

CBOE : THE OPTIONS
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Strategies with WeeklysSM Options

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Weeklys Options

- Description
- Recent List

Time Value of Options

- Time Decay Review
- Weeklys and Time

Strategies

- Covered Call
- Long Trade
- Spread Trade

Summary

Contract Specifications –

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

Advantages –

- For buyers – potentially lower premiums
- For sellers – may have lower spread costs
- For both – time decay benefits
- More flexibility in timing of trades

Disadvantages –

- Limited time (7 trading days maximum)
- For buyers – big short term price move needed to profit from out-of-the-money position
- For sellers – high risk associated with a quick large price move

How do I find them?

www.cboe.com/weeklys

New list of potential weeklys
comes out on Wednesday afternoon.

Indexes August 10th Expiration –

OEX TM	S&P 100 TM Index (American style)
XEO TM	S&P 100 Index (European style)
SPX	S&P 500 TM Index
DJX	Dow Jones Industrial Average
NDX	Nasdaq-100 TM Index
RUT	Russell 2000 TM Index

ETFs & ETNs August 10th Expiration –

AGQ	FXE	SLV	USO
EEM	FXI	SPY	UNG
EFA	GLD	SSO	VXX
EWJ	GDX	TBT	XLB
EWZ	IWM	TLT	XLE
FAS	QQQ	TNA	XLF
FAZ	SDS	TZA	XME

Stocks August 10th Expiration –

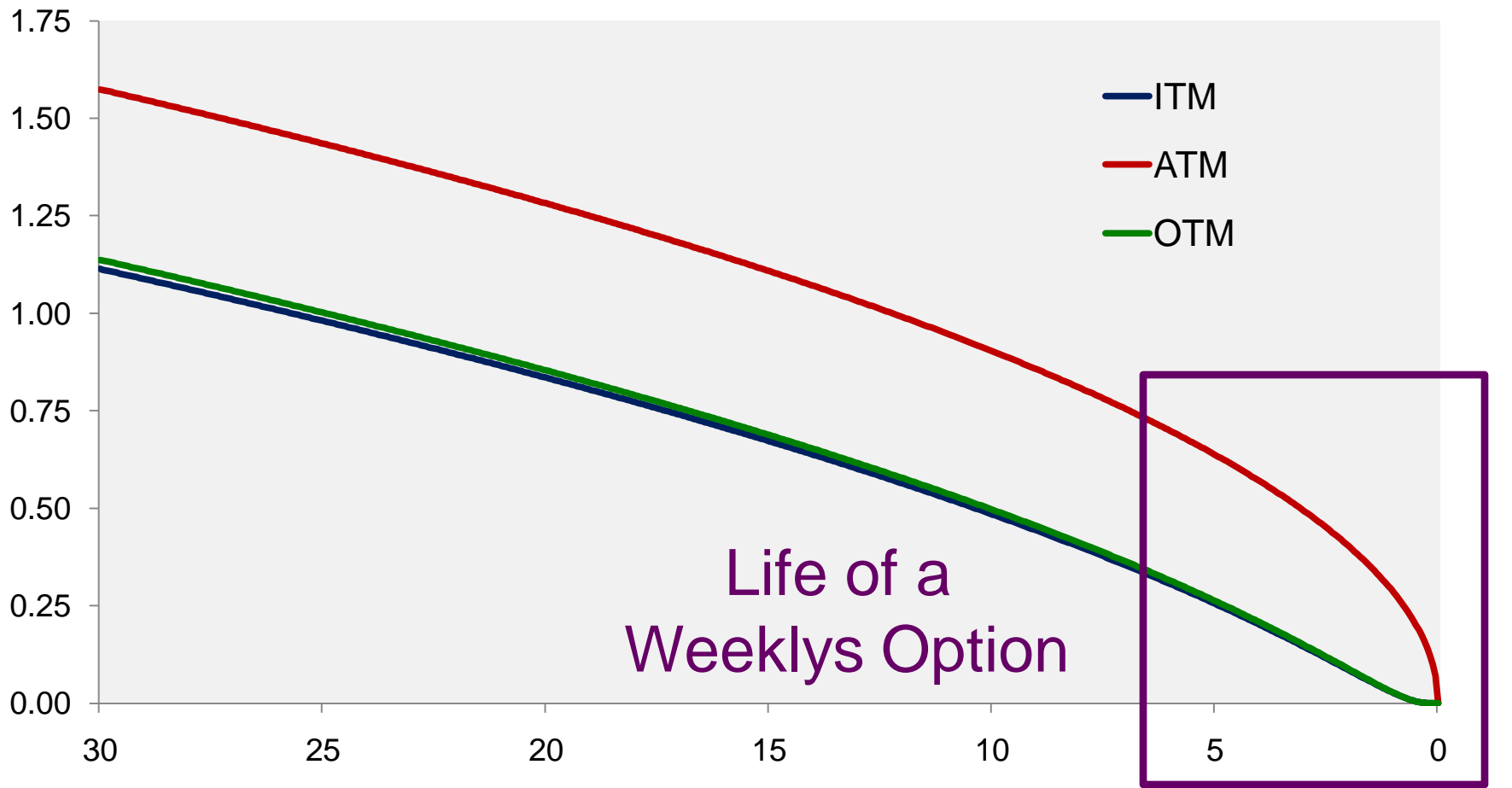
AA	APA	BIDU	COP	F	GPS	INTC
AAPL	APC	BMY	CSCO	FB	GRPN	IOC
ABX	APKT	BP	CREE	FCX	GS	ISRG
ACN	APOL	BRKB	CRM	FFIV	HAL	JCP
AET	ARNA	C	CVX	FMCN	HD	JNJ
AIG	AXP	CAT	DE	FSLR	HL	JOY
AMRN	BA	CF	DELL	GE	HLF	JPM
AMZN	BAC	CHK	DMND	GM	HPQ	KO
ANF	BAX	CLF	DNDN	GMCR	IBM	LNKD
ANR	BBBY	CMG	EMC	GOOG	IDCC	LO

