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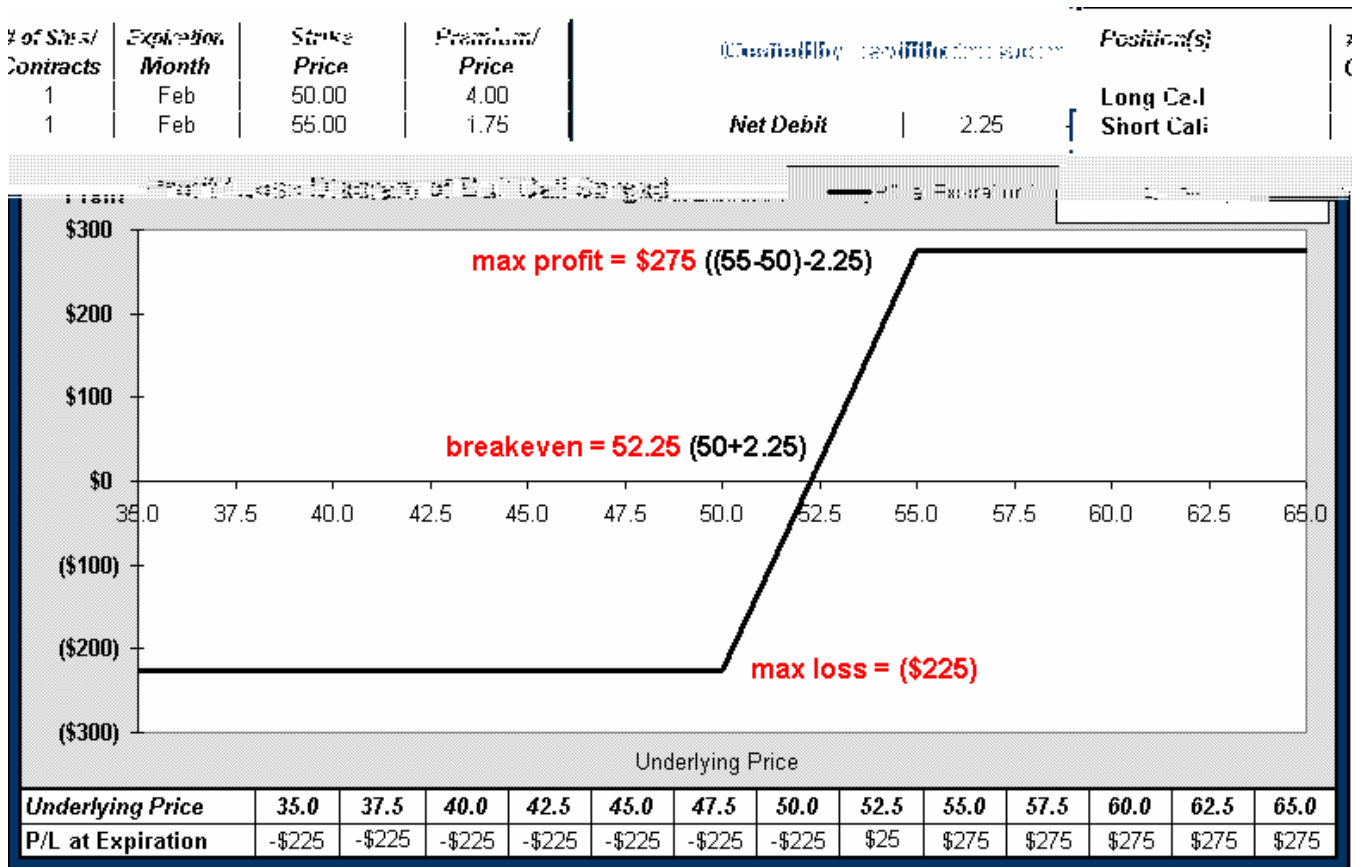
You're an options trader and are moderately bullish a stock, but you can't decide between a **Bull Call Spread** and **Bull Put Spread**.

This is the topic of this week's ChartSpeak.
 What are they?
 How are they similar and different?
 Which is better?

