OIC The Options Industry Council

Basic Option Strategies

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Disclaimer

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In order to simplify the calculations used in the examples in these materials, commissions, fees, margin, interest and taxes have not been included. These costs will impact the outcome of any stock and options transactions and must be considered prior to entering into any transactions. Investors should consult their tax advisor about any potential tax consequences.

Any strategies discussed, including examples using actual securities and price data, are strictly for illustrative and educational purposes and should not be construed as an endorsement, recommendation, or solicitation to buy or sell securities. Past performance is not a guarantee of future results.

Presentation Outline

- Motivations
- Rights and Obligations
- Call Strategies
- Put Strategies

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Rights and Obligations

Why Options?

- Options give you more ways to implement your market research
- Options make it possible to target a variety of investment objectives:
  - ***Risk Reduction***
  - ***Speculation***
  - ***Income Generation***
  - ***Stock Acquisition***

- Options offer **FLEXIBILITY!**

Equity Call Options

- An equity call **buyer:**
  - Owns the **right to buy** underlying stock/ETF
  - Bullish on underlying
  - Needs stock movement > time decay

- An equity call **seller**:
  - Has the **obligation to sell** underlying stock/ETF
  - Likely already owns shares

Equity Put Options

- An equity put **buyer**:
  - Owns the **right to sell** underlying stock/ETF
  - If speculating, is bearish on underlying
  - If shares are already owned, is buying protection

- An equity put **seller**:
  - Has the **obligation to buy** underlying stock/ ETF
  - Can generate income to potentially purchase shares for less

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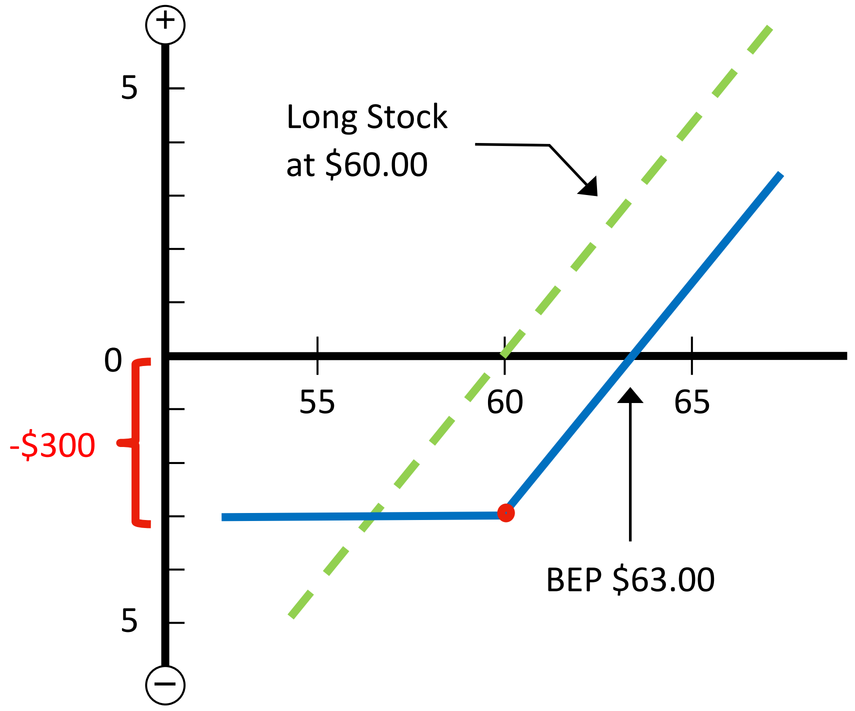
Call Strategies

Call Buying Example

Buy 60.00 strike call at $3.00



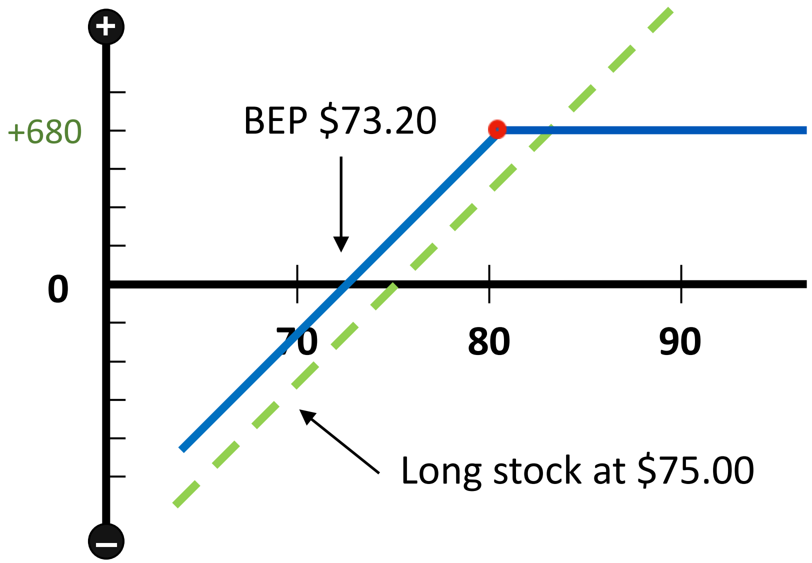
Break-even at Expiration:
Strike Price + Call Premium Paid
$60.00 + $3.00 = $63.00

Maximum Loss:
$3.00 Call Premium Paid
$300.00 Total

Covered Call Example

Own 100 shares XYZ at $75.00

Sell 1 XYZ 80 call at $1.80



Break-even at Expiration:

