

Stock Options Product Guide



PRODUCT INTRODUCTION



Saxo Capital Markets launches Stock Options, a major new trading product line covering U.S. Stock Options, European Stock Options and Asia Pacific Stock Options.

Stock Options will be tradable from our industry-standard options chain in the SaxoTrader and the WebTrader, and from SaxoMobile Trader.

Limit, Stop and Market orders will be supported. Both One-Cancels-Other (OCO) and Good-Till-Canceled (GTC) parameters are available.

Saxo charges clients a per-lot fee to trade Stock Options, where the fee is dependent on the number of Stock Options the client trades in the previous calendar month. The higher the volume, the lower the per-lot fee. New clients are priced based on an estimated volume for their first month. Visible price brackets will go up to 5,000 lots a month. Clients trading above this level will have bespoke pricing according to guidelines set. There will be no minimum ticket fee by default.

As for Contract Options Saxo will operate with two margin profiles:

- A basic profile by default which enables clients to buy options only – puts and/or calls.
- An advanced profile for individually assessed clients which enables the client to do the same as the basic profile and to write (sell/short) options and receive margin benefits on option strategies (combinations of options and/or underlying positions). In case of a margin breach and stop-out is triggered, all option positions will be closed.

To be put on the advance profile contact your Account Manager.

Saxo Contract Options Unique Selling Points:

- Saxo will not charge a minimum ticket fee or carrying cost
- Online exercise of options
- Saxo multi-language service and support
- Saxo will not charge for the use of its software (trading platforms)

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PRODUCT FEATURES

1. Tradable instruments

All Stock Option instruments are listed on an exchange and there is no market-making or matching of client trades and orders. The full list of instruments and exchanges on which they trade can be seen in the table in appendix 1, but below there is a summary of the key Liquid Stock Options available and their origin.

Region	Exchanges	Stock Options
USA	CBOE	Bank of America Corp, Citigroup, Microsoft Corporation, Apple Inc, Ford Motor Co, Facebook Inc, Cisco, General Electric Co, Yahoo, The Walt Disney Company, Mc Donald's Corp, Amazon....
Europe	Euronext Amsterdam	ING Groep NV, Arcelomittal, Royal Dutch, Aegon, Unilever...
	Euronext Paris	Axa SA, France Telecom, Societe Generale, BNP paribas, GDF Suez, Vivendi, Carrefour, Total, LVMH...
	Eurex	Deutsche Telekom, Commerzbank, E.on, Daimler, Deutsche Bank, SAP AG, RWE AG, Siemens AG, Allianz SE, Volkswagen AG, Adidas AG...
APAC	SEHK	China Construction Bank-H, Bank of China LTD-H, China Mobile, HSBC Holding PLC, China Life Insurance CO-H...

2. Trading platforms

Stock Options will be tradable from our industry-standard options chain in the SaxoTrader and the WebTrader, and tradable from the SaxoMobile Trader applications.

3. Orders supported