Stocks August 10th Expiration –

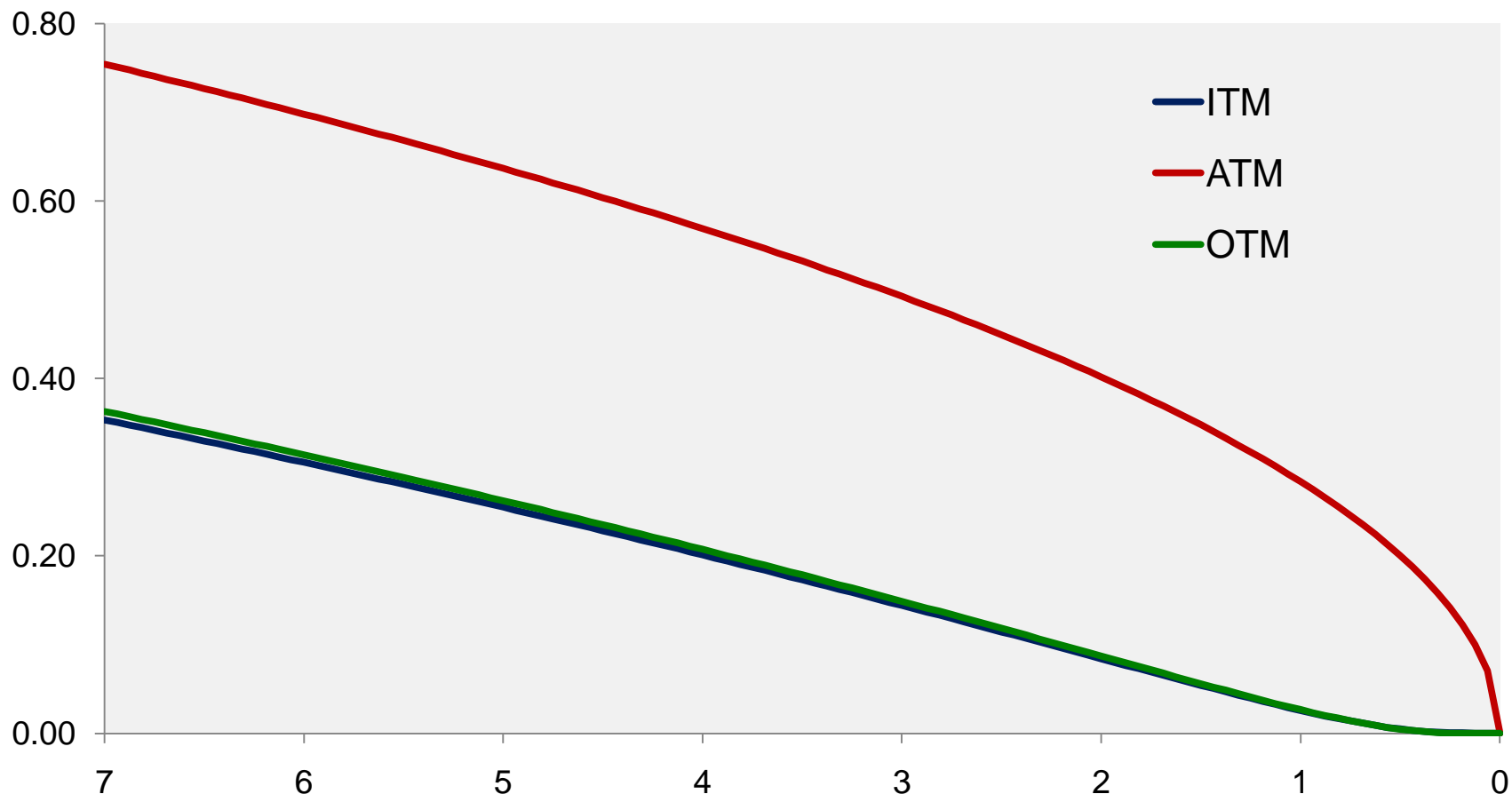
LULU	MS	OXY	RIMM	T	WLT
LVS	MSFT	PBR	S	TXN	WMB
MA	MU	PCLN	SBUX	UNH	WMT
MCD	NEM	PCX	SHLD	UNP	WYNN
MCP	NFLX	PFE	SINA	UTX	X
MGM	NKE	PG	SLB	V	XOM
MMM	NOK	POT	SLW	VHC	YHOO
MMR	NTAP	QCOM	SNDK	VZ	YOKU
MOS	NVDA	QCOR	STX	WDC	ZNGA
MRVL	ORCL	RIG	SU	WFC	

Time Value of Options

30 Day Time Value Behavior –



7 Day Time Value Behavior –



Time Value of Options

XYZ – At-The-Money Time Decay –

Days to Expiration	Stock Price	XYZ 40 Call	XYZ 40 Put
7	40.00	0.67	0.66
6	40.00	0.62	0.61
5	40.00	0.57	0.56
4	40.00	0.51	0.50
3	40.00	0.44	0.43
2	40.00	0.36	0.35
1	40.00	0.25	0.24
0	40.00	0.00	0.00

Time Value of Options

XYZ – In-The-Money Time Decay –

Days to Expiration	Stock Price	XYZ 39 Call	XYZ 41 Put
7	40.00	1.28	1.28
6	40.00	1.24	1.24
5	40.00	1.20	1.19
4	40.00	1.15	1.14
3	40.00	1.10	1.09
2	40.00	1.06	1.05
1	40.00	1.01	1.01
0	40.00	1.00	1.00

Summary –

- At the money and near at the money options experience 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 55 Call @ 1.25

Trading Scenario –

- Today is Thursday July 12
- August expiration is Friday August 17 (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 @ 1.25

