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# Options Trading



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 Use Options?



- Trade a directional bias with a limited and identifiable risk exposure.
- Take advantage of leverage.
- Protect and preserve investment capital.
- Generate cash flow and mitigate market volatility.



# Opening vs. Closing Transactions



- Opening transactions create a new position or increase the size of an existing position.
- Closing transactions eliminate or decrease the size of an existing position.



# Opening Transactions



## Call Option Buyer

Action	Quantity	Description	Price	Good Till
Buy to Open	10	XYZ Jun \$50 call	2.00	Day

- The call buyer is purchasing 10, \$50.00-strike calls with a June expiration.
- Is bidding to pay \$2.00 per share for each contract.



# Opening Transactions



## Call Option Seller

Action	Quantity	Description	Price	Good Till
<b>Sell</b> to Open	10	XYZ Jun \$50 call	2.00	Day

- The call seller is selling 10, \$50.00-strike calls with a June expiration.
- Is asking to receive \$2.00 per share for each option contract.



# Long Call vs. Short Call



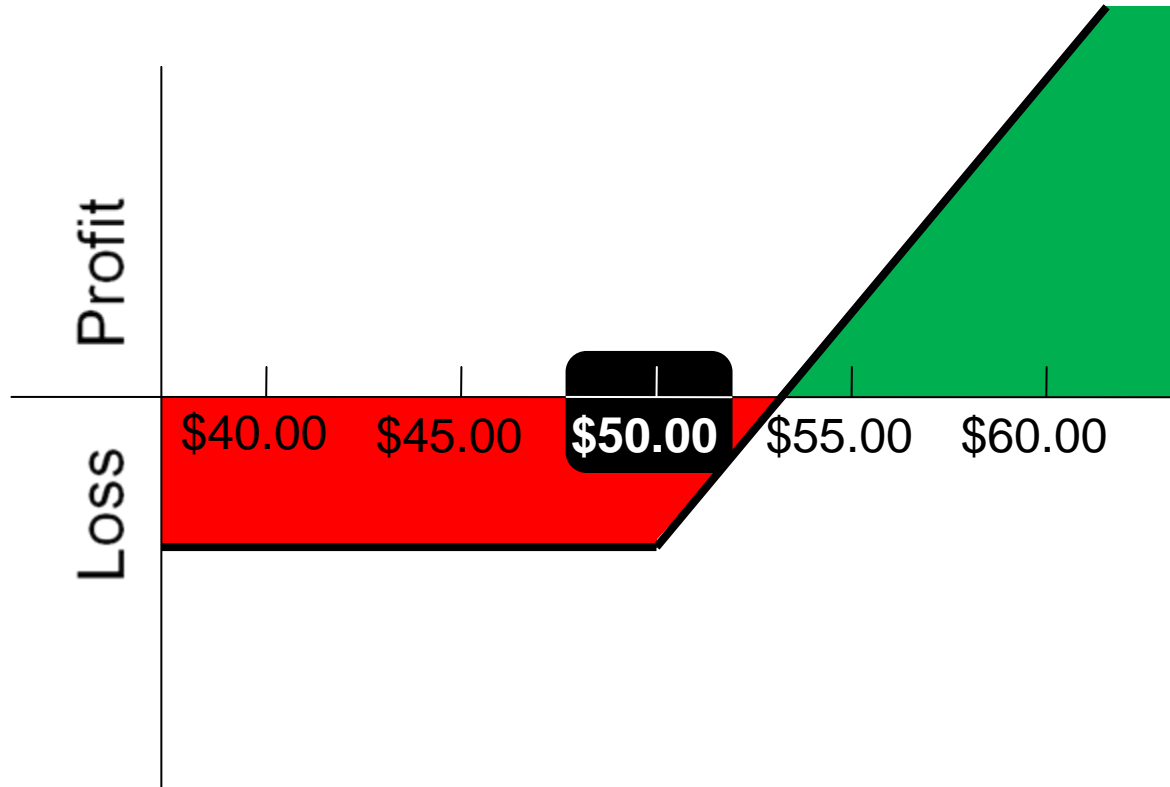
- Option investors looking at \$50.00 call strike

Call Option Buyer	Call Option Seller
Right to own at \$50.00	Obligation to deliver at \$50.00
Pays a premium	Collects a premium
Profits as share value rises	Profits as shares drop or stay the same
Risk is limited to premium paid	Risk is undefined to the upside





