WHAT AN OPTION ACTUALLY IS

Vajgrt Labs - Education - Lesson 33 of 72 - 6 min read - Updated Oct 21, 2026

TL;DR

- An option is a contract, not a thing: a derivative, whose value is derived from the price of something else - in this course, always SPY. Holding the contract gives you rights over 100 shares of SPY without owning a single share, a dividend, or a vote.

- Every contract is written in the same standard terms - underlying, type (call or put), strike, expiry, and a multiplier of 100 shares - set under the Options Clearing Corporation's rulebook. That is why contracts sit on a shelf (the chain) like tins in a shop, and why the premium, quoted per share, is always x100 in real money.

- The two sides are not symmetric. The buyer pays the premium and holds a RIGHT - their worst case is losing the premium. The seller collects the premium and carries an OBLIGATION - their worst case can be many times the premium. The OCC stands between the two sides, so a buyer's right never depends on one stranger's ability to pay.

THE TAKEAWAYS

- The contract's five fields, read off the real row (the graphic dissects it): UNDERLYING - SPY, the asset whose price the contract's value derives from. TYPE - call (a right to buy) or put (a right to sell); Lessons 2 and 3 take one each. STRIKE - 773, the price written into the contract; it cannot change. EXPIRY - Nov 30, 2026, the deadline after which the contract ceases to exist; this row had 52 days to run (52 DTE) when the chain was captured. MULTIPLIER - 100 shares: one contract is always a hundred-share sentence, which is why the quote of 20.53/20.68 means $2,053/$2,068 of real money.

- Standardisation is the whole trick. Because the terms are set by rulebook rather than negotiated, any trader's 773 call is identical to every other trader's - fungible, listed, and tradable in a tap. The clearing guarantee sits underneath: the OCC becomes the buyer to every seller and the seller to every buyer (through its clearing members and their collateral), and an option holder looks to that system for performance - not to whichever stranger happened to sell the contract. One honest footnote: after events like splits or special distributions, the OCC can publish ADJUSTED terms for a contract - a changed deliverable or multiplier. On SPY that is a practical non-issue; on anything unusual, read the contract's details before its price.

- Right against obligation - the four exposures, mechanics only. LONG CALL: the right to buy 100 shares at the strike. SHORT CALL: the obligation to sell 100 shares at the strike if the buyer exercises. LONG PUT: the right to sell 100 shares at the strike. SHORT PUT: the obligation to buy 100 shares at the strike if exercised. Two seats hold rights; two carry obligations; the premium is the payment that moves from the right-holders to the obligation-carriers at the moment of the trade. Which of these seats this course ever sits in is Stage 7's business - long seats, and short seats fenced inside defined-risk spreads. The naked short seats are the ones whose worst case has no printed limit, and this stage will show you their arithmetic before anyone romanticises their premiums.

- What the buyer does NOT get is as much of the definition as what they do. No shares: a call is not a discounted stock position. No dividends: SPY pays its holders quarterly (Stage 1) - a

contract holder is not a holder, and receives nothing. No vote, no claim on the fund, and no existence past the deadline: a share is forever, a contract is a wasting right with a date printed on it. Hold those negatives clearly, because most beginner losses in options are category errors - treating a contract like a share that happens to be cheap.

RULE: Read every option as a sentence - underlying, right or obligation, strike, deadline - and multiply every price by 100 before you let yourself feel anything about it.

COMMON MISTAKES

- Reading the quoted premium as the price. 20.68 is per share; the contract costs $2,068. Every options number in this course gets multiplied by 100 before it is discussed - make it reflexive.

- Believing buyer and seller are mirror images with equal risk. The buyer risks the premium; the seller risks the obligation. Same row, different species of danger.

- Treating the contract as a share with leverage attached. It carries no dividend, no vote, and a deadline - a wasting right, not an ownership stake (Stage 1's distinction, now with money on it).

- Assuming every contract is the standard x100. After splits or special distributions the OCC can publish adjusted terms - a different deliverable or multiplier. On anything unusual, read the contract's details before the price.

DO IT - READ ONE ROW AS A SENTENCE

Open the SPY chain in Robinhood (look only - Stage 4's paper rules still govern). Pick any row and write its sentence in your journal: underlying, call or put, strike, expiry - then the right or the obligation in plain words, and the ask x 100 in dollars. Five lines, one row. That sentence is the unit every later stage is written in, and the Stage 5 gate will hand you an unseen row and ask for it cold.

Education only - not financial advice. Contract, exercise and assignment mechanics: the OCC's (standardised terms; exercise-by-exception, Rule 805) - checked Oct 15, 2026. Call figures are arithmetic on the real SPY chain data of Oct 9, 2026 (773 call bid 20.53 / ask 20.68; SPY 778.12; Nov 30 expiry); the put lesson's premium is the lesson's labeled example number, the published chain set being the call side. SPY options are American-style and physically settled. Vajgrt Labs - Education.