



[Key Point in Collar Strategy](#)

Key Point – The collar strategy allows for a limited but continued capital appreciation of a long stock position while providing for a limited, fixed downside exposure. The position is very inexpensive to initiate due to the offsetting premiums of the long (purchased) put and short (sold) call.

The collar is an excellent protective strategy for an investor who has a bullish opinion on a stock.

In looking at the bullish lean example, one of the flaws is the fact that if you move that upside call to the higher strikes you may overly decrease the amount of premium you receive for the sale of that call which, as you know, is supposed to compensate for the amount spent on your protective put.

One way to adjust for this is to look further out across the months in the strike you are interested in. Selling a call out two or three months may generate enough premiums to fully offset the price of the put.

Remember, premiums increase over time for all options. You do not have to be confined by the idea that your long put and short call have to be in the same expiration month.

This adjustment provides more acceptable premium balance allowing extra room for a strong upward stock move while still giving you maximum downside protection.

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