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OPTION DECISION OS

PUBLIC EDUCATION v1.0

CSE EXPLAINS

OPTION CONTRACTS

BEGINNER GUIDE

A step-by-step introduction to calls, puts, rights, obligations, risk, time and contract fit.

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How to use this guide

Understand the contract first. Only then evaluate whether it belongs in a decision framework.

> This guide explains standard option mechanics from first principles. It shows what the contract gives one side, what it requires from the other, and why a correct stock idea can still be expressed through the wrong option.

What this guide gives you

- Plain-English definitions for calls, puts, long and short.
- The five building blocks of every option contract.
- Step-by-step long-call and long-put examples at expiration.
- A clear explanation of premium, break-even, time value and volatility.
- Exercise, assignment, closing and possible 100-share consequences.
- A disciplined beginner workflow before any contract is considered.

What remains CSE-specific

- Option Feasibility thresholds and size-gate calibration.
- Contract ranking, confidence and alternative-selection logic.
- How thesis, timing, premium, risk and portfolio fit are weighted together.
- Proprietary warnings, fail-closed rules and decision classifications.

> This public guide is educational. It does not provide a recommendation, trading signal or broker instruction. Options involve risk and are not suitable for every investor.

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Option Contracts - Beginner Guide

A structured path from the basic contract to disciplined contract review.

RIGHTS

What can the buyer choose to do?

OBLIGATIONS

What may the writer be required to do?

RISK + TIME

What must happen - and before when?

Reading rule: when a contract looks attractive, first ask which assumption makes it attractive - direction, timing, volatility or price. Every one can change.

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What an option contract is

One agreement. Two sides. Different rights, obligations and risk.

BUYER / HOLDER

RIGHT

Pays the premium. May choose whether to use the contract, close it, or let it expire.

⇄

SELLER / WRITER

OBLIGATION

Receives the premium. May be assigned and required to fulfil the contract.

An option in one sentence

A time-limited contract that gives the buyer a right and gives the seller the matching obligation.

Important boundary

An option is not simply “a cheaper stock.” Its value depends on direction, distance, time, volatility and the price paid for the contract.

The two sides of the same contract

Long and short positions are linked. One cannot exist without the other side.

The buyer's right is the writer's obligation. The premium transfers from buyer to seller when the position is opened.

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The five building blocks

If any one of these changes, the contract is different.

1
Underlying

The stock, ETF or index the contract refers to.

2
Strike

The contract price at which shares may be bought or sold.

3
Expiration

The date after which the contract no longer exists.

4
Premium

The price of the option, normally quoted per share.

5
Multiplier

For standard U.S. equity options, generally 100 shares per contract.

ILLUSTRATIVE CONTRACT CARD

AAPL · 310 CALL · 6 MONTHS · $12.00 · ×100

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The multiplier changes the real cost

The quote looks small. The capital commitment may not be.

STANDARD U.S. EQUITY OPTION - ILLUSTRATIVE

1
option contract

×

100
shares

$12.00 premium × 100 = $1,200

Quoted per share

A displayed premium of $12 does not mean the contract costs $12. With a 100 multiplier, the total premium is $1,200.

Adjusted contracts

Corporate actions can change the deliverable. Some contracts may represent something other than 100 shares. Always check the contract specification.

Call or put describes the right

A call is a right to buy. A put is a right to sell.

CALL

Right to buy

The call buyer may buy the underlying shares at the strike price, subject to the contract terms.

The call writer may be required to sell or deliver those shares if assigned.

PUT

Right to sell

The put buyer may sell the underlying shares at the strike price, subject to the contract terms.

The put writer may be required to buy those shares if assigned.

Call or put describes the type of right. It does not tell you whether the person bought or sold the contract.

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Long or short describes your side

Bought the contract - or sold and wrote it.

LONG

BOUGHT

Long means the option was purchased.

- Pays premium.
- Receives a contractual right.
- Can sell the option to close.
- Can lose the entire premium.

SHORT

WROTE

Short means the option was sold or written.

- Receives premium.
- Accepts an obligation.
- Can buy the option back to close.
- May face assignment and collateral requirements.

Long does not always mean bullish.
A long put is generally bearish or protective.

Short does not always mean bearish.
A short put can express a neutral-to-bullish view while creating an obligation to buy.

The four basic positions

Two contract types. Two sides. Four distinct risk profiles.

