

Option BASICS!



WHAT ARE OPTIONS

- An option is simply a contract that gives you the right to buy or sell a particular Commodity at a particular price.
- Options are known as “derivatives” since they are derived their price from the underlying price of the Commodity.
- Trading Options without proper education is risky because their value can be affected by things other than just the price of the Commodity.



HOW ARE OPTIONS DIFFERENT FROM STOCKS?

- The Options contract has an expiration date unlike stocks. The expiration can vary from weeks, months to years depending upon the regulations and the type of Options that you are practicing. Stocks on the other hand do not have an expiration date.
- Unlike Stocks, Options derive their value from something else and that's why they fall under the derivatives category.
- Options are not definite by numbers like Stocks.
- Options owners have no right (voting or dividend) in a company unlike Stock owners



TYPE OF OPTIONS

- There are Two Types of Options they are as follows:
- CALL OPTION
- PUT OPTION

CALL \Rightarrow PRICE 

PUT \Rightarrow PRICE 

TYPE OF OPTIONS

- **Call Option** is an option to buy an underlying Stock on or before its expiration date.
- At the time of buying a Call Option you pay a certain amount of premium to the seller which grants you the right to buy the underlying stock at a specified price (strike price).
- **Put Option** is an option to sell an underlying Stock on or before its expiration date. Purchasing a Put Option means that you are bearish about the market and hoping that the price of the underlying stock may go down.
- In order for you to make profit the price of the stock should go down from the strike price of the Put Option that you have purchased before or at the time of its expiration.



WHAT IS STRIKE PRICE IN OPTIONS TRADING?

- The Strike Price is the price at which the underlying stocks can be bought or sold as per the contract.
- It is often referred as exercise.
- In options trading the Strike Price for a Call Option indicates the price at which the Stock can be bought (on or before its expiration) and for Put Option it refers to the price at which the seller can exercise its right to sell the underlying stocks (on or before its expiration)



WHAT IS PREMIUM IN OPTIONS TRADING?

- Since the Options themselves don't have an underlying value, the Options premium is the price that you have to pay in order to purchase an Option.
- The premium is determined by multiple factors including the underlying stock price, volatility in the market and the days until the Option's expiration.



WHAT IS UNDERLYING ASSET IN OPTIONS TRADING?

- Underlying asset can be stocks, futures, index, commodity or currency.
- The price of Option is derived from its underlying asset and since we are specifically talking about Stock Options, we will consider the underlying asset as the stock.
- The Option of a stock gives the right to buy or sell the stock at a specific price and date to the holder.



WHAT IS MONEYNES (ITM, OTM & ATM) IN OPTIONS TRADING?

- It is very important to understand the Options Moneyness before you start trading in Commodity Options.
- Lot of strategies are played around the Moneyness of an Option.
- It basically defines the relationship between the strike price of an Option and the current price of the underlying Stocks.



When is an Option in-the-money?

- Call Option - when the underlying stock price is higher than the strike price.
- Put Option - when the underlying stock price is lower than the strike price.

When is an Option out-of-the-money?

- Call Option - when the underlying stock price is lower than the strike price.
- Put Option - when the underlying stock price is higher than the strike price.

What is at-the-money?

- When the underlying stock price is equal to the strike price.



MONEYNESS IN OPTION

Moneyness in an Option		
Price Differential	Call Option	Put Option
Stock Price > Strike Price	In-the-money	Out-of-money
Stock Price = Strike Price	At-the-money	At-the-money
Stock Price < Strike Price	Out-of-money	In-the-money

Option Chain (Currency Derivatives)

