



OPTION FOR BEGINNERS

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Intro

Welcome to TradingWithBrenon Options for Beginners eBook. I congratulate you for taking the time to learn about options. If this is your first training on option, I am honored to be the first to teach you.

This eBook is meant to be a foundation on how to get started with options. You will learn how to buy call and put, when to use them, how to choose a strike price and many more.

It is estimated that only 5 to 10 percent of the population actually understands how options work, so welcome to the club.

There are a lot of emotions involve when trading options with real money which can be very difficult. My advise to you is to first open a virtual account to build up your confidence.

Also, I offer one on one coaching session to help you place your first trade, get in touch at <https://tradingwithbrenon.com>.

Lets get started!



Content

- What is stock options and options contract
- Option chain
- Option strike price
- Option expiration date
- Option premium
- Open interest
- Introduction to call and put options
- At-the-money (ATM), In-the-money (ITM), Out-the-money (OTM) options explain
- Types of buy and sell orders
 - Market order
 - Limit order
- Step by Step of buying a call options
 - When to use
 - How to choose a strike price
 - How to choose and expiration date
- Managing your calls and puts options
- Conclusion



What is stock option and option contracts

Options are contracts that give a person the right to buy a stock but not the obligation to do so.

Many people don't buy the stock, but instead buy and sell option contracts.

Also, unlike a share of stock which is ownership, an option contract is intangible.

1 option contract=100 shares

There are different types of options and option strategies. If you are bullish (you are positive about the stock and feel that the stock is going up), the type of strategies you could use are long call, married put, covered call, bull call spread, bull put spread and many more. If you are bearish and you think the stock's price will decline, the strategies you could use are long put, call writing, bear put spread, bear call spread and many more. In this eBook, we will be talking about long call and long put strategies. To know more about other bullish and bearish strategies visit

<https://tradingwithbrenon.com> and purchase my eBook

"Options for Intermediate and Advanced"



Option Chain

When it come to trading options, it is very important to understand all the matrix of an option chain. Call, put, strike price, expiration date, option premium, open interest are some of the matrix that makes up an option chain.

Below is a copy of a basic option chain.

Watchlist		AAPL APPLE INC COM		Trade		
224.34 5.52 (+2.52%)		Bid 224.34		Ask 224.35		
Exchange: BEST				Strikes: 8		
CALLS			PUTS			
Bid	Ask	Last	Size	Bid	Ask	Last
4 OCT 19 (4) 100 Weeklys			24.56% (±5.029)			
11 OCT 19 (11) 100 Weeklys			25.50% (±8.203)			
10.55 Size: 10	10.60 Size: 6	10.34	215	1.06 Size: 14	1.08 Size: 51	1.07
8.45 Size: 70	8.55 Size: 60	8.50	217.5	1.48 Size: 103	1.50 Size: 21	1.49
6.55 Size: 68	6.65 Size: 184	6.59	220	2.07 Size: 38	2.09 Size: 6	2.09
4.85 Size: 85	4.95 Size: 76	4.89	222.5	2.88 Size: 8	2.90 Size: 36	2.87
3.40 Size: 232	3.50 Size: 143	3.45	225	3.90 Size: 120	4.00 Size: 261	3.94
2.27 Size: 72	2.30 Size: 18	2.28	227.5	5.25 Size: 65	5.30 Size: 15	5.30
1.40 Size: 68	1.43 Size: 52	1.40	230	6.85 Size: 117	6.95 Size: 58	6.90
0.81 Size: 2	0.82 Size: 36	0.82	232.5	8.75 Size: 99	8.95 Size: 378	9.39
18 OCT 19 (18) 100			25.28% (±10.274)			
25 OCT 19 (25) 100 Weeklys			25.61% (±12.200)			
1 NOV 19 (32) 100 Weeklys			30.78% (±16.556)			
8 NOV 19 (39) 100 Weeklys			30.49% (±18.086)			
15 NOV 19 (46) 100			30.02% (±19.319)			



Option Strike Price

The fixed price at which a call or put can be traded. This strike remains fixed for the entire life of the option even if the stock price goes up or down.

Picking the right strike price is a very important decision an investor or trader has to make when selecting an option contract.

Option Expiration Date

This is the week, month and date that an option contract ceases to exist. Options are a wasting asset and lose value overtime so choosing the right expiration date is key to making a profit when buying and selling option contracts.

A trader or investor has to execute their contracts on or before this date.



Option Premium

An option premium is the current market price of an option contract. It is the income received by the seller (writer) or price paid out by the option buyer.

Option

premium will consist of extrinsic value in the case of out-of-the-money (OTM) contracts and both intrinsic and extrinsic value for in-the-money (ITM) option contracts.

Here is an option quote:

XYZ Jan 11 2020 180 Call

Breakdown

XYZ: The underlying stock

Jan 11 2020: The expiration date

180: Strike price

Call: Type of option



Open Interest

When you look at an option chain, you will see a matrix for "open Interest", a very useful indicator that is updated daily. Open interest shows the total number of option contracts that are available to be exercised and haven't been closed out. When an open interest is low, it makes it very difficult to execute rather than when it is high.

