

Calls and Puts

Confusing a call with a put is the most expensive beginner typo.

Call = right to buy, gains value when the stock rises. Put = right to sell, gains value when it falls. Know which one matches your thesis before you click buy.

TERMS

Call: The right to buy the stock at a fixed price. Value rises with the stock.

Put: The right to sell the stock at a fixed price. Value rises as the stock falls.

Strike: The fixed price written into the contract. Full detail comes in Module 1.3.

Premium: What the buyer pays the seller for the right. It's the buyer's maximum loss.

Defined risk: The buyer can only ever lose the premium paid, never more.

BEFORE YOU ACT, CHECK

- ☐ Am I looking at a right to buy (call) or a right to sell (put)?
- ☐ Is my thesis bullish or bearish? Match it to the right instrument.
- ☐ If I hold shares and want downside protection, that's a put, the insurance case.
- ☐ Can I state my max loss? It's always the premium, whether I bought a call or a put.

QUICK RECALL

- What does a call option give the buyer the right to do?
Buy the underlying stock at the strike price. Call means the right to buy.
- What does a put option give the buyer the right to do?
Sell the underlying at the strike price. It's the insurance policy on shares you own.

NUMBERS

House value insured	\$400,000	You own a \$400,000 house and worry about a decline in value.
Insurance premium	\$2,000 a year	You pay \$2,000 a year. The insurer carries your downside risk, the same job a put seller does.
Buyer's max loss	the premium paid, nothing more	If the stock doesn't fall, the put expires and you lose only the \$2,000 paid.

THE TRAP

"I expect a drop, so I should buy a call to act on it."

Call and put aren't about being active. Call is the right to buy and gains value when the stock rises. Put is the right to sell and gains value when it falls. Get them backwards and a correct bearish view on the stock still loses money.

CARRY FORWARD

- Call = right to buy; gains as the stock rises.
- Put = right to sell; gains as the stock falls; works as insurance on shares you own.
- Both are defined risk for the buyer: max loss is always the premium paid.

Next: Module 1.3 Anatomy of a Contract: strike, expiration, premium, and the 100-share multiplier.

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