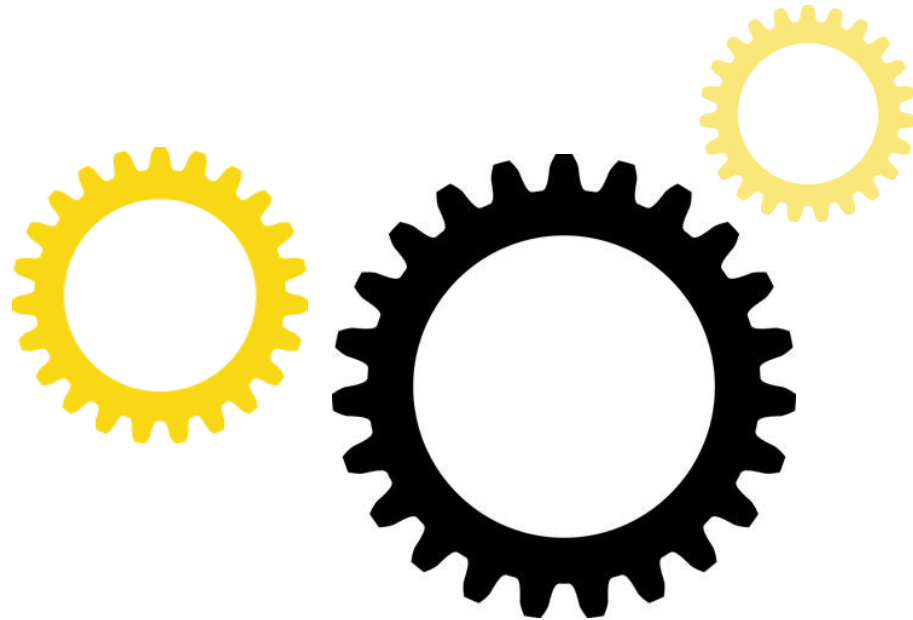


# Options on ETFs



For the sake of simplicity, the examples that follow do not take into consideration commissions and other transaction fees, tax considerations, or margin requirements, which are factors that may significantly affect the economic consequences of a given strategy. An investor should review transaction costs, margin requirements and tax considerations with a broker and tax advisor before entering into any options strategy.

Options involve risk and are not suitable for everyone. Prior to buying or selling an option, a person must receive a copy of *Characteristics and Risks of Standardized Options*. Copies have been provided for you today and may be obtained from your broker, one of the exchanges or The Options Clearing Corporation, One North Wacker Drive, Suite 500, Chicago, IL 60606 or call 1-888-OPTIONS or visit [www.OptionsEducation.org](http://www.OptionsEducation.org).

Any strategies discussed, including examples using actual securities and price data, are strictly for illustrative and education purposes and are not to be construed as an endorsement, recommendation or solicitation to buy or sell securities.

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- Exchange Traded Funds (ETFs)
  - risk
- ETF Options
- Buy ETF Call
- Buy ETF Put
- Buy Protective ETF Put
- Covered ETF Call
- ETF Collar
- Conclusion

# ETFs

- ETF = exchange traded fund
  - shares of a security – undivided interest in a portfolio
  - similar to an index fund
- ETFs trade like stock
  - on exchanges with similar commissions
  - may be margined and/or sold short
  - not all ETFs have high trading volume
- Objective is to track performance of underlying index

- ETF portfolio designed to replicate underlying index
  - composition, performance and yield
  - referred to as a “basket”
- Full replication
  - index components and weighting matched
- Optimization
  - subset of components chosen via model
  - objective is to mirror index performance

- **Passive**
  - portfolio predetermined
  - goal: track index only – no forecasting
  - majority of ETFs
- **Active**
  - market trends are forecast
  - portfolios adjusted
  - goal: to outperform index/market

- Expenses, fees and operating costs
  - periodically paid from fund's assets
- Expense ratios
  - yearly expenses as percent of average daily net assets
  - published
  - generally less with passive management



- Dividends from portfolio stocks paid to ETF
  - may be distributed to ETF shareholders
- Payment method
  - generally in cash credited to brokerage account
  - regularity and frequency varies among funds
- Expenses paid before dividend distribution made
  - may affect dividend amount shareholders receive

- Net asset value (NAV)
  - total net assets / number of outstanding shares
  - published daily
- ETF shares not bought from fund at NAV
  - prices set by supply & demand in marketplace like stock
  - may trade close to NAV
  - kept “in line” by arbitrage opportunities

- An ETF may not track index performance exactly
  - any variance is “tracking error”
  - historical data available
- Reasons?
  - portfolio composition
  - fluctuating expenses and cash held
  - liquidity

- ETFs
  - bought & sold on exchange
  - commissions
  - priced by supply & demand
  - most passive management
  - generally lower expenses
  - no minimum investment
  - options may be available
  - portfolios transparent (posted daily on Web site)
- Mutual Funds (open ended)
  - sold & redeemed by fund
  - no commissions (no-load)
  - valued at NAV end of day
  - most active management
  - generally higher expenses
  - often minimum investment
  - options not available
  - portfolios not transparent

