

Options Basics

Ep 2: Simple Options Plays

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Disclaimer

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

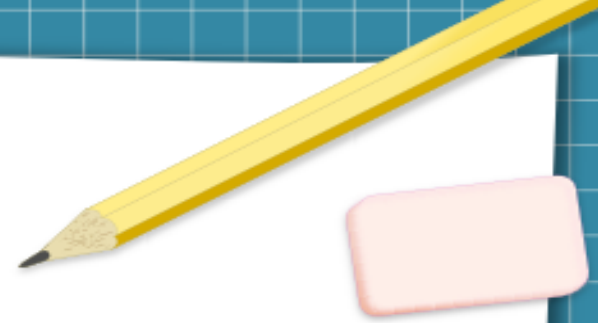
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How to buy/sell options



- 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

Covered Call



- You own 100 shares of a stock
- You sell a call option against those 100 shares and collect a premium
- At expiration:
 - If the option is OTM/ATM, it expires worthless, you keep the premium
 - If the option is ITM, your shares are called away at the strike price

Covered Call Example



- I own 100 shares of XYZ. My cost basis is \$60/share.
- The stock is currently trading at \$69.50/share
- I sell 1 call option 35 days out
 - Strike \$75
 - Price is \$.50
- I collect \$50 in premium ($\$.50 \times 100$ shares)
- If in 35 days, the stock price is over \$75 at expiration, I must sell my shares to the buyer at \$75/share.
- Otherwise, I keep the premium

Cash Secured Puts



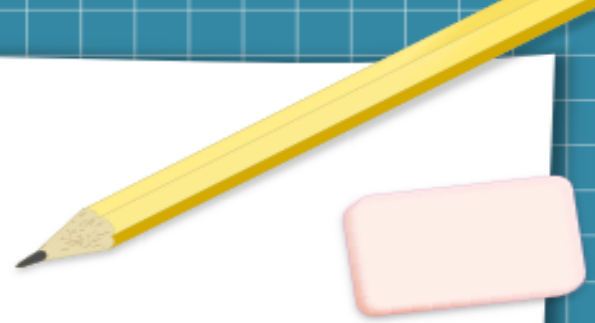
- I want want to own 100 shares of stock
- I want to set my purchase price and buy at a discount
- I sell a put and collect a premium
- At expiration:
 - If the option expires OTM/ATM, it expires worthless and I keep the premium
 - If the option expires ITM, I must buy 100 shares at the given price. So I get to set my price and get a discount on it (the price of the premium)

Cash Secured Put Example



- I would like to own 100 shares of XYZ which is currently trading at \$69.50
- I sell a put option 35 days out
 - Strike price of \$65
 - Price is \$.80
- I collect \$80 in premium.
- If in 35 days, the price of XYZ is above or at \$65, I keep the premium
- If in 35 days, the price is below \$65, I must buy 100 shares which will cost me \$6,420 ($\$6500 - \80).

Closing the Position




- Expiration
- Buy back the call/put before expiration
- Early Expiration
 - Be careful about this, especially in stocks with large dividends!

Laddering



- Laddering is a technique used by stock traders to enter and exit their positions by selling puts and calls against their positions
- Sell puts to enter a position at a discount or get paid to wait
- Sell calls against your holdings to exit at the price you want or get paid to wait.
- Downside, you are working in lots of 100. Could be expensive



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