Trade –

Sell 1 XYZ Aug 35 Call @ 1.25

Covered Call Position –

Long 100 XYZ @ 34.80

Short 1 XYZ Aug 35 Call @ 1.25

Covered Call

Long 100 XYZ @ 34.80

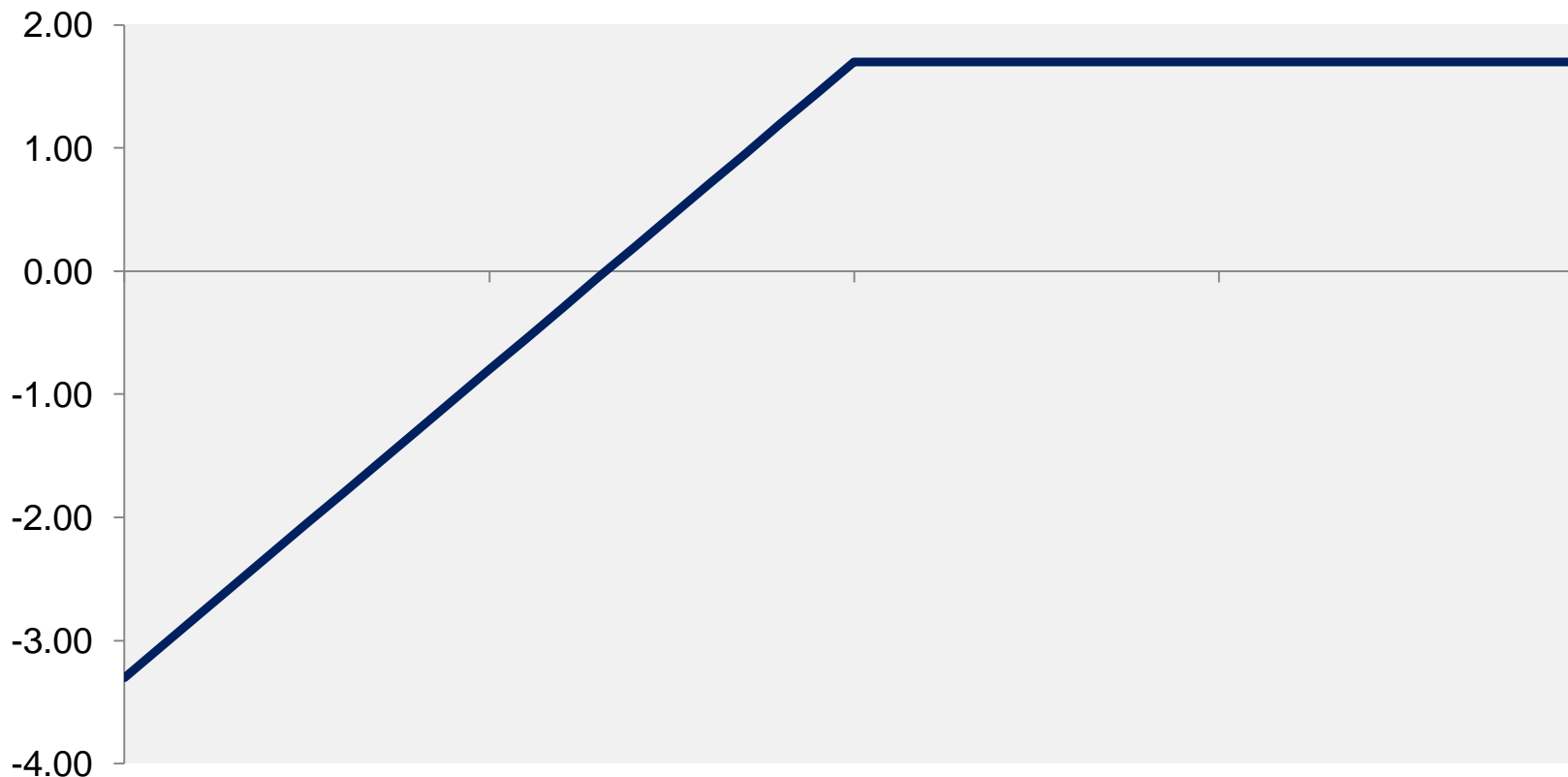
Short 1 XYZ 35 Call @ 1.25

XYZ	Stock P/L	XYZ 35 Call	Option Income	Total P/L
30.00	(4.80)	0.00	1.25	(3.55)
32.50	(2.30)	0.00	1.25	(1.05)
35.00	0.20	0.00	1.25	1.45
37.50	2.70	(2.50)	1.25	1.45
40.00	5.20	(5.00)	1.25	1.45

