

Beginners Corner Information

Lesson 2

Option Basics

Selling Cash-Secured Puts

Definitions

Selling Cash-Secured Puts

- Select a stock or exchange-traded fund (ETF)
- Sell the right to the option buyers to sell us their shares at a certain price (**STRIKE PRICE**)
- By a certain date (**EXPIRATION DATE**)
- Receive a cash return for undertaking this obligation (**OPTION PREMIUM**)
- Place cash in our brokerage account to cover the possible sale to us

Types of Options

- **Call**- the right to BUY 100 shares of stock
- **Put**- the right to SELL 100 shares of stock
- We are selling put options after securing the potential trade with cash

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 (\$32)
- **In-the-money (ITM):** Strike Price (\$30) > Stock price (\$28)

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 \$28 and the \$30 put 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

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The screenshot shows the Yahoo! Finance homepage with a search bar at the top right. Below the navigation bar, a search for 'NUAN' is displayed. A red arrow points to the search input field, and a blue arrow points to the 'Get Quotes' button. The search results list several securities related to Nuance Communications, Inc. and Nuance Concentrated Value Institutional. The first result, 'NUAN', is highlighted in blue. To the right of the search results, a small table shows the price change for 'SD' (7.19%). Below the search results, a news article titled 'Zynga prices shares at \$10, top end of range: IFR' is visible, along with a list of other news items.

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Symbol	Company Name	Exchange
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

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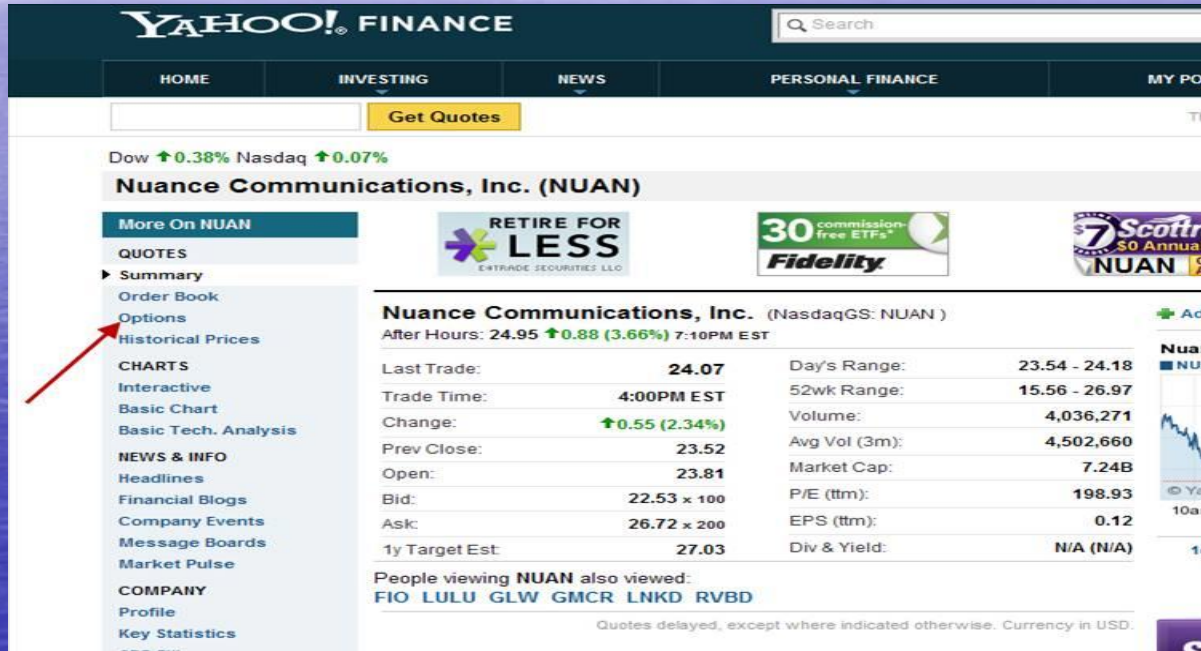
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Zynga prices shares at \$10, top end of range: IFR Reuters
Zynga Inc priced its shares at the top end of its expected range at \$10 per share on Thursday, a source close to the process told the International Finance Review. The company, which is the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

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Dow ↑0.38% Nasdaq ↑0.07%

Nuance Communications, Inc. (NUAN)

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Nuance Communications, Inc. (NasdaqGS: NUAN)

After Hours: 24.95 ↑0.88 (3.66%) 7:10PM EST

Last Trade:	24.07	Day's Range:	23.54 - 24.18
Trade Time:	4:00PM EST	52wk Range:	15.56 - 26.97
Change:	↑0.55 (2.34%)	Volume:	4,036,271
Prev Close:	23.52	Avg Vol (3m):	4,502,660
Open:	23.81	Market Cap:	7.24B
Bid:	22.53 x 100	P/E (ttm):	198.93
Ask:	26.72 x 200	EPS (ttm):	0.12
1y Target Est:	27.03	Div & Yield:	N/A (N/A)

People viewing **NUAN** also viewed:
FIO LULU GLW GMCR LNKD RVBD

Quotes delayed, except where indicated otherwise. Currency in USD.

Carrizo Oil & Gas, Inc. (NASDAQ: **CRZO**) **Optionable**

Add symbol to:

Last: **44.61** Chg: **+1.84 (+4.30%)** Open: 42.71 Avg Vol: 1,136,547 Volume: 746,863

Trade Now

CRZO

Bid: 44.55 Ask: 44.60

High: 44.61

Low: 42.40

VW%Chg: **-13.63%**

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Get Options

Option Tools:

[Covered Calls Calculator](#)

[Selling Puts Calculator](#)

[Black-Scholes Calculator](#)

View: All Months

Blue background = "In the Money"

Calls						Nov 13	Puts					
Last	Intrinsic Value	Bid	Ask	Vol	Open Interest	Strike	Last	Intrinsic Value	Bid	Ask	Vol	Open interest
16.85	17.11	16.50	17.20	0	5	27.50	0.05	0.00	0.05	0.05	0	12
14.50	14.61	14.30	14.70	0	48	30.00	0.05	0.00	0.05	0.05	0	86
11.80	12.11	11.40	12.20	0	4	32.50	0.08	0.00	0.05	0.10	0	263
9.40	9.61	9.00	9.80	0	137	35.00	0.15	0.00	0.10	0.20	0	131
7.10	7.11	6.70	7.50	10	171	37.50	0.30	0.00	0.25	0.35	0	325
5.20	4.61	5.10	5.30	53	465	40.00	0.65	0.00	0.30	0.70	8	303
3.40	2.11	3.30	3.50	35	365	42.50	1.35	0.00	1.30	1.40	8	523
1.95	0.00	1.90	2.00	145	661	45.00	2.38	0.39	2.35	2.40	7	485
0.97	0.00	0.95	1.00	28	805	47.50	3.90	2.89	3.80	4.00	0	36
0.45	0.00	0.40	0.50	1	378	50.00	5.90	5.39	5.80	6.00	0	55
0.15	0.00	0.10	0.20	40	51	52.50	8.20	7.89	8.00	8.40	0	0

1-Month Return- Unexercised

$$\begin{aligned} \$130/(\$4250 - \$130) = \\ 3.2\% \end{aligned}$$

Discounted Purchase Price If Exercised

- Buy @ \$42.50
- Deduct put premium of \$1.30 = \$41.20
- Original price = \$44.61
- Discount = $(\$44.61 - \$44.20)/\$44.61 = 7.6\%$

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