

Option Basics

Welcome to Framework Investing's Option Basics Mini-Course. I'm Erik Kobayashi-Solomon, the author of *The Intelligent Option Investor* and Framework Investing's Director of Research and Content.

This mini-course is designed to offer you an understanding of the risk and reward characteristics of options and introduces some inescapable option jargon. We build on the lessons we covered in the Introduction to Options Mini-Course and gives you the tools to visualize option positions and to assess the economics of entering into them.

Our main goal here is to allow you to begin to answer the question "What risks am I taking by entering a risky investment in a stock or an option." Note that I say "...begin to answer the question..." because we will not be fully able to discuss the risk of certain option positions without understanding the concept of leverage – the subject of its own mini-course.

Our secondary goal in this mini-course is to open your eyes to a new way of conceiving of risk and reward, which we believe benefits investors in many different asset classes – real estate, bonds, stocks, options, and commodities.

This mini-course is broadly split into two sections – in the first, we cover the basics of what we term ranges of exposure and how stock ranges of exposure relate to those of options. In the second, we take a more detailed look at option ranges of exposure, explore the concept of Put-Call Parity, and introduce a method of visualizing options used by short time-horizon traders.

This information will help you view investing from a new and, we think, helpful lens, and will prepare you for a discussion of option pricing, which we will cover in a subsequent mini-course.

We'll get started by explaining what we mean by ranges of exposure in relation to stock positions.