TRANSCRIPT

Picking a Strategy: Long calls and long puts

Presenters: Michael Pollock and Ed Modla

Michael Pollock: With that, I want to introduce Ed Modla from the Options Clearing Corporation. Thank you, Ed.

Ed Modla: Thanks Michael. And thanks to the Fidelity team and all of you here in person and online joining us today. It's always a pleasure to teach options.

Very quickly, my background. I got started in 1997. So 25 years, yes. Starting to feel old. Back on the trading floors in Chicago and New York as a professional options market maker. Then my career took a few different paths as you might expect. As some major events occurred, 2001, 2008, I shifted into the proprietary traders role, trading futures. I was a futures broker for a number of years. But now, eight years going strong teaching options to all market participants. This is what I do. Teach live presentations, teach online webinars, and teach options to any investor that wants to listen.

So very happy to be with you here today. Quickly as Michael said, we got three sessions for you. The first one is going to focus on buying options and why you might want to do that. The third session, more like selling options, strategies you may have heard of, covered call cash secured puts. And then in between session two is a bit of both buying and selling.

So a nice mixture of material for you here today. If you're new to options, you're going to learn an awful lot today. But if you have traded options, and you're a seasoned user, we've got some information and some useful insight for you as well.

First, our disclaimers, options are a complex tool. They are not to be used unless they're well understood. So take your time to learn. Study the product. Become familiar with it before you use the product in a live account.
And here is our outline for the first session today. I'm going to start with a little bit of basics on premium. Where does option premium come from? What are the components and variables that go into making up options premium? This element of time decay that all options users, buyers, and sellers need to know. And then we'll get into long calls and long puts. The motivation for those strategies, how you put them together, and then a little bit about managing those positions.

So we're going to be talking speculative trades here. Michael, what words might you say to an investor about this speculative motivation? And what might drive investors towards this type of strategy?

Michael Pollock: Yeah, definitely. Thank you, Ed. One thing to always think about with options, there's really three main ways that you can use option contracts. You can use them for speculation. You can use them for income. And you can use them for protection.

So this first session is primarily about speculation. So you do want to be careful because obviously that is the most risky way to use options. The other gains could be very big, but also the losses could be very big. So as Ed mentioned before, you really should understand options and start small when you're using options because of the leverage component. And because of the speculation, the extra risk involved with them.

The other thing that is important with options is, let's say you've done it for six months. That doesn't necessarily make you an expert because you need to trade options through different types of market cycles. I've been talking to clients recently where they started trading options in the second half of 2020, and they were doing incredibly well. And now that we're in the second half of 2022, it's a very different story because they didn't know how to adjust for a different market.

So it is important that you learn how to use options in different types of markets. And again, the key is, especially we polled the audience earlier, about half of the audience haven't used options before. So you definitely do want to start small, start slow, and gain your experience through different market cycles.

Ed Modla: Yeah. There's advantages and disadvantages to all the strategies we're going to walk through today. And we'll discuss both of those. And I think a prudent investor is getting education from someone that is not trying to sell them the product and only talking about benefits. You need to understand the risks as well. So you don't get surprised. You don't get discouraged. You know exactly what you're getting into. We're going to cover all of that today.

I'm going to start, before we get to long calls, long puts, with a little bit here about options premium. A bit of history about the industry. Prior to 1973, options were still trading from one investor to the other. An investor might call their broker and express an interest in an option they might want to trade, who then by phone would contact a potential counterparty. And an options trade could occur then directly between two parties at a price that they somewhat, in an arbitrary way felt that was fair and reasonable.

1973 really changed this industry. That is when the exchanges were listed, and standardized options became listed. When you look at options quotes today, those are all standardized options quoted and traded on an exchange. That made options fungible. You can buy an option from somebody. And when you sold it to close, you can sell it to somebody else. But also what happened in 1973 was a pricing model was published, the Black-Scholes pricing form. Anyone familiar with this or heard the name Black-Scholes? A few hands are going up. OK.

