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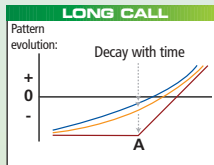
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TALK TO CHUCK

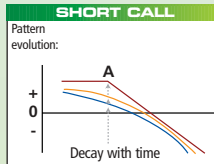
charles SCHWAB
ABOUT ACTIVE TRADING

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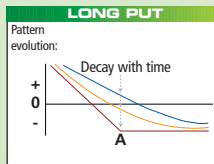
KEY OPTIONS STRATEGIES - AND WHEN TO USE THEM



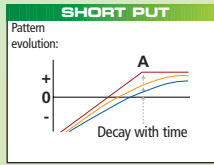
CLASS: Directional
WHEN TO USE: Very bullish. The more bullish, the more out-of-the-money (higher) the option to buy.
PROFIT: Increases as market rises.
LOSS: Limited to amount paid for option.
DECAY CHARACTERISTICS: Position is a wasting asset. As time passes, value of position erodes toward expiration value. If volatility increases, erosion slows; as volatility decreases, erosion speeds up.



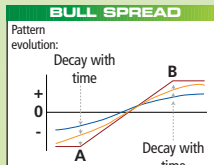
CLASS: Directional
WHEN TO USE: Firmly believe market is not going up. Sell out-of-the-money (higher strike) calls if somewhat convinced market isn't going up; sell at-the-month calls if very confident market will stagnate or fall.
PROFIT: Limited to premium received.
LOSS: Increases as market rises.
DECAY CHARACTERISTICS: Position is a growing asset. As time passes, value of position increases as option loses its time value.



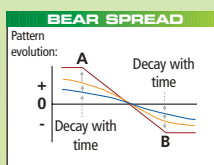
CLASS: Directional
WHEN TO USE: Very bearish. The more bearish, the more out-of-the-money (lower) the option to buy.
PROFIT: Increases as market falls.
LOSS: Limited to amount paid for option.
DECAY CHARACTERISTICS: Position is a wasting asset. As time passes, value of position erodes toward expiration value. If volatility increases, erosion slows; as volatility decreases, erosion speeds up.



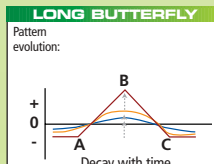
CLASS: Directional
WHEN TO USE: Firmly believe market is not going down. Sell out-of-the-money puts if somewhat convinced market is not going down.
PROFIT: Limited to premium received from sale.
LOSS: Increases as market falls.
DECAY CHARACTERISTICS: Position is a growing asset. As time passes, value of position increases as option loses its time value.



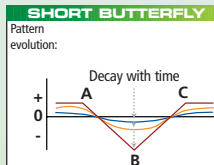
CLASS: Directional
WHEN TO USE: Believe market will go up somewhat or at least is more likely to rise than fall. Good position if want to be in the market but are unsure of bullish expectations.
PROFIT: Limited.
LOSS: By accepting limit to profits, there is limit to risk.
DECAY CHARACTERISTICS: If market is midway between A and B, no time effect. At A, profits increase at fastest rate with time. At A, losses increase at maximum rate with time.



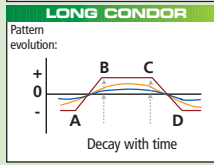
CLASS: Directional
WHEN TO USE: Believe market will fall somewhat or at least a bit more likely to fall than rise.
PROFIT: Limited.
LOSS: By accepting limit to profits, there is limit to risk.
DECAY CHARACTERISTICS: If market is midway between A and B, no time effect. At A, profits increase at fastest rate with time. At B, losses increase at maximum rate with time.



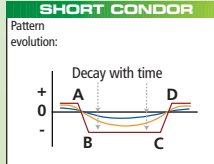
CLASS: Precision
WHEN TO USE: May be entered advantageously in a long-term option series. Enter when, with one month or more to go, cost of spread is 10% or less of B-A. This is a rule of thumb; check theoretical values.
PROFIT: Maximum profit occurs if market is at B at expiration. This profit develops, almost totally, in last month.
LOSS: Maximum loss, in either direction, is cost of spread. A very conservative trade.
DECAY CHARACTERISTICS: Decay negligible until final month, during which distinctive pattern of butterfly forms.