- Variety of underlying indexes
  - broad, narrow or sector
- Variety of asset classes
  - stocks, currencies, bonds, country specific
- Why risk of ETFs on same market or sector may vary
  - management
  - index components, calculations and weightings

- Inverse & leveraged ETFs
  - may be significantly more volatile than others on same index
  - risk potentially very high
  - consult your broker first
- Understand risk of all ETF investments
  - study prospectus
  - note tracking errors and market liquidity
  - be familiar with the index – components and their weighting

- Potential profit from opinion on underlying index
  - bullish or bearish
- To manage various aspects of investment risk
  - diversification
  - asset allocation
  - correlation
- To build a global strategy
- In either case: short-term or long-term

- Risk is the potential for an adverse outcome
  - actual returns will deviate from expected returns
- “Market” risk
  - common to all securities within an asset class
  - e.g., stocks or bonds
  - also “systematic” risk
- “Specific” risk
  - unique to a specific security
  - e.g., XYZ stock or XYZ bond
  - also “unsystematic” or “diversifiable” risk



- Diversification
  - employing a range of investments
  - within asset class (e.g., stocks)
  - within a sector (e.g., banking, internet, oil)
  - when making single investment or managing portfolio
- Asset allocation
  - proportioning investments among asset classes
  - e.g., ratio of stocks to bonds to cash
  - portfolio management

- Correlation
  - degree to which two asset classes move together
  - positive = assets move in same direction
  - negative = assets move in opposite direction
  - management of portfolio market risk
  - affects volatility of overall portfolio returns
- Historical relationship between risk & reward
  - greater yield comes with greater risk
  - no investment is entirely risk-free

- Benefits
  - diversification & asset allocation with one trade
  - tax efficiency & transparency
  - lower cost than buying/selling portfolio of stocks
  - exchange-listed options may be available
- Drawbacks
  - tracking error
  - commissions increase costs for aggressive traders

# ETF Options

- ETF options are contracts that give
  - the holder the right and the writer an obligation
  - to buy or sell 100 underlying ETF shares
  - at the strike (exercise) price per share
  - at any time before the expiration date
- Considered equity options
- Available on a variety of ETFs
  - listed and traded on U.S. options exchanges
- LEAPS<sup>®</sup> may be available

# ETF vs. Equity Options

## Contract Terms



	ETF Options	Equity Options
<b>Underlying</b>	<i>ETF</i>	Stock
<b>Settlement</b>	Physical	
<b>Unit of trade</b>	100 shares	
<b>Expiration</b>	Saturday following third Friday of expiration month	
<b>Last trade</b>	Friday before expiration date	
<b>Exercise style</b>	American	
<b>Trading hours</b>	<i>May vary</i>	8:30 am to 3:30 pm Central
<b>Multiplier</b>	100	
<b>Premium</b>	1 point = \$100	

## XYZ January 50.00 Call at \$4.20

XYZ = underlying ETF

January = expiration month

50.00 = strike price (\$50.00 per share if exercised)

Call = option type

\$4.20 = quoted premium (\$420.00 total)

# What's In and What's Out Same as Equity Options

- In-the-money
  - call: strike price below ETF price
  - put: strike price above ETF price
- At-the-money
  - call & put: strike price at ETF price
- Out-of-the-money
  - call: strike price above ETF price
  - put: strike price below ETF price



# Premium and Its Components

## Same as Equity Options

- Premium = intrinsic value (if any) + time value
  - time decay – expiring option worth only intrinsic value

ETF Calls & Puts	Total Premium
In-the-money	Intrinsic value + time value
At-the-money	All time value
Out-of-the-money	

- Total premium = quoted price x 100 multiplier
  - price \$3.50 = \$350.00 total premium

- Long ETF call
  - right to buy 100 ETF shares at strike price
  - profit potential unlimited
  - loss limited to premium paid



- Short ETF call
  - obligation to sell 100 ETF shares at strike price
  - if assigned
  - profit limited to premium received
  - loss potential unlimited



- Long ETF Put
  - right to sell 100 ETF shares at strike price
  - profit potential substantial
  - loss limited to premium paid
- Short ETF put
  - obligation to buy 100 ETF shares at strike price
  - if assigned
  - profit limited to premium received
  - loss potential substantial



# ETF Pricing Factors

## Same as Equity Options



- Factors
  - underlying ETF price
  - strike price
  - volatility of ETF shares
  - time until expiration
  - interest rate
  - dividends
- Implied volatility
  - assumption at which option currently priced
  - underlying ETF volatility expected by marketplace
  - generally lower for index than individual components
- Volatility and time decay affect only time value

Calculators:

Basic

Advanced

Cycles

## Advanced Options Calculator

[ [About this calculator >>](#) ]

Model/Exercise: Binomial (American) ▼

Contract Type: Stock ▼

Price of Underlying: 75.00 down up

Strike: 74.00 down up

Expiration Date: Jan 11 ▼

Days to Expiration: 60

Interest Rate (%): 2.000

Volatility (%): 20.5 << implied

Dividend Date (mm/dd/yyyy):

