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From Binary Outcomes to Ranges: Converting Opinions to Expectations

Stacey Gilbert
Sr. Director of Client Education of The Options Institute
Cboe Global Markets

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As with all investments, your capital is at risk

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Understanding Binary Outcomes

Converting Opinions to Expectations



STACEY GILBERT

Sr. Director, Client Education
The Options Institute, Cboe Global Markets

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Introduction

About Cboe & The OI

Cboe was founded in 1973 as the first US listed options exchange. More than 50 years later, we are now the world's go-to derivatives and securities exchange network, delivering cutting-edge trading, clearing and investment solutions to people around the world.

For over 40 years, Cboe Global markets has backed The Options Institute, Cboe's education team, for investors to learn about financial markets and derivatives products from the experts.



Stacey Gilbert

Sr. Director, The Options Institute, Cboe Global Markets

22 years at Susquehanna International Group with experience trading options and ETFs on an exchange and trading desk, running the education program and heading the Derivative Strategy team.

6 years at Glenmede Investment Management as CIO and co-Portfolio Manager of Derivatives.

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Jul 13	**IBKRWebinar:** Markets vs. Polls: Understanding What Markets Really Are
Jul 20	**IBKRWebinar:** Understanding Binary Outcomes: Converting Opinions to Expectations
Jul 21	Introduction to Options & Office Hours
Jul 27	**IBKRWebinar:** Designing Outcomes: From Yes/No Contracts to Options Basics

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Learning Objectives

01

Review previously explored concepts, including converting expected outcomes into prediction market contracts and understanding how to identify and evaluate edge

02

Define Yes/No contracts and demonstrate how opinions can be translated into contract pricing, using examples to illustrate different risk/reward profiles

03

Describe the S&P 500® Index ecosystem and discuss its significance in supporting potential liquidity in Cboe's S&P 500 Index based Prediction Markets

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01

Recap: Markets, Polls & Introduction to Edge

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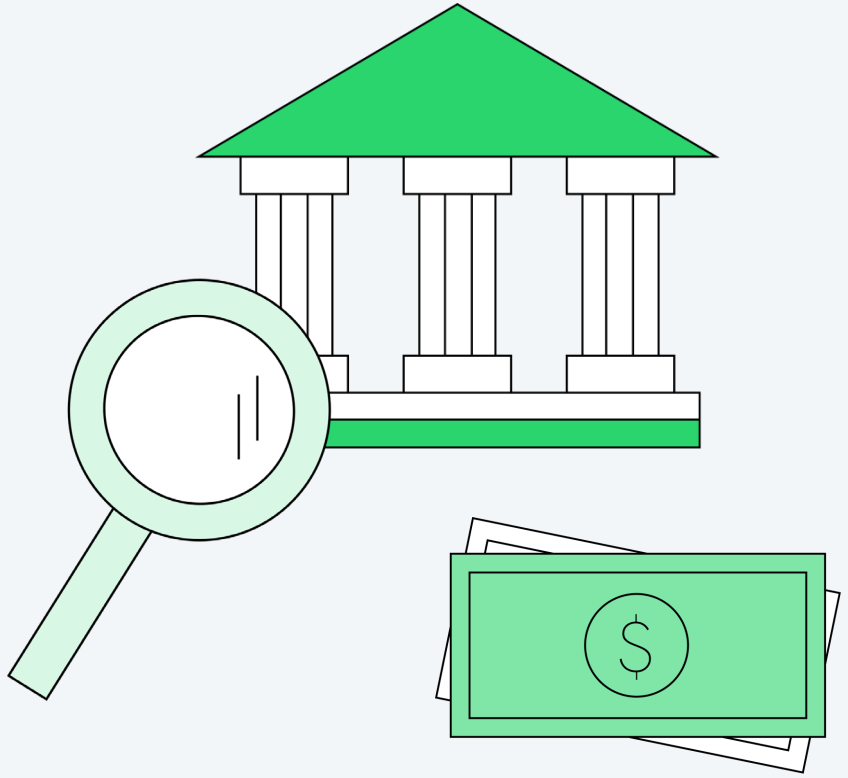
Recap: Markets, Polls & Introduction to Edge

What is Capital at Risk?

- The amount of **your own money that you could lose** when you make an investment or place a trade.
- It's the portion of your own funds that is exposed to loss if **the outcome doesn't go your way.**



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Recap: Markets, Polls & Introduction to Edge

What are Markets?

