



A Fidelity Investments Webinar

# Buying Options

BROKERAGE: **OPTIONS**





# Options Trading Webinar Series

## Introduction to Options

Get to know the basics of options trading; learn key terms and concepts essential for any new options trader.

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## Buying Options

Understand what to expect when buying options; learn the difference between calls and puts.

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## Selling Options

Understand what to expect when selling options; learn how to navigate the risks associated with selling.

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## Options Trade Management

Now that you've placed a trade, learn strategies to manage before, during, and after its expiration.

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## Options Pricing

Understand how options are priced and learn how you can help get the best returns.



# Agenda



# Review Options Basics

# Review: Anatomy of an Options Symbol

Example: Plain English Symbol: SPY Jan 21, 2022 Call 208

SPY220121C208

The symbol of  
the underlying

Year of the  
expiration

Month of the  
expiration

Day of the  
expiration

C for a Call,  
or P for a Put

The Strike Price

Holder (buyer) of this call has the right to buy 100 shares of SPY at \$208 per share at any time until January 21, 2022.

# Review: Premium Components

Premium = Intrinsic Value + Extrinsic Value

An options contract that has intrinsic value is  
"in the money"

An options contract that has no intrinsic value is  
"out of the money"

# Review: Bullish or Bearish?





# Buy a Call



# Buy a Call



## Situation

XYZ is trading at \$42 a share



## Market Forecast

**Bullish** on the stock, but want limited downside risk



## Action

Buy one XYZ APR 42.50 call for \$2.10 (pay \$210)

