**Basics of trading in Option**

Let us analyse a situation to understand how trading decisions are made with respect to Call and Put option. Ideally, a person can take either of the below mentioned positions in option trading.

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| **Option Position** | **Reason** |
| Buy Call | Expects market/spot value to go up |
| Sell Call | Expects market/spot value to go down |
| Buy Put | Expects market/spot value to go down |
| Sell Put | Expects market/spot value to go up |

While taking either of the above-mentioned position, it is also important to understand how immediate cash inflow or outflow will happen. Buyer pays premium in option trading while seller receives premium. So, cash inflow and outflow of premium can be described as follows:

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| **Option Position** | **Cash inflow/Outflow** |
| Buyer of Call | Pays premium |
| Seller of Call | Receives Premium |
| Buyer of Put | Pays Premium |
| Seller of Put | Receives Premium |

Having understood above mentioned aspects, let us now evaluate answer to the question which is given below.

***Question: If a person expects market to go up from current levels, which of the following is the best trading strategy?***

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| ***Buy Call*** |
| ***Sell Call*** |
| ***Buy Put*** |
| ***Sell Put*** |

***Answer: Let us evaluate each of the four situations separately.***

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| ***Buy Call: When the market goes up from current level, the buyer of the call option will benefit. Call option gives right to buy, so if the market goes up buyer will like to exercise his option.*** |

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| ***Sell Call: Since market is likely to go up from current level, selling call option is not a good idea. Since buyer will exercise the option when market goes up, seller will have to take loss. In fact, loss of a call option seller can be unlimited as the market goes up.*** |

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| ***Buy Put: Put option gives right to sell. In a rising market put option buyer cannot make money. Put option works when the market is expected to go down. However, as the buyer of put option, loss of the buyer of put can be only limited to the premium.*** |
| ***Sell Put: Selling put is like buying call in one aspect. Both buyer of the call and seller of the put expect market to go up. As the market goes up, buyer of put option will not exercise option and hence seller will retain premium.*** |

So, what is the conclusion:

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| Trading Position | Gain/Loss |
| Buyer of Call Option | Will gain in the rising market. |
| Seller of Call Option | Will make loss in the rising market. Loss can be substantial depending upon how the market moves. |
| Buyer of Put Option | Will not make money in the rising market, however the loss will be limited to the premium paid |
| Seller of Put Option | Will retain premium as buyer of put will not exercise option. |

Ranking will be as follows:

1) Buy Call

2) Sell Put

3) Buy Put

4) Sell Call