

STOCK AND INDEX OPTION

Chapter 1:

Understand the dynamics of the Options Market in India — an overview provided in the Derivative and, Stock and Index Research section which included the following information:

Introduction to Stock and Index Option:

- Meaning of Stock Option
- Meaning of Index Option
- Spot Price (S)
- Strike Price (X/K)

Chapter 2:

Understand the various types of options available for trading along illustrations provided in the stock and index research section.

Types of Options:

- Call option on a stock
- Call option on an index
- Put option on a stock
- Put option on an index
- American Style Option
- European Style Option

Chapter 3:

Once the basic of Options is clear one must then move towards understanding the relation between the strike and spot price provided in the derivatives and, stocks and index options research section:

Moneyneess' of an Option:

- Out of the money option:
- In-the-money option:
- Near or at the money:

Chapter 4:

Understand the various terms used to denote the price or the value of the option provided in the derivatives section:

- Premium (Value of Option)
- Intrinsic Value

Chapter 5:

Understand the options pricing model using the Black-Scholes Model provided in the derivatives section

Chapter 6:

Understand the various trading aspects of stock and index options provided in the research and quotes section.

Specifications of Options:

- Available Contract Months
- Strike Price/Exercise Price
- Lot Size/Contract Multiplier
- Tick size
- Margin System
- Settlement of the option on exercise/expiry

Chapter 7:

Once the trading specifications are clear, before trading one must try to track a stock or index. One must look out for the following aspects provided in the research and quote section:

Determinants of options pricing:

- Price of the underlying stock or index
- Strike price/exercise price of the option
- Time to expiration of the option
- Risk-free rate of interest
- Volatility of the price of underlying stock or index
- Overview
- Market performance

Chapter 8:

After tracking one stock or index later try to track another stock or index (probably from another sector) and compare the two in terms of it's:

- Volatility
- Lot size
- Volume

Chapter 9:

After understanding how a stock or index moves one can then start trading on the simulator by passing orders. Notice the profits and losses on a daily basis and how investment in that stock or index affects your portfolio. If you want you can invest in more than one stock or index option.