LONG CALL

Right to buy

Generally bullish. Pays premium. Maximum option loss is the premium. Upside can be theoretically unlimited.

SHORT CALL

Obligation to sell

Generally neutral to bearish. Receives premium. An uncovered short call can have theoretically unlimited loss.

LONG PUT

Right to sell

Generally bearish or protective. Pays premium. Maximum option loss is the premium.

SHORT PUT

Obligation to buy

Generally neutral to bullish. Receives premium. Downside loss can be substantial.

> The four positions are not interchangeable. Direction, rights, obligations and maximum risk differ.

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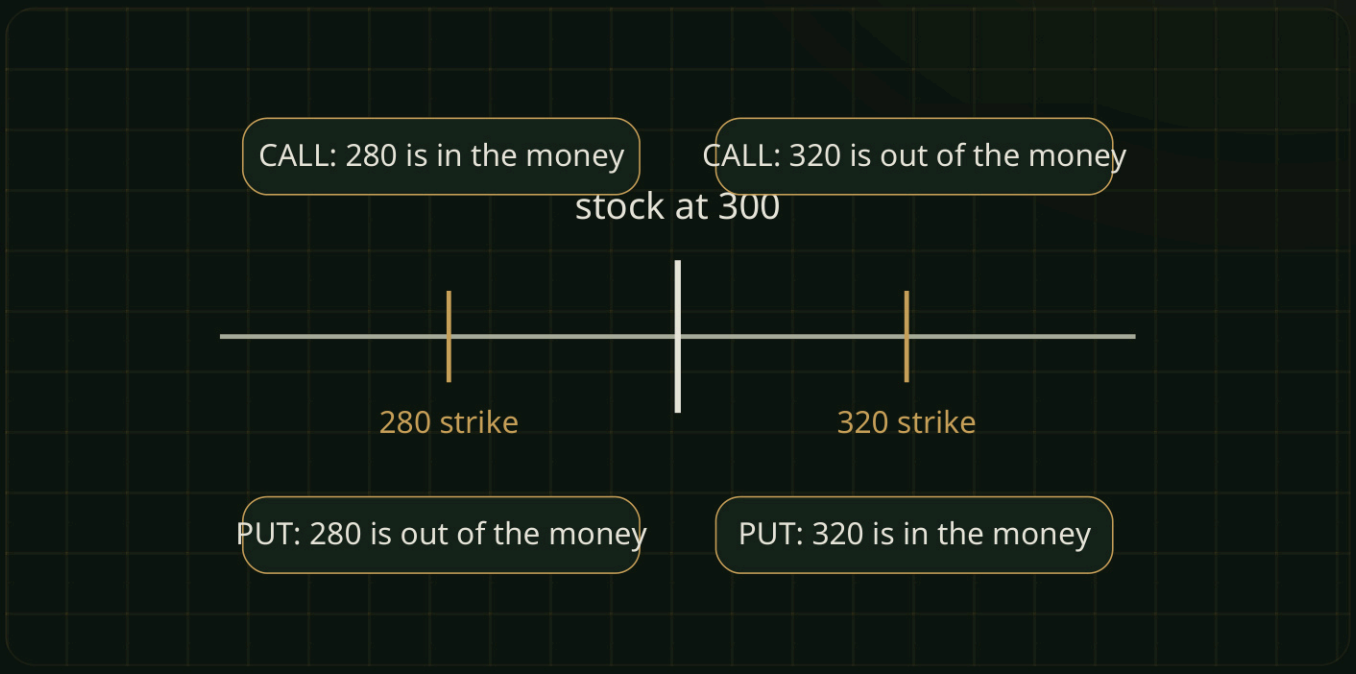
In, at or out of the money

Moneyness describes the relationship between the strike and the underlying price.



ITM

In the money. The option has intrinsic value.

ATM

At the money. Strike and stock price are near each other.

OTM

Out of the money. The option has no intrinsic value.

Illustrative Apple call setup

A familiar stock makes the mechanics easier to see.

ILLUSTRATIVE EDUCATIONAL EXAMPLE

AAPL $300

310 CALL · 6 MONTHS

PREMIUM	MULTIPLIER
$12.00	100

$12 × 100 = $1,200

The long-call buyer

- Pays $1,200.
- Receives the right to buy 100 shares at $310.
- Can sell the option before expiration.
- Can let the option expire.

