Credit spread maximum loss

Option arithmetic | Original synthetic example | Edition 2026-11-26

For an equal-quantity same-expiry credit spread, the adverse intrinsic difference is bounded by the strike width. Subtracting the initial credit gives the idealized expiry maximum loss.

FORMULA Maximum loss = strike width - net credit

SCENARIO 01: Synthetic expiry scenario; reference strike 100



WORKED EXAMPLE

Put credit spread short 100 / long 90 receives 2; idealized maximum loss is 8. No fees or settlement frictions.

COMMON MISTAKE

Treating the received credit as the amount at risk reverses the relevant calculation.

BEFORE YOU USE THE CALCULATION

1. Confirm a defined-risk equal ratio.
2. Check width exceeds credit.
3. Consider leg execution and settlement risk.

COMPARE TWO MORE INPUT SETS

Scenario 05: Synthetic expiry scenario; reference strike 140. Put credit spread short 140 / long 126 receives 2.8; idealized maximum loss is 11.2. No fees or settlement frictions.

Scenario 10: Synthetic expiry scenario; reference strike 190. Put credit spread short 190 / long 171 receives 3.8; idealized maximum loss is 15.2. No fees or settlement frictions.

Synthetic values are not historical market data. Educational material; trading can result in substantial losses.