**Options Risk Disclosure**

Options are not suitable for all investors. There are risks involved in any option transaction or strategy. Individuals should not enter into options transaction until they have read and understand the options disclosure document, “Characteristics and Risks of Standardized Options”, which outlines the purposes and risks of options transactions. You can download this document at OCC-Characteristics and Risks of Standardized Options <https://www.theocc.com/Company-information/Documents-and-Archives/Options-Disclosure-Document> Copies of this document may also be obtained by contacting the Options Clearing Corporation directly at 125 S. Franklin Street, Suite 1200; Chicago, IL 60606.

*Risk of Buying Options*

An option buyer (holder) runs the risk of losing the entire amount paid for the option in a relatively short period of time. The risk reflects the nature of an option as a wasting asset which becomes worthless when it expires. An option holder who neither sells his option in the secondary market nor exercises it prior to its expiration will lose his entire investment in the option. The more an option is out-of-the-money and the shorter the time remaining to expiration the greater the risk that an option holder will lose all or part of his investment in the option.

*Risk of Covered Call Writing*

The writer of a covered call forgoes the opportunity to benefit from an increase in the value of the underlying instrument above the option price but continues to bear the risk of a decline in the value of the underlying instrument.

*Risks for Uncovered Option Writers*

There are risks associated with uncovered option writing which expose the investor to potentially significant loss. Therefore, this type of strategy may not be suitable for all customers approved for options transactions. These risks include:

* The potential loss of uncovered call writing is unlimited. The writer of an uncovered call is in an extremely risky position and may incur large losses if the value of the underlying instrument increases above the exercise price.
* As with writing uncovered calls, the risk of writing uncovered put options is substantial. The writer of an uncovered put option bears a risk of loss if the value of the underlying instrument declines below the exercise price. Such loss could be substantial if there is a significant decline in the value of the underlying instrument. Uncovered option writing is thus suitable only for the knowledgeable investor who understands the risks, has the financial capacity and willingness to incur potentially substantial losses, and has sufficient liquid assets to meet applicable margin requirements. In this regard, if the value of the underlying instrument moves against an uncovered writer’s options position, you may have to make a significant additional margin payment. If you do not make such margin payments, your stock or options positions in your account may be liquidated, with little or no prior notice in accordance with your margin agreement.
* For combination writing, where the investor writes both a put and a call on the same underlying instrument, the potential risk is unlimited.
* If a secondary market in options were to become unavailable, investors could not engage in closing transactions, and an option writer would remain obligated until expiration or assignment.
* The writer of an “American-style”[[1]](#footnote-1) option is subject to being assigned an exercise (i.e., having the option exercised) at any time after he has written the option until the option expires. By contrast, the writer of a “European-style”[[2]](#footnote-2) option is subject to exercise assignment only during the exercise period.

This disclosure statement is not intended to enumerate all of the risks entailed in trading options.

1. An American option is a style of options contract that allows holders to exercise their rights at any time before and including the expiration date.  [↑](#footnote-ref-1)
2. A European option is a version of an options contract that limits rights exercise to only the day of expiration. [↑](#footnote-ref-2)