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OPTIONS

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What are Options?

- With options, one pays money to have a choice in the future
- An options contract offers the buyer the right to buy, not the obligation to buy at the specified price or date.
- Right to Buy a Security – Call
- Right to Sell a Security - Put

Terms Associated with Options

- Spot Price - It's the price of the underlying stock or index
- Strike Price - The pre-decided price at which the asset can be bought or sold
- Expiration Date – When the contract Expires (Near- Middle-Far)
- Option Premium – Total Cost of an Option is Premium
- Lot size

E.g. options contracts for Reliance Industries have a lot size of 250 shares per contract.

Call

- Investors buy calls when they think the share price of the underlying stock/index will go up or they will sell a call if they think it will fall.
- Selling an Call option is referred to as "writing" an option.

Put

- Investors buy put when they think the share price of the underlying stock/index will go down or they will sell a put if they think it will rise
- Selling an Put option is also referred to as "writing" an option.

Buy Call

- Long Position in the Market
- Bullish on the underlying stock or index
- Unlimited Returns
- Limited Risk

Sell Call

- Short Position in the Market
- Bearish on the underlying stock or index
- Limited Returns
- Unlimited Risk

Buy Put

- Short Position in the Market
- Bearish on the underlying stock or index
- Unlimited Returns
- Limited Risk

Sell Put

- Long Position in the Market
- Bullish on the underlying stock or index
- Limited Returns
- Unlimited Risk

ITM-ATM-OTM

Call

- Strike - 130 (ITM)
- Spot - 150 (ATM)
- Strike - 180 (OTM)

Put

- Strike - 180 (ITM)
- Spot - 150 (ATM)
- Strike - 130 (OTM)

Intrinsic Value

Intrinsic Value is the difference between the cash market spot price and the strike price of an option.

It can either be positive (if you are in-the-money) or zero (if you are either at-the-money or out-of-the-money).

An asset cannot have negative Intrinsic Value

So to Conclude

Call

1. All option strikes that are higher than the ATM strike are considered OTM

2. All option strikes that are below the ATM strike are considered ITM

Put

1. All strikes higher than ATM options are considered ITM

2. All strikes lower than ATM options are considered OTM

Option Strategies

- Straightforward **strategy** might simply be the buying or selling of a single **option**, however **option strategies** often refer to a combination of simultaneous buying and or selling of **options**.

- **Options strategies** allow traders to profit from movements in the underlying assets that are bullish, bearish or neutral

STRATEGY 1 : LONG CALL

- Its for aggressive investors
- Who are bullish
- Basic Option Strategy
- Risk – limited
- Reward – Unlimited
- Breakeven: Strike Price + Premium

STRATEGY 2 : SHORT CALL

- Its for aggressive investors
- Who are bearish or FLAT
- Risk – Unlimited
- Reward – Limited
- Breakeven: Strike Price + Premium

STRATEGY 3 : LONG PUT

- Buying a Put is the opposite of buying a Call
- Bearish
- To take advantage of a falling market
- Risk: Limited to the amount of Premium paid
- Reward: Unlimited
- Break-even Point: Stock Price - Premium

STRATEGY 4 : LONG STRANGLE

- The investor thinks that the underlying stock / index will experience very high levels of volatility in the near term.

- Risk: Limited to the initial premium paid

- Reward: Unlimited

- Breakeven:

Upper Breakeven Point = Strike Price of Long Call + Net Premium Paid

Lower Breakeven Point = Strike Price of Long Put - Net Premium Paid

STRATEGY 5 : SHORT STRANGLE

- This options trading strategy is taken when the options investor thinks that the underlying stock will experience little volatility in the near term

- Risk: Unlimited

- Reward: Limited to the premium received

- Breakeven:

Upper Breakeven Point = Strike Price of Short Call + Net Premium Received

Lower Breakeven Point = Strike Price of Short Put - Net Premium Received

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THANK YOU