

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 <u>Securities and Exchange Board of India</u> 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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