



# Options and Stocks: A Side-by-Side Comparison

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# Purpose

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Review similarities and differences between stock shares and options regarding trading and investing

Discuss how each opportunity must be evaluated based on market conditions

Cover buyers and sellers of options to outline the various roles each participant takes

# Stocks vs Options

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## Stocks

- Go Long or Go Short
- Shorting costs Margin Interest on loan between you and your broker
- Large Capital Requirements
- Can be 'wrong' for a long time before being right (Buy and Hold)
- Dividends
- Exposed to unforeseen risks (news catalysts, gaps, earnings, etc)

## Options

- Multiple strategies for directional/non-directional markets
- Smaller Capital Requirements
- Must be right before/at expiration
- No dividends (can exercise option to collect dividend on underlying)
- Less exposure to unforeseen risks (buyer can only lose premium; seller can buy protection)

# Example – Stock Buyer vs Call Option Buyer

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Buy Stock of ABC for \$100/share

- 100 Shares @ \$100/share
- Capital Value: \$10,000

ABC goes to \$120/share

- 100 Shares @ \$120/share
- Capital Value: \$12,000

Profits

- $\$12,000 - \$10,000 = \$2,000$
- ROI:  $\$2,000 / \$10,000 = .2$  (20%)

Buy a Call Option of ABC for \$4

- 100 Shares @ \$4/share
- Contract Value: \$400

ABC goes to \$120/Share before Expiration

- $(\$120 - \$100) * 100$
- Contract Value: \$2,000 (At Exp.)

Profits

- $\$2,000 - \$400 = \$1,600$
- ROI:  $\$1,600 / \$400 = 4.0$  (400%)

# Option Buyers vs Sellers

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Option Buyers will pay Premium for the **Right** to Buy (Call) or Sell (Put) the Stock from the Seller at the Strike Price

Option Premium  
(\$)



Option Sellers will receive Premium for the **Obligation** to Sell (Call) or Buy (Put) the Stock from the Buyer at the Strike Price



Market Makers will facilitate the exchange between buyers and sellers

# Right vs Obligation

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## Right

- As a Buyer (Holder), the choice to **Exercise** the Option and Buy (Call) or Sell (Put) the Asset at the Strike Price is your 'Right'
- Most options are bought/sold as the contracts, not the underlying
- Pay a premium to hold the contract, looking to sell at a higher price before expiration

## Obligation

- As a Seller (Writer), you are locked in as a potential 'Assignee' and can be **Assigned** to Buy (Put) or Sell (Call) the asset at the Strike Price
- Market makers make a market for selling and buying contracts; they provide the price levels for selling contracts
- Collect a premium to write the contract, looking for contracts to expire worthless or buy back at cheaper price

# Summary of Calls and Puts

**Call Buyer**  
**Bullish**  
**Right to Buy**  
**Profit: Price Goes Up**

**Call Seller**  
**Bearish/Neutral**  
**Obligated to Sell**  
**Profit: Price Goes Down/Sideways**

**Basic Contracts**

**Put Buyer**  
**Bearish**  
**Right to Sell**  
**Profit: Price Goes Down**

**Put Seller**  
**Bullish/Neutral**  
**Obligated to Buy**  
**Profit: Price Goes Up/Sideways**

