3 Buying Calls

This chapter assumes you are familiar with the basic concepts of options discussed in chapter 1.

3.1 Advantages of Long Calls

This is the easiest to understand of all option strategies, and is probably the most commonly used. The primary appeal of buying call options is *leverage*. If you purchase your calls wisely, a large percentage return can be obtained. If the stock does not move as you hope, your total lost is limited to the amount you spent on the call. Since this is always a much smaller amount than you would spend on an equivalent amount of stock, buying calls holds great appeal.

Example

Gorski's Silverado Mines shares are selling for $58, and a six-month, $60 call is selling for 3-points. For the modest investment of $300, you can share in any profits generated by the shares for a period of six months. Should Gorski's Silverado shares rise to $68, your call would be worth around $800. This is 167% profit from a share price increase of 17%. You can see the appeal of this, I'm sure.

On the other hand, if Gorski's shares were to drop to $48, and stay there until expiration, you would lose your entire investment of $300. But the purchaser of 100 shares of Gorski's at $58 would have lost $1,000. I'm sure you can see the appeal here too. Even though you have a 100% loss, the dollar amount is small.

Another common use of long calls is to "lock-in" the price of a stock:

Example

Shares of Dotties Dainties are selling for $28. You feel these shares are poised for a huge movement to the upside, but most of your investible cash is tied up in a bonds which will mature in two months. You buy 5 $30 calls for 2-points each which expire in 3-months.

Fast forward two months, and your bonds mature, giving you $15,000 in cash. Shares of Dotties Dainties are now selling for $60, and still represent a good value. You exercise your calls, and obtain shares valued by the market at total of $30,000 for $16,000, excluding commissions.

Note that you must include the price you paid for the calls in the calculation of your stock basis (this is also the amount you report to the IRS). Since you paid 2-points for the calls, your effective share price is $32, for a total of $16,000 for 500 shares.

You can use variations of this strategy:

EXAMPLE

Shares of Dotties Dainties are selling for $28. You can't afford them, but are sure they represent a great opportunity. You buy 10 $30 calls for 2-points each, which expire in 3-months.

As before, in two-months the shares have risen to $60. Your calls are now worth 33-points. You sell half of your calls for $3,300 each. Now you have enough money to pay for the exercise of your other 5 calls. You have essentially obtained 500 shares of Dotties Dainties without using any of your own money.

3.2 Disadvantages of Long Calls

While the potential returns from long calls may be exciting, it is very hard to do well. You must be right about the underlying stock and the market must also agree with you before the expiration date of the call. To pick the right stock is certainly one of the most difficult challenges an investor faces, and timing the market is notoriously difficult. Most option strategies try to remove some of the precision required for picking stocks. But buying a call, even more than buying stock, leaves no room for error.

It is also possible to buy the wrong call on the right stock. The stock may rise, but for reasons mysterious to the investor new to options, the call does not cooperate. The apparent simplicity of the strategy is deceptive. There are subtleties to buying calls which you ignore at your peril.

3.3 General Considerations for Stock and Call Selection

The best friend you have when you buy calls is the underlying stock. No matter what call you purchase, if the underlying stock does not increase in price, your call won't either. While the long-term shareholder can wait patiently for their profits, the call buyer does not have this luxury. It will do you no good to see the stock rise after the call has expired. The fundamentals of the stock are important as always, but to be right with a call, there must be also be a catalyst which will move the share price. Typical examples are patent case rulings, or FDA approvals of new drug applications. Cyclical industries can provide

opportunities, particularly for long term calls. Increased market volatility will increase the price of your calls, but it is impossible to know when she will pay you a visit.

The returns from out-of-the-money calls are potentially much larger than from in-the-money calls. But to actually put this money in your pocket, the stock price must appreciate. So while the in-the-money call's returns are smaller, they are also more likely to be realized.

