AION TRADING PRESENTS

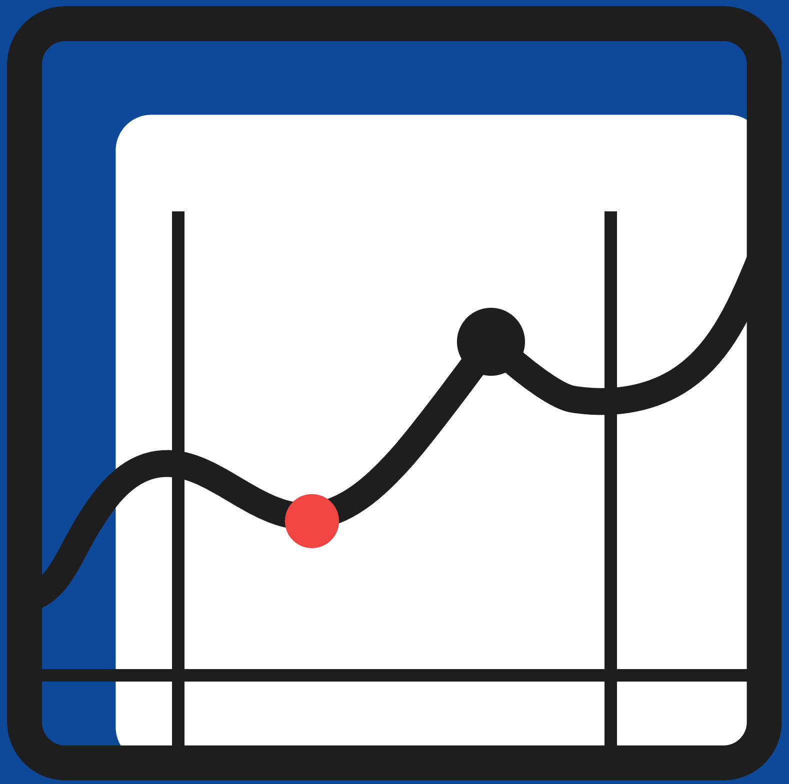
THE FUNDAMENTALS OF OPTIONS

Concepts YOU should know

AION TRADING

PRESENTATION OUTLINE

- -Purpose
- -What is a Contract?
- -What is an Options Contract?
- -Buying a Call Option
- -Buying a Put Option
- -Selling a Call Option
- -Selling a Put Option
- -Option Concepts to Understand



This presentation was made to help beginners understand what options are through simple examples.

WHAT IS A CONTRACT?

AN AGREEMENT WITH SPECIFIC TERMS BETWEEN TWO OR MORE PERSONS OR ENTITIES IN WHICH THERE IS A PROMISE TO DO SOMETHING IN RETURN FOR SOMETHING ELSE

WHAT ARE OPTIONS CONTRACTS?

<u>Definition</u>:
A stock option is a contract which gives its holder the right, to buy or sell shares of an underlying security at a specified price on or before a given date.

This right is granted by the writer of the option aka the seller.

THINGS TO UNDERSTAND

- An option contract gives you to right to control 100 share of a stock.
- There are two types of options, calls and puts.

HOW DO YOU DETERMINE THE VALUE OF AN OPTIONS CONTRACT

EXTRINSIC VALUE

AKA TIME VALUE.

THE MORE FAR OUT AN OPTIONS CONTRACT, THE MORE EXPENSIVE IT IS.

OUT THE MONEY CALL OPTIONS DO NOT HAVE INTRINSIC VALUE

THEY EXPIRE WORTHLESS

+

INTRINSIC VALUE

AKA THE DIFFERENCE OF THE CURRENT PRICE OF THE UNDERLYING ASSET AND THE STRIKE PRICE OF THE OPTION.

THERE IS ONLY INTRINSIC VALUE WHEN THE UNDERLYING ASSET MOVES HIGHER THAN THE STRIKE PRICE

Example 1:

Lets say that the current price of a stock is $99 and today is Monday - You think the market will go up because of news.

You buy a $100 Strike weekly option and pay ($2.37) x 100 shares in premium for a total of $237.

