Schaeffer's Investment Research Discusses Call Debit Spreads - Little Risk, Little Investment, Big Returns

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CINCINNATI, OH, UNITED STATES, August 3, 2021 /EINPresswire.com/ -- Trading options can be quite the experience! According to Schaeffer's Investment Research, There are a multitude of different trading strategies at your fingertips. Some traders like executing options trades with no net beneath them akin to rope walkers in the circus. If the rope walker falls off, there's nothing to catch them underneath and likewise, the options trader has no net to catch them when a trade goes south. Call Debit Spreads are the proverbial net to catch you when the trade doesn't go the way you think it will.

Call Debit Spreads

The contents of a Call Debit Spread are a pair of options trades that are executed with the same expiration date, Schaeffer's Investment Research explains. You would purchase a call at a certain strike price, and you would sell a call at a higher strike price. The main appeal of this trade is the fact that your risk is limited to how much money you pay out in premiums. If the stock goes below your purchased strike price, you only lose your premium paid. Conversely, if the stock price goes above the purchased strike price, your profit is capped at where your sold strike price is. So, the risk mitigation cuts both ways here as your loss and profit are both capped to a certain degree.

Example

William likes Cannonball stock and would like to purchase a call option as he feels that the stock will rise. Cannonball stock is currently trading at $42 a share and William believes that within four weeks, Cannonball will be trading at $45 a share. If William decides to buy just one call option at $45, the premium for that stock will cost William $80 out of pocket. However, if William decides to sell a call option on Cannonball for $46 at the same expiry date, the premiums paid on that option are $35. So, in essence William can still purchase the $45 call option but instead of paying $80 in premiums, William will only pay $45 for that option when paired with the sell call option. Call Debit Spreads are a great way to get in on certain call options at a discounted price. William stands to make $100 on the trade if the stock price is at $46.35 or greater on expiry.

Closing Thoughts

Call Debit Spreads offer you opportunities to purchase call options at discount prices. It’s a great way to make profit on small investments. You can increase the profit margin by expanding the sell option strike price. For instance, instead of a $46 strike price, William could purchase a $50 strike price for the sell option. This increases his window of profit before being capped, but it also increases the premiums paid out initially for the trade.

If you would like to know more about Call Debit Spreads and other options trading strategies, please contact Schaeffer's Investment Research today.

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