This was a pricing model that was developed as a way to more cleanly calculate a theoretical value or a hypothetical value for an options contract given a certain amount of inputs. And it changed the industry because market participants became much more confident in the prices they were buying and selling at.

So that pricing model leads us to a discussion on the option premium in totality, in its most simple form being broken down into two pieces. The total option premium can be broken up into intrinsic and extrinsic value. So let's define each of those.

Intrinsic value means the option itself has inherent value. Now we didn't go there through the absolute ground floor basics here yet. So I'll just define for you. An option with intrinsic value means that you have a right as the owner of this option to execute a transaction at a better price than the open market is providing to you.

For those of you familiar with call options, if you own a call option, you have a right to buy shares. We're going to explain this a little further in a few slides. We have the right to buy shares. If you already have the right to buy shares at a better price or a lower price than where the market is currently trading, that option has some inherent value to you. The stock's trading at 60, and you buy an option that gives you the right to buy shares at 50, that's already $10 better. That's called intrinsic value.

The option is known as in the money. You'll hear those terms in the money and out of the money today. That option is in the money, has intrinsic value. Calculated simply as the difference between the stock price and the strike price for those options that have intrinsic value.

Now if the call buyer has the right to buy shares at a price above where the shares are currently trading, that is not considered an option with intrinsic value. So it would be zero. So options either have intrinsic calculated this way, difference between stock and strike. Or they have no intrinsic value or zero. The second component of option premium is known as extrinsic value. Most simply stated, it is any option premium you observe above the intrinsic value of the option.

You can see here there's a number of variables that go into this calculation. The number of days until expiration, this is all fairly logical. If you were going to trade an option, you would want to know how much time do I have, how many days until expiration exists before we reach that expiration date.

What type of volatility in the underlying stock or index might we forecast or expect to observe between today and expiration? It's another component that would be important to you if you're going to price an option. And then of course, the effects of dividends and interest rates. Interest rates of course, the price and cost of money, the cost of carry, the amount of money you can earn risk-free on cash held in your account and any dividends that may affect the price of the underlying.

As we look across this bottom line here, stock price, strike price, days of expiration, volatility interest, and dividends. These are all of the inputs into a pricing model like I explained earlier, Black-Scholes. These are the inputs you would insert to calculate a theoretical option's price.

Now we're going to focus on one of these components for the purposes of our discussion here in this first segment, which is the days until expiration. This is the only component where you know it's always moving in one direction. It is always decreasing.

Days are ticking by. It's always shrinking. The natural decay of an option premium is a function of the natural progression towards expiration. As days pass, option premium starts to naturally decrease.

If you're going to own an option, we'll discuss this also later, you need to know this. You need to accept the fact that you're going to suffer from some slight decay from one day to the next. You're expecting some other factors, notably the stock price movement, to overcompensate for that.

The amounts of decay that you would experience or look at depends on the type of option we're talking about at the money. Again, this moneyness terms are coming up. At the money is when the strike price is equal to the stock price. That's by definition.

In practice, at the money options are those trading close to where the stock is trading. Their rate of decay is very slow until you get to about six weeks until expiration. Then the rate of time decay for those options starts to accelerate much more quickly all the way to and through expiration.

This is an important element to know if you're a buyer or seller. And you will notice that a lot of activity does tend to center around that, say 4 to 6 week time frame, where sellers are trying to capture this time decay. And buyers know they're going to suffer from it.

Sellers are trying to capture it. They're trying to get as fast a rate of decay as they can accomplish. Going as close to expiration as they can, while simultaneously collecting enough premium to make it worth their while to sell the option in the first place.

Option buyers are going to purchase an option knowing they'll suffer from time decay but expecting something else, notably that stock price movement, to have a greater positive effect on option premium than the loss in decay. So this leads us to selecting that expiration date. What methods, Michael, do you hear from investors talking about when they're trying to select an expiration date for their option contract?