For example, lets say that the open interest for XYZ Oct 11, 2020 182 call is 7 and XYZ Oct 11 2020 182 call is 5000. The open interest with 5000 would be a better choice because it shows that you can easily execute a closing trade with no issues.

I usually go for open interest that is 100 or higher.

Keep in mind if a buyer and seller come together and initiate a new position of one contract, then open interest will increase by one contract. If a buyer and a seller exit a one contract position, then open interest decreases by one contract.

Find below an option chain of good open interest.



CALLS				PUTS		
Ask	Last	Open Int.	⚙️	Ask	Last	Open Int.
<input checked="" type="checkbox"/> 4 OCT 19 (5) 100 Weeklys				28.75% (±6.333)		
7.50 Size: 10	7.45	1008	212.5	0.99 Size: 34	0.97	4969
5.45 Size: 10	5.34	2539	215	1.49 Size: 38	1.48	5716
3.75 Size: 30	3.59	1471	217.5	2.25 Size: 36	2.25	5369
2.30 Size: 10	2.24	5122	220	3.35 Size: 30	3.32	4188
1.23 Size: 50	1.22	6501	222.5	4.85 Size: 26	4.85	1490
0.60 Size: 10	0.60	8592	225	6.95 Size: 2	6.63	700



Introduction to Call and Put Options

Long Call or Call option contract gives the owner the right but not the obligation to buy a specified amount of underlying security (stock) at a fixed price within a specified time frame. It is the most popular bullish option strategy. It is mostly used when investors or traders want to lock in a price in anticipation of a future purchase.

It is similar to "going long" a stock.

When you buy a long call, your market forecast is bullish and you believe the stock will rise. If the stock goes up in price, the long call option usually follows.

For example, a long call option contract may give a option holder the right to buy 100 shares of XYZ stock (1 option contract=100 shares) at \$100 until the expiry date in 1 month. As the value of XYZ stock goes up, the price of the call option contract goes up too.



Introduction to Call and Put Options

Long Put or Put option is a contract giving the owner the right, but not the obligation to sell a underlying security (stock) at a fixed price (strike price) within a time frame (expiration date).

Long put or put option is used by bearish traders or investors who want a leveraged and limited-risk method of participating in an expected decline of a underlying security (stock) price. For example, if XYZ stock goes down in price a put contract usually goes up in value.

When you buy a put contract at a short or near term expiration date,

Advantage: You have more leverage and less money at risk.

Disadvantage: Rapid Theta or time decay (which will be discuss in my Options for Intermediate and Advance eBook)

Buying a long term expiration date,

Advantage: Theta or time decay is slower so the option has more time to rally.

Disadvantage: More money at risk(the further out the expiration date, the more money you pay).



At The Money (ATM)

At the money is when the option price for either a call or put is the same price as the underlying (stock) price. People still refers to this option as at the money (ATM) even if it is a few cents different.

At the money options are most attractive when a trader expects a large movement in a stock.



In The Money (ITM)

An in the money call option means the option holder has the opportunity to buy the security below its current market price.

A call option is in the money (ITM) if the market price is above the strike price.

An in the money put option means the option holder can sell the security above its current market price.

A put option is in the money if the market price is below the strike price.

I usually place trades 1 to 2 strike prices in the money (ITM) or has a 50% or more delta

To know more about delta, get my eBook "Option for Intermediate and Advance"

When you buy ITM:

Advantage: Better chance of making a profit.

Disadvantage: More dollars at risk



Out The Money (OTM)

Out of the money (OTM) is a term used to describe an option contract that contains no intrinsic value. OTM options will have a delta less than 50.0.

An OTM call option occurs when the strike is above the market price of the underlying stock. An OTM put option occurs when the strike price is below the market price of the underlying stock. Remember ITM has a delta of 50.0 and above and OTM has delta of 50.0 and below.

When you buy OTM,

Advantage: Lower cost and more leverage.

Disadvantage: Needs a large move in the stock price



Type of Buy and Sell order

There are many types of buy and sell orders; however, we'll discuss the two most used, Market order and Limit order.

Market Order

A market order is considered the most basic of all orders. It is meant to be executed as quickly as possible at the current asking price of the underlying stock. A trader will execute a market order when he or she is willing to buy at the asking price or sell at the bid price.

Market Order Slippage

This means the trader is willing to buy at the asking price or sell at the bid price. Thus, the person executing a market order is immediately giving up the bid-ask spread.

Spread: The bid-ask spread is the difference between the highest price that a buyer is willing to pay and the lowest price that a seller is willing to accept.



An individual looking to sell will receive the bid price while one looking to buy will pay the ask price.

