**Transaction table**

**Which Option will you buy?**

I will like to buy at the money $77.00 put option for 2.90 for Canadian dollars. The amount of contracts that I will be buying will be equal to 7890 contracts. This means I will be buying a hedge for 789 \* 290 = 22,881. In my view the price of the contract will go down and so the option will end up in the money and I will not lose any money. In case the price of option up above $77 the difference in price will be additional hedge, which I have to pay. I am saving my client from buying a huge hedge against the future payout. I am going with a conservative approach and I think this will work in short team. On the other hand, if prices go up client will make money on the amount receivable. I am making the hedge based on present price and at the money option is only attractive to have minimum money perfect hedge. In addition, I am not under hedged or over hedges in this equation.

The reason why I think the rate will not fall below the present price take into consideration recent activity in the US and Canadian market. US did not increase the rate and Oil prices may rise. So other all the economic condition and minimum risk situation make me decide that the In the money option will be the best hedge for this. I am investing a hedge of $22,881 and the maximum loss is $22,881 and maximum gain is 7890 \* 77 = $607530. 00 which is an assumption that the rate will fall to 0.

In summary, I can make the decision to buy 7890 $77.00 put contracts.

**Forwards and Option split**

Caterpillar’s investment mix should be 90% forwards and 10% options. The options are very expensive and Caterpillar, based on my suggestion is buying in the money option. As per my thinking the forwards are cheaper option and the options gives Caterpillar an ability to be flexible as it trades in the liquid market. The forward contracts are tailor made with quantity and timing to match the need of the client “Caterpillar”. As our horizon is short term and the market is relatively liquid in the short term, so the future contacts will not be very expensive and as per my advice Caterpillar can invest 90% of the hedge in Forwards and rest in options.

**90% forward will be 90% of** $78,836,073  **= 71010000**

**10% Options will be 10% of** $78,836,073  **= 78900**

I will be buying 789 contracts for options which will cost me $2281.00

In this mix my client Caterpillar will be exposed to $2281.00 maximum loss. Caterpillar is a 90% forward, that gives them assurance that they are not spending too much money in my hedges. I am employing a conservative strategy for my client Caterpillar, which gives them ability to minimize risk with the least dollar amount of hedge. The price movement of options will not give Caterpillar money and we are thinking as hedgers and not speculators so this option looks safer option for my client.