Do not make the common and potentially serious mistake of buying a call based on its price. Out-of-the-money calls always have smaller premiums than in-the-money calls. It may cost you less, but with an out-of-the-money call, you are spending all of your money on time value, which can evaporate even as the stock increases. When you purchase an in-the-money-call, you are buying at least some intrinsic value.

Example

Shares of Xaio-Mei's Worthy Pens are selling for $45 a share. The six-month $40 call sells for 7-points and the six-month $50 call sells for 3-points. If Xaio-Mei shares take almost 6-months to advance to $49, the buyer of the $50 calls are certain to experience a loss, because of time-value decay. However, the in-the-money $40 calls will have increased point-for-point with the stock, and will sell for slightly more than $9, the intrinsic value of the call option.

Obviously, the in-the-money call is much less risky. The shares would have to drop 5-points by expiration before the $40 call buyer would lose their investment. But the out-of-the-money buyer must rely on the stock appreciation to merely break-even. Obviously, the probability of a complete loss is much greater with an out-of-the-money call.

3.4 Specific Considerations for Call Selection

3.4.1 The Delta of an Option

Let's review the basics of time value and time value decay:

1. Time value is highest at the strike price.
2. Time value is smallest when the option is deep-in-the-money or deep-out-of-the-money.
3. Time value decay is not linear — the rate of decay increases as the option nears expiration. Most of the decay is in the last few weeks of the options life.

If any of this is unclear or unfamiliar, please review subsection 1.2.3 on time value and especially subsection 1.2.5 on time value decay.

The **delta** of an option is considered an advanced concept, with mathematics to match. However the basic idea is simple:

> The **delta** of an option is the amount by which the call's premium changes as the underlying stock moves up and down in price.

For example, if a call option premium goes up $0.50 each time the underlying stock goes up $1.00, the delta of that option is 0.50.

While the mathematics behind the delta are forbidding, there is a simple geometrical explanation that is easy to understand. If you were to lay a ruler along the option price curve and draw a line with a pencil so that it intersects the price curve at a single point, then the steepness, or *slope* of the penciled line is the delta of the option at that point[1].

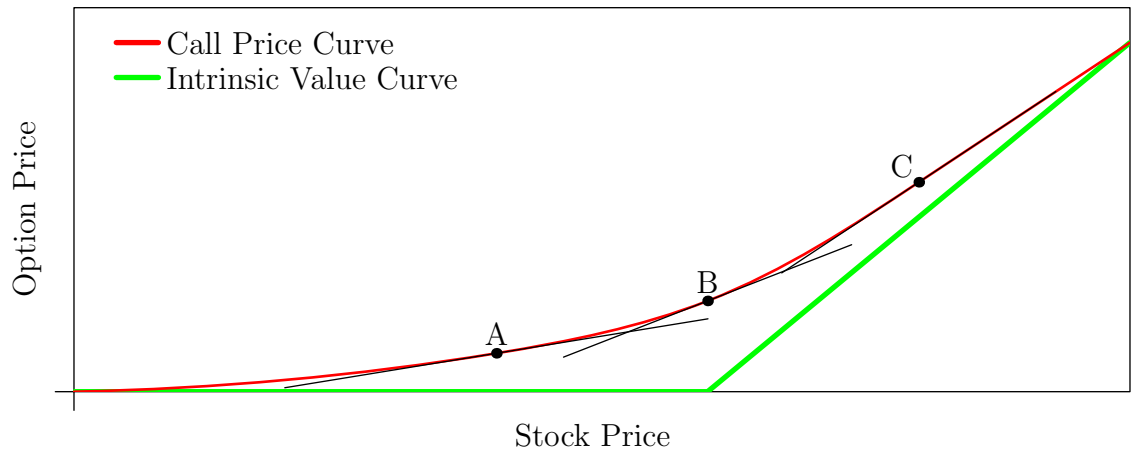

Figure 3.1: Option Price Curve (red) with intrinsic value line (green) and deltas at points "A", "B" and "C".

