broker-dealers may also earn interest on the proceeds of the short stock position). Neither position provides protection against loss in the event of a stock price increase.

Short Put = long stock and a short call. The maximum profit on either position is limited to the premium on the sale of the option and the holder of either position retains the risk of ownership in the event of a stock price decline.

Straddle: A straddle is a combination of positions. A long straddle will become profitable if the underlying stock trades outside a predetermined range (generally measured by the premium and transactions costs if the exercise prices of the options are the same) and a short straddle will become profitable if the underlying security trades within a predetermined range measured by the net premium received.

Long straddles can be created in different ways. A long straddle can be constructed combining (1) long put and a long call or (2) short stock and 2 long calls or (3) long stock and 2 long puts. (Note: A lona put is equal to short stock and a long call. Thus short stock plus 2 long calls equals a long put and long call. Similarly, a long call equals long stock and a long put. Thus long stock plus 2 long puts equals a long call and a long put.)

Short straddles can also be created in different ways. A short straddle can be constructed by combining (1) a short put and a short call; or (2) long stock and 2 short calls or (3) short stock and 2 short puts. (Note: A short put is equal to long stock and a short call. Thus long stock and 2 short calls equals a short put and a short call. Similarly, a short call is equal to short stock plus a short put. Thus short stock and 2 short puts equal a short call and a short put.)