- Markets measure what people believe with **capital at risk**
- Snapshot of collective beliefs about future outcomes measured via **buying and selling of beliefs**



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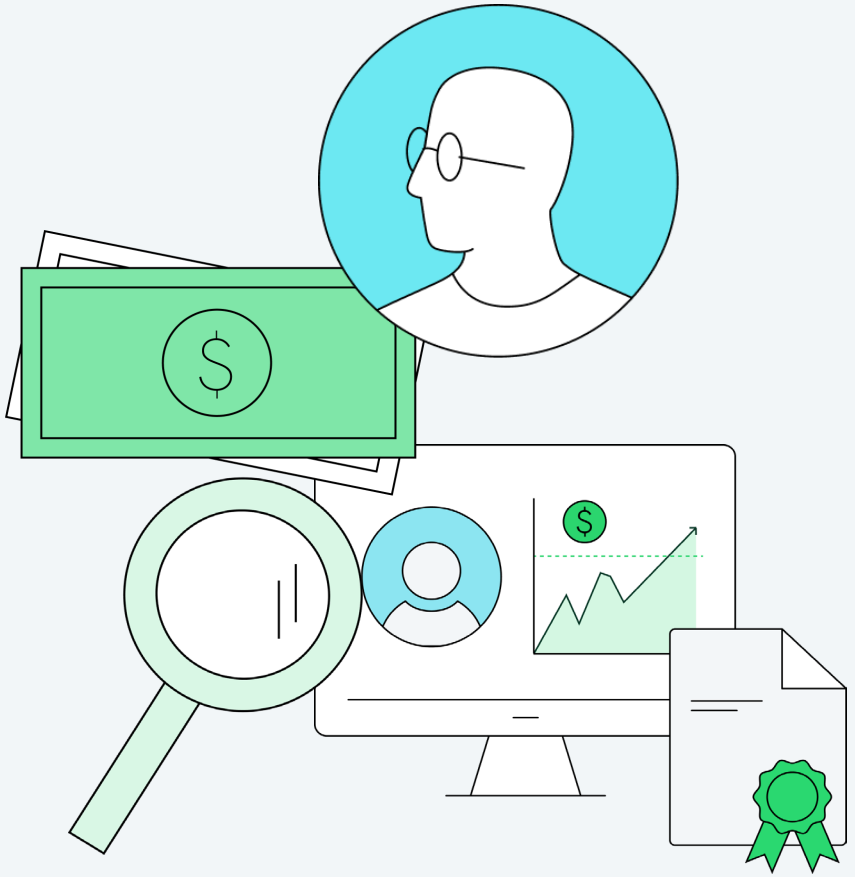
Recap: Markets, Polls & Introduction to Edge

What is Edge?

- Perceived edge comes from believing the **market is mispricing** a potential outcome
- Because markets aggregate opinions, information, and incentives, **finding edge takes patience and skill**
- Acting on edge means **your expectation of potential outcomes diverges from the market's**—and you're willing to risk capital on that view
- Edge is **measured over a longer period** (skill), not one outcome (luck)



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Converting Outcomes to Contract Prices

What is the likelihood of a fair coin landing on heads?



1. Outcome Framing

Out of 100 replications of the event, how often would the outcome occur?

2. Frequency

50/100

3. Likelihood

50%

4. Price Translation

50% of $1.00 is $0.50

5. Fair Value

Contract for Heads is worth $0.50

6. Edge Identification

If offered at less than $0.50, potential opportunity

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Q&A

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Yes/No Contracts

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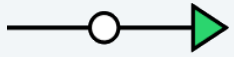
Yes/No Contract



- A Yes/No contract is a financial contract that **pays a fixed amount if a specified condition is met** at expiration, and nothing if it is not.
- In other words, it has **only two possible outcomes**: a predetermined payout or a total loss of the investment.

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What are the Contract Terms?

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1	2	3	4
What is the event?	When is the event?	Who decides the result?	How does the contract settle?
Coin Flip	**Agreed Time & Date**	**Agreed Person/Process**	**Heads: Contract Pays $1** **Tails: Contract Pays $0**









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What is the S&P 500® Index?

01 The S&P 500® Index is a **stock market index measuring the performance of 500 of the largest publicly traded companies** in the United States.

02 Investment products that track the performance of the S&P 500 Index include mutual funds, ETFs, futures, options and **Cboe Prediction Market contracts**.

03 Cboe is the exclusive home of **S&P 500 Index (SPX) options**, one of the most actively traded and deeply liquid index options markets globally.

04 Cboe exclusively lists the **Mini-S&P 500 Index (XSP) options** that is 1/10th the size of the SPX and the basis for Cboe Prediction Markets.

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Examples: Yes/No Contracts

Will the Mini-S&P 500 Index (XSP) close at or above $726.05 tomorrow?