First the Basics. What are they?

A **Bull Call Spread** is used when you are moderately bullish an issue. The strategy entails buying a Call option and selling a Call option at a higher strike price. So if XYZ was trading at 50, you may buy the 50 Calls and sell the 55 Calls. Your max loss and max profit are locked in place at the onset. **Max Loss** occurs below 50 (the lower strike) and is net debit you pay to enter the trade. **Max Profit** occurs above 55 (the higher strike) and is the difference between the strikes (55-50) minus the net debit to enter the trade. **Breakeven** is lower strike plus the net debit.

Here's a Profit/Loss Diagram of a Bull Call Spread...



How the strategies are similar...

Both strategies profit from a move up in the underlying.
 Both strategies have a max profit and loss locked in place at the onset, albeit the values will differ.
 Each has the same shape P/L curve.
 Both entail buying and selling an option, so commissions to initiate each trade are the same.

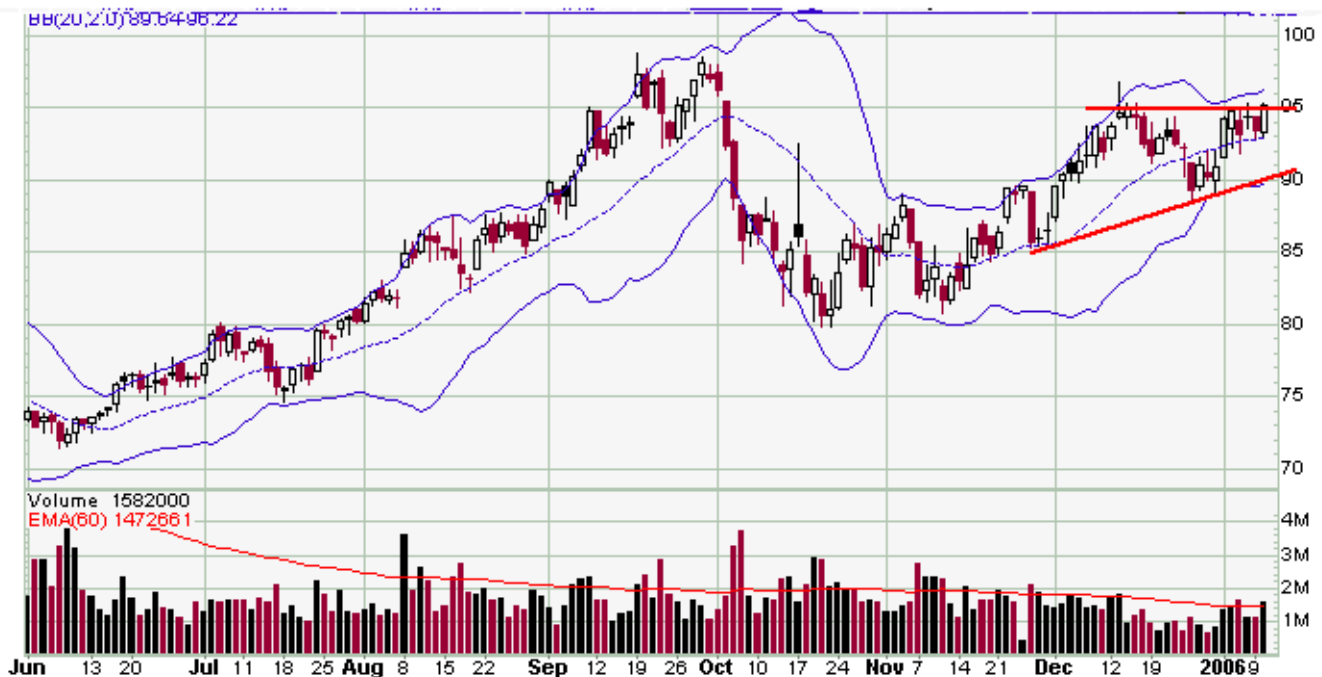
How they differ...

