OrBit Markets

KIKO OPTION STRATEGY

- Investors **SELL** a KIKO option to earn an enhanced yield. (potential APR **21%~621%** or more)
- This strategy works the best in a mildly rising or stable market.

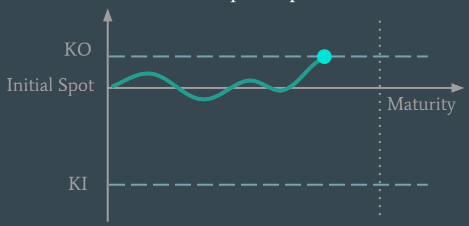
What's a KIKO option?

- A KIKO (knock-in & knock-out) option is a European vanilla option with two American barriers, one knock-in and one knock-out.
- The option gets activated once the knock-in barrier is triggered and it will provide the same payoff as a vanilla option at maturity.
- However, if the knock-out barrier is touched at any point in time, the option gets deactivated and dies out (gets knocked out), and there will be no payoff at maturity.
- If the spot price did not touch the KI barrier nor the KO barrier, there would be no payoff at maturity and the option expires worthless.

Scenarios - sell a KIKO option and receive the premium

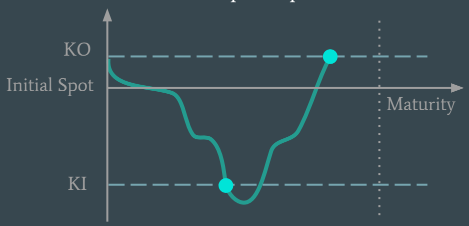
Scenario 1: no KI, just KO

Option knocked out.
Investor keeps the premium.



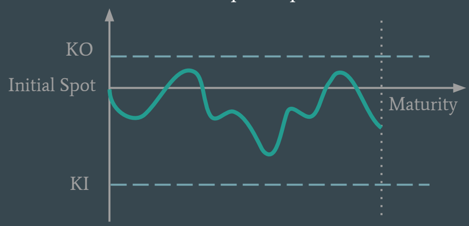
Scenario 2: KI, and then KO

Option activated, but then knocked out.
Investor keeps the premium.



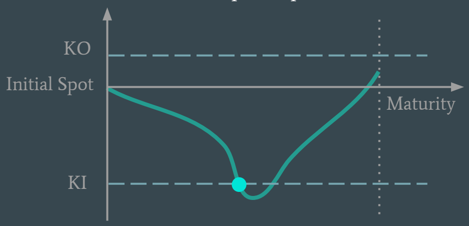
Scenario 3: no KI, no KO

Option never activated.
Investor keeps the premium.



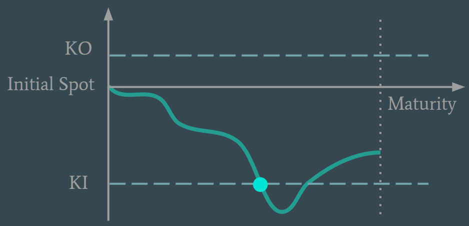
Scenario 4: KI, OTM at maturity

Option activated but expires worthless.
Investor keeps the premium.



Scenario 5: KI, ITM at maturity

Option activated and pays out.
Investor suffers a loss.



Indicative Terms

Notional	1 million USDC
Maturity	30 days
Underlying	ETH/USD
Strike	100% * Initial Spot
Knock-In Barrier	70% * Initial Spot
Knock-Out Barrier	105% * Initial Spot
Barrier Observation	Continuous
Bid Price (client sells)	1.7% (=17,000 USDC)
Potential APR	**21%~621% or more depending on KO timing**

Benefits and Risks

- The investor sells the KIKO option and receives the premium.
- If the spot price increases or stays range bound, the option will get knocked out or expire worthless. The investor will keep the premium.
- The investor risk being "put" the underlying if the spot price falls sharply and the knock-in barrier is triggered.
- The investor may suffer losses on the principal.

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