

The all-in cost of an options position

THE OPTIONS ALL-IN

Every cost of a specific options position over its life, assembled into the number the position must overcome: the premium's time value, the spread (dominant, both legs, every leg), the commission (per contract, per leg), the decay carry (accelerating), and the exercise or assignment frictions if it reaches expiry. The sixth and final all-in lesson - and the platform's most demanding, because options have more cost lines than any instrument the platform teaches.

The platform's sixth and last all-in lesson, and its most demanding: options carry more distinct costs than any instrument before them, and assembling them all is the difference between an options position's real hurdle and the premium a glance shows.

The options cost lines

The time value in the premium: the part of the premium above intrinsic (module 1) - a cost the underlying does not have, paid for possibility and decaying away. The spread: dominant, both legs, every leg, at the cell's real width (lesson 2, 3) - usually the largest single cost. The commission: per contract, per leg, both ways (lesson 1) - proportionally largest on cheap options. The decay carry: the accelerating bleed over the holding period (lesson 4) - which can dwarf the entry costs for anything held more than briefly. The ending frictions: exercise, assignment or the closing trade, and pin risk (lesson 5) - the costs of how the position resolves.

Assembling the hurdle

The all-in cost is these summed over the position's life, measured against what the position can make - and for options it is often a large fraction of the premium, sometimes most of it. A cheap out-of-the-money option bought through a wide spread, held while decay accelerates, can face an all-in cost that swallows a low-probability payoff before the underlying moves; a multi-leg structure's summed frictions can consume its capped profit. The honest hurdle is the assembled cost against the realistic payoff, and options' many cost lines make that hurdle higher, more often, than any instrument the platform has costed.

The module's close, and the comparison

The all-in cost feeds the comparison of lesson 8 (option against underlying) and the verdict of module 6 (is the edge real net of all this). Options are the platform's most cost-laden instrument - premium time value, dominant spread, per-leg commission, accelerating carry, ending frictions - and the reader who prices only the premium has priced a fraction of the position. The sixth all-in lesson closes the platform's cost teaching where it is hardest: an options position must overcome more distinct costs than any other, and knowing the full hurdle is prerequisite to module 4's sizing and module 6's verdict.

Costs were a large part of the options story - and module 4 turns to the risk, where the asymmetry the costs sit on becomes the subject.

Check your understanding

1. Why is the options all-in cost the platform's most demanding?

- a. Options are taxed more
- b. Options carry more distinct cost lines than any instrument - premium time value, dominant spread, per-leg commission, accelerating decay carry, and ending frictions - all summed over the position's life
- c. Options have higher commissions only

Answer: b. More distinct costs than any instrument before them. The reader who prices only the premium has priced a fraction of the position - the hurdle is the assembled total.

2. What can the assembled cost do to a cheap out-of-the-money option?

- a. Nothing significant
- b. Swallow a low-probability payoff before the underlying moves: a wide spread on entry, decay accelerating through the hold, and exit costs can consume most of the premium
- c. Reduce the commission

Answer: b. The cheap far option's many summed costs are a large fraction of its premium. The honest hurdle is the assembled cost against a realistic payoff - higher, more often, than any instrument.