

Option Trading

Advantages and Disadvantages
of Buyer and Seller

Advantages and Disadvantages

- ✓ Minimal investment/no margin required vs. option seller to participate in market movements
- ✓ Ltd downside: Max loss on trade is capped/minimized
- ✓ Unlimited upside: ultd. participation in winnings
- Investment subject to time decay

Buyer

- ✓ Use of leverage to control a bigger amount of shares/underlying
- ✓ Ideal for risk management. More possibility via strategies/combo
- ✓ You can easily monitor and estimate your probability of win.
- ✓ Lots of underlying on which options instruments are available (stocks, indexes, interest, volatility, commodities etc.)
- Availability. Not all products have options or have liquid options market
- ✓ Profit/Loss potential is reflected on the pricing of options. Riskier instruments are pricier. (No free lunch!)

Seller

- ✓ Improves/Reduces the cost basis of the base instrument (e.g. covered call)
- ✓ IV is often overstated. Knowing this means understanding that options are sold at a premium most of the time
- High margin requirements. Margin expansion is quite possible
- Unlimited loss potential (unhedged/naked strategies)