

Beginners Corner Information

Lesson 2

Option Basics

Covered Call Writing

Definitions

Covered Call Writing

- Buy a stock
- Sell the right to buy our shares at a certain price (**STRIKE PRICE**)
- By a certain date (**EXPIRATION DATE**)
- Receive a cash return for undertaking this obligation (**OPTION PREMIUM**)

Types of Options

- **Call**- the right to BUY 100 shares of stock
- **Put**- the right to SELL 100 shares of stock
- In covered call writing we SELL CALL OPTIONS

Strike Price as it Relates to the Stock Price

- **At-the-money (ATM):** Strike Price (\$30) = Stock price (\$30)
- **Out-of-the-money (OTM):** Strike Price (\$30) > Stock Price (\$28)
- **In-the-money (ITM):** Strike Price (\$30) < Stock price (\$32)

Option Premium as it relates to Strike Price

- *****Option Premium** = Intrinsic Value + Time Value
- **Intrinsic Value:** The dollar amount the premium is ITM. If a stock is \$32 and the \$30 call is \$3, the intrinsic value = \$2.
- **Time Value:** Option premium above the intrinsic value (\$1 in above example)
- Only ITM strikes have intrinsic value
- ATM and OTM strikes consist of ALL time value
- No more definitions!

Option Chain

- A list that quotes option prices for a particular stock
- All online brokerages have these
- WWW.FINANCE.YAHOO.COM

WWW.FINANCE.YAHOO.COM

The screenshot shows the Yahoo! Finance website interface. At the top, the 'YAHOO! FINANCE' logo is on the left, and a search bar is on the right. Below the logo, there are navigation tabs for 'HOME', 'INVESTING', 'NEWS', and 'PERSONAL FINANCE'. A search box contains the text 'NUAN', and a yellow 'Get Quotes' button is to its right. A dropdown menu displays search results for 'NUAN', including 'NUAN Nuance Communications, Inc. Equity - NASDAQ', 'NCVLX Nuance Concentrated Value Institutional Fund - NASDAQ', and several 'NUANCE COMMUNICATNS' entries for different stock exchanges (Stuttgart, EWX, Frankfurt, Munich, Dusseldorf, Berlin). A red arrow points to the search box, and a blue arrow points to the 'Get Quotes' button. Below the search results, there is a 'Tip' section and a news snippet about Zynga's share price. On the right side, a partial view of a stock price is visible, showing 'USD 7.19%'.

YAHOO! FINANCE Search

HOME INVESTING NEWS PERSONAL FINANCE

Q NUAN **Get Quotes**

NUAN	Nuance Communications, Inc.	Equity - NASDAQ
NCVLX	Nuance Concentrated Value Institutional	Fund - NASDAQ
SC2.SG	NUANCE COMMUNICATNS	Equity - Stuttgart
2311897.SG	NUANCE COMMUNICATNS	Equity - EWX
SC2.F	NUANCE COMMUNICATNS	Equity - Frankfurt
SC2.MU	NUANCE COMMUNICATNS	Equity - Munich
SC2.DU	NUANCE COMMUNICATNS	Equity - Dusseldorf Stock Exchange
SC2.BE	NUANCE COMMUNICATNS	Equity - Berlin

Show all results for nuan

Tip : Use comma (,) to separate multiple quotes. [Learn more...](#)

Zynga prices shares at \$10, top end of range: IFR Reuters
Zynga Inc priced its shares at the top end of its expected range at \$10 per share on Thursday, a source close to the process told the International Finance Review. The company, which is the top

- Gross can't stop the bleeding from flagship bond fund Reuters
- Dudley: Fed's dollar lines shield U.S. from Europe Reuters
- Fitch downgrades seven global banks Reuters
- Italy's Monti faces confidence vote on austerity

