



THE TRADING OPTIONS HANDBOOK

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The Options Trading Handbook: **Get Started With Options**

If you are new to options, this guide is going to bring a whole new world of opportunities to your investment strategy. If you have traded options before, this should provide a helpful refresher on common terminology.

We're going to cover a lot of ground including how to place options trades with your broker.

Let's get started!

What are Options?

Options are a way to profit from the rise or fall from a stock or ETF without having to own that specific stock or ETF. Options are an asset class known as derivatives because they derive value from an underlying asset (like a stock or ETF). They are derivatives of financial securities since their value depends on the price of some other asset.

With options, the value is based on the price of the associated underlying stock, and the option is a financial contract that gives the buyer the right, but not the obligation, to purchase or sell shares of the underlying asset at a specific, predetermined price on or before a certain date. It is important to note that one stock option contract represents 100 shares of the underlying stock.

The definition is important, but you'll really see how options work when you break down the two major types...

Option Types

There are two types of options: call options and put options.

Call Options are securities that give the buyer the right, but not the obligation, to buy something (to "call" it away from its owner) at a specified price during a specified period. Call options give the buyer the right, but not the obligation, to buy 100 shares of stock at the call option's strike price (more about the strike price later) between now and the option's expiration date.

	Option Type
Call	The right to buy stock at a certain price
Put	The right to sell stock at a certain price

Typically, you buy calls when you are bullish about the direction of the market and/or about a particular security's prospects. It's like betting in favor of the stock. You can buy a stock at \$25 per share and wait for it to go up to \$30 per share at some point in the future, or you can buy an option on that stock. With the option, you would buy the right to purchase that same stock at \$25 per share at a predetermined time in the future—say three months from now. If the stock does indeed trade at \$30 per share, you can exercise your right to buy 100 shares at \$25 per share and then hold or sell those shares on the market at \$30. You can also not exercise your option and simply collect the premium you earned on that option. More on premiums later in this report.

It can be useful to think of buying an option as a down-payment, or a price paid to hold at a certain price. A call option's price moves with the underlying stock's price. While we haven't covered the term in-the-money yet, now is a good time to note that a call option is in-the-money (ITM) if the market price is above the strike price. Don't worry, we'll learn about ITM later in this report.

Put Options are securities that give the buyer the right, but again not the obligation, to sell securities (or "put" them to someone else) at a specified price during a specified period. They can be used by the owner to sell 100 shares of a stock at the put option's strike price and can be thought of as betting against the stock.

Put buyers more often are bearish on the markets and/or a security's potential, so they purchase puts to profit from a downside move. Puts work exactly inversely of call options. A put option's price increases as the stock price falls, and vice versa. As the stock price falls, the ability to sell becomes extremely valuable. If the price does not decrease, money is lost. The put option only has value because it makes more money than buying the stock directly, but it is still a gamble. A good way to think of it is as betting against the stock.

In the example of our hypothetical \$25 stock, let's say you think that same stock is in trouble and will trade at \$20 in the near future. Buying a call option will give you the right to sell that same stock at \$25 instead of at the current market price of \$20.

Buyers like put options because they can be less risky than shorting stocks. A put option is in-the-money (ITM) if the market price is below the strike price. Again, we'll talk about ITM later in this report.

Rights and Obligations

When it comes to options, there are certain rights and obligations of both the buyer and the seller. The buyer has the right to purchase or sell 100 shares of the underlying asset at the option's strike price. This means that the options holder can decide whether to exercise that right and purchase or sell the asset, or let the contract expire.

If the option is exercised, the option seller is obligated to sell or buy the underlying asset at that price. Unlike other derivatives, such as futures and forwards contracts, options contracts give the investor the option to make good on the contract. The buyer of an option is not obligated to buy or sell the stock at the strike price, but can do so, at which point they are exercising their right.

	Call	Put
Buyer	The right to buy stock at a certain price	The right to sell stock at a certain price
Seller	The obligation to sell stock at a certain price	The obligation to buy stock at a certain price

Option Premium

The price someone pays to buy an option is the Option Premium. It's the price paid for the contract and is the market price of an option contract.

An option premium is quoted on a per-share basis, with each contract controlling 100 shares. The amount each contract costs is 100x the premium. This is called the Option Contract Multiplier. Because of the option contract multiplier, exposure to the underlying asset will be much larger than the amount of money paid for the premium. For example, if the move in the underlying asset would have cost \$9,000, but the premium for the option was only \$200, the buyer would only stand to lose \$200 on the trade.

