TMX Montréal Exchange

EQUITY OPTIONS STRATEGY

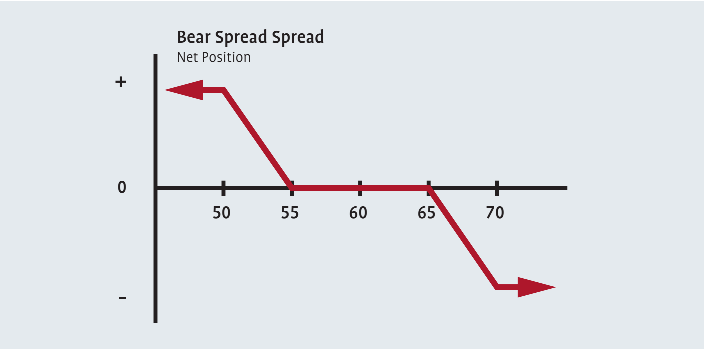
Bear Spread Spread (Double Bear Spread, Combination Bear Spread)

DESCRIPTION
This strategy consists of being short one call and long another call with a higher strike; also long one put and short another put with a lower strike. Typically, the call strikes are above and the put strikes below the current level of underlying stock, and the distance between the call strikes equals the distance between the put strikes. All options must be the same expiration. This strategy is the combination of a bear call spread and a bear put spread.

OUTLOOK
Looking for falling stock price.

SUMMARY
This strategy is the combination of a bear call spread and a bear put spread. A key part of the strategy is to initiate the position at even money, so the cost of the put spread should be offset by the proceeds from the call spread.

MOTIVATION
Profit from a declining stock price.



EXEMPLE
Long 1 XYZ 70 call
Short 1 XYZ 65 call
Long 1 XYZ 55 put
Short 1 XYZ 50 put

MAXIMUN GAIN
High put strike - low put strike - net premium paid

MAXIMUN LOSS
High call strike - low call strike - net premium paid

MAX LOSS
The maximum loss would occur should the underlying stock be above the upper call strike at expiration. In that case both calls would be in-the-money, and the loss would be the difference between the call strike prices, plus or minus any premium paid or received from initiating the position.

MAX GAIN
The maximum gain would occur should the underlying stock be below the lower put strike at expiration. In that case both puts would be in-the-money, and the gain would be the difference between the put strike prices, plus or minus any premium received or paid from initiating the position.

PROFIT/LOSS
The potential profit and loss are both limited. This strategy is the combination of a bear call spread and a bear put spread. The maximum profit occurs when the underlying stock goes below the lower put strike at expiration. The maximum loss occurs when the underlying stock goes above the upper call strike at expiration.

BREAKEVEN
If this strategy is initiated at even money, then breakeven is anywhere that all the options expire worthless, or between the lower call strike and upper put strike. If a premium was paid or received, then breakeven would occur where the underlying stock at expiration is above the lower call strike price by the premium received or below the upper put by premium paid.

VOLATILITY
An increase in implied volatility will, all other things equal, generally have only a slight impact on this strategy. Whether the impact is positive or negative, however, depends on which options are in-the-money or out-of-the-money, the time to expiration and level of interest rates.

TIME DECAY
The passage of time will, all other things equal, generally have only a slight impact on this strategy. Whether the impact is positive or negative, however, depends on which options are in-the-money or out-of-the-money, the time to expiration and level of interest rates.

ASSIGNMENT RISK
Yes. Early assignment, while possible at any time, generally occurs for a call when the stock goes ex-dividend and for a put when it goes deep in-the-money.

And be aware, a situation where a stock is involved in a restructuring or capitalization event, such as for example a merger, takeover, spin-off or special dividend, could completely upset typical expectations regarding early exercise of options on the stock.

EXPIRATION RISK
Yes. The investor cannot know for sure whether or not they will be assigned on a short option until the Monday after expiration. If unexpected exercise activity occurs, they could find themselves with a stock position on the Monday following expiration and subject to an adverse move in the stock over the weekend.

RELATED POSITION
Comparable Position: N/A

Opposite Position: **Bull Spread Spread**