

Create Your Own Option Trading Plan

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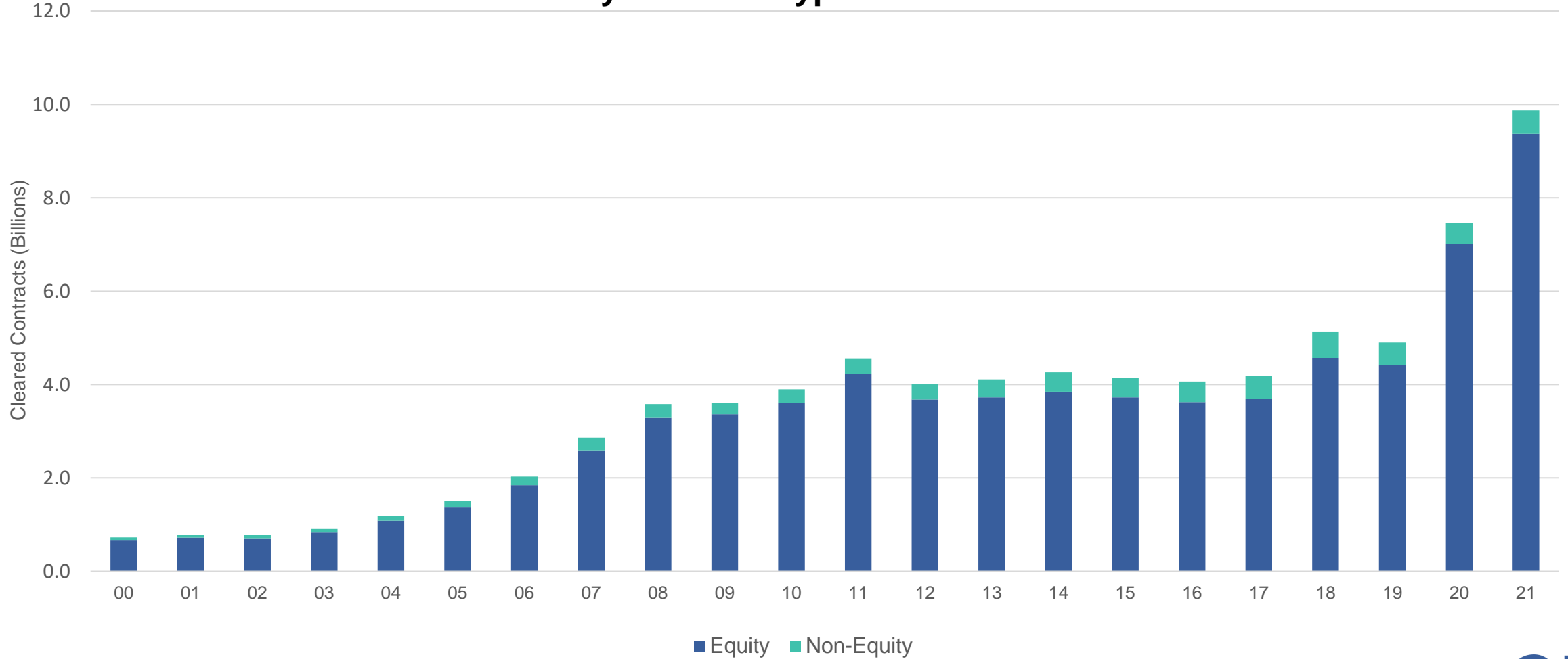
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Annual Options Volume 2000-2021

OCC Annual Contract Volume by Contract Type



■ Equity ■ Non-Equity

Motivations; Rights and Obligations



What to Think About

- Market outlook
- Market timing
- Know the underlying (e.g. earnings)
- Magnitude of anticipated move
- Motivations:
 - *Risk Reduction*
 - *Speculation*
 - *Income Generation*
 - *Stock Acquisition*

Defining an Equity Option

- Equity options are **contracts** that give:
 - The **buyer** the *right* to buy or sell an underlying asset
 - The **seller** the *obligation* to buy or sell an underlying asset
- At a specified price (**strike price**),
- Prior to the expiration of the contract (**expiration date**)



Equity Call Options

- An equity call **buyer**:
 - Owns the **right to buy** underlying stock/ETF
 - Bullish on underlying
 - Needs stock movement > time decay
- An equity call **seller**:
 - Has the **obligation to sell** underlying stock/ETF
 - Likely already owns shares



Equity Put Options

- An equity put **buyer**:
 - Owns the **right to sell** underlying stock/ETF
 - If speculating, likely bearish on underlying
 - If shares are already owned, likely buying protection

- An equity put **seller**:
 - Has the **obligation to buy** underlying stock/ETF
 - Can generate income to potentially purchase shares for less



Intrinsic vs Extrinsic Value



Options in the Marketplace

Who makes options prices?