The Bull Put Spread is initiated for a net credit (you earn interest on the money) while the Bull Call Spread for a net debit.
 The margin levels are different but close enough to not be discussed here.
 Aside from being a bullish strategy, the Bull Put Spread is also considered “short volatility,” so in many cases a profit can be realized with little movement in the underlying.
 For equivalent positions, the Call spread will have a higher max profit and more favorable potential max loss, but the Put spread will have a higher breakeven level. Ergo more upward movement in the underlying is needed.

This may all sound confusing, so let’s go through a real example of a Bull Call Spread and Bull Put Spread. Both these plays were posted on the Leavitt Brothers website as follows.

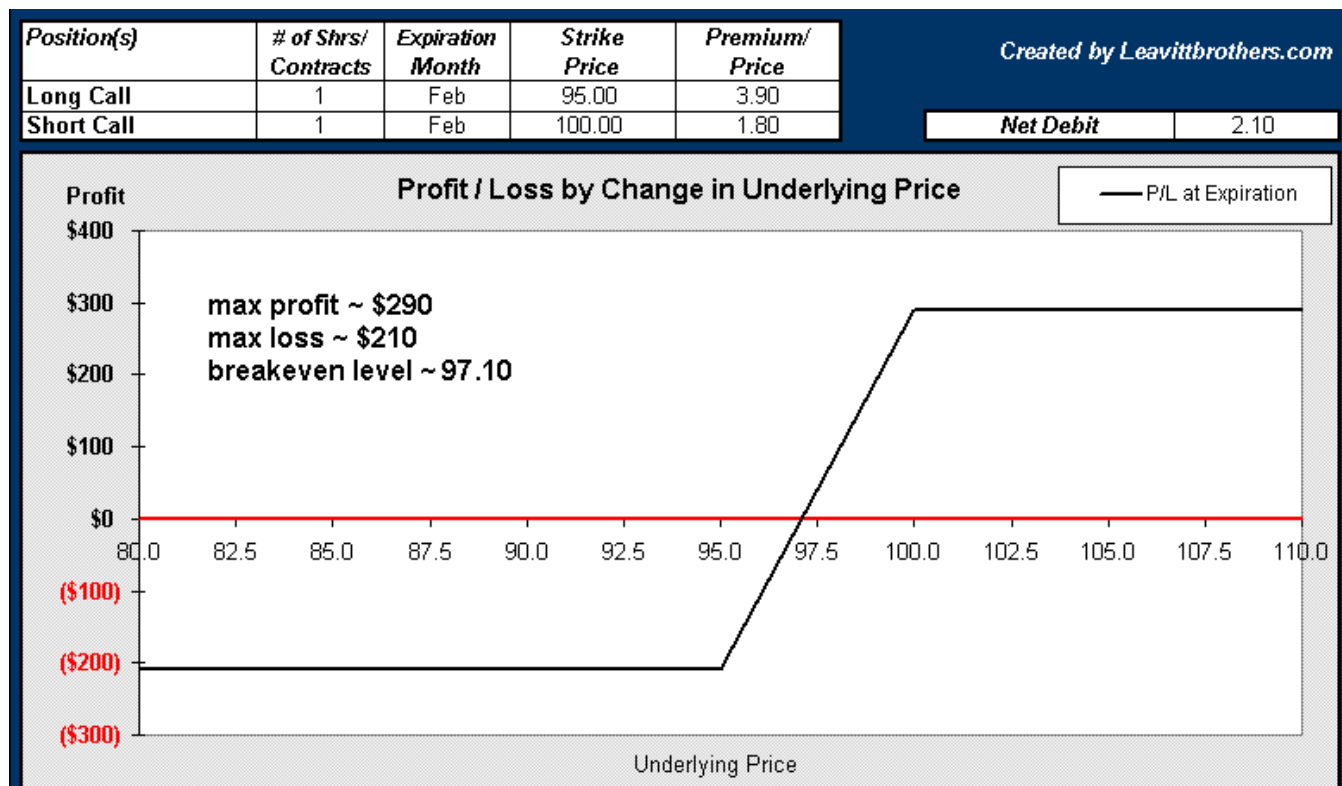
An example...