Dividend Amount: 0.00

Dividend Frequency: Quarterly ▼

calculate >>

### Results:

	Call	Put
Option Value:	2.9000	1.7100
<a href="#">?</a> Delta:	0.5991	-0.4040
<a href="#">?</a> Gamma:	0.0687	0.0695
<a href="#">?</a> Theta:	-0.0246	-0.0208
<a href="#">?</a> Vega:	0.1052	0.1054
<a href="#">?</a> Rho:	0.0579	-0.0370

- ETF options
  - physical settlement
  - American-style
  - underlying may be bought/sold
  - smaller strike increments
- Index options
  - cash settlement
  - most are European-style
  - no underlying to buy/sell
  - greater strike increments
- LEAPS contracts may be available for both

- Capitalize on market opinion with long options
  - potential for leveraged profits
  - predefined, limited loss
- Short-term plays on over- or under-performance
  - broad market, sectors or asset classes
- With appropriate ETF choice, adjust with one trade
  - diversification, asset allocation, correlation
- Hedge portfolio risk or with objective to boost returns

Wide variety of strategies are available



Long Call



Short Call



Long Put



Short Put



Long Straddle



Short Straddle



Long Strangle



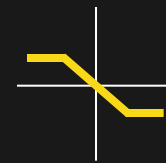
Short Strangle



Long Call Spread



Long Put Spread



Short Call Spread



Short Put Spread



Ratio Call Spread



Ratio Put Spread



Call Volatility Spread



Put Volatility Spread



Long Split-Strike Synthetic



Collar

ETF options give you options!



# Buy ETF Call

- Investor bullish on an industry sector
  - unsure of specific stock to purchase
  - wants diversified long position
  - sector index tracked by ETF “XYZ”
- Decision: buy 1 XYZ call
- Possible motivations
  - speculation for leveraged upside profits
  - purchase underlying XYZ shares

- Choice of strike price depends on motivation
- In-the-money → more “conservative”
  - plan to exercise and buy ETF shares
- Out-of-the-money → more “speculative”
  - objective: sell call for profit
- More out-of-the-money the more speculative
  - set expectations accordingly

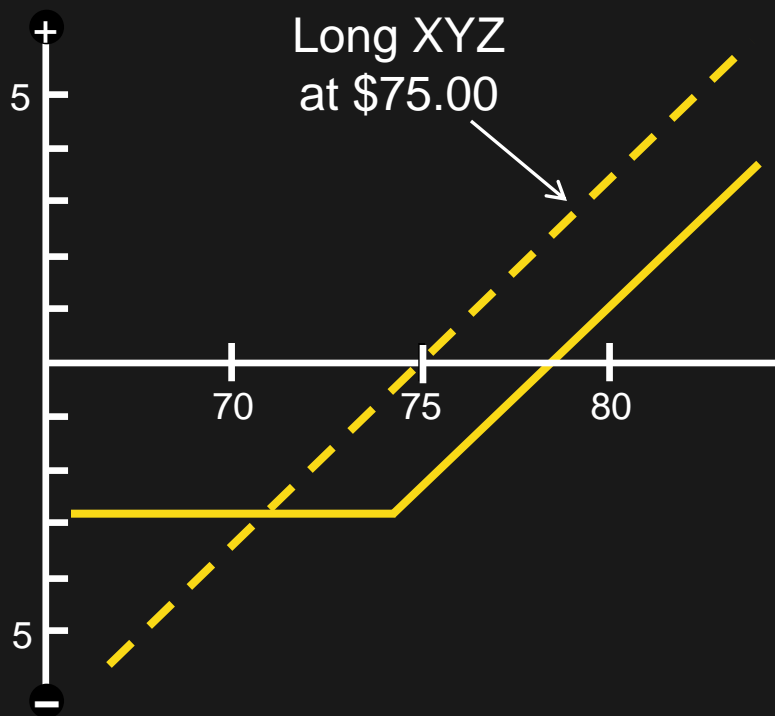
- Opinion: bullish on XYZ over next two months
- XYZ currently at \$75.00
- Action
  - buy 1 XYZ 74.00 call at \$2.90
  - call in-the-money
  - total cost:  $\$2.90 \times 100 = \$290.00$
- Compare to XYZ purchase
  - buy 100 XYZ shares at \$75.00 = \$7,500.00 total

Available 2-month calls	
XYZ 74.00 call	\$2.90
XYZ 75.00 call	\$2.40
XYZ 76.00 call	\$1.90

Not including commissions

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# Buy 1 XYZ 74.00 Call at \$2.90



## Break-even at Expiration:

Strike Price + Premium Paid  
 $\$74.00 + \$2.90 = \$76.90$

## Maximum Loss:

\$2.90 Premium Paid  
\$290.00 Total

## Profit Potential:

Unlimited

Not including commissions

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## Buy 1 XYZ 74.00 Call at \$2.90



XYZ Price at Expiration	Long 74.00 Call Value at Expiration	Long 74.00 Call Initial Cost	Total Profit/(Loss)
\$80.00	\$6.00	(\$2.90)	\$3.10
\$78.00	\$4.00	(\$2.90)	\$1.10
\$76.90	\$2.90	(\$2.90)	0
\$74.00	0	(\$2.90)	(\$2.90)
\$72.00	0	(\$2.90)	(\$2.90)

