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This training is for **educational purposes only**. All examples and analysis are intended for these purposes and should not be considered as specific investment or trading advice. All hypothetical examples are for the purposes of teaching principles and are not intended to suggest future results. The risk of loss in trading securities, options, futures, and forex can be substantial. Customers must consider all relevant risk factors including their own personal financial situation before trading. Options, futures, and forex are considered more sophisticated investment vehicles due to high leverage and are not suitable for all investors. Any results shared should not be considered typical.

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**Welcome Back to  
Day 2 of Options!**

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**Reminder: VIP Class Tonight!**

VIP Perks:

- ✓ **THREE additional VIP-only** live sessions
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- ✓ Strategy class to **turn every Friday into Pay Day**
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A graphic of a blue VIP badge with a silver ring and a black strap. The badge features the 'BOOT CAMP OPTIONS BOOT CAMP' logo and the word 'VIP' in large red letters.

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# Tonight's Agenda

*Harnessing Risk & Reward*

We'll cover:

- Buying options vs buying stocks
- Long Call structure
- How to read risk graphs
- Protecting your trades with Puts

**VIP Only: Volatility Masterclass**



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# Buying Options

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# Meet Anna (Again)

Anna is house hunting.

She finds a great deal for \$400,000!

She can't close on the deal right away, but she wants to lock in the great price.

What does she do?



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# Meet Anna (Again)

Anna purchases the **right to buy** the house.

She gives the seller \$2,000 now.

In exchange, the seller agrees to sell the house to Anna for \$400,000 any time in the next 3 months.



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## Meet Anna (Again)

What happens if Anna decides not to buy the house? What does she lose?

What happens if the appraisal comes in at \$500,000?

What has Anna done?

**She has purchased an option contract!**



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The holder of an option has the **Right** (but not the obligation) to **Buy or Sell** an asset for a certain **Price** before the options **Expires**

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In our example, Anna purchased the **Right** (but not the obligation) to **Buy** the house for **\$400,000** within **3 Months**

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Options work the same way in the stock market too

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## AMD Example

Let's say you're bullish on AMD at \$160.

By buying the 160-strike call option, you reserve the right to buy AMD for \$160/share.

If AMD goes to \$180 or even higher, you still have the right to purchase shares for \$160.

If you think AMD could get to \$180 in the next few weeks, how much would you pay for the right to buy AMD at \$160?

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## How Does This Transaction Work?

**Option Buyer (You)**

**Option Seller**

- You receive the contract (call option)
- Seller receives cash

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## Who Has What?

**Option Buyer (You)**

- Has bought a contract
- Has rights
- Paid money

**Option Seller**

- Has sold a contract
- Has obligations
- Received money

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## AMD Example

Let's say you paid \$9/share for the right to buy AMD at \$160/share.

What's the **most** you can lose?

**\$9/share!**

(Remember, each option contract represents 100 shares of stock)

This makes it easy to compare buying one option contract to buying 100 shares

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### Buying Stock

$$\begin{array}{r} 100 \text{ Shares} \\ \times \$160/\text{Share} \\ \hline = \$16,000 \end{array}$$

### Buying A Call

$$\begin{array}{r} 1 \text{ Contract (100 Shares)} \\ \times \$9/\text{Share} \\ \hline = \$900 \end{array}$$

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## What if AMD goes to \$180?

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### Buying Stock

$$\begin{array}{r} \$18,000 \text{ Sold} \\ - \$16,000 \text{ Bought} \\ \hline = \$2,000 \text{ Profit} \end{array}$$

Return:  
 $2000 / 16000 = 12.5\%$

### Buying A Call

$$\begin{array}{r} \$2,000 \text{ Sold} \\ - \$900 \text{ Bought} \\ \hline = \$1,100 \text{ Profit} \end{array}$$

Return:  
 $1100 / 900 = 122\%$

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## Back to the chart...

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## AMD Example

We agree that being able to buy AMD for \$160 when it's trading at \$180 is worth at least \$20, right?

Because you could exercise your right to buy at \$160, then turn around and sell those shares in the market at \$180.

So if AMD went all the way up to \$200, how much would it be worth to have the right to buy at \$160?

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## AMD Example

The higher AMD goes, the more valuable the right to buy at \$160 becomes.

Just like a stock, our call option can go up in value forever.

But what about the downside?

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## AMD Example

When you buy a stock, you can lose as much as you paid for that stock (in this example, up to \$160/share).

That's true for options too... But options cost a lot less!

In this example, the 160-strike call option costs \$9/share.

That means the most you could lose on this trade is \$9/share, **no matter what.**

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## AMD Example

If AMD goes to \$180 by expiration, the 160-strike call you paid \$9/share for will be worth \$20/share... a **122% return.**

If AMD goes to \$200 by expiration, the call will be worth \$40/share... a **444% return.**

But if AMD is at \$165 at expiration, the call will only be worth \$5/share... **-44% return** (but only a \$4/share loss).