Covered Call

Long 100 XYZ @ 34.80

Short 1 XYZ 35 Call @ 1.25



Covered Call

Long 100 XYZ @ 34.80

Short 1 XYZ Aug 35 Call @ 1.25

Week	Date	Days to Expiration	XYZ Price	Aug 35 Call	Change
0	7/12	27	34.80	1.25	0.00
1	7/20	20	34.80	1.10	(0.15)
2	7/27	15	34.80	0.95	(0.30)
3	8/3	10	34.80	0.75	(0.50)
4	8/10	5	34.80	0.50	(0.75)
5	8/17	0	34.80	0.00	(1.25)

Sell 1 XYZ Aug 35 Call @ 1.25

OR

Sell 1 XYZ Jul 20th 35 Call @ 0.60

Sell 1 XYZ Jul 27th 35 Call @ 0.50

Sell 1 XYZ Aug 3rd 35 Call @ 0.50

Sell 1 XYZ Aug 10th 35 Call @ 0.50

Sell 1 XYZ Aug 17th 35 Call @ 0.50

1.25 or 2.60?

Single Transaction Advantage –

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

Weekly 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

Monday July 30th (around noon)–

- Weekly expiration is August 3rd
- BA trading at 74.80 –
- We are bullish on BA for the week

Long Trade

BA @ 74.80

Weekly Calls –

	Bid	Ask	Time Value
65.00 Call	9.75	9.90	0.10
67.50 Call	7.25	7.40	0.10
70.00 Call	4.80	4.95	0.15
72.50 Call	2.45	2.50	0.20
75.00 Call	0.75	0.85	0.85

