

Anatomy of a Contract

Every term here is a number that costs or makes you money.

Strike sets the price, expiration sets the deadline. Premium is quoted per share, but you pay per contract. Multiply by 100 before you decide anything costs too little to matter.

TERMS

Strike: The fixed price at which the buyer can act.

Set at inception, never moves.

Expiration: The last day the right can be exercised.

Days left is called DTE.

Premium: The market price of the contract, quoted per share, not per contract.

100-share multiplier: Every standard contract controls 100 shares. Multiply the premium by 100 for the real cost.

DTE: Days to expiry. The countdown you'll watch on every open position.

BEFORE YOU ACT, CHECK

- ☐ Which price is the strike, the fixed price locked into this contract?
- ☐ How many days until expiration (DTE)? After that date the right is gone.
- ☐ Did I multiply the quoted premium by 100 to get the real dollar cost?
- ☐ For more than one contract, did I also multiply by the number of contracts?

QUICK RECALL

1. What is the strike price of an option?

The fixed price at which the contract can be exercised. It's set at inception and doesn't move with the stock.

2. Why does a \$2 option actually cost \$200?

The quoted premium is per share, and one contract equals 100 shares. \$2 times 100 equals \$200.

NUMBERS

One contract, \$200	$\$2.00 \times 100 \times 1$
\$2.00 premium	contract = \$200.
One contract, \$85	$\$0.85 \times 100 = \85 . A
\$0.85 premium	cheap-looking quote still costs real dollars.
Three contracts, \$1.20	$\$1.20 \times 100 \times 3$
premium	contracts = \$360.

THE TRAP

"The premium says \$2, so this option costs \$2."

The quoted premium is per share, not per contract. One contract equals 100 shares, so the real cost is the premium times 100. Skip that multiplier and every cost and risk number you calculate is off by a factor of one hundred.

CARRY FORWARD

- Strike is the fixed price at which the right can be used.
- Expiration is the deadline. After it, the right is gone.
- Premium is per share: multiply by 100, and by the number of contracts, for the real cost.

Next: Module 1.4 Reading the Option Chain: where strike, expiry, and premium show up live.

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