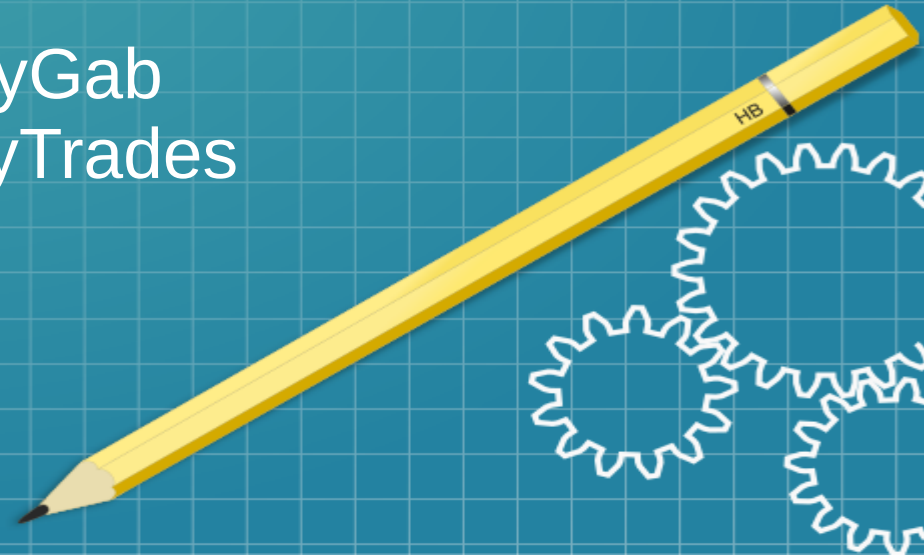
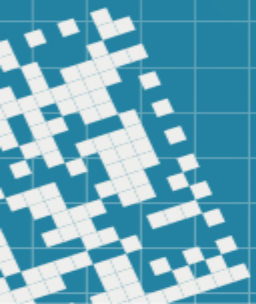
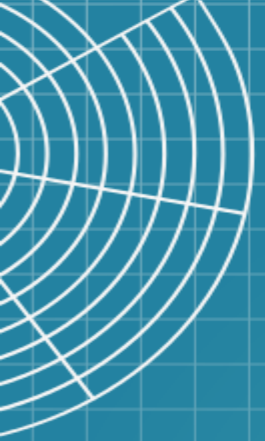


Options Fundamentals

Ep 1

Introduction to Options

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Disclaimer

This presentation is for educational purposes only. Nothing in this presentation is intended to be trading or financial advice.

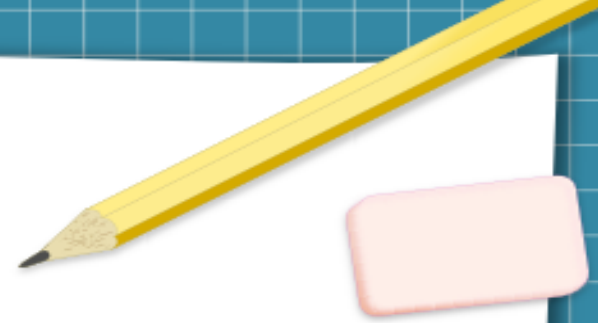
ENTER AT YOUR OWN RISK

What is an Option?



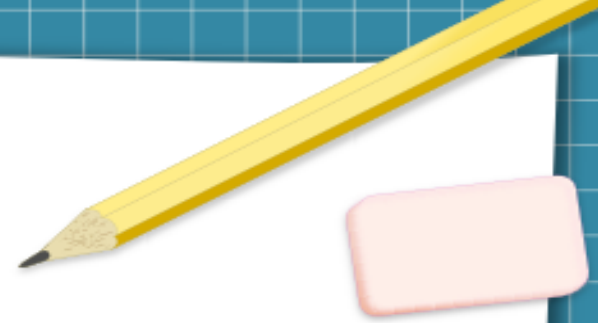
- An option is a contract that allows the buyer to buy or sell a stock at a given price for a certain amount of time
- A standardized options contract represents 100 shares of the underlying stock
- Options are traded like stocks on regulated exchanges through brokers

Why Use Options?



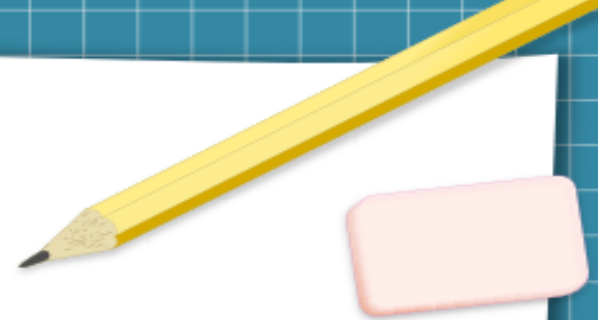
- Protect a stock position
 - Options were originally a form of insurance against a long or short stock position
- Make money entering and exiting a position
- Trading equities without owning the stock
 - Leverage: Control 100 shares of stock for far less money