# Risk/Reward – Long Call



# Long Call at Expiration



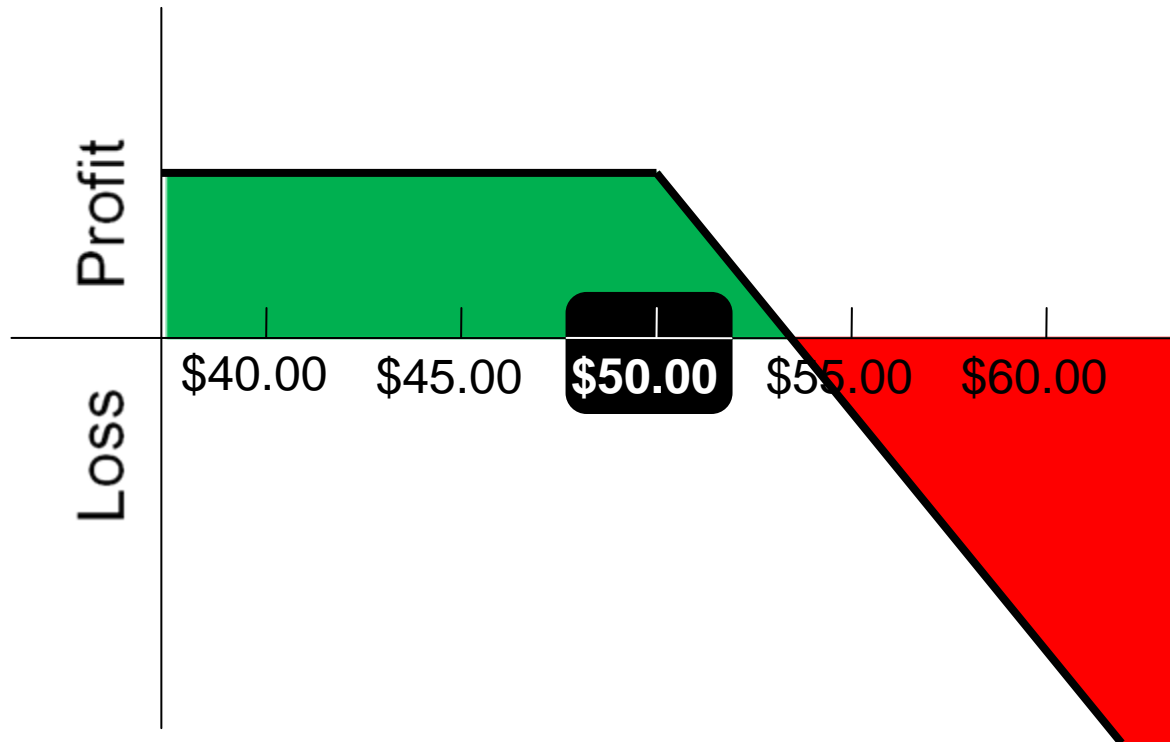
Stock Price on the June Expiration	Profit / Loss
\$58.00	\$6,000.00
\$56.00	\$4,000.00
\$54.00	\$2,000.00
\$52.00	Break Even
\$50.00	-\$2,000.00
\$48.00	-\$2,000.00
\$46.00	-\$2,000.00



Strike



# Risk/Reward – Short Call



# Short Call at Expiration



Stock Price on the June Expiration	Profit / Loss
\$58.00	-\$6,000.00
\$56.00	-\$4,000.00
\$54.00	-\$2,000.00
\$52.00	Break Even
\$50.00	\$2,000.00
\$48.00	\$2,000.00
\$46.00	\$2,000.00



Start Price

Strike



# In-The-Money at Expiration



Call Option Buyer	Call Option Seller
Can exercise his/her right to own and...	Is assigned
May take possession of the shares, or	Obligation to deliver shares at \$50.00
Close the position by selling the call	Must purchase the shares at the higher market value or buy back the short call
Profits beyond strike price + Premium	Loss = Market value - Strike - Premium



# Out-Of-The-Money at Expiration



Call Option Buyer	Call Option Seller
Option expires worthless	Option expires worthless
Losses entire premium	Keeps the entire premium
Loss is limited to premium paid	Profit is limited to the premium collected
No further rights	No further obligations



# Closing Transactions



## Call Option Buyer

Action	Quantity	Description	Price	Good Till
Sell to Close	10	XYZ Jun \$50 call	2.00	Day

- Can be offset at any time before expiration.
- To lock in a profit or to cut losses.
- To avoid automatic exercise.