Michael Pollock: Right. Yeah. Thanks, Ed. I would say, when clients start trading options from equities, this is probably the hardest piece, which is why I'm glad we spent so much time on this slide. When you're trading stocks, all you need to do is choose the direction right. And then time is on your side. So you've all probably had that trade where you bought the stock, it went against you immediately. But you held through some volatility, some rough time, and then eventually it came back. And you're able to turn it into a profitable trade.

When you're trading, especially buying options, you don't have that luxury. If you buy an option contract that's expiring in 30 days, and the stock goes against you initially and then consolidates lower, time decay is really working against you. And then what happens is that option could expire worthless. You basically lost 100% of what you paid for that contract. And then later on, the stock starts to go back up, but your contracts already expires. You're not participating in the up movement.

So I say that is the hardest piece. So generally, if you look at that decay slide, if you give yourself a little bit more time, if you think that move is going to happen in 30 days, maybe it's worth paying a little bit extra to go out and buy a 60-day option just to give yourself more time. And then if it's not working out, you still have time to roll that contract or close that contract out before it goes to zero or before you get on to that part where the decay really accelerates.

When we get into the other session talking about selling options and selling covered calls and selling cash secured puts, that's when that's in your favor. That's when that's your friend. But when you're going long options, that's something you're working against. That's your enemy.

Ed Modla: Yeah. When I talk to investors who are buying options, often they'll say that their market outlook and their price target and the time duration they expect the stock to make that move, that lends them right to a certain expiration date. And some investors are just aware of this decay and the acceleration of decay and the fact that it's much faster as you get close to expiration. They're aware of it. They know of it. But they're still selecting the expiration date that makes the most sense to be consistent with their market outlook.

All of this now leads us into, let's get into long calls and long puts, the two strategies of focus for our presentation today. And a reminder, we'll take questions at the answer. Long calls is an effort to capitalize on a bullish outlook in the underlying stock. And it's an alternative to say, buying shares of stock. There's a number of things you can do if you are bullish, buying stock of course, is one of them. Buying calls is an alternative. And there are differences. Depending on your confidence level and your risk tolerance, you might choose one versus the other.

So let's start with the motivation. Looking at a hypothetical example here, after looking at a chart on a ticker symbol, you see a strong support level. And you've identified a price that you believe shares are going to hold and bounce from. But if you're trading support resistance, you might also be considering, well, if this support doesn't hold, where's the next level of support? And in this case, that might be a long distance away. So if this support doesn't hold, you could be seeing a major retraction in share price. That's how we're setting this hypothetical situation up.

So you can certainly consider buying shares of stock. As always, if you're bullish, buying shares is a viable choice to put on a position. But because of that downside perceived risk, you might consider a call option.

And what that does is it lowers your cost of entry. And you'll see as we talk through this, it lowers your cost of entry. You're only paying for the call, not paying for shares. Your risk is much more controlled should the shares collapse and move against you. Those are all the benefits of the call.

The disadvantage of the call option is you're going to need the move to occur in the share price in the direction you expected as Michael alluded to. You need the magnitude of that move and the timing of that move to also be correct.

Your market thesis needs to be correct on direction, magnitude, and timing. The reason is your call option will expire. Shares don't expire. Call on them forever. And your break even point is very clean. It's where you bought the shares. Call options expire. They have an element of natural decay. And you are paying for time and paying for an element of volatility. Remember those variables I talked about on the first slide? Days to expiration and a volatility assumption were two of those. As an option buyer you're paying for those as well.

So advantages and disadvantages when you're considering the long call strategy. And just recapping the basics of when you are doing a long call, an equity call buyer is paying the option premium upfront. It's an immediate cash debit out of their account.

Now options are quoted on a per share basis. This is for those of you new who might have traded options before, quoted on a per share basis. And a standard options contract would call for the delivery or receipt of 100 shares.

When you see an option premium of $2, that represents 200 total dollars. This call buyer pays that amount immediately nonrefundable. It's a cash debit out of their account. And in exchange, they now own a call option that has value close to if not equal to the amount they just paid for it. And that value is going to change.

