

Options Trading Word Search

Answer Key

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■ 10 Terms & Definitions

<p>CALL</p> <p>A call option is a financial contract that gives the buyer the right — but not the obligation — to purchase 100 shares of an underlying stock at a predetermined strike price before or on the expiration date. Call buyers are bullish: they profit when the stock price rises above th</p>	<p>PUT</p> <p>A put option gives the buyer the right — but not the obligation — to sell 100 shares of an underlying stock at a predetermined strike price before or on the expiration date. Put buyers are bearish: they profit when the stock price falls below the strike price. Puts are widely use</p>
<p>STRIKE</p> <p>The strike price (also called the exercise price) is the fixed price at which an options contract can be exercised — the price at which the option holder can buy (call) or sell (put) the underlying stock. Relative to the current stock price, options are described as in-the-money</p>	<p>PREMIUM</p> <p>The premium is the price you pay to buy an options contract. It represents the total cost of the option and is influenced by two components: intrinsic value (how far in-the-money the option is) and time value (how much time remains before expiration and how volatile the stock is)</p>
<p>EXPIRATION</p> <p>Options have a finite lifespan — the expiration date is the last day on which the option can be exercised. After expiration, the contract becomes worthless if not exercised. Options are available with weekly, monthly, and long-dated expirations (LEAPS can expire up to 3 years out</p>	<p>HEDGE</p> <p>Hedging is a risk management strategy that uses options or other derivatives to offset potential losses in an existing investment. By purchasing puts on a stock you own, buying inverse ETFs, or entering other offsetting positions, investors can protect their portfolio from advers</p>
<p>DELTA</p> <p>Delta is a key options "Greek" that measures how much an option's price changes for every \$1 move in the underlying stock. A delta of 0.50 means the option gains \$0.50 for every \$1 rise in the stock. Call options have positive delta (0 to 1); put options have negative delta (-1 t</p>	<p>THETA</p> <p>Theta measures the rate at which an option loses value as time passes — often called "time decay." Every day that passes reduces an option's time value, all else being equal. Theta accelerates as expiration approaches, making options buying a race against time. Option sellers ben</p>
<p>COVERED</p> <p>A covered call is one of the most popular conservative options strategies. It involves owning 100 shares of a stock and simultaneously selling (writing) a call option on those shares. The seller collects the premium immediately as income. If the stock stays below the strike price</p>	<p>VOLATILITY</p> <p>Volatility is a measure of how much an asset's price fluctuates over time. In options, implied volatility (IV) reflects the market's expectation of future price swings and is a key driver of options premiums — higher IV means more expensive options. The VIX index (often called th</p>