Buy 1 BA 67.50 Call @ 7.40

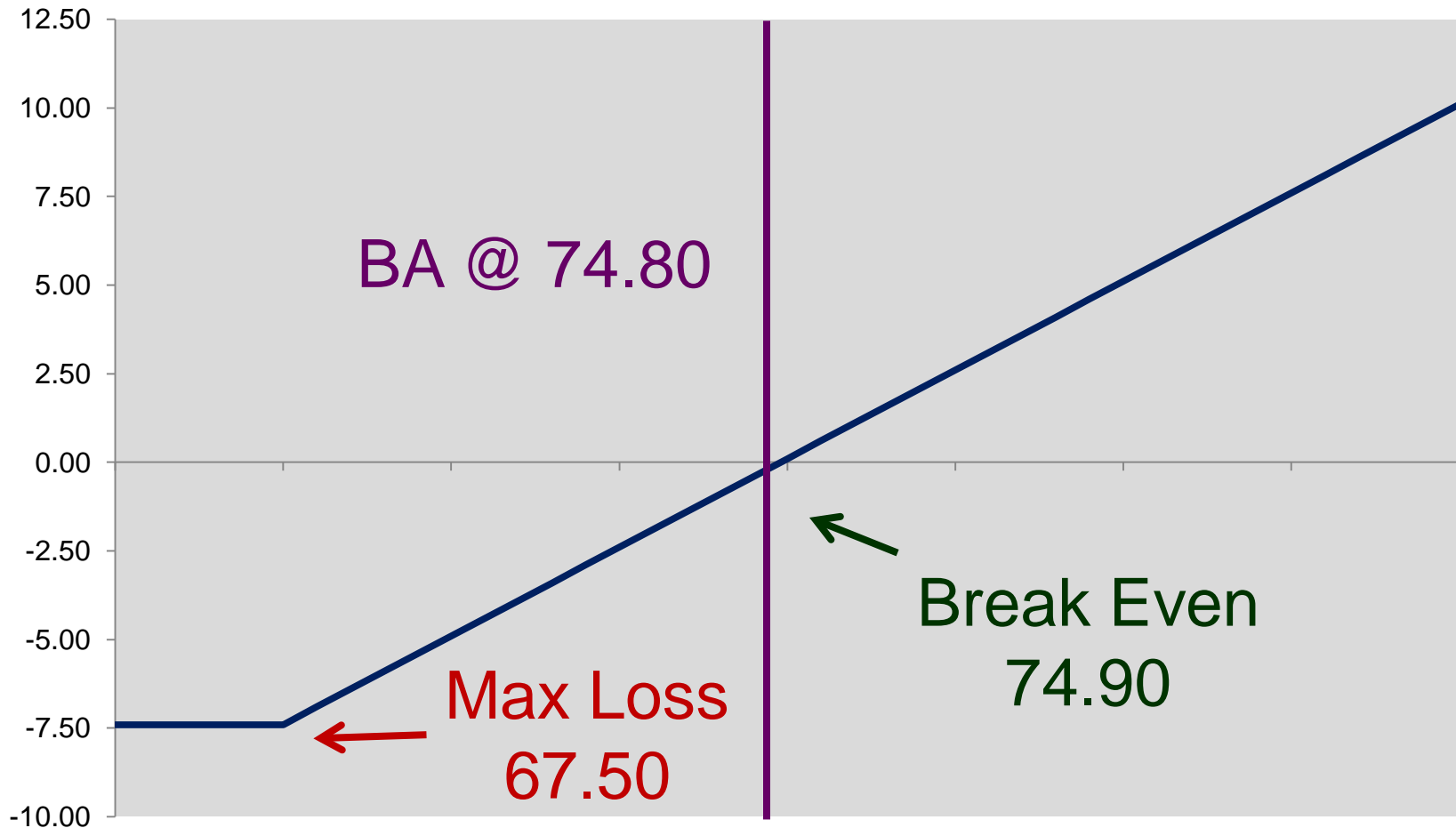
Long Trade

August 3rd Payoff –

BA at Expiration	67.50 Call	Premium	P/L
65.00	0.00	(7.40)	(7.40)
67.50	0.00	(7.40)	(7.40)
70.00	2.50	(7.40)	(4.90)
72.50	5.00	(7.40)	(2.40)
75.00	7.50	(7.40)	0.10
77.50	10.00	(7.40)	2.60
80.00	12.50	(7.40)	5.10

Long Trade

August 3rd Payoff –



Monday July 30th (around noon)–

- Weekly expiration is August 3rd
- BA trading at 74.80 –
- We are neutral to bullish on BA for the week

Spread Trade

BA @ 74.80

Weekly Calls –

	Bid	Ask	Time Value
65.00 Call	9.75	9.90	0.10
67.50 Call	7.25	7.40	0.10
70.00 Call	4.80	4.95	0.15
72.50 Call	2.45	2.50	0.20
75.00 Call	0.75	0.85	0.85