You can see this in Figure 3.1. The slope of the line at point "A" is much less steep than the line at point "C". "A" is closer to the horizontal part of the intrinsic value line, while "C" is closer to the angled part of the intrinsic value line. Point "B's" slope lies somewhere between them. All intrinsic value line's have a slope of zero below the strike, and a slope of one above it. Since the price curve almost merges with the intrinsic value line at its end-points, both lines must have nearly the same slope at these points. This makes it easy to estimate the delta for these cases, which correspond to the option being deeply-in-or-out-of-the-money. For the deep-out-of-the-money case (at the far left of the curve), the delta must be nearly zero. For the deep-in-the-money case at the far right, the delta must be nearly one. At the strike, which has a slope between the two, the delta will be around one-half[2].

This means that the premium of a deep-in-the-money call, with a delta of very nearly one, will move nearly in tandem with the stock. If the stock moves up by one point, the

[1] You may remember from your math courses that the pencil line is also called the **tangent** to the curve.

[2] The mathematically inclined reader has probably noticed that the delta is just the first derivative of the option's price curve function. The mathematics of the price curve involve differential equations which are reasonably interesting, but a discussion of such topics doesn't belong here.

option premium will move nearly one-point up. On the other hand, a deeply out-of-the-money call, whose delta is nearly zero, will move very little even if the stock moves several points up or down. It takes a large movement in the stock to budge the premium of a deeply out-of-the-money call. When a call is at-the-money (delta of about 1/2), a one point movement in the stock would cause a 1/2-point move in the option premium.

The delta of an option changes constantly, microsecond to microsecond, as the stock price changes. In practice, you can assume that for most cases, the delta of an option remains constant over the short term. This works because for the typical option price curve, a sufficiently small section of the option price curve is very close to a straight-line, which has a constant slope.

The delta is a useful piece of information for the call buyer who wants to profit from a short-term movement by the stock:

Example

You find a stock which is selling for $27.50 and you are expecting it to rise quickly, but not very far. Should you buy a $25 call for 3.5-points or a $30 call for 1-point? The stock price, being precisely between the two strikes, is not much help. You take a look at the deltas of each call: the delta of the $25 call is 0.625, while the delta of the $30 call is 0.25.

Let's ask ourselves what would happen to the calls if the stock rose to rapidly to $29. This is a 1.5 point increase in the stock. The $25 call would therefore increase by $1.5 \times 0.62 = 0.9375$, and now be worth $3.5 + 0.9375 = 4.44$.

The same 1.5 increase in the stock would cause the $30 call to increase by $1.5 \times 0.25 = 0.375$ making the call worth 1.38-points. This is an increase of almost 38%. In this case, the out-of-the-money call would be a better investment. (Commissions are omitted here for the sake of clarity, but should be included in a real example.)

3.4.2 The Time Frame of the Investment

Both the delta and the relationship of the strike price to the stock price need to be considered in relationship your "time horizon" — the amount of time you are willing to hold the investment.

Short Term Horizon

Perhaps surprisingly, options are a very poor vehicle for day trading. By definition, a day traders position is held for less than a day, and so they need to profit on quick movements of their purchases. If you are a day trader (I am not), avoid options like the plague. While the leverage you can get may be appealing, the chances of an option moving in your favor in one day are slim.

If this doesn't dissuade you, then you need to select a near-term, in-the-money option with the highest possible delta — 0.90 or higher. An out-of-the-money option will never respond quickly enough for you to profit in this scenario.

If your view is slightly longer term, say a week or two, it may be worthwhile experimenting with options. When your time horizon is at least a week or longer, holding the option will soften the blow of a downside surprise. I've done this once or twice when I was also expecting a strong catalyst to materialize which would move the stock and had good results. Once again, you should focus your attention on near-term, in-the-money options, with a delta of at least 0.80.

Intermediate Term Horizon

Moving your time horizon out to a couple of months or more means that you might be able to take advantage of a somewhat larger movement in the stock. In this case, using an option with a lower delta will limit your risk, and an at-the-money option would be appropriate. Out-of-the-money options, which would have even lower deltas, should still be avoided in this case.