Limit Order

This type of order is to buy or sell an underlying security at a specified price or better. For buy limit orders, the order will be executed only at the limit price or a lower one, while for sell limit orders, the order will be executed only at the limit price or a higher one. Limit order allows the trader or investor to better control the price they trade.

The downside of a limit order is that it's not always filled.



Market Order:

Order entry

AAPL ⓧ **STK** **OPT** ↻ >45 sec

AAPL APPLE INC (NASDAQ)

Last	Bid	Bid sz	Ask	Ask sz
224.3301	224.33	8	224.40	1

Option type: Call ▼

Quantity: — 1 +

Expiration: 10/04/2019 ▼ Strike: 220.00 ▼ Type: Call ▼

Last	Bid	Bid sz	Ask	Ask sz
5.05	4.90	10	5.05	31

Order type: Market ▼

Duration: Day ▼

Route: AUTO ▼

Limit Order:

Order entry

AAPL ⓧ **STK** **OPT** ↻ >1 min

AAPL APPLE INC (NASDAQ)

Last	Bid	Bid sz	Ask	Ask sz
224.3301	224.33	8	224.40	1

Option type: Call ▼

Quantity: — 1 +

Expiration: 10/04/2019 ▼ Strike: 220.00 ▼ Type: Call ▼

Last	Bid	Bid sz	Ask	Ask sz
5.05	4.90	10	5.05	31

Order type: Limit ▼

Limit price: (\$) — 4.95 +

Duration: Day ▼

Route: AUTO ▼



Step by Step of buying a call option

If your market forecast is outright bullish, which means that you believe that the stock will rise and go higher in the near future. You want to buy 1 BABA Call Option Contract with ATM Strike Price, Expiration Date Nov-01-2019 at Limit Order.
Buy 1 BABA Nov 01 2019 167.5 Call @6.70 Limit

Step 1: Pick the underlying stock

Stocks	Options				
BABA	ALIBABA GROUP HOLDING LTD SP... +				
167.62 ▲ +1.64 +0.99%	🔄 >30 sec				
Bid 167.53	Bid sz 1	Ask 167.62	Ask sz 1	High 170.20	Low 166.4!



Step 2: Choose the Option type

Step 3: Choose option quantity

Step 4: Expiration date

Order entry

BABA ALIBABA GROUP HOLDING LTD SPON ADS EACH REP 8 ORI

Last	Bid	Bid sz	Ask	Ask sz
167.62	167.53	1	167.62	1

Option type: Call

Quantity: 1

Expiration: 11/01/2019 Strike: 167.50 Type: Call

Last	Bid	Bid sz	Ask	Ask sz
6.50	6.45	119	7.05	42

Order type: Limit

Limit price: ₺ 7.05

Duration: Day

Route: AUTO



Step 5: Pick strike price

Stocks
Options

BABA ALIBABA GROUP HOLDING LTD SP...
+

167.62 ▲ +1.64 +0.99%
↻
>1 min

Bid
167.53

Bid sz
1

Ask
167.62

Ask sz
1
High
170.20
Low
166.4!

Show less

Calls Puts ▼

11/01/2019 ▼

000

CALLS

STRIKE
(9) ⚙️

▼
Nov 01 2019
32 days to exp.

Last	Chg \$	Bid	Ask	Bid	
16.15	0.00	12.75	13.25	3	157.50
13.18	+2.31	11.00	11.60	3	160.00
9.51	-5.79	9.30	9.90	3	162.50
7.78	+0.18	7.80	8.30	2	165.00
6.50	-0.45	6.45	7.05	11	167.50
5.10	-0.10	5.25	5.80	42	170.00
4.25	+0.15	4.25	4.65	36	172.50
3.40	0.00	3.35	3.75	4	175.00



Step 6: Pick limit order

As you can see, the bid is 6.45 and the ask is 7.05, the half way price between the bid price and the ask price is 6.70, that is how I came up with the limit price (6.70).

BABA × **STK** **OPT** ↻ >45 sec

BABA ALIBABA GROUP HOLDING LTD SPON ADS EACH REP 8 ORI

Last	Bid	Bid sz	Ask	Ask sz
167.62	167.53	1	167.62	1

Option type

Quantity

Expiration	Strike	Type
<input type="text" value="11/01/2019"/>	<input type="text" value="167.50"/>	<input type="text" value="Call"/>

Last	Bid	Bid sz	Ask	Ask sz
6.50	6.45	119	7.05	42

Order type

Limit price Ⓢ

Duration

Route



Step 7: Click buy, review and confirm



Managing your calls and puts options

Before you even place your first trade, you need to make a trading plan and stick to it. Your trading plan will consist of when to get out once you are in profit and when to cut your losses short and move on.

As the buyer of a call or put option, you are in control of the right to buy the stock until the expiration date. Anything can affect your contract (News), so you need to monitor it closely.

ALWAYS STICK TO YOUR TRADING PLAN!



Conclusion

Thank you so much for taking the time to read my eBook. I hoped you have a basic understanding about the new journey you are about to embark on.

Brenon Lewis



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