At what AMD price does your call break even?

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## Another way to understand this relationship is via a **Risk Graph**

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A Risk Graph shows the potential **Profit/Loss** of the position at different prices

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### Risk Graph of a Long Stock

For every \$1 that the stock goes up, the P&L of a long stock position goes up \$1/share

Profits are potentially unlimited

Losses are only limited by the stock going to \$0



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### Risk Graph of a Long Call Option

Just like with stock, profits are potentially unlimited.

Losses are limited to the price of the option, no matter how far the stock drops.

Breakeven is at your option's strike price plus what you paid for the option.



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## Risk Graph of a Long Call Option

When you're bullish on a stock with a lot of potential upside, buying a call option can be a great way to make money.

You get potentially unlimited, leveraged upside...

...Plus limited downside...

...At a fraction of the cost of owning shares!



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## Sometimes They Go Really Crazy...

Trade	Stock	Trade Structure	Long/Short	Number of Contracts	Start Date	End Date	Contract Size	Days in the Trade	Option Open Price	Option Close Price
244	237 AMC	AMC 210618C2.0	Long	5	31-Dec-20	27-Jan-21	100	27	1.02	13.96

At the end of 2020, I bought some 6-month call options on AMC for \$1.02

In less than a month, the stock skyrocketed, and the call options went to almost \$14 (thanks Reddit!)

I exited for \$13.96... a **+1,268% increase**

This is not a "typical" trade, but it does show you what's possible when you position yourself properly!

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I generally don't like to take these types of trades unless I expect to make at least **100%-200%** on my money

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So what is the process I use to buy options?

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## How To Buy A Call Option

- Must be bullish on the stock! Not neutral or bearish. Price target is a must.
- Determine length of trade, then buy an option that expires after that (e.g. for a 2-week trade, buy a 4 week contract)
- Decide strike price. ITM strikes are safer and but have lower returns and cost more. OTM strikes are riskier but have greater returns when they work. ATM strikes balance the two, with greatest acceleration (Gamma)
- Finally, create and send a Buy-To-Open (BTO) limit order to your broker with all the details of the options you want to purchase along with the price.

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## What Happens At Expiration?

The option will disappear at expiration (taking any profits with it).

Which means, in order to book a profit with this strategy, **you must Sell To Close** (or exercise) **before expiration**.

The more time remaining until expiration, the more time value will be left in your option when you sell.

This is one BIG reason why you should **always buy more time than you need**.

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## Playing Defense

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## Playing Defense

Buying call options is great when a stock is going up.

But what if you already own a stock and you're worried about it turning against you?

That's where put options come in!

Put options were created to reduce risk on long stock trades.



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## Playing Defense

Remember that a put option gives you **the right to sell** the stock for the option's strike price any time before the option expires.

In effect, a put options acts as insurance against losses in your stock trade.

By buying a put option, you purchase a guarantee that you can sell your shares at the option's strike price.



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## Puts As Insurance



It's like buying fire insurance on your house.

You don't *hope* that your house burns down...

...But if it does, you're covered financially.

What about the premiums?

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## Puts As Insurance



If your house never burns down, you don't get your monthly premiums back.

They are the price you paid for safety & security.

It's the same with options. If your stock never burns down, your put options will expire worthless.

You don't *hope* your stock burns down, but if it does you're covered.

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## Let's look at an example on thinkorswim

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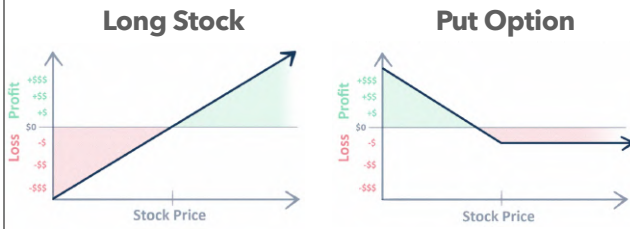
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## Here's What Those Risk Graphs Look Like



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## Should I Sell Or Exercise?

- Sell when you don't want to deal with the stock (e.g., long call option when you don't want to own the shares)
- Exercise a call option when you want to buy the shares (or cover a short stock obligation)
- Exercise a put option when you want to sell the shares
- Exercising a put **vs** simultaneously selling shares *and* selling the put... leads to basically the same returns, no big difference

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The vast majority of options are never exercised

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You have the right to exercise anytime you choose...

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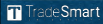
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...But most of the time you will simply sell the contract and move on to the next trade



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Ok! That's It For Day 2



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Tomorrow...

...is one of our coolest classes!

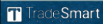
We're going to learn how to flip the script and get paid for selling options.



It's a student favorite.



Don't miss it!



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VIP-Only Class in 10 Minutes!

We'll be taking a 10 minute break, then switching over to a new Zoom room and starting our first VIP session.

Today we'll be discussing everything you need to know about **volatility and its critical role** in options trading.

Not a VIP member yet? Join here:

<https://www.tradesmartuniversity/options-vip-upgrade2>



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