Bear Put Spread

the Bear Put Spread is quite easy to implement. One would implement a bear put spread when the market outlook is moderately bearish, i.e you expect the market to go down in the near term while at the same time you don't expect it to go down much. If I were to quantify 'moderately bearish', a 4-5% correction would be apt. By invoking a bear put spread one would make a modest gain if the markets correct (go down) as expected but on the other hand if the markets were to go up, the trader will end up with a limited loss.

A conservative trader (read as risk averse trader) would implement Bear Put Spread strategy by simultaneously –

1. Buying an In the money Put option
2. Selling an Out of the Money Put option

do note that both the options should belong to the same expiry and same underlying.

Bear Call Spread

Bear Call Spread is a two leg option strategy invoked when the view on the market is 'moderately bearish'.

The Bear Call Spread is a two leg spread strategy traditionally involving ITM and OTM Call options. However you can create the spread using other strikes as well. Do remember, the higher the difference between the two selected strikes (spread), larger is the profit potential.

To implement the bear call spread –

1. Buy 1 OTM Call option (leg 1)
2. Sell 1 ITM Call option (leg 2)

   Ensure –

1. All strikes belong to the same underlying
2. Belong to the same expiry series

3. Each leg involves the same number of options