Maitra Commodities Pvt Ltd.

WHAT IS OPTIONS TRADING?

DETAILS OF OPTIONS TRADING

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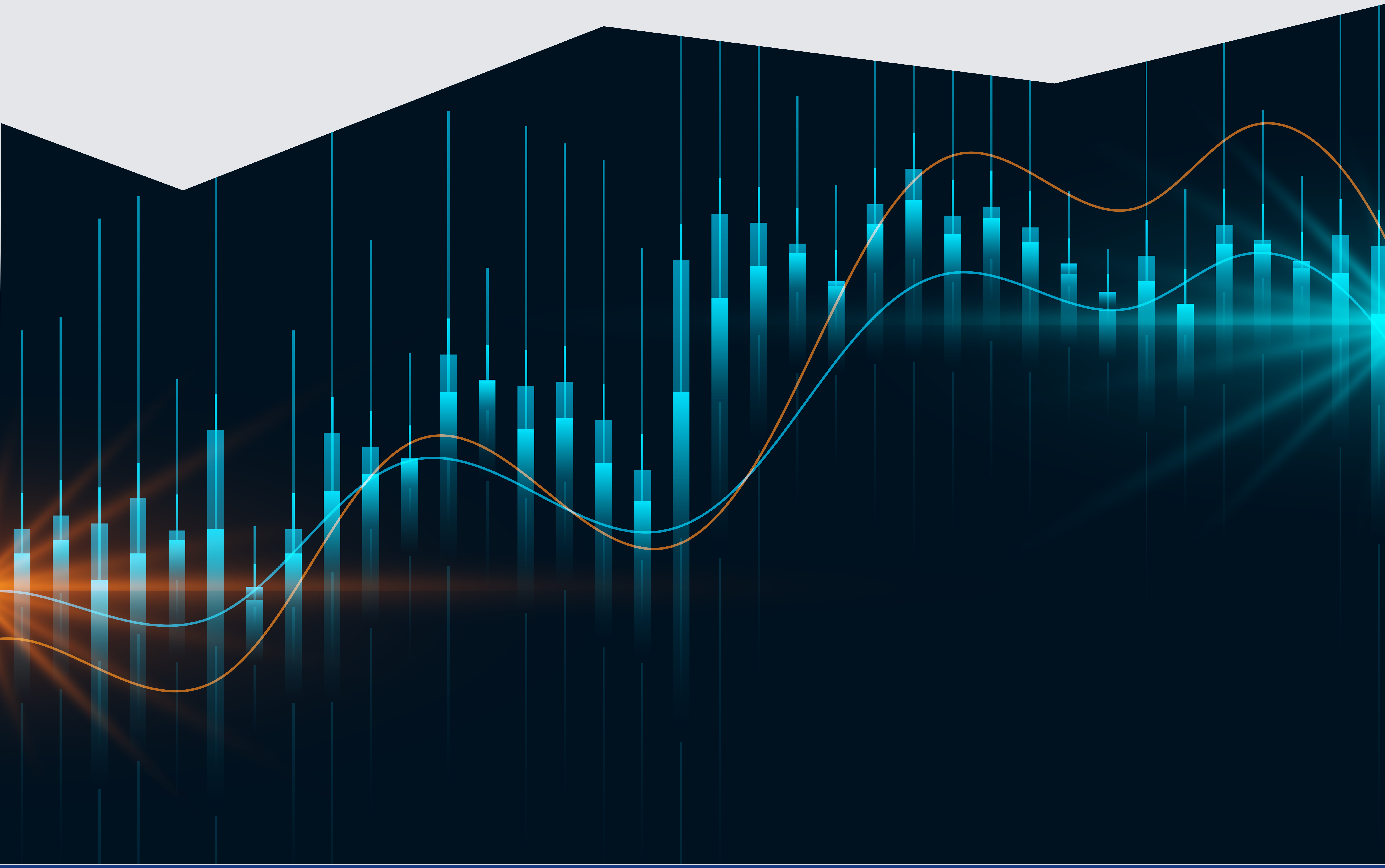

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About Us

Maitra is a Financial Broking House headquartered in Chennai.

Established in 2012, we have a strong network of business associates and branches all across South India with a patronage of 11,000+ clients.

Kick starting as a financial portal with operations only in commodity trading, Maitra has now ventured into other Investment opportunities like Equity and Derivatives, to envisage the diverse needs of all our clients and provide a complete array of financial trading products and services.

The essence of Maitra is to partner you in all your investments, breaking all barriers that traders and investors face in terms of cost, support and technology. Although we are radically changing and evolving, our belief and passion to be the pioneers and most insightful, hasn't. At Maitra, we aim to be accessible, responsive and connected, both to the markets we serve and our clients.

What are options trading

A financial contract that grants you the ability to exercise 'options'is known as an option contract. It offers the contract buyer the 'option' (not an obligation) to purchase or sell a stock or any particular asset at a specified price on a specific date, independent of the stocks market price. Conversely, the seller or contract writer must buy or sell the shares at a specific price and time regardless of market price. The option seller undertakes this obligation in exchange for a premium paid
by the option buyer.

Different types of option contracts

In the stock market, there are primarily two types of options contracts that may be purchased or sold:

Call Option: Purchasing a call option gives you the right to acquire the underlying asset at the strike price within the time frame. The option writer who creates the call option will be obligated to sell the asset if you exercise the option in the manner specified in the contract. The premium price of the contract must be paid to
the option writer to purchase the call option.

Call Option	Buyer	Seller/Writer
Premium	Upfront payment	Received in advance
Risk	Limited to the Premium paid.	Unlimited Risk
Reward	Unlimited and grows with stock price.	Limited to the premium obtained in advance.
Margin	Not applicable for the buyer.	Applicable as per stock exchange calculations
Expectation	The buyer anticipates a gain in the stock price.	The seller expects either the stock's price will go down or it will be capped below a particular price.

