Market Mechanics Introduction

Welcome to Framework Investing's Option Market Mechanics Mini-Course. I'm Erik Kobayashi-Solomon, the author of The Intelligent Option Investor and Framework Investing's Director of Research and Content.

This mini-course is designed to offer you an understanding of the nitty gritty about how the option market works. Options are conceptually easy instruments to understand, as you will know after taking Framework's Introduction to Options and Option Basics mini-courses. However, because of certain characteristics of options, transactions on an option exchange are more complex than those on a stock exchange.

Our primary goal in this mini-course is to introduce you to the way the option market works – everything from how expirations are set up for different types of option products to why option market makers hate high-frequency trading firms.

This information is more technical and detailed than in earlier mini-courses, but it is vitally important. Most investors transacting in the option markets have made at least one operational mistake that has wound up costing them money. Understanding how the market works will help you minimize these kinds of frustrating operating errors.

This mini-course is split into two sections – in the first, we cover expiration cycles, details regarding strike prices and contract sizes, and how to measure and understand various measures of option transaction activity. In the second, we investigate the role of market makers, their clients, and the exchange, and provide some information specific to institutional investors.

This information will not only help you understand market details, but will also make it easier for you to understand topics we will cover in the option prices and pricing mini-course.

We'll get started by looking at expiration cycles for options on individual stocks.