Long-term and Very Long-Term Horizon

Even lower deltas will be used in this case. This is the closest analogue to stock purchasing, and the success of this strategy will depend more on the fundamentals of the company and less on near-term catalysts. LEAP calls, which have expiration dates a year or two away, should definitely be considered[3] Even when using LEAPS, I generally favor in-the-money calls, and usually the deeper-the-better, since I prefer purchasing minimal amounts of time-value. In some cases, an at-the-money option or even a *slightly* out-of-the-money call may be purchased with a reasonable chance of success.

Paying a lot for a very out-of-the-money LEAP is a classic way to lose money on options. Even if the stock moves as predicted, due to the money you spent on the time-value of the option, it can be an up-hill battle to profitability. I learned this lesson the hard way when I first began experimenting with options. Take a tip from the jockey, and avoid getting yourself into this situation.

3.5 Up to the Minute Summary

- Buying calls is an apparently simple strategy, with large potential returns due to leverage. The dollar losses tend to be small.

- You can buy calls to "lock in" the price of a stock you want to buy.

[3]LEAPS are very similar to the shorter term options, but have some differences. LEAPS are covered in chapter 13.

- When buying calls, you must be right on both the stock and the time frame. It is not a very forgiving strategy.
- You can buy the wrong call on the right stock.
- Volatility can help improve the price of your calls.
- Out-of-the-money calls have greater risk and also greater potential profit.
- An in-the-money call has lower risk and lower profit.
- There is more chance of actually realizing a profit with an in-the-money call than with an out-of-the-money call.
- As always with options, buy as little time value as possible.
- The delta of an option is the amount the premium will advance for a corresponding change in the stock.
- The delta can be useful to a call buyer who wants to profit from a short-term movement by the underlying stock.
- The time horizon of your investment is how long you intend to hold it.
- The time horizon places constraints on both the delta and the relationship of the stock price to the strike price of the option you should buy.
- The general rule is that the shorter your time horizon, the higher the delta should be. It is safer to buy in-the-money options in all cases, but it is more important to buy in-the-money options when your time horizon is short.
- Long term positions can be established with LEAP call options. These expire in a year or two. With these options, a lower delta and perhaps a slightly out-of-the-money option can be tried.

3.6 You Bought the Call, Now What?

Tactics exist that can reduce your losses, or enhance your profits, depending on which way the stock moves. Note that some of these involve converting your call purchase to a spread, which requires trading in a margin account and sufficient option permissions. Do not enter a long call position and assume that you can use all of these tactics without checking with your broker first.

3.7 Actions to Take On a Price Decline

The easiest thing to do when the underlying stock drops is to cut and run. Particularly if your time-horizon is short, this may be the best thing to do. Profiting on short-term movements of stock is always fraught with peril, and if the stock has entered a decline, you should seriously consider taking your current loss before it gets worse. Depending on how long you have before expiration, there are other things you can try.

3.7.1 Averaging Down

Here's a situation many call buyers find themselves in:

EXAMPLE

You bought a July at-the-money $25 call in January for 3-points, hoping to win if the stock moved up quickly. If your call moves to $28, you will be at break-even — everything after that is "pure profit". One month later, the underlying stock has dropped to $22 and the call is now 1.5-points. You now have a loss in the position.

A typical response to this situation is to **average down** by buying more $25 calls at 1.5-points. The new calls have a break-even point of $26.50. Just to reach the new break-even point, the stock must make over a 20% move. This is probably not very likely. Even if it happens, have you really improved your position? Not by much, if any. You would have been better off to just close the position and accept the $150 loss.

