

# SELLING PUTS TO OPEN



## About the author

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Emmanuel has over twenty-five years experience in financial markets, including equities, CFDs, options and futures. Emmanuel started his career with Société Générale in Paris, then with Citibank, Jefferies, Brown Brothers Harriman in London in equities, options and fixed-income trading before joining Internaxx Bank (now Swissquote Bank Europe) in Luxembourg.

Emmanuel is a member of the Client Services team of Swissquote Bank Europe, where he works closely with clients and team members to service the advanced trading needs of our most active clients.

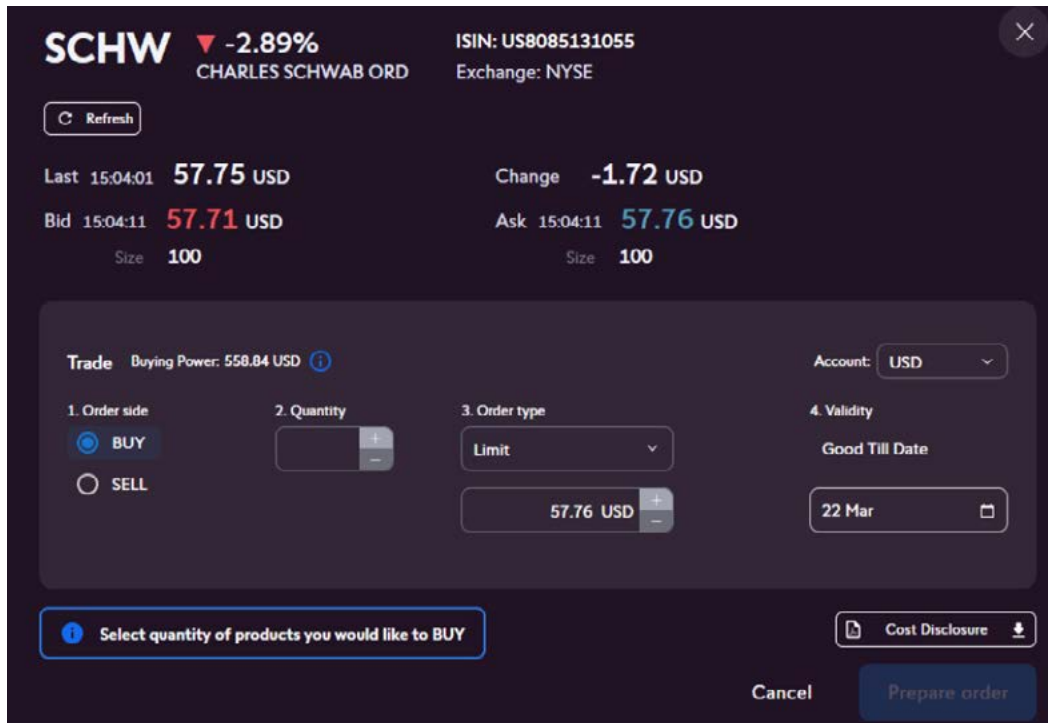
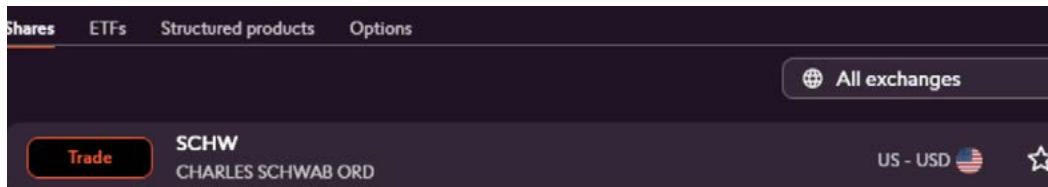
# Selling puts to open might sound counterintuitive, especially compared to buying calls to open.

Both strategies are bullish, but a long call is much more straightforward: if the price of the underlying stock goes up enough after you bought the call, you will profit.

The concept behind writing put is not so simple, but in some precise circumstances, the strategy can be very profitable. Let's look at these circumstances.

Here is our scenario. You have around \$ 6'000 available on your account, and you are interested in buying 100 shares of a US company, say Charles Schwab (example chosen randomly).

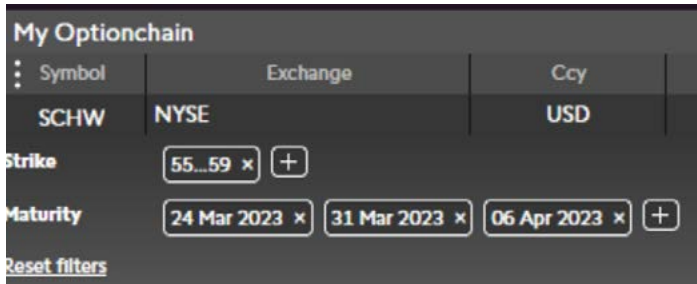
As of today (22 March 2023), the stock trades at about \$ 57.75, which you can check on the Summary page of your account by clicking the [Trade] button.



We are interested in replicating a buy of 100 shares with a limit of \$57. But using a short put instead of placing a limit order on the stock, we can reduce our average price by over \$2!


Let's head to our Trading Space. We call up "My Optionchain" from the widgets, and get the put options available for the stock, as shown below.

As we are now only interested in puts, I am showing the right portion of the screen.



strike	dist	Bid size	BID	ASK	Ask size	Last
<b>06 Apr 2023</b>						
55	-4.7%	84	1.62	1.73	63	1.77
56	-2.9%	252	1.92	2.10	430	2.05
57	-1.2%	243	2.28	2.46	352	2.40
58	+0.5%	25	2.69	2.90	322	2.09
58.5	+1.4%	50	2.93	3.15	391	2.90
59	+2.3%	228	3.15	3.35	104	2.38

I am happy to keep the strikes between 55 and 59 as shown above, but I have removed the maturities of 24 March and 31 March, to keep only 6 April. As maturities go further away in the future, prices of options (both calls and puts) always increase. We will be selling a put, so we are ok to get a slightly longer maturity.

