DATE: 28th Feb 2025

LONG STRADDLE

Long straddle is an option strategy used when the underlying assets are expected to show significant volatility

This strategy involves buying a CALL as well as a PUT on the same Underlying assets for the same maturity and strike price to take advantage of a movement in either direction
Now if the price of underlying assets increases the CALL is exercised while the value of the put will expire at zero or worthless
and if the price of the underlying assets decreases the PUT is exercised while the value of the call will expire at zero or worth less
This strategy is imperative when the investor is direction-neutral
and he believes that the underlying asset will have significant volatility before the expiry date
In this way, the investor is going to make a profit If significant volatility is available

When to use: when the investor believes that the underlying assets will have significant volatility before expiring

Risk: Risk is limited to the premium paid and
in this case, the Reward is unlimited

For example, suppose the nifty is trading at 24125 on 28th February 2025 And a valiant investor Mr. XYZ Execute the strategy long straddle by buying a March 24000 nifty put option for ₹96 and March 24000 nifty all option for Rs 124 the net premium. It will be Rs 220 which is also the maximum possible loss

UNDERLYING ASSETS NIFTY	VALUE	24125
CALL AND PUT	STRIKE PRICE	24000

TERMS:

Underlying assets: refers to the index or stock on which the future contract is traded
Expiry date: it is the last trading day of the contract
Call option: a call option gives the holder the right but not the obligation to buy an asset by a certain date for a certain price Call option is directly proportionate to the underlying assets
Put option: a put option gives the holder the right but not the obligation to sell M assets by a certain date for a certain price Put option is inversely proportionate to the underlying assets
Option Premium: option premium is the price the option buyer pays to the option seller
Strike price: The price is specified in the option contract also known as the exercise price

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NOTE: This document is only for educational purpose we don't promote any strategy

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