



QUICK LESSONS

Option Basics



Land is on the market for \$1,000,000

Settle with the owner on an option to buy the land in six months for \$1,000,000. Will pay \$50,000 for the right. If not exercised the owner keeps the \$50,000.

An option is the right, not the obligation, to buy at a specific price on or before a specific date. In this example the right to buy land for \$1,000,000 on or before six months from now.

Definition

An option is the right, not the obligation, to buy or sell, a stock, ETF or index, at a specific price on or before a specific date. If you think the market is going up buy a call. If you think the market is going down buy a put.

Example: on October 8, 2018 McDonalds was trading at \$166/ share

MCD 18 Jan 160 call @ \$11.30

(This is an in-the-money call option with 102 days until expiration)

One contract has 100 shares so to buy would be \$11.30 times 100 = \$1130

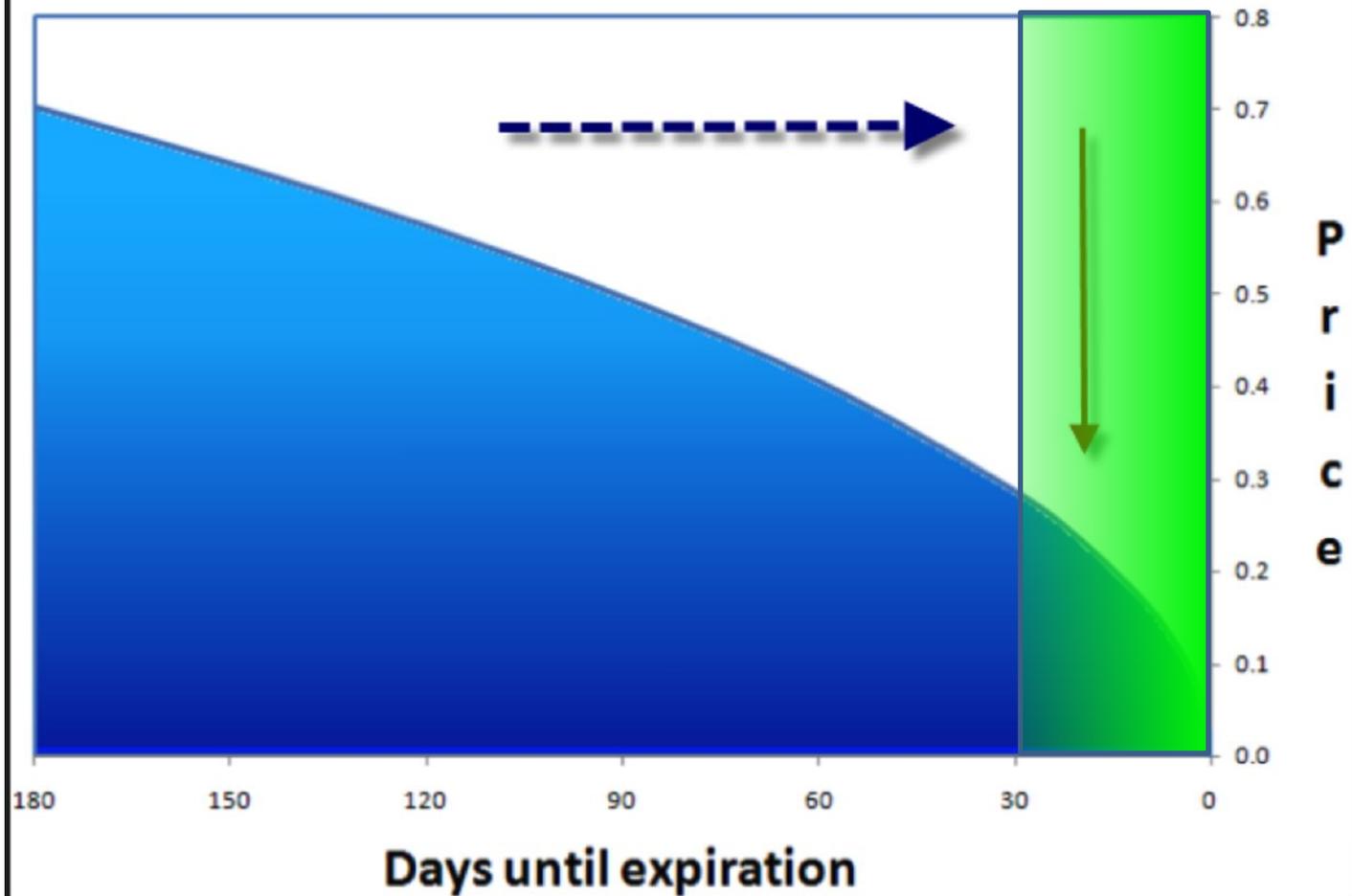
Strike Price	\$160.00		
		Intrinsic Value	\$7.80
Stock Price	\$167.80		
		Time Value	\$3.50