# Buy a Call: Profit and Loss Table



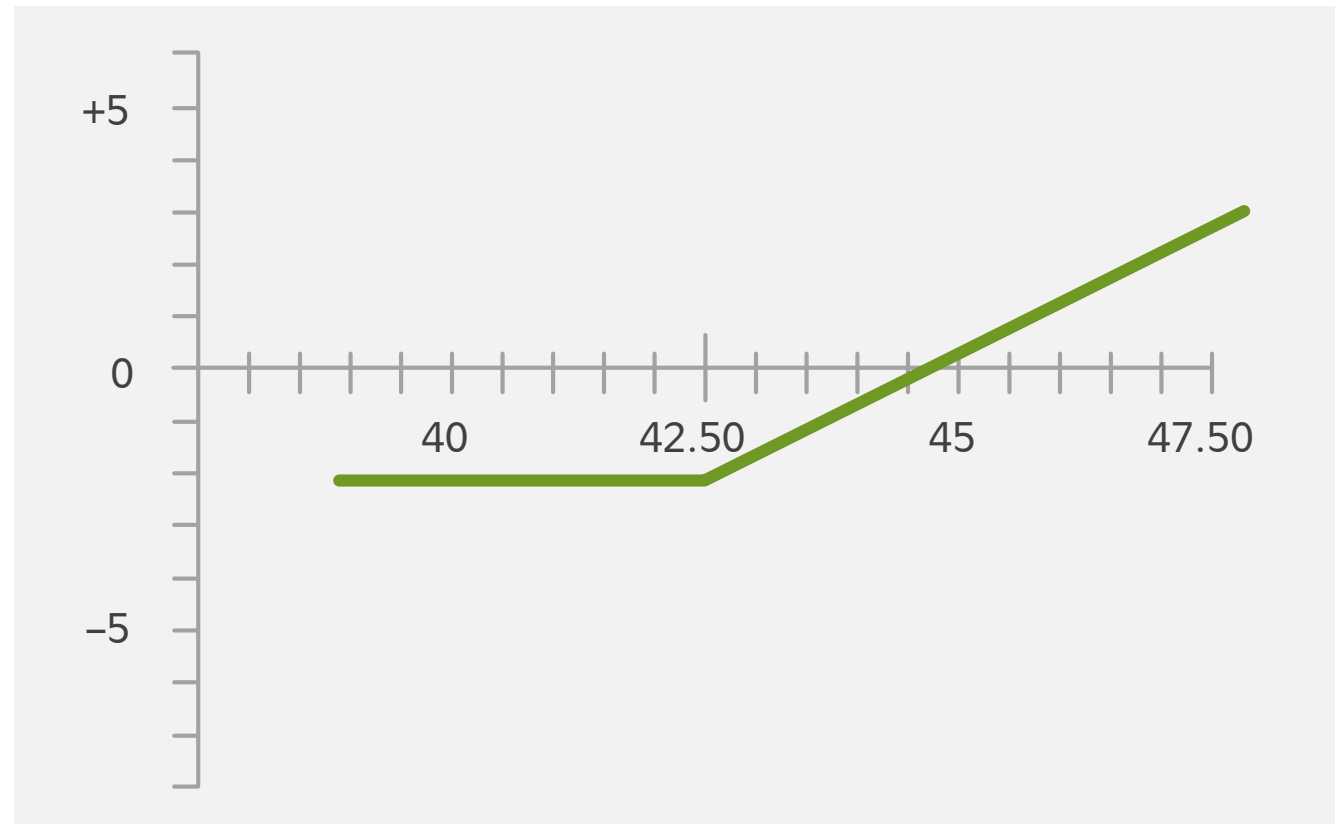
Buy One XYZ APR 42.50 Call @ 2.10

PRICE AT EXP	OPTION COST	VALUE AT EXP	PROFIT/(LOSS)
50	2.10	7.50	5.40
45	2.10	2.50	0.40
44.60	2.10	2.10	0 (Breakeven)
42.50	2.10	0	(2.10)
40	2.10	0	(2.10)
37.50	2.10	0	(2.10)

# Buy a Call: Profit and Loss Diagram



Buy One XYZ  
APR 42.50  
Call @ 2.10



# Buying a Stock vs. Buying a Call



## Buying a stock

- Substantial risk of capital (stock could go to zero)
- Lower break-even point

vs



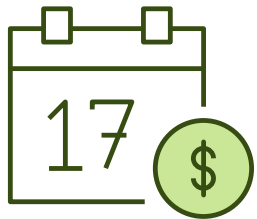
## Buying a call

- Leverage with risk limited to premium paid
- Higher break-even point
- Limited life, value generally decreases with time



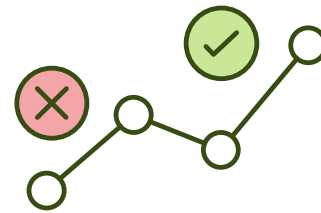
# Buy a Put

# The Put Buyer



## The Put Buyer

- Has the right to sell the underlying stock at an agreed-upon price (the strike) until the expiration date
- For this right, the put buyer pays a premium



## Risk/Reward Profile

- Risk limited to option premium paid plus commission
- Substantial profit potential until the option's expiration

# Buy a Put



## Situation

XYZ is trading at \$42.50 a share



## Market Forecast

**Bearish** on the stock, but want limited risk



## Action

Buy one XYZ APR 42.50 put for \$2.30 (pay \$230)

