Put Options

Put options (or "puts") give you the right, but not the obligation, to sell an underlying security at a specific price for a fixed period of time. Traders may buy puts when they believe an underlying security (e.g., a particular stock or an index) will fall in price. If they wish to sell the underlying security, they must do so before the option expires on a predetermined expiration date. The financial risk of buying a put is limited to the premium paid for the option. If the option expires worthless, the premium will be lost (assuming the put option was not sold to another trader prior to expiration). If the price of the underlying stock or index moves lower, that is to say, below the strike price, the put buyer can make a profit.

If you own a put options you can:

- You can let the option expire worthless.
- You can exercise your right to short the market.
- You can sell put options.

A put seller, also called the "writer", takes on the obligation of buying an underlying security from the put buyer at a predetermined strike price, up until a specified expiration date. Put sellers make money by collecting option premiums from put buyers. If a put expires worthless (i.e., if the put buyer cannot exercise the put option at a profit), the put writer keeps the premium.

A simple example illustrates how puts may be used:

> Assume the current price of a particular stock is $40. Also assume that you buy a put, which gives you the right, but not the obligation, to sell the underlying stock to the put writer at a strike price of $36. You have the right to sell the stock at that price, as long as the put has not yet expired, say for three months from today. For acquiring this right, you paid a premium of $1 per contract (i.e., per 100 shares of the underlying stock).
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> If after some time the stock has declined to $30, you may choose to exercise your put option. The put seller must buy your stock for $36. (You could at this point buy it back for $30, pocketing the difference as your profit). In this case, by investing $1 you are making $6 (600%).
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> On the other hand, if the stock moves up instead of down, say to $45, your put will expire worthless. In this case, you lose the premium you paid for the option while the put seller keeps the

premium he or she received from you.