Exercise consequence

Exercising the call would involve buying 100 shares at $310: a $31,000 share transaction. The initial option purchase itself costs $1,200.

> The values are controlled examples. They are not live Apple or option-chain data.

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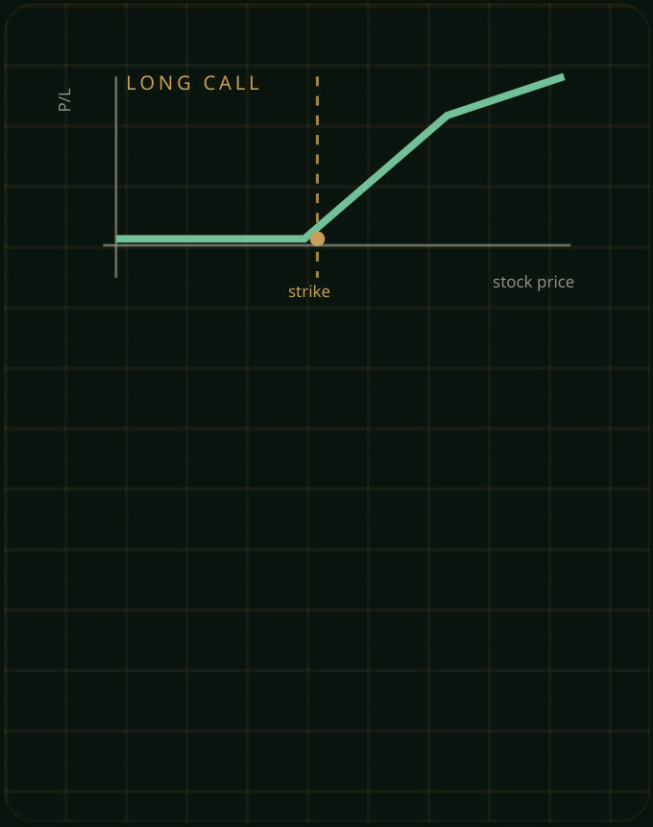
How a long call works at expiration

The stock must rise far enough to overcome the premium.



At $300 at expiration

Intrinsic value	$0
Premium paid	-$1,200
Net result	-$1,200

At $340 at expiration

Intrinsic value	($340-$310)×100 = $3,000
Premium paid	-$1,200
Net result	+$1,800

Break-even

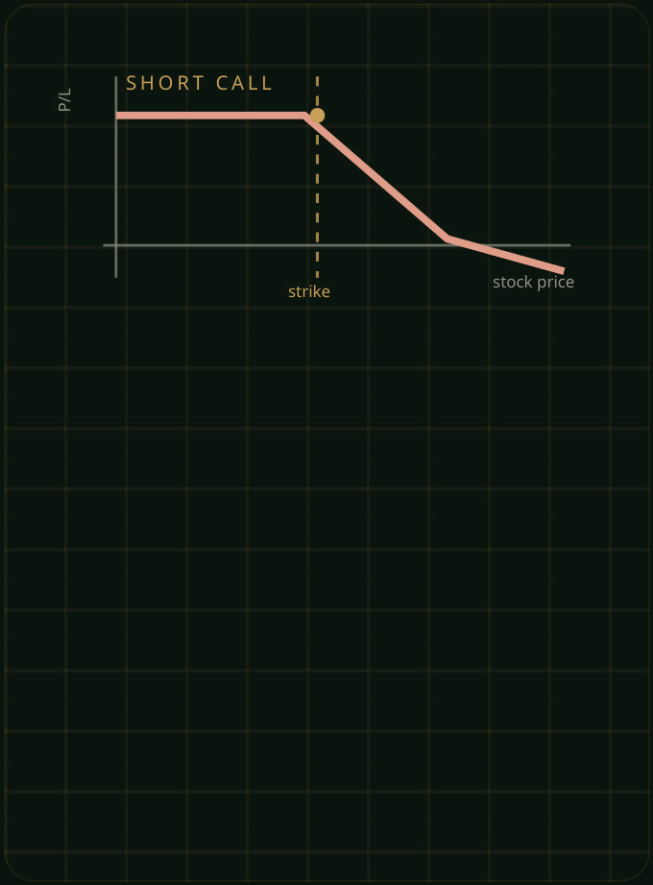
$310 + $12 = $322

At expiration, before fees.

Maximum option loss:
The premium paid: $1,200.

The short call mirrors the buyer

The writer receives the premium - and accepts the obligation.