We were bullish oil and KMG looked ready to bust out from an ascending triangle pattern. Here’s was the chart at the time the play was posted...

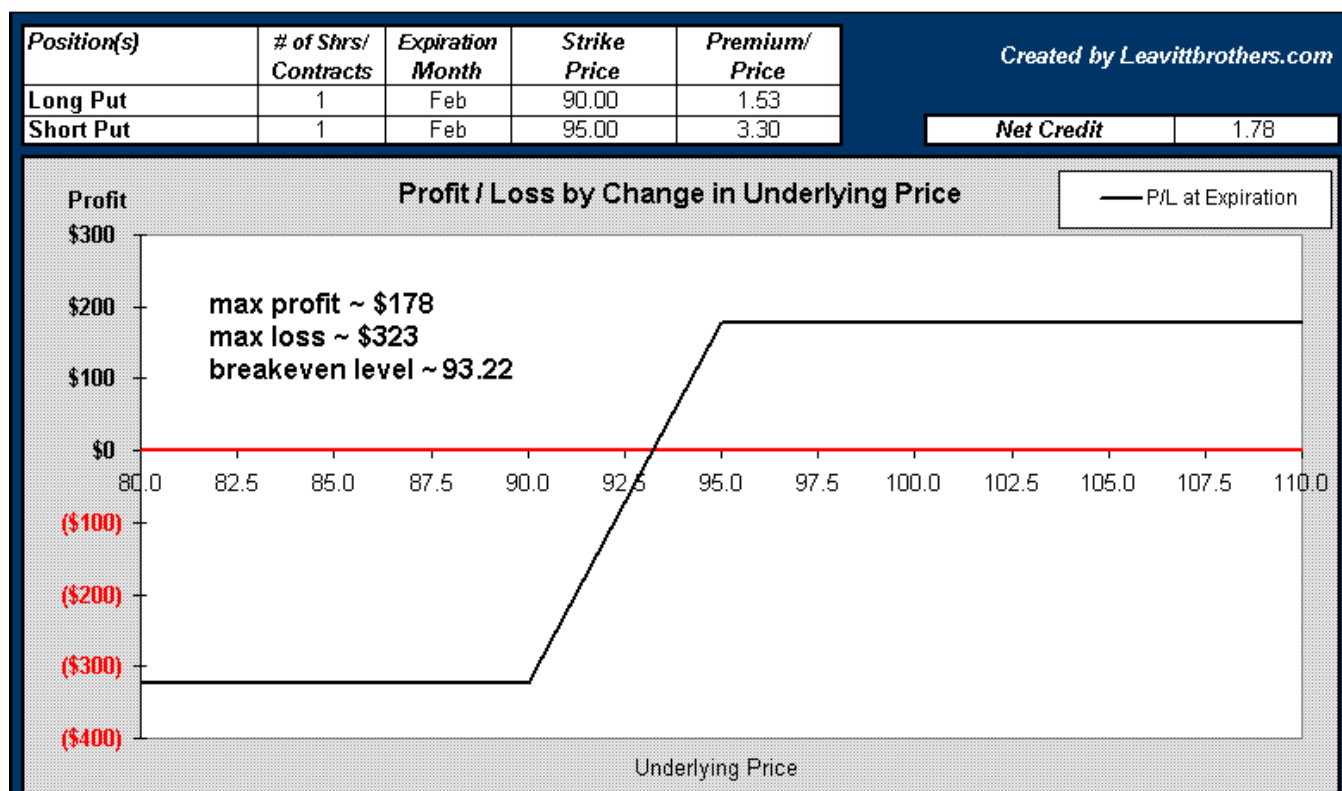


We were moderately bullish the stock and posted a Bull Call Spread (buy the 95 calls , sell the 100s) and Bull Put Spread (sell the 95 puts, buy the 90s) and left it to our members to decide which trade to take.

The P/L Diagram of the Bull Call Spread looked like this...



The P/L Diagram of the Bull Put Spread looked like this...



