

Why Options Exist

The cost of mistaking options for lottery tickets.

Buyer holds the right. Seller carries the obligation. Know which side you are on before anything else.

TERMS

Option: A contract about a possible future trade. One side gets a choice.

Right: Something you may do, never have to. The buyer holds this. Think coupon.

Obligation: Something you must do if asked. The seller carries this. Think a promise to your neighbour.

Premium: The price of the contract. Paid by the buyer, kept by the seller.

Buyer / Seller: Buyer pays for a choice. Seller (writer) gets paid to stand ready.

BEFORE YOU ACT, CHECK

- ☐ Which side am I looking at: the coupon (right) or the promise (obligation)?
- ☐ If I am the buyer, can I say my maximum loss out loud? It is the premium.
- ☐ If someone is selling, do I understand they are paid to carry risk, not free of it?
- ☐ Is this contract doing a job (hedge or income), or is it a long-shot bet?

QUICK RECALL

1. You buy a call and the stock goes the wrong way. Are you forced to do anything?
No. You hold a right. You can let it expire. The most you lose is the premium.
2. Who receives the premium: the broker, the exchange, or the seller?
The seller. Broker and exchange take small fees only.

NUMBERS

Buyer's worst case	the premium paid, nothing more	Paid \$200 for a contract that expires unused: lost \$200, not a cent more.
Where the premium goes	buyer to seller, at the moment the trade opens	Broker and exchange take small fees only. The seller keeps the premium.
Two jobs options do	hedge (buy protection) and income (sell protection)	Homeowner pays \$1,500 a year to insure a \$300,000 house. Insurer collects it and carries the risk.

THE TRAP

"Most options expire worthless, so selling is the smart side."

Expiry statistics describe how time grinds on long-shot bets. They are not a hint to sell. Selling carries obligations and risks you are not equipped to manage yet. Getting paid up front makes a seller compensated for risk, not risk-free.

CARRY FORWARD

- Buyer = right, seller = obligation.
- Options hedge or earn income. Insurance, not lottery tickets.
- Buyer pays, seller gets paid, and the one paid carries the obligation.

Next: Module 1.2 Calls and Puts: which right is which.

Educational content, not advice. Options trading is high-risk and can result in losing more than you invest. This material is general education only, not a personal recommendation. See full [risk warning](#).

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