



Get Rich Buying Deep in-the-Money Calls

Yankee Model Club
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What is an Option?

Call Option

Put Option

Holder (Buyer)


Right to buy

Right to sell

Writer (Seller)

Obligation to sell

Obligation to buy



What is a call?

A call is an option contract that gives the owner the right to buy the underlying stock at a specified price (its strike price) for a certain, fixed period (until expiration). For example, an American-style XYZ Corp. July 60 call entitles the buyer to purchase 100 shares of XYZ Corp. common stock at \$60 per share before the option's July expiration date. For a call option writer or seller, the contract represents an obligation to sell the underlying stock if the option is assigned.

In-the-Money Calls

Intrinsic Value (Calls)

A call option is in-the-money when the underlying security's price is higher than the strike price.

$$\text{Intrinsic* Value} = \text{Current Stock Price} - \text{Strike Price}$$



Option Cost (Premium)

➤ Option Premium = Intrinsic Value + Time Value

LEAPS® - Options for the Long Term

Introduction

When considering any options strategy, you may want to think about Long-Term Equity Anticipation Securities® (LEAPS®) if you are prepared to carry the position for a longer term. While using LEAPS® does not ensure success, having a longer amount of time for your position to work is an attractive feature for many investors. In addition, several other factors make LEAPS® useful.

Stock Alternative

LEAPS® offer investors an alternative to stock ownership. LEAPS® calls enable investors to benefit from stock price rises while risking less capital than required to purchase stock. If a stock price rises to a level above the exercise price of the LEAPS®, the buyer may exercise the option and purchase shares at a price below the current market price. The same investor may sell the LEAPS® calls in the open market for a profit.

Diversification

Investors also use LEAPS® calls to diversify their portfolios. Historically, the stock market has provided investors significant and positive returns over the long term. Few investors purchase shares in each company they follow. A buyer of a LEAPS® call has the right to purchase shares of stock at a specified date and price up to three years in the future. Thus, an investor who makes decisions for the long term can benefit from buying LEAPS® calls.



Delta

Delta is a theoretical estimate of how much an option's premium may change given a \$1 move in the underlying. For an option with a Delta of .50, an investor can expect about a \$.50 move in that option's premium given a \$1 move, up or down, in the underlying. For purchased options owned by an investor, Delta is between 0 and 1.00 for calls and 0 and -1.00 for puts. For sold options, as the investor essentially has a negative quantity of contracts, we find that short puts have a positive Delta (technically a negative Delta multiplied by a negative number of contracts); short calls have negative Delta (technically a positive Delta times a negative number of contracts).

For example, the XYZ 20 call has a .50 Delta and is trading at \$2 with XYZ stock at \$20.50. XYZ rises to \$21.50. The investor would expect that the 20 strike call would now be worth around \$2.50 as seen below:



Why buy a Leap?

- ▶ Capture the price movement of a stock with fewer dollars invested!!



Leap Option Strategy

- Buy Long dated (e.g. 3 Years) Leap options.
- Select an option with a strike price that has a delta value of 0.9.
- A delta value of 0.9 results in a strike price well below the current stock price and captures 90% of a stock price movement.

Facebook Leap Options

FACEBOOK INC AS OF 2:21:00PM ET 01/15/20: [More Quote Information](#)
\$221.03 ↑ 1.97 (0.90%)

Last	Change	Bid	Ask	Volume	Open Int	Imp Vol	Delta	Action	Strike ▲
08.85	0.00	106.70	110.50	0	199	33.26 %	0.9489	▼	120
05.10	0.00	102.50	106.30	0	86	33.18 %	0.939	▼	125
01.00	0.00	98.25	102.50	0	339	33.31 %	0.9273	▼	130
82.03	0.00	94.10	98.00	0	7	32.60 %	0.9183	▼	135
92.32	0.00	90.50	93.55	0	247	32.33 %	0.9066	▼	140
87.35	0.00	86.60	89.65	0	27	32.29 %	0.893	▼	145
84.19	0.00	83.30	85.50	0	234	32.23 %	0.8788	▼	150
79.55	0.00	78.80	81.85	0	94	31.56 %	0.8664	▼	155
77.20	+1.14	75.40	78.10	3	218	31.46 %	0.8507	▼	160
73.95	+0.95	71.70	74.40	1	235	31.14 %	0.8353	▼	165
69.90	0.00	68.35	71.00	0	213	31.08 %	0.8181	▼	170
66.35	-0.05	65.25	67.45	20	185	30.95 %	0.8006	▼	175
62.72	+1.02	61.50	64.95	6	694	30.90 %	0.7823	▼	180
61.00	0.00	59.05	60.80	0	324	30.61 %	0.7641	▼	185
57.50	+0.60	55.50	57.75	1	116	30.16 %	0.7459	▼	190
54.25	+0.25	52.05	54.90	4	692	29.88 %	0.7263	▼	195

6/17/2020


Security Basis - Tax Lots for FB Jun 19 '20 \$100 Call
 TDAMERITRADE Ira's Account

01/28/20

Type/Security	Symbol	Acquisition Date	Quantity	Unit Cost	Total Cost	Market Price	Market Value	Unrealized Gain/Loss	% G/L	Annl. % G/L	Years Held
FB Jun 19 '20 \$100 Call	FB620C100	09/12/18	1.00000	72.077	7,207.71	115.400	11,540.00	4,332.29	60.11	40.6	1.38
FB Jun 19 '20 \$100 Call	FB620C100	10/26/18	1.00000	56.727	5,672.71	115.400	11,540.00	5,867.29	103.43	75.7	1.26
Total			2.00000	64.402	12,880.42	115.400	23,080.00	10,199.58	79.19		1.32



The Options Industry Council

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