Then Tuesday comes, the stock moves to $108.

Bullish Play

BUYING A CALL OPTION *SIMPLIFIED*

HOW TO CALCULATE PROFITS

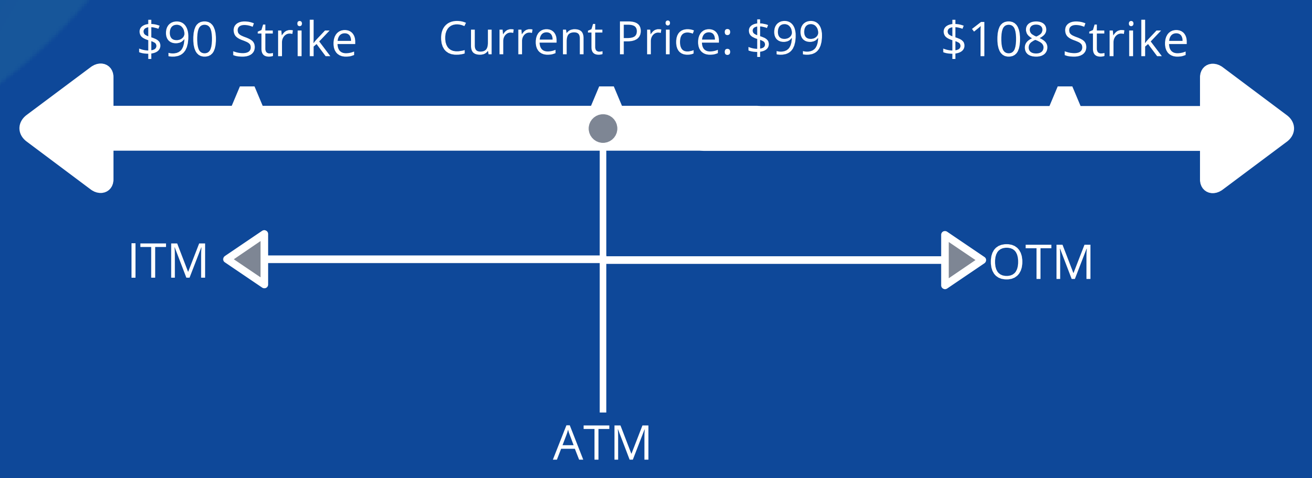
((Current Price) - (Strike Price)) x 100
subtracted by cost of contract
or
(108 - 100) x 100 Shares - 237 = $563

WHAT IS BUYING A CALL OPTION?

You are buying the right to buy 100 shares of a stock because you want the stock to go up.

In this scenario you bought the right to 100 shares of stock if the price moves above $100, in this case the stock moved to $108 or an 8 point move

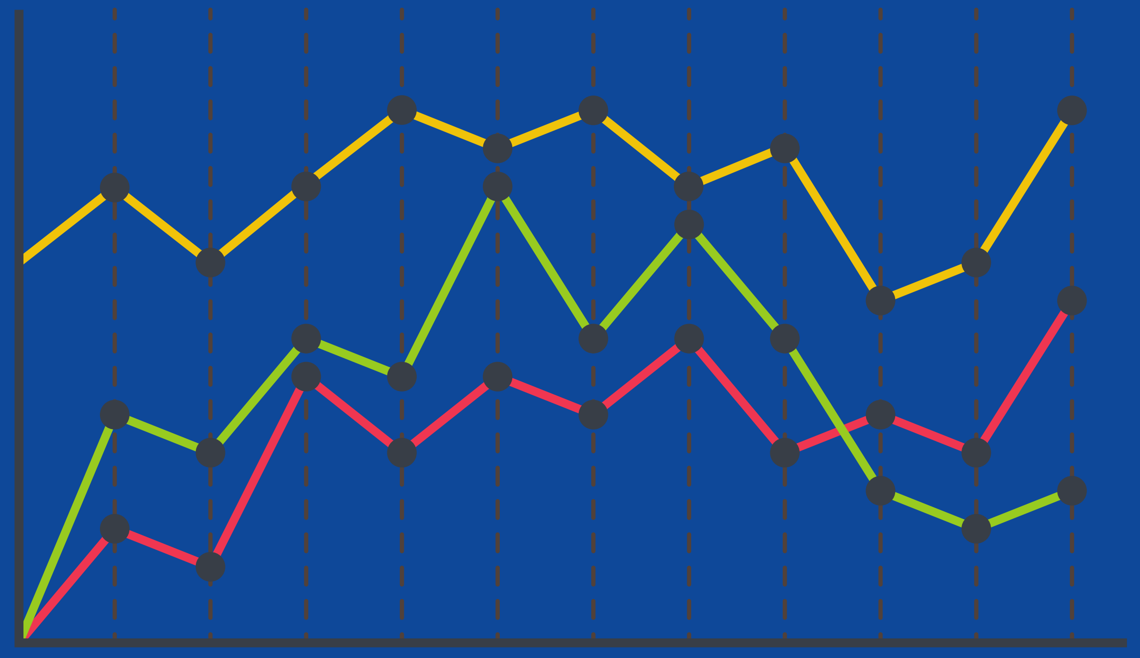
FIGURE OF CALL (EX: 1)