# Closing Transactions



## Call Option Seller

Action	Quantity	Description	Price	Good Till
Buy to Close	10	XYZ Jun \$50 call	2.00	Day

- Can be offset at any time before expiration.
- To lock in a profit or to cut losses.
- To avoid being assigned





# Opening Transactions



## Put Option Buyer

Action	Quantity	Description	Price	Good Till
Buy to Open	10	XYZ Jun \$50 put	2.00	Day

- The put buyer is purchasing 10, \$50.00-strike puts with a June expiration.
- Is bidding to pay \$2.00 per share for each contract.



# Opening Transactions



## Put Option Seller

Action	Quantity	Description	Price	Good Till
Sell to Open	10	XYZ Jun \$50 put	2.00	Day

- The put seller is selling 10, \$50.00-strike puts with a June expiration.
- Is asking to receive \$2.00 per share for each contract.



# Long Put vs. Short Put

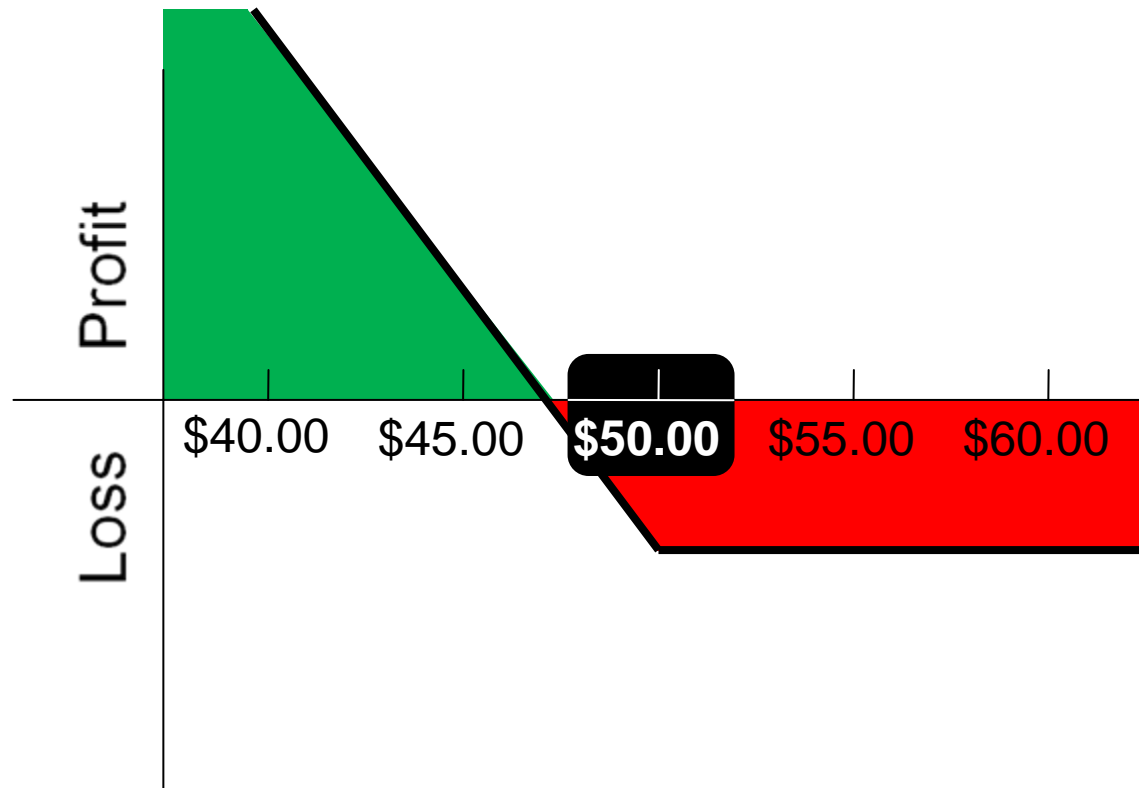


- Option investors looking at \$50.00 put strike

Put Option Buyer	Put Option Seller
Right to sell at \$50.00	Obligation to buy at \$50.00
Pays a premium	Collects a premium
Profits as share value drops	Profits as shares rise or stay the same
Risk is limited to premium paid	Risk is undefined as shares drop