We know it's going to be influenced lower with the passage of time. As the call buyer, you're hoping the value is influenced higher with the stock price moving up. Now selecting strike, which strike do you select? Again, this could be a case by case basis, depending on your confidence level, how much you're willing to risk. You're in the money options. Remember for calls, those are strike prices below where the stock is currently trading.

Those are going to be more expensive. They're going to cost more. You're going to risk more, but the price of that option is going to move faster as the stock moves in your favor.

Out of the money options, your higher strike call options, if the stock's trading 75, or talking your 85, 90, 95 strike call options, they're going to cost a lot less. You're going to have a lot less risk.

But the value of that option is going to move more slowly when compared to the change in stock price. You're going to need a larger move and a quicker move in share price to select the out-of-the-money cheaper option. Generally speaking, you could say then that leads you to selecting that out-of-the-money option that's more difficult to make money when you're more confident in your market thesis and your market outlook.

This is a common discussion I have with investors about choosing strike price. Just like it is with expiration and choosing your expiration date, not an exact science. So, Michael, when you talk to investors and clients about selecting strike, what kind of components are they looking at when they make that decision?

Michael Pollock: Yeah, definitely. So a lot of clients, a lot of our clients that are traders are technical traders. So they'll be looking at charts. So they'll be looking at support zones, resistance zones. As earlier example, let's say you're buying a call option on a support zone. Then you're going to calculate your break even, which we'll look at in some slides going forward.

So if you're buying at a support zone and your goal is that it's going to go up to the next resistance zone, you want to make sure that that resistance zone is higher than your break even. These are all things where before you enter the trade, you should also think about your exit. So OK, so where is my goal that I'm going to exit? What do I think this contract is going to be worth when I exit it? And then you want to look at your risk to reward ratio. If we're buying an option for $2, but the support is only say, a dollar higher, so it might not be worth risking $2 to only make $1. So a lot of traders will look at a minimum of a 2 to 1 risk to reward ratio.

So if you're buying a call a call option for $2, you want to make sure that your exit is going to be at least $4, if not higher, before you enter into that trade. So those are very important things to think about and calculate before you enter into the trade.

Ed Modla: Yeah, having a game plan always makes sense. And when you put the trade together, now you've got your bullish outlook, you've selected your strike price, you've selected your expiration. Now you've got this option. That's maybe half the battle. Now what happens once you've got the position and the stock starts to move? So talking about what the strategy is, but maybe a little further insight on what happens when you get share price movement? So let's think about long calls. We own a call option. We're bullish. We're going to be suffering from time decay. And let's say we're going to be looking at the stock moving in all three different directions. The stock does move in your favor.

Stock's trading 75. You own the 65 calls. Now it's moving in your favor. You're making money. You're profitable. What do you do? And you have several different choices that you can consider certainly. And some of these are obvious. Certainly, you can just hold the option for further gains. If you're honest with yourself, always be honest with yourself with all of these possibilities that the position that you maintain or change to is still consistent with your market outlook. And you're not hoping for something or just trying to make a big gain on a trade. That the position you're holding is still consistent with your market outlook.

Holding for further gains is you're still bullish. You don't want to let go of anything. Of course, you could scale down this position as well, of course, you need to have two or five or 10 of these call options. If you're going to do that, you might sell a portion of that. Put some money away and hold the rest for further gains. A rolling up to a higher strike price. This one's a little bit more involved and maybe more specific to those long calls that have gone in your favor by a large margin.

You own the 65 calls, all of a sudden, the stock just really rallied up to 80, 85. You've got a nice gain. You've got a call option that's worth a lot, a healthy profit. You're still bullish, but you've got a lot of profits you want to protect. Rolling up simply means selling the option you own, selling the 65 call for its full value and buying a higher strike call at, say, the 75 strike call, which is going to cost you less. It's going to cost you about $10 less.

So you are rolling up to a higher strike, putting money in your pocket. But still having a long call and maintaining your bullish outlook. Ideally, you'd be doing this one for one. If you own 10 of the 65 calls, sell all of them and use a portion of that money to buy 10 other calls at a higher strike.