3.7.2 Convert to a Bull Call Spread

An approach with better chances of success is to convert the call to a **bull spread**. Bull spreads are covered in more detail in chapter 4. But since this is a useful tactic when you are looking at a loss with a long call, I'll deal with it briefly here. The name of this spread comes from its more common use when you are optimistic about a stock. It has other uses, as you will see:

EXAMPLE

As before, you bought a July at-the-money $25 call in January for 3-points, with the shares falling one month later to $22, and the call falling to 1.5-points. In order to break-even, you need the stock to move to $28 by expiration. This is a 27% change in the stock, which seems improbable. You find a July $20 call which is selling for 3-points. You take the following steps:

1. Buy one July $20 call for 3-points.

2. Sell your original $25 call for 1.5-points.

3. Sell a new $25 call for 1.5-points.

Note that this transaction was done for even money, before commissions. For optimal results, *you must be able to do this for nearly zero additional costs.*

You are now long one July $20 call, and short one July $25 call. Since you got it for zero additional costs (excluding commissions), you haven't spent any more money. Think of it as a brand new position, which cost whatever you spent to buy the original long call ($300, in this example). This is not a naked call, since the short call is "covered" by a long call with a lower strike price.

This new position has a dramatically lower break-even point. If the stock advances by only $1, to $23 by expiration (a move of 4.5%), the July $20 call would be worth $3 while the July $25 would expire worthless. Should this occur, you can then sell the July $20 call for $300, recovering your initial costs. This 4.5% movement is much more probable than the 27% required for the same result with the original position.

The point where you will have a total loss of capital has also been lowered. The original position, with the $25 long call, loses everything below $25. With the spread, you lose everything if the stock drops below $20. As long as the July $20 remains above $20 by expiration, you can get at least some money back by selling the call.

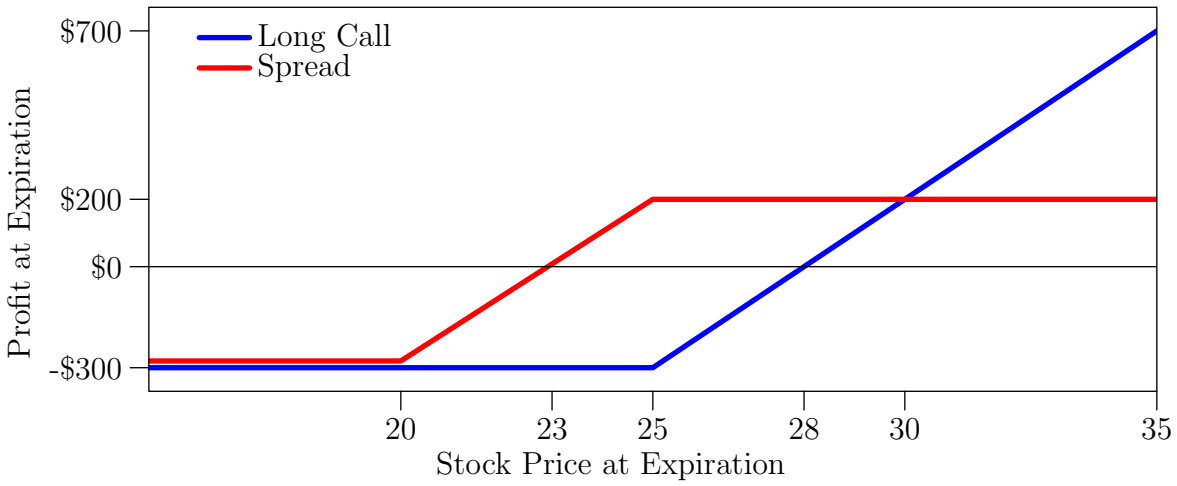

Figure 3.2: Comparison of original call purchase with spread.

If you take a look at Figure 3.2, which compares the profit graphs for both positions, you can see clearly what you have given up for the increased downside protection. While the original position had unlimited profit potential, as shown by the blue line heading off into infinity, the most you can make from the new position is $200 less commissions. To

understand why, consider what happens if your stock rallied to $26 by expiration. At that time, the $20 call would be worth 6-points, which you can sell for $600, leaving you with a $300 profit after you subtract your initial costs of $300. But the $25 short call would now be in-the-money, and sell for 1-point. You would have to buy this back, which reduces your profits to $200. This will be true for any price over $25 — for every point you gain in the long call you lose a dollar in the short call.

