

# Terminology

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## What are options?

An option gives the holder the right to buy or sell a particular asset at a specified price (the **strike price**) for a certain period of time. There are two kinds of options, calls and puts. **Calls** allow the holder to lock in a price at which to buy the stock. **Puts** allow the holder to lock in the selling price. You buy calls when you think the stock will go up, and you buy puts when you think it'll go down. Options don't last forever, though, they have an **expiration date**. After this date, the holder can no longer buy or sell the asset at the strike price and the option is worthless.

Options can have many different strike prices, and many expiries, giving traders a variety of potential hedging solutions. Let's introduce an imaginary asset called JaguarCoin (JAG), that promises to fund jaguar conservation by using DAO funds to flip used Jaguar cars.

If JAG coin is trading at \$100, it may have options available which expire at the end of January, February and March, for strikes ranging from \$50 to \$150. The further away from the current price a strike is, the more expensive or cheaper options get, depending on whether they are 'in the money' or 'out of the money'.

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Traders talk about options in three groups, 'in the money' (ITM), 'at the money' (ATM), and 'out of the money' (OTM).

**In the money:** options which currently give you the right to trade the asset at a better price than the current price.

- For calls, it's options with strikes that are lower than the asset price. (e.g. the JAG \$80 call, if JAG is trading at \$100)
- For puts, it's options with strikes that are higher than the asset price (e.g. the JAG \$120 put, if JAG is trading at \$100)

**Out of the money:** options which currently give you the right to trade the asset at a worse price than the current price.

- For calls, it's options with strikes that are higher than the asset price. (e.g. the JAG \$120 call, if JAG is trading at \$100)
- For puts, it's options with strikes that are higher than the asset price (e.g. the JAG \$80 put, if JAG is trading at \$100)

**At the money:** options with a strike price which is equal or close to the asset price. This often includes very slightly ITM and OTM options, since it's rare for an asset to exactly equal a strike. For example the \$100 strike if JAG is trading at \$100.