Spreads & Hedging

PRO PRACTICE WORKSHEET

Work through these by hand or with a spreadsheet. There's no wrong answer, the goal is just practice.

Section 1 - Build a Bull Call Spread

Buy a $50 call for $3, sell a $60 call for $1. Calculate the net cost, max gain, max loss, and breakeven.

Section 2 - Compare to a Single Call

Using the same $50 call from Section 1, calculate the P&L of just the single call (no spread) if the stock finishes at $58 and at $70. Compare to the spread's outcome at those same prices.

Section 3 - Price a Protective Put

You own stock at $80 and buy a $75 put for $2 as protection. What is your maximum possible loss on the combined position, per share?

Section 4 - Structure a Collar

Using the $75 put from Section 3 (cost $2), what strike and premium would a covered call need to roughly offset that cost and create a near-zero-cost collar?

Section 5 - Reflection

In your own words, explain the trade-off a trader accepts when moving from a single option position to a defined-risk spread.