Place Your Trade

YES 50c	NO 50c
Quantity (contracts)	Quantity (contracts)
01 – +	01 – +
Order Summary	**Order Summary**
Avg price 50c / contract	Avg price 50c / contract
Total cost $0.50	Total cost $0.50
Max payout $1.00	Max payout $1.00
Potential gain +$0.50 (+100%)	Potential gain +$0.50 (+100%)
Buy YES	Buy NO

Resolution Criteria

This market resolves YES if XSP closes at or above **$726.05** tomorrow, as referenced by the closing index value published by Cboe Global Markets.

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Examples: Yes/No Contracts

Will the Mini-S&P 500 Index (XSP) close at or above $740.00 tomorrow?



Resolution Criteria

This market resolves YES if XSP closes at above **$740.00** by tomorrow, as referenced by the closing index value published by Cboe Global Markets.

Will the Mini-S&P 500 Index close at or above $726.05 tomorrow?

YES 50c	NO 50c
Potential gain +$0.50 (+100%)	Potential gain +$0.50 (+100%)

Place Your Trade

YES 05c	NO 95c
Quantity (contracts)	Quantity (contracts)
01 – +	01 – +
Order Summary	**Order Summary**
Avg price 05c / contract	Avg price 95c / contract
Total cost $0.05	Total cost $0.95
Max payout $1.00	Max payout $1.00
Potential gain +$0.95 (+1,900%)	Potential gain +$0.05 (+5.30%)
Buy YES	Buy NO

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Examples: Yes/No Contracts

Will the Mini-S&P 500 Index (XSP) close at or above $710.00 tomorrow?



Resolution Criteria

This market resolves YES if XSP closes at or above **$710.00** by tomorrow, as referenced by the closing prices published by Cboe Global Markets.

Will the Mini-S&P 500 Index close at or above $726.05 tomorrow ?	**YES 50c** Potential gain +$0.50 (+100%)	**NO 50c** Potential gain +$0.50 (+100%)
Will the Mini-S&P 500 Index close at or above $740.00 tomorrow?	**YES 05c** Potential gain +$0.95 (+1,900%)	**NO 95c** Potential gain +$0.05 (+5.30%)

Place Your Trade

YES 90c	NO 10c
Quantity (contracts)	Quantity (contracts)
01 – +	01 – +
Order Summary	**Order Summary**
Avg price: 90c / contract	Avg price: 10c / contract
Total cost: $0.95	Total cost: $0.10
Max payout: $1.00	Max payout: $1.00
Potential gain: +$0.10 (+11.10%)	Potential gain: +$0.90 (+900%)
Buy YES	Buy NO

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Examples: Yes/No Contracts

Will the Mini-S&P 500 Index (XSP) close at or above _____ tomorrow?



Will the Mini-S&P 500 Index close at or above $726.05 tomorrow ?	**YES 50c** Potential gain +$0.50 (+100%)	**NO 50c** Potential gain +$0.50 (+100%)
Will the Mini-S&P 500 Index close at or above $740.00 tomorrow?	**YES 05c** Potential gain +$0.95 (+1,900%)	**NO 95c** Potential gain +$0.05 (+5.30%)
Will the Mini-S&P 500 Index close at or above $710.00 tomorrow?	**YES 90c** Potential gain +$0.10 (+11.10%)	**NO 10c** Potential gain +$0.90 (+900%)

Resolution Criteria

This market resolves YES if XSP closes at or above _____ tomorrow, as referenced by the closing prices published by Cboe Global Markets.

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Examples: Yes/No Contracts

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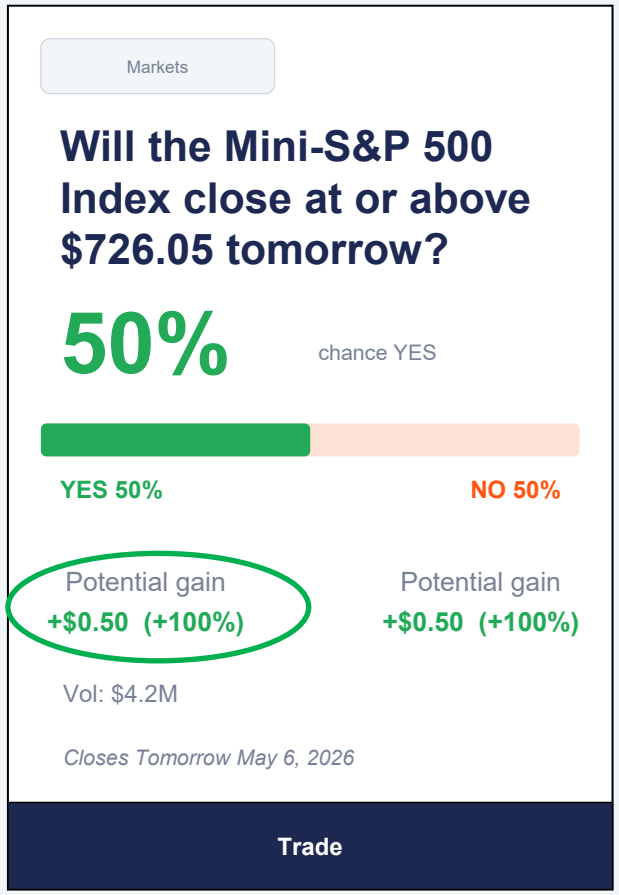

