

# Disclaimer



The views and opinions expressed in this presentation reflect those of the individual authors/presenters only and do not represent in any way Bourse de Montréal Inc.'s (the "Bourse") opinion or any of its affiliates. The presentation is not endorsed by the Bourse or its affiliates. The information provided in this presentation, including financial and economic data, quotes and any analysis or interpretation thereof, is provided solely on an information basis and shall not be interpreted in any jurisdiction as an advice or a recommendation with respect to the purchase or sale of any derivative instrument, underlying security or any other financial instrument or as a legal, accounting, tax, financial or investment advice. The Bourse and its affiliates do not endorse or recommend any securities referenced in this presentation. The Bourse recommends that you consult your own advisors in accordance with your needs. Although care has been taken in the preparation of these articles, the Bourse and/or its affiliates do not guarantee the completeness of the information contained in this presentation, and are not responsible for any errors or omissions in or your use of, or reliance on, the information. The Bourse reserves the right to amend, review or delete, at any time and without prior notice, the content of this presentation. The Bourse, its affiliates, directors, officers, employees and agents will not be liable for damages, losses or costs incurred as a result of the use of any information appearing in this presentation.

"S&P ®" and "Standard & Poor's ®" are registered trademarks of The McGraw-Hill Companies, Inc. and "TSX" is a trademark of TSX Inc. ("TSX"). The products mentioned in this presentation are not sponsored, endorsed, sold or promoted by S&P or TSX; and S&P and TSX make no representation, warranty or condition regarding the advisability of investing in them.



**TMX**

**Montréal  
Exchange**



**Montréal  
Exchange**

# Buying Call Options



Toronto Stock Exchange | TSX Venture Exchange | **Montréal Exchange** | Natural Gas Exchange | Montréal Climate Exchange | Boston Options Exchange

Canadian Derivatives Clearing Corporation | TMX Datalinx | Equicom | PC Bond | Shorcan

# Why Buy Call Options?



- Used as an alternative to buying a stock.
- Secure the future purchase price of an underlying security.
- Hedge the risk associated with a short stock position.



# Alternative to Buying Stock



- Based on an expected increase of the underlying stock price.
- Call option value will increase as the underlying stock value increases.
- Identifiable risk, unlimited profit potential.



# Alternative to Buying Stock



	Long Stock	Long Call \$50.00 Strike
Price	\$50.00	\$2.75
Quantity	1,000	10
Capital Required	\$50,000	\$2,750
Price at Expiration	\$55.00	\$5.00
Return	10%	82%
Risk	\$50.00	\$2.75



# Risk/Reward at Expiration



Stock Price at Expiration	Profit/Loss Long Stock	Profit / Loss Long Call
\$65.00	\$15,000	\$12,250
\$60.00	\$10,000	\$7,250
\$55.00	\$5,000	\$2,250
\$52.75	\$2,750	Break Even
\$50.00	Break Even	-\$2,750
\$45.00	-\$5,000	-\$2,750
\$40.00	-\$10,000	-\$2,750

Start Price



Strike



# Alternative to Buying Stock



- Considerations:
  - Initial investment is a fraction of the underlying value.
  - Risk exposure is limited to the premium paid.
  - Anticipated move must take place within the time frame allocated.





# Lock In Future Share Purchase



- Secure a future purchase price due to a bullish outlook.
- Desired future purchase price will influence strike price selection.
- Allows for immediate participation in the appreciation of the security value.



# Lock In Future Share Purchase



- XYZ is trading \$50.00.
- 3-month call option on XYZ with a strike price of \$50.00 is trading at \$3.00.
- Investor pays \$300.00 in premium for the right to buy 100 shares at \$50.00.



# Risk/Reward at Expiration



Stock Price at Expiration	Profit/Loss Long Stock	Profit / Loss Call Option
\$65.00	\$1,500.00	\$1,200.00
\$60.00	\$1,000.00	\$700.00
\$55.00	\$500.00	\$200.00
\$53.00	\$300.00	Break Even
\$50.00	Break Even	-\$300.00
\$45.00	-\$500.00	-\$300.00
\$40.00	-\$1,000.00	-\$300.00

Start Price



Strike



# Lock In Future Share Purchase



- Considerations:
  - By adding the premium to the stock price, the new adjusted cost base is obtained.
  - Maximum risk is the premium paid.
  - If a new call option is purchased, the cost base must be adjusted.



