

Title: FAQ: Options 101

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Created 2021-06-24 04:34:23 UTC

Permalink: /r/ratioatblessons/comments/o6tman/faq_options_101/

Url: https://www.reddit.com/r/ratioatblessons/comments/o6tman/faq_options_101/

Hello all!

Reclaiming the Education flair here. Too much attention has been devoted to the past lately, and not enough to the future, which brings to mind that classic disclaimer:

> *Past performance does not guarantee future results.*

I don't know about you, but while GME is the Big Ticket, if GME is all I know, as much as I may love it, I'm kinda hosed in the After if that's all I know, right? Seeing u/RatioAtBlessons talk about making moves parallel to GME, and then seeing them play out (with some frustrating vagueness) made me realize there was a better way than just dumping all my free funds into GME. What if I could invest more than my paycheck provided? What if I could buy 10 shares with the same money that would have bought only 4?

That's when I popped back into options. I already knew a bit about options from my time dabbling in them, but I got serious about learning, and boy, did a little intentional knowledge make a huge difference in being able to take advantage of the leverage that options provide, all without having to take out a margin loan.

For all the new people, I know options can seem intimidating, and sometimes downright scary. There's a ton of numbers and Greek letters, and they always seem to change without explanation. If you find yourself reading DD about Max Pain or Delta-Hedging and just nodding along without understanding, then this post is for you. (I'll also include a dictionary at the end).

If you already understand options, come help me in the comment section. Let's RatioAtOptions together. ■

###A selection from my most frequently-fielded questions and their answers:

****Q: What's an options contract?****

****A**:** It's an agreement between two parties to transact a certain number of shares at a specific price by a certain date. They come in two varieties: Calls - the right to *buy* shares, and Puts - the right to *sell* shares. The standard is 100 shares per contract.

****Q: I don't understand. So if I buy a call, that means I'm obligated to buy 100 shares? If so, I'm staying away from options. I don't have \$20,000!****

****A**:** No. Every option has a long and short party involved. You, as the option purchaser, are the long party. Being the long party comes only with rights, and no obligations. ■

At the other end of the trade is the short party - the ****Option Writer****. Being the short party comes only with obligations, and no rights. ■

Looking at buying calls - the easiest option to understand - here's how this breaks down:

****You, the option buyer**:** You have the *right* to buy 100 shares of the underlying stock at a determined ****strike price**** by a certain ****expiration date****. On a call, your contract is ****In-The-Money (ITM)**** if the price of the stock is higher than the ****strike price**** by at least \$0.01, which means you can ****exercise**** your rights and "call" the contract. You pay the option writer 100x the strike price of the contract, and they deliver 100 shares to you at a ~~loss~~ discount.

At the other end of the trade is them, the option writer. Let's talk about their obligations as a normal person. Theoretically, they already have 100 shares on hand, and they wrote that call contract as a way to make a little extra money off of them. This is a "Covered Call", the most common "short" option position. They've just betted that the price of the stock won't reach your agreed strike price by the expiration date. If they're right, and the stock doesn't reach the strike price by the expiration date, then the contract expires

worthless, and they pocket the profit.

If they're wrong, though, this is where the obligations come in. If you call the contract, the option writer has been **assigned**. They are now **obligated** to sell you those 100 shares at the strike price. If the price of the stock skyrocketed, they won't realize those gains, only the proceeds of the call option being exercised.

Q: It's expiration day and I'm ITM by a lot, but I don't have any settled cash in my trading account to actually buy 100 shares of the stock. Am I just out the money?

A: No, you're not. If you hold an ITM call, it will always be worth **at least** the difference between the current share price and the option strike price. It's valuable. If you don't have the money to exercise the call, or just don't like the stock enough to buy 100 shares of it, then you can usually sell the call to another buyer and just take the appreciation of the contract as your profit.

Q: Will I always be able to sell a call?

A: Unfortunately, no. Just like everything else on the Exchange, you can only sell off a contract if there's a market for it. I've ended up losing out on a few ITM calls simply because the market for them dried up. I either had to attract a buyer by selling them for a significant loss to get at least **something** from them, or just sit on them until they expired. I've since learned to stay away from really illiquid strikes/dates if I can help it.

Q: I have more questions. Will you answer them?

A: If I can, absolutely. Just leave a comment.

Q: Will you teach me about crypto?

A: No. There are others in this sub far more experienced in crypto than me, and they're much better resources on this.

Q: I've heard about Greeks, butterflies, straddles, and spreads. Can we talk about those?

A: Not this time. Let's stick to the basics today.

###Dictionary

Strike Price - The predetermined price of the stock transaction if the contract is exercised. For a call, the contract is profitable when the price is above the strike. For a put, the contract is profitable when the price is below the strike.

Option Writer - The person who created the option contract and sold it to you. For a call, they are potentially obligated to sell shares to you. For a put, they are potentially obligated to buy shares from you.

Exercise - Executing the contract. For a call, you will buy 100 shares from the option writer at the strike price. For a put, you will sell 100 shares to the option writer at the strike price.

Assignment - The companion to Exercise. This is the action required from the Option Writer to close the contract. For a call, they are obligated to sell you 100 shares at the strike price. For puts, they are obligated to buy 100 shares from you at the strike price.

Covered Call - A call contract written by someone who holds 100 shares

Naked Call - A call contract written by someone who holds 99 or less shares. (Oversimplified. We're not talking about Delta Hedging today)

Cash-covered Put - A put contract written by someone with enough cash reserved to buy 100 shares.

Naked Put - A put contract written by someone with only enough cash to buy 0-99 shares. (Again, oversimplified.)

I'm looking forward to more discussion on this level.

Bring it on. ■

(Edited for formatting)