If AAPL stays at or below $310

Premium received	+$1,200
Maximum option profit	$1,200

If AAPL ends at $340

Option obligation	-$3,000
Premium received	+$1,200
Net result	-$1,800

Uncovered short-call warning:
If the stock keeps rising, losses can keep growing. Theoretically, the risk is unlimited.

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Illustrative Apple put setup

The put gives the buyer a right to sell.

ILLUSTRATIVE EDUCATIONAL EXAMPLE

AAPL $300

290 PUT · 6 MONTHS

PREMIUM	MULTIPLIER
$8.00	100

$8 × 100 = $800

The long-put buyer

- Pays $800.
- Receives the right to sell 100 shares at $290.
- Can use the put for a bearish view.
- Can also use a put to protect shares already owned.

Important distinction

A protective put and a stand-alone long put can have the same option contract, but the total portfolio risk is different because one includes shares.

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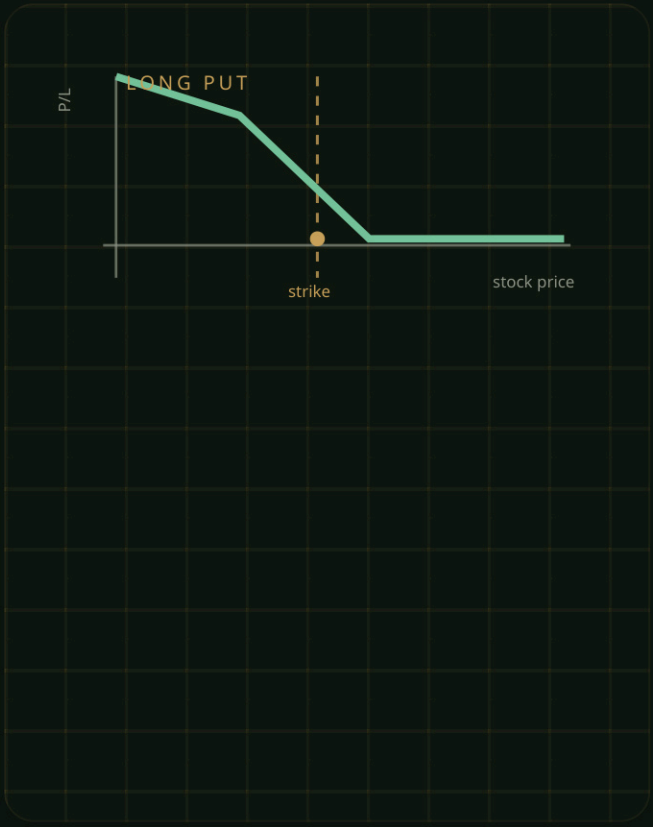
How a long put works at expiration

The stock must fall far enough to overcome the premium.



At $300 at expiration

Intrinsic value	$0
Premium paid	-$800
Net result	-$800

At $260 at expiration

Intrinsic value	($290-$260)×100 = $3,000
Premium paid	-$800
Net result	+$2,200

Break-even

$290 - $8 = $282

At expiration, before fees.

Maximum option loss:
The premium paid: $800.

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The short put accepts a purchase obligation

Premium received is limited. Downside exposure can be large.

If AAPL stays above $290

Premium received	+$800
Maximum option profit	$800

If AAPL ends at $260

Option obligation	-$3,000
Premium received	+$800
Net result	-$2,200

Assignment consequence:
The writer may be required to buy 100 shares at $290 even when the market price is much lower.

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Break-even is a contract calculation

It tells you what is needed at expiration - not what the market must do.

CALL BREAK-EVEN

Strike + premium

$310 + $12 = $322

PUT BREAK-EVEN

Strike - premium

$290 - $8 = $282

At expiration only

Break-even formulas describe the underlying price needed at expiration for the option's intrinsic value to offset the premium, before fees. Before expiration, time value and implied volatility can make the option profitable or unprofitable at different stock prices.

> Break-even is not a forecast, target or support level. It is a contract-accounting reference.

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Premium is more than intrinsic value

Before expiration, the contract still contains time and uncertainty.

```
OPTION PREMIUM = INTRINSIC VALUE + TIME VALUE
```

Intrinsic value

The amount by which an option is in the money.

```
Call: max(stock - strike, 0)
Put: max(strike - stock, 0)
```

Time value

The remaining premium beyond intrinsic value. It reflects time, volatility, rates, dividends, demand and model assumptions.