Buy 1 BA 70.00 Call @ 4.95

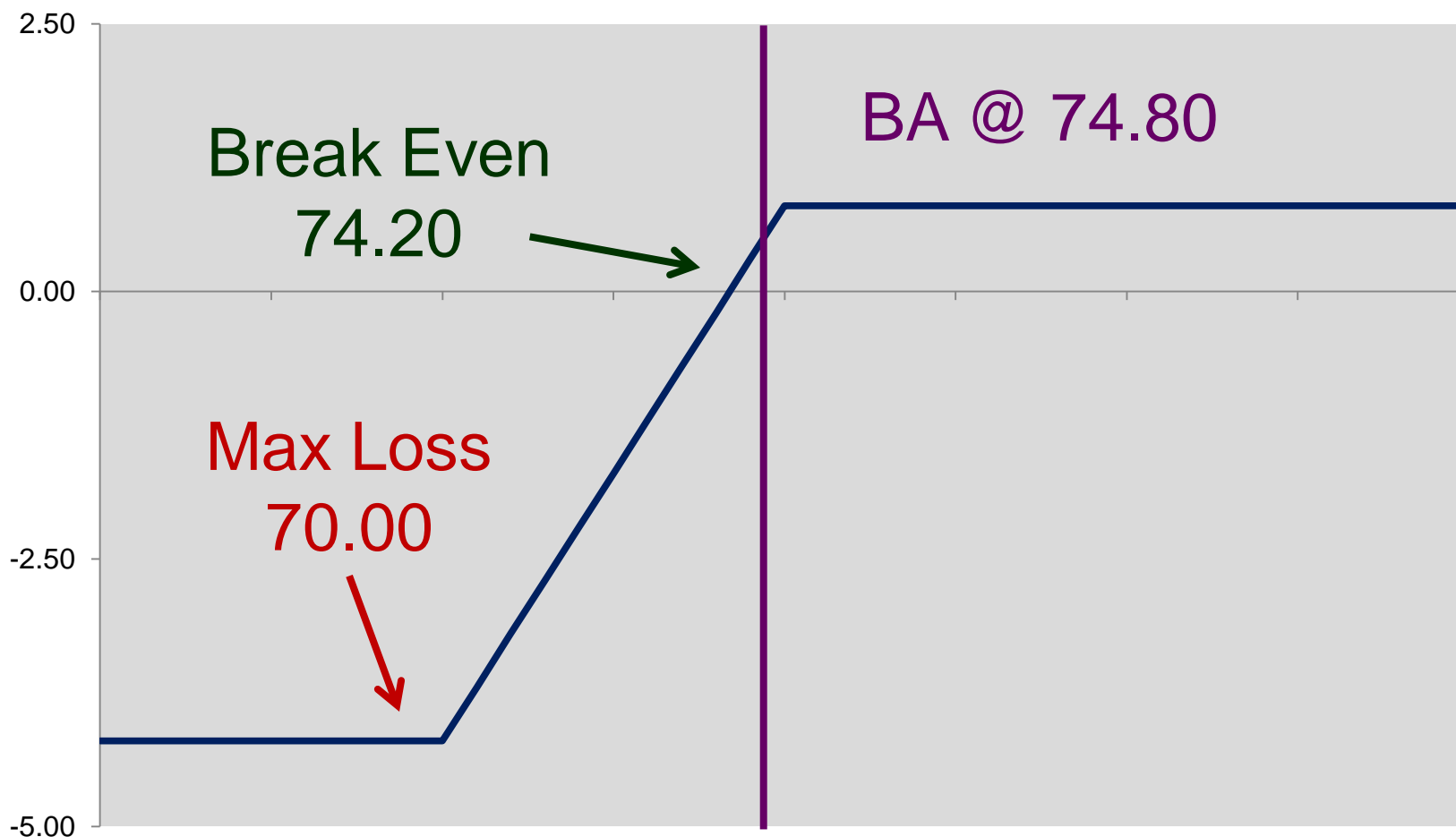
Sell 1 BA 75.00 Call @ 0.75

Spread Trade

August 3rd Payoff –

BA at Expiration	70 Call	75 Call	Premium	P/L
65.00	0.00	0.00	(4.20)	(4.20)
67.50	0.00	0.00	(4.20)	(4.20)
70.00	0.00	0.00	(4.20)	(4.20)
72.50	2.50	0.00	(4.20)	(1.70)
75.00	5.00	0.00	(4.20)	0.80
77.50	7.50	(2.50)	(4.20)	0.80
80.00	10.00	(5.00)	(4.20)	0.80

August 3rd Payoff –



Spread Trade

BA @ 74.80

August 17th Calls –

	Bid	Ask	Time Value
65.00 Call	9.85	9.95	0.15
67.50 Call	7.35	7.50	0.20
70.00 Call	4.95	5.15	0.35
72.50 Call	2.85	2.95	0.65
75.00 Call	1.10	1.15	1.15

