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Audio Script

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So why do people trade options?

Note: The securities in this video are fictional. Everyone's situation is different, and this video is not financial advice. Do your own research.

Speculation

Traders can benefit from upward or downward movement of a stock or index

Script:

People trade options for a variety of reasons

One reason could be that you believe that a stock will go up or down. This is sometimes called “speculation.”

Before we explain speculation, we would like to make you aware of some key concepts:

Buying a call is one example of a speculative bullish strategy, buying a put is one example of speculative bearish strategy.

A call represents the right to buy and a put the right to sell. Each contract represents 100 shares and includes an agreed upon price known as the strike price, and a specified time frame, known as the expiration date.

Every example that we use is for illustrative purposes only and we do not include any commission and fees.

When you buy stock, you may have a bullish view that the price will go up.

When you buy options, you can apply the same bullish outlook, but with a few key differences.

Purchasing Call Options can be more affordable because you're paying a small premium for the right to buy the shares rather than directly buying the shares

If you're paying less, you're also risking less capitol, should the stock decline significantly.

To speculate upward movement with call options, you'd first pick a strike price and expiration date.

If the stock goes above the price you chose you'd only net a profit if it goes higher than your chosen price PLUS the premium you paid.

You can also buy put options to speculate downward movement of a stock. If the stock price falls below your strike price plus the premium you paid, you'd reap the benefits.

You can be a bull or a bear with speculative option strategies.

This is why speculation is one way people trade options.

Disclosure:

Options involve risk and are not suitable for all investors. Certain requirements must be met to trade options. Before engaging in the purchase or sale of options, investors should understand the nature of and extent of their rights and obligations and be aware of the risks involved in investing with options. Please read the options disclosure document titled "Characteristics and Risks of Standardized Options" before considering any option transaction. You may also contact us call at 1.877.653.4732 for a copy. A separate client agreement is needed. Option orders are subject to a per-contract charge.

View definitions for investment terms in our Glossary.

For purposes of all the computations discussed in this article, commissions, fees and margin interest and taxes, have not been included in the examples. These costs obviously will impact the outcome of any stock or option transaction. Any strategies discussed, including examples using actual securities and price data, are strictly for illustrative and educational purposes only and are not to be construed as an endorsement, recommendation or solicitation to buy or sell securities. Past performance is not a guarantee of future results.

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