> At expiration, time value is zero. Before expiration, an out-of-the-money option can still have value because time remains.

Why the premium moves

Direction is only one part of the contract.

01
Stock price

How the underlying moves relative to the strike.

02
Time

How many days remain before the contract expires.

03
Volatility

How much movement the market expects.

04
Rates & dividends

Financing and expected dividend effects can influence pricing.

05
Liquidity & spread

The market price you can actually enter and exit at.

> The stock can move in the expected direction and the option can still disappoint if the move is too small, too slow, or offset by falling volatility and poor execution.

The Greeks in plain English

Four sensitivities that help describe how the contract may respond.

DELTA
Directional sensitivity

An estimate of how much the option value may change for a $1 move in the underlying, all else equal.

GAMMA
Delta's rate of change

Shows how quickly delta itself may change as the underlying moves.

THETA
Time decay

An estimate of how much option value may decay with one day passing, all else equal.

VEGA
Volatility sensitivity

An estimate of how much option value may change when implied volatility changes.

Model outputs, not promises

Greeks are estimates based on pricing models and current inputs. They change as price, time and volatility change.

Time is an asset that expires

A long option can lose value simply because the calendar moves forward.

DTE

Days to expiration describes how much calendar time remains in the contract.

Not perfectly linear

Time decay can accelerate as expiration approaches, especially for options near the stock price. The exact path depends on strike, volatility and market conditions.

Volatility can reprice the contract

Earnings and other events can change premium even after the stock moves.

Implied volatility

Implied volatility is the market's pricing input for expected movement. Higher IV can make options more expensive; lower IV can reduce premiums.

Event risk

Before earnings, IV may increase. After the event, IV may fall sharply - often called an “IV crush.” A correct direction may still produce a weak result if the premium was very expensive.

The market price is a range

Liquidity determines what the contract is actually worth to you now.

ILLUSTRATIVE QUOTE

BID	ASK
$11.60	$12.40

```
spread = $0.80 × 100 = $80
```

Bid and ask

The bid is what buyers currently offer. The ask is what sellers request. Your executable price may differ from the midpoint.

Volume and open interest

Volume shows contracts traded during the session. Open interest shows positions that remain open. Neither guarantees a tight spread or easy exit.

Liquidity risk

A wide spread can create a large hidden cost. A contract can look profitable on a model while being difficult to enter or close efficiently.

Open, close, exercise or assignment

These actions are related - but they are not the same.

Opening and closing a long option

Buy to open	**create long position**
Sell to close	**exit long position**

Opening and closing a short option

Sell to open	**create short position**
Buy to close	**exit short position**

Exercise

The holder uses the contractual right. This may create or remove shares.

Assignment

The writer is notified that the obligation must be fulfilled.

> An option does not have to be exercised. Many positions are closed before expiration by trading the same contract in the opposite direction.

The option can become a share position

Exercise and assignment can create large capital consequences.

LONG CALL EXERCISED

Buy 100 shares

The holder may buy 100 shares at the strike price.

SHORT CALL ASSIGNED

Sell or deliver 100 shares

The writer may have to deliver shares at the strike. Without shares, a short-stock position or broker action may result.

LONG PUT EXERCISED

Sell 100 shares

The holder may sell shares at the strike. Without shares, broker treatment can differ and may create a short position.

SHORT PUT ASSIGNED

Buy 100 shares

The writer may have to purchase 100 shares at the strike price.

Expiration handling, automatic exercise, capital requirements and broker actions vary. Understand your broker's rules before holding a stock option through expiration.

How obligations may be covered or limited

The structure changes risk. It does not remove risk.

COVERED CALL
Short call + 100 shares

The shares can cover the delivery obligation. The position still carries stock downside risk and limits upside above the strike.

CASH-SECURED PUT
Short put + reserved cash

Cash is held to buy shares if assigned. The position can still lose substantially if the stock falls.

UNCOVERED SHORT CALL
Obligation without shares

Loss can be theoretically unlimited if the stock rises. Premium received does not make this low risk.

DEFINED-RISK SPREAD
Long option limits short risk

A second option can cap risk and reward. Complexity, liquidity and assignment considerations remain.

> “Covered” or “cash-secured” describes how an obligation is supported. It does not mean the overall strategy is safe or suitable.