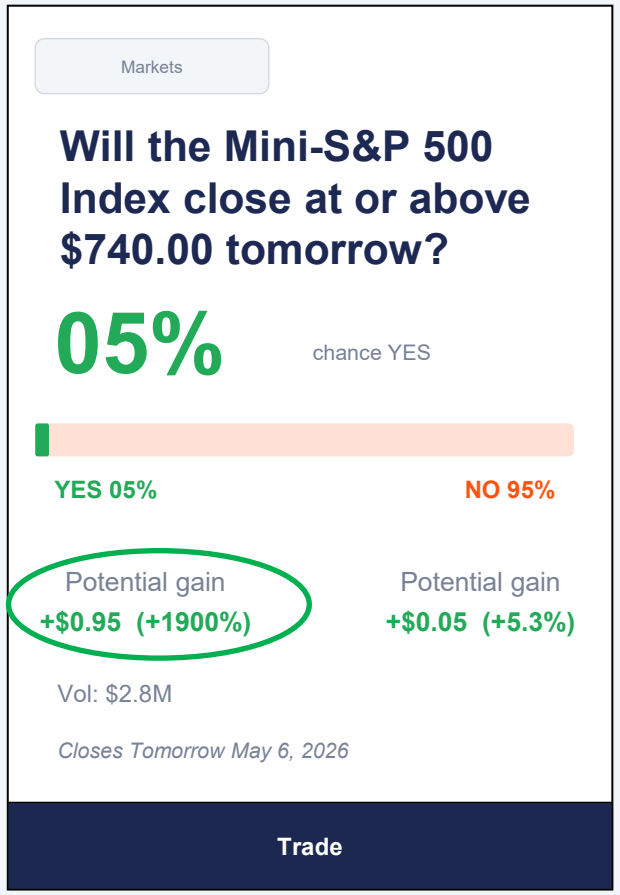

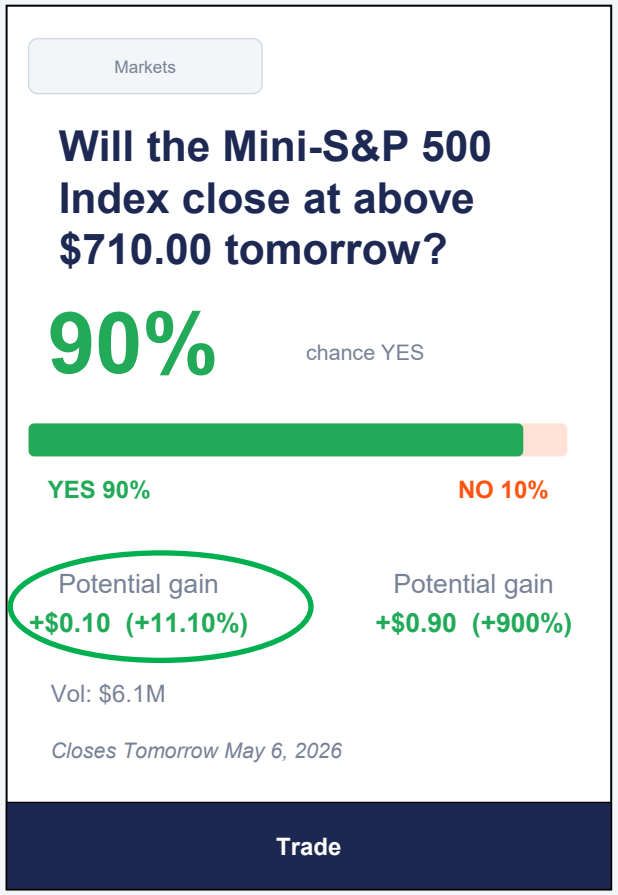

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Payout Visuals

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