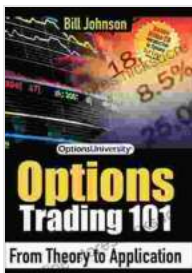


Options Trading 101: From Theory to Application

What is Options Trading?

Options trading is a type of investing that allows you to speculate on the future price of an underlying asset, such as a stock, index, or commodity. With options, you have the right (but not the obligation) to buy or sell the underlying asset at a certain price on or before a certain date.

There are two main types of options: calls and puts.



Options Trading 101: From Theory to Application

by Michele Cagan

★★★★☆ 4.1 out of 5

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Text-to-Speech : Enabled
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Enhanced typesetting : Enabled
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- **Calls** give you the right to buy the underlying asset at a certain price (the strike price) on or before a certain date (the expiration date).
- **Puts** give you the right to sell the underlying asset at a certain price (the strike price) on or before a certain date (the expiration date).

How Options Trading Works

When you buy an option, you are paying a premium to the seller of the option. The premium is the price of the option. The premium is determined by a number of factors, including:

- The price of the underlying asset
- The strike price of the option
- The expiration date of the option
- The volatility of the underlying asset

The premium is also affected by the supply and demand for the option. If there are more buyers than sellers, the premium will be higher. If there are more sellers than buyers, the premium will be lower.

When you buy an option, you have the right to exercise the option at any time before the expiration date. If you exercise the option, you will be assigned to buy or sell the underlying asset at the strike price. If you do not exercise the option, it will expire worthless.

Advantages and Disadvantages of Options Trading

There are a number of advantages to options trading, including:

- **Leverage:** Options trading can provide you with leverage, which means that you can control a larger amount of the underlying asset with a smaller amount of capital.
- **Limited risk:** The most you can lose on an option is the premium you paid for it. This is in contrast to stocks, where you can lose your entire

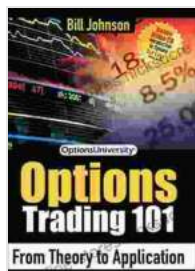
investment.

- **Flexibility:** Options can be used to create a variety of different trading strategies.

However, there are also a number of disadvantages to options trading, including:

- **Complexity:** Options trading can be complex, and it is important to understand the risks involved before you get started.
- **Time decay:** The value of an option decays over time, so it is important to monitor your options closely and to close them out before they expire worthless.
- **Volatility:** The value of an option is affected by the volatility of the underlying asset. This means that options can be risky investments.

Options trading can be a powerful tool for investors, but it is important to understand the risks involved before you get started. If you are new to options trading, it is important to do your research and to start with a small amount of capital. With careful planning and execution, options trading can be a profitable way to invest.



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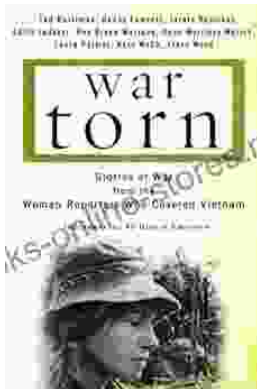
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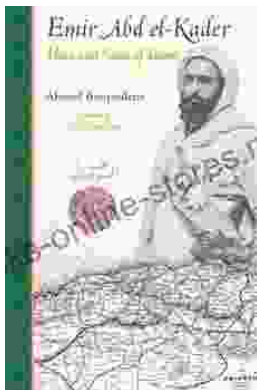
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