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CHICAGO BOARD OPTIONS EXCHANGE

WeeklysSM Options and Short Term Strategies

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Weeklys Options

- Description
- Index
- Stock / ETF

Time Value of Options

- Theta
- Weeklys and Time

Covered Calls

- Strategy
- Weeklys Options

Time Spreads

- Strategy
- Weeklys Options

Diagonal Spreads

- Strategy
- Weeklys Options

Funding a Position

- Explanation
- Weeklys Options

Summary / Q&A

- Begin trading on Thursday for the following Friday expiration
- Currently trading on indexes, ETFs, and equities
- Parameters for settlement and expiration are the same as standard options
- Have a very short life so suited for shorter term strategies

Index Options –
SPX, DJX, OEX, XEO

ETF Options –
SPY, QQQ, IWM, GLD,
XLF, EEM, FAS, FAZ

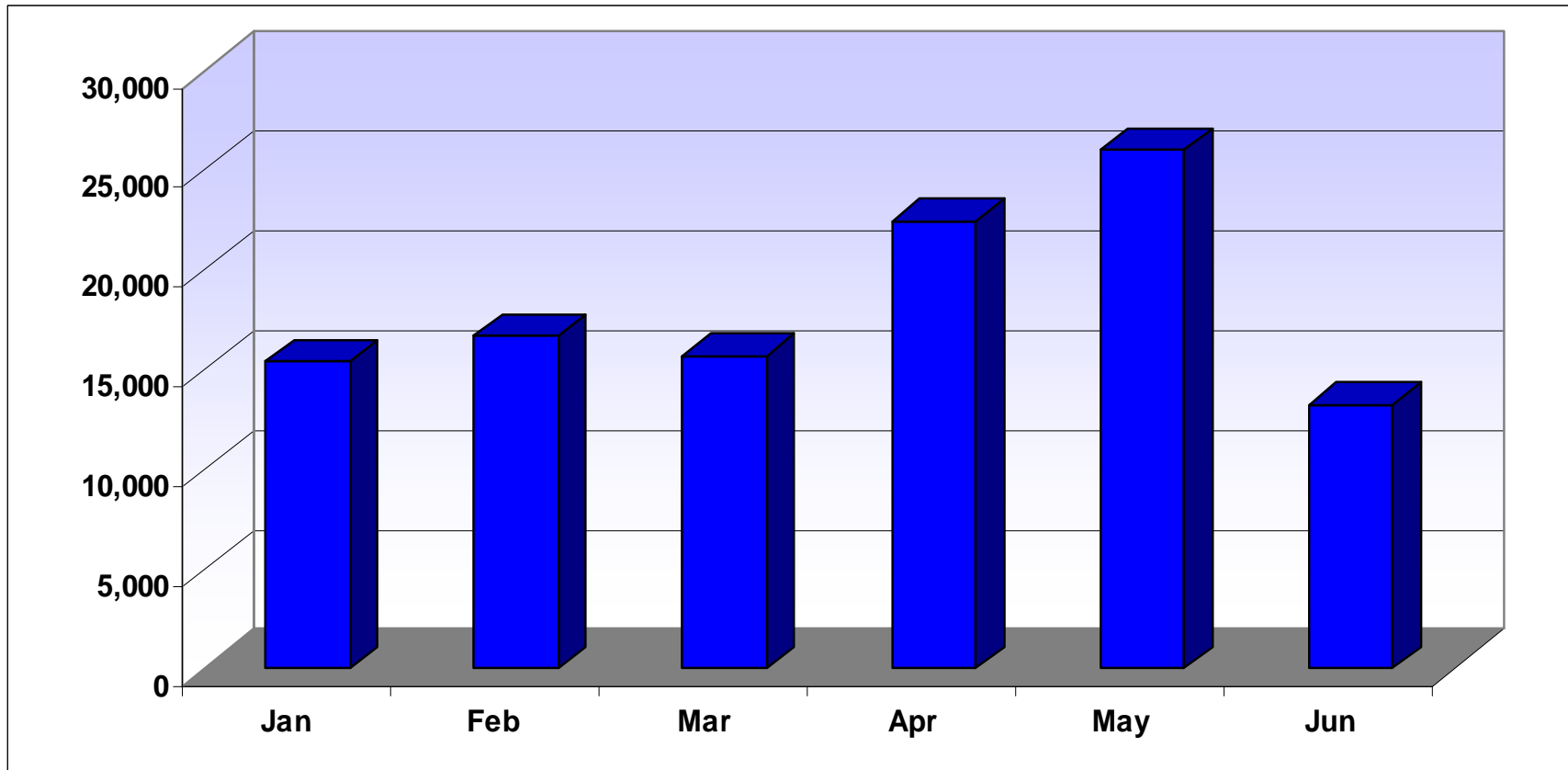
Stock Options –
C, BAC, AAPL, BP, F,
GOOG, AMZN, MSFT

*As Of July 16, 2010

Index Options –

- SPX, OEX, XEO have been trading since 2005
- DJX just added (July 16, 2010)
- SPX & DJX are AM settled and cease trading on Thursday
- OEX and XEO are PM settled on Friday
- OEX is American style, others European style
- SPX volume is steady, dropped with SPY introduction

