

Protective Put

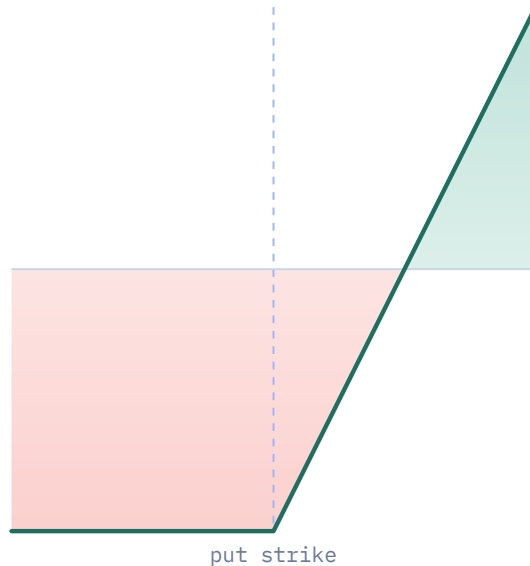
Insurance for your share position with a fixed floor.

also: married put · stock insurance · hedged stock

PAYOFF PROFILE

Profit / loss per contract unit

Profit



Loss

Schematic, not to scale.

Price at expiration →

CONSTRUCTION

- +100 shares
- +1 Put at the put strike

KEY FIGURES

Maxprofit	unlimited (through the shares)
Maxloss	cost basis - put strike + premium
Break-even	cost basis + premium
Profitzone	price above the break-even
Capitalrequired	stock position plus premium
Opening	premium is paid

WHAT HELPS THE POSITION

Direction	Rising prices help
Movement	Large moves help
Time	Time works against you
Volatility	Rising volatility helps

WHAT PAYS YOU

- Price direction
- Time decay against you
- Volatility against you

You get paid on the stock. The put is pure insurance premium and costs you time value.

TYPICAL USE

Market phase	clear uptrend, large move, direction open, clear downtrend
Volatility	low (IV rank < 30)
Goal	Hedging
Expiration	60-180 days
Strike choice	0.15-0.35 (Put)
Assignment risk	none on the long put

EXIT & MANAGEMENT

Take profit	n/a - this is insurance, not an income trade
Loss limit	defined by the put strike
Time rule	roll before the time value is fully gone

THE ONE QUESTION BEFORE ENTRY

What does this insurance cost you per year, as a percentage of the position?

COMMON MISTAKES

- Never added up the annual cost of running the hedge - it eats the return
- Bought only after the drop, when IV was at its highest



Related: Collar · Long Put — Opposite: Covered Call
Figures are per contract unit at expiration, before fees and tax. This is not investment advice — options can lose their entire value.