As on Aug 18, 2017 17:00:01 IST

USDINR 29AUG2017

RSI REFERENCE RATE as on Aug 18, 2017 13:30:00 IST : 64.1045

Currency Futures

CALLS										PUTS										
Chart	OI	Change In OI	Volume	IV	LTP	Bid Qty	Bid Price	Ask Price	Ask Qty	Strike Price	Bid Qty	Bid Price	Ask Price	Ask Qty	LTP	IV	Volume	Change In OI	OI	Chart
	485	-	-	6.56	3.1000	100	3.1875	3.2425	100	61.00	-	-	-	-	-	0.00	-	-	-	
	-	-	-	0.00	-	100	2.9400	2.9925	100	61.25	-	-	-	-	-	0.00	-	-	-	
	3,550	-	-	10.04	2.7300	200	2.6950	2.7375	100	61.50	-	-	0.0050	1,000	0.0025	10.28	-	-	200	
	-	-	-	0.00	-	100	2.4400	2.4875	100	61.75	-	-	-	-	-	0.00	-	-	-	
	6,088	-	-	18.75	2.0600	100	2.1825	2.2400	100	62.00	-	-	0.0050	1,000	0.0025	8.58	-	-	395	
	200	-	-	9.52	2.0175	100	1.9400	1.9900	100	62.25	-	-	-	-	-	0.0025	4.91	-	-	200
	110	-	-	1.71	1.9700	100	1.8300	1.8700	100	62.50	-	-	0.0050	1,000	0.0025	6.97	-	-	10,764	
	-	-	-	0.00	-	100	1.7300	1.7900	100	62.75	-	-	0.0050	1,000	0.0025	6.01	-	-	1,138	
	10,024	-	1	6.90	1.7700	100	1.7900	1.2425	100	63.00	-	-	0.0050	7,812	0.0025	5.13	11,244	-	-	72,381
	5,250	-	404	2.72	0.9450	100	0.9450	0.9950	100	63.25	7,148	0.0025	0.0050	69	0.0050	4.70	12,708	-	-	25,096
	23,546	-	4,703	7.61	0.7250	21	0.7060	0.7225	11	63.50	16,132	0.0075	0.0100	2,037	0.0075	3.99	48,661	-	-	129,512
	142,828	-	7,016	2.81	0.4750	50	0.4625	0.4850	120	63.75	891	0.0175	0.0200	400	0.0200	3.67	83,084	-	-	117,777
	153,267	-	107,772	2.28	0.2800	160	0.2750	0.2800	64	64.00	251	0.0675	0.0725	1,000	0.0650	3.71	186,172	-	-	192,496
	118,435	-	15,101	1.11	0.1400	10	0.1400	0.1450	10	64.25	25	0.1775	0.1800	100	0.1750	2.90	12,090	-	-	70,006
	189,783	-	125,308	9.81	0.0950	37	0.0825	0.0850	237	64.50	105	0.2500	0.2625	18	0.2500	4.18	37,491	-	-	197,888
	117,087	-	36,212	3.85	0.0275	618	0.0275	0.0325	1,305	64.75	45	0.5625	0.5850	11	0.5600	5.67	5,784	-	-	23,599
	226,097	-	190,167	4.60	0.0175	3,953	0.0180	0.0175	485	65.00	5	0.8025	0.8050	2	0.8000	6.93	8,526	-	-	134,737
	66,309	-	17,878	5.12	0.0100	4,303	0.0075	0.0100	8,458	65.25	2	1.0425	-	-	1.0475	8.10	590	-	-	48,173
	152,921	-	105,417	5.41	0.0050	1,000	0.0050	0.0050	11,149	65.50	5	1.2900	1.3075	60	1.2925	9.25	368	-	-	54,523
	8,879	-	4,210	8.37	0.0050	6,772	0.0050	0.0075	599	65.75	-	-	-	-	1.1250	5.93	-	-	-	
	135,928	-	6,663	7.71	0.0075	2,017	0.0050	0.0075	3,980	66.00	-	-	-	-	0.0050	5.00	-	-	-	5,162
	151	-	2	8.62	0.0075	150	0.0025	0.0075	99	66.25	100	2.0125	2.0650	100	2.0000	0.50	-	-	-	
	14,994	-	4,520	8.98	0.0050	15	0.0050	0.0075	1,001	66.50	100	2.2525	2.3150	100	2.3000	17.08	-	-	-	259
	250	-	-	9.82	0.0050	-	-	0.0075	2,000	66.75	100	2.5000	2.5625	100	2.5925	18.05	-	-	-	500
	46,001	-	201	10.85	0.0050	4,216	0.0025	0.0050	3,104	67.00	100	2.7500	2.8025	100	2.8225	18.32	405	-	-	12,383
	706	-	-	9.59	0.0025	715	0.0025	-	-	67.25	400	3.0275	3.0625	100	2.8900	10.39	-	-	-	150
	925	-	-	12.27	0.0050	525	0.0025	0.0075	20	67.50	800	3.2775	3.3125	100	3.1700	9.48	-	-	-	1,995
	-	-	-	0.00	-	-	-	-	-	67.75	600	3.5275	3.5625	100	3.5075	17.08	-	-	-	-
	-	-	-	0.00	-	-	-	-	-	68.00	800	3.7775	3.8150	100	3.7100	12.51	-	-	-	2,102
Total	1,423,258		777,963														524,114		1,100,216	Total