# Buy a Put: Profit and Loss Table


 Buy One XYZ APR 42.50 Put @ 2.30

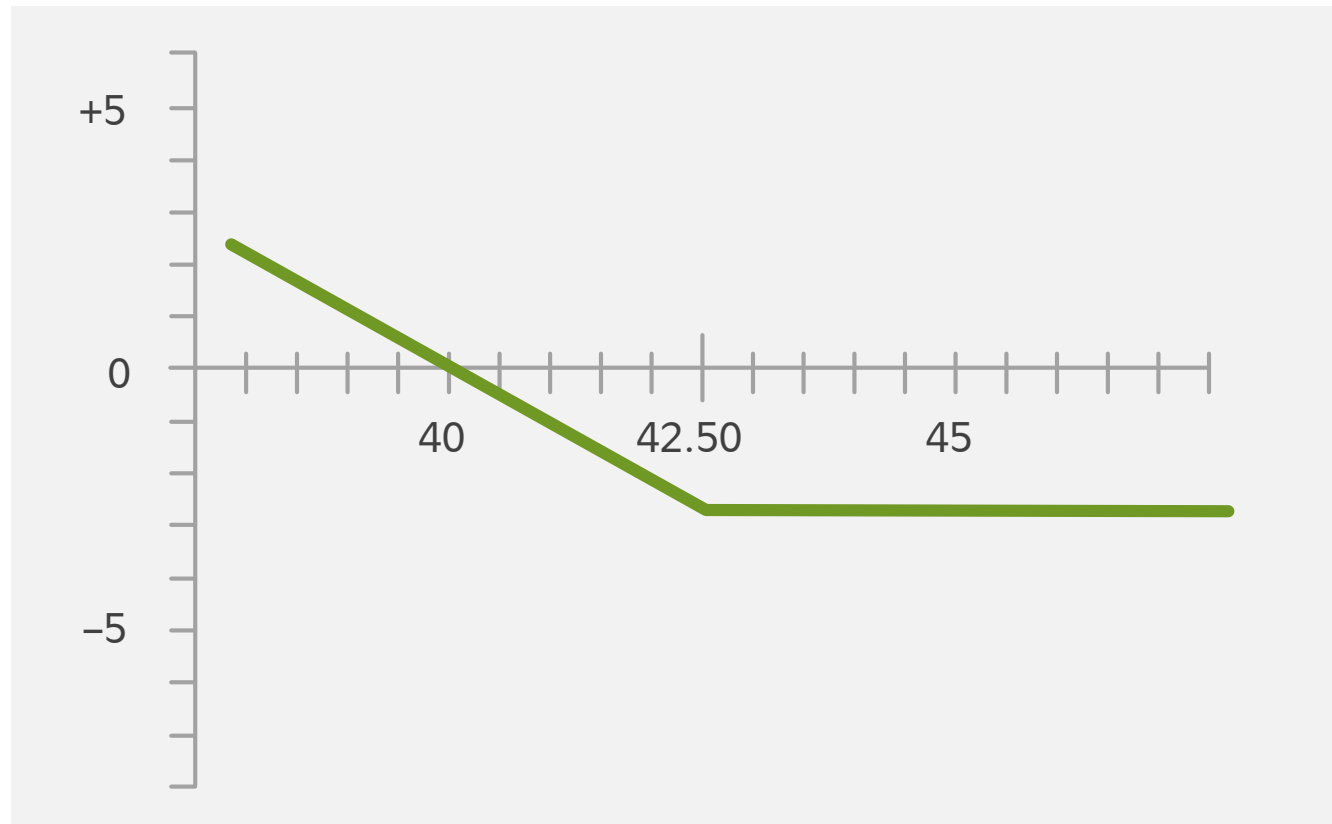
PRICE AT EXP	OPTION COST	VALUE AT EXP	PROFIT/(LOSS)
50	2.30	0	(2.30)
45	2.30	0	(2.30)
42.50	2.30	0	(2.30)
40.20	2.30	2.30	0 (Breakeven)
40	2.30	2.50	0.20
37.50	2.30	5	2.70



# Buy a Put: Profit and Loss Diagram



Buy One XYZ  
APR 42.50  
Put @ 2.30



# Summary of Buying Options



## Buying Calls

- Right to buy
- Long market exposure with risk limited to premium paid for options plus commissions



## Buying Puts

- Right to sell
- Short market exposure with risk limited to premium paid for options plus commissions
- Can potentially be used to help protect a single position or an entire portfolio



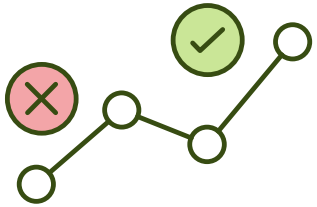
# Buy a Protective Put



## Protective Put Strategy

- To limit downside risk potential on a stock you own, buy a put option on the stock.
- The put owner will then have the right to sell the stock at an agreed-upon price (the strike price) until the expiration date.
- There is a second reason to buy a put – protection.

**Is this a bearish or bullish strategy?**



## Protective Put Risk/Reward Profile

- Risk is limited to the option premium paid and out-of-the-money amount at the time of trade (if any)
- Can provide limited protection against losses if the stock goes below the strike price
- We do not have to exercise the put, since we are the holder and have the choice
- Unlimited profit potential on the stock, reduced by cost of put

# Protective Put Strategy



## Situation

Long 100 shares  
of QRS stock  
at \$92



## Market Forecast

**Bullish** on the stock,  
but want limited  
downside risk



## Action

Buy one QRS APR 90  
put for \$0.95 (pay \$95)

