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Features: 200, 100...
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CURRENTS DECISION
Call

QUANTUM DECISION
Put

BY THE WAY
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CALL
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Strike Price
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WHAT IS AN OPTION?
+ A contract between two parties
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REAL LIFE EXAMPLE



Price of an Option is based on...

- The stock price
- Time left until the expiration
- Volatility of the underlying stock
- Dividend (for call options)

Organized Exchanges

Standardized contracts traded on a regulated exchange with many buyers and sellers.

Over the Counter Markets

Unstandardized contracts traded over-the-counter between two parties.

Trading of Call & Put Options

Trading volume is high.

Options have a higher liquidity than other derivatives.

OPTION STRATEGIES I - Protective Put

This guarantees that the maximum payoff will equal the price of the stock at a maximum loss of the premium.

If the stock price falls, your portfolio will benefit from the put. If the stock price rises, you will benefit from the stock.

OPTION STRATEGIES II - Covered Call

The potential of capital gain from the stock is capped by the stock's price at the expiration.

Income is provided by the premium collected.

OPTION STRATEGIES III - Straddle

In periods of high volatility, both the call and the put will benefit from the price of the stock moving.

Just as an investor might believe that a stock price will rise, but not know if it will rise or fall.

Why are options traded?

- Leverage
- Hedging
- Limited Risk

OPTION STRATEGIES IV - Spread

Buying and selling two options that are related to each other.

Buying and selling two options that are related to each other.

OPTION STRATEGIES V - Collar

Buying a call option and selling a put option to limit the price of the stock.

Buying a call option and selling a put option to limit the price of the stock.

OPTION STRATEGIES VI - Butterfly

Buying a call option, selling two call options, and buying one call option.

Buying a call option, selling two call options, and buying one call option.

OPTION STRATEGIES VII - Bear Put Spread

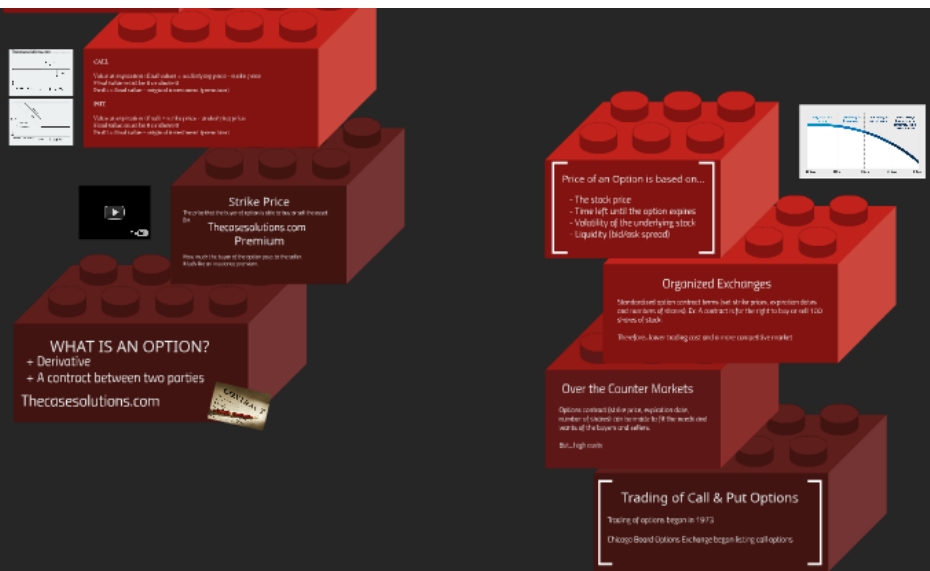
Buying a put option and selling a put option.

Buying a put option and selling a put option.

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Presentation Outline

- Call and Put Options Basics
- The Trading of Call and Put
- Why Trade Options?
- Option Strategies

Symantec Corporation Convertible
Notes With Call Spread
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OPTION STRATEGIES II - Covered Call
Buy a stock and write a call option on the same stock.
The potential obligation of delivering the stock is covered by the stock already in the portfolio.
Income is boosted by the premiums collected.

OPTION STRATEGIES I - Protective Put
Buy a stock and a put option on the same stock.
This guarantees that the minimum payoff will equal the put's exercise price and a max. loss of the premium.

Why are options traded?
Leverage
Limited Risk
Hedging

<http://www.investopedia.com/video/play/hedging/>

Symantec Corporation Convertible Notes With Call Spread Thecasesolutions.com

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Presentation
I. Call and Put Options
II. The trading of Call and Put Options
III. Why trade options?
IV. Option Strategies

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Presentation Outline

- I. Call and Put Options Basics
- II. The trading of Calls and Puts
- III. Why trade options?
- IV. Option Strategies

WHAT IS AN OPTION?