**Keep Note of ITM (In the Money) and OTM (Out the Money) and ATM (At then Money)

What are Options contracts?

Example 2:



Lets say that the current price of a stock is $101 and today is Monday - You think a company's stock will go down because of bad earnings.

You buy a $100 weekly put option and pay ($2.37) x 100 shares in premium for a total of $237.

Then Tuesday earnings come, the stock drops to $95.

BUYING A PUT OPTION *SIMPLIFIED*

Bearish Play

HOW TO CALCULATE PROFITS

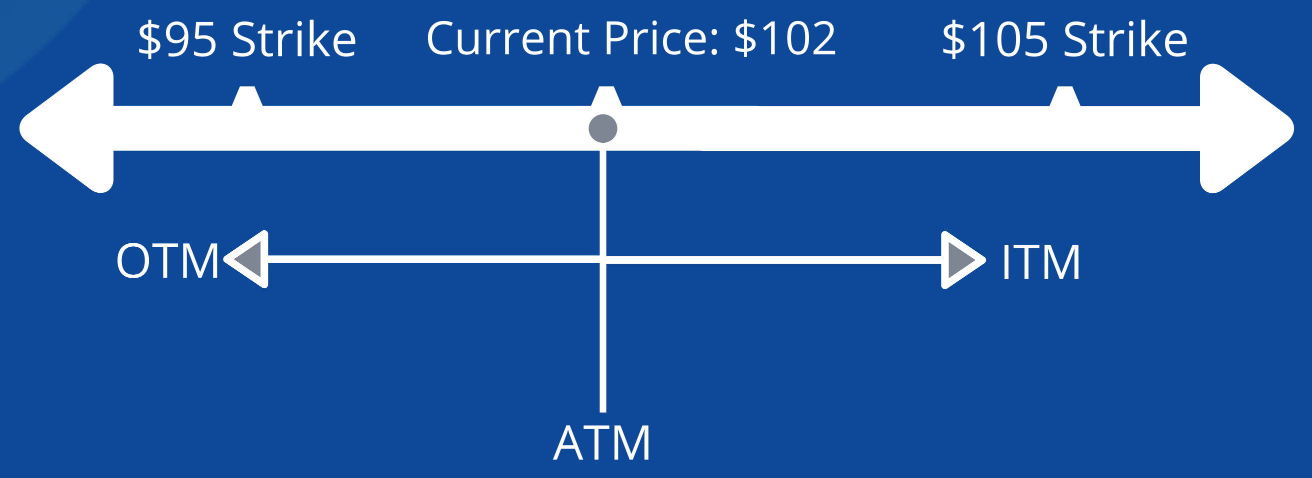
((Strike Price) - (Current Price) x 100
subtracted by cost of contract
or
(100 - 95) x 100 Shares - 237 = $263

WHAT IS BUYING A PUT OPTION?

You are buying the right to sell 100 shares of a stock at a strike price because you think the stock will go down.

In this scenario you bought the right to sell 100 shares of a stocking if it drops below your strick price of $100 which it did.

