Market Timers Inc.
A Trading Education Company

OPTION REFERENCE SHEET

BUYING OF A CALL: The right but not the obligation to buy (go long) a futures contract from the strike price for a certain period of time.

BUYING OF A PUT: The right but not the obligation to sell (go short) a futures contract from the strike price for a certain period of time.

STRIKE PRICE: specified fixed price at which underlying futures contract can be purchased/sold.

Buying of an option is a limited risk and unlimited profit position. Selling of an option is a limited profit and unlimited risk position.

WRITING (SELLING) OF A CALL: Giving someone else a right to buy the futures contract from the strike price from you.

It is a margin trade and is another way of being short. The buyer of a call thinks the market is going up with enough volatility to cover costs and to profit from price increases. The call writer believes that the market will stay flat or go lower.

WRITING (SELLING) OF A PUT: Giving someone else a right to sell the futures contract from the strike price to you.

It is a margin trade and is another way of being long. The buyer of a put thinks the market is going down with enough volatility to cover costs and to profit from the price drop. The writer believes that the market will stay flat or go higher.

Options value/price is called **PREMIUM**. Options premium is calculated using the Black-Scholes model and it is mainly comprised of:

1. ***Volatility*** of the underlying contract. It means the speed of the market price – how fast and how big the price of the underlying contract changes. The bigger and faster change is – the higher volatility is(which means higher chances of the option strike to be reached by the market) Higher volatility results in higher option price (premium) It is variable value.
2. ***Time value*** - time value that is left to the expiration. It is fixed. Every day is valued in points on annualized basis. Time value diminishes every day at accelerating rate (this characteristic is called “time decay” (theta)). With

expiration date approaching it is less time and less probability of the market reaching the strike price.

3. ***Exercise price (intrinsic/in-the-money value)*** - the fixed price (strike price) at which futures contract would be bought/sold. The closer strike is to the current market price the more expensive option is.