Equity Options
Strategy

MONTRÉAL EXCHANGE

Long Condor

Description

A long condor consists of being long one call and short another call with a higher strike, and 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 the options must be of the same expiration.

An alternative way to think about this strategy is as a long strangle with a short strangle outside of it. It could also be considered as a bull call spread and a bear put spread.

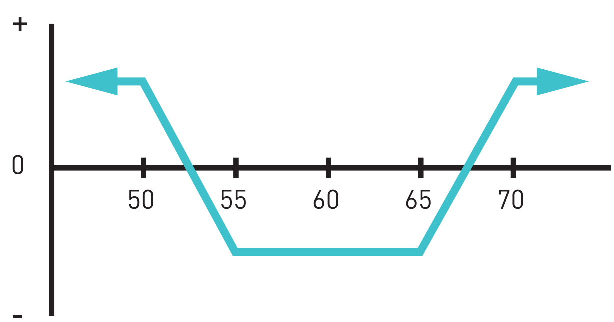
Outlook

The long condor investor is looking for a sharp move either up or down in the underlying stock during the life of the options.

Summary

This strategy profits if the underlying stock is outside the outer wings at expiration.

Long Condor
Net Position



Example

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

MAXIMUN GAIN
(High call strike - low call strike) OR (High put strike - low put strike) - net premium paid

MAXIMUN LOSS
Net premium paid

Motivation

Profit from a large move in underlying stock in either direction.

Variations

This strategy is a variation of the long iron butterfly.

Instead of a body and two wings, the body has been split into two different strikes so that there are two shoulders in the middle and two wingtips outside the shoulders.

Max Loss

The maximum loss would occur should the underlying stock be between the lower call strike and upper put strike at expiration. In that case all the options would expire worthless, and the premium paid to initiate the position would have been lost.

Max Gain

The maximum gain would occur should the underlying stock be above the upper call strike or below the lower put strike at expiration. In that case, either both calls or both puts would be in-the-money. The profit would be the difference between either the call strikes or the put strikes (whichever are in-the-money), less the premium paid to initiate the position.

Profit/Loss

The potential profit and loss are both very limited. In essence, a condor at expiration has a minimum value of zero and a maximum value equal to the span of either wing. An investor who buys a condor pays a premium somewhere between the minimum and maximum value, and profits if the condor's value moves toward the maximum as expiration approaches.

Breakeven

This strategy breaks even if at expiration the underlying stock is either above the lower call strike or below the upper put strike by the amount of the premium paid to initiate the position.

Upside breakeven = long call strike + premiums paid

Downside breakeven = long put strike - premiums paid

Volatility

An increase in implied volatility, all other things equal, would have a positive impact on this strategy.

Time Decay

The passage of time, all other things equal, will have a negative effect on this strategy.

Assignment Risk

Yes. The short options that form the wingtips of the condor are subject to exercise at any time, while the investor decides if and when to exercise the shoulders of the wings. If an early exercise occurs at a wingtip, the investor can exercise their option from the appropriate shoulder to lock in the maximum gain and continue to hold the other half of the position, which might still have value. So early exercise might be a good thing, although it may require borrowing stock or financing stock for one business day.

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

Expiration Risk

Yes. If at expiration the stock is trading right at either wingtip, the investor would face uncertainty as to whether or not they would be assigned on that wingtip. Should the investor not be assigned on the wingtip, they could be unexpectedly long or short the stock on the Monday following expiration and hence subject to an adverse move over the weekend.

Related Position

Comparable Position: N/A

Opposite Position: **Short Condor**