



# Option Basics

When you begin investing you may have a lot of questions. In this article we'd like to try to answer some of the most commonly asked questions about investing in options.

## **Why trade options?**

When traded properly options provide several potential advantages. Options can be used as a hedging instrument or as a means of profit in any type of market. They provide a great amount of leverage with a limited amount of risk if traded properly.

## **What is an option?**

An option is a contract that gives the buyer a right to purchase or sell an underlying security. These contracts have their own prices and trade on public exchanges.

## **Where do I find an option?**

First you'll need to find a stock. Once you have found a stock you will need to determine if it is optionable. For help with this, you may want to contact your broker or someone who can show you how to make that determination.

## **How risky are options?**

Options involve risks and are not suitable for all investors. With that being said, when traded properly options can be an extremely low risk proposition. In fact many option strategies are safer than trading stock!

## **Do I need a special account for trading options?**

Yes. You will need an account that has options approval which is determined by your broker.

## **How complicated are options?**

At first options may appear intimidating. The math behind options is very complex. In fact, a Nobel Prize was given to the people who came up with the first widely accepted option pricing model. The good news is that these days computers do most of the math for us.

While the math behind options is very complex, the actual concepts that enable us to trade them are pretty straightforward. Options trading does not need to be a complicated issue.