Stock Price Paid –

Call Premium Received

$75.00 – $1.80 = $73.20

Maximum Profit if Assigned:

Effective Stock Sale Price –

• Stock Price Paid

($80.00 + $1.80) – $75.00 = $6.80

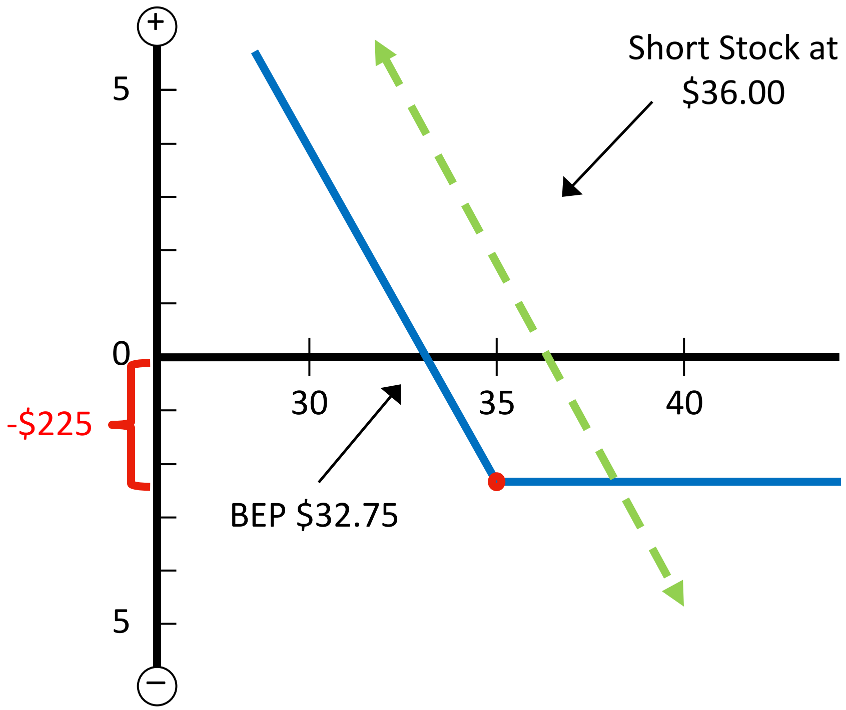
• $680.00 Total

Does not include commissions, fees, margin interest or taxes.

Put Strategies

Put Buying Example

Buy 35.00 strike put at $2.25



Break-even at Expiration:
Strike Price – Put Premium Paid
$35.00 – $2.25 = $32.75

Maximum Loss:
$2.25 Put Premium Paid
$225.00 Total

Cash Secured Put Example

Stock XYZ at $146

Sell 140 put at $2.00

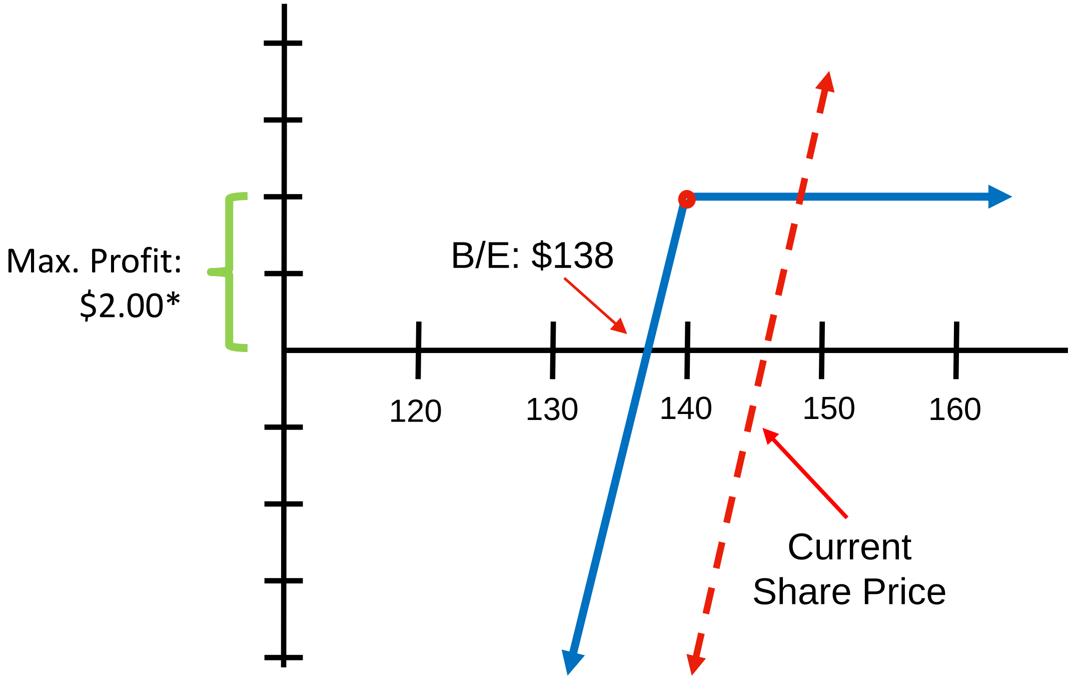
(30 Days until expiration, 25% Volatility)

Break-even at expiration

Strike price – Premium

$140 - $2.00 = $138.00

** Max profit of $2.00 does not take into account resulting long stock position should assignment occur*



Not including commissions

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Things to Consider Before Getting Started

- Market outlook
- Know the underlying
- Understand your strategy
- Profit and loss exit plan

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