The option premium is always shown per share, not per option contract. For example, if the premium of an option is \$1, then because of the option contract multiplier, buying one of these options would give you exposure to 100 shares of the underlying stock, costing you \$100.

This is opposed to stock options, where the premium is quoted as a dollar amount per share, and most contracts represent the commitment of 100 shares. With options, the premium is the maximum amount of money a buyer risks losing on the trade. The upside is that risk is limited and clearly defined ahead of the buy. The downside is you risk losing everything invested in the

premium. An option's premium will generally be greater given more time to expiration and/or greater implied volatility. Implied volatility is a factor in the option's premium price, which we will discuss soon.

In-the-money option premiums are composed of two factors: intrinsic and extrinsic value. Out-of-the-money options premiums consist of one factor: extrinsic value.

	Premium
Call	Intrinsic Value + Extrinsic Value
Put	Extrinsic Value

Option Contract Multiplier Math

Each options contract controls 100 shares of stock, using the multiplier of 100 allows you to calculate the actual cash value of the options contract. **Option price x 100 = option premium (actual value)** because an option can be converted into 100 shares of stock.

The option premium is always shown per share, not per option contract. For example, if the premium on an option is \$1, because of the option contract multiplier, buying one of these options would give exposure to 100 shares of the underlying stock, costing \$100.

Because of the option contract multiplier, exposure to the underlying asset will be significantly larger than the amount of money paid for the premium. For example, if the move in the underlying asset would have cost \$9,000, but the premium for the option was only \$200, the buyer would only stand to lose \$200 on the trade.

Option Price	Multiplier	Option Premium
\$1.00	100	\$100.00
\$5.00	100	\$500.00

What Goes into a Premium's Price?

Three factors go into the price of an option's premium: intrinsic value, time value, and the implied volatility of the underlying asset.

Intrinsic Value is a measure of what an asset is worth and is arrived at by means of an objective calculation or complex financial model. This is opposed to consisting solely of the current market price of the underlying asset.

Time Value is associated with the time left to expiration and can decay over time. It is the portion of an option's premium that is attributable to the amount of time remaining until the expiration of the option contract. Essentially, it means there is the potential for the option to become significantly more valuable through share price movements between purchase and expiration.

As an option nears its expiration date, the time value will edge closer to zero. The intrinsic value will closely represent the difference between the underlying security's price and the strike price of the contract.

Implied Volatility is pretty much what it sounds like. Implied means expected and volatility means the magnitude of stock price changes (fluctuation). This is the metric that captures the market's view of the likelihood of changes in a given security's price. It's the market's expected magnitude in a stock's price changes in the future and how the market is telling us that it's expecting these... it's what is implying the level of these fluctuations. If an options price is higher, there is more expected volatility.

Strike Price

The **Strike Price**, also known as the exercise price, is the key determinant of an option's value. The strike price is the set price at which a derivative contract can be bought or sold when it is exercised. For call options, the strike price is where the security can be bought by the option holder. For put options, the strike price is the price at which the security can be sold.

Strike prices are established when a contract is first written and tells the investor what price the underlying asset must reach before the option is in-the-money (ITM). Options can be converted to shares at the strike price.

The buyer of a call option would have the right, but not the obligation, to buy the underlying security in the future at the specified strike price. The buyer of a put option would have the right, but not the obligation, to sell the underlying security in the future at the strike price.

Strike prices are standardized (set at fixed dollar amounts), such as \$31, \$32, \$33, \$100, \$105 and may have \$2.50 intervals, such as \$12.50, \$15.00, and \$17.50. The distance between strikes

is known as the strike width.

	Strike Price
Standardized	\$31, \$100, \$105, etc.
\$2.50 Intervals	\$12.50, \$15.00, etc.

Options Pricing

Options must be worth the price of intrinsic value, also called “real value”.

Intrinsic (real) value is how much of the option’s premium is made up of the price difference between the stock price and the strike price. **Stock price – strike price = intrinsic value.**

Extrinsic value, sometimes referred to as “time value”, is the potential for an option to become significantly more valuable through share price movements between purchase and expiration. Extrinsic value is associated with the time left to expiration and can decay over time. It is the portion of the option’s price that exceeds its intrinsic value.

	Stock Price	Strike Price	Intrinsic Value
Call	\$1,000	\$800	\$200
Put	\$120	\$130	\$10

Expiration Date

Called the **Option Expiration**, this is the date at which an option stops trading, and all contracts are exercised or become worthless. It is one of the differentiating factors between stocks and options because there is no expiration on stocks, whereas options always have an expiration.

