



Introduction to Options

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Purpose

Provide a foundation for all interested to begin learning and understanding options and how to use them.

Build upon foundational knowledge to develop criteria and strategies as a community.

Promote multiple opportunities for us to use options in our investing and trading careers.

Overview

- Why Use Options?
- Who Uses Options?
- History of Options
- Types of Options
- Calls and Puts

Why Use Options?

Profit, Survive and Thrive under ALL Market Conditions!

Lower Risk Exposure to the Market

Boost Returns on Trade Ideas and Investment Capital

Increase Win Rate and Profit Potential

Who Uses Options

Investors

- Hedge an Investment Portfolio (Buy Insurance to Protect Unrealized Gains)
- Generate Additional Income and Lower Cost Basis on Purchased Securities
- Buy Stocks at Discounted Prices

Swing Traders

- Long/Short a Security for Less Capital (Control High-Priced Stocks at a Fraction of the Cost)
- Magnify Returns on Capital while Minimizing Risks
- Generate Profits under any Market Conditions
 - Bullish
 - Bearish
 - Sideways (Kangaroo)

Day Traders

- Deploy Multiple Trades for Less Capital and Defined Risk (Trade Management)
- Avoid Known Challenges of Trading the Security (High Price Volatility, Low Liquidity/Wide Spreads, News Catalyst Risk)
- Add to Winning Positions with Realized Profits (Free Rolling) / Protect Unrealized Profits

History of Options

First instances occurred with Dutch countries in the Tulip Markets

- First recorded speculative bubble
- Futures 'contracts' were being bought/sold instead of the physical tulip bulbs and buyers were obliged to buy the bulbs at the full contracted price
- During the crash, a decree converted forward contracts into options contracts, relieving buyers from receipt of the bulbs and instead allowing for a penalty to be paid

All option contracts traded on U.S. exchanges are issued, guaranteed, and cleared by the Options Clearing Corporation ([OCC](#)).

- Founded in 1973
- Issues and clears options listed
- Ensures all contracts are 'tradeable' within different exchanges and guarantees clearings even if underlying gets delisted

Types of Options

Investopedia Definition

- Financial Instruments that are derivatives based on the value of the underlying security

Two Types of Options

Call Option: Bullish – Buyer Wants Price to go Up



Put Option: Bearish – Buyer wants Price to go Down



Buyers pays **Premium**; Sellers collects **Premium**

Call Option

Contract that gives the Buyer (Holder) the Right to Buy the Underlying Asset at a Stated Price (Strike Price) prior to Expiration. Gives the Seller (Writer) the Obligation to Sell the Asset at the Stated Price.

Underlying Stock
is AAPL

Option Expires on May 2023
(3rd Friday for Monthly Expiration)

Strike Price
\$150

Call Option

Premium

AAPL May 23 150 Call at \$6

Put Option

Contract that gives the Buyer (Holder) the Right to Sell the Underlying Asset at a Stated Price (Strike Price) prior to Expiration. Gives the Seller (Writer) the Obligation to Buy the Asset at the Stated Price.

Underlying Stock
is TSLA

Option Expires on Oct. 2023
(3rd Friday for Monthly Expiration)

Strike Price
\$200

Put Option

Premium

TSLA Oct 23 200 Put at \$10