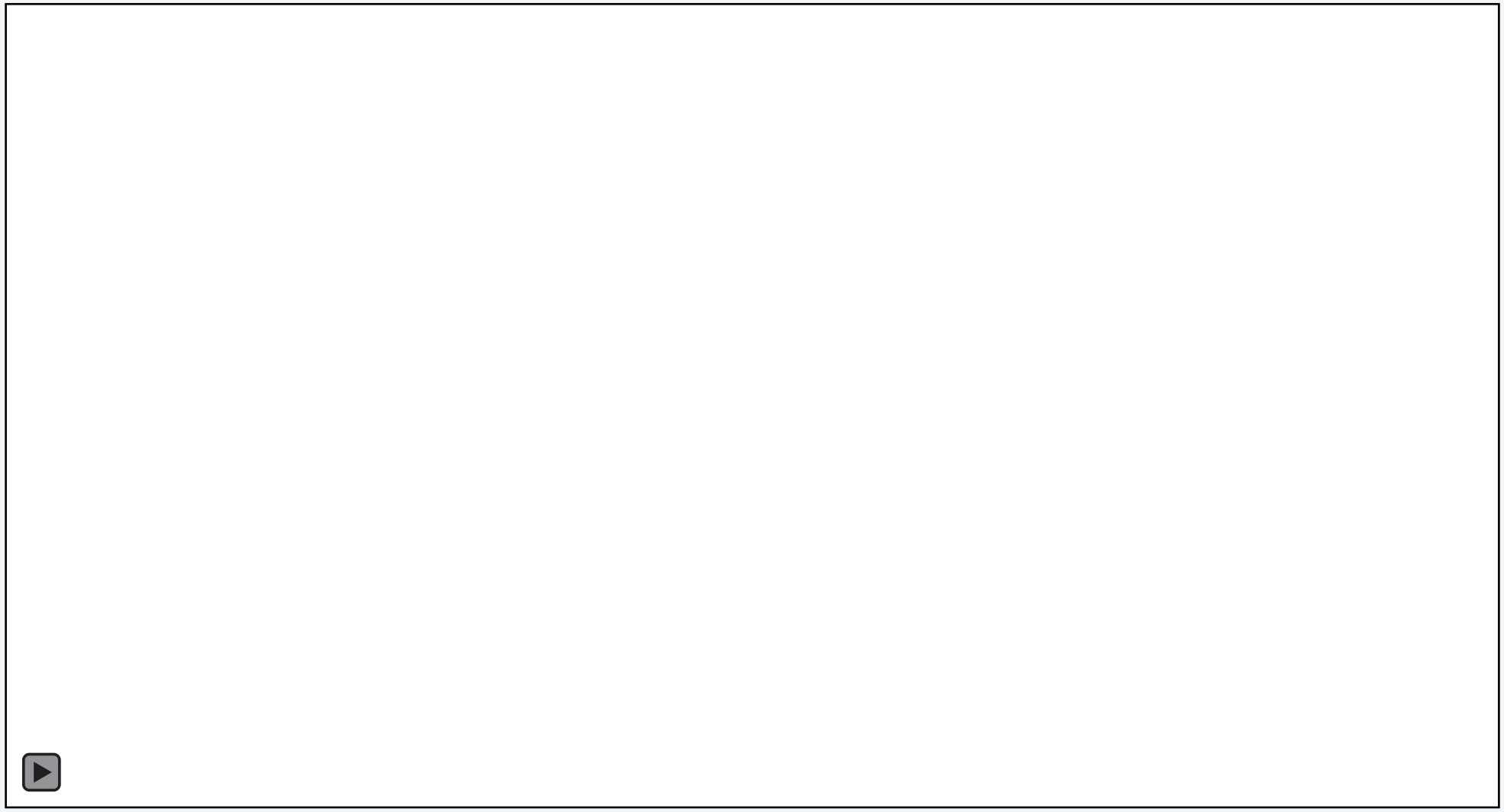
Payout Visual: Yes/No Contract



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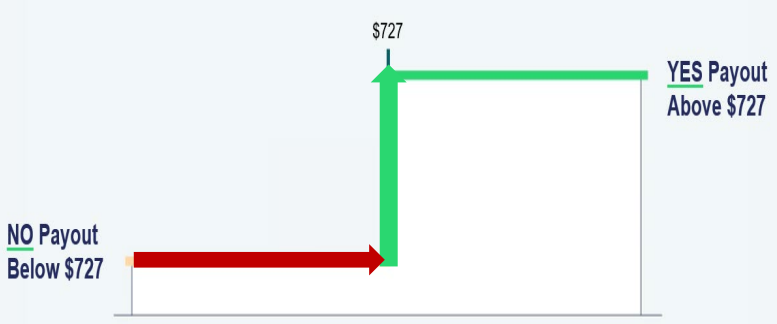
Settlement: Yes/No vs. Plus (Spread) Contracts

