

× AAPL

Oct 7 **Oct 14** Oct 21 Oct 28 Nov 4 Nov 11

**Buy** Sell **Call** Put


<b>\$225 Call</b>		<b>\$1.16</b>
Breakeven	To breakeven	
\$221.16	+12.37%	+12.63% today

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<b>\$220 Call</b>		<b>\$1.54</b>
Breakeven	To breakeven	
\$221.54	+9.41%	+12.63% today

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<b>\$215 Call</b>		
Breakeven	To breakeven	
\$217.03	+6.87%	



A BEGINNER'S GUIDE TO

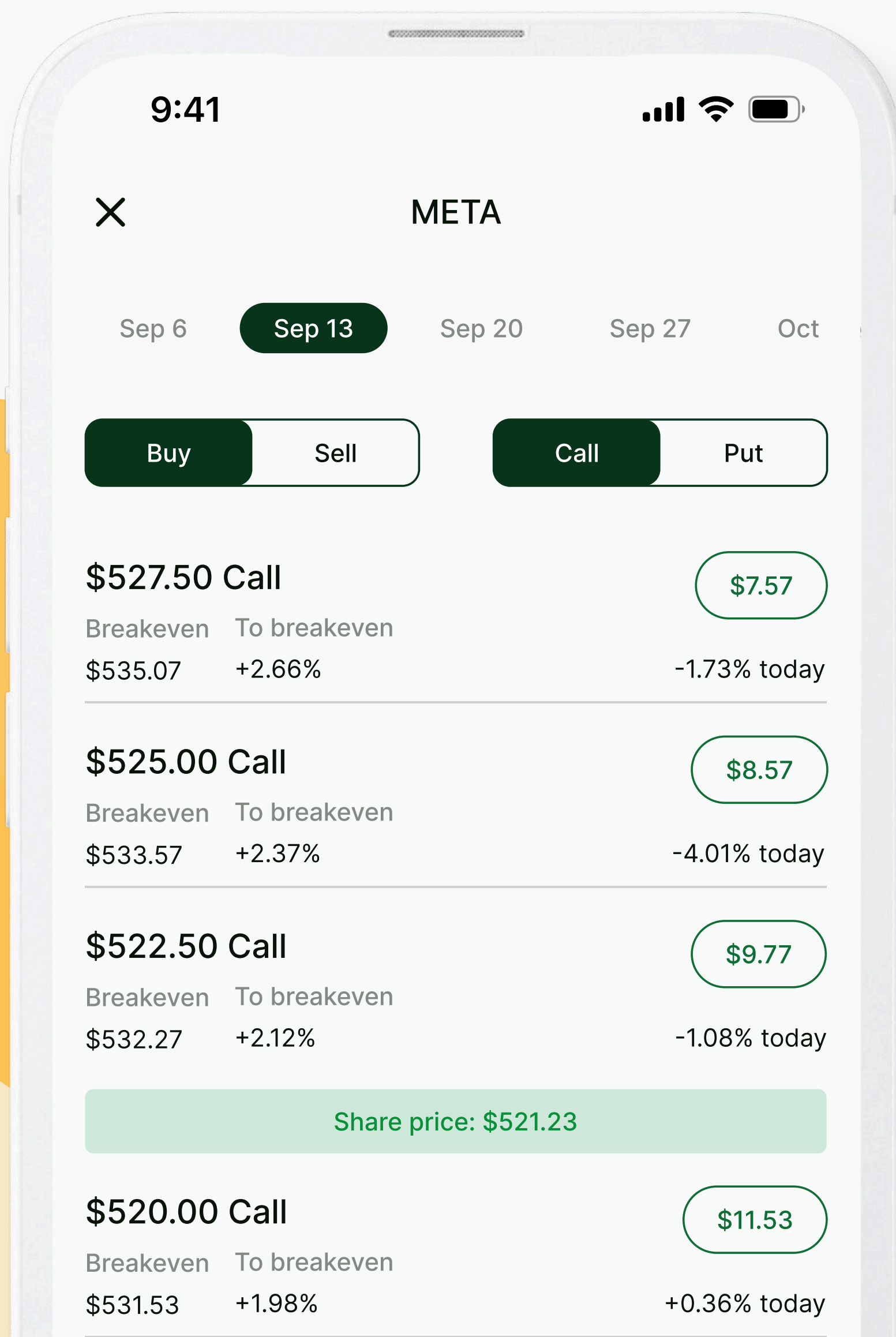
# Options Trading

# What is options trading?

An options contract is an agreement between two people (a buyer and a seller) where the buyer pays a fee (the premium) for the ability to buy/sell a stock at a specific price by a specific date.

There are always 3 moving parts: what stock, what price (the strike), and by when (the expiration).

Unlike buying a stock outright, you're not committed to buying the stock. You're paying a smaller fee for the chance to benefit from its price movement up or down.



# Every options trade has two sides

1

## The Buyer (Holder)

Pays the premium to get the right (but not the obligation) to buy or sell the stock.

2

## The Seller (Writer)

Is obligated to follow through if the buyer exercises. Collects the premium as compensation for taking on that obligation.

# Types of options

↑

## Call Options

A contract that benefits from an increase in the price of the stock. If the stock goes above the strike price, the contract gains value. Think of it as a coupon that says "Buy Apple shares for \$200." If Apple is trading at \$220, that coupon is valuable because you can buy it for cheaper and sell it for higher.




↓

## Put Options

The exact mirror: a contract that benefits from a decrease in the price of a stock. If the stock drops below the strike price, the contract gains value. It's a way to benefit from (or protect yourself against) a decline.

# Know the difference: Options vs stocks vs CFDs

Three ways to get stock exposure, based on 100 shares of a stock, trading at \$100.

You have \$10,000	 <b>Stock</b> You own it	 <b>Option (Call)</b> Right to buy later	 <b>CFD (5× leverage)</b> Not on Sarwa
YOU PAY	\$10,000 upfront	\$500	\$2,000
STOCK +50%	+\$5,000	+\$4,500	+\$5,000