Does that make sense? You're just rolling up. And this concept of rolling up, rolling out, you'll hear this. All of those scenarios and position management techniques simply mean you're closing out what you've got, and you're rolling it into something else. That's all it means. And in this case, closing out your profitable long call and buying a cheaper one to put some money in your pocket, protect profits, and move on.

Michael Pollock: I think that's a really good example too. The other thing to also think about, let's say, initially when you bought that 65 call, maybe you went out 60 days. So maybe now, 30 days have passed, the stock has gone heavily in your favor. So you want to pull some of those gains off the table.

So when you're rolling up $10, you can also roll out. So assuming you're still long-term bullish, you can also roll out in time. So you might not just be rolling up to $10 in strike and then keeping the same expiration date, but you can also use that to buy yourself some more time so that you're not then coming right into that area where you start having that heavy amount of decay.

Ed Modla: Yeah. Good stuff, Michael. And that's true. You'll hear these different terms, rolling up, rolling down. You'll see in a second when we look at long puts, rolling out is one. But you can do a combination of both, rolling up and out, rolling down and out. Sounds more complicated than it really is. It's all boiling down to selling what you own and opening up a new position somewhere else.

One other consideration, and this is with respect to exercise when the option goes in the money. Now you own a strike price, the stock price has either rallied through it. You're in the money with your call option.

If expiration approaches and you don't sell this option and you don't tell your brokerage firm what you want to do with your option, there is a default process in this industry that will exercise the option on your behalf even if you haven't told your brokerage to do so. That's just the way OCC, that's who I work for, that's the way we handle these situations. We have to do something. This person owns a call option. It has value. They haven't said what they want to do with it. So how are we going to handle that? We exercise it on their behalf.

It's important to know this. It's easy to manage through. But important to know, throughout my eight years, there have been a few times where an investor has called, so I bought a call option. I was told over and over again, all I could lose is the premium paid. And now I've got a stock position, and the shares have plummeted on Monday morning, and I have a huge loss.

So it's true. You can only lose the premium paid for the call while you own the call. We're going to say this a few times here today. If the call or put option becomes a position in shares, that risk might look different. So very simply here, sell the call option before it reaches expiration if you don't want to buy the shares, and take your profits that way.

And then with the other two situations here with long calls, if the stock consolidates and stays around its current value or if it drops, again, be honest with yourself. Reevaluate your market thesis, your market outlook. If you're still bullish, you can hold, thinking shares are going to continue in the direction you originally thought they were going to go.

Or you can determine a level for yourself that you want to cut your losses, whether it be a 25% loss, 50%, 75% loss. Wherever that might be, if the option loses value to that level, you might decide when you enter the trade that's as much pain as I'm going to take. So that's risk tolerance.

Also add a note here. Once your option has lost most, if not all of its value, there's nothing you can do there. But ask this question as well, I bought this call option, now it's worth a nickel, how do I would pair this? You can't. It's already lost. It's already gone.

Once you've lost all your value, the only thing you can do is try to enter in a new trade, a brand new trade, to recover the losses on the previous trade.
But I think some investors when they hear about position management and all these things rolling up, down, and out, they think there's some sort of magical element of what they can do with a bad trade that they've lost. Now I can do

something to repair and recover all of that. It's not that simple. Once your trade is lost, that's pretty much where it's going to stay.

So I'm going to go through long puts a little more quickly. And then we're going to get to a demo of the Fidelity platform. Going to do this segment quickly because it just reflects long calls. It's the same thing from the opposite direction with just one highlight that I want to point out as we walk through it. The motivation for long puts, remember you're buying a put option. You're paying up front. That's cash out of your account. Now you own the right to sell shares of stock. So as the stock drops, if you own the right to sell shares at a certain level, that value should increase.

Long put holders are still going to suffer from time decay. They are expecting the share price decrease to overcompensate and work in their favor to a greater extent than the loss of time decay.

Similar to long calls, the risk here is the entire premium paid could be lost. And it also requires the direction, timing, and magnitude to be correct on all three of those fronts to be profitable.