At expiration, one of two things happen, and what happens depends on whether the option is in-the-money (ITM) or out-of-the-money (OTM).

ITM: long calls and short puts will convert to long shares of stock, long puts and short calls will convert to short shares of stock.

OTM: will disappear from the account, calls that are above the stock price and puts that are below the stock price at expiration are OTM and will expire worthless and disappear.

The further away the expiration date of the contract is, the higher the value of the option is going to be. With a bigger time-lapse, the underlying asset is more likely to have substantial price changes. Therefore, the expiration date is a significant variable for options traders.

The concept of time is an essential factor of what gives the options their value. The closer the option contract gets to expiration date, the less valuable the option becomes. Once the option reaches expiration date, the time value of the contract will cease to exist.

Stocks vs options: For options, the payment is postponed. A great way to conceptualize this is that options are for traders who do not want to buy or sell the underlying asset but do want to profit from a direct movement in the asset price itself.

Terms

In-The-Money

Any option with intrinsic value. **In-the-money (ITM)** is an expression that refers to an option that possesses intrinsic value. It indicates that an option has value in a strike price that is favorable in comparison to the prevailing market price of the underlying asset. An in-the-money call option means the option holder may buy the security below its current market price. So, ITM call options have a strike price below the stock price. An in-the-money put option means the option holder can sell the security above its current market price. So, ITM put options have a strike price above the stock price. In-the-money options contracts have higher premiums than other options that are not ITM.

At-The-Money

Means at or about equal to the stock price. An option with a strike price very close to the current stock price is said to be **at-the-money (ATM)**. So, if an option contract's strike price is the same as the price of the underlying asset, the option is ATM. If the strike price of a call or put option is \$5 and the underlying stock is currently trading at \$5, the option is ATM. Because ATM put and call options cannot be exercised for a profit, their intrinsic value is zero.

Option	Strike Price	Stock Price	OTM, ATM, or ITM
Call	\$50	\$45	Out-of-the-Money
Call	\$45	\$45	At-the-Money
Call	\$35	\$40	In-the-Money
Put	\$85	\$105	Out-of-the-Money
Put	\$105	\$105	At-the-Money
Put	\$135	\$105	In-the-Money

Out-Of-The-Money

Any option without intrinsic value. If an option contract is **Out-of-the-Money (OTM)**, it does not have intrinsic value.

A call option is OTM if the current price of the underlying asset is lower than the strike price. The buyer of the call option would not exercise their right under the option contract to buy the underlying asset, because they would be paying more than its current value. If the strike price of a call option is \$5 and the underlying stock is trading at \$4, the option is OTM. Furthermore, the lower below \$5 the price goes, the more OTM the option is. Because OTM put and call options cannot be exercised for a profit, their intrinsic value is zero. So, OTM calls have strike a price above the stock price.

A put option is OTM if the current price of the underlying security is higher than the strike price. The buyer of the put option would not exercise their right under the option contract to sell the underlying asset because they would be receiving less than its value. If the strike price of a put option is \$5 and the underlying stock is trading at \$6, the option is OTM. Furthermore, the higher above \$5, the more OTM the option is. So, OTM puts have a strike price below the stock price.

Exercising the Option

To **Exercise the Option** means to buy or sell the underlying asset at the strike price. To “exercise options” means that the holder chooses to buy or sell shares of stock per the stock option agreement. Should you choose to enforce your right under the terms of the stock options

contract, you are said to be exercising your option. The holder of an American-style option can exercise their right to buy or sell an option's underlying shares of stock at any time of their choosing. So, they can be closed on the option's market at any time.

How to Execute an Options Trade

Opening and Closing a Trade

Now that you are familiar with the terminology associated with options. Let's take a look at an example of how you can execute our recommended options trades.

We're going to break down the components of an option trade and take a look at how that could look in your brokerage account.

Here is an example of the type of actionable options advice you may receive from me via email or SMS alert:

Buy PYPL March 18 \$98 calls ([PYPL220318C00098000](#)) at market price.

