Options Writing

Source: BL

Retail investors and affluent individuals are increasingly diving into **options writing**, a riskier segment once dominated by institutional players and experts.

- This surge is amidst regulatory concerns over retail participation in derivatives trading, with a **Securities and Exchange Board of India** study estimating losses for 90% of individual traders in the Futures and Options (F&O) segment.
- **Options writing** refers to the strategy of selling options contracts, which grants the **seller (writer) an obligation to buy or sell the underlying asset at a predetermined price (strike price)** within a specified period (expiration date).
    - This strategy is often employed by investors seeking to generate income through **collecting premiums**, but it comes with the risk of potentially unlimited losses if the market moves unfavourably against the writer.
- The introduction of **daily and weekly expiry options** has further fueled options writing, allowing traders to capitalise on short-term market movements and premium decay.
    - Options writers benefit from **theta decay (daily decline in an option's value),** while buyers face challenges due to faster premium decay.
- Derivatives, financial instruments derived from underlying securities, include **forwards, futures, and options.**
    - Forwards and futures mandate buyers to purchase an asset at a pre-agreed price on a future date.
    - Options give **buyers the right, but not obligation,** to buy or sell the underlying asset at a predetermined price, exercisable on or before the maturity date.

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