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Option Trading Adjustments

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- Types of Trade Adjustments
 - Roll Up / Down
 - Roll Out
 - Roll Out – Up/Down
 - Exit
- Covered Call Example
- Vertical Spread Example
- Summary / Q&A

Rolling Up –

Short 1 XYZ Apr 40 Call

Buy to Cover 1 XYZ Apr 40 Call

Sell Short 1 XYZ Apr 45 Call

Position Rolled Up from 40 to 45 Strike

Rolling Down –

Long 1 XYZ Apr 40 Put

Sell 1 XYZ Apr 40 Put

Buy 1 XYZ Apr 35 Put

Position Rolled Down from 40 to 35 Strike

Roll Out –

Short 1 XYZ Apr 40 Call

Buy to Cover 1 XYZ Apr 40 Call

Sell Short 1 XYZ May 40 Call

Position Rolled Out from April to May Expiration

Rolling Up and Out –

Short 1 XYZ Apr 40 Call

Buy to Cover 1 XYZ Apr 40 Call

Sell Short 1 XYZ May 45 Call

Position Rolled Up from 40 to 45 Strike and
Rolled Out from April to May Expiration

Rolling Down and Out –

Long 1 XYZ Apr 40 Put

Sell 1 XYZ Apr 40 Put

Buy 1 XYZ May 35 Put

Position Rolled Down from 40 to 35 Strike and
Rolled Out from April to May Expiration

Situation –

XYZ @ 43.50

Today is May 3

Expect XYZ under 45.00 at June Expiration.

June expiration is 45 days out.

Sell a covered call for income.

You do not want shares called away.

May 3 (June expiration in 45 days) –
XYZ @ 43.50

Sell 1 XYZ Jun 45 Call @ 1.25

Covered Call Position –

Long 100 XYZ @ 43.50

Short 1 XYZ Jun 45 Call @ 1.25

May 8 (40 Days to June expiration) –

Long 100 XYZ @ 45.50

Short 1 XYZ Jun 45 Call @ 2.10

Remember – don't want stock called away.

Cover 1 XYZ Jun 45 Call @ 2.10

Now think 47.50 is a good resistance level.

May 8 (40 Days to June expiration) –

Cover 1 XYZ Jun 45 Call @ 2.10

Sell 1 XYZ Jun 47.50 Call @ 1.10

New Position –

Long 100 XYZ @ 45.50

Short 1 XYZ Jun 47.50 Call @ 1.10

June 17 (Expiration day) –

Long XYZ @ 46.00

Short 1 XYZ Jun 47.50 Call @ 0.00

Summary –

XYZ Stock

May 3 – XYZ @ 43.50

June 17 – XYZ @ 46.00

Profit = 2.50

XYZ Jun 45 Call

May 3 – Sold 1 XYZ Jun 45 Call @ 1.25

May 8 – Covered 1 XYZ Jun 45 Call @ 2.10

Loss = (0.85)

XYZ Jun 47.50 Call –

May 8 – Sold 1 XYZ Jun 47.50 Call @ 1.10

Jun 17 – Jun 47.50 Call @ 0.00

Profit = 1.10

Net Result =

$$2.50 - 0.85 + 1.10 = 2.75$$

Versus a Gain of 2.75

But you still hold your shares...

May 3 (June expiration in 45 days) –
XYZ @ 43.50

Sell 1 XYZ Jun 45 Call @ 1.25

Covered Call Position –

Long 100 XYZ @ 43.50

Short 1 XYZ Jun 45 Call @ 1.25

June 13 (5 days to June expiration) –

Long 100 XYZ @ 44.75

Short 1 XYZ Jun 45 Call @ 0.30

Worried stock may be above 45.00 at expiration.

Cover 1 XYZ Jun 45 Call @ 0.30

Longer term – think stock stays under 45.00.

June 13 (5 days to June Expiration)

Cover 1 XYZ Jun 45 Call @ 0.30

Sell 1 XYZ Jul 45 Call @ 1.30

New Position –

Long 100 XYZ @ 45.50

Short 1 XYZ Jul 45 Call @ 1.30

July Expiration in 32 Days

July 15 (Expiration day) –

Long XYZ @ 43.50

Short 1 XYZ Jul 45 Call @ 0.00

Summary –

XYZ Stock –

May 3 – XYZ @ 43.50

July 15 – XYZ @ 43.50

Profit = 0.00

XYZ Jun 45 Call

May 3 – Sold 1 XYZ Jun 45 Call @ 1.25

June 13 – Covered 1 XYZ Jun 45 Call @ 0.30

Profit = 0.95

XYZ Jul 45 Call –

Jun 13 – Sold 1 XYZ Jul 45 Call @ 1.30

July 15 – XYZ Jul 45 Call @ 0.00

Profit = 1.30

Net Result =

$0.00 + 0.95 + 1.30 = 2.25$

Versus 1.25*

May 3 (June expiration in 45 days) –
XYZ @ 43.50

Sell 1 XYZ Jun 45 Call @ 1.25

Covered Call Position –

Long 100 XYZ @ 43.50

Short 1 XYZ Jun 45 Call @ 1.25

May 28 (20 days to June expiration) –

Long 100 XYZ @ 45.50

Short 1 XYZ Jun 45 Call @ 1.55

Worried stock may be above 45.00 at expiration.

Cover 1 XYZ Jun 45 Call @ 1.55

Longer term – think stock stays under 47.50.