But again, if you get into that situation where you have transferred the long call into a shares position, that risk profile is going to look a bit different.
Basics on put buying, you buy a put, cash debit immediately out of your account, non-refundable. In exchange for that, you have a put option that has value. Your overall account balance immediately should be mostly canceled out, cash debit, position credit.

And now you own a put option that gives you the right to sell shares at the strike price of the option. You need that stock movement to be lower to a greater extent than the suffrage from time decay.

In the money, out of the money, strike price selection, similar discussion me and Michael had just a minute ago. In the money options will cost you more. For put options, again, this is reversed. These are your higher strike prices, cost you more, but they're going to move faster. The value will move faster as the stock moves lower.

Out of the money options, lower premium, lower cost, lower risk. But you need a greater move to be profitable. Those are your more aggressive trades, the out of the money long calls and puts.

So for puts, now again, we're looking at this from the opposite direction. We wanted the shares to go lower. If that doesn't happen, shares move higher, shares consolidate. Our put option value suffers. And we'll be suffering from time decay. The stock direction might also be working against us.
How long are you willing to hold this? Are you willing to risk the entire premium in case the shares do move your way, knowing when expiration is coming up? Or do you get out of your trade when you've taken as much loss as you're willing to take?

And here's that part that is a little different. As I alluded to earlier with the stock lower, as opposed to long calls, where you might be willing to buy shares, long puts are a bit different. How many investors in this room regularly or routinely sell short stock? You borrow and you sell short?

I don't think I saw any hands. And that doesn't surprise me. That's usually the case. And here with long puts, if the stock price has moved in your favor and you've got a profitable position that's an in the money put option, you're going to want to pay attention to that.

Manage that position, sell the option before you get to expiration because if you don't do that, and you're in a position of this auto exercise feature that the industry standard is, then you would be left with a short stock position that you may not want, you might not have approval for, you might not be able to obtain. Things get a little tricky when you're trying to enter a short stock position under those circumstances.

So a few things to think about before we go to demo. Your market outlook, your market timing, that's going to lead you to selections on expiration date and strike price.

Know your underlying and then the key bold statement here. The motivation for buying options in general, is to speculate on a directional move. We talked about long calls and long puts. There are other strategies in the options universe that involve buying options. All of that centers around wanting movement in one direction or the other or both. The movement in the share price does need to overcompensate for the decay that you're going to naturally suffer.

So, Michael, what do you think? We take a look at a demo and see a few things. Let's get you in the driver's seat over here. And as we make that transition, I'll just say a word. As we're getting through our first session here, we're moving on to the next two.

Now options education in general, and if you're absorbing a lot of this, I hope you are. If you're at least understanding what we're saying, that's beneficial. But options learning is about repetition. So stick with it. Stay dedicated, and usually it pays off in the end.

Michael Pollock: Perfect. Awesome. So now we're on to the demo time. So spend about 10 minutes demoing some of the tools that we have available to you. And then we'll go on a Q&A from there. This is Active Trader Pro. How many folks in here use Active Trader Pro? Well, that's it? Only two out of this whole room?

So Active Trader Pro is available for everyone. Any Fidelity client has access to Active Trader Pro. You can simply download this from fidelity.com. And then it's your same user ID and password that you used to log into the regular website or your mobile app.

So Active Trader Pro is essentially a streaming trading platform. So this will give you all the data. It's streaming. There's no different data on here that you cannot get from within fidelity.com. The biggest difference is the amount of data that you can have on the screen at one time.

So fidelity.com is an excellent website. Like most websites, it really reads like a book. Whereas if you go to your watch list, it takes up the entire page. If you go and bring up an option chain, it takes up the entire page, order status, et cetera.

So the neat thing with Active Trader Pro, on one screen, you can have your watch list running. You can have an option chain running. You can have your order status running. You can have charts. We have clients that will run this across multiple monitors or just very large monitors. And you can put a ton of data on there. So it's a much more efficient work stream if you are trading or watching the market actively throughout the day.

