Calls and puts

> **CALLS AND PUTS**
>
> The two kinds of right: a call is the right to buy the underlying at the strike; a put is the right to sell it at the strike. Each can be bought or sold, giving four basic positions - long call, short call, long put, short put - with four different payoff shapes and four different risk profiles. Every options position, however complex, is built from these four, and knowing what each one is and risks is the track's vocabulary floor.

An option's right is either to buy or to sell, and either can be held or written - so the single asymmetry of lesson 1 becomes four distinct positions, each with its own shape. These four are the alphabet; everything later is spelling with them.

The four positions

Long call: bought the right to buy - profits if the underlying rises above the strike by more than the premium; loss limited to the premium; the classic bullish-with-limited-risk position.Long put: bought the right to sell - profits if the underlying falls below the strike by more than the premium; loss limited to the premium; the bearish-with-limited-risk position, and the insurance shape.Short call: sold the right to buy - keeps the premium if the underlying stays below the strike, and carries potentially unlimited loss if it rises (the seller must deliver at the strike however high the price goes); the first genuinely dangerous shape.Short put: sold the right to sell - keeps the premium if the underlying stays above the strike, and carries large loss if it falls (the seller must buy at the strike however low it goes); dangerous, though bounded by the underlying reaching zero.

The buyer-seller mirror

Each position is the mirror of its counterparty: every long call is someone's short call, every long put someone's short put, and the premium flows from buyer to seller at the outset. The mirror is exact in cash and opposite in shape - the buyer's limited risk is the seller's limited gain, the buyer's large potential gain is the seller's large potential loss. This is why the track insists on naming which side of which option: 'trading options' is meaningless until the position names the right (call or put) and the side (long or short), because the four have almost nothing in common but the underlying.

Reading the four shapes

The two long positions have the option's defining asymmetry - limited loss, larger potential gain - and are where most retail attention goes. The two short positions invert it - limited gain, larger potential loss - and are where the danger the track keeps flagging actually lives: the short call's unbounded loss especially. Module 4 sizes all four by their maximum loss, which is the only honest way to size a payoff this asymmetric; this lesson only fixes the vocabulary, because a reader who cannot instantly say what a short put risks cannot be taught anything else about options honestly.

Check your understanding

1. What are the four basic options positions?

a. Buy, sell, hold, exercise

b. Long call and long put (bought rights, limited loss), short call and short put (sold rights, larger potential loss) - four shapes, four risk profiles

c. Call, put, strike, premium

Answer: b. The single asymmetry becomes four positions, each with its own payoff shape. Every options position, however complex, is built from these four - the track's vocabulary floor.

2. Which position carries potentially unlimited loss?

a. Long call

b. Short call: the seller must deliver at the strike however high the underlying rises, so the loss is unbounded above - the first genuinely dangerous shape

c. Long put

Answer: b. The short call inverts the buyer's asymmetry into limited gain and unbounded loss. Naming what each of the four risks is the floor - and the short call is why the track sizes by max loss.