Both positions return the same profits at a stock price of $30, where the lines cross. Everywhere below that, the spread does the same or better than the original position.

You will not always be able to turn your your long call into a spread for even money — sometimes a debit will be incurred. When you are already in a losing position, it can be difficult to spend more money on it. The fact that your hopes of a quick profit have been dashed doesn't help. Hold your emotions at bay as much as possible, and evaluate the position rationally. The new position may give you better chances than the original. If so, you will be better off spending the extra money.

3.7.3 Converting to a Calendar Spread

Shorter term options may exist with the same strike price as your long call. If this is the case, you can try selling one of these, hoping that it will expire worthless. This would allow you to capture the premium and offset your losses on the long call. A position like this — a long and a short option with the same strike, but different expiration dates, it is known as a **calendar spread**.

Example

As before, you have a July $25 call you bought for 3-points now selling for 1.5-points, with the stock selling for $22. You find a March $25 call for 1-point. By selling the March $25 call, you can reduce your loss from 1.5-points to 1/2-point. Since you still own the long call, if the stock recovers after the expiration of your short call, you may be able to exit the position with no loss, or perhaps even a profit.

This strategy has dangers. Its success depends on the short-term call expiring worthless before the stock recovers. Trying to "time" short-term moves is either difficult or impossible, and in this case, can result in you having two losing positions instead of one. To see this, consider the situation you would be in if the stock increases to $27 by March expiration:

	Option Premium	Gain (loss)
March $25 Call	2	(1)
July $25 Call	2.5	(0.5)

To avoid exercise, you must now buy back your March call at a loss of 1-point. You still have a losing position in the July call. In fact, your position is the same as before, except

that you have spent additional money on commissions. This can not happen with the bull call spread. Converting to a spread or closing your position is probably better than the calendar spread.

3.8 Up to the Minute Summary

- Cutting your losses is often the best course of action when you have a loss on a long call. This is particularly true if your time horizon is short.
- Averaging down means buying additional calls for a lower price. This is generally not advisable.
- You can convert to a bull spread. If you have time left in your calls, this may be the best option.
- To convert a long call to a bull spread:
  1. Buy a call with the same expiration date but a lower strike price.
  2. Sell your original call.
  3. Then sell another call with the same expiration and strike price as your original long call.
  4. You should spend as little as possible for this new spread. Ideally, your costs should be zero.
- The new spread will typically give you much lowered break-even and maximum loss points.
- You have the possibility of profits, but they are now capped by the spread.
- Even if you have to spend extra money to enter the spread, it may be worth it. Evaluate the situation as rationally as possible.
- If you have time left until expiration, another possibility is to convert your long call to a calendar spread.
- To enter the calendar spread, sell a shorter term call with the same strike as your original call. The premium from this will help reduce your loss from the original call.
- The calendar spread has problems: If the stock should rally suddenly, you may be faced with a loss on both options.
- The best tactics to use when you have a loss in a long call position are either closing early to accept a smaller loss, or using the spread.

3.9 Actions to Take on a Price Increase

It is not uncommon to find yourself with a long call on a volatile underlying stock which has just made a substantial and quick move upwards. In spite of this, your call premium has not changed by much. The reasons for this are complicated and relate to delta, time decay and volatility. This is a frustrating situation to be in, and there's not much to do except wait or accept a much smaller profit.

But when you find yourself in the happier situation of a premium increase, be willing to take your profits. Don't be shy about taking them early, especially if your goal has been met. The shorter your time-horizon, the happier you should be when you get a quick profit on your long calls.

If you have bought more than one call, taking partial profits can be a smart thing to do. There is some dispute about taking partial profits when you are a shareholder, but options are a wasting asset. So when given the chance to reduce or even earn back your entire option investment and still leave room for profits, it is probably wise to do so. For example, if you sold 6 calls for $2 each (for a total $12), and they have now appreciated to $5, you should consider selling two, three, or even four calls, leaving the rest to "let your profits run".