Mini-S&P 500 Index Settlement
Below $726
Between $726 and $727
At or Above $727



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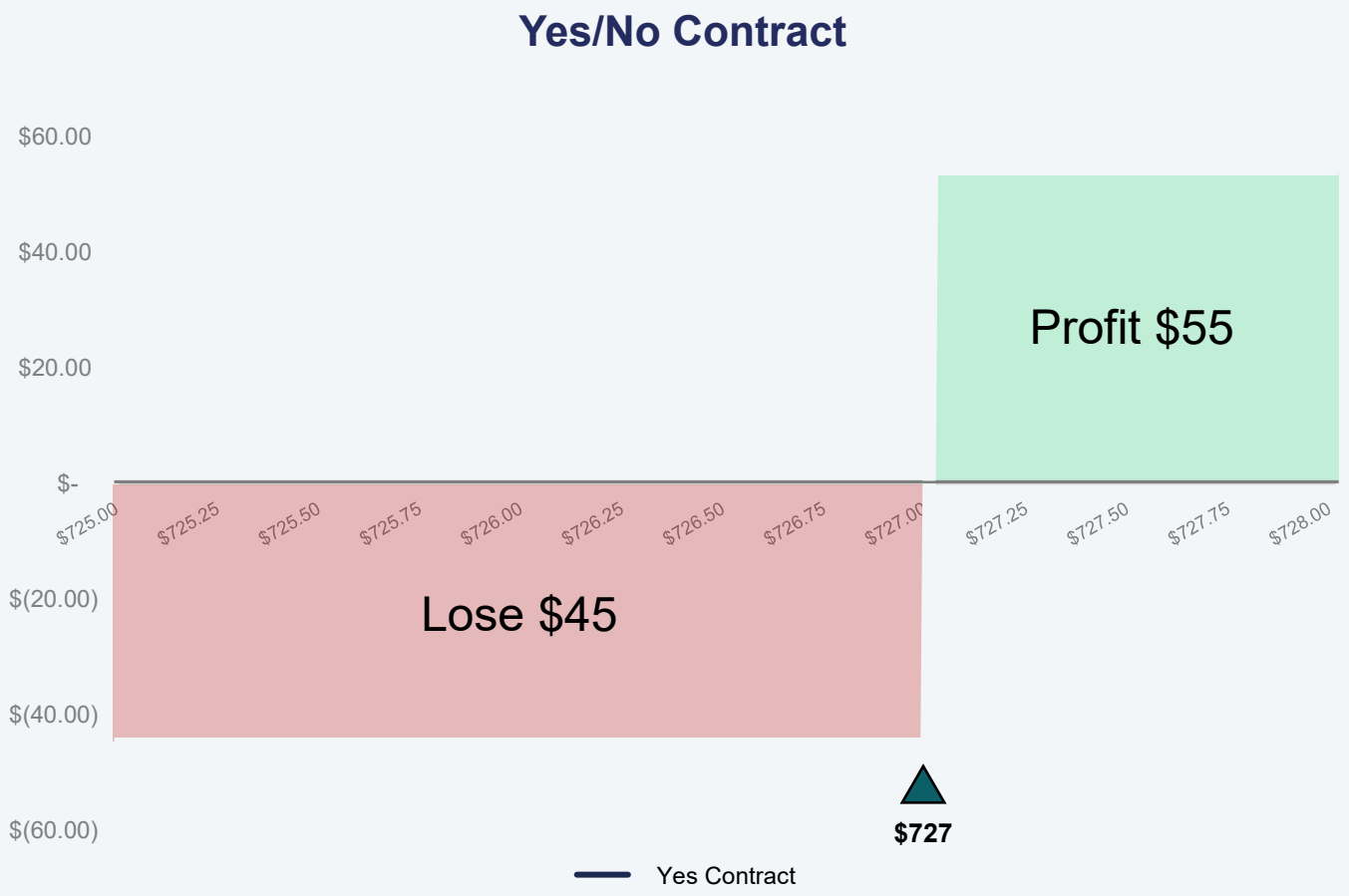
Payout Example: Yes/No Contract

“Yes” Contract

- **Below $727:** Lose $45
- **At or above $727:** Profit $55



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Q&A

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05

S&P 500® Index Ecosystem

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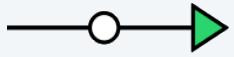
Listed Contracts



- The S&P 500 Index Yes/No and Plus (Spread) contracts have a direct tie to the S&P 500 Index options ecosystem, arguably the **most liquid listed options market** in the world.
- The Cboe-listed S&P 500 Index Yes/No and Plus (Spread) contracts are **securities**.

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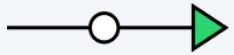
Liquidity



Market liquidity is **how easy it is to buy or sell** something quickly without causing a big change in its price.

