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Complete Guide

Options Trading Starter Guide: Understand Calls, Puts, and Covered Calls

Options are contracts, not magic. A beginner who understands calls versus puts, long versus short exposure, intrinsic versus time value, and the basic option chain already avoids many of the mistakes that drain accounts. This guide walks through moneyness, expiration and theta, covered calls, protective puts, and the hard truth that buying options is difficult because you can be right on direction and still lose on time decay or pricing. The rule for true beginners is simple: learn the mechanics first, paper trade second, and never sell naked calls.

1. Foundation

An option is a contract tied to an underlying asset, most commonly 100 shares of a stock or ETF. A call gives the buyer the right to buy the underlying at a strike price before expiration. A put gives the buyer the right to sell at the strike price before expiration. Those rights belong to the long side. The short side has the obligation. If you buy a call or put, your maximum loss is generally the premium paid. If you sell an option, your obligations can be much larger, which is why beginners need to distinguish long options from short options immediately. The contract type tells you the directional bias, but the long-versus-short decision tells you who owns the right and who owes the obligation.

Option prices have two core pieces: intrinsic value and time value. Intrinsic value is what the contract would be worth if exercised immediately. A call with a \$90 strike when the stock is at \$100 has \$10 of intrinsic value. Everything above that is time value. Time value reflects the possibility that the option becomes more valuable before expiration. Moneyness describes the relationship between stock price and strike: in the money, at the money, or out of the money. Expiration matters because time value decays, a force commonly summarized as theta. This is one reason buying options is hard. You need not

only the direction to be favorable, but also enough movement, soon enough, to overcome time decay and the premium you paid.

The option chain is the menu where these trade-offs become visible. For each expiration date, you will see strike prices, bid and ask prices, last trade, volume, open interest, and often implied volatility. Beginners should focus first on the basics: strike, expiration, bid-ask spread, and open interest. Wide spreads can make an option expensive to enter and exit. Thin open interest can make fills less predictable. A cheap-looking option far out of the money is often cheap for a reason: low probability of finishing in the money before time runs out. The chain is not just a pricing screen. It is the map that shows you how much you are paying for possibility, how much time you have, and how liquid the contract is likely to be.

For true beginners, the two most practical strategies are covered calls and protective puts. A covered call means you own the 100 shares and sell a call against them to generate premium, accepting that your upside may be capped if the shares are called away. A protective put means you own the shares and buy a put as downside insurance. Both strategies are tied to stock you already own, which makes the risk easier to understand. The strategy beginners should not use is selling naked calls. A naked call means you sold the obligation to deliver shares you do not own, and the potential loss can be extremely large if the stock runs higher. That rule is not optional. Beginners should never sell naked calls.

2. Step-by-Step System

1

Translate every basic position into rights, obligations, and max loss

Before reading the chain, practice describing each position in plain English. A long call is the right to buy. A short call is the obligation to sell if assigned. A long put is the right to sell. A short put is the obligation to buy if assigned. Then write down the maximum loss and the rough best-case outcome for each. For long options, the maximum loss is the premium paid. For short options, the risk can be much larger and in the case of naked calls effectively open-ended. Do not move on until you can explain these positions without jargon. The biggest beginner mistake is memorizing bullish and bearish labels without understanding who owes what. Once the obligation side is clear, a large part of options risk stops looking mysterious and starts looking contractual.

2

Read the option chain with strike, expiration, liquidity, and moneyness in mind

Pick one liquid stock or ETF and read a real chain from top to bottom. Identify the stock price, then mark which calls and puts are in the money, at the money, and out of the money. Compare near-term expirations with longer-dated expirations. Note how a 30-day option differs from a 120-day option in premium and sensitivity. Then inspect bid-ask spread and open interest. A narrow spread and healthy open interest usually signal an easier contract to trade. A far-out-of-the-money weekly option with a wide spread may look cheap, but the market is telling you that the contract is low probability, fast decaying, or both. This step builds the habit of treating the chain as a data set rather than a slot machine menu.

3

Price the trade: intrinsic value, time value, breakeven, and theta

For any contract you are considering, separate intrinsic value from time value and then compute the breakeven point. If you buy a call for \$3.00 with a \$100 strike, the stock generally needs to be above \$103 at expiration just to break even before commissions and slippage. Then ask what part of that \$3.00 is intrinsic and what part is time. The more time value you are paying, the more you are fighting theta. This is why buying options is hard even when your directional view is right. A stock can rise and your call can still disappoint because the move was too small, too late, or implied volatility collapsed. Put every candidate trade through this filter before you place it. If you cannot explain how the option needs to win, you should not buy it.

4

Practice covered calls only on stock you are willing to sell

A covered call is one of the few option strategies that beginners can understand quickly because the stock ownership caps the delivery risk. Start with 100 shares of a stock or ETF you already own and would genuinely be willing to sell at a chosen price. Then select a strike above the current market price and an expiration that gives you meaningful premium without turning the position into constant management. Record the premium received, the capped upside, the effective sale price if assigned, and the plan if the stock rises through the strike. Covered calls are not free income. They are a trade: premium now in exchange for giving up some upside later. If you would be angry about the shares being called away, the call was probably not covered in the way that matters most psychologically.