Unless you bought the bought the long call to own shares, or you can use the call to reduce your cost basis on shares you already own by selling those shares and exercising your call, it is rarely in your interest to exercise the call, due to commission costs. You are usually better off selling the call. On the other hand, if the stock has not appreciated as you expect, but your long-term view of the possibilities for the shares is positive, exercising the call will give you the shares below market, and may be a good long-term plan.

Other possibilities are rolling the call up, or creating a bull spread.

3.9.1 Rolling Up

This can be a very profitable strategy when it works out.

Example

Shares of McKinnon's Instant Haggis, which trade under the ticker PUKE, are selling for $28. You buy a July $30 call for 3-points. The stock quickly rises to $38. Here is the situation at present:

PUKE	$38
July $30 Call (purchased at 3-points)	9-points
July $40 Call (available for purchase)	3-points

You have a profit in the July $30 of 6-points. There are also July $40 calls which sell for 3-points each. You decide to sell your July $30 call, and use your profits to buy two July $40 calls.

This strategy can result in dramatically increased profits when the stock continues to go up. The great appeal of this strategy is that it lets you "play with other people's money". Since you've recovered the full cost of your initial investment, everything you make after this is "free money". However, should the stock get stuck at $40, you would have been better off keeping the profits or trying something else.

3.9.2 Bull Spread

The bull call spread can also be used to improve a winning position.

Example

As before, you buy a July $30 call on PUKE for 3-points, and the shares move quickly to $38:

PUKE	$38
July $30 Call (purchased at 3-points)	9-points
July $40 Call (available for purchase)	3-points

Neglecting commission costs, you can sell one July $40 call and recover your initial investment. This creates a bull call spread, which you hold at basically zero risk — even if the entire position expires worthless, the most you can lose are your commission costs.

Here's a table that shows the profits from the new position at expiration:

Stock	Long July $30	Short July $40	Total Profits
20	0	0	0
30	0	0	0
32	2	0	200
35	5	0	500
40	10	0	1,000
45	15	(5)	1,000

As you can see, you win if the stock closes anywhere above $30 by expiration. The maximum profit is 10-points, because if the stock moves above $40, you will need to buy back the short call. As discussed in subsection 3.7.2, above $40, the losses in the short call will offset additional gains in the long call.

3.10 Which Strategy is Best?

There is no perfect answer to the question of which strategy performs best. The graph in Figure 3.3 compares the various possibilities. The shaded regions above the lines show the

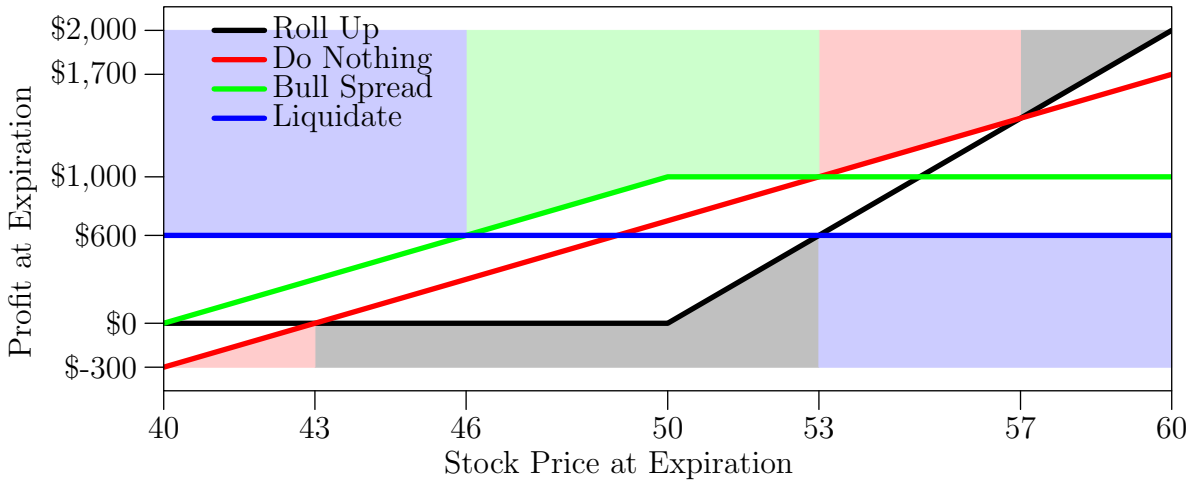

Figure 3.3: Comparing the returns from the various strategies.

