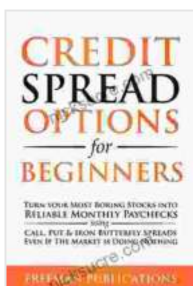
Credit Spread Options for Beginners: A Comprehensive Guide

A credit spread option is a neutral to bullish options strategy that involves selling an out-of-the-money (OTM) call option and buying a further OTM call option with the same expiration date. The premium received from selling the first call option is greater than the premium paid for buying the second call option, resulting in a net credit to the trader.

To trade credit spread options, you will need:

- A brokerage account that allows options trading
- The underlying asset (stock, index, or ETF)
- The strike prices of the call options
- The expiration date

Once you have these, you can follow these steps:



Credit Spread Options for Beginners: Turn Your Most Boring Stocks into Reliable Monthly Paychecks using Call, Put & Iron Butterfly Spreads - Even If The ... (Options Trading for Beginners Book 2)

by Freeman Publications

4.4 out of 5

Language	: English
File size	: 3091 KB
Text-to-Speech	: Enabled
Screen Reader	: Supported
Enhanced typesetting	: Enabled

Word Wise	: Enabled
Print length	: 134 pages
Lending	: Enabled

1. **Choose the underlying asset.** This should be an asset that you are familiar with and that you believe will increase in value.
2. **Choose the strike prices of the call options.** The strike price of the call option you sell should be OTM, while the strike price of the call option you buy should be further OTM.
3. **Choose the expiration date.** This is the date on which the options contract expires.
4. **Calculate the net premium.** This is the difference between the premium received from selling the first call option and the premium paid for buying the second call option.
5. **Enter the trade.** Place the order to sell the OTM call option and buy the further OTM call option.

Let's say you want to trade a credit spread option on the XYZ stock. You believe that the stock will increase in value, so you choose to sell an OTM call option with a strike price of $105 and buy a further OTM call option with a strike price of $110. The expiration date is in one month.

The premium received from selling the first call option is $2.00, and the premium paid for buying the second call option is $1.00, resulting in a net premium of $1.00.

If the XYZ stock price increases to $110 or more by the expiration date, the first call option will expire worthless, and the second call option will be in-the-money (ITM). You will then be able to exercise the second call option and sell the XYZ stock at the strike price of $110, resulting in a profit.

If the XYZ stock price decreases to $100 or less by the expiration date, both call options will expire worthless, and you will lose the net premium of $1.00.

Credit spread options are a relatively low-risk options strategy, but there are still some risks involved:

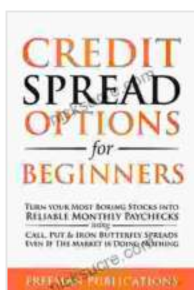
- **The underlying asset may not increase in value.** If the underlying asset decreases in value, both call options will expire worthless, and you will lose the net premium.
- **The volatility of the underlying asset may increase.** If the volatility of the underlying asset increases, the premiums of both call options will increase, and you may lose money on the trade.
- **The market may move against you.** If the market moves against you, the value of the call options you sold will increase, and the value of the call options you bought will decrease, resulting in a loss.

Credit spread options are a neutral to bullish options strategy that can be used to generate income or speculate on the future price of an underlying asset. They are a relatively low-risk strategy, but there are still some risks involved. Before trading credit spread options, it is important to understand the risks and to have a plan for managing them.

Relevant Image with Long Descriptive Alt Attribute:

[Image of a stock chart showing a credit spread option trade]

Alt Attribute: A credit spread option trade is a neutral to bullish options strategy that involves selling an out-of-the-money (OTM) call option and buying a further OTM call option with the same expiration date. The premium received from selling the first call option is greater than the premium paid for buying the second call option, resulting in a net credit to the trader.



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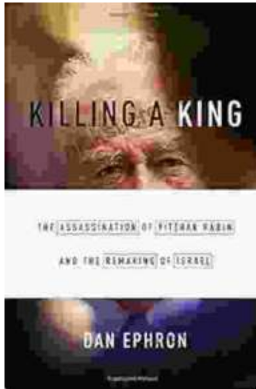

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