S&P 500™ Weeklys Option Average Daily Volume –

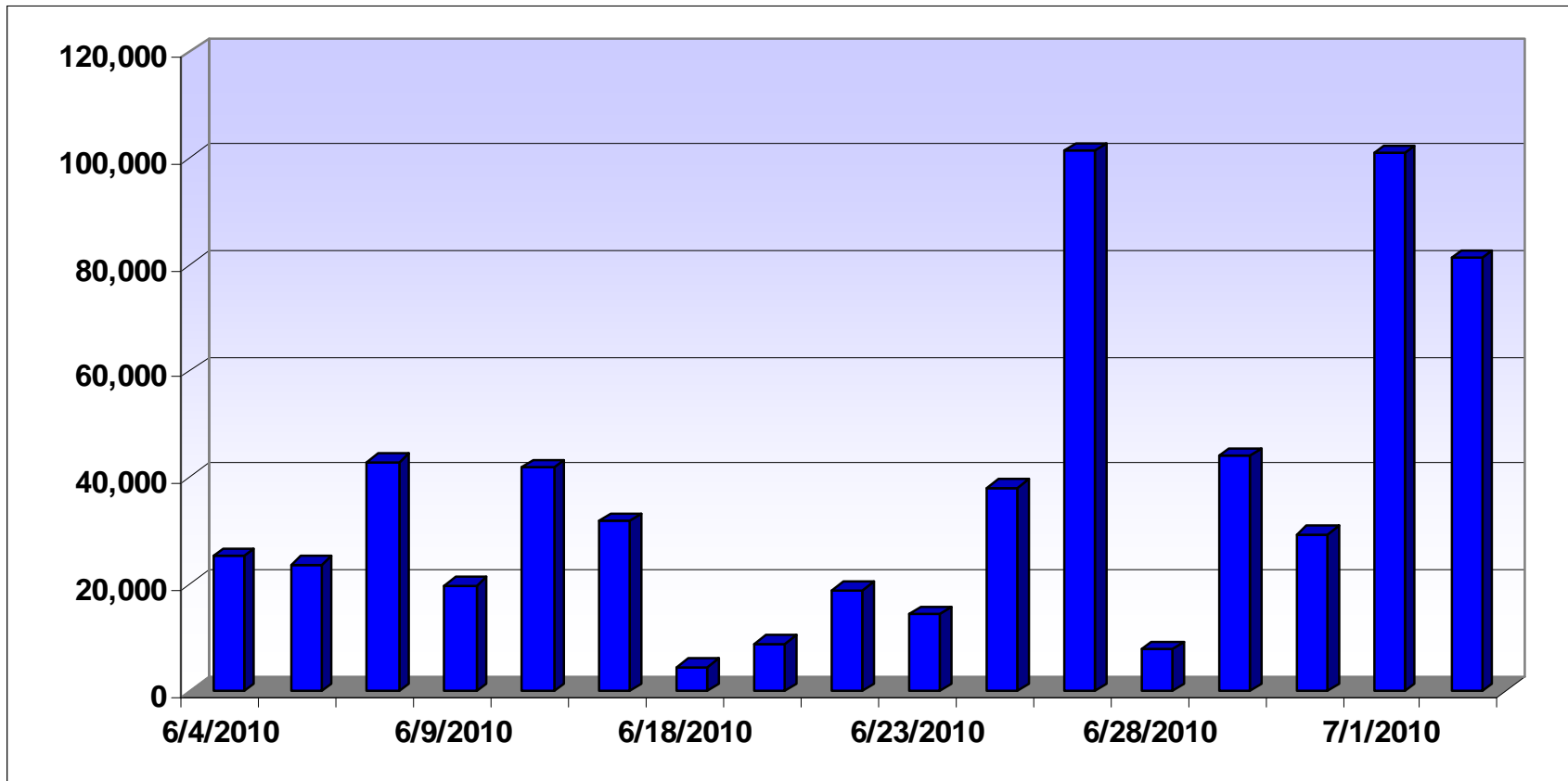


Source: cboe.com

ETF / Stock Options –

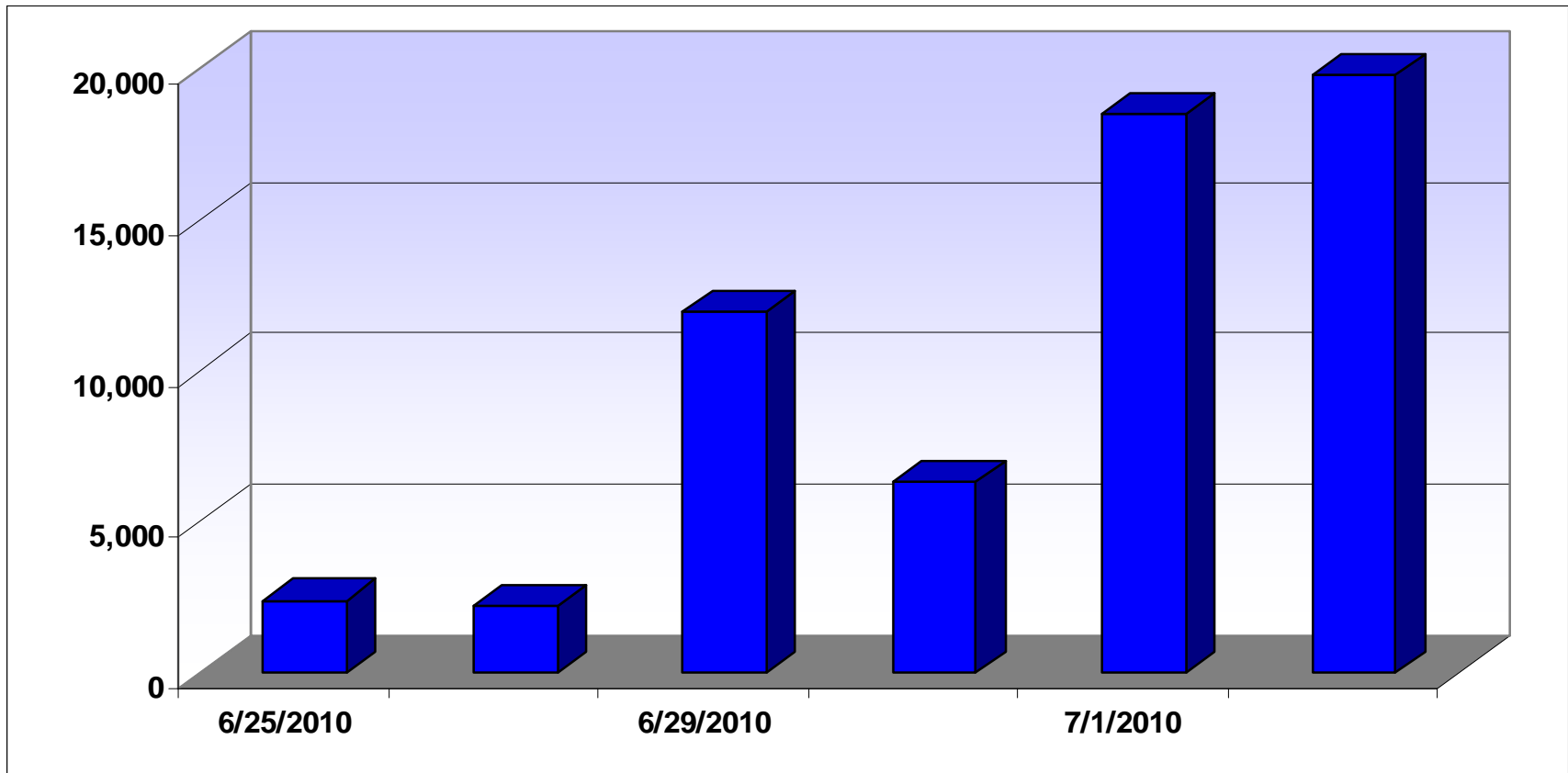
- Began trading in June
- Trade Thursday to the following week's Friday
- American style like all equity options in the US
- Currently there is a limitation on strikes
- Interesting opportunities with limited life of options

