

Risk profile charts for put options

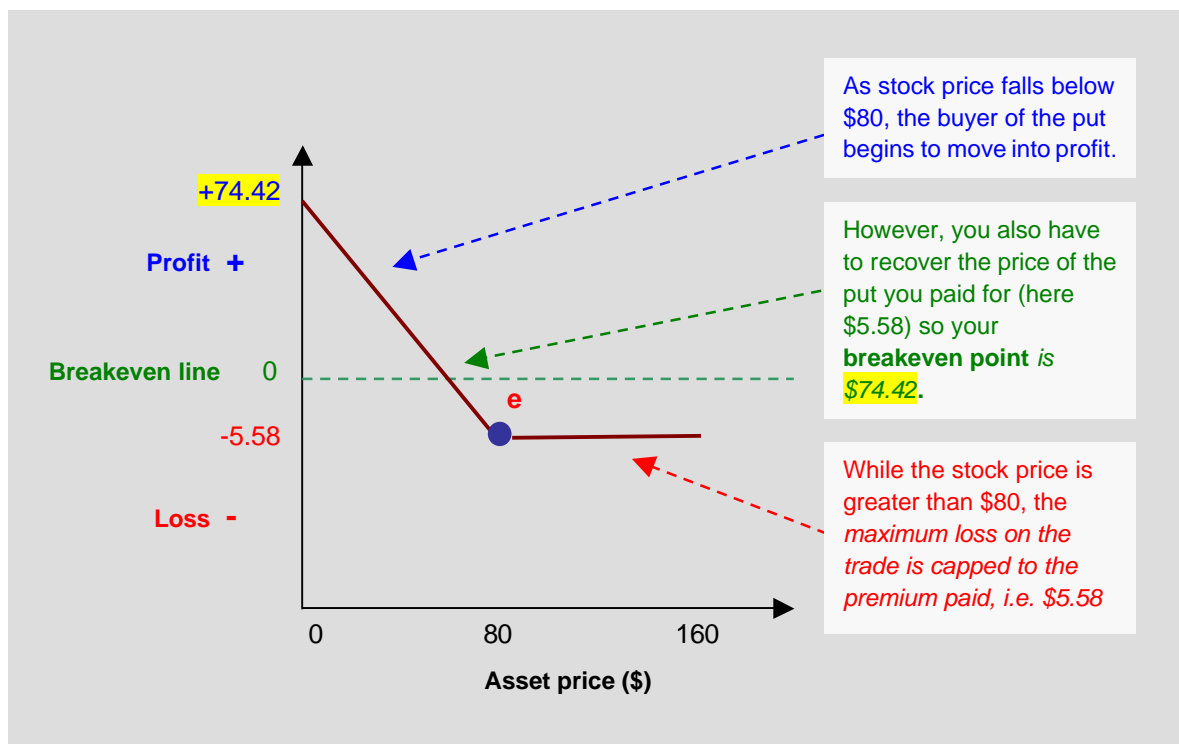
So, now you know what long and short calls look like, let's look at the risk profile of a put option.

We already know that a put option is the right to *sell* an asset. Logically, this suggests that the put option risk profile direction will be the opposite to that of calls or buying the asset itself. So, let's have a look at an example:

Chart 1.5 | Long Put option risk profile

Take Example 1.4 where you buy a put option:

Stock Price	\$77.00
Put Premium	\$5.58
Exercise Price	\$80
Time till Expiration	4 months



Remember that:

Buying gives you the right

- *Buying a put option gives you the right, not the obligation to sell an underlying instrument (e.g. a share).*
- *When you buy a put option you are not obligated to sell the underlying instrument – you simply have the right to do so at the fixed (Exercise or Strike) price.*
- *Your risk, when you buy an option, is simply the price you paid for it.*
- *Your reward is potentially unlimited. With long puts your reward is unlimited to the downside, ie the exercise price less the price you paid for the put itself. In this example that is: $\$80 - \$5.58 = \$74.42$.*

For every put that you buy, there is someone else on the other side of the trade. The seller of a put option is will have a different risk profile to that of the put option buyer.

Chart 1.6 | Short Put option risk profile

Still taking Example 1.4 of the following put option:

Stock Price	\$77.00
Put Premium	\$5.58
Exercise Price	\$80
Time till Expiration	4 months

Remember that we already discussed the implications of selling an option – here's another reminder for puts: