

The background of the slide is a photograph of a server room. It shows rows of server racks with numerous lights, some glowing red and others green, creating a sense of depth and activity. The lighting is dim, with the primary light sources being the server lights themselves.

Interactive Brokers Webcast

Russell 2000[®] Index Options

April 20, 2016
Presented by Russell Rhoads, Senior Instructor

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Russell 2000 Index Options

Overview

- **Index Option Mechanics**
- **Large Cap vs. Small Cap Performance**
- **Common Option Strategies**
- **Russell 2000 Strategy Indexes**
- **CBOE Russell 2000 Volatility Index**

Index Option Mechanics

Russell 2000 Index Options

Contract Highlights

Symbol	RUT or RUTW
Multiplier	\$100
Exercise Style	European
Expiration Dates	End of Week and End of Month
AM Settled	Third Friday Options (RUT)
PM Settled	Non-Third Friday Expiration (RUTW)
Settlement	Cash Transfer

Index Option Mechanics

RUT vs. IWM

RUT

Russell 2000 Index

Symbol for Cash Settled Index Options

IWM

iShares Russell 2000 ETF

ETF trades like a stock

**The same outlook may be traded
with either RUT or IWM options
as both have active option markets**

Index Option Mechanics

RUT vs. IWM

Options

Factor	RUT Options	IWM Options	Comments
Underlying Price	1117.68	111.20	Very close to a 10 to 1 relationship
Underlying Market	Cash Index	ETF	RUT has no potential delivery of shares
Settlement	AM or PM	PM	IWM on close / RUT depends on date
Exercise Style	European	American	Risk of early assignment on IWM
Expirations	Multiple	Multiple	Both have several dates available

Index Option Mechanics

Russell 2000 Expiration Dates

As of April 4, 2016

April 8	May 31	December 16
April 15	June 17	December 30
April 22	June 30	March 17 '17
April 29	July 29	June 16 '17
May 6	August 31	December 15 '17
May 13	September 16	December 21 '18
May 20	September 30	

Blue PM Settlement / Red AM Settlement

Russell 2000 Index Options

Market Comparison

Large Cap vs. Small Cap

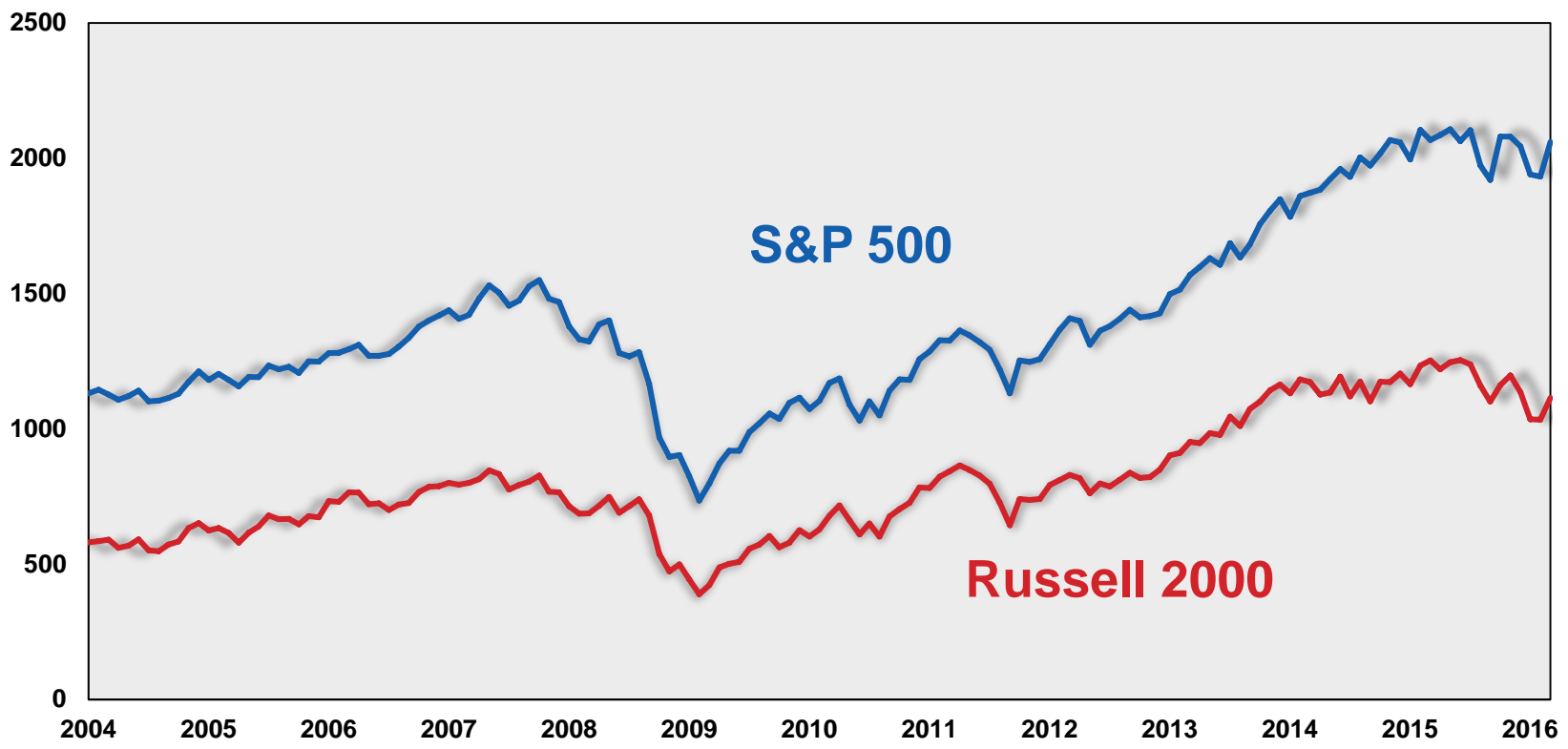
Comparison	Large Cap	Small Cap
Indexes	S&P 500®	Russell 2000
Geographic	Global	Domestic
Companies	Value	Growth
5 Yr Avg Annual Returns	8.40%	4.28%
5 Yr Avg Realized Volatility	12.03%	16.49%
5 Yr Avg Implied Volatility	17.50%	22.21%

Data Source: Bloomberg

Large Cap vs. Small Cap Performance

S&P 500 vs. Russell 2000

Monthly Prices – 2004 – 1Q2016

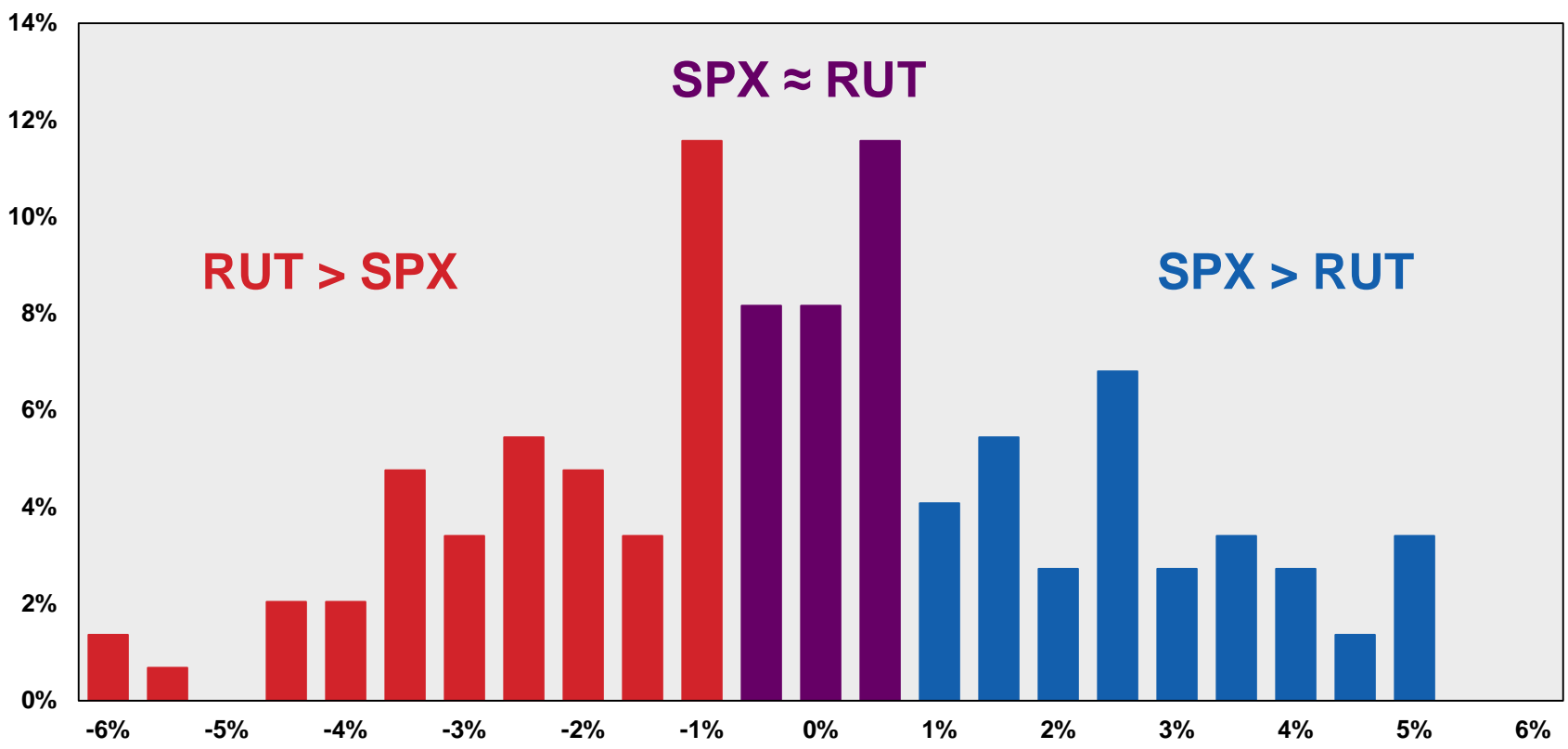


Data Source: Bloomberg

Large Cap vs. Small Cap Performance

S&P 500 vs. Russell 2000

Monthly Performance Comparison

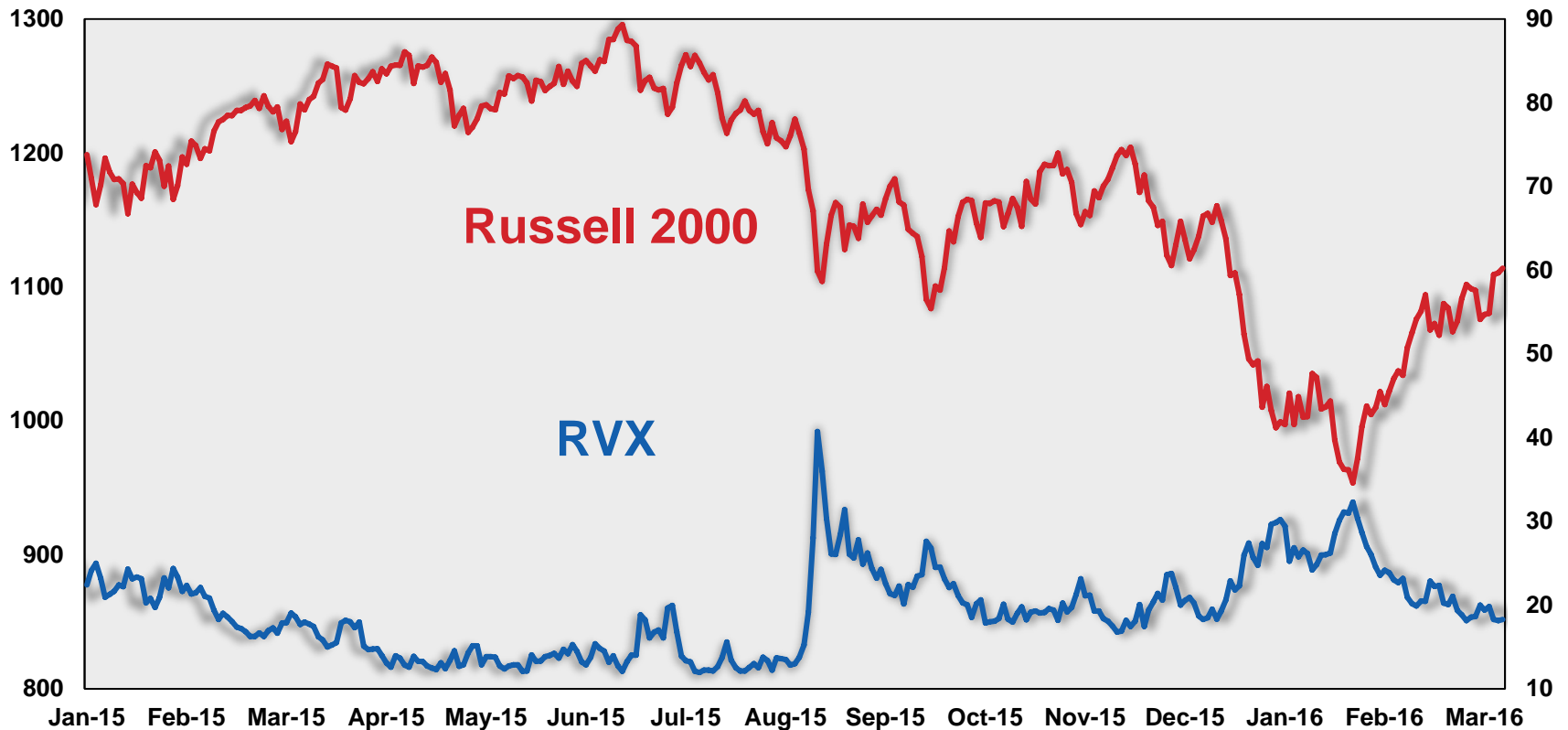


Data Source: Bloomberg

CBOE Russell 2000 Volatility Index

Russell 2000 vs. RVX

Daily Jan 2015 – Mar 2016

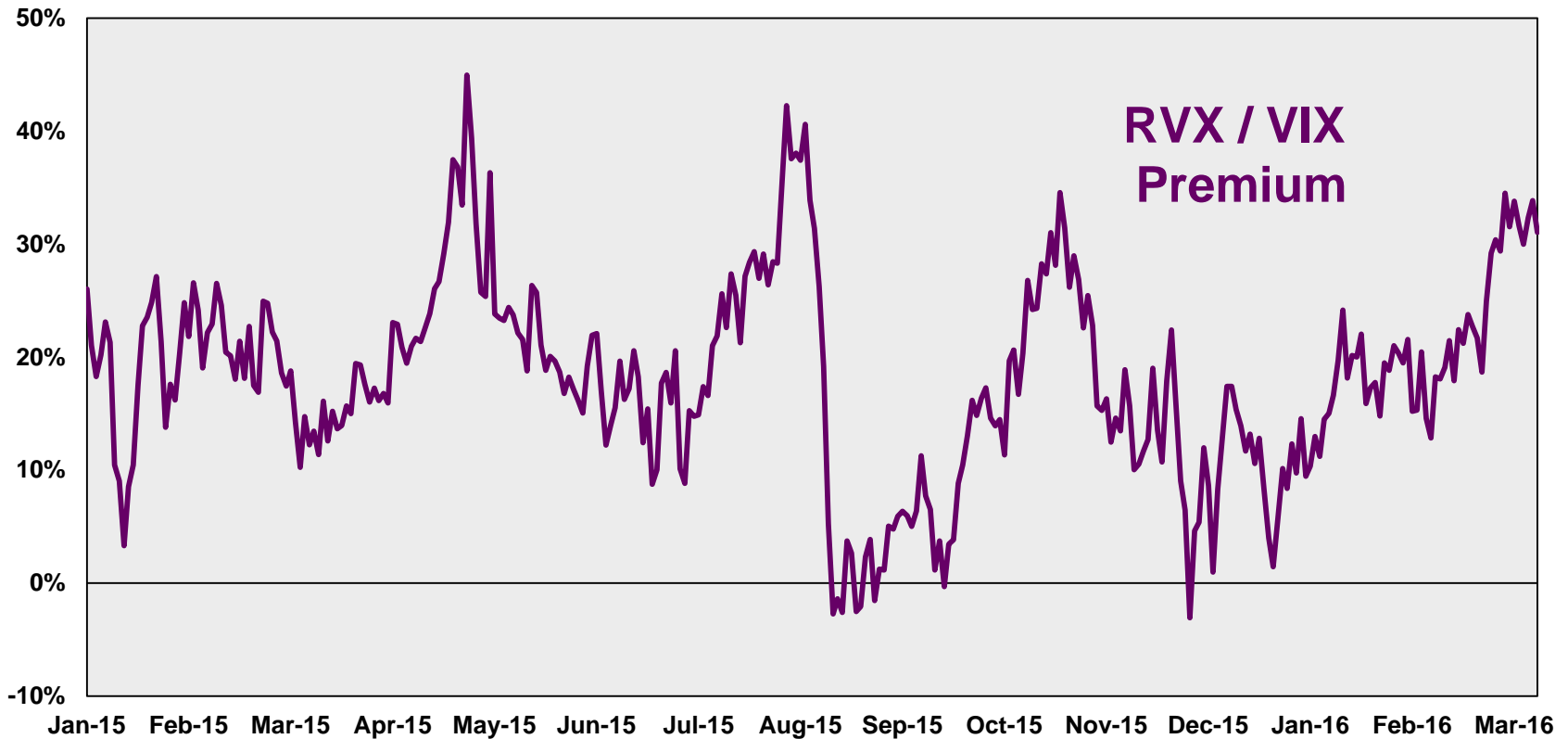


Data Source: Bloomberg

CBOE Russell 2000 Volatility Index

RVX vs. VIX®

Daily Jan 2015 – Mar 2016



Data Source: Bloomberg

Russell 2000 Index Option Trading

Short Term Bull Put Spread

- January 14, 2015 – RUT at 1177
- One three day weekend, five trading days and one overnight until following week's RUT WeeklysSM settlement

Sell RUT Jan 23rd 1070 Put @ 1.15

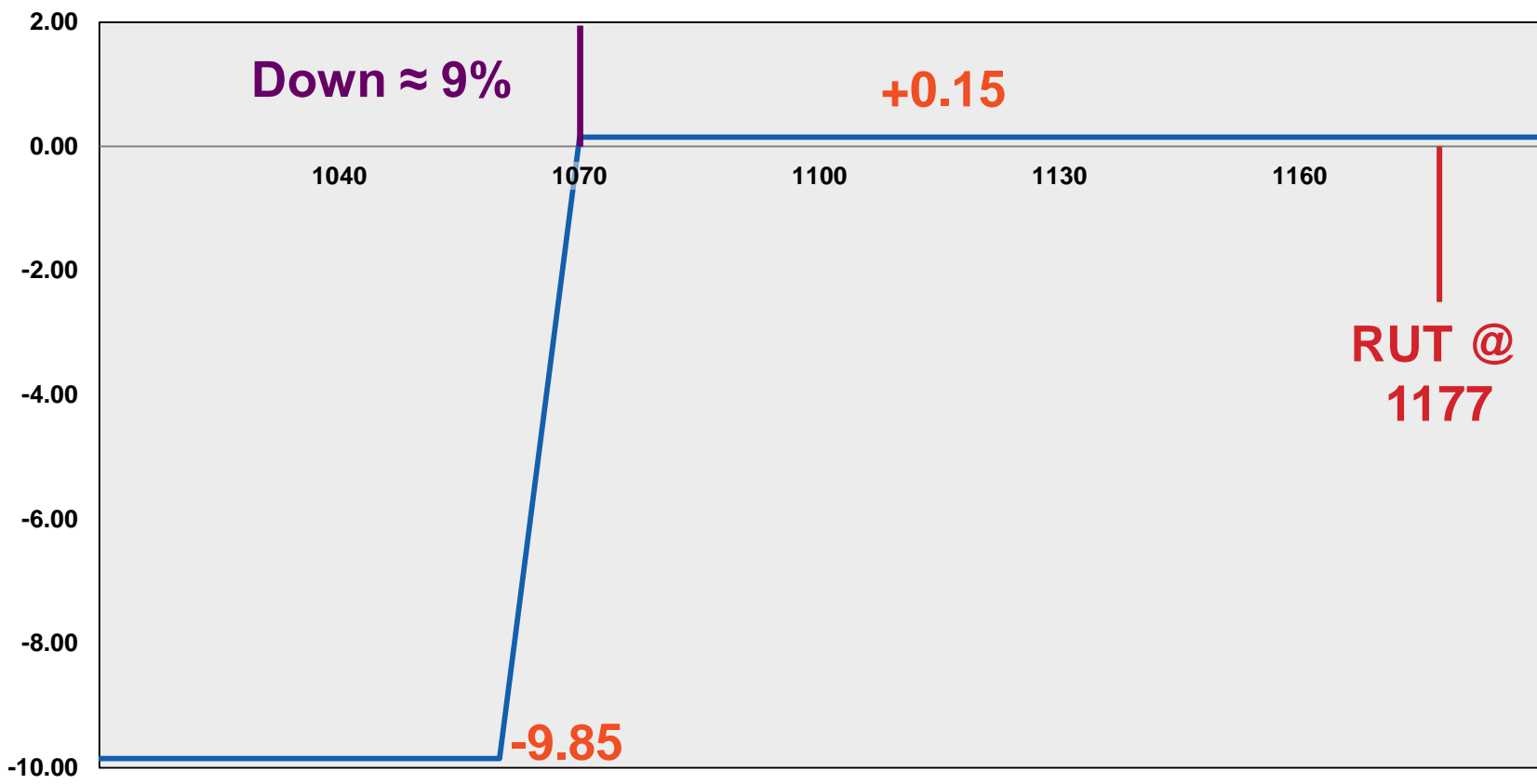
Buy RUT Jan 23rd 1060 Put @ 1.00

Net Credit = 0.15

Russell 2000 Index Option Trading

Short Term Bull Put Spread

Payoff Diagram –



Russell 2000 Index Option Trading

Historical Context

Rolling RUT Performance – January 2, 2000 – January 14, 2015

	Number of Periods	Down More than 9%	Percent
5 Days	3782	39	1.03%
6 Days	3782	51	1.35%

Data Source: Bloomberg

Russell 2000 Index Option Trading

Russell 2000 Trades

Friday February 12, 2016

RUT @ 960

Sell RUT Mar 18th 1060 Call at 2.90

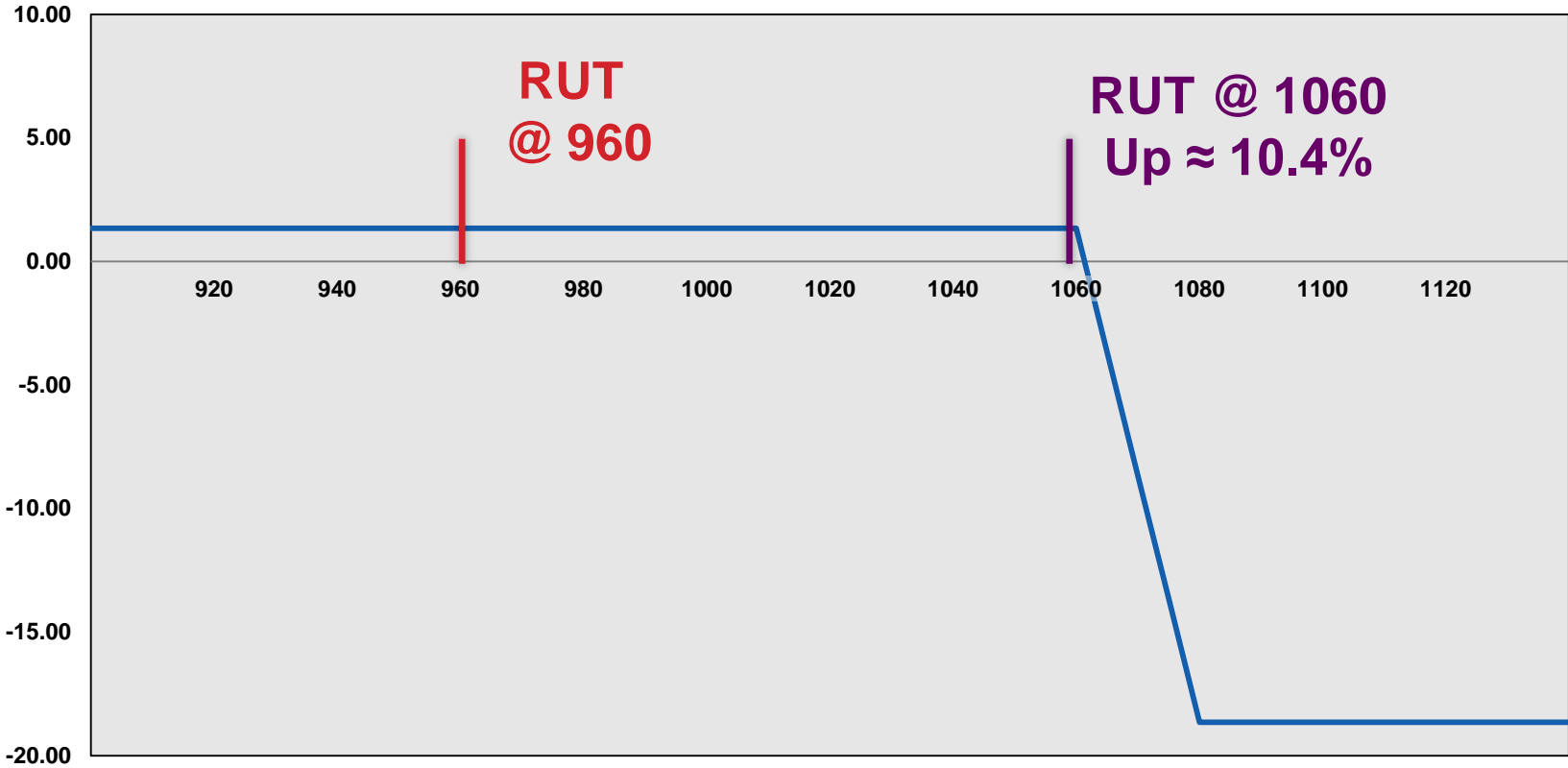
Buy RUT Mar 18th 1080 Call at 1.55

Net Credit = 1.35

Russell 2000 Index Option Trading

Russell 2000 Trades

RUT Mar 18th 1060 / 1080 Bear Call Spread



Russell 2000 Index Option Trading

Russell 2000 Trades

Friday January 22, 2016

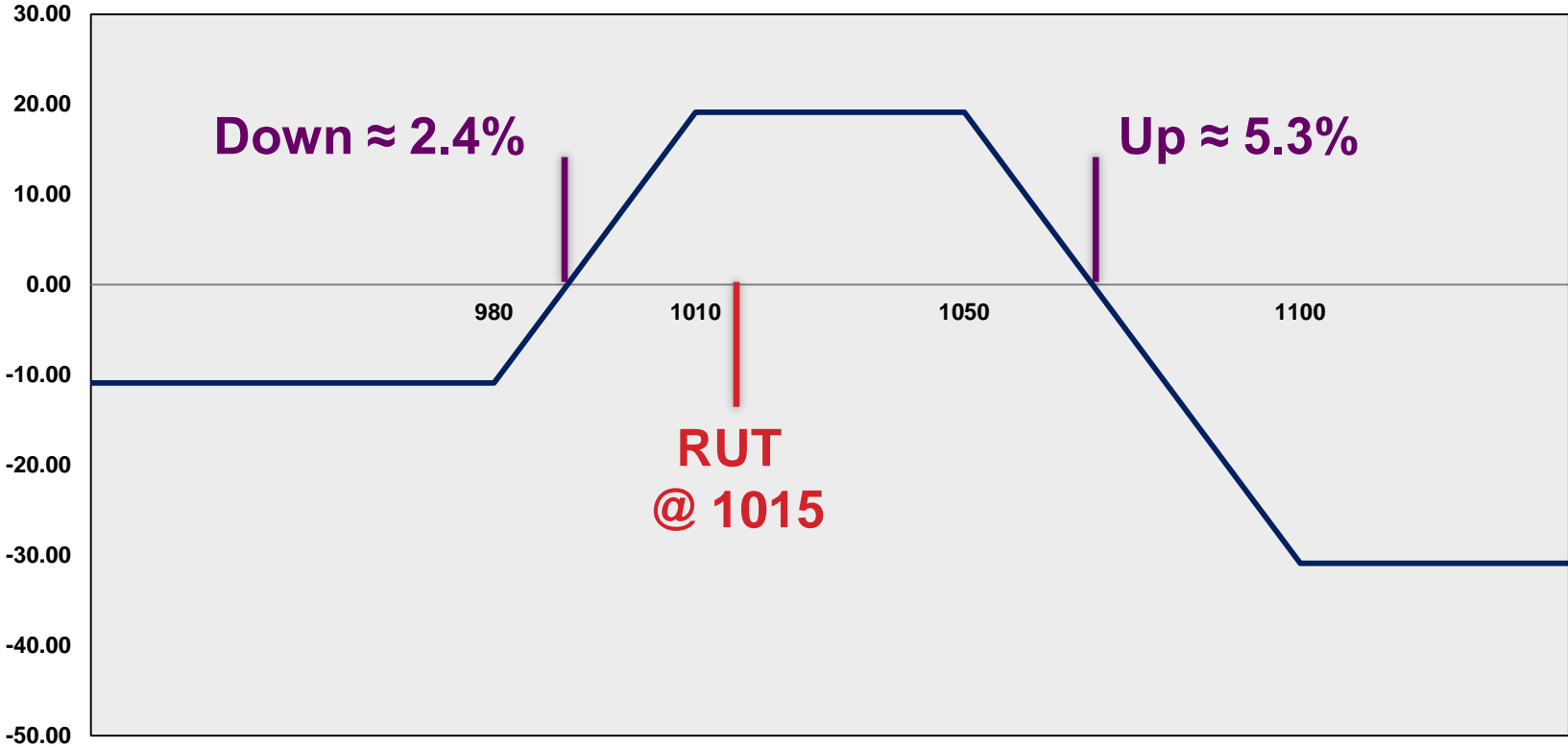
RUT at 1015

Buy RUT Feb 19th 980 Put at 14.13
Sell RUT Feb 19th 1010 Put at 23.93
Sell RUT Feb 19th 1050 Call at 10.63
Buy RUT Feb 19th 1100 Call at 1.33
Net Credit 19.10

Russell 2000 Index Option Trading

Russell 2000 Trades

RUT Feb 19th 980 / 1010 / 1050 / 1100 Broken Wing Iron Condor



Russell 2000 Index Options

Summary

- **Index options based on the Russell 2000 are cash settled index contracts that may be either AM or PM settled**
- **RUT options are better suited than large cap oriented index options when hedging a small cap portfolio**
- **The Russell 2000 and Russell 1000 indexes demonstrate considerable differences between small and large cap markets**
- **The Russell 2000 CBOE Volatility Index is a useful gauge for analyzing the risk perception of owning small cap stocks**

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