Options Trading Strategies

Rolling:

Rolling is defined in options as moving a position from one strike to another either vertically in the same month, horizontally to another month or some combination thereof.

Other times, you may have to buy your short call back so that you will not lose your stock. Sometimes, you may even want to allow the stock to be called away if you have decided that the stock has reached a level were you want to take your profits and begin to look for another opportunity.

The term "roll" means to move your position either out to the next strike or to move your position up or down a strike in the same month. The term "roll" means "to move."

Rolling is normally done via time spread and/or vertical spreads. Without getting into the trading of spreads, which is a unique strategy in itself and a topic for future
Options University courses, we will talk a little about the "roll."

As stated before, the covered call strategy is most effective when executed month in and month out over an extended period of time.

In order to do this, an investor must re-initiate the position every month at the option's expiration. The re-initiation of the position every month is where the term rolling comes from. However, there may be times when you may want to give yourself a little more upside room for capital appreciation. In those rare cases, you will not want to "roll" the position, because it might be called away if the call you sold is exercised when it becomes 'in the money.'

When an option's expiration approaches, your short option can either be in-the-money or out-of-the-money. As we discuss the two potential outcomes, let's first assume that we want to hold onto our stock.

If the option is going to finish out of the money, you would let it expire worthless and then sell the next month's call. If the option is going to expire in-the-money and you want to keep the stock you will need to buy the short option back and sell the next month's call.

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This trade will consist of two option trades. You will be buying one option and selling another, which is commonly known as a spread and is referred to as a single trade.

So, when you roll out your covered call or buy-write, you do it by doing a spread. The front month option, the one that you happen to be short, will be bought back thus ensuring you keep your stock.

The second month option will be sold short thus re-initiating your covered call strategy. The position that remains is long stock and short calls. As far as the selection process of the spread used for the rolling of the position, there will be some choices.

Of course, there is no choice as to the front month option, you must buy back the option you are short. However, you do have a choice as to the next month option you are going to sell, whether it be near term or farther out in expiration.

This goes back to our earlier conversation about lean. If you are no longer bullish then you would not have bought back your short call and instead allowed it to be exercised and have the stock called away from you. If you choose to roll the position then you must be somewhat bullish on the stock. Your lean will dictate to you which new option to sell.

For more Information about option trading, please click here:
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