

Options Fundamentals for Professionals Online Seminar

Introduction to Options Course (10 lessons)

Introductory

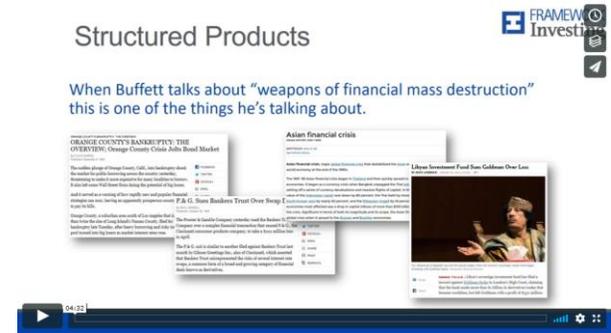
- What is an Option
- Options in Their Historical Context
- Arbitrage in the Ancient World
- Options in Daily Life
- The Development of Modern Derivatives
- The Development of the Listed Option Market
- The OTC Option Market
- How Goldman Sachs Lost \$1.2 Billion of Libya's Money
- Comparison of Options to Stocks (and Futures)
- Different Option Perspectives

You may not realize it, but you are already using options all the time.

Options are ancient financial tools that helped build the very foundation of our modern, global economy. This course explains that, far from being mysterious “black-box” weapons of mass destruction, options are useful tools we are accustomed to using every day. We also compare several different types of options to common financial tools and explain the perspectives of various option players.

No matter your view of options going in, after completing this course, your appreciation for and understanding of them is guaranteed to deepen.

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Option Basics Course (11 lessons)

Introductory

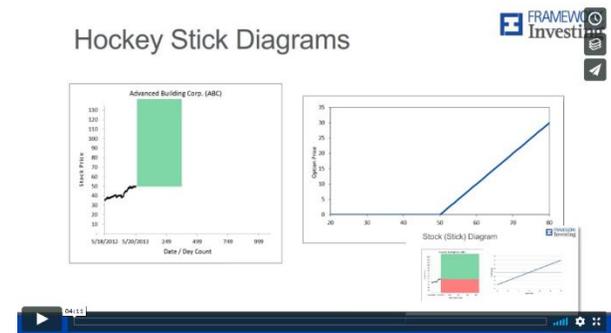
- Stock Ranges of Exposure
- Option Ranges of Exposure
- Primer on “Short” Investments
- Moneyness and Position Descriptions
- Complex Positions and Overlays
- The Intelligent Option Investor Excerpt
- Effective Buy / Effective Sell Prices
- Put-Call Parity
- Hockey Stick Diagrams Part I
- Hockey Stick Diagrams Part II
- Perspectives: Option Visualization

Go from jargon to an intuitive understanding of option positions!

Most of the option world represents options as either mathematical equations or hockey stick figures. Framework prefers to depict options as “ranges of exposure” that allow an investor to see the similarities between options and other instruments such as stocks and bonds. This course allows for a more intuitive analysis of investment positions and introduces inescapable option terminology.

In the interest of completeness, we also offer an overview of how to read the “hockey stick” diagrams that are found in most option books and introduce the oldest method for pricing options: Put-Call Parity.

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Option Market Mechanics Course (9 lessons)

Intermediate

- Stock Option Expiration & Settlement
- Index Option Expiration & Settlement
- Strike Price Intervals
- Measuring Option Transaction Activity
- Market Makers
- A Market Maker's Take on High-Frequency Traders
- High-Frequency Traders' Perspective
- Option Market Dynamics
- FLEX Options

To successfully navigate in a different world, you need an understanding of how that world works.

Some of the fundamental characteristics of options, such as the existence of expirations and strike prices, mean that the mechanics of option transactions can seem complex to a stock or fund investor.

This course leads you through important issues related to the mechanics of the option expiration, settlement, and liquidity, and offers perspective on the influence of market makers, hedge funds and other large institutional investors, and high frequency trading firms on options markets.

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Market Dynamics



FRAMEWORK Investing

Option Prices and Pricing Course (14 Lessons)

Intermediate

- Pricing screen set-up & "Last Price"
- The Bid-Ask Spread in Action
- Visualizing Option Prices
- Intuition of Option Pricing Models
- Option Prices & The BSM Cone
- Drift and Dividends
- BSM Cone Probabilities
- Delta – the Handiest "Greek"
- Volatility and the Rules of Option Pricing
- Implied Volatility
- Finding the "Right" Volatility
- Option Pricing Dynamics
- Time Decay
- Strengths and Weaknesses of the BSM

Looking to impress your boss or interviewer? After finishing this course, you'll be able to do it.

