Options parent guide

You do not need to be an expert to read this book together. Your job is to ask how the explanation works and give the learner room to think.

What this book helps explain

Separate an option's contractual payoff from the buyer's profit and the writer's risk.

Three short conversations

First, ask: A call finishes $2 in the money. Is its buyer guaranteed a profit?

Next, read “A call is a ticket to buy” together. Ask the learner to draw the idea and explain one unfamiliar term. Use the glossary rather than guessing.

Then use the activity below. Let the learner try before reading the answers on the next page. Ask what information would change the answer.

Try it together

Use a fictional call with a $50 strike, a $3 premium per share and a 100-share multiplier. At expiry, calculate the payoff and buyer's profit when the stock price is $45, $52 and $60. Ignore fees and taxes. This is paper arithmetic, not a trade.

1. What is the buyer's profit at $45?

2. What is the buyer's profit at $52?

3. What is the buyer's profit at $60 and the expiry break-even price?

A small activity at home

Explain the difference between buying a right and selling a promise using a pretend ticket. Do not open or use a brokerage account for this exercise.

Options conversation notes

Answers to discuss

1. Payoff is zero; the buyer loses the $300 premium.

2. Payoff is ($52 - $50) × 100 = $200; profit is $200 - $300 = -$100.

3. Payoff is $1,000 and profit is $700. Expiry break-even is $50 + $3 = $53 per share.

Listen for this distinction

Being in the money does not mean the premium has been recovered.

Useful follow-up

For a $50-strike put costing $3 per share, derive max(50 - stock price, 0) × 100 - 300. At $40 the buyer's profit is $700.

When the explanation is unclear

Ask “Which part are we sure about?” and “Can you show me with a smaller example?” Say when you do not know. Read the relevant chapter together and check its sources if the question goes beyond the example.

Signs of understanding

The learner can explain the idea in their own words, use a diagram or example, and say one thing the example does not prove. Repeating the book word for word is not the goal.

Keep the conversation comfortable

Use fictional people and amounts. Do not require personal disclosures. Short sessions are enough; stop before frustration turns reading into a test.

Reading route

A call is a ticket to buy; Worked example one the call; The writer has the other side of the risk

Companion to Options: NOW It Makes Sense by Sonny Saggar. First edition. This guide uses original supplementary teaching examples.