

OPTIONS CONTRACTS

Understanding Intrinsic Value

Caleb Bettcher

and CLAUDE... of course

Buying a Call

Bullish strategy — right to BUY shares at the strike price

THE SETUP

Stock (AAPL): **\$150** • Strike: **\$145**

Premium Paid: **\$3.00/share (\$300 total)**

Contract = 100 shares

INTRINSIC VALUE

per share

TOTAL VALUE

100 shares × \$5

PREMIUM PAID

\$300

cost to enter

NET PROFIT

if exercised now

Buying a Call

Bullish strategy — right to BUY shares at the strike price

THE SETUP

Stock (AAPL): **\$150** • Strike: **\$145**

Premium Paid: **\$3.00/share (\$300 total)**

Contract = 100 shares

INTRINSIC VALUE

Stock Price – Strike Price

\$150 – \$145 = \$5.00 ✓ In-The-Money

INTRINSIC VALUE

\$5.00

per share

TOTAL VALUE

\$500

100 shares × \$5

PREMIUM PAID

\$300

cost to enter

NET PROFIT

+\$200

if exercised now

💡 This option is ITM by \$5 — you could buy at \$145 and immediately sell at \$150 market price.

Buying a Put

Bearish strategy — right to SELL shares at the strike price

THE SETUP

Stock (TSLA): **\$80** • Strike: **\$95**

Premium Paid: **\$4.00/share (\$400 total)**

Contract = 100 shares

INTRINSIC VALUE

per share

TOTAL VALUE

100 shares × \$15

PREMIUM PAID

\$400

cost to enter

NET PROFIT

if exercised now

Buying a Put

Bearish strategy — right to SELL shares at the strike price

THE SETUP

Stock (TSLA): **\$80** • Strike: **\$95**

Premium Paid: **\$4.00/share (\$400 total)**

Contract = 100 shares

INTRINSIC VALUE

Strike Price – Stock Price

\$95 – \$80 = \$15.00 ✓ **In-The-Money**

INTRINSIC VALUE

\$15.00

per share

TOTAL VALUE

\$1,500

100 shares × \$15

PREMIUM PAID


\$400

cost to enter

NET PROFIT

+\$1,100

if exercised now

 Stock dropped from \$95 to \$80. Your put lets you sell at \$95 while the market is at \$80 — \$15 of pure intrinsic value.

Selling a Covered Call

Neutral/Slight Bullish — selling a call against shares you ALREADY OWN

THE SETUP

Stock (NVDA): **\$130** • Strike: **\$120**

Premium Collected: **\$5.00/share (\$500 total)**

You already OWN 100 shares of NVDA

INTRINSIC VALUE (against you)

Stock Price – Strike = $\$130 - \$120 = \$10$

Buyer exercises → you deliver your shares at **\$120**

PREMIUM COLLECTED

+\$500

upfront credit

OPTION ITM BY

\$10.00

per share

SHARES SOLD AT

\$120

not \$130 market price

NET P&L

+\$500

premium keeps the gain



You cap your upside at \$120, but your owned shares cover the obligation. No catastrophic loss risk — you just miss gains above \$120.

Selling an Uncovered Call

Neutral/Bearish — selling someone else the right to buy shares you don't own

THE SETUP

Stock (NVDA): \$??? • Strike: \$120

Premium Collected: **\$5.00/share (\$500 total)**

You OWE this option — you don't own the stock!

PREMIUM COLLECTED

+\$500

upfront credit

OPTION ITM BY

per share against you

LOSS EXPOSURE

\$120 × 100 shares

NET P&L

if exercised now



Jensen Huang



Stock (NVDA): **\$240**

Selling an Uncovered Call

Neutral/Bearish — selling someone else the right to buy shares you don't own

THE SETUP

Stock (NVDA): **\$240** • Strike: **\$120**

Premium Collected: **\$5.00/share (\$500 total)**

You OWE this option — you don't own the stock!

INTRINSIC VALUE (against you)

Stock Price – Strike = $\$240 - \$120 = \$120$

Buyer exercises → you must buy at \$240 to deliver at \$120

PREMIUM COLLECTED

+\$500

upfront credit

OPTION ITM BY

\$120.00

per share against you

LOSS EXPOSURE


-\$12,000

$\$120 \times 100$ shares

NET P&L

-\$11,500

if exercised now

 Theoretically unlimited loss — stock has no upside price cap.
Margin required by broker.

Iron Condor

Neutral strategy — profit when stock stays within a range

THE 4 LEGS (SPY @ \$450)

BUY PUT

\$420

Floor — caps max loss

SELL PUT

\$430

Short put — collect premium

SELL CALL

\$470

Short call — collect premium

BUY CALL

\$480

Ceiling — caps max loss



Qs