

Options Market Analysis Education Guide

Wealth Horizons Academy | \$397

DISCLAIMER

This is strictly educational content about options markets. Options trading involves substantial risk and is not appropriate for all investors. Not financial advice. Consult a licensed financial professional.

UNDERSTANDING OPTIONS MARKETS

CHAPTER 1: OPTIONS FUNDAMENTALS

What Is an Option?

An options contract gives the buyer the RIGHT (but not the obligation) to buy or sell an underlying asset at a specified price (strike price) on or before a specific date (expiration).

Call Option: Right to BUY 100 shares at the strike price **Put Option:** Right to SELL 100 shares at the strike price

Option Components: - Underlying asset (stock, ETF, index) - Strike price (exercise price) - Expiration date - Premium (cost of the option) - American style (exercise any time before expiration) - European style (exercise only at expiration)

The Option Premium

Options cost money (the premium). Premium is composed of:

Intrinsic Value: The immediate value if exercised now - Call: $\text{Max}(0, \text{Stock Price} - \text{Strike Price})$ - Put: $\text{Max}(0, \text{Strike Price} - \text{Stock Price})$

Time Value: The additional premium above intrinsic value - Decreases as expiration approaches (time decay) - Also called theta decay

CHAPTER 2: THE GREEKS

Understanding Options Risk Metrics

Delta (Δ): How much option price changes when underlying moves \$1 - Call delta: 0 to 1.0 (typically 0.5 at-the-money) - Put delta: -1.0 to 0 - Delta = approximate probability option expires in-the-money

Theta (Θ): Daily time decay of option value - All options lose value over time, all else equal - Time decay accelerates in the last 30 days - Option sellers benefit from theta; buyers hurt by it

Vega (v): Sensitivity to implied volatility changes - Higher volatility = higher option premium - Earnings announcements typically increase implied volatility

Gamma (Γ): Rate of change of delta - High gamma = delta changes rapidly with price movement

CHAPTER 3: BASIC OPTIONS STRATEGIES (EDUCATIONAL)

Covered Call (Income Generation)

If you own 100 shares, you can sell a call against them. - You receive premium upfront - You give up upside above the strike price - Used to generate income on long stock positions

Protective Put (Hedging)

Buying a put against stock you own. - Limits your downside loss - Costs premium - Insurance for your stock position

Cash-Secured Put (Acquisition Strategy)

Selling a put on a stock you WANT to own. - You receive premium - If stock falls below strike, you buy it at the strike price - Effectively buying stock at a discount

CHAPTER 4: RISK MANAGEMENT IN OPTIONS

Key Risks to Understand

1. Expiration risk: Option can expire worthless (100% loss of premium)
2. Assignment risk: Short options can be assigned
3. Volatility risk: IV changes affect option value
4. Liquidity risk: Wide bid/ask spreads in illiquid options
5. Complexity risk: Advanced strategies are difficult to manage

Position Sizing for Options

Due to leverage, options position sizing requires extra discipline: - Maximum 2-5% of portfolio in any single options position - Account for maximum potential loss, not just premium paid - Complex strategies require understanding all scenarios

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