STOCK -50%	-\$5,000	-\$500	-\$5,000
WORST CASE	-\$10,000	-\$500	Owe more than \$2,000
KEY POINT	No expiry. You own the asset.	Loss capped at premium	Can lose more than you put in



# Key terms you'll always need



## OPTIONS

### A legal contract

Buying or selling a contract means making a wager on what you think the stock will do at a later date.



## UNDERLYING PRICE

### Market price

The current price the stock is trading at when you buy the options contract.



## STRIKE PRICE

### The target price

The price you're hoping the stock will reach by expiry. A \$260 Tesla call means \$260 is your strike price.



## PREMIUM

### What you pay upfront

The cost of the contract, and your maximum loss for Level 1 & 2. 1 contract = 100 shares, so \$2 premium = \$200 total.



## EXPIRATION DATE

### The deadline

Your option must "work" before this date. If the stock doesn't move your way, it expires worthless.



## CALL OPTION

### Expecting a price increase

A call option is a contract that benefits from an increase in the price of the stock.



## PUT OPTION

### Expecting a price decrease

A put option is a contract that benefits from a decrease in the price of a stock.



## IN THE MONEY (ITM)

### Already profitable

The contract has intrinsic value. If it expired right now, it would still be worth something. More expensive premium.



## AT THE MONEY (ATM)

### In the middle

The strike price and the stock price are roughly equal. No built-in value yet. It could go either way.



## OUT OF THE MONEY (OTM)

### No built-in value

No intrinsic value. If it expired now, it would be worthless. Its value is in time and potential to move before expiration. Cheaper premium.

# Understanding an option's value

An option's price is made up of two components:

## Intrinsic Value:

1

The real, built-in value. If you forced the contract to settle right now, this is what it would be worth. It's simply the difference between the stock price and the strike price (when that difference is in your favour)

## Extrinsic Value:

2

The extra value based on how much time is left before expiration and how volatile the market is. More time + more volatility = higher extrinsic value.