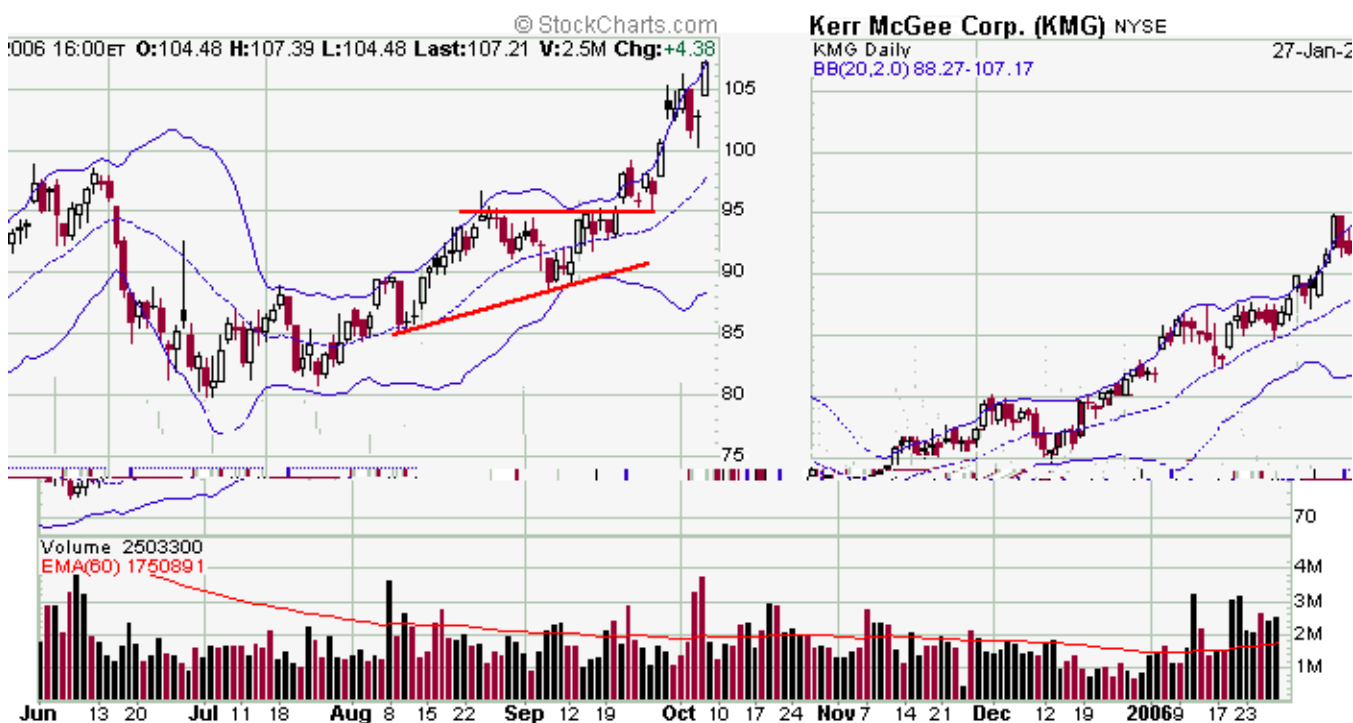
Both of these graphs cover the same price range (80-110) and have the same midpoint (95).

The first thing you notice is that the curves are the same shape.

The Bull Call Spread has a higher max profit (\$290 vs. \$178) and more favorable max loss (only \$210 vs. \$323), but the breakeven level is higher (97.10 vs. 93.22).

So for the Call Spread to turn a profit, you actually need the stock to move up a couple points (KMG was trading at 95.13 when graphs were created), but the Put Spread will turn a profit even if the stock doesn't move.

What did the stock do?? Here's an updated chart...



KMG has rallied big time, so both the Bull Calls Spread and Bear Put Spread are well into max profit territory with the Call Spread offering the bigger profit.

So which strategy is better?

This is not possible to say...we certainly cannot make a general statement. If you were very bullish, the Call Spread offers greater profit potential, but if you were only slightly bullish, the Put Spread offers a better situation because a profit will be realized with little movement in the underlying.

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