Call Options



- The **buyer** of a call option has the **right** to buy 100 shares of a stock at a given price for a certain amount of time.
- The **seller** of a call option has the **responsibility** to provide 100 shares of a stock at a given price for a certain amount of time if requested by the buyer in exchange for the premium received from the buyer.
- If the buyer requests the shares, it is called “exercizing” the option or the buyer is “assigned” the shares.
 - This is why it’s named a “call” option because the shares are “called away” from the seller.
- This can protect a buyer’s short position in the stock

Put Options



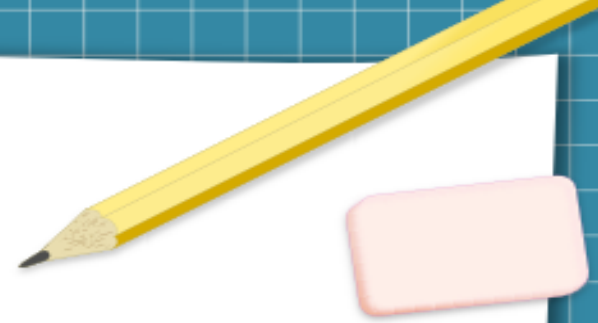
- The **buyer** of a put option has the **right** to sell 100 shares of a stock at a given price for a certain amount of time.
- The **seller** of a put option has the **responsibility** to purchase 100 shares of a stock at a given price for a certain amount of time in exchange for the premium received from the buyer.
- If the buyer requests to sell the shares, it is called “exercising” the option or the seller is “assigned” the shares.
 - This is why it’s called a “put” option because the shares are “put to” the seller
- This can protect the buyer’s long position in a stock

Basic Options Components



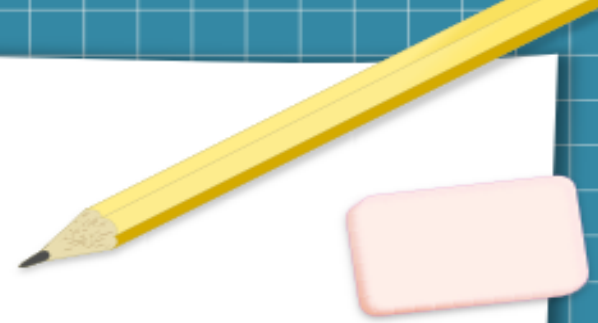
- Underlying (Stock)
- Expiration
- Strike Price
- Example:
 - AAPL (Apple) March 15 \$100 Call option
 - Underlying Expiration Strike

“The Money”



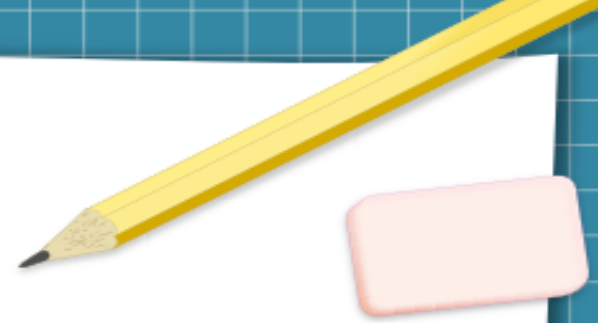
- In the Money (ITM)
 - An call option is considered in the money if the strike price is lower than the price of the underlying
 - A put option is considered in the money if the strike price is higher than the price of the underlying
- Out of the Money (OTM)
 - A call option is considered out of the money if the strike price is higher than the price of the underlying
 - A put option is considered out of the money if the strike price is lower than the price of the underlying
- At the Money (ATM)
 - A call or put option is considered at the money if the price of the stock is exactly the same as the strike price of the option

Exercising



- American Style:
 - An option can be exercised at any time until expiration.
- European Style
 - An option can only be exercised at expiration
- Brokers typically will automatically exercise an ITM option at expiration unless otherwise directed by the buyer

Value

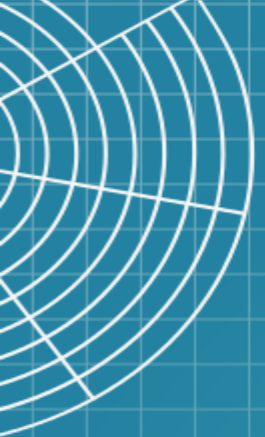


- Intrinsic Value
 - If an option is ITM, it has intrinsic value
- Extrinsic Value
 - Every option has extrinsic value until it expires
- Example:
 - Assume IBM is at \$120. A \$100 call has \$20 of intrinsic value
 - The rest of the option price is extrinsic value
- ATM/OTM options only have extrinsic value

How to buy/sell options



- Most brokers will offer options, but you need approval to trade them.
- Approval is granted in levels
 - Level 1: Covered Calls/Protective Puts only
 - Level 2: Long Calls/Puts
 - Level 3: Spreads
 - Level 4: Uncovered or “naked” selling



Thank you for your time. Let's keep talking!
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