
A 5-Minute Primer on Stock Options

delivered by
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for CUSEC 2018

Before we begin...

This presentation is for informational purposes only,
and is not intended to constitute investing advice.
For investing advice, seek out a duly licensed professional.

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Ready? Let's go!

—

**First things first,
two ideas
you should know about**

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Stocks are assets
that represent ownership
of a company
in units of shares

—

Options are contracts
that grant the right
but not the obligation
to buy or sell an asset
at a fixed price
before a given date

... Why talk about options?

Equity-based compensation is **common in job offer packages** in the technology sector

Option grants are one such form of compensation

Restricted stock unit (RSU) grants are another, but outside the scope of this talk

Consider an example:

I am granted:

options to acquire 1000 shares of ABC stock
at a strike price of \$1.00/share,
vesting 25% per year on a monthly basis
with a 1-year cliff,
with a term of 10 years to expiry

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... but what does this mean?

—

**“I am granted:
options to acquire 1000 shares
of ABC stock
at a strike price of \$1.00/share”.**

**When I exercise (i.e. use) the options,
I can do exactly that (buy at \$1.00/share),
regardless of the market value of ABC stock!**

—

Options can make you money
if they let you buy something
cheaper than it is selling for
on the open market*

* assuming a liquid market with a tight bid-ask spread

—
I got my grant!

ABC stock price shot up!

Am I rich now?

—
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Am I rich now?

(spoiler alert: not yet)

—
“... vesting 25% per year on a monthly basis with a 1-year cliff”.

I can't exercise (use) my options until they vest!

My first 250 options (25%) vest after one year; afterward, I vest ~20 more ($250/12$) each subsequent month for the next three years.

—
On my 4th grant anniversary...

All of my options are vested!

ABC stock value is way up!

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Am I rich now?

(spoiler alert: not yet... probably)

—
What if ABC isn't publicly traded?

**A likely scenario for most startups,
in which case I need to
wait for a “liquidity event”**

— Liquidity events?

Mergers/acquisitions (another co. buys)

IPOs (people on the open market buy),

or if you are lucky/crafty, “other things”* ...

* you need two things: a buyer, and a way to execute the trade, but I wouldn't count on finding a private buyer

—
Time skip! 11 years after the initial grant,

ABC is public!

My options have vested!

The stock price is through the roof!

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Am I rich now?

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Time skip! 11 years after the initial grant,

ABC is public!

My options have vested!

The stock price is through the roof!

Am I rich now?

(spoiler alert: it depends...)

—
“... with a term of 10 years to expiry”

Did I exercise before my options expired?

—
“... with a term of 10 years to expiry”

**Did I exercise before my options expired?
Because if not, then the sadness is real**

—

Tomorrow, if you know what this means:
options to acquire N shares of ABC stock
at a strike price of \$X / share,
vesting Y% per year on a monthly basis
with a M-year cliff,
with a term of P years to expiry
then I have done my job today

Other considerations

Valuing options, especially when deciding between compensation packages or negotiating an offer. [Know what to ask about in offer conversations.](#)

Tax implications of exercising options, and selling stock. In Canada? In the US? Elsewhere?

Is your portfolio's asset allocation appropriate for you after considering your option position? Concentrated positions are risky: see [Ford in 2008](#), where employees lost cash flow from jobs, and value of equity.

Additional resources

[investopedia.com](https://www.investopedia.com) is a staple resource for all things finance, and a good place to learn the right nouns and verbs to Google.

Personal finance blogs! [Wealthsimple Magazine](https://www.wealthsimple.com/magazine) is a good one.

Reddit! [/r/PersonalFinanceCanada](https://www.reddit.com/r/PersonalFinanceCanada)

If you are working, there is bound to be someone at your company who understands employee compensation in detail; ask your coworkers for who that might be!

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Slides are available on GitHub:
github.com/rwongone/cusec2018

or DM me on Twitter @rwongone

Thanks for listening!