

Assignment, Expiration, and Meet Delta

Surprise assignment over a weekend is a classic, avoidable gut-punch.

Buyers exercise. Sellers are assigned. Track your short positions' moneyness before Friday's close.

TERMS

Exercise: The buyer's choice to use their right: buy shares (call) or sell shares (put).

Assignment: The seller's obligation coming due when a buyer exercises. Not a choice.

Auto-exercise: Clearinghouses exercise an option automatically if it finishes ITM, even without instruction.

Delta: How much the option moves per \$1 stock move, and roughly the odds it finishes ITM.

Theta: The daily melt of extrinsic value, the melting ice cube. Faster as expiry nears.

BEFORE YOU ACT, CHECK

- ☐ Am I the buyer (I exercise) or the seller (I get assigned) here?
- ☐ Is my short position ITM or OTM heading into Friday's close?
- ☐ Am I reading delta as roughly the odds of finishing ITM?
- ☐ Is theta working for me (seller) or against me (buyer) on this position?

QUICK RECALL

- Who exercises an option: the buyer or the seller?
The buyer. Exercising means choosing to use the right. The seller is assigned when that happens, not the other way around.
- What analogy best describes theta?
A melting ice cube. Extrinsic value drips away every day, faster as expiration gets close.

NUMBERS

Delta, approx. ITM probability	delta $\approx$ % chance of finishing ITM	0.30 delta $\approx$ 30% chance; 0.70 delta $\approx$ 70% chance.
Delta as hedge ratio	\$ move in option per \$1 stock move	0.50 delta call gains about \$0.50 when the stock rises \$1.
Theta near expiry	decay speeds up as days run out	60 days to expiry decays slowly per day; 5 days decays much faster.

THE TRAP

"I was OTM Friday, so I'm safe over the weekend."

A stock can move after Friday's close and cross the strike before settlement finalizes. Auto-exercise can assign a seller on Monday with no warning. Check your short positions' moneyness before the close, not after.

CARRY FORWARD

- Buyers exercise, a choice. Sellers are assigned, an obligation. Assignment only ever hits the seller.
- ITM at expiry auto-exercises and assigns the seller. OTM at expiry expires worthless.
- Delta is roughly the odds of finishing ITM. Theta melts extrinsic value every day, faster near expiry.

Next: Level 1 Exam: 40 to 50 questions covering Modules 1.1 through 1.8, 85% to pass, unlimited retakes.

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