5

Use protective puts to understand insurance, not to chase leverage

A protective put works best when you already own shares you want to keep but want to insure against a defined downside over a specific window. Choose the stock position first, then look for put strikes and expirations that create a loss floor you can actually explain. Record the premium cost as the price of insurance. Notice how a closer strike gives more protection but costs more, while a farther strike is cheaper but leaves more downside exposed. This step teaches one of the most important ideas in options: protection has a cost, and that cost must be worth the sleep and risk reduction it buys. When you can compare two protective puts like insurance policies instead of like lottery tickets, you are thinking about options correctly.

6

Write beginner risk rules and keep them stricter than your broker approval level

Your broker's approval level is not your risk management system. Write your own rules. Examples: only trade options on liquid underlying securities, only use covered calls and protective puts until you have documented practice, never risk more than a small predefined percentage of portfolio value on option premium, avoid ultra-short-dated contracts unless you can explain the trade in detail, and never sell naked calls. Add a paper-trading requirement if you are truly new. For example, complete twenty documented paper trades across calls, puts, covered calls, and protective puts before risking real capital. The objective is not to become clever. It is to become hard to fool. A written rule set is what prevents one cheap-looking contract from turning curiosity into an expensive lesson.

3. Key Worksheets & Checklists

Use these pages to force every option idea into contract terms, breakeven math, and position rules. If the trade does not fit on the worksheet, it is probably not simple enough for a beginner yet.

1. One-Page Options Trade Worksheet

Fill this out before any live trade. The worksheet should make the contract's logic visible in under two minutes.

Underlying	Name the stock or ETF and the current share price.
Strategy	Long call, long put, covered call, or protective put. Beginners should keep the list short.
Strike and expiration	Record both and note whether the contract is in, at, or out of the money.
Premium	Enter premium paid or received per contract and the total dollar amount.
Intrinsic versus time value	Write how much of the price is immediate value and how much is time value subject to theta decay.
Breakeven	State the price the underlying needs to reach by expiration for the trade to break even.
Maximum loss	Document the exact maximum loss in dollars.
Assignment plan	For covered calls or protective puts, note what you will do if the option finishes in the money.
Exit rule	Write the profit target, loss limit, or time-based exit before entering.

2. Beginner Safety Checklist

- Confirm whether the position is long or short and write who owns the right and who carries the obligation.
- Mark moneyness, expiration date, bid-ask spread, and open interest before you decide a contract looks cheap.
- Compute intrinsic value, time value, and breakeven so the contract price has a clear explanation.
- For covered calls, verify you own the 100 shares and would honestly accept assignment at the strike price.
- For protective puts, treat the premium as insurance cost and compare the amount of protection gained.
- Keep position size small enough that a full premium loss is uncomfortable but not portfolio-changing.
- **Never sell naked calls as a beginner.** If you do not own the shares, you should not sell the call.

3. 30-Day Practice Tracker

Options skill improves with repetition, but only if the repetition is documented. Use paper trades first if you are new.

Window	Action	Evidence Complete
Week 1	Read chains on one liquid ETF and one liquid stock each day, marking calls, puts, strikes, and moneyness.	A notebook or screenshot log showing daily chain review.
Week 2	Price ten sample contracts with intrinsic value, time value, theta risk, and breakeven calculations.	A set of completed worksheets with no live trades required.
Week 3	Paper trade covered calls and protective puts on positions you can fully explain.	Trade journal entries showing entry, exit, and what changed.
Week 4	Review every paper trade, note recurring mistakes, and decide whether you are ready for very small live size.	A written summary and a personal rule set saved with your brokerage notes.

4. Common Mistakes

Most beginner option losses come from misunderstanding the contract, not from missing some advanced Greek. If the basics are shaky, leverage just speeds up the lesson.

Buying far out-of-the-money options only because they look cheap

A \$0.20 option can feel affordable, but low premium often means low probability plus rapid time decay. Cheap contracts can be the most expensive education because they expire worthless so often while teaching the false lesson that options are just lottery tickets.

Ignoring theta and bid-ask spread

A trader can be directionally right and still lose because time value melts away or the spread was too wide to overcome. Always ask how much of the premium is time value and how easy the contract will be to enter and exit.

Selling naked calls

This is the beginner mistake that should never happen. A naked call exposes you to potentially very large losses if the stock rises sharply because you do not own the shares required for delivery. Keep to covered calls if you are selling calls at all.

Forgetting that one contract usually controls 100 shares

Beginners sometimes underestimate risk because the premium quote looks small. One contract typically represents 100 shares, so every \$1.00 of premium is usually \$100. Position size must be calculated in real dollars, not in abstract contract counts.

5. Next Steps

Keep the worksheet and journal together so every trade idea can be reviewed against the same standard. The goal is not to make options feel easy. The goal is to make them legible. When the contract terms are clear, bad ideas stand out faster.

Do not rush from understanding to leverage. Paper-trade covered calls and protective puts until the chain, the breakeven math, and the assignment outcomes feel routine. If a live trade still feels confusing after the worksheet is filled out, you are not missing courage; you are missing clarity.

Options are powerful because they let you reshape payoff, time horizon, and risk. That same flexibility punishes vague thinking. Keep the rules simple, keep size small, and never let a broker approval screen talk you into complexity you have not earned yet.

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