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Equity Options
Strategy

MONTRÉAL EXCHANGE

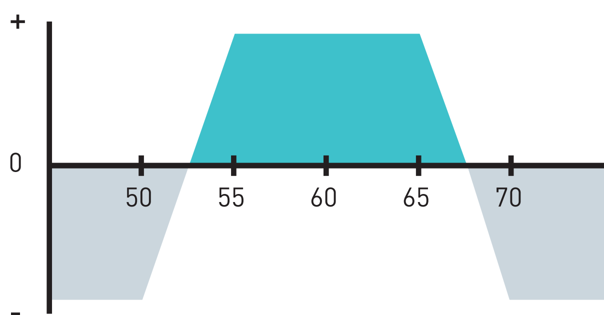
Long Put Condor

Description

A long put condor consists of four different put options of the same expiration. The strategy is constructed of 1 long out-of-money put at the lowest strike, 1 short out-of-money put at the middle strike, 1 short put at a higher in-the-money strike and 1 long deeper in-the-money put at the highest strike.

An alternative way to think about this strategy is as an out-of-the-money bull put spread (credit spread) coupled with an in-the-money bear put spread (debit spread) with the bear put spread at the higher strikes and the bull put spread is at the lower strikes.

Long Put Condor
Net Position



Example

Long 1 XYZ 50 Put
Short 1 XYZ 55 Put
Short 1 XYZ 65 Put
Long 1 XYZ 70 Put

MAXIMUN GAIN
(Highest long put strike – highest short put strike) - Net premium paid

MAXIMUN LOSS
Net premium paid

DOWNSIDE BREAKEVEN
Lower long put strike + premium paid

UPSIDE BREAKEVEN
Higher long put strike - premium paid

Outlook

The long put condor investor is normally looking for little or no movement in the underlying.

Anticipating minimal price movement in the underlying during the lifetime of the options.

Variations

This strategy is a variation of the long put butterfly.

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

Volatility

All other things being equal, an increase in implied volatility if the underlying is between the two short strikes when established would have a negative impact on this strategy. As with most strategies however, the impact of implied volatility changes will depend on strike selection relative to the stock price when the position is established.

Time Decay

All other things being equal, the passage of time will have a positive effect on this strategy.

Assignment Risk

In the case of American style options, the short options that form the body of the long put condor are subject to assignment at any time. Should early assignment occur on the short put options, the investor can exercise the appropriate long option but may be required to borrow or finance stock for one business day. The resulting position from an assignment on both short puts may still result in a net long underlying position. Investors can avoid an assignment by closing out their position if the short puts appear to be candidates for an early exercise.

Be aware of situations where the underlying is involved in a restructuring or capitalization event, such as a merger, takeover, spin-off or special dividend, as that could completely upset typical expectations regarding early exercise of options on the security.

Expiration Risk

Investors face an uncertainty when the underlying trades below both short put strikes but above the lowest long put strike. In this case, the investor is likely to be assigned on both short puts resulting in a long position that is unhedged following expiration. Investors in this case would be subject to an adverse move the next business day.

Comments

One important consideration of the long put condor is assignment risk. If the underlying is below both short put strikes yet below the highest long put strike, an assignment would result in both short puts purchasing the underlying with only one of the long puts being exercised. Thus, the investor would end up net long the underlying.

Another consideration for the long put condor is commission charges. As there are four different contracts traded, that may entail four separate commission charges to establish the position and four additional commission charges if the trade is closed prior to expiration. Investors should understand their commission costs before entering into this transaction.