Buy 1 BA 70.00 Call @ 5.15

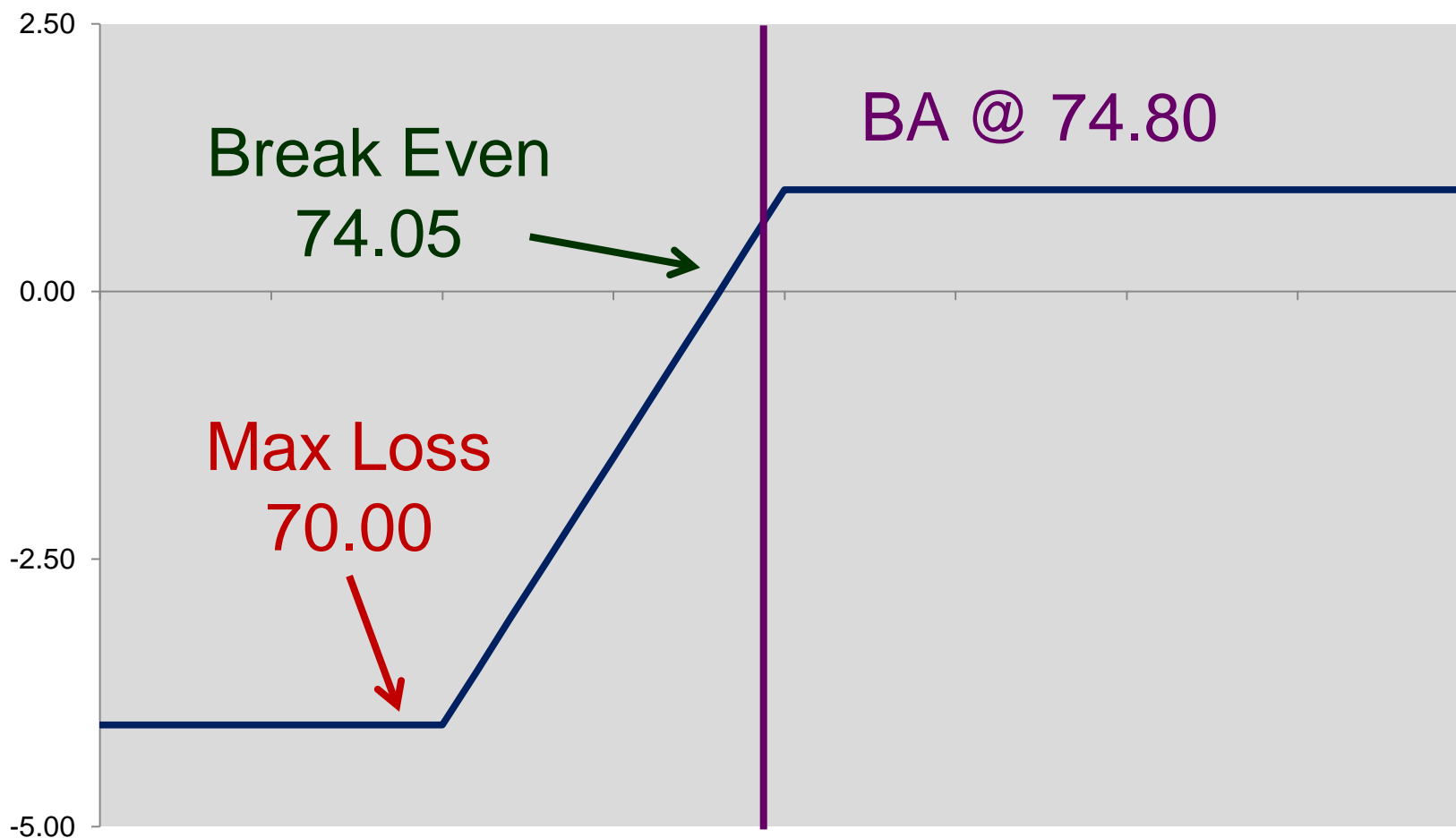
Sell 1 BA 75.00 Call @ 1.10

Spread Trade

August 17th Payoff –

BA at Expiration	70 Call	75 Call	Premium	P/L
65.00	0.00	0.00	(4.05)	(4.05)
67.50	0.00	0.00	(4.05)	(4.05)
70.00	0.00	0.00	(4.05)	(4.05)
72.50	2.50	0.00	(4.05)	(1.55)
75.00	5.00	0.00	(4.05)	0.95
77.50	7.50	(2.50)	(4.05)	0.95
80.00	10.00	(5.00)	(4.05)	0.95

August 17th Payoff –



August 3rd vs. August 17th –

	Aug 3rd	Aug 17th
Max Gain	0.80	0.95
Max Loss	-4.20	-4.05
Trading Day	4 1/2	14 1/2

0.15 for 10 More Days?

Questions?

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www.cboe.com/weeklys