Here's how to break down the trade recommendation above:

1. **Buy or Sell:** "Buy QQQ" means "**buy to open**" and you'll see this in the screenshot below. When it's time to sell, we "**sell to close**". It sounds like a trivial distinction, but if we went in the other direction, we'd be making money at the beginning (when we "sell") and then paying it back to get out. I try to keep things as simple as I can.
2. **Expiration Date:** "January 14" that should be entered in the "expiration" section you can check it with the six numbers that follow the ticker symbol . . . 220114 means 2022 01/14.
3. **Strike Price:** \$403 – this is the strike price you want to buy the options on. The strike price is what we would pay to exercise our options if we held to expiration.
4. **Call/Put:** In our trade example, "Puts" specifies the type of option you want to buy. Remember, Calls are trading with an expectation that the underlying stock will go up and Puts are trading with the expectation that stock will go down.
5. **Quantity:** Enter at least 1, then you can adjust that to any quantity that fits your budget. You'll be able to see the total investment at the bottom of the screen once you've completed all the information.
6. **Order Type:** Typically, this will be MARKET. Market price is the current price. If I want you to only buy the option if it hits a specific price, I will provide you with a LIMIT price. When a limit is recommended, you'd select "limit order", then enter the price I indicate in the buy alert. As long as you make a MARKET order, it should fill automatically, and you'll pay the prevailing market price at the time you execute the order. You should be able to get a pretty good sense of that price from the trade alert . . . I'll say something like "I currently see this contract quoted around \$6" to give you confirmation.

NSDQ Refresh quote

PYPL PAYPAL HLDGS INC COM

Symbol	Last Price x Size / Exch	Bid x size	Ask x size	Volume
PYPL	96.59 -4.1300 (-4.10%)	96.40 x 1000	96.60 x 100	195,49K

Select a strategy Help me choose

Call OR Add a stock leg Add an option leg

Action	Quantity	Expiration	Strike	Type	Bid x size	Ask x size	Last
Buy Oper	1	Mar 18 '22	98	Call	7.00 x 39	7.15 x 8	7.10

In addition to helping you execute on our recommendations, I hope this report has given you the technical knowledge as well as the core concepts you need to be confident trading options.

Options trades move fast, but we have made the trades simple to execute so that you can easily enter the information into any major brokerage.

It is important for you to know that my team is here to support you and we want you to be comfortable. If you still have questions or need additional information, please email us at info@greentechresearch.com. We have experts that are trained in options terminology to help answer any questions you may have.

Here's how you can get started...

High Octane Trader is my conservative options trading service. I expect us to be in and out of most trades in anywhere from a few days to a few weeks, though don't be surprised if we occasionally hold for a few months. In addition, we will expand the number of weapons on our moneymaking arsenal by using options. We may occasionally trade in and out of stocks, but we'll primarily use calls and puts that can help significantly boost our profits in both up and down markets. That's critical in the current volatility.

Your membership benefits include:

- **Weekly Updates:** Packed full of your insights on the market and the specific factors impacting our holdings.
- **Flash Alerts:** Delivered directly to me any time you system issues an urgent buy or sell signal.
- **Special Reports:** I'll get access to your latest research and insights that are important to our investment strategy.

- **24/7 Website Access:** Where I can always access our latest trades, market insights, reports, and so much more!

I hope you'll take me up on this special opportunity to [give High Octane Trader a try at today's discounted price.](#)

The profits you'll make will pay for your membership multiple times over, so don't delay. Get started today.

What's more, the timing couldn't be better.

Join us today, and I look forward to seeing you on the inside!

[Ready to get started? Simply click here.](#)

About Hilary Kramer



Hilary Kramer is an investment analyst and portfolio manager with 30 years of experience on Wall Street. The Financial Times describes Ms. Kramer as “A one-woman financial investment powerhouse” and The Economist distinguishes her as “one of the best-known investors in America.” Ms. Kramer is often quoted in publications such as the Wall Street Journal, New York Post, Bloomberg and Reuters. She is a frequent guest commentator on CNBC, CBS, Fox News and Bloomberg, providing investment insight and economic analysis. You can hear her weekly on the syndicated Millionaire Makers radio show.

Ms. Kramer was an analyst and investment banker at Morgan Stanley and Lehman Brothers. Ms. Kramer founded and ran a long-short hedge fund and has been chief investment officer overseeing debt and equity portfolios. Since 2010, Ms. Kramer's financial publications have provided stock analysis and investment advice to her subscribers. Her products include *GameChangers*, *Value Authority*, *High Octane Trader*, *Turbo Trader*, *2-Day Trader*, *IPO Edge* and *Inner Circle*.

Ms. Kramer, a Certified Fraud Examiner, has also testified as an expert in investment suitability, risk management, compliance, executive compensation and corporate governance.

