Buying vs. Selling Options

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2. Option Buying

   - What
     - You are buying the right to buy (Call) or sell (Put) 100 shares of the Underlying at the Strike price. The standard amount of shares that come with the Option is 100. There are options with other amounts (such as 10 shares) but these are not typical.
     - In exchange for having this right, you have to pay a price (the option premium).
   - Why
     - Options offer great leverage potential, i.e. you can maximize profit with a relatively small capital base.
     - The risk is limited to the premuim you have paid for the Option (i.e. your principal investment).
   - When
     - The best time to buy a Call Option is when you expect the Market Price of the Underlying to move up at least more than the premium you have paid for the Option.
     - The best time to buy a Put Option is when you expect the Market Price of the Underlying to move down at least more than the premium you have paid.

3. Option Selling

   - What
     - You are selling the right to buy (Call) or sell (Put) 100 shares of the Underlying at the Strike price. The standard amount of shares that come with the Option again is 100. There are options with other amounts (such as 10 shares) but these are not typical. This means that your are providing someone else with the right to buy (Call) or sell (Put) those 100 shares of the Underlying at the Strike price.
     - In exchange for giving this right to someone else you will receive a payment (the option premium).
     - Selling differs from buying in that by selling you are creating an obligation for yourself as you are giving someone else the right to buy or sell this Option.
   - Why
     - Selling an Option means that you get paid as soon as you enter the trade.
     - The odds are stacked in your favor. The odds usually favor the option seller.
     - As an Option seller you make money no matter which direction the stock moves, whether that direction be in your favor, no movement at all, or moving slightly against you. Because you sold the option and got paid for that sale you have already secured what money you will make from the trade, i.e. your profit is not dependent on the Market price of the stock.
   - When
     - The best time to sell an Option is when you expect the stock price to move either in the opposite direction, not move at all, or move less than the premium you received.
     - The best time to sell a Call Option is when you expect the stock to move down or not at all, and the best time to sell a Put Option is when you expect the stock to not move or to move up.
     - When selling Options you always tke the neutral side or the opposite side.
   - Buy Calls or Puts, respectively, when you expect the stock to move up or down respectively.
   - Sell Calls or Puts, respectively, when you expect the stock to move down or up respectively.