Fidelity INVESTMENTS

A Fidelity Investments Webinar

Options Trade Management

BROKERAGE: OPTIONS

Options Trading Webinar Series

Introduction to Options

Get to know the basics of options trading; learn key terms and concepts essential for any new options trader.

Buying Options

Understand what to expect when buying options; learn the difference between calls and puts.

Selling Options

Understand what to expect when selling options; learn how to navigate the risks associated with selling.

Options Trade Management

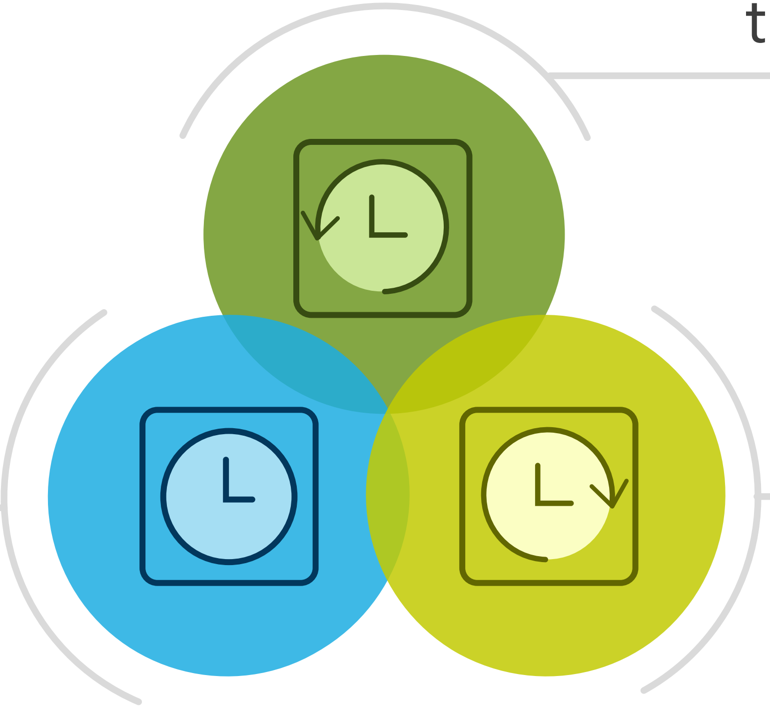
Now that you've placed a trade, learn strategies to manage before, during, and after its expiration.

Options Pricing

Understand how options are priced and learn how you can help get the best returns.

Manage Options Prior to Expiration

Position Management



Manage Options at Expiration

Agenda

Manage Options Prior to Expiration

Manage Options Prior to Expiration

Manage Your Outlook

- Do you still have the same outlook on the security?
- Has that outlook changed?
- Were you bullish and are now neutral? Bearish?
- Has your time horizon changed?

Trader's View:

- Be honest with yourself when reevaluating an existing trade and manage accordingly.
- Don't fall into the trap of making adjustments without considering the end objective of the trade.

What Factors Affect the Premium?

Money-ness of the Option Being Sold
(Strike Selection)

- Out-of-the-money options offer lower premiums, lower probability
- At-the-money options have the most time value

Time to Expiration
(Expiration Selection)

- Nearer term expirations offer the potential for the highest annualized return but a lower up-front premium
- Longer-dated expirations decay at a slower rate, but have higher premiums

Expected Movement from the Underlying
(Implied Volatility)

- Higher implied volatility (expected price movement) results in higher premiums
- Lower implied volatility results in lower premiums

Manage Options Prior to Expiration

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There are three ways to manage any strategy:

1 Leave the Strategy Alone

Makes Sense When:
You would put the same trade on today

- Allow exercise/assignment
- Continue to stay in the trade

2 Close the Strategy

Makes Sense When:
The strategy no longer aligns with the outlook

- Trade out of the strategy

3 Adjust the Strategy

Makes Sense When:
The existing strategy can be altered to better align with the outlook

- Reducing position size
- Rolling up, down, or out?

Manage Long Positions Prior to Expiration

Early Exercise

Makes Sense When:
You cannot sell the option in the open market for at least intrinsic (exercise) value.