SPY Weeklys Option Daily Volume –



Source: cboe.com

AAPL Weeklys Option Daily Volume –

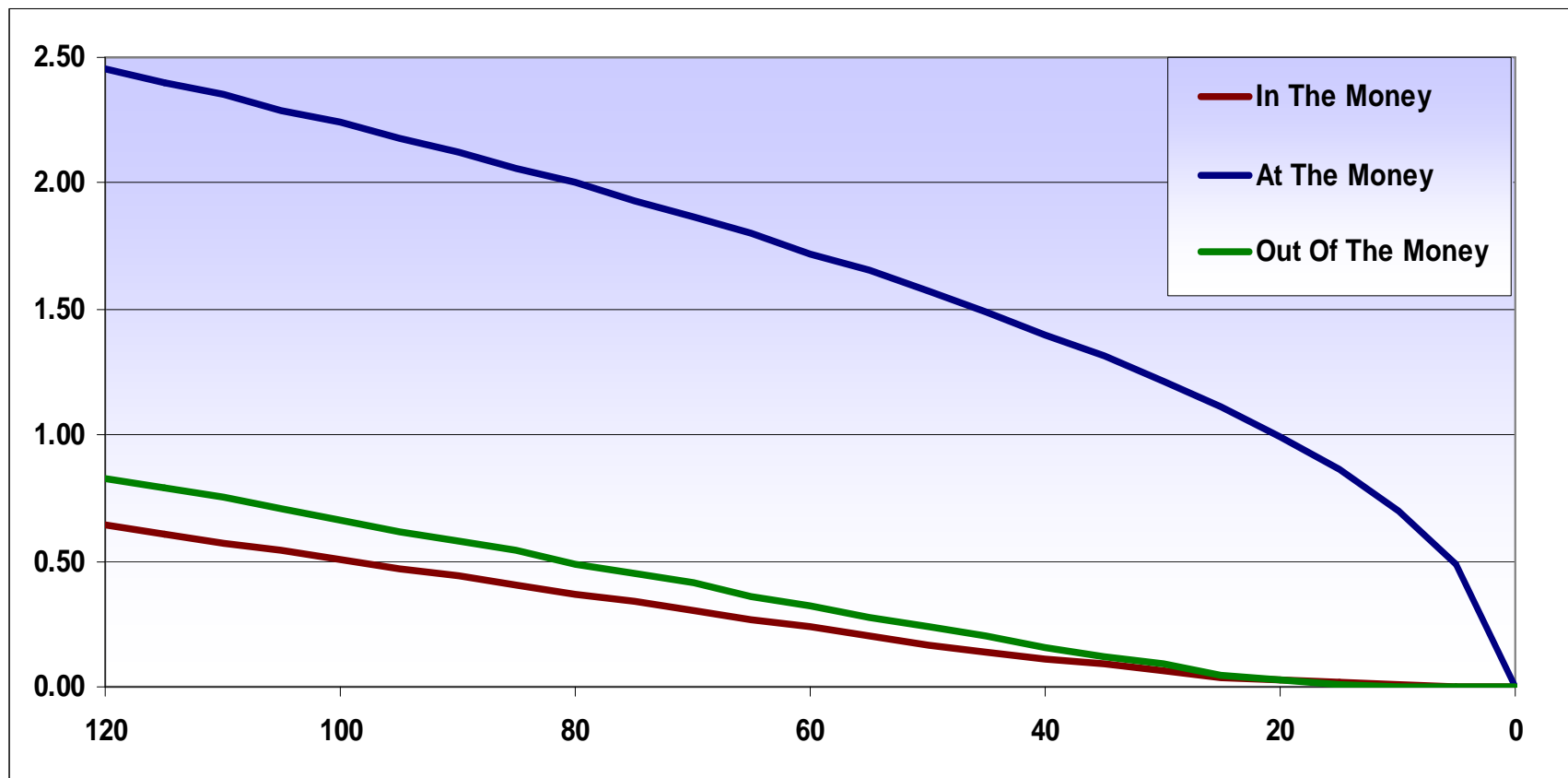


Source: cboe.com

- When selling options a benefit is the loss of time value
- For at the money options, time value does not deteriorate at a linear pace
- The loss of value accelerates as expiration approaches
- Based on strikes this deeply impacts options with little time to expiration