Not including commissions

# Buy 1 XYZ 74.00 Call at \$2.90 vs. Buy 100 XYZ at \$75.00



XYZ Price at Expiration	Long 74.00 Call Profit/(Loss)	Long Call % Profit/(Loss)	Long XYZ Profit/(Loss) Per Share	Long XYZ % Profit/(Loss)
\$85.00	\$8.10	279%	\$10.00	13%
\$80.00	\$3.10	107%	\$5.00	7%
\$75.00	(\$1.90)	(66%)	0	0
\$70.00	(\$2.90)	(100%)	(\$5.00)	(7%)
\$65.00	(\$2.90)	(100%)	(\$10.00)	(13%)

Not including commissions

## Buy 1 XYZ 74.00 Call at \$2.90



- Exercise at expiration
  - buy 100 XYZ at \$74.00 per share
- Net cost paid for XYZ shares
  - \$74.00 strike + \$2.90 premium paid = \$76.90 per share
  - \$7,690 total
- Risk before exercise
  - premium paid always at risk for all long ETF options
- Risk after exercise
  - downside on 100 long shares = \$7,690

Not including commissions



# Buy ETF Put

- Investor bearish on broad market
  - uncomfortable with risk of any short stock positions
  - wants diversified short position with limited risk
  - broad market index tracked by ETF “XYZ”
- Decision: buy 1 XYZ put
- Motivation
  - speculation for leveraged downside profits

- Choice of strike price depends on motivation
- In-the-money → more “conservative”
  - has intrinsic value – less vulnerable to decay
- Out-of-the-money → more “speculative”
  - all time value – total cost vulnerable to decay
- More out-of-the-money, the more speculative
  - need greater move to downside for profit
  - set expectations accordingly

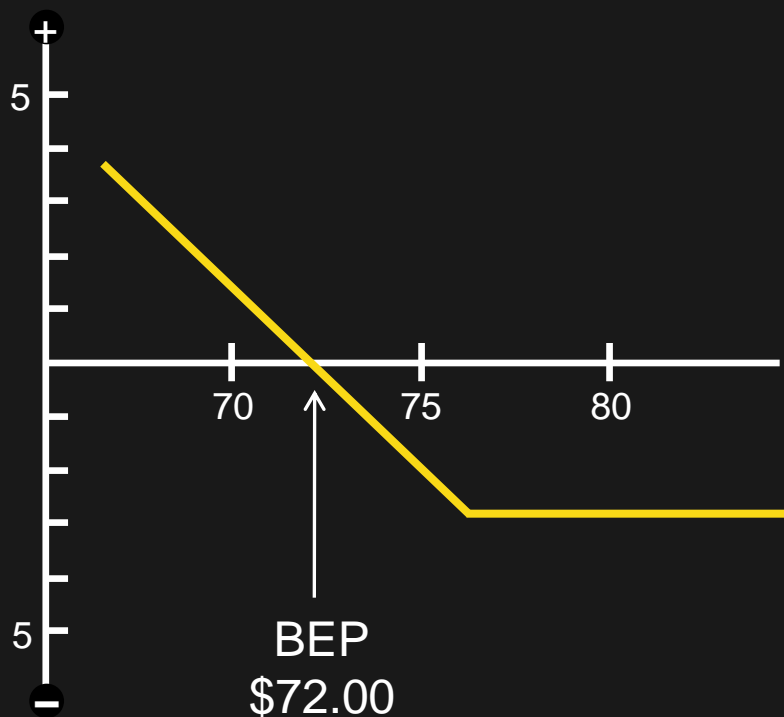
- Opinion: bearish on XYZ over next two months
- XYZ currently at \$75.00
- Action
  - buy 1 XYZ 74.00 put at \$2.00
  - put out-of-the-money
- Total cost:  $\$2.00 \times 100 = \$200.00$

Available 2-month puts	
XYZ 74.00 put	\$2.00
XYZ 75.00 put	\$2.45
XYZ 76.00 put	\$3.00

Not including commissions

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# Buy 1 XYZ 74.00 Put at \$2.00



## Break-even at Expiration:

$$\begin{aligned} &\text{Strike Price} - \text{Premium Paid} \\ &\$74.00 - \$2.00 = \$72.00 \end{aligned}$$

## Maximum Loss:

$$\begin{aligned} &\$2.00 \text{ Premium Paid} \\ &\$200.00 \text{ Total} \end{aligned}$$

## Profit Potential:

Substantial

Not including commissions

45

## Buy 1 XYZ 74.00 Put at \$2.00



XYZ Price at Expiration	Long 74.00 Put Value at Expiration	Long 74.00 Put Initial Cost	Total Profit/(Loss)
\$76.00	0	(\$2.00)	(\$2.00)
\$74.00	0	(\$2.00)	(\$2.00)
\$72.00	\$2.00	(\$2.00)	0
\$70.00	\$4.00	(\$2.00)	\$2.00
\$68.00	\$6.00	(\$2.00)	\$4.00

