.25 + 2.50) \times 100)$, this also being the total amount we could lose. If the stock was anywhere between \$60 and \$70 we would incur the maximum loss. Our upside breakeven is \$74.75 $(\$70 + \$4.75)$ and our downside breakeven is \$55.25 $(\$60 - \$4.75)$. Anywhere outside these breakeven points the position will begin to show a profit.



Using ShareCharts Option Strategies for The Strangle the entire transaction can be seen clearly. Go to Derivatives < Option Strategies and select The Strangle from the 'Strategy' Drop Down Box. Enter in all relevant parameters and click 'Update' to view the chart.

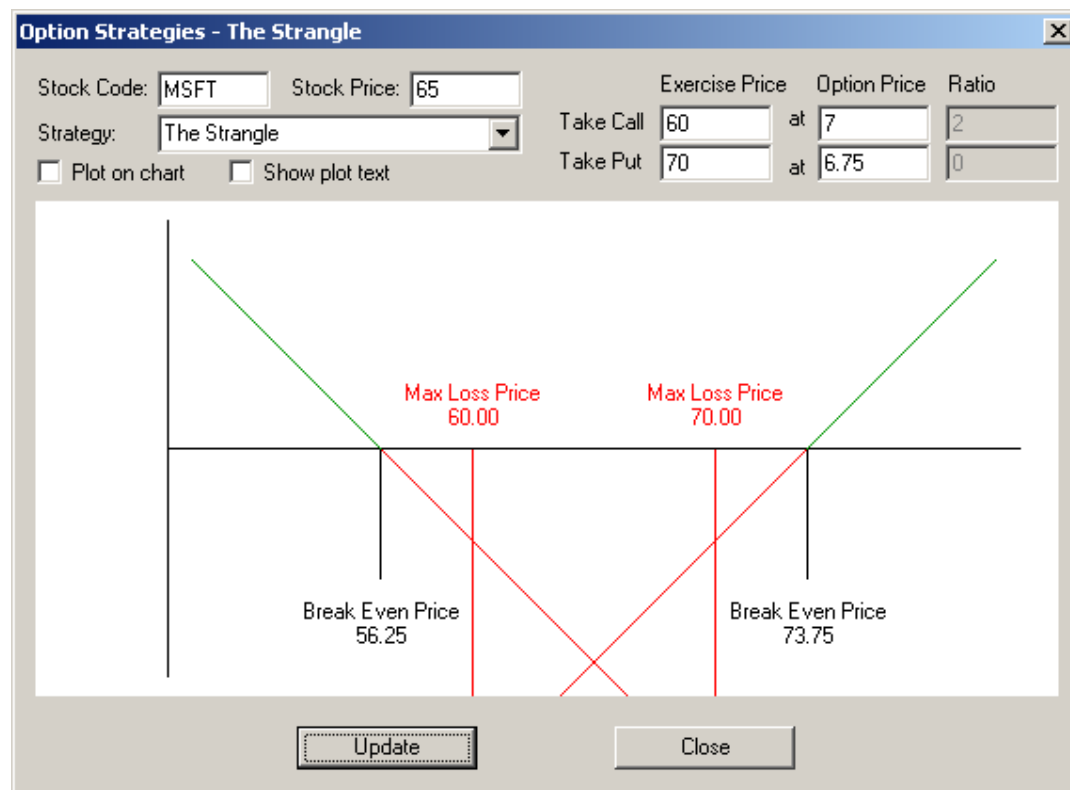
The Long Straddle can also be formed using in the money options, using the same example as above.

The Strangle

OPTION STRATEGIES

Example: With the stock price at \$65 per share we would buy the 60 Call at \$7 and buy the 70 Put at \$6.75. The total cost of this strategy is \$1375, with the stock between \$60 and \$70 the strategy will be worth \$10, due to the intrinsic value still left in the options, thus the most we stand to lose is \$375 (\$13.75 - \$10).

This makes the maximum loss for in the money options less than that for the near the money options, 3.75 as opposed to 4.75, even though the initial outlay is much higher. The \$10 value comes from the maximum loss point of \$65 where the Put and the Call both have a premium value of \$5 each.



Using ShareCharts Option Strategies for The Strangle the entire transaction can be seen clearly. Go to Derivatives < Option Strategies and select The Strangle from the 'Strategy' Drop Down Box. Enter in all relevant parameters and click 'Update' to view the chart.

ShareChart only covers long straggles.

Short Strangle

The short strangle is much like the short straddle in that they both profit in sideways markets and have unlimited loss potential on either side. The Strangle actually got its name in 1978 when some IBM option traders holding this position lost everything due to some large and unpredicted price movements.

Example: Take a stock trading at \$65 we would sell the 60 Put for \$2.25 and sell the 70 Call for \$2.50. Making the total cost \$475. This would also be our total profit. If the stock stays between \$60 and \$70 we will keep this premium as profit. With the upside breakeven being \$74.75 ($70 + 4.75$) and the downside breakeven being 55.25 ($60 - 4.75$) anywhere outside these points the position will begin to show a loss.

The Strangle

OPTION STRATEGIES

The short strangle can also be created using in the money options, and this particular kind of strangle is also referred to as the 'guts'. Using the same example as above,

Example: With the stock price at \$65, we would sell the 60 Call at \$7 and sell the 70 Put at \$6.75. The total cost of this strategy is \$1375. With the stock between \$60 and \$70 the strategy will be worth \$10, due to the intrinsic value still left in the options, thus the most we stand to lose is \$375 (\$13.75 - \$10).

While the profit is less from the short strangle at 3.75 as opposed to 4.75 in the long strangle, the short strangle would earn more interest income as they would have collected \$1375 instead of \$475 from the long strangle.

This makes the maximum loss for in the money options less than that for the near the money options, 3.75 as opposed to 4.75. The \$10 value comes from the maximum loss point of \$65 where the Put and the Call both have a premium value of \$5 each.

ShareChart does not cover short straggles because of the unlimited loss.

Sharechart