IN THE MONEY

OUT OF THE MONEY

AT THE MONEY

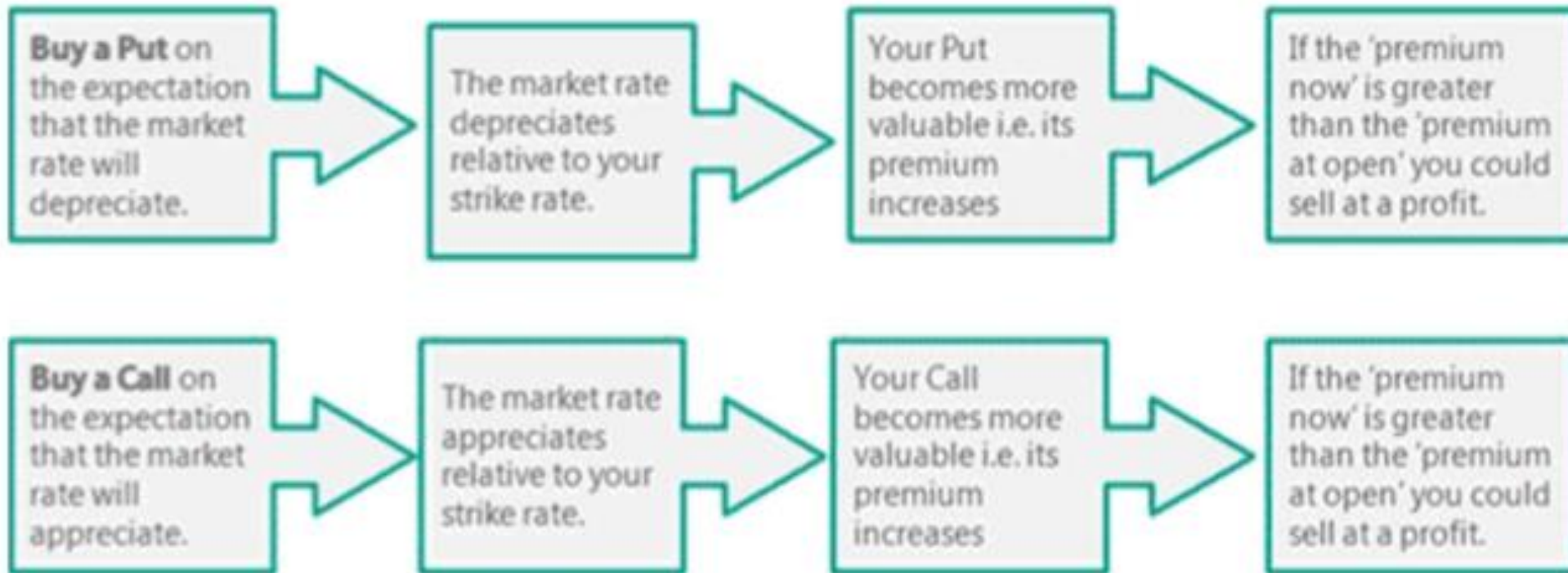
AT THE MONEY

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IN THE MONEY



OPTION TRADING PROCESS



PARTIES INVOLVED

- An options contract consists of two parties: the holder and the writer
- The writer is effectively the seller of the contract, while the holder is effectively the buyer.
- When the writer of the contract sells it to the buyer, they collect a payment from the buyer and that's commonly referred to as the premium.
- It's the holder of the contract that has the option to engage in the transaction that is specified and the writer that is obliged to engage in the transaction should the holder wish to go ahead.



WHY TRADE OPTIONS

- A variety of investors use option contracts to hedge positions, as well as buy and sell stock.
- The buyer of a call option is given the right to buy stock at a certain price while a put buyer is given the right to sell stock at a specific price, before the options expire.
- These option buyers can exercise their right to buy or sell at the specified price, called the strike price, which means they acquire or dispose of the underlying stock at that price.



HOW OPTION TRADE WORKS

- **Consider the core elements in an options trade**
- When you take out an option, you're purchasing a contract to buy or sell a stock, usually 100 shares of the stock per contract, at a pre-negotiated price by a certain date. In order to place the trade, you must make three strategic choices:
 - Decide which direction you think the stock is going to move.
 - Predict how high or low the stock price will move from its current price.
 - Determine the time frame during which the stock is likely to move.



THANK YOU