FIGURE OF PUT (EX: 2)



What are Options contracts?

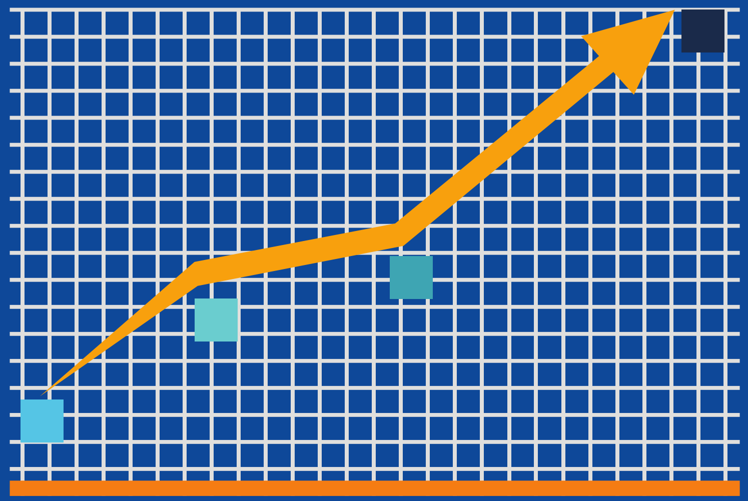
**Keep Note of ITM (In the Money) and OTM (Out the Money) and ATM (At then Money)

Example 3:

Lets say that the current price of a stock is $101 and today is Monday - You think a company's stock will go down because of bad earnings.

You sell a $105 weekly call option and receive ($2.37) x 100 shares in premium for a total of $237.

At the end of week, the stock price closed at $102



Bearish or Neutral Play

SELLING A CALL OPTION *SIMPLIFIED*

HOW TO CALCULATE PROFITS

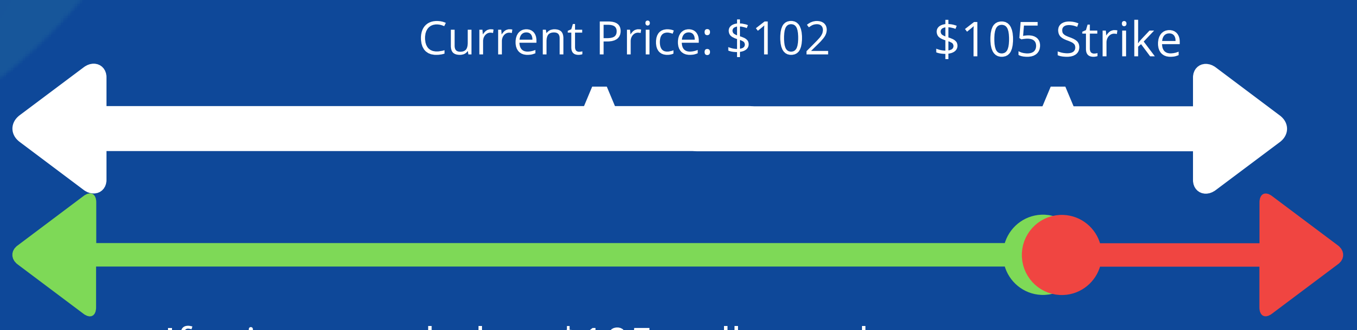
Sold 100 Shares at $2.37 = $237 -> buyer could not execute so full premium collected

WHAT IS SELLING A CALL OPTION?

It represents an obligation to sell the underlying security at the strike price if the call option is exercised.

In this scenario you were paid a premium to sell the right to buy 100 share of a stock if it went higher than $105 which it didn't

PROFITABILITY OF SELLING CALL OPTION (EX: 3)



If price stays below $105, seller makes full premium of $237

What are Options contracts?

Example 4:

Lets say that the current price of a stock is $100 and today is Tuesday - You think a company's stock will go up because of trade deal progress.

You sell a $97.5 weekly put option and receive ($2.37) x 100 shares in premium for a total of $237.

At the end of week, the stock price closed at $105.