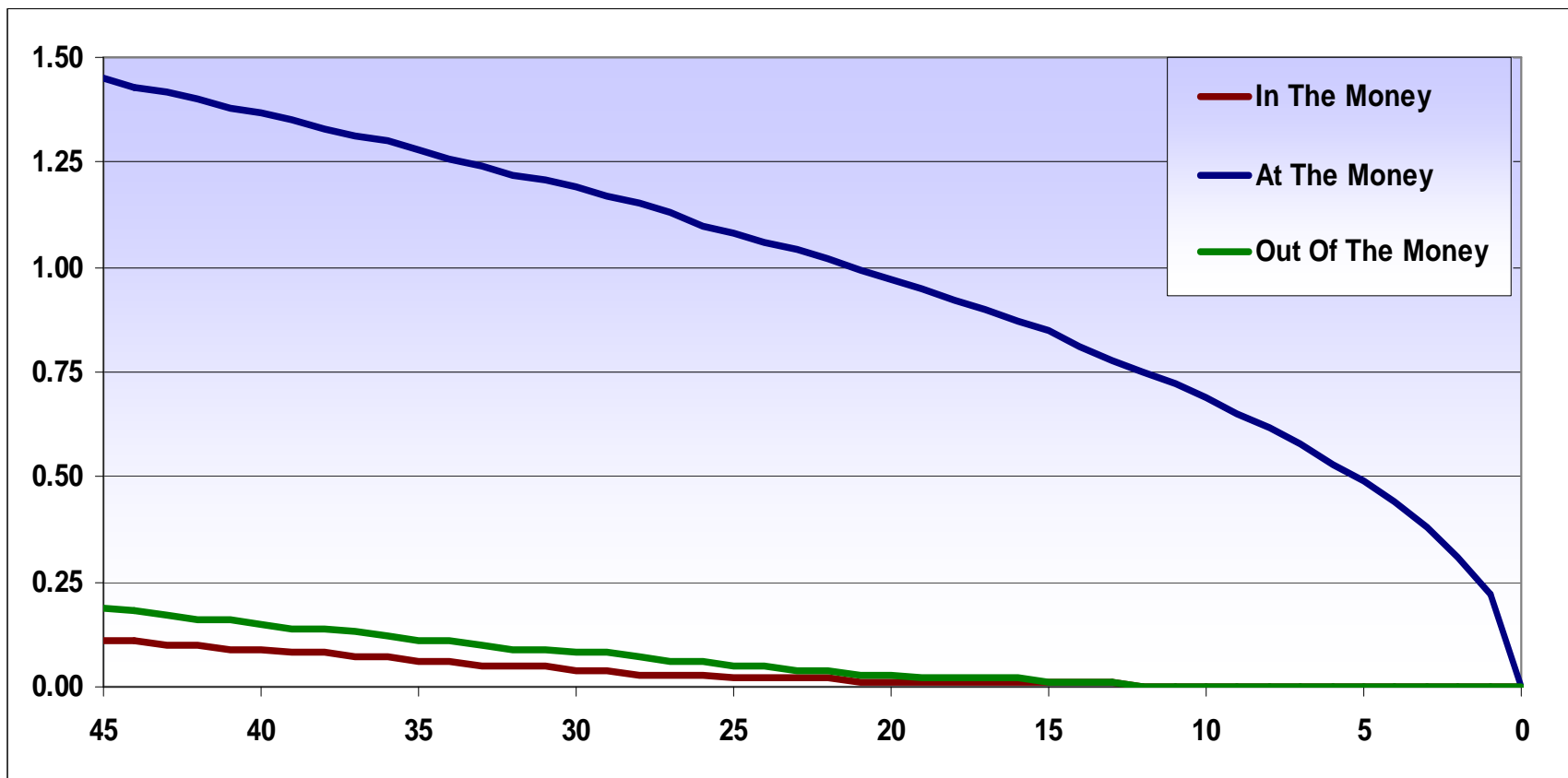
Time Value of Options

Time Value Behavior -



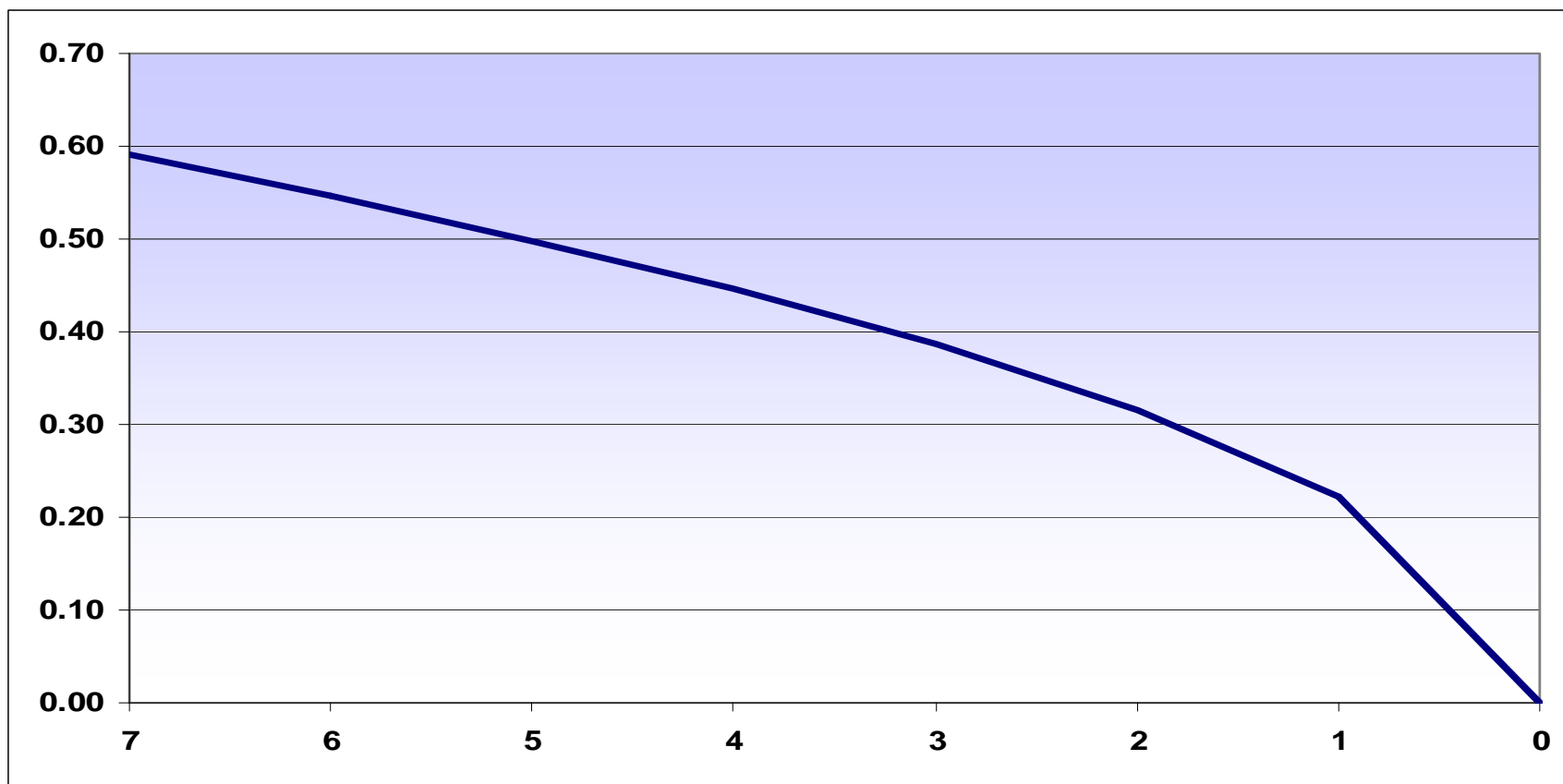
Time Value of Options

Time Value Behavior -



Time Value of Options

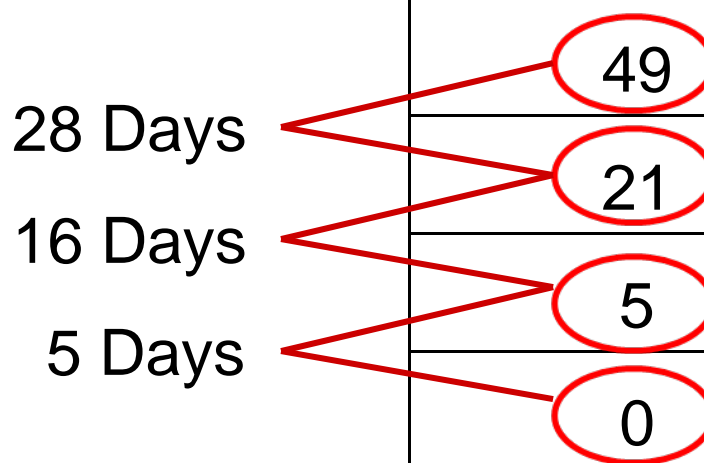
Time Value Behavior -



Time Value of Options

Time Value Behavior -

	Day	ATM Option
28 Days	49	1.50
16 Days	21	1.00
5 Days	5	0.50
	0	0.00



Summary –

- At the money and near at the money options have significant loss of time value in last few days
- Securities with weekly options should always have an option expiring in the next few days