May 28 (53 days to July expiration) –

Cover 1 XYZ Jun 45 Call @ 1.55

Sell 1 XYZ Jul 47.50 Call @ 1.30

New Position –

Long 100 XYZ @ 45.50

Short 1 XYZ Jul 47.50 Call @ 1.30

July 15 (Expiration day) –

Long XYZ @ 45.50

Short 1 XYZ Jul 47.50 Call @ 0.00

Summary –

XYZ Stock -

May 3 – XYZ @ 43.50

July 15 – XYZ @ 45.50

Profit = 2.00

XYZ Jun 45 Call

May 3 – Sold 1 XYZ Jun 45 Call @ 1.25

May 28 – Covered 1 XYZ Jun 45 Call @ 1.55

Loss = (0.25)

XYZ Jul 47.50 Call –

May 28 – Sold 1 XYZ Jul 47.50 Call @ 1.30

July 15 – Jul 47.50 Call @ 0.00

Profit = 1.30

Net Result =

$2.00 - 0.25 + 1.30 = 3.05$

Versus 2.25

and you still own your shares.

Summary –

- Rolled short call positions based on changing outlook
- Part of each trade involved keeping shares
- Through rolling call positions risk of being assigned was reduced
- An increase in income was also a result

Situation –

XYZ @ 43.50

Today is May 3

Expect XYZ to trade to 47.50 by June Expiration.

June expiration is 45 days out.

Initiate a Bull Call Spread.

May 3 (June expiration in 45 Days) –
XYZ @ 43.50

Buy 1 XYZ Jun 42.50 Call @ 2.35

Sell 1 XYZ Jun 47.50 Call @ 0.55

Spread Position

Jun 42.50 / 47.50 Bull Call Spread

Vertical Spread

May 18 (30 days to June expiration) –
XYZ @ 49.50

Long 1 XYZ 42.50 Call @ 6.60

Short 1 XYZ 47.50 Call @ 2.85

Decide to Roll Up Short Call

May 18 (30 days to June expiration) –

Believe 50.00 is new resistance for XYZ

Buy 1 XYZ Jun 47.50 Call @ 2.85

Sell 1 XYZ Jun 50.00 Call @ 1.50

Spread Position –

June 42.50 / 50.00 Bull Call Spread

Vertical Spread

June 17 (expiration date) –
XYZ @ 49.50

Long 1 XYZ 42.50 Call @ 7.00

Short 1 XYZ 50.00 Call @ 0.00

Outcome?

Summary –

XYZ 42.50 Call –

May 3 – Buy 1 XYZ 42.50 Call @ 2.35

June 17 – XYZ 42.50 Call @ 7.00

Gain = 4.65

XYZ 47.50 Call –

May 3 – Sell 1 XYZ 47.50 Call @ 0.55

May 18 – Buy 1 XYZ 47.50 Call @ 2.85

Loss = (2.30)

Vertical Spread

XYZ 50.00 Call –

May 18 – Sell 1 XYZ 50.00 Call @ 1.50

June 17 – XYZ 50.00 Call @ 0.00

Gain = 1.50

Net Result =

$$4.65 - 2.30 + 1.50 = 3.85$$

Versus 3.20 Gain

Situation –

XYZ @ 43.50

Today is May 3

Expect XYZ to trade to 47.50 by June Expiration.

June expiration is 45 days out.

Initiate a Bull Call Spread.

May 3 (June expiration in 45 Days) –
XYZ @ 43.50

Buy 1 XYZ Jun 42.50 Call @ 2.35

Sell 1 XYZ Jun 47.50 Call @ 0.55

Spread Position

Jun 42.50 / 47.50 Bull Call Spread

Vertical Spread

June 2 – (15 days to expiration)

XYZ @ 43.50

Long 1 XYZ June 42.50 Call @ 1.60

Short 1 XYZ June 47.50 Call @ 0.10

Decide to Roll Down Short Call.

June 2 – (15 days to expiration)

Buy 1 XYZ 47.50 Call @ 0.10

Sell 1 XYZ 45.00 Call @ 0.55

Spread Position

Jun 42.50 / 45.00 Bull Call Spread

Vertical Spread

June 17 (expiration date) –
XYZ @ 44.00

Long 1 XYZ 42.50 Call @ 1.50

Short 1 XYZ 45.00 Call @ 0.00

Outcome?

Summary –

XYZ 42.50 Call –

May 3 – Buy 1 XYZ 42.50 Call @ 2.35

June 17 – XYZ 42.50 Call @ 1.50

Loss (0.85)

XYZ 47.50 Call –

May 3 – Sell 1 XYZ 47.50 Call @ 0.55

June 2 – Buy 1 XYZ 47.50 Call @ 0.10

Gain = 0.45

Vertical Spread

XYZ 50.00 Call –

June 2 – Sell 1 XYZ 50.00 Call @ 0.55

June 17 – XYZ 50.00 Call @ 0.00

Gain = 0.55

Net Result =

$$-0.85 + 0.45 + 0.55 = 0.05$$

Versus 0.30 Loss

Summary –

- As the stock moved around there were opportunities to roll the short call option positions
- The two examples involved taking advantage of selling more time value
- The result was better profitability based on being dynamic around the position

- Options allow traders a wide variety of payout scenarios
- Once a position is initiated, there are also a number of potential changes that may be made to a position
- Rolling strikes and expirations can improve the profitability based on a certain outlook

Questions?
Watching a recording?

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