Not including commissions

- Exercise at expiration
  - sell 100 XYZ at \$74.00 per share
- Net received for XYZ shares
  - \$74.00 strike – \$2.00 premium paid = \$72.00 per share
  - \$7,200 total
- Risk before exercise
  - premium paid always at risk for all long ETF options
- Risk after exercise if no shares owned
  - short 100 XYZ shares – unlimited upside risk

Not including commissions

# Buy ETF Protective Put



- Investor long ETF “XYZ”
  - concerned about downside – protection wanted
- Decision: buy XYZ protective put
  - 1 put for each 100 XYZ shares owned
- Each protective put
  - grants right to sell 100 shares
  - at strike price until expiration
  - as long as put is owned

- Upside profit potential on XYZ shares
  - unlimited
  - less cost of put
- Downside loss on XYZ shares
  - limited
  - may be sold at strike price upon exercise
- Choice of strike price depends on protection needed

- Opinion: bullish on XYZ
  - defensive over next two months

- Long 100 XYZ at \$76.00
  - XYZ currently at \$75.00

- Action
  - buy 1 XYZ 73.00 put at \$1.50
  - put is out-of-the-money

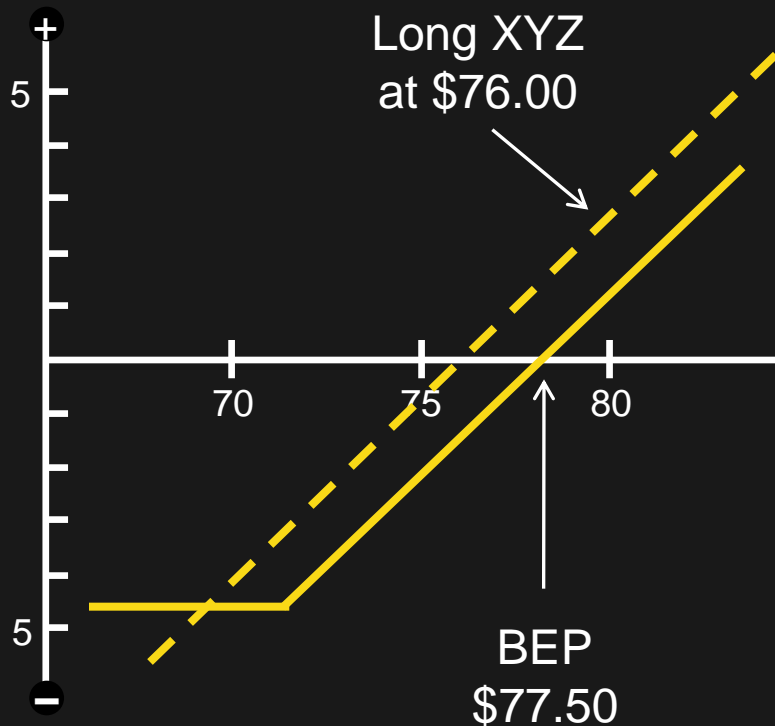
- Total cost:  $\$1.50 \times 100 = \$150.00$

Available 2-month puts	
XYZ 72.00 put	\$1.20
XYZ 73.00 put	\$1.50
XYZ 74.00 put	\$1.95

Not including commissions

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Buy 100 XYZ at \$76.00  
Buy 1 XYZ 73.00 Put at \$1.50



**Break-even at Expiration:**

ETF Price Paid + Put Premium Paid  
 $\$76.00 + \$1.50 = \$77.50$

**Maximum Loss:**

ETF Price Paid – Break-even for Put  
 $\$76.00 - (\$73.00 - \$1.50) = \$4.50$   
\$450.00 total

**Profit Potential:**

Unlimited

Not including commissions

52

Buy 100 XYZ at \$76.00  
Buy 1 XYZ 73.00 Put at \$1.50

OIC

XYZ Price at Expiration	Long 73.00 Put Profit/(Loss)	Long XYZ Profit/(Loss)	Net Profit/(Loss)
\$85.00	(\$1.50)	\$9.00	\$7.50
\$80.00	(\$1.50)	\$4.00	\$2.50
\$77.50	(\$1.50)	\$1.50	0
\$75.00	(\$1.50)	(\$1.00)	(\$2.50)
\$70.00	\$1.50	(\$6.00)	(\$4.50)
\$65.00	\$6.50	(\$11.00)	(\$4.50)

Not including commissions

53

Buy 100 XYZ at \$76.00  
Buy 1 XYZ 73.00 Put at \$1.50

OIC

- Exercise at expiration
  - sell 100 XYZ at \$73.00 per share
- Net received for XYZ shares
  - \$73.00 strike – \$1.50 premium paid = \$71.50 per share
  - \$7,150 total
- Risk before exercise
  - limited

Not including commissions

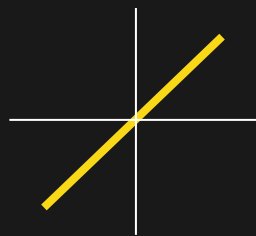
# Covered ETF Call

- Investor
  - neutral to moderately bullish on ETF “XYZ”
  - expects small price range over next few months
- Decision: write covered call
  - buy 100 XYZ shares
  - write 1 XYZ call

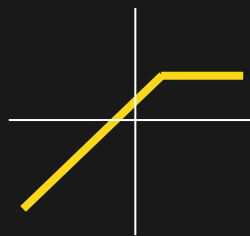


- Primary Motivation – increase returns
  - call premium received and kept
  - generates additional income (over any dividends)
  - trade-off is upside on shares limited by short call
- Call premium's limited downside benefit
  - lowers XYZ shares' break-even point
  - reduces cost basis
  - only by premium amount received

- Call writer's obligation
  - sell XYZ shares if assigned at any time before expiration
- Long XYZ shares “collateralize” short call obligation
  - if assigned shares sold already owned
- Risk is in the long XYZ shares



Long ETF



Covered Call

- Write in-the-money call
  - defensive and more conservative
  - more premium received → more downside protection
  - less upside profit potential
- Write out-of-the-money call
  - aggressive and less conservative
  - less premium received → less downside protection
  - more upside profit potential

- Strike price selection
  - assess your tolerance for risk
  - balance upside profit potential vs. limited protection
  - pick strike accordingly
- Generally considered “conservative” strategy
  - reduces (not limits) downside risk
- Outperforms long XYZ shares
  - if price declines, unchanged or rises slightly

- Maximum profit potential if assigned
  - limited
  - $\text{strike price} - \text{share price paid} + \text{call premium received}$
- Break-even point
  - $\text{share price paid} - \text{call premium received}$
- Downside loss potential substantial
  - risk is with XYZ shares
  - $\text{entire share cost} - \text{call premium received}$  at risk

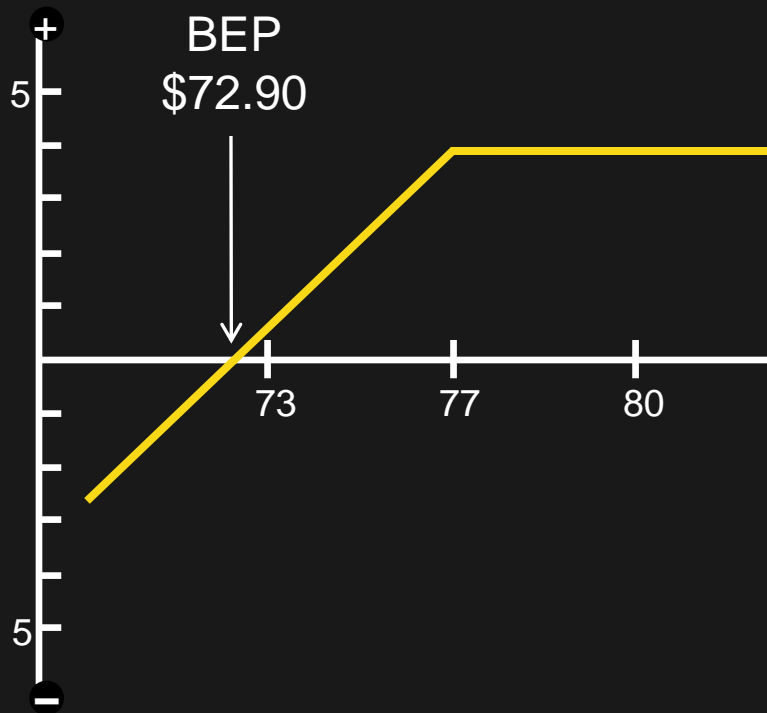
- Opinion: neutral to moderately bullish on XYZ
- XYZ currently at \$75.00
- Expect XYZ to trade between \$73.00 and \$77.00 for next 90 days
- Action
  - buy 100 XYZ at \$75.00
  - sell 1 XYZ 77.00 call at \$2.10
- A \$0.50 dividend is expected before expiration

Available 3-month calls	
XYZ 73.00 call	\$3.95
XYZ 74.00 call	\$3.40
XYZ 75.00 call	\$2.90
XYZ 76.00 call	\$2.45
XYZ 77.00 call	\$2.10

Not including commissions

# Covered ETF Call Example

## Profit & Loss at Expiration



Not including commissions

### Break-even at Expiration:

$$\text{ETF Price} - \text{Premium Received} \\ \$75.00 - \$2.10 = \$72.90$$

### Maximum Loss:

Substantial

### Maximum Profit if Assigned:

$$(\text{Strike Price} - \text{ETF Price Paid}) + \\ \text{Call Premium Received} \\ (\$77.00 - \$75.00) + \$2.10 = \$4.10 \\ \$410 \text{ total}$$

# Covered ETF Call Example

## Profit & Loss at Expiration



**Buy 100 shares XYZ at \$75.00**  
**Sell 1 XYZ 77.00 call at \$2.10**

XYZ Price at Expiration	Long XYZ Profit/(Loss)	Short 77.00 Call Profit/(Loss)	Net Profit/(Loss)
\$85.00	\$10.00	(\$5.90)	\$4.10
\$80.00	\$5.00	(\$0.90)	\$4.10
\$75.00	0	\$2.10	\$2.10
\$70.00	(\$5.00)	\$2.10	(\$2.90)
\$65.00	(\$10.00)	\$2.10	(\$7.90)

Not including commissions



- Early assignment possible before dividend
  - on or just before ex-dividend date
- You might expect early assignment when
  - expiration is relatively near
  - dividend greater than call's time value
- XYZ will pay \$0.50 dividend
  - ex-dividend date four days before expiration
  - day before ex-date XYZ is at \$78.50
  - 77.00 call is at \$1.60
  - time value is \$0.10 → expect assignment

**NOTE:**

Return calculations assume the same per period profit can be reached repeatedly throughout the year.