# Protective Put: Profit and Loss Table

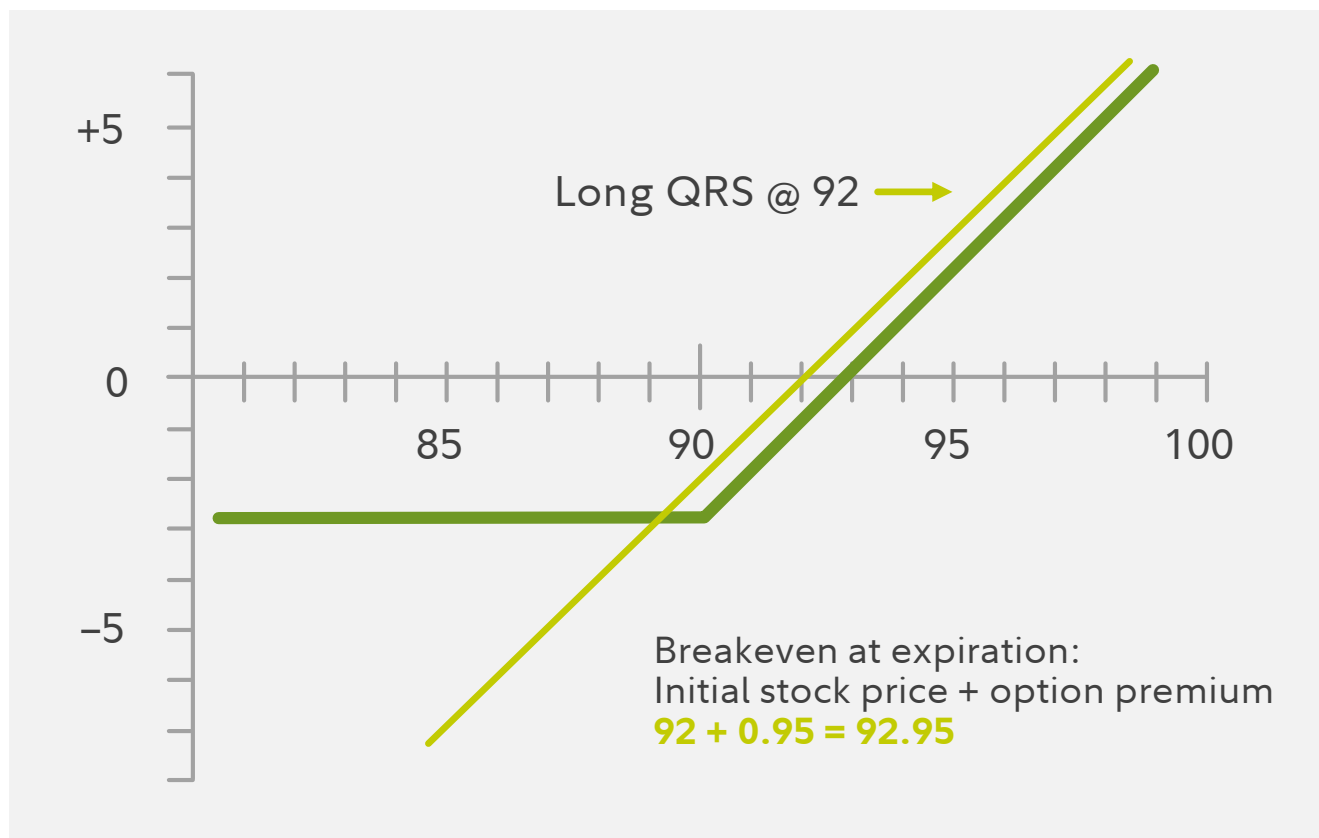
 Long 100 QRS @ 92  
 Buy one QRS APR 90 Put @ 0.95

PRICE AT EXP	STOCK P/(L)	PUT P/(L)	TOTAL P/(L)
100	8.00	(0.95)	7.05
95	3.00	(0.95)	2.05
92.95	0.95	(0.95)	0 (Breakeven)
90	(2.00)	(0.95)	(2.95)
85	(7.00)	4.05	(2.95)
80	(12.00)	9.05	(2.95)

# Protective Put: Profit and Loss Diagram



Long 100  
QRS @ 92,  
Buy One APR 90  
Put @ 0.95







# Execute a Trade

# Before You Place a Trade, Consider...



1

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Buying one call is the equivalent of buying 100 shares of stock