Quick Review –

- Long stock
- Short call option on stock
- Short call is obligation to sell owned stock

Example –

Long 100 XYZ @ 53.50

Short 1 XYZ Jul 50 Call @ 4.25

- Today is Thursday July 15 – market open
- August expiration is Friday August 22 (27 trading days)
- Long 100 XYZ @ 34.80
- Believe XYZ has significant resistance at 35.00
- Considering a covered call using the XYZ Aug 35 Call which is trading at 1.28

Trade –

Short 1 XYZ Aug 35 Call @ 1.28

Covered Call Position –

Long 100 XYZ @ 34.80

Short 1 XYZ Aug 35 Call @ 1.28

Covered Call

Long 100 XYZ @ 34.80

Short 1 XYZ Aug 35 Call @ 1.28

Week	Date	Days to Aug Expiration	XYZ Price	XYZ Aug 35 Call	Change
0	7/15	27	34.80	1.28	0.00
1	7/16	25	34.80	1.23	(0.05)
2	7/23	20	34.80	1.10	(0.13)
3	7/30	15	34.80	0.94	(0.16)
4	8/6	10	34.80	0.74	(0.20)
5	8/13	5	34.80	0.50	(0.24)
6	8/20	0	34.80	0.00	(0.50)

Weeklys Alternative –

Date	Days to Next Week Expiration	XYZ Price	XYZ Weeklys 35 Call
7/15	7	34.80	0.60
7/23	5	34.80	0.50
7/30	5	34.80	0.50
8/6	5	34.80	0.50
8/13	5	34.80	0.50

Covered Call

Sell 1 XYZ Aug 35 Call @ 1.28 or

Sell 1 XYZ Jul 15th 35 Call @ 0.60

Sell 1 XYZ Jul 23rd 35 Call @ 0.50

Sell 1 XYZ Jul 30th 35 Call @ 0.50

Sell 1 XYZ Aug 8th 35 Call @ 0.50

Sell 1 XYZ Aug 13th 35 Call @ 0.50

Total = 2.60

1.28 vs. 2.60

Single Transaction Advantage –

- Lower commission costs
- Less active strategy with only one transaction
- Know income for whole time period when initiating strategy

Weeklys Rolling Transaction Advantages –

- Can discontinue strategy by not rolling to a new week
- May change strike prices based on stock movement
- Potentially more profitable
- Can avoid periods where early exercise is possible

- A time spread involves two options of the same type and strike
- The difference is the expiration dates of the two options
- This is a method of benefitting from how time value is lost by options
- Would buy an option with more time to expiration and sell a shorter term option

- XYZ @ 53.50 – expect the stock to stay in a narrow range for a week
- June expiration is 66 trading days out and XYZ June 54 Call is trading at 3.25
- Weeklys 54 Call has 6 days to expiration and is trading at 0.90