best performers for that particular range of stock prices, while the shaded regions below the lines show the worst ones. The regions are drawn in a lighter shade of the same color as the strategy line.

I think the graph makes it pretty clear that the only possible answer is "It depends". It is worth noticing that while the bull spread is not always the best performer, it is never the worst. And while rolling up or doing nothing at all can provide higher profits *if the stock continues to appreciate*, the spread gives the best returns if the stock remains basically unchanged after its initial ascent. If you can sell a call for little to no risk, the bull spread has a lot to recommend it.

Rolling up produces the best profits when the stock continues to rise energetically, but it is the worst performer over a very large range. It doesn't actually move into the champions ring until the stock has reached $57. Unless you feel very certain that the stock is destined for greatness, the other alternatives provide better chances.

Liquidating outperforms all other choices if the stock falls back down. Clearly this is the best path if you are concerned about the stock holding on to its gains.

Doing nothing provides the best returns if the stock goes up significantly, but not dramatically. Since it is the only one which produces a loss, it is also the riskiest choice of the four.

3.10.1 Using a PUT to lock-in profits

Another possibility when you have a profitable long call position is to buy a put, creating what is known as a **strangle**. It is not possible to do this strategy justice here, since we haven't covered puts yet. It is discussed in section 10.1.

3.10.2 I Bought a LEAP Call. What About Me?

Calls with very long expiration times (a year or more away), are called **LEAPS**[4]. The long lifetime of LEAPS introduces some additional considerations which are covered more fully in chapter 13, but for the most part they differ little from the short-term calls we have been discussing. With a LEAP, it can be very profitable to do a diagonal bull call spread, where you repeatedly sell short-term calls against the longer term LEAP. This is very similar to the covered call strategy discussed in chapter 2, but using a long LEAP call to substitute for the stock position. Given the proper choice of underlying stock, LEAP and short calls, it is possible to make back most or all of what you spent on the LEAP call option, and still profit from premium growth in the LEAP.

If you are interested in further details on this very fine strategy, I refer you to the more extended discussion in subsection 13.9.1.

3.11 Up To The Minute Summary

- A volatile stocks price can go up substantially and not move the call premium by much.
- Taking partial profits is a good way to reduce your risk and improve your profits.
- It is rarely in your best interest to exercise the call, unless you are interested in owning shares.
- Rolling up can be very profitable. To roll a call, first sell your current call, and deduct your premium payment. Then buy as many of the higher strike calls that you can afford with whatever profits are left.
- A bull spread is also a possibility. It is never the worst choice when your calls are going up. It is usually possible to enter the bull spread for little or no additional cost.
- It is impossible to say which strategy performs the best. They all have their own strengths and weaknesses.
- LEAP calls are similar to the more familiar calls. You can create a calendar diagonal on a leap call to earn back the money you spent on it.

3.12 Chapter Glossary

Bull Call Spread Having a long call and a short call position on the same underlying stock at the same time. The short call should have a higher strike price. Usually both have the same expiration date.

[4]There are also put LEAPS.

Diagonalized Bull Call Spread A bull call spread where the short call expires before the long call.

Delta The rate of change of the option premium, with respect to the stock price. For example, if the option has a delta of 1/2, for every point of increase in the stock, the option premium will increase by 1/2-point.

LEAPS Options with an expiration date a year or more away.

Spreads A position with both a long and a short option held on the same underlying stock, at the same time.