Long Strangle

Description

You would buy out-of-the-money calls and puts.

Risk/Reward Profile

Risk:Medium
Reward:Unlimited

Rationale

You are not bullish or bearish but you think there is a catalyst that could warrant a big move in either direction. If the stock rallies sharply, the puts will expire worthless and you will profit from the calls. If the stock drops sharply, the calls will expire worthless and you will profit from the puts. The risk is that the stock stays in a tight range and both the calls and puts will expire worthless.

Example

Stock- Exxon Mobil (XOM-55.37)
Buy 1 November 60 call (XOM KL) at 0.45
Buy 1 November 50 put (XOM WJ) at 0.40

Net Debit is $0.85 ((0.45)+(0.40))

Positions	# of Contracts	Expiration Month	Strike Price	Premium/(Price Paid)
Long Call	1	November	60	(0.45)
Long Put	1	November	50	(0.40)

Price at Expiration	Profit/ (Loss)
47	2.15
49	0.15
51	-0.85
53	-0.85
55	-0.85
57	-0.85
59	-0.85
61	0.15
63	2.15