Buy 1 Jun 54 Call @ 3.25

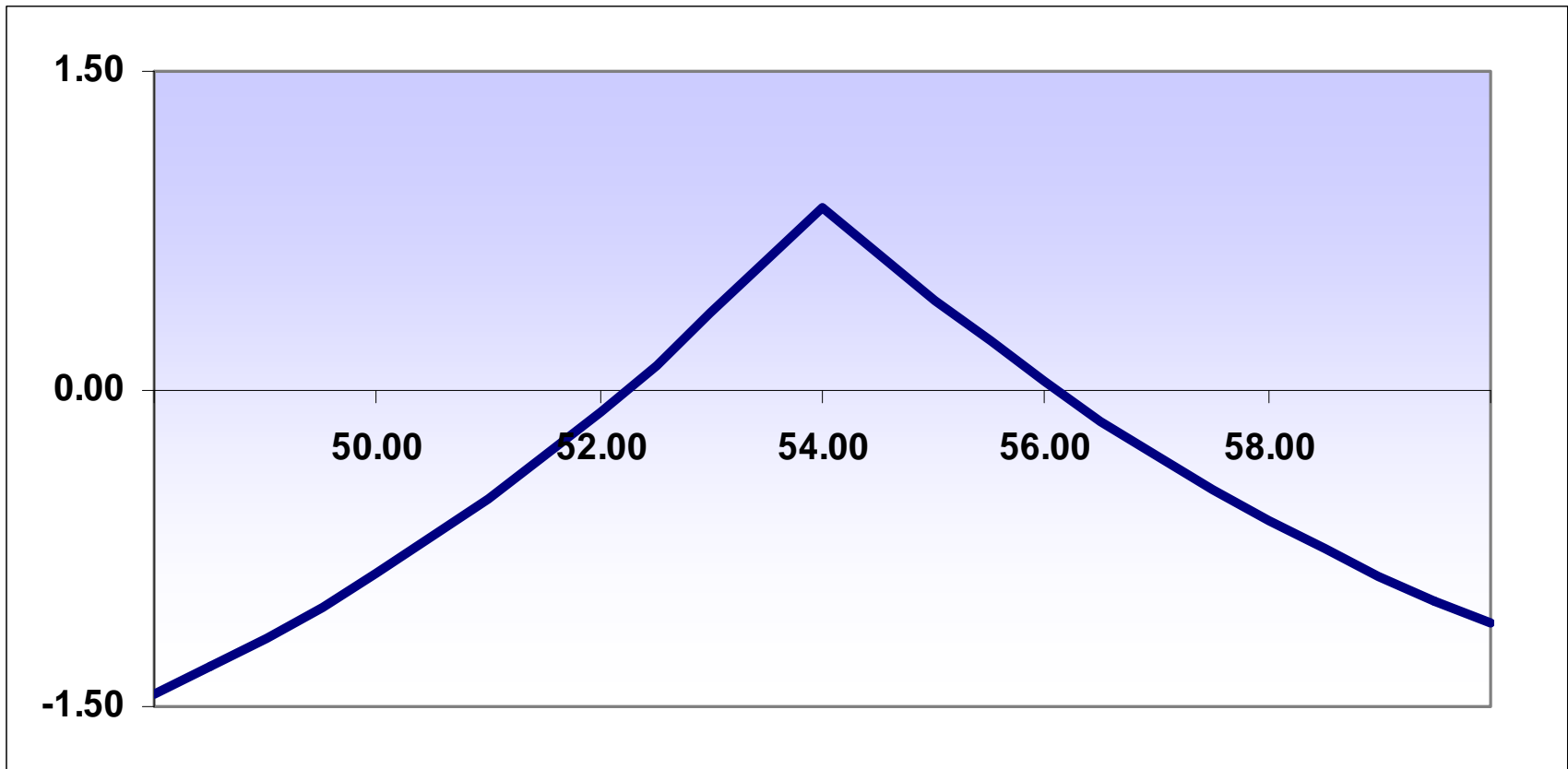
Sell 1 Weeklys 54 Call @ 0.90

Cost / Debit = 2.35

Payoff Table at Weeklys Expiration –

XYZ	Long L/T 54 Call	Short S/T 54 Call	Debit	P/L
48	0.55	0.00	(2.35)	(1.80)
50	1.45	0.00	(2.35)	(0.90)
52	2.25	0.00	(2.35)	(0.10)
54	3.20	0.00	(2.35)	0.85
56	4.35	(2.00)	(2.35)	0.00
58	5.75	(4.00)	(2.35)	(0.60)
60	7.25	(6.00)	(2.35)	(1.10)

Profit Loss Diagram Table at Weeklys Expiration –



Summary

- Neutral strategy used when a stock is expected to experience little price move
- Position benefits from time loss of near term option
- Weeklys options create the opportunity to use this strategy as short term trade

- A Diagonal Spread is similar to the Time Spread
- Uses options with different strike prices
- In the money options lose little time value relative to at the money options
- May be used in a similar fashion to a Covered Call

- XYZ @ 53.80
- Expect the stock to stay in range
- Concern is XYZ may trade higher
- June expiration is 66 trading days out and XYZ June 48 Call is trading at 6.90
- XYZ Weeklys 54 Call has 6 days to expiration and is trading at 0.90

