



TMX

**Montréal
Exchange**



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Gaining Market Exposure with SXO 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

SXO options - Directional Trade



- Alternative to selecting individual stocks.
- Diversification
- Lower transaction costs
- Greater leverage with limited risk exposure.

Option Selection



- Buy a call if expect the market to strengthen.
- Buy a put if expect the market to weaken.

Expiration Month



- Short-term options
 - Less time for the underlying to move
 - Premiums are less expensive.
- Longer-term options
 - More time for the underlying to move
 - More expensive.

Strike Price



- The strike price determines the price at which the investor has the right to buy or sell the underlying.
- The strike price selection is based on the magnitude of the anticipated movement.
- If the option has intrinsic value at expiration, the investor will realize a gain.
- If the option has no intrinsic value, it will expire worthless.

Strike Price Selection



Option	Characteristic
In-the-money	The option has intrinsic value. A greater upfront cost is required.
At-the-money	There is no intrinsic value. Time is a determinant factor which causes the premium to be more expensive.
Out-of-the-money	There is no intrinsic value. The option is less expensive because the underlying requires a considerable move to gain intrinsic value.

Directional Trade - Buying a Call



- The investor expects the S&P/TSX 60 to strengthen.
- The investor would buy SXO call options.

Buying SXO Calls



- S&P/TSX 60 is at 680.
- A 3-month 680.00 strike call option is trading at \$32.00.
- Total cost is \$320.00 ($\$32.00 \times \10.00).

Risk/Reward Profile



S&P/TSX 60 at Expiration	Net Profit / Loss
740.00	\$280.00
730.00	\$180.00
720.00	\$80.00
712.00	Break Even
700.00	-\$120.00
680.00	-\$320.00
670.00	-\$320.00
660.00	-\$320.00

Start Price → **strike**

Directional Trade - Buying a Put



- The investor expects the S&P/TSX 60 to decline.
- The investor would buy SXO put options.

Buying SXO Puts



- S&P/TSX 60 is at 680.
- A 3-month 680 strike put option is trading at \$37.00.
- Total cost is \$370.00 ($\37.00×10).

Risk/Reward Profile



S&P/TSX 60 at Expiration		Net Profit / Loss
720.00		-\$370.00
700.00		-\$370.00
680.00	strike	-\$370.00
660.00		-\$170.00
643.00		Break Even
620.00		\$230.00
600.00		\$430.00
580.00		\$630.00

Start Price →

Scenarios at Expiration



- Option is exercised.
- Option expires worthless.
- Close the option position.
- Roll the position.

Considerations



- Position can be closed at any time prior to expiration.
- Last trading day is the day before the expiration Friday.
- Cash settled in Canadian dollars.

