



Options Fundamentals

Ep 12

Ratio Spreads

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Disclaimer

This presentation is for educational purposes only. Nothing in this presentation is intended to be trading or financial advice.



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What is a Ratio Spread?



- A Ratio spread is a vertical spread with more longs than shorts in some ratio (2:1, 3:5, etc.) or more shorts than longs
- Also known as:
 - Front Spread / Back Spread
 - Pay later Call/Put
- The idea is to put the spread on for a net credit so if the trade goes the opposite way, you get to keep the credit
- Back spreads have “middle risk”, not at the sides

Types of Ratio Spreads

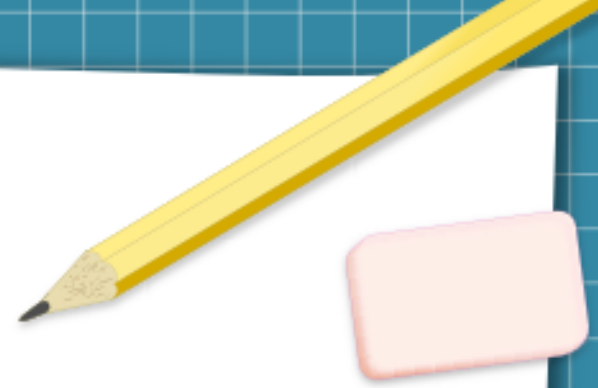
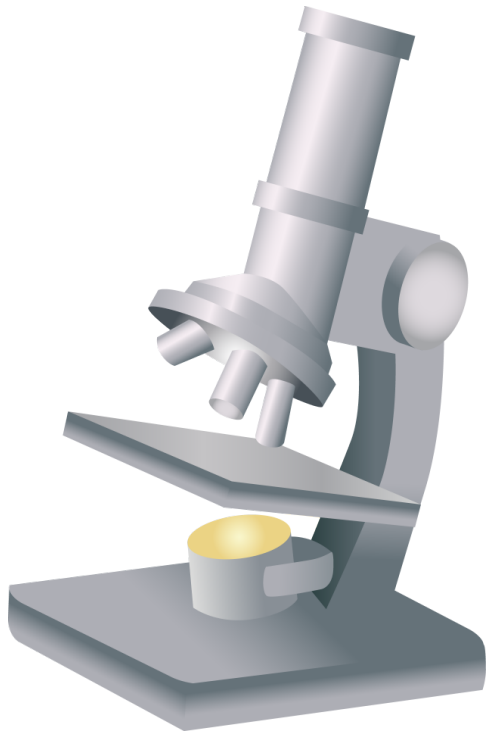


- Front Spread
 - More shorts than longs
 - Involves selling naked options
 - Very expensive!
 - Not available in all accounts
- Back Spread
 - More longs than shorts
 - Not cheap, but much cheaper than a front spread
 - Available in any account that allows spreads

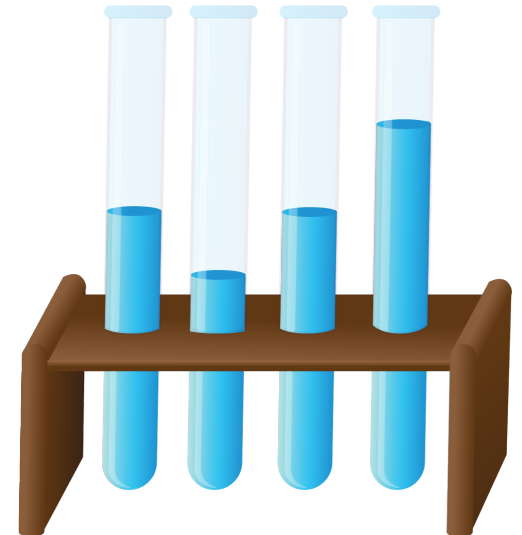
When to Use Ratio Spreads



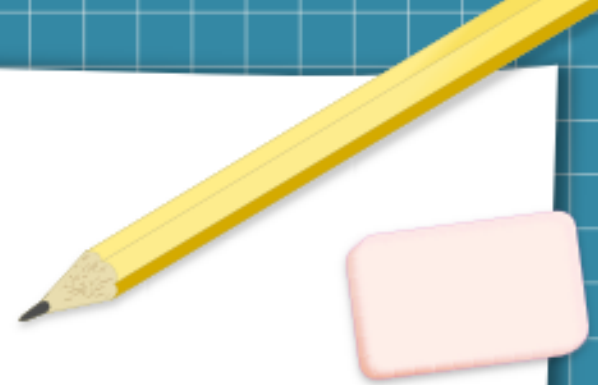
- Back spreads are interesting if you think there is an event that will move the stock
- If set up correctly you make money:
 - If the stock doesn't really move
 - If it moves far in the direction you forecast
 - If it moves in the opposite direction you forecast
- It loses money if it moves moderately in the direction you forecast



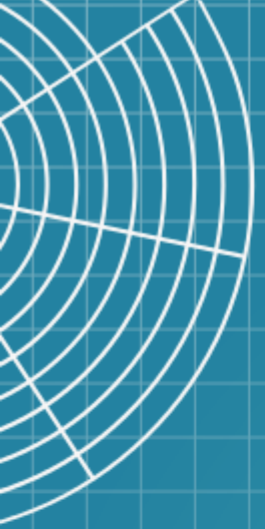
Off to the Lab!



Summary



- A ratio spread is a vertical spread where the options are bought/sold in a ratio
 - Front spreads involve selling naked options
 - Back spreads are always covered
- Commonly used near an event where it is believed the stock will move



Thank you for your time. Let's keep talking!
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