- Typically, the option is either very deep in the money, close to expiration, or both

Example

You are long (own) one ABC Call expiring this Friday with a strike of 100. ABC is at 105.

Your ABC contract is currently trading at 4.50 x 5.50 and you wish to close the position.

If you sold your contract to the bid, you would only receive $4.50. But, if you exercise your option to buy ABC at $100 and then sell the stock on the open market for $105, you'd receive the $5.00 difference.

Manage Short Position Obligations

Early Assignment

- The less time until expiration, the greater the risk
- The deeper in the money the option, the greater the risk
- Early assignment also frequently occurs around dividends, so pay special attention

Example

When the underlying pays a dividend, calls have a higher assignment risk.

Why? The option may be at or slightly in the money and only trading for $0.20 of time premium when the underlying is paying a $0.50 dividend.

If you are planning on owning the stock, it would make more sense to exercise the option just prior to the ex-dividend date so that you receive the $0.50 dividend.

Manage Options Prior to Expiration

What Is Rolling?

Rolling is placing one trade to simultaneously close out a current position and open up a new one with either a different expiration date, strike price, or both.

Reasons Why You Might Want to Roll

- Give your outlook more time to play out
- Change strike price to lock in gains
- Lower potential of assignment

Manage Prior to Expiration

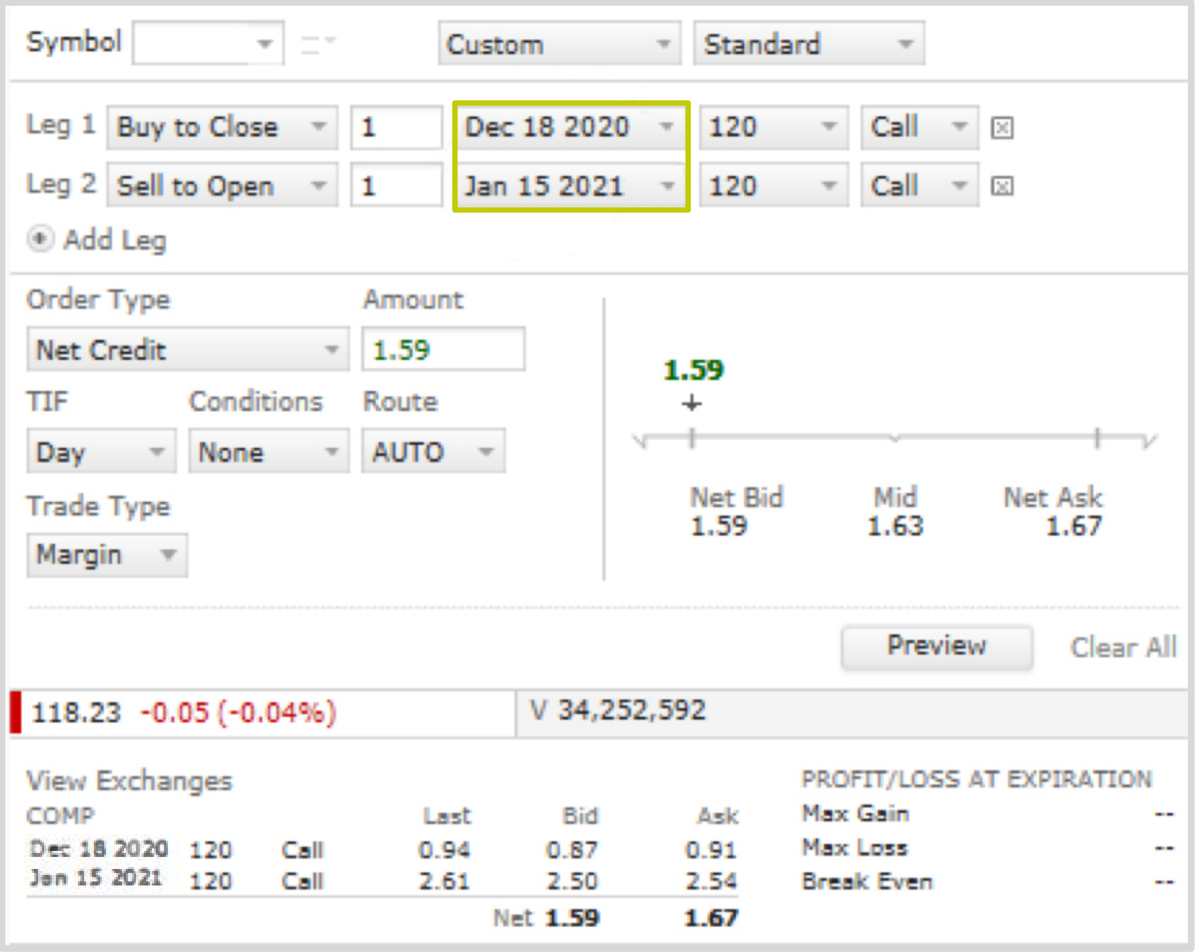
Rolling Out

"Rolling out" is placing a trade to push the expiration to a date further out.

An investor would consider rolling out a short option if their outlook has not changed and they want to take advantage of additional time.

It's important to realize that by rolling out a trade, you are closing one trade and opening a new one. Be sure that the new trade makes sense on its own merit.

- For example, closing one call at $0.91 and selling a new one for $2.50
- This is usually done at a **net credit**



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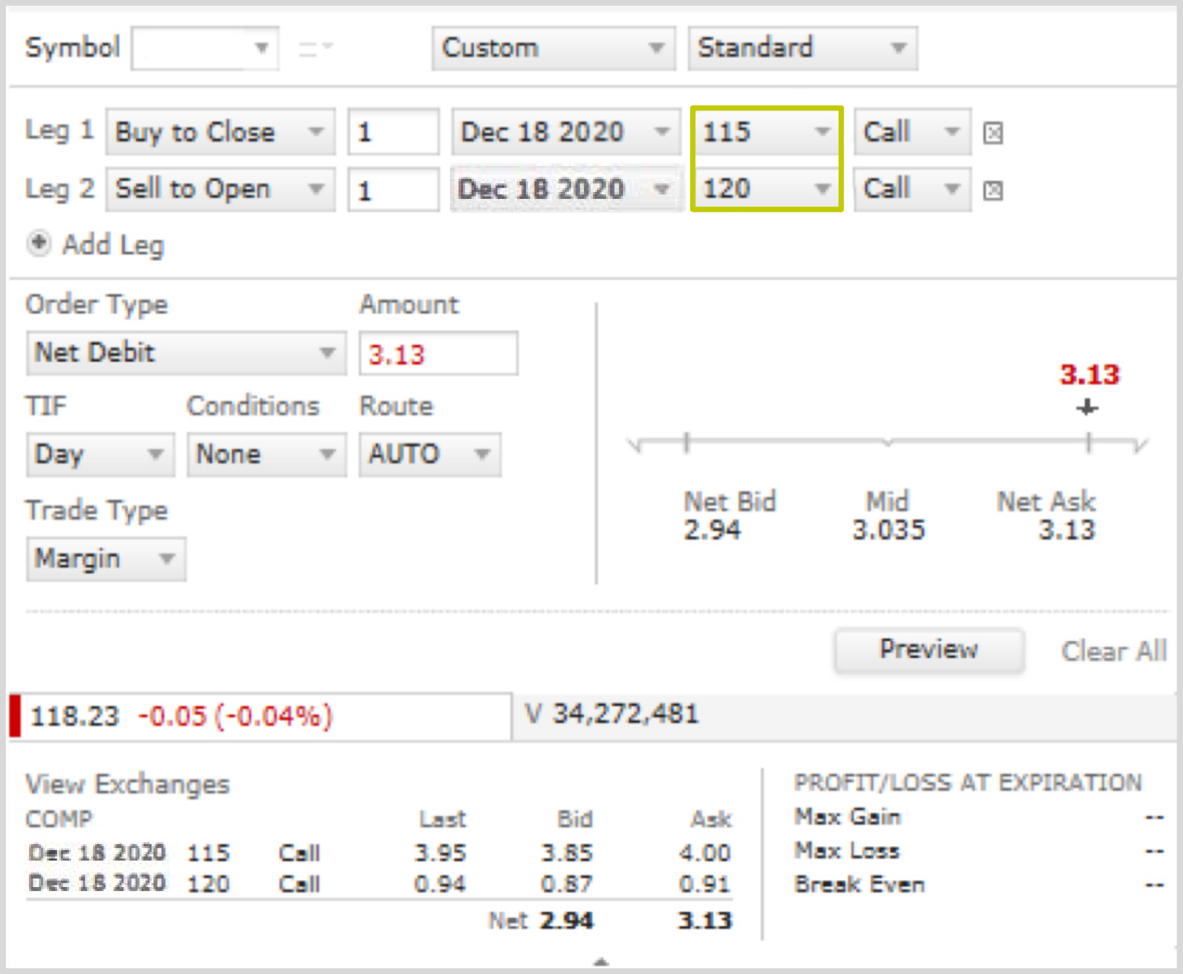
Manage Options Prior to Expiration