Feel free to click the  icon on the left to add columns, such as the name of each put you can trade for that underlying stock and maturity.

strike	dist	Name	Bid size	BID	ASK	Ask size	Last
<b>06 Apr 2023</b>							
55	-4.7%	SCHW APR23 55P	545	1.61	1.74	24	1.77
56	-2.9%	SCHW APR23 56P	390	1.91	2.06	24	2.05
57	-1.2%	SCHW APR23 57P	426	2.28	2.43	139	2.40
58	+0.5%	SCHW APR23 58P	175	2.71	2.87	61	2.09
58.5	+1.4%	SCHW APR23 58.5P	176	2.94	3.15	161	2.90
59	+2.3%	SCHW APR23 59P	495	3.15	3.40	135	2.38

I am clicking the red button showing [2.28] on the right of the [57] strike price. This will bring up the trading page on the put called "SCHW APR23 57P".

Enter the quantity (1, as I only want to write one put), adjust the limit (I will change my limit to \$2.25 because the system only accepts increments of \$0.05), and click the red button: [Prepare order]. I then confirm the order, and end up with the short put position.

The position is now: **-1 SCHW APR 57P**; and **\$228**, minus commission, is credited to the account.

From this point, the position can evolve in two ways until expiration day (6 April).

### 1. The stock price stays above \$57 until expiration

The premium will be kept, and the put will likely not be exercised. After 6 April, it will expire, and another put can be written to generate extra income.

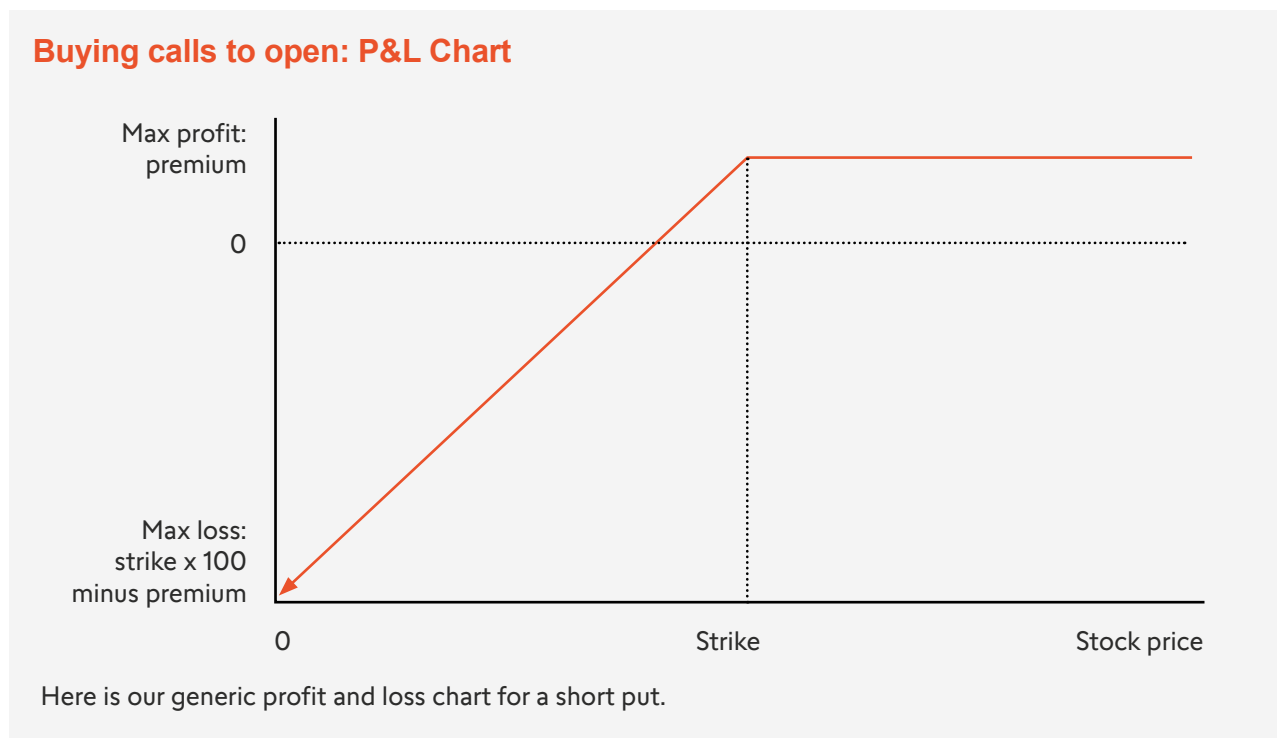
### 2. The stock price goes below \$57 and you are assigned on the put (ie the counterparty exercises it)

The put is removed from the account, and a buy is booked for 100 SCHW at \$57. But the real average price is  $57 - 2.28 = \$54.72$ , thanks to the put premium.

## \*Trade-off\*

There is potential trade-off with this strategy, which represents a real risk you need to consider.

If, between now and expiration day, the stock price moves down quickly below \$57, the put price will increase substantially, which means we will be stuck with it unless we are ready to buy it back very expensively. If the short put is kept until it is assigned, the buy for 100 shares for \$5700 will be booked on the account. Note that the assignment does not necessarily happen on expiration day, it could be any day before that. The chart below will show the maximum possible loss, which happens if the stock price moves to 0 after the put is sold.



## One line summary

A short put replicates a limit buy order on the underlying stock, while bringing income.

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