IBKRWEBINARS.COM

May 10, 2022

Market Chameleon

How to Use Options Payout Diagrams

Dmitry Pargamanik
Market Chameleon

Exchange and Industry Sponsored Webinars are presented by unaffiliated third parties. Interactive Brokers LLC is not responsible for the content of these presentations. You should review the contents of each presentation and make your own judgment as to whether the content is appropriate for you. Interactive Brokers LLC does not provide recommendations or advice. This presentation is not an advertisement or solicitation for new customers. It is intended only as an educational presentation.

IBKRWEBINARS.COM

IBKRWebinars
by InteractiveBrokers

Disclosure:

Options involve risk and are not suitable for all investors. For information on the uses and risks of options, you can obtain a copy of the Options Clearing Corporation risk disclosure document titled Characteristics and Risks of Standardized Options by calling (312) 542-6901.

Multiple leg strategies, including spreads, will incur multiple transaction costs.

Futures are not suitable for all investors. The amount you may lose may be greater than your initial investment. Before trading futures, please read the CFTC Risk Disclosure. For a copy visit interactivebrokers.com.

There is a substantial risk of loss in foreign exchange trading. The settlement date of foreign exchange trades can vary due to time zone differences and bank holidays. When trading across foreign exchange markets, this may necessitate borrowing funds to settle foreign exchange trades. The interest rate on borrowed funds must be considered when computing the cost of trades across multiple markets.

The Order types available through Interactive Brokers LLC's Trader Workstation are designed to help you limit your loss and/or lock in a profit. Market conditions and other factors may affect execution. In general, orders guarantee a fill or guarantee a price, but not both. In extreme market conditions, an order may either be executed at a different price than anticipated or may not be filled in the marketplace.

There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations.

- IRS Circular 230 Notice: These statements are provided for information purposes only, are not intended to constitute tax advice which may be relied upon to avoid penalties under any federal, state, local or other tax statutes or regulations, and do not resolve any tax issues in your favor.

- Interactive Brokers LLC is a member of NYSE FINRA SIPC

Options Payout Diagram

Visual Chart of Option Strategy
Profit and Loss at Expiration
Structure based on a future outlook
Change Parameters

Visual Chart

Allows you to see your potential profit and losses across a different range of prices at expiration.

Identify the risks and rewards

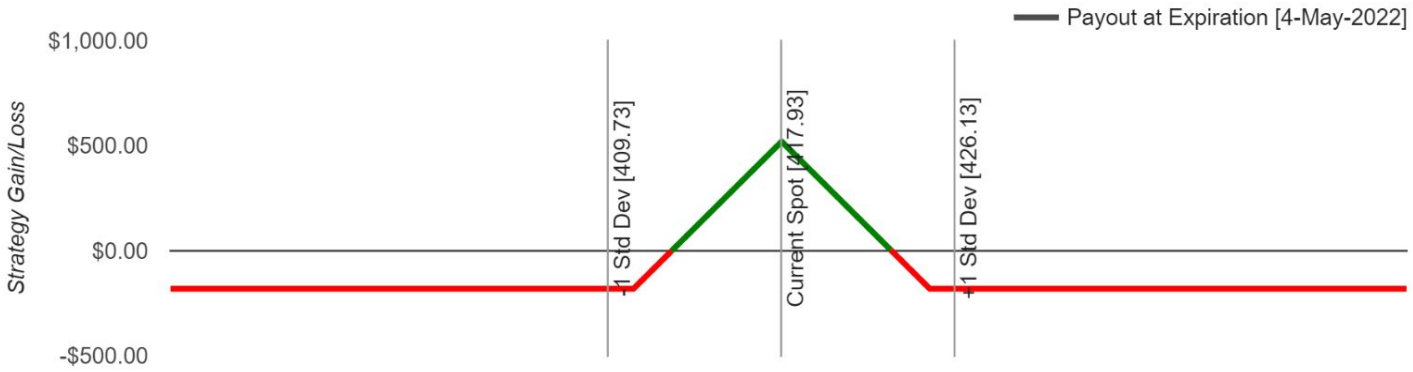
Make sure that the payoff matches your view on the stock

Example of a Payoff Diagram **(Iron Butterfly)**

The **maximum gain** at expiration will be realized if the stock price closes at 418.00. The strategy will earn the collected credit of **$5.20**.

The breakeven points at expiration are at **412.80** and **423.20**, which is -1.2% and 1.3% away from the spot price, respectively.

The **maximum loss** at expiration will occur when the stock price is below 411.00 or above 425.00, and the strategy will then lose **$1.80**.



Profit and Loss at Expiration

Knowing your profit and loss potential allows you to make better decisions

Is the risk/reward worth it.

How much do you stand to make and how much can you lose based on different outcomes at expiration

Structure Strategy based on Your Future Outlook

The payoff diagram allows you to make adjustments and tweaks to your strategy so you can view potential returns and risks and feel comfortable that you optimized your strategy to match your unique future outlook.

For example: Does a vertical spread, ratio spread, or other structure work best for the outlook that you have

Changing Parameters

Besides running a payoff diagram at expiration it is possible to make assumptions prior to expiration.

Allows you to compare a payoff diagram prior to options expiring.

You would need to input assumptions such as implied volatility at dates prior to expiration