# Protective Call



- Profit from a bearish outlook on a security.
- By selling high and buying back low.
- Unlimited risk associated with an increase in the share value.
- Risk is offset by the purchase of the call option.



# Protective Call



- XYZ is trading \$50.00.
- Investor short sells 100 shares and collects \$5000.00.
- 1-month call option on XYZ with a strike price of \$50.00 is trading at \$1.50.
- Investor pays \$150.00 in premium for the right to buy 100 shares at \$50.00 to cover the short stock position.



# Risk/Reward at Expiration



Stock Price at Expiration	Profit/Loss Short Stock	Profit/Loss Protective Call	Net Profit/Loss
\$60.00	-\$1,000.00	\$850.00	-\$150.00
\$55.00	-\$500.00	\$350.00	-\$150.00
\$50.00	\$0.00	-\$150.00	-\$150.00
\$48.50	\$150.00	-\$150.00	\$0.00
\$45.00	\$500.00	-\$150.00	\$350.00
\$40.00	\$1,000.00	-\$150.00	\$850.00

Start Price →



# Protective Call



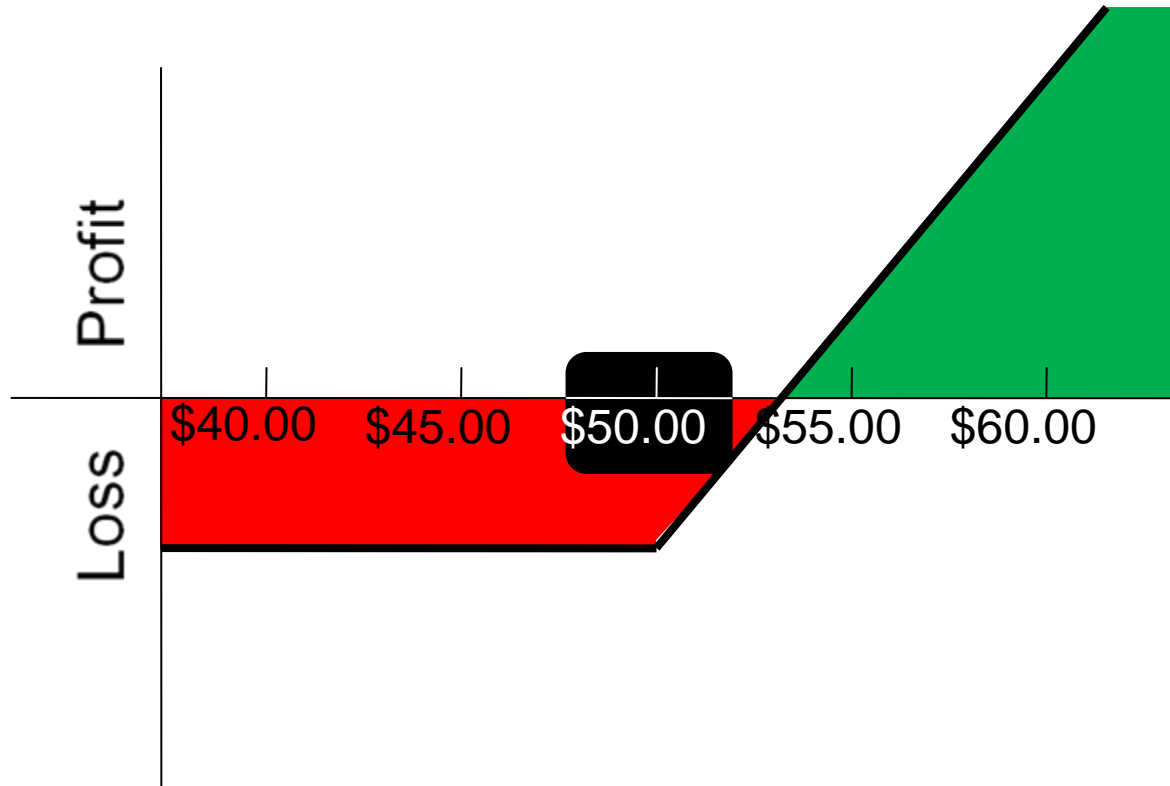
- Considerations:
  - Maximum risk is the premium.
  - Profit potential from the complete move to the downside.
  - If option expires worthless, short seller is left unprotected.
  - Must purchase sufficient time.





# Synthetic Positions

Long Call = Long Stock + Long Put





Jason Ayres, President  
**Optionsource.net**

