

Answer on Question #59647 – Math – Financial Math

Question

Briefly discuss a situation where it may be advisable to combine two positions

1. on short-selling one share

and

2. holding one put option.

Describe what the combined payoff would resemble.

Solution

It may be advisable to combine short-selling one share and holding one put option, because the combined payoff would afford to decrease risks of facing losses. Long positions are those that are owned and short positions are those that are owed. An investor who has sold 100 shares of XYZ stock without currently owning those shares is said to be short 100 shares. In our case short-selling one share and holding one put option can allow to sell a share at one price and holding one put option wait for the increase of the market price of the share to gain profit margin.