Bullish or Neutral Play

SELLING A PUT OPTION *SIMPLIFIED*

HOW TO CALCULATE PROFITS

Sold 100 Shares at $2.37 = $237 -> buyer did not execute and options expired worthless. Full premium collected

WHAT IS SELLING A PUT OPTION?

It represents an obligation to sell the underlying security at the strike price if the call option is exercised.

In this scenario you were paid a premium to sell the right to buy 100 share of a stock if it went higher than $105 which it didn't

PROFITABILITY OF SELLING PUT OPTION (EX: 4)

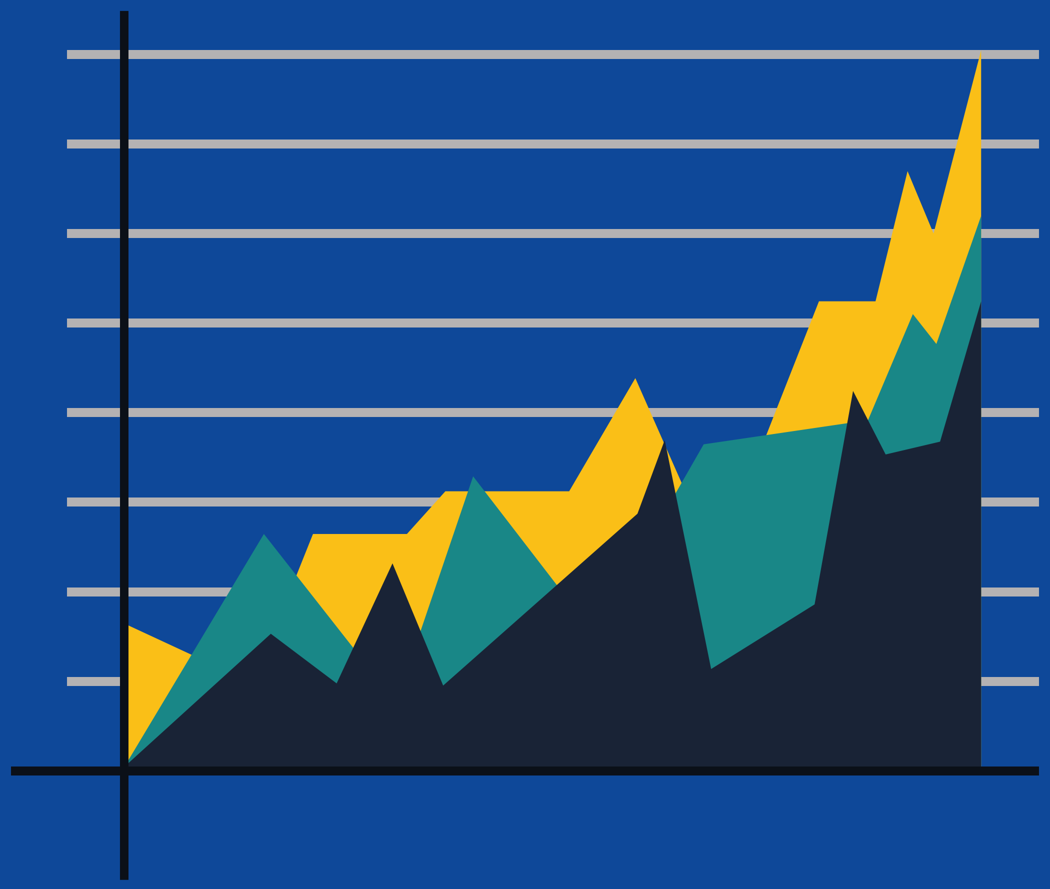
If price stays above $97.5, seller makes full premium of $237

What are Options contracts?

AION TRADING

OPTION CONTRACTS TO UNDERSTAND

- In the money options are more expensive as they are more likely to happen.
- Out the money options are cheaper because they are less likely to happen.
- Out the money options only has extrinsic value which is time premium
- At the money options have a strike price at the current of the underlying asset price.
- Options are known as derivatives because they derive their value from an underlying asset



COMING SOON

CREDIT SPREADS, THE GREEKS, AND MORE OPTIONS STRATEGIES

AION OUT