# - What Is an Option?

The term option refers to a financial instrument that is based on the value of underlying securities such as stocks. An options contract offers the buyer the opportunity to buy or sell—depending on the type of contract they hold—the underlying asset. Unlike futures, the holder is not required to buy or sell the asset if they decide against it.

# - What are the 4 types of options?

There are four basic options positions: buying a call option, selling a call option, buying a put option, and selling a put option. With call options, the buyer is betting that the market price of an underlying asset will exceed a predetermined price, called the strike price, while the seller is betting it won't.

# How much is maximum loss on put option?

As a Put Buyer, your maximum loss is the premium already paid for buying the put option. To reach breakeven point, the price of the option should decrease to cover the strike price minus the premium already paid. Your maximum gain as a put buyer is the strike price minus the premium.

# What is the max profit on a put option?

The maximum potential profit is equal to the strike price of the put minus the price of the put, because the price of the underlying can fall to zero.

# What is the max profit on a call option?

The maximum profit potential of a covered call is achieved if the stock price is at or above the strike price of the call at expiration. The maximum profit potential is the sum of the call premium and the difference between the strike price and the stock price.

# - Benefits

1. Options are financial derivatives that give buyers the right, but not the obligation, to buy or sell an underlying asset at an agreed-upon price and date.

2. Call options and put options form the basis for a wide range of option strategies designed for hedging, income, or speculation.

3. Options trading can be used for both hedging and speculation, with strategies ranging from simple to complex.

4. Although there are many opportunities to profit with options, investors should carefully weigh the risks.

# Examples

For instance, 1 ABC 110 call option gives the owner the right to buy 100 ABC Inc. shares for $110 each (that's the strike price), regardless of the market price of ABC shares, until the option's expiration date.

Or

By purchasing a put option for $5, you now have the right to sell 100 shares at $100 per share. If the ABC company's stock drops to $80 then you could exercise the option and sell 100 shares at $100 per share resulting in a total profit of $1,500.