2

Consider how much risk you are comfortable taking on

3

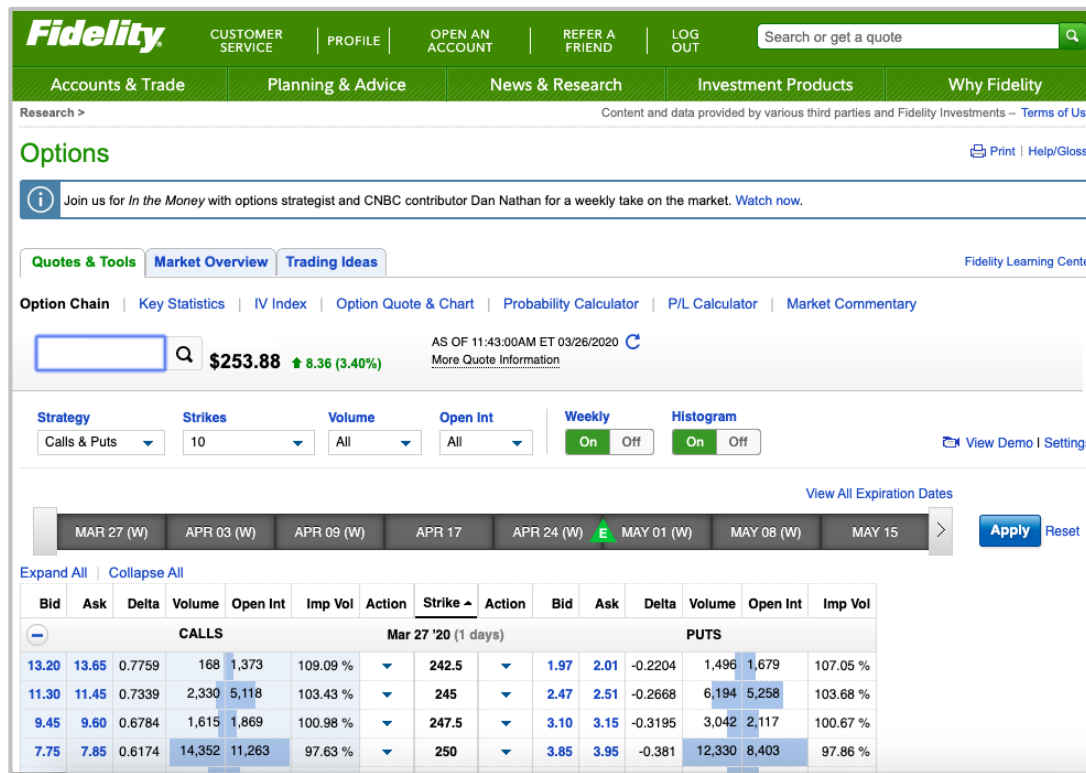
Be aware of position size to manage your risk

# Place a Trade on Fidelity.com

## News & Research > Options > Option Chain

### Start a trade from the Option Chain

- Easily see all the available options
- Fully customizable to meet your needs



**Options** [Print](#) [Help/Glossary](#)

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AS OF 11:43:00AM ET 03/26/2020 [More Quote Information](#)

Strategy: Calls & Puts | Strikes: 10 | Volume: All | Open Int: All | Weekly: On | Histogram: On

[View All Expiration Dates](#) [Apply](#) [Reset](#)

Bid	Ask	Delta	Volume	Open Int	Imp Vol	Action	Strike	Action	Bid	Ask	Delta	Volume	Open Int	Imp Vol
CALLS														
Mar 27 '20 (1 days)														
13.20	13.65	0.7759	168	1,373	109.09 %	▼	242.5	▼	1.97	2.01	-0.2204	1,496	1,679	107.05 %
11.30	11.45	0.7339	2,330	5,118	103.43 %	▼	245	▼	2.47	2.51	-0.2668	6,194	5,258	103.68 %
9.45	9.60	0.6784	1,615	1,869	100.98 %	▼	247.5	▼	3.10	3.15	-0.3195	3,042	2,117	100.67 %
7.75	7.85	0.6174	14,352	11,263	97.63 %	▼	250	▼	3.85	3.95	-0.381	12,330	8,403	97.86 %
PUTS														

# Place a Trade on Fidelity.com

## News & Research > Options > Option Chain



- Easy access to your balances and positions
- Quickly adjust to contract specifications

Settings

i Try our new option trading experience—designed to make trading fast & simple. [Test drive it today](#)

**Account** As of 04/27/2020 5:01pm ET [Refresh](#)

<b>Total Account Value</b>	\$7,662,998.27
<b>Margin Buying Power</b>	\$15,457,353.96
<b>Non-Margin Buying Power</b>	\$7,642,352.61
<b>Committed to Open Orders</b>	\$0.00
<b>Settled Cash</b>	\$0.00

