



Options Trading

Basics

by
project**option**

In the world of investing, there are many approaches that can be used to grow an investment portfolio.

The most common approach used by investors is to simply buy shares of stock in companies they believe will appreciate in the future. For example, if an investor believes Facebook's profitability will grow over the long-term, the investor can buy shares of Facebook in anticipation of a higher Facebook share price in the future.



While buying shares of solid companies is a viable investment strategy, the approach has its downsides:

DOWNSIDE #1

Buying shares of stock is expensive.

As of this writing, an investor needs \$173 to buy one share of Facebook. Buying single shares is incredibly inefficient in terms of commissions, as a \$5 trade commission would represent nearly 3% of the Facebook share price.

To lower the commission ratio, an investor would need to buy more shares in each transaction to “drown out” the commission cost. So, for a stock purchase to make sense, the investor must have ultra-low commission rates, or they must be able to buy lots of shares at once to reduce the per-share commission cost.

DOWNSIDE #2

Stock positions require share increases or dividend distributions to make money.

To make money on a long stock position, the share price must increase, or a dividend distribution must be made. However, dividend payments are considered “zero-sum” since the share price falls by the amount of the dividend on the ex-dividend date.

Either way, profits from long stock positions can take months, even years to play out.

All things considered, the great thing about buying stocks is that there's a very low probability that the share price decreases significantly (when buying quality companies). Of course, nothing is guaranteed, and even quality stocks occasionally experience substantial price declines

What Are Options & Why Trade Them?



Aside from buying shares of stock, traders and investors can utilize options to create positions that profit from a very specific outcome related to the stock. Additionally, the positions can be structured with limited loss potential.

BUT WHAT ARE OPTIONS?

In the simplest explanation possible, options are financial instruments that can be used to profit from increases, decreases, or even range-bound movements in the price of a stock.

If a trader believes a stock's price is going to increase in the future, the [trader could structure an options strategy to profit from that movement](#).

If a trader believes a stock's price will remain relatively flat over the next 30-60 days, [the trader could create an option position to profit from that outcome](#).

A trader could even [use options to significantly reduce the risk of a long stock position](#) in their investment portfolio.

The above scenarios only scratch the surface of what's possible with options. **The bottom line is that options strategies are/can be:**

- ✓ Highly customizable (create a strategy to profit from any scenario).
- ✓ As conservative or aggressive as the trader's risk tolerance. Strategies can have very little risk and significant profit potential, or more even amounts of risk/reward.
- ✓ Probability-based. High probability trades have more risk and less reward potential, but have the potential to be profitable most of the time. Lower probability traders have less risk and more reward potential, but have a lower likelihood of being profitable.
- ✓ Leveraged. Perhaps the most attractive aspect of options trading is that large sums of money can be made with very little investment.

Where Should You Start?



So, you want to get started learning options?

Fortunately, we have tons of free guides neatly organized on our website: www.projectoption.com. Many websites charge money for you to learn concepts you can learn with us for free.

Since you're a beginner, we recommend following this learning path:

Learn the Basics: [Options Trading Basics](#)

Learn the "Greeks": [The Option Greeks](#)

Learn About Volatility: [Implied Volatility Guides](#)

Learn the Strategies: [Bullish, Bearish and Neutral Options Strategies](#)

Learning options takes time, but you'll have a very deep understanding of the fundamentals once you make it through those first three sections.

While there are virtually unlimited amounts of options strategies you can utilize, here are the most basic and common strategies you'll ever need:

- 1 [Long Call](#)
- 2 [Long Put](#)
- 3 [Vertical Spread](#)
- 4 [Short Iron Condor](#)
- 5 [Covered Call](#)

When You Need Help

When learning about options trading, it's very likely that you'll have questions that come to mind. That's completely normal!

If you have questions that do not get answered in our free guides, I encourage you to [contact me](#). I'd be happy to help you get through any sticking points you encounter while learning the basics of options trading.



Chris Butler
Founder, projectoption

[CONTACT ME](#)