+ Derivative

+ A contract between two parties

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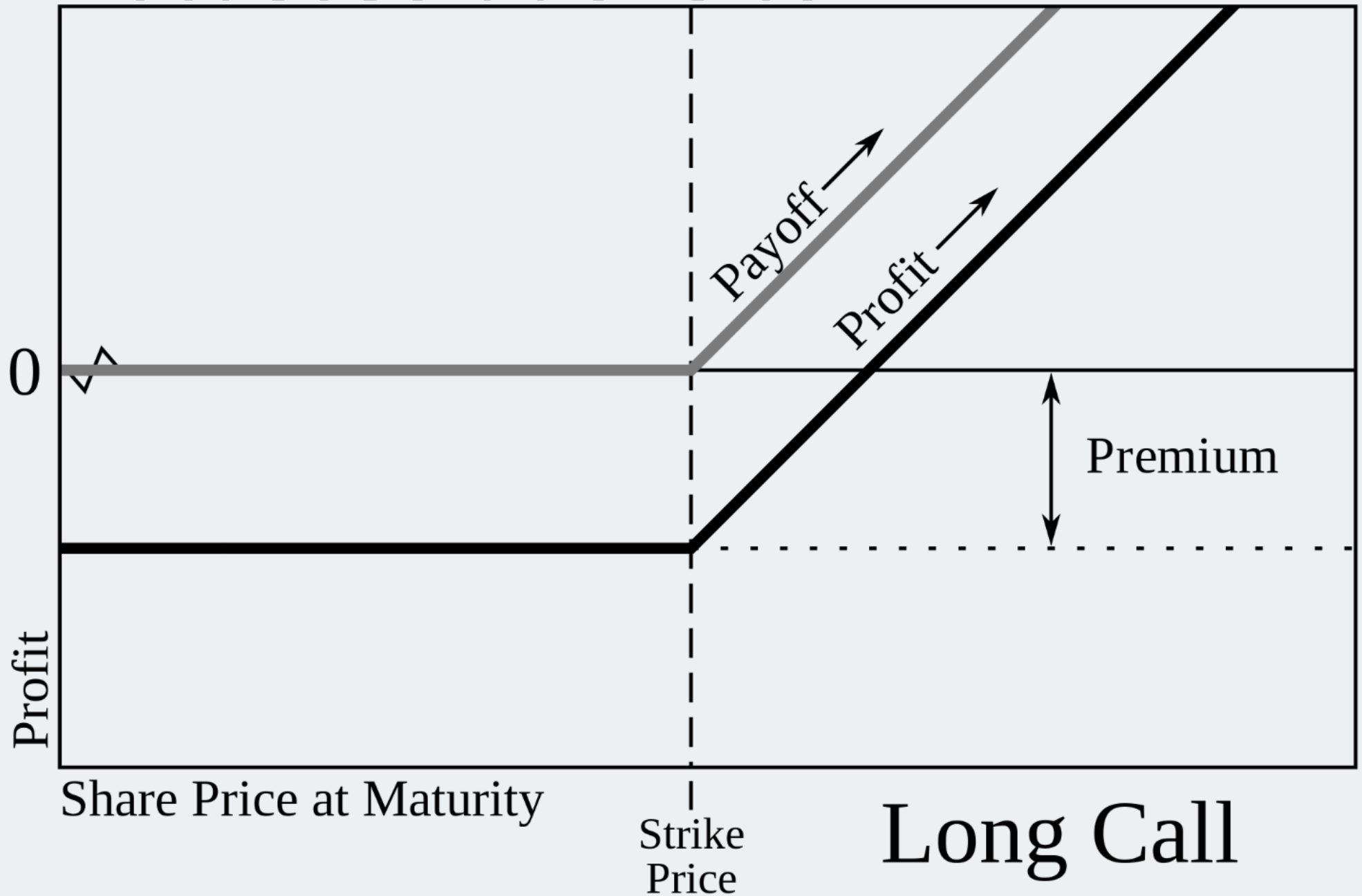
Strike Price

The price that the buyer of option is able to buy or sell the asset for.

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Premium

How much the buyer of the option pays to the seller.
Much like an insurance premium.



QUANTITATIVE QUESTION

~ Calls

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An investor buys a call at a price of \$4.50 with a strike price of \$40.

At what stock price will the investor break even on the purchase of the call?

SOLUTION

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$$\$4.50 + \$40 = \$44.50$$

Premium + Strike Price =
Break-even Price

QUANTITATIVE QUESTION

~ Puts

You purchase one IBM March 100 put contract for a premium of \$6.47. Thecasesolutions.com

What is your maximum possible profit?