Put Option: Purchase of a put option grants you the right to sell the underlying asset at the strike price at any time on or before the expiration of the option contract. Even though you will choose to either honor or disregard the put option, the seller of the put option will be legally obligated to purchase the put option if you are willing to sell it. The put option is the polar opposite of the call option in this context.

Put Option	Buyer	Seller/Writer
Premium	Upfront payment	Received in advance
Risk	Limited to the Premium paid.	Unlimited Risk
Reward	Unlimited and grows with stock price.	Limited to the premium obtained in advance.
Margin	Not applicable for the buyer.	Applicable as per stock exchange calculations
Expectation	The buyer anticipates a gain in the stock price.	The seller expects either the stock's price will go down or it will be capped below a particular price.

Basic terminology about the call and put options include the following:

Option premium: The option premium is the amount paid in advance by the option buyer to the option seller/writer, and it is non-refundable.

Lot size: The term "lot size" indicates the fixed number of underlying asset units that are included in a single futures and options contract. The standard lot size varies per stock and is set by the stock exchange. For example, if you wish to buy an option contract on Reliance Industries Ltd, your underlying asset is a lot of 250 shares of Reliance.

Strike price: The strike price of an options contract is the future specified price at which the contract is to be traded on a specific date in the future.

Spot price: The spot price of an underlying asset in the stock market is the price it is currently trading.

Options Expiry: Contracts of varying lengths, each covering one, two, and three months, are all being traded simultaneously. The last Thursday of each month marks the expiration of the options contracts.

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Margin requirement:

Traders **purchasing options** are not required to pay or deposit margin. There is no need for them to pay anything above the agreed premium. In this case, your potential loss is restricted to the amount of the premium paid when you purchase a Call or a Put Option.

Option sellers are required to deposit and maintain margin in accordance with the rules and regulations of the exchange. Because when you sell a Call or Put Option, you are paid a premium. This is the highest amount of profit you will be able to obtain from this transaction. The loss, on the other hand, is unlimited and is determined by the underlying's closing price.

How does options trading work?

In the following example, the current price of Reliance Industries is Rs 2400.15 on September 21, 2021. The current price of the Rs 2,500 call option expiring on September 30, 2021, is Rs 48.20. The Reliance option contract trades at 250 shares per lot, and you are expecting the stock price to go up to Rs. 2450.

- **Spot price – Rs 2400.15**
- **Strike price – Rs 2,500**
- **Option premium – Rs 48.20**
- **Expiry – September 30, 2021**
- **Lot Size – 250 shares**

If Reliance Industries share price increases to Rs 2500, you can exercise the call option. The seller is bound to sell you one lot of reliance industries at Rs 2,500 per share since you paid him a premium of Rs 48.20 to tie him to the contract.

On the other hand, you may terminate the contract if Reliance Industries exceeds Rs 2,500 before September 30, 2021. In such a scenario, your loss equals the Rs 48.20 paid to the option writer as a premium. The rationale for canceling the contract is that why would you purchase Reliance shares for 2,500 rupees from the seller if you can get them cheaper on the stock market?

How Options Differ from Other Instruments

Options are believed to be less risky than futures contracts because an option contract can be canceled or walked away from at any time.

Furthermore, unlike stocks, options do not indicate ownership in the underlying company. So the option's premium is a portion of the underlying asset.

Advantages of Using Options in Your Trading

01 Options trading require a considerably smaller initial investment than investing or purchasing the same quantity of assets directly. Options provide a tremendous amount of leverage. Investment costs in options trading are typically between 4% and 7% of those in stock trading.

02 Options are sometimes used to avoid risk. Many people utilize options to hedge their positions. The maximum loss with options is predetermined since the maximum loss equals the premium that was paid to purchase the option.

03 The payoff from the options trading will be substantially larger than if you simply bought shares outright. If the option is exercised at the correct strike price, the profit is the same as if the stock was purchased outright. Due to the fact that we are acquiring options at a lower margin while maintaining the same profitability, the percentage return will be significantly larger.

04 There are more options trading strategies accessible in the options market than ever before. Create strategies that use the market's many features like volatility and time decay to your benefit. The trades may be combined to build a strategic position by using call-and-put options with varying expirations and strike prices.

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Risks associated with options trading:

Given the potential for profit from options, traders should be mindful of the risks of trading in this asset class. Following are some of the risks associated with options trading:

01 Beginners may find that options are quite confusing. The fact is that many novices and even some experts have a poor understanding of the financial instruments like options. It requires regular monitoring and maintenance due to its complexity.

02 If you are trading options, you will experience a phenomenon known as time decay. Each day, the value of your option premium drops by a certain amount regardless of the underlying's movement. There are no exceptions to this rule in any circumstances.

03 Some stock options have lesser liquidity than others, making it extremely difficult for traders to enter and exit trades promptly. There are a lot of individual stock options with virtually little volume.

04 The option seller (writer), as opposed to an option buyer, might suffer losses that are far higher than the contract price, which is potentially limitless.

Summary:

There are no shortcuts in options trading. While maintaining patience, you will have to study, comprehend, and practice various trading strategies.

For the average person, options' trading is harder to comprehend. Because of this, it is important to be careful when trading.

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TRADING SIMPLIFIED

Trusted By 11,000 Clients & We have become one of the momentous Brokers in South India Today.

GET STARTED

Disclaimer

- Investment in securities markets are subjected to market risks. Please read all the scheme related documents carefully.
- The contents provided are only for informational purpose. Detailed study and research must be done by the investor before entering the market. Maitra Commodities will not be liable or responsible for any losses incurred by the client.

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