

Right stock 'Options' Key to Risk-Free Buying and Selling

An option gives you the right of buying and selling. It however need not be an obligation to accomplish a deal. You can always choose to let the expiry date of the option go, after which the option has no value. If you let the period expire, you let go the entire amount that you invested to book the asset. The underlying assets in most cases are either stock or index funds.

Options are classified as 'calls' and 'puts'. 'Call' refers to the right of the holder to buy an asset within certain period at a particular price; 'calls' have a long position on the stock. 'Call' buyers hope that the prices of the stock in which they invested increase rapidly before the expiry of the option.

A 'put' is the right of the buyer to sell an asset within certain period at a particular price; 'puts' have a short position on the stock. 'Put' buyers hope that prices of the stock decreases rapidly before the expiry of the option.

There are several advantages of choosing right options. An investor must use options specifically to speculate and hedge.

Speculation: When you are speculative, you do not make profits only when the market is buoyant, but also when it is down. Speculation efficiently enables you to track the direction in which the stock is moving and determine the movement's timing and magnitude. Consequently, you get a fair idea about how much is the stock's price likely to change and within what time frame. Hence, there are chances of your predictions being right and you make really big bucks.

When you are a large institution and control as large as a hundred shares with one contract, you are bound to book substantial profits with the slightest upward movement in process. With the right options you are sure to hit big time.

Hedging: Options offer excellent hedging mechanisms that serve almost like an insurance policy for the underlying stock. You can insure your stock against any downturn in the market just as you can insure any other asset of yours such as car, house, and even your life.

In financial terms, hedge refers to an investment that is made to minimize the potential risks in another investment. Hedging means a strategy that is specifically designed to limit a stock's exposure to any sort of business risk, while allowing the business to continue to reap benefits from the investment.

A hedger may invest in a security that, according to him, is under-priced in relation with its fair value, and then combine it with a short sale of one or more related securities. The hedger, therefore, is concerned only with under-priced security and its appreciation in relation with the market.

Some risks are inherent for specific businesses and are inevitable. For instance, fluctuations in oil prices are inevitable for oil companies, as the price of crude is benchmarked to international prices. However, other risks are unwanted and must be hedged; for instance, inventory in a shop must be hedged against fire or any other disaster through a fire insurance or other suitable contracts.

Hence, choose the right options to limit the downside and leverage on the upside of your securities.

About the Author

Normal 0 false false false MicrosoftInternetExplorer4 /* Style Definitions */ table.MsoNormalTable {mso-style-name:"Table Normal"; mso-tstyle-rowband-size:0; mso-tstyle-colband-size:0; mso-style-noshow:yes; mso-style-parent:""; mso-padding-alt:0in 5.4pt 0in 5.4pt; mso-para-margin:0in; mso-para-margin-bottom:.0001pt; mso-pagination:widow-orphan; font-size:10.0pt; font-family:"Times New Roman"; mso-ansi-language:#0400; mso-fareast-language:#0400; mso-bidi-language:#0400;} William King is the director of Canadian Wholesalers and Dropshippers Dropshipping Directory: <http://www.wholesale-canada.com> , UK Wholesaler: <http://www.uk-wholesaler.co.uk> , Dubai & UAE Property & Real Estate Portal: <http://www.bayut.com> , Pakistan Property & Real Estate Portal: <http://www.zameen.com> . He has 18 years of experience in the marketing and trading industries and has been helping retailers, entrepreneurs and startups with their product sourcing, promotion, marketing and supply chain requirements.

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