Option Value

	October 8	One Month Later	
		Up 10%	Down 10%
Stock Price	\$167.80	\$184.58	\$151.02
Jan 160 call @ \$11.30:			
Intrinsic Value	\$7.80	\$24.58	\$0.00
Time Value	\$3.50	\$2.50	\$2.50
		-----	-----
		\$27.08	\$2.50
		-\$11.30	-\$11.30
		-----	-----
		+\$15.78	-\$8.80
		+140%	-78%*

*You cannot lose more than you paid for the option.

Option Time Decay



In, At or Out of the Money Options

Example: on October 8, 2018 McDonalds was trading at \$167.80/ share

Strike Price

150

155

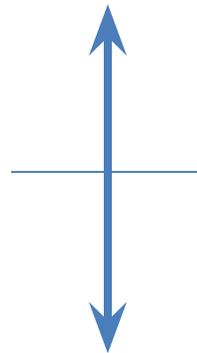
160

165

170

175

180



In the Money

(both intrinsic and time value)

At the Money

Out of the Money

(only time value)

MCD 18 Jan 160 call @ \$11.30

MCD

MCDONALDS CORP COM

167.77

+1.20
+0.72%

ETB

MM ±0.93

Company Profile

10/08/2018



Underlying

Last	Net Chng	Volume	Open	High	Low
167.77	+1.20	2,560,488	166.25	168.17	166.12

Option Chain Filter: Off Spread: Single Layout: Last, Mark

CALLS				Strikes: ALL	PUTS				
Last	Mark	Bid	Ask	Exp	Strike	Bid	Ask	Last	Mark
18 JAN 19 (102) 100						19.43% (±13.825)			
53.50	53.626	51.90	55.05	18 JAN 19	115	.07	.23	.12	.148
47.00	48.681	45.95	49.90	18 JAN 19	120	.08	.27	.14	.178
44.09	43.791	41.10	45.60	18 JAN 19	125	.15	.31	.21	.227
38.10	38.915	36.25	40.55	18 JAN 19	130	.27	.37	.30	.285
31.48	34.039	31.55	35.85	18 JAN 19	135	.34	.41	.42	.375
27.28	29.163	26.80	30.75	18 JAN 19	140	.50	.58	.55	.54
22.55	24.289	23.65	24.80	18 JAN 19	145	.76	.86	.81	.81
18.30	19.531	18.95	20.15	18 JAN 19	150	1.21	1.29	1.25	1.250
15.10	15.251	14.95	15.55	18 JAN 19	155	1.90	2.02	2.20	1.960
11.15	11.300	11.05	11.55	18 JAN 19	160	3.00	3.15	2.96	3.075
7.80	7.775	7.65	7.90	18 JAN 19	165	4.65	4.85	5.05	4.750
5.10	5.025	4.90	5.15	18 JAN 19	170	7.05	7.25	7.65	7.150
2.75	3.125	3.05	3.20	18 JAN 19	175	10.15	10.40	10.10	10.275
1.81	1.825	1.80	1.85	18 JAN 19	180	13.80	14.75	13.45	14.261
.97	1.000	.97	1.03	18 JAN 19	185	18.00	20.15	23.44	18.466
.38	.58	.55	.61	18 JAN 19	190	21.95	24.45	28.33	23.155
.31	.32	.28	.36	18 JAN 19	195	26.65	28.55	33.28	27.973
.12	.2	.16	.24	18 JAN 19	200	31.05	33.30	37.45	32.819
.07	.09	.05	.13	18 JAN 19	210	40.45	44.60	50.43	42.525

Option Leverage

	10/8/18 @\$167.80	11/26/18 @\$190.00 (Option @ \$29.70)	
Buy Stock:			
Buy 100 shares of MCD @ \$167.80	-> \$16,780	\$19,000	13%
Buy A-T-M Call:			
Buy A-T-M 18 Jan 160 call @ \$11.30	-> \$1,130	\$2,970	163%