## ITM, ATM, and OTM

These terms describe the relationship between the strike price and the current stock price. That's all.

Term	What it means
IN THE MONEY (ITM)	The contract has intrinsic value right now. If it expired this instant, it would be worth something. More expensive premium.
AT THE MONEY (ATM)	The strike price and the stock price are roughly equal. It could go either way.
OUT OF THE MONEY (OTM)	No intrinsic value. If it expired this instant, it would be worthless. Its value is time i.e. the potential to become worth something before expiration. Cheaper premium.

# The 4 core strategies

Every options strategy on Sarwa falls into one of these four. We've broken each one down with a digestible summary, what it's used for, and the risk/reward profile.

## Buy a Call (Long Call)

Pay a small fee now (the premium) for the chance to buy a stock at a locked-in price, even if it goes up later.

**Strategy:** Capitalise on an upward move without committing to the full cost of buying the shares.

### Tags:

- Outlook: Bullish.
- Use: If you think a stock's price will rise within a certain time frame.
- Max Profit: Unlimited
- Max Loss: Premium paid

## Buy a Put (Long Put)

Pay a small fee now to lock in a selling price for a stock, even if it drops later.

**Strategy:** Safeguard against losses or capitalise on a downward market.

### Tags:

- Outlook: Bearish.
- Use: If you think a stock's price will fall within a certain time frame.
- Max Profit: Large if stock reaches zero
- Max Loss: Premium

## Covered Call (selling a call on stocks you own)

Get paid a fee (the premium) for agreeing to sell your shares at a set price within a time frame.

**Strategy:** Earn additional income from your stock positions without taking on a lot of risk.

### Tags:

- Outlook: Bullish or Neutral.
- Use: If you expect the stock price to remain relatively flat or increase only moderately
- Max Profit: Premium + stock gains up to strike price.
- Max Loss: Large if your own shares drop, but premium cushions.

## Cash-Secured Put (selling a put with capacity to cover losses)

Get paid a fee (the premium) for agreeing to buy shares at a set price within a time frame.

**Strategy:** Used to generate income if you expect the stock price to increase moderately. Some investors also use it to acquire equity.

### Tags:

- Outlook: Bullish.
- Use: If you expect the stock's price will increase, and want to generate income, or if you want to buy shares at a cheaper price.
- Max Profit: Premium.
- Max Loss: Large if stock drops way below strike price, you'll still be obligated to buy at strike; so max loss = strike price - premium.

# Why trade options?

- **Income generation:** Earn additional income from stocks you already own (covered calls) or stocks you'd like to buy (cash-secured puts).
- **Portfolio protection:** Use puts as insurance against downturns, limiting your downside without selling your positions.
- **Leverage:** Get exposure to a stock's price movement without paying full price for the shares.
- **Flexibility:** Whether the market is going up, down, or sideways, there's an options strategy for it.
- **Defined risk (at Level 1 & 2):** When you're buying calls or puts, the most you can lose is the premium you paid. No surprises.

# What's the downside?

- **Time works against buyers:** Options expire. If the stock doesn't move your way in time, you lose the premium.
- **Requires attention:** Unlike buy-and-hold investing, options require you to monitor positions and make timely decisions.
- **Selling strategies carry more risk:** While buying is limited-risk, selling (covered calls, cash-secured puts) means you could lose more than the premium if the stock moves significantly against you.



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Options trading carries significant risks, including the potential for substantial or total loss of your capital. Level 1 strategies, such as covered calls and cash-secured puts, involve risks like assignment and price volatility. Level 2 strategies, including buying calls and puts, add further risks due to leverage, time decay, and the chance of losing the entire premium if options expire out of the money. No financial advice is provided; you must exercise your own discretion. Ensure you understand these risks and are financially prepared. Examples are for illustrative purposes only. Past performance is not indicative of future results, and market conditions can lead to unforeseen losses.

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