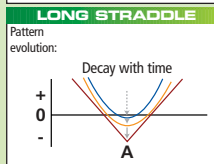
CLASS: Precision
WHEN TO USE: When the market is either below A or above C and position is overpriced with a month or so left. Or when only a few weeks are left till expiration, and market is near B, and an imminent move in either direction is expected.
PROFIT: Maximum profit is credit for which spread is put on.
LOSS: Maximum loss occurs if market is at B at expiration.
DECAY CHARACTERISTICS: Decay negligible until final month, during which distinctive pattern of butterfly forms.



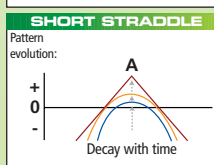
CLASS: Precision
WHEN TO USE: Enter in far-out months, if desired.
PROFIT: Maximum profit realized if market is between B and C at expiration.
LOSS: Maximum loss occurs if market is below A or above D at expiration.
DECAY CHARACTERISTICS: Decay negligible until final month, during which the "super butterfly" Condor develops its characteristic shape.



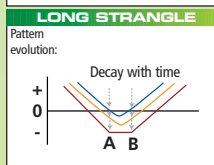
CLASS: Precision
WHEN TO USE: Normally entered when market, with less than one month to go, is between B and C, but there is a good potential for strong move outside of that range.
PROFIT: Maximum profit will occur if market is below A or above D at expiration.
LOSS: Maximum loss will occur if position is held to expiration and, at that time, market is between B and C.
DECAY CHARACTERISTICS: Decay negligible until last month, during which distinctive Condor pattern emerges.



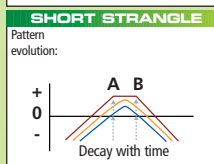
CLASS: Precision
WHEN TO USE: If market is near A, move is expected but not sure which way. Especially good position if market has been quiet, then starts to zigzag sharply, signaling potential eruption.
PROFIT: Open-ended in either direction.
LOSS: Limited to cost of spread.
DECAY CHARACTERISTICS: Decay accelerates as options approach expiration. For this reason, position is adjusted to neutrality by frequent profit-taking. It is normally taken off well before expiration.



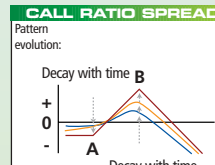
CLASS: Precision
WHEN TO USE: If market is near A, and is expected to stagnate.
PROFIT: Maximized if market, at expiration, is at A.
LOSS: Open-ended in either direction. Position must be closely monitored and readjusted to neutrality if market begins to drift away from A.
DECAY CHARACTERISTICS: Time-value decay is picked up at increasing rate as expiration nears, maximized if market is near A.



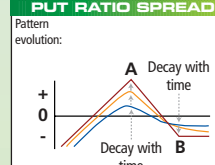
CLASS: Precision
WHEN TO USE: If market is within or near A-B range and has been stagnant. If market explodes either way, money is made. If market remains stagnant, loss is less than with a long straddle.
PROFIT: Open-ended in either direction.
LOSS: Limited.
DECAY CHARACTERISTICS: Decay accelerates as options approach expiration, but not as rapidly as with long straddle. To avoid largest part of decay, take off position prior to expiration.



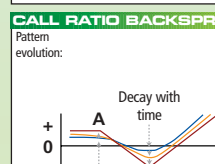
CLASS: Precision
WHEN TO USE: If market is within or near A-B range and, though active, is quieting down. If market goes into stagnation, money is made; if it continues to be active, risk is less than with short straddle.
PROFIT: Maximum profit equals option receipts if put-call version employed.
LOSS: Open-ended.
DECAY CHARACTERISTICS: Time-value decay is picked up at an increasing rate as expiration nears, maximized if market is within A to B range.