- All market participants (buyers & sellers)
- Individual & institutional investors
- Professional market-makers
- Best bid/ask is consensus of all bids and offers

What is an option ultimately worth?

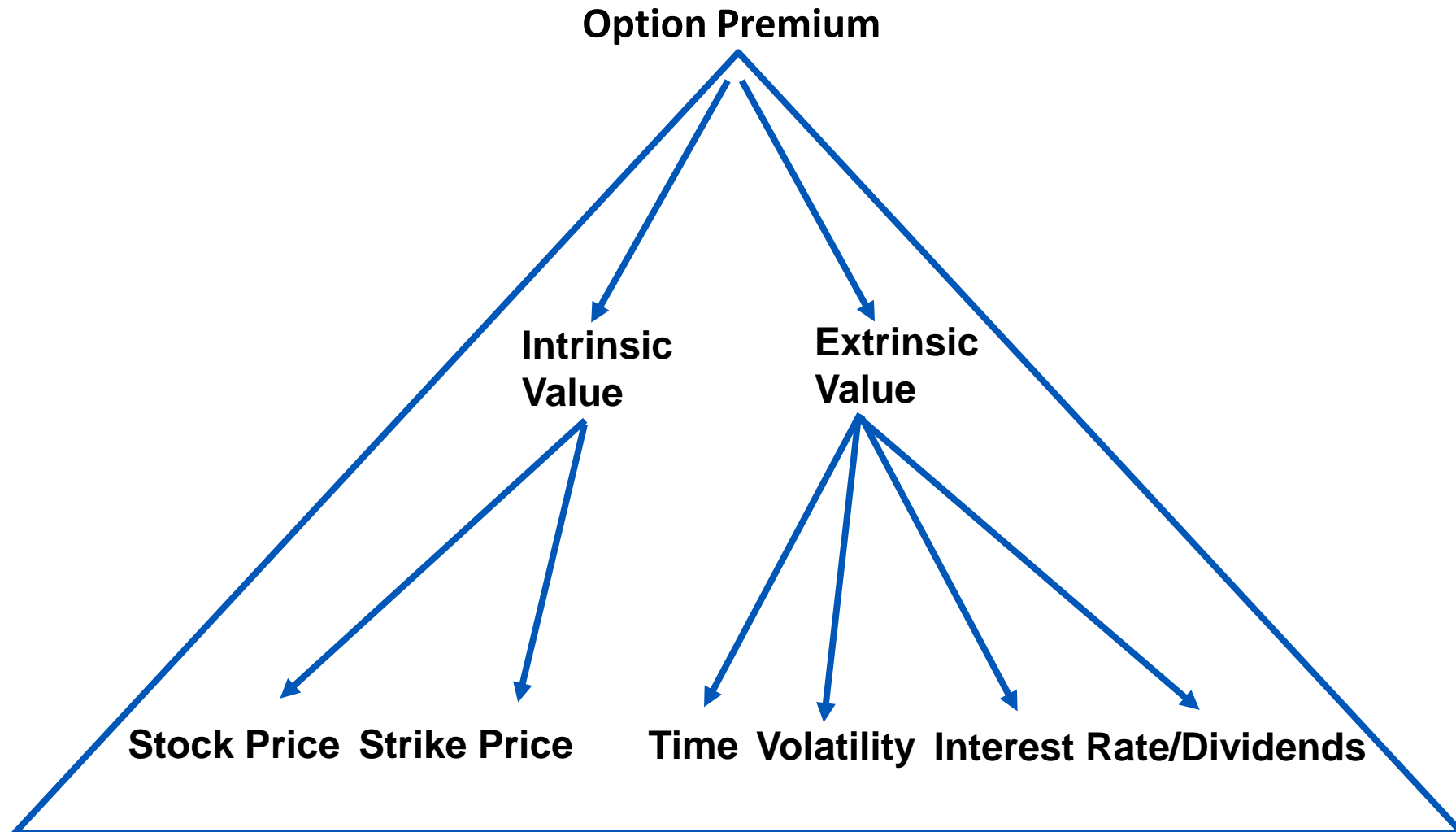
- What the market is willing to pay
- Pricing models used as guideline
- **Supply/demand** & market dynamics override theoretical values

Intrinsic Value vs. Time Value

Option Premium: Intrinsic Value (if any) + Extrinsic (Time) Value

- Intrinsic value
 - in-the-money amount
- Extrinsic value
 - any premium in excess of intrinsic value
 - decays with time as expiration approaches (“time decay”)
- At expiration option worth only **intrinsic value**
 - no time remaining
 - when exercised, only the intrinsic value of an option is received/delivered—extrinsic value (if any) is **lost**

Intrinsic Value vs. Time Value



Things to Consider Before Getting Started

- Your motivation to choose options
- Be familiar with the underlying
- Evaluate consistency between options strategy and market outlook
- Know the difference between Intrinsic and Extrinsic value