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How to read an option chain

Every row is a different combination of strike, time, price and sensitivity.

ILLUSTRATIVE OPTION CHAIN - NOT LIVE MARKET DATA

STRIKE	BID	ASK	DELTA	VOLUME	OPEN INTEREST	COMMENT
290	20.80	21.60	0.68	148	1,220	ITM / higher premium
300	15.20	15.80	0.57	406	2,980	near ATM
310	11.60	12.40	0.46	212	2,140	example contract
320	8.10	8.90	0.36	103	1,670	OTM / lower premium

Do not read only premium

A lower price may simply mean lower delta, less intrinsic value or a more distant strike.

Check the expiry

The same strike at another expiration is a different contract with different time value.

Check the spread

A liquid-looking chain can still contain individual strikes with poor execution quality.

Common beginner mistakes

The contract can be understood - and still be used badly.

Forgetting the multiplier

Reading a $12 premium as a $12 total cost instead of $1,200.

Buying the cheapest strike

Lower premium can come with lower delta, weaker liquidity and a lower probability of finishing in the money.

Ignoring expiration

A strong thesis can fail inside a contract that expires too soon.

Confusing break-even with target

Break-even is an expiration calculation, not a forecast.

Ignoring implied volatility

An expensive option may lose value after an event even when the stock direction was right.

Using market orders in wide spreads

Execution price can become a meaningful hidden loss.

Selling premium without mapping assignment

The premium is limited; the obligation may be large.

Treating one contract as automatically small

One contract can represent substantial premium, leverage or a 100-share obligation.

> Most beginner errors are not calculation errors. They are failures to connect the contract to time, capital and obligation.

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A repeatable contract-review workflow

The purpose is not to trade more. It is to reject unsuitable contracts earlier.

1. Define the underlying thesis
2. Choose call, put or no option
3. Select a realistic expiration
4. Compare strikes and moneyness
5. Multiply premium by the contract multiplier
6. Check bid/ask, volume and open interest
7. Map maximum loss and assignment risk
8. Check DTE, delta, theta and vega
9. Measure portfolio and concentration impact
10. Decide manually - or stand aside

Final question

What has to happen, before when - and what is the maximum cost if I am wrong?

Stop rule

If you cannot explain the obligation, expiration consequence and maximum loss in one minute, the contract is not yet understood.

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A good idea still needs the right contract

CSE separates market direction from contract suitability and portfolio fit.

UNDERLYING
Thesis + timing
Is the market idea itself defensible?

CONTRACT
Option Feasibility
Does this strike, expiry and premium fit?

PORTFOLIO
Risk + capacity
Does the exposure fit the wider account?

Option Feasibility reviews

- Total premium and contract multiplier.
- DTE, delta and liquidity context.
- Bid/ask spread and execution quality.
- Size regime and available capital.
- Warnings and fail-closed conditions.

Smart Alternative Finder reviews

- Other strikes or expirations.
- Lower premium or better spread.
- More time when timing is uncertain.
- Defined-risk structures where appropriate.
- The valid outcome: no suitable alternative.

CSE principle:
A good underlying setup can have a bad option contract. A feasibility fail is a judgment about the contract in context - not a judgment about the company.

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Glossary, sources and disclaimer

Public education - version 1.0 - August 2026.

Glossary

Assignment
The writer is required to fulfil the option obligation.

Call
A contract giving the holder the right to buy.

DTE
Days remaining until expiration.

Exercise
The holder uses the contractual right.

Intrinsic value
The amount by which an option is in the money.

Long
The option was bought.

Premium
The option price, normally quoted per share.

Put
A contract giving the holder the right to sell.

Short
The option was sold or written.

Strike
The contract price at which shares may be bought or sold.

Time value
Premium beyond intrinsic value before expiration.

Writer
The option seller who accepts the obligation.

Primary references

SEC Investor.gov - "An Introduction to Options"

Options Clearing Corporation - "Characteristics and Risks of Standardized Options"

Options Industry Council - Options Basics and strategy education

Cboe - Equity Options Specifications

CSE Capital - Option Decision OS User Guide v1.1

Important disclaimer

This guide is educational and informational only. It is not financial, investment, tax or legal advice; not a recommendation; not a trading signal; and not an offer to transact. Examples are illustrative and exclude fees, taxes and broker-specific treatment. Options involve risk and are not suitable for all investors. You remain responsible for validation, suitability, risk and manual execution.

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