This may not be possible.

- “Static return” on investment
  - ETF unchanged at expiration
  - if out-of-the-money call written → expires worthless
  - “stand still return”

$$\frac{\text{Income}}{\text{Investment}} \quad \times \quad \text{Time Factor}$$

$$\frac{\text{Call Premium} + \text{Dividend}}{\text{ETF Price}} \quad \times \quad \frac{\text{Days/Year}}{\text{Days to Expiration}}$$

Call price <i>less</i> commissions		\$2.10
<i>Plus</i> dividends	+	\$0.50
<i>Equals</i> income	=	\$2.60
<i>Divided</i> by (ETF price <i>plus</i> commissions)	÷	\$75.00
<i>Equals</i> % income	=	3.5%
<i>Times</i> 365/90 (days to expiration)	x	4.1
<i>Equals</i> <u>annualized</u> static return	=	14.35%

- If-called return on investment
  - ETF price above strike price at expiration
  - call is assigned
  - ETF sold at strike price

$$\frac{\text{Income + ETF Gain}}{\text{Investment}} \times \text{Time Factor}$$

$$\frac{(\text{Call + Dividend}) + (\text{Strike} - \text{ETF})}{\text{ETF price}} \times \frac{\text{Days/Year}}{\text{Days to Expiration}}$$

Call price <i>less</i> commissions		\$2.10
<i>Plus</i> dividends	+	\$0.50
<i>Plus</i> profit from ETF sale (\$77.00 - \$75.00)	+	\$2.00
<i>Equals</i> income	=	\$4.60
<i>Divided</i> by (ETF price <i>plus</i> commissions)	÷	\$75.00
<i>Equals</i> % income	=	6.1%
<i>Times</i> 365/90 (days to expiration)	x	4.1
<i>Equals</i> annualized if-called return	=	25%

# Covered Call

## Nervous About Downside?

- In the previous example an investor wrote a covered ETF call
- Position
  - long 100 XYZ shares at \$75.00
  - short 1 XYZ 77.00 call at \$2.10
- Time passes
  - XYZ increases in price a bit
  - investor has downside worries - doesn't want to sell shares
  - buy protective put → convert to a collar

# ETF Collar



- Collar
  - long 100 underlying ETF shares
  - long 1 put
  - short 1 call
- Ratio always 100 shares : 1 call : 1 put
- Call and put generally same expiration month
- Call strike price higher than put strike price

- A collar can be considered two strategies in one
  - the 100 ETF shares play a part in both
- On the downside a protective put
  - out-of-the-money put is purchased
  - right to sell shares at strike price until expiration
- On the upside a covered call
  - out-of-the-money call is sold
  - upside profit potential limited by short call

- ETF buyer with unrealized gains wants
  - downside protection – long put
  - some upside participation – limited by short call
- Key benefits
  - put cost fully or partially paid by call premium received
  - objectives met whether share price up or down
  - receive any dividend if not assigned on short call

- Downside protection needed?
  - select appropriate put strike price
  - consider timeframe
- Upside participation on ETF?
  - select appropriate call strike price
  - be happy with share sale price if assigned
- Balance two factors:
  - put premium paid & protection provided - risk
  - call premium received & upside potential - reward

<b>Net Debit</b>	Puts cost more than call premium received	Buy put    – \$3.00 Sell call    + <u>\$2.00</u> <b>Net debit</b> – \$1.00
<b>Net Credit</b>	Call premium received more than cost of puts	Sell call    + \$4.00 Buy put     – <u>\$1.00</u> <b>Net credit</b> + \$3.00
<b>“Zero Cost”</b>	Call premium received same as put premium paid	Sell call    + \$4.00 Buy put     – <u>\$4.00</u> <b>Zero Cost</b> \$0

Not including commissions

- Covered call
  - buy 100 XYZ shares at \$75.00
  - sell 1 XYZ 77.00 call at \$2.10
- Convert to collar
  - buy 1 XYZ 75.00 put at \$1.65