Buy 1 Jun 48 Call @ 6.90

Sell 1 Weeklys 54 Call @ 0.90

Cost / Debit = 6.00

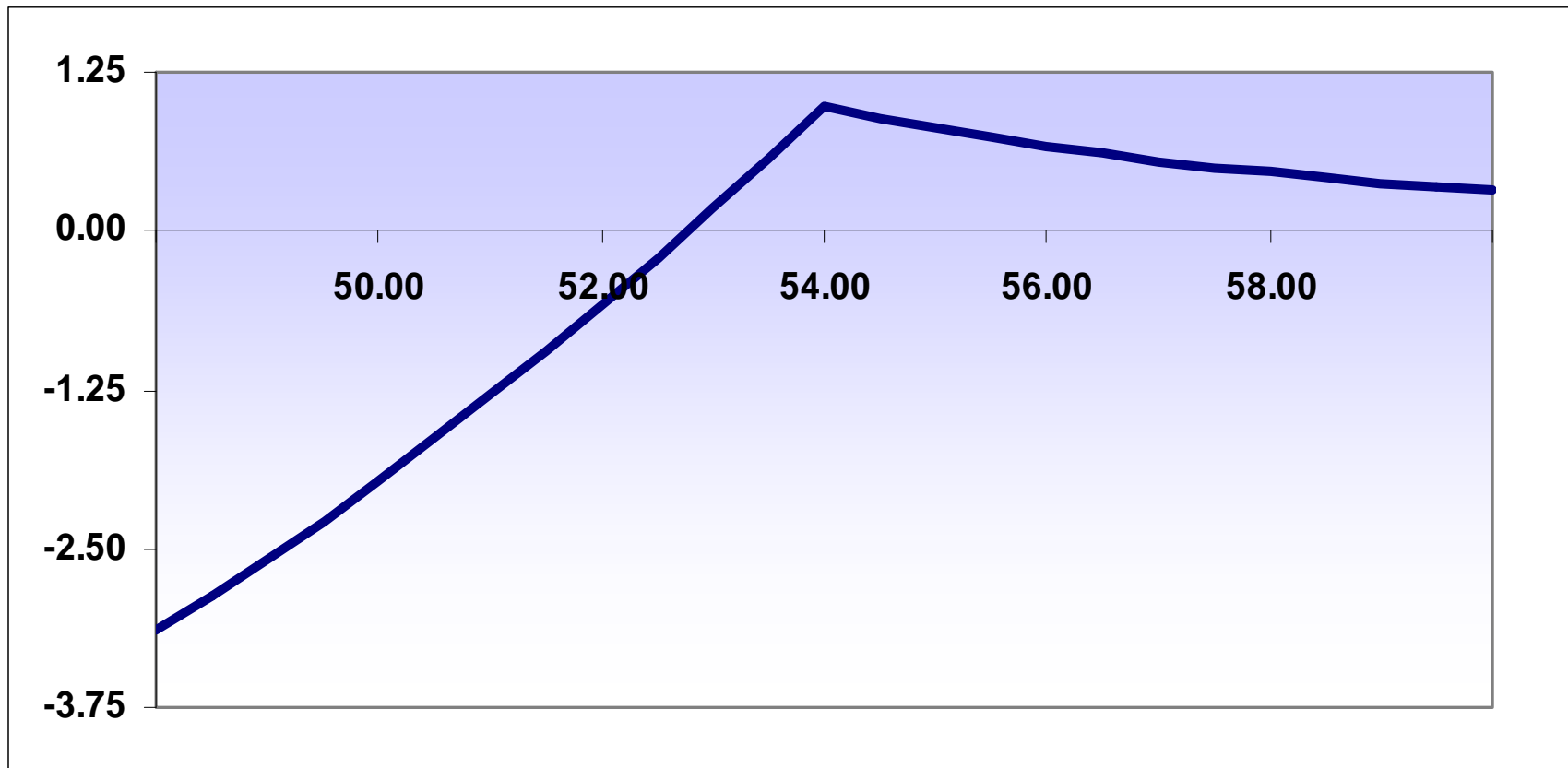
Diagonal Spread

Payoff Table at Weeklys Expiration –

XYZ	Long L/T 48 Call	Short S/T 54 Call	Debit	P/L
48	2.85	0.00	(6.00)	(3.15)
50	4.00	0.00	(6.00)	(2.00)
52	5.40	0.00	(6.00)	(0.60)
54	6.95	0.00	(6.00)	0.95
56	8.65	(2.00)	(6.00)	0.65
58	10.45	(4.00)	(6.00)	0.45
60	12.45	(6.00)	(6.00)	0.45

Diagonal Spreads

Profit Loss diagram at Weeklys Expiration –



- May use shorter term options to offset the cost of longer term options
- LEAPS® are useful for a longer term opinion on stock
- Selling shorter term options opportunistically may offset the cost of a LEAPS option

- XYZ @ 42.50
- Have a negative opinion on XYZ over next 18 months
- Take a long position in a LEAPS Put option
- Believe move will be a long grind lower
- Think support level for near term is 40.00
- Plan to sell short term put options to offset the cost of the LEAPS Put

XYZ @ 42.50

LEAPS Expiration 550 Days

Buy 1 XYZ 50.00 LEAPS Put @ 9.10

LEAPS Intrinsic Value = 7.50

LEAPS Time Value = 1.60

XYZ @ 40.25 (Down 2.25)

LEAPS Expiration 545 Days

Believe 40.00 is Support

Long 1 XYZ 50 LEAPS Put 10.65 (+1.55)

Sell 1 Weeklys 40 Put @ 0.45

XYZ @ 41.25

LEAPS Expiration 540 Days

Weeklys Expiration Day

Long 1 XYZ 50 LEAPS Put @ 9.85 (+0.75)

Short 1 XYZ 40 Weeklys Put @ 0.00 (+0.45)

Weeklys Expires

Cost of LEAPS Put Offset 0.45

Two ways to think of this –

Weekly running profit = 0.45
LEAPS unrealized profit = 0.75

or

New LEAPS cost basis = $9.10 - 0.45 = \underline{8.65}$

XYZ @ 40.25 (Down 2.25)

LEAPS Expiration 520 Days

Still Believe 40.00 will hold as support

Long 1 XYZ 50 LEAPS Put 10.20 (+1.10)

Sell 1 XYZ Weeklys 40 Put @ 0.45

XYZ @ 42.00

LEAPS Expiration 515 Days

Long 1 XYZ 50 LEAPS Put @ 9.35 (+0.65)

Short 1 XYZ 40 Weeklys Put @ 0.00 (+0.45)

Weeklys Expires

Cost of LEAPS Put Offset 0.45

Running Totals –

Long 1 XYZ 50 LEAPS Put +0.20
Short Weeklys Option Trades + 0.90

or

New LEAPS cost basis = $9.10 - 0.90 = 8.20$

Summary –

- Very dynamic and active method of using Weeklys
- Cost of longer term option may be offset through selling shorter term options
- Risk exists of being correct and missing big move

- Weeklys on indexes have been around for some time
- Now ETF and Equity Weeklys are available
- With shorter time frames, new trading opportunities exist
- CBOE is adding new Weeklys options series every two to three weeks

Summary –

The CBOE Website has more information on these and other products.

www.cboe.com/weekly

Questions / Comments?
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