Even experienced portfolio managers have trouble making sense of an option price display, let alone having an intuitive, immediate grasp of what moves option prices. That's a shame! An option pricing screen contains a wealth of information helpful even to investors that never transact a single contract.

In this course, we show you how to efficiently glean information from an option pricing screen and use a unique, intuitive, and visual way to teach you how option pricing models work. Within a few brief lessons, you will understand concepts that usually require reading hundreds of pages of dense mathematical equations. What's more, you'll clearly see how the unreasonable simplifying assumptions underlying pricing models offer opportunities to intelligent investors.

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Intelligent Option Investing



FRAMEWORK Investing

Option prices provide insight into what the rest of the market thinks
Even if you never make an option transaction, this knowledge gives an investor power
Investing becomes like playing cards with an opponent whose leaves his cards face up on the table

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Advanced Option Pricing: Understanding and Using the Greeks Course (8 lessons)

Advanced

- Computational Pricing Models
- Introduction to The Greeks
- Delving into Delta Probabilities
- Delving into Delta Derivatives
- Delta Probabilities and Gamma Risk
- Anatomy of an Institutional Option Transaction
- Institutional Option Case Study: Ackman & Target
- Rho, Vega, and Theta

Hedging is one of the most common uses of options, and we teach you the nitty gritty of that skill here.

Option pricing dynamics are important to understand for an investor who has a directional view. “Inventoryers” without a directional view must use mathematical tools to manage the risk of holding an inventory of options temporarily – these tools are the “Greeks” that are often discussed in option trading circles.

In this course, we delve more into on Greek in particular – Delta. Delta is the most important Greek for directional investors, and “Delta hedging” bears directly on how OTC and FLEX market trades are executed on behalf of institutional investors.

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Lambda

5%

Lambda = $\frac{50\%}{5\%} = 10$

50% Option

5% Stock

ATM Call Option
 Stock Price = \$20 / share
 Call Option Price = \$1.00
 Assume Stock Price rises to \$21 / share
 Delta of 0.50 implies Call Option price of \$1.50
 “Levered 10 times”

Understanding Volatility Course (10 lessons)

Advanced

- Checking our Intuition about Volatility
- Four Types of Volatility
- A Typical View of Volatility
- Pricing Volatility in a Certain World
- Finding “Mispriced” Volatility
- Option Investment Strategy Map
- The Volatility Surface
- VIX Basics
- VIX Futures
- Dispersion / Correlation Trading

Volatility is the one thing anyone working with options must understand.

Everyone has heard the term “volatility” and many investors think they understand what it means. Few actually do. In this mini-course, we uncover the mysteries of volatility from a unique perspective – that of a directional investor.

This course also walks through some more advanced topics (Volatility Surface, Dispersion Trading) and explains the myriad reasons why simple-minded plans to buy VIX futures to hedge against a market decline are misguided.

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Two Views of Volatility

Shows nominal value of implied volatility at different strikes and tenors

Shows translation of implied volatility values into future price predictions

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Understanding Leverage Course (16 lessons)

Advanced

- The Three Types of Leverage
- The Mechanics of Investing Leverage
- Overleverage
- Option Leverage – Accepting Exposure
- Overleverage and AIG
- What Went Wrong at AIG
- Different Types of Margin Accounts
- Option Leverage – Gaining Exposure
- Levered vs Unlevered Returns
- “Immediate Realized Loss”
- Framework for Measuring Leverage
- ITM Option Leverage Position
- OTM and Hybrid Leverage Positions
- Levered ETFs
- Lambda Leverage & Notional Exposure
- Buffett’s Alpha

Misunderstanding and mismanaging leverage has provided the impetus for the spectacular downfall of even the most knowledgeable investors.

In reality, options are not levered instruments any more than stocks are. However, it is relatively easier to implement a levered strategy with options than it is with stocks. Understanding what leverage is, how it can be measured, and how it can be managed is a vital topic for anyone using options to execute an investment strategy.

This course starts by offering a general definition of leverage that applies to different contexts, investigate the mechanics of leverage in an investing context, and show how leverage manifests itself in an options context. We draw a real-life example from AIG and its OTC option contracts, see how investing leverage using options is fundamentally different from leverage generated with other instruments, then build a framework for measuring, managing, and achieving investing success by learning from the master of levered investing.

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Unlevered vs Levered Returns