# Risk/Reward – Long Put



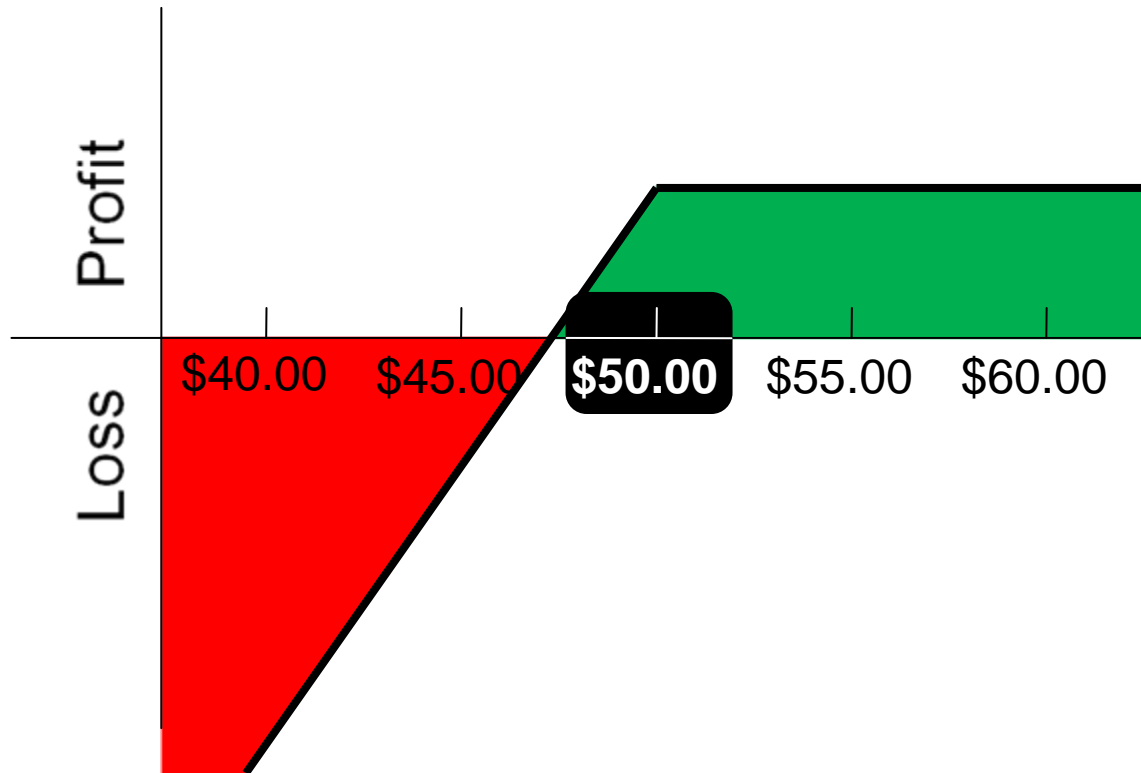
# Long Put at Expiration



Stock Price on the June Expiration	Profit / Loss
\$58.00	- \$2,000.00
\$54.00	- \$2,000.00
<b>Start Price</b> → \$50.00 <b>Strike</b>	- \$2,000.00
\$48.00	Break Even
\$46.00	\$2,000.00
\$44.00	\$4,000.00
\$42.00	\$6,000.00



# Risk/Reward – Short Put



# Short Put at Expiration



Stock Price on the June Expiration	Profit / Loss
\$58.00	\$2,000.00
\$54.00	\$2,000.00
<b>Start Price</b> → \$50.00 <b>Strike</b>	\$2,000.00
\$48.00	Break Even
\$46.00	- \$2,000.00
\$44.00	- \$4,000.00
\$42.00	- \$6,000.00



# In-The-Money at Expiration



Put Option Buyer	Put Option Seller
Can exercise their right to sell and...	Is assigned
Offset current long shares at the strike price or if shares not owned will assume a short position....or	Obligation to purchase shares at \$50.00.
Close the position by selling the put	Assumes a loss = Strike price - Market value ...or buy back the short put
Profits beyond strike price - Premium	Loss = Strike - Market value - Premium





# Out-Of-The-Money at Expiration



Put Option Buyer	Put Option Seller
Option expires worthless	Option expires worthless
Losses entire premium	Keeps the entire premium
Loss is limited to premium paid	Profit is limited to the premium collected
No further right	No further obligation



# Closing Transactions



## Put Option Buyer

Action	Quantity	Description	Price	Good Till
Sell to Close	10	XYZ Jun \$50 put	2.00	Day

- Can be offset at any time before expiration.
- To lock in a profit or to cut losses.
- To avoid automatic exercise.



# Closing Transactions



## Put Option Seller

Action	Quantity	Description	Price	Good Till
Buy to Close	10	XYZ Jun \$50 put	2.00	Day

- Can be offset at any time before expiration.
- To lock in a profit or to cut losses.
- To avoid the assignment



# Remember



- Insure that you have selected the appropriate strategy to meet your objectives.
- Be comfortable and confident in how the trading platform works.
- Familiarize yourself with the margin requirements associated with trading options.
- Always review your opening and closing orders before submitting them.





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