So what we have here, just a basic layout that I set up for this session. We have a watch list on the left. Very simple just so you can see what's happening with the major indexes, with the volatility index, some stocks you might be following. You can also put option contracts in here. You can make these watch lists as simple as you want or as complex as you want. You can open them up, and you can have all types of data on there. Earnings dates, equity ratings, market cap, sectors, all types of information that you want on your stocks.

You can also export this data if you wanted to take it into Excel for example and manipulate it. It's also a fantastic charting platform. So I like charts. So I'll usually run two charts, at least a one-year chart, front and center, nice and large. And then a smaller intraday chart in the right corner. And then here we also have an order status running.

And you can also link all these windows together with this tool here. Each window you can link it to the default for example. And then you can simply click on a stock, and it's going to populate it into your charts. Your news window, whatever you also have linked.

So if you wanted to go in, let's say we're looking at Apple. But if we wanted to look at this, we can go here and hit the little menu next to the ticker. And you can go right into option chain.

So this is where you can go to look at pricing. So I'm going to maximize this a little bit. Let's say we want to go out and look at the December contracts. So for those of you watching this on replay, it's the end of September 2022.
So for example here, we can go out to December. So we're 78 days out. The way the option chain works, we've got the strike prices right here in the middle. On the left hand side, you have your call options. And then on the right hand side, you have your put options.

So let's say that you're looking at, let's say that you think the market is down, that we're due for a bounce. You're bullish on Apple, going into the end of the year, and you want to buy a contract on it. So then that's where you would figure out, OK, Apple is trading at one 142, 65. Do I want to go in the money? Say, a 140 contract or lower or do I want to speculate more? Do I want more leverage, and I'm going to go out of the money where I'm not buying any intrinsic value. We're just buying premium. So you can go on here. And you can see how much will these cost you.

And you can also see how much these move. You can see these percentage moves. So Apple is down about 4.8% right now. You can see the in-the-money contracts. For example, down 16%, 13%, 19%. When you go to the out-of-the-money contracts, you can see because there's so much more leverage on them, there's no intrinsic value from a percentage standpoint, they're going to move a lot more. So some of these down 40%, 41%, 36%.

So you're going to get-- if you're expecting a bounce tomorrow or early next week of the same magnitude of this drop, you'll see when you go out of the money, you'll get a much bigger percentage gain. If you go deeper in the money, then you're going to have more intrinsic value. The percentage gain isn't going to be as much. But you are buying more, you're buying less premium. So if the decline lasts a little bit longer than you expect, you're not going to lose as much on a percentage basis of your investment.

So that's what this option chain is for, to look at all those different pricings, to figure out which contract you want to buy. Let's say we want to go in the money. We want to buy a 130 call. You can either find that contract, and then you can hit the little menu next to the contract. And from here, there's lots of things you can do. You can go in here. You can get the detailed quote on that contract. So maybe you're not ready to trade it yet. You just want to put this in the corner and watch it. You can do that. You can add it to your watch list right from here.

You can also trade it. You can go right to buy to open. And you can also get a chart on it. So you can click on the little chart button. And then that's going to bring up a chart here. And you can look at how that option is traded over time. So it usualy defaults to just an intraday chart, but maybe you want to go out and look at a six-month chart, and then you can see how that option trades has been trading. And again, you can see the volatility in this. Trading from $27 down to a low here of $13 up to a high here of over $45 and then where it's priced today in around $20. So you can really see how much these contracts can move. And let's say you want to trade it, you can go right from the quote window, and you can simply click on buy to open. And that is going to bring up your trading window. And you can just go through in here.

How many contracts do you want to place-- oh, sorry, how many contracts do you want to buy? Do you want to use a limit order? Do you want to just throw it in at the market if there's a nice tight spread. If you're doing five contracts or less, you can throw this in at a market or you should get an immediate execution. So that is the some of the basic trading tools within the trading platform.

END OF AUDIO FILE

Options trading entails significant risk and is not appropriate for all investors. Certain complex options strategies carry additional risk. Before trading options, please read Characteristics and Risks of Standardized Options. Supporting documentation for any claims, if applicable, will be furnished upon request.

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