USD 7.19%

Locate Option Link

The screenshot shows the Yahoo Finance website interface. At the top, the 'YAHOO! FINANCE' logo is on the left, and a search bar is on the right. Below the logo, navigation tabs for 'HOME', 'INVESTING', 'NEWS', 'PERSONAL FINANCE', and 'MY PORTFOLIO' are visible. A 'Get Quotes' button is located below the 'INVESTING' tab. The main content area displays market indices: 'Dow ↑0.38%' and 'Nasdaq ↑0.07%'. The primary focus is on 'Nuance Communications, Inc. (NUAN)'. On the left side of this section, a vertical menu lists various options: 'More On NUAN', 'QUOTES', 'Summary', 'Order Book', 'Options', 'Historical Prices', 'CHARTS', 'Interactive', 'Basic Chart', 'Basic Tech. Analysis', 'NEWS & INFO', 'Headlines', 'Financial Blogs', 'Company Events', 'Message Boards', 'Market Pulse', 'COMPANY', 'Profile', and 'Key Statistics'. A red arrow points to the 'Options' link. To the right of the menu, there are advertisements for 'RETIRE FOR LESS' and 'Fidelity 30 commission-free ETFs'. The main data section for 'Nuance Communications, Inc. (NasdaqGS: NUAN)' shows the current price as 24.95, up 0.88 (3.66%) from the previous close of 23.52. It also lists various financial metrics such as Day's Range, 52wk Range, Volume, Avg Vol (3m), Market Cap, P/E (ttm), EPS (ttm), Div & Yield, and 1y Target Est. At the bottom, it suggests other stocks viewed by people who viewed NUAN: FIO, LULU, GLW, GMCR, LNKD, and RVBD. A footer note states: 'Quotes delayed, except where indicated otherwise. Currency in USD.'

Nuance Communications, Inc. (NUAN)

At 4:00PM EST: **24.07** ↑0.55 (2.34%)

More On NUAN

- QUOTES
- Summary
- Order Book



Options

Historical Prices

CHARTS

- Interactive
- Basic Chart
- Basic Tech. Analysis

NEWS & INFO

- Headlines
- Financial Blogs
- Company Events
- Message Boards
- Market Pulse

COMPANY

- Profile
- Key Statistics
- SEC Filings
- Competitors
- Industry
- Components

ANALYST COVERAGE

- Analyst Opinion
- Analyst Estimates
- Research Reports
- Star Analysts

Options

Call Options

Expire at close Friday, January 20, 2012

Strike	Symbol	Last	Chg	Bid	Ask	Vol	Open Int
7.50	NUAN120121C00007500	12.10	0.00	16.10	16.80	0	16
10.00	NUAN120121C00010000	14.80	0.00	14.00	14.20	3	164
12.50	NUAN120121C00012500	12.00	0.00	11.10	11.80	2	210
14.00	NUAN120121C00014000	12.00	0.00	10.00	10.30	9	9
15.00	NUAN120121C00015000	9.90	0.00	8.90	9.30	11	1,853
16.00	NUAN120121C00016000	6.40	0.00	7.90	8.30	1	1
17.50	NUAN120121C00017500	6.80	0.00	6.50	6.70	4	1,062
19.00	NUAN120121C00019000	4.70	0.00	5.10	5.30	15	238
20.00	NUAN120121C00020000	3.80	0.00	4.20	4.30	10	847
21.00	NUAN120121C00021000	3.02	0.00	3.30	3.50	30	561
22.50	NUAN120121C00022500	2.15	↑0.35	2.15	2.25	38	1,862
24.00	NUAN120121C00024000	1.30	↑0.35	1.20	1.30	343	2,207
25.00	NUAN120121C00025000	0.80	↑0.15	0.75	0.85	33	12,607
26.00	NUAN120121C00026000	0.36	↓0.04	0.45	0.55	10	1,582
27.00	NUAN120121C00027000	0.26	↓0.09	0.25	0.35	64	1,004
28.00	NUAN120121C00028000	0.15	0.00	0.15	0.20	10	805



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Initial 1-Month Return

$$\$75/\$2407 = 3.1\%$$

Summary

- Options are contracts that give the holder the right to buy or sell stock
- Strike prices can be ATM, ITM or OTM
- Option premiums consist of intrinsic value (for ITM strikes only) and time value
- An option chain quotes option prices
- In Lesson 3 we will discuss stock selection using fundamental and technical analysis