Rolling Up/Down

"Rolling up/down" is placing a trade to either increase or decrease the strike price.

An investor would consider rolling up a short option if their outlook has changed and they want to take advantage of additional stock price movement.

- For example, closing one call at $4.00 and selling a new one for $0.87
- This is frequently done at a **net debit**



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Manage Options at Expiration

Manage Options at Expiration

At expiration, there are three possibilities

1. Close the trade
2. Exercise/Assignment
3. Expire worthless

Remember

If your option is $0.01 in the money or more, it will automatically be exercised.

Only allow an option to be auto-exercised if it is commensurate with the amount of shares you would want to own/sell.

Manage Options at Expiration

How do you **close a trade**?

- Long option holders simply "sell to close." This sells your right to exercise the option.
- Short option writers simply "buy to close." This closes your obligation.

Remember

Some option writers will let their contracts simply expire worthless rather than closing out their contracts.

While this enables the trader to pick up additional potential profit, it's frequently referred to as "picking up pennies in front of a steamroller."

If the trade suddenly moves against you, you could be flattened!

Position Management

Position Management

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Have a plan!

Minimize emotional decisions through risk and position size management

- Reduce concentrations in individual positions and sectors
- Keep it small and in proportion to your portfolio
- Go into each trade knowing what you can and are willing to lose
- Be flexible; if your opinion has changed, then adjust

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Visit the Fidelity Learning Center

Learn more about options

Read: Access the Options Strategy Guide

Watch: Check out videos that cover options basics

Attend: Register for monthly webinars

Glossary

Rolling Up

Rolling up an option involves buying to close an existing covered call and simultaneously selling another covered call on the same stock and with the same expiration date but with a higher strike price.

Rolling Down

Rolling down an option involves buying to close an existing covered call and simultaneously selling another covered call on the same stock and with the same expiration date but with a lower strike price.

Rolling Out

Rolling out an option involves closing out an option that is about to expire and simultaneously purchasing a similar trade with a later expiration date.

Thank You

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For more information, please visit

Fidelity.com > News & Research > Options

Questions? Contact a Fidelity representative at

877-907-4429

Important Information

Options trading entails significant risk and is not appropriate for all investors. Certain complex options strategies carry additional risk. Before trading options, contact Fidelity Investments by calling 800-544-5115 to receive a copy of *Characteristics and Risks of Standardized Options*. Supporting documentation for any claims, if applicable, will be furnished upon request.

There are additional costs associated with option strategies that call for multiple purchases and sales of options, such as spreads, straddles, and collars, as compared with a single option trade. Examples in this presentation do not include transaction costs (commissions, margin interest, fees) or tax implications, but they should be considered prior to entering into any transactions.

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Technical analysis focuses on market action – specifically, volume and price. Technical analysis is only one approach to analyzing stocks. When considering what stocks to buy or sell, you should use the approach that you're most comfortable with. As with all your investments, you must make your own determination whether an investment in any particular security or securities is right for you based on your investment objectives, risk tolerance, and financial situation. Past performance is no guarantee of future results.

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