As of 04/27/2020 04:00pm ET [Refresh Quotes](#)

Underlying

Strategy **Calls & Puts** Last ARCX \$287.05 x 0    Change 4.08    Bid ARCX 287.00 x 3    Ask ARCX 287.02 x 1    [Edit Symbol](#)

Action	Qty	Expiration	Strike	Call/Put
Option	Buy to Open	Dec 16, 2022	295	Call

Leg	Description	Last	Change	Bid Size	Bid	Ask	Ask Size
Option	Dec 16 2022 295 Call	\$35.22	3.59	558	33.05	35.42	45

Route [Auto](#)

Order Type Select

Time in Force Day    Trade Type Margin

**Estimated Profit/Loss at Expiration**

Max Gain --    Break Even --    Max Loss --    [Margin Calculator](#)

Skip Order Preview

**Real-Time Quote** [Refresh](#)

Last [Tick]	35.2200 [ + ]	Change	+ 3.59
Volume	353	% Change	+ 11.35
Open	34.00	Bid	33.05
Day High	35.22	Bid Size	558
Day Low	33.27	Ask	35.42
Prev Close (04/24/2020)	31.63	Ask Size	45

**Positions**    **Orders**    **Balances**

View All Securities    38 positions [Refresh](#)

Symbol	Qty	Cur	Price	Va
016735102	100.000	CAD	n/a	
		USD	n/a	
03524A108	100.000	CAD	n/a	
		USD	n/a	
0HBI:GB	-20,200.000	EUR	35.80	-72
		USD	\$38.76	-\$78
135087XG4	150,000	CAD	161.43	24
		USD	\$114.60	\$17
33761N109	7,710.000	CAD	70.83	54

**RELATED LINKS**

- [Trading Profile](#)
- [Option Summary](#)
- [Option Chain](#)
- [Probability Calculator](#)
- [Profit and Loss Calculator](#)
- [Reassign Lots](#)
- [Option Ticket - Demo](#)

Performance data shown represents past performance and is no guarantee of future results. Investment return and principal will fluctuate, so investors may have a gain or loss when shares are sold. Current performance may be higher or lower than what is quoted, and investors should visit [Fidelity.com/performance](#) for most recent month-end performance.

28 The screenshot is for illustrative purposes only.

# Now What?

## LONG OPTIONS

Sell it

Exercise it

Let it expire

## SHORT OPTIONS

Buy it back

Fulfill obligation  
when assigned

Let it expire



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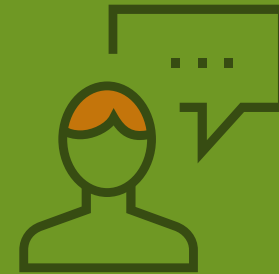
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## Options Pricing

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# Visit the Fidelity Learning Center



Learn more  
about options

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**Read:** Access the Options Strategy Guide

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**Watch:** Check out videos that cover options basics

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**Attend:** Register for monthly webinars

# Glossary

## Breakeven

The underlying stock price at which an options strategy (or combined stock and options strategy) has a zero loss and zero gain.

## Long Call

With a long call option, the buyer has the right to buy shares of the underlying security at a specific price for a specified time period.

## Protective Put

An options strategy in which a long equity position's unrealized profit is protected by the purchase of a put option. The option serves as the equivalent of a stop-loss order, giving the trader the right to sell the equity at the strike price, limiting the diminished profit from a decline in the share price.



# Thank You



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upcoming webinars

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**For more information, please visit**  
Fidelity.com > News & Research > Options

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**Questions? Contact a Fidelity representative at**  
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# Important Information



Options trading entails significant risk and is not appropriate for all investors. Certain complex options strategies carry an additional risk. Before trading options, contact Fidelity Investments by calling 800-544-5115 to receive a copy of *Characteristics and Risks of Standardized Options*. Supporting documentation for any claims, if applicable, will be furnished upon request.

There are additional costs associated with option strategies that call for multiple purchases and sales of options, such as spreads, straddles, and collars, as compared with a single option trade. Examples in this presentation do not include transaction costs (commissions, margin interest, fees) or tax implications, but they should be considered prior to entering into any transactions.

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