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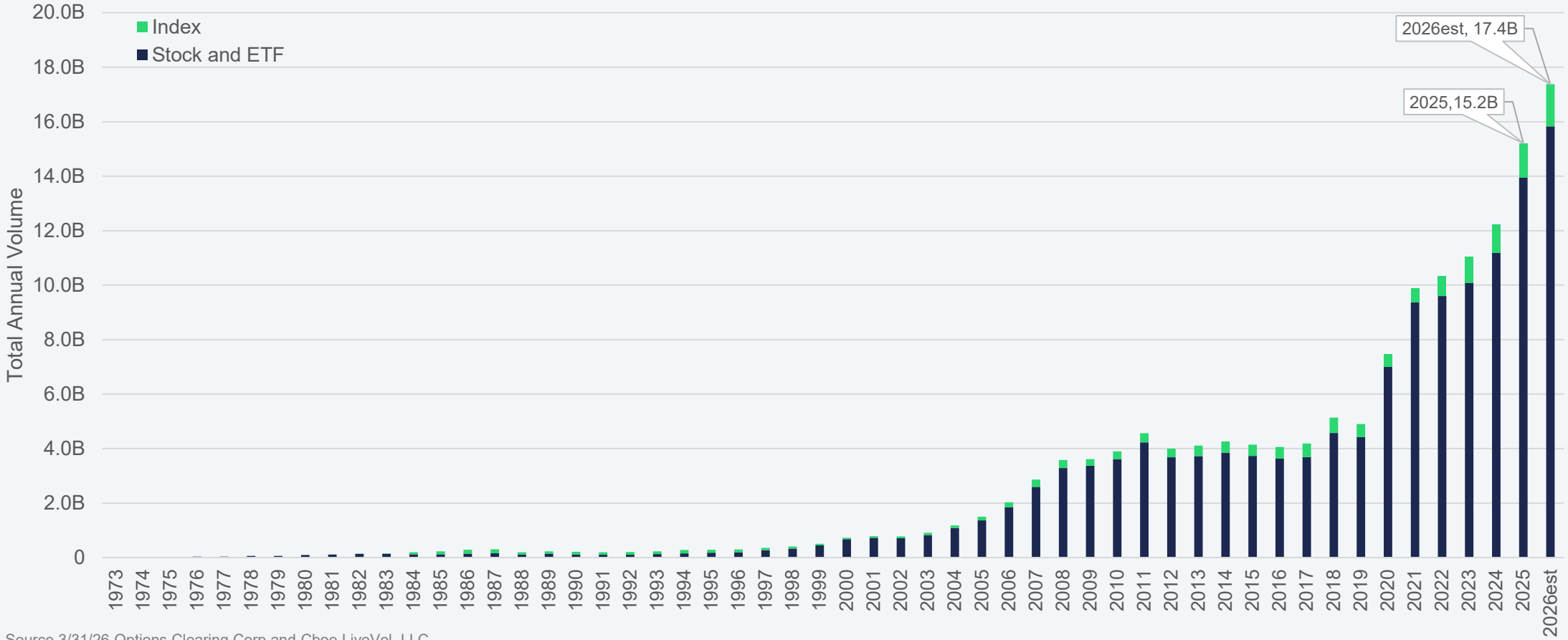
Options Industry Volume

Annual Option Volume



Source 3/31/26 Options Clearing Corp and Cboe LiveVol, LLC

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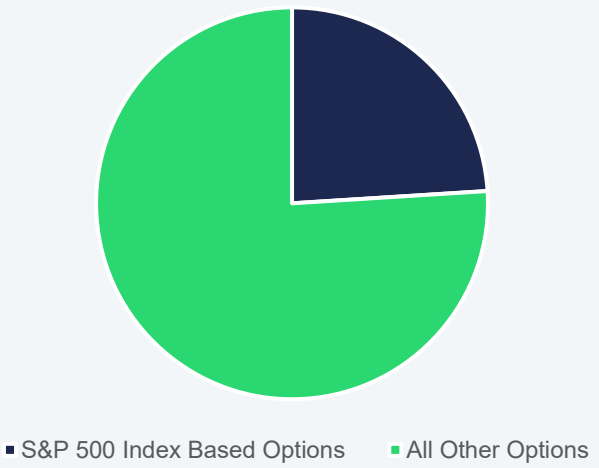
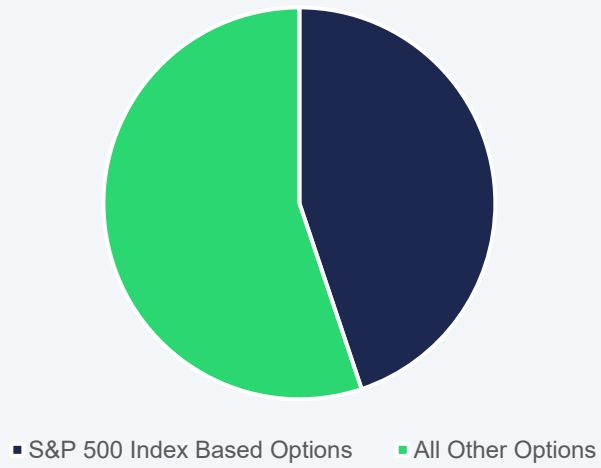
S&P 500 Index Ecosystem: Securities-Based Options