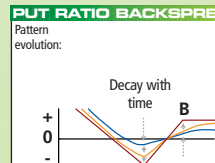
CLASS: Precision
WHEN TO USE: Usually entered when market is near A and user expects a slight rise in market but sees a potential for sell-off.
PROFIT: Maximum profit realized if market is at B at expiration.
LOSS: Limited on downside but open-ended if market rises.
DECAY CHARACTERISTICS: If market is at B, profits from option decay accelerate the most rapidly with passage of time. At A, there is the greatest loss accrual by decay of long option.



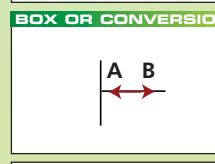
CLASS: Precision
WHEN TO USE: Usually entered when market is near B and is expected to fall slightly but has a potential for sharp rise.
PROFIT: Maximum profit realized if market is at A at expiration.
LOSS: Limited on upside but open-ended if market falls.
DECAY CHARACTERISTICS: If market is at A, profits from option decay accelerate the most rapidly with passage of time. At B, you have greatest rate of loss accrual by decay of long option.



CLASS: Precision
WHEN TO USE: Normally entered when market is near B and shows signs of increasing activity with greater probability of upside.
PROFIT: Limited on downside but open but open-ended in rallying market.
LOSS: Maximum loss is realized if market is at B at expiration. This loss is less than for equivalent long straddle, the trade-off for sacrificing profit potential on the downside.
DECAY CHARACTERISTICS: If market is a B, loss from decay will accelerate the most rapidly. Exit early if market is near B going into last month. At A, the greatest rate of profit accrual by decay of short option.



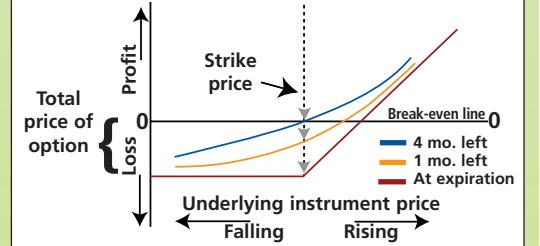
CLASS: Precision
WHEN TO USE: Entering when market is near A and shows signs of increasing activity with greater probability to downside.
PROFIT: Limited on upside but open-ended in collapsing market.
LOSS: Maximum loss realized if market is at A at expiration. This loss is less than for the equivalent long straddle, the trade-off for sacrificing profit potential on upside.
DECAY CHARACTERISTICS: If market is at A, loss from decay will accelerate the most rapidly. Exit early if market is near A as last month is entered. At B, greatest rate of profit accrual by decay of short option.



CLASS: Locked trade
WHEN TO USE: Most commonly used to "lock" all or part of a portfolio by buying or selling to create the missing "legs" of the position. These are alternatives to closing out positions at possibly unfavorable prices.
LONG BOX: Long a bull spread, short a bear spread.
SHORT BOX: Long a bear spread, short a bull spread.

OPTION TYPE	MARKET BIAS	PROFIT POTENTIAL	LOSS POTENTIAL	DECAY EFFECT
Long Call	Bull	Open	Limited	Hurts
Short Call	Bear	Limited	Open	Helps
Long Put	Bear	Open	Limited	Hurts
Short Put	Bull	Limited	Open	Helps
Bull Spread	Bull	Limited	Limited	Mixed
Bear Spread	Bear	Limited	Limited	Mixed
Long Butterfly	Mixed	Limited	Limited	Mixed
Short Butterfly	Mixed	Limited	Limited	Mixed
Long Condor	Mixed	Limited	Limited	Mixed
Short Condor	Mixed	Limited	Limited	Mixed
Long Straddle	Mixed	Open	Limited	Hurts
Short Straddle	Mixed	Limited	Open	Helps
Long Strangle	Mixed	Open	Limited	Hurts
Short Strangle	Mixed	Limited	Open	Helps
Call Ratio Spread	Mixed	Limited	Mixed	Mixed
Put Ratio Spread	Mixed	Limited	Mixed	Mixed
Call Ratio Backspread	Mixed	Mixed	Limited	Mixed
Put Ratio Backspread	Mixed	Mixed	Limited	Mixed
Box or Conversion	Neutral	Absolute	Absolute	Neutral

	Call (+)	Put (-)	
Buy	+	-	Limited Risk
Sell	-	+	Unlimited Risk



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