- Position

long 100 XYZ shares currently at \$76.00

sell 1 XYZ 77.00 call           + \$2.10

buy 1 XYZ 75.00 put           – \$1.65

**Net credit           = + \$0.45**

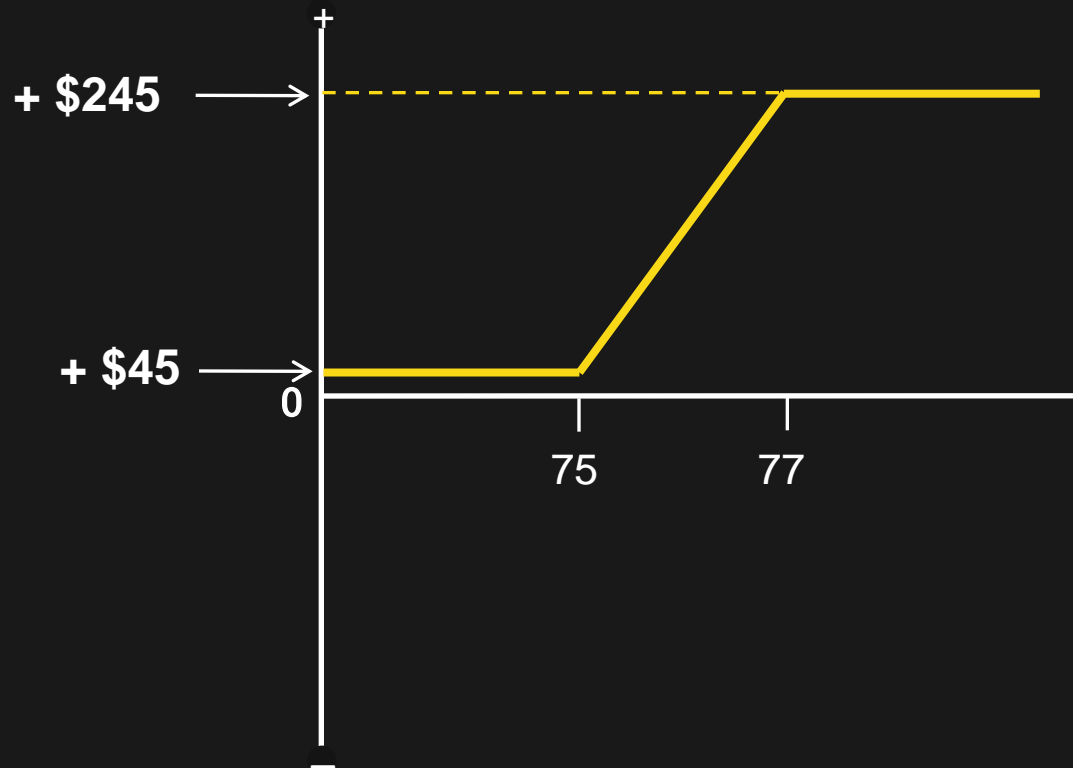
Not including commissions

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# ETF Collar Example

## Profit & Loss at Expiration

OIC



# In Conclusion



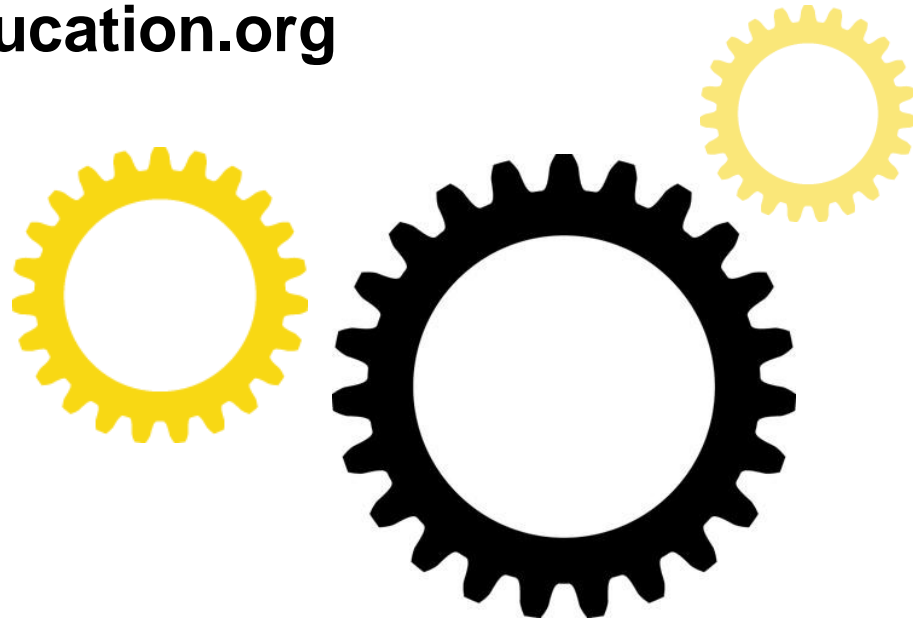
- Among the benefits ETF shares offer
  - diversification & allocation with a single transaction
  - trade like stock on an exchange
  - lower management costs and certain tax advantages vs. mutual funds
- ETF benefits available to option investors
- ETF options are considered equity options
  - same pricing factors
  - similar contract terms
  - American-style & physical delivery – unlike index options

- ETF options offer flexibility of equity options
  - wide range of strategies available
- Why use ETF options?
  - bullish or bearish speculation
  - buy or sell underlying ETF shares
  - generating additional income
  - managing portfolio risk

# Thank You for Attending!

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