- Almost ¼ of all options **contract** volume in 2026Q1 is related to securities-based options on the S&P 500 Index
- Almost ½ of all options **notional** volume in 2026Q1 is related to the securities-based options on the S&P 500 Index

2026Q1 Daily Options Volume - Contracts



2026Q1 Daily Options Volume - Notional



Source: Cboe Global Markets Derivatives Market Intelligence; 2026Q1

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Securities Market

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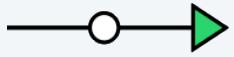
Securities Market



The securities market is the entire system where **financial securities are created, bought, and sold.**

The securities market is not one place. It's an ecosystem that includes:

1. Issuers (companies, governments)
2. Investors (individuals, funds, institutions)
3. Exchanges
4. Dealers and brokers,
5. Clearinghouses
6. Regulators (e.g., the SEC)
7. Trading rules, settlement systems, and contracts

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Lifecyle of a Securities Trade

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06

Recap

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Recap: Cboe S&P 500 Index-Linked Prediction Yes/No Contracts

	Yes/No Contract
Payout	Yes or No
Contract Multiplier	$100
Listed Market Security	Yes
Subject to Securities Markets Rules & Protections	Yes
Related Liquidity Products	S&P 500 Index Securities-Based Options

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Review

01

Review previously explored concepts, including converting expected outcomes into prediction market contracts and understanding how to identify and evaluate edge

02

Define Yes/No contracts and demonstrate how opinions can be translated into contract pricing, using examples to illustrate different risk/reward profiles

03

Describe the S&P 500® Index ecosystem and discuss its significance in supporting potential liquidity in Cboe's S&P 500 Index Prediction Markets

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Q&A

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Weekly Market Commentary on cross-asset derivatives

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Thematic pieces on emerging trends in volatility trading

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Before transacting in VIX Index Products, market participants should fully inform themselves about the VIX Index and the characteristics and risks of VIX Index Products, including those described here. Market participants also should make sure they understand the product specifications for VIX Index Products (VIX futures, Mini VIX futures, VIX options, and Options on VIX Futures) and the methodologies for calculating the underlying VIX Index and the settlement values for VIX Index Products. Answers to questions frequently asked about VIX Index products and how they are settled is available here.

Not Buy and Hold Investment: VIX Index Products are not suitable to buy and hold because:

- On their settlement date, VIX futures, Mini VIX futures, and VIX options convert into a right to receive or an obligation to pay cash. Options on VIX Futures convert into a right to receive VIX futures on their settlement date.
- The VIX Index generally tends to revert to or near its long-term average, rather than increase or decrease over the long term.

Volatility: The VIX Index is subject to greater percentage swings in a short period of time than is typical for stocks or stock indices, including the S&P 500 Index.

Expected Relationships: Expected relationships with other financial indicators or financial products may not hold. In particular:

- Although the VIX Index generally tends to be negatively correlated with the S&P 500 Index - such that one tends to move upward when the other moves downward and vice versa - that relationship is not always maintained.
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Index and benchmark values for the period prior to an index's launch date are calculated by a theoretical approach involving back-testing historical data in accordance with the methodology in place on the launch date (unless otherwise stated). A limitation of back-testing is that it reflects the theoretical application of the index or benchmark methodology and selection of the index's constituents in hindsight. Back-testing may not result in performance commensurate with prospective application of a methodology, especially during periods of high economic stress in which adjustments might be made. No back-tested approach can completely account for the impact of decisions that might have been made if calculations were made at the same time as the underlying market conditions occurred. There are numerous factors related to markets that cannot be, and have not been, accounted for in the preparation of back-tested index and benchmark information.

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The value of digital asset futures may be derived from the continued willingness of market participants to exchange fiat currency for digital assets, which may result in the potential for permanent and total loss of value of a particular digital asset should the market for that digital asset diminish or disappear.

The nature of digital assets may lead to an increased risk of fraud or a cybersecurity event. A cybersecurity event could result in a substantial, immediate, and irreversible loss for market participants that invest in digital asset futures. Even a minor cybersecurity event in a digital asset is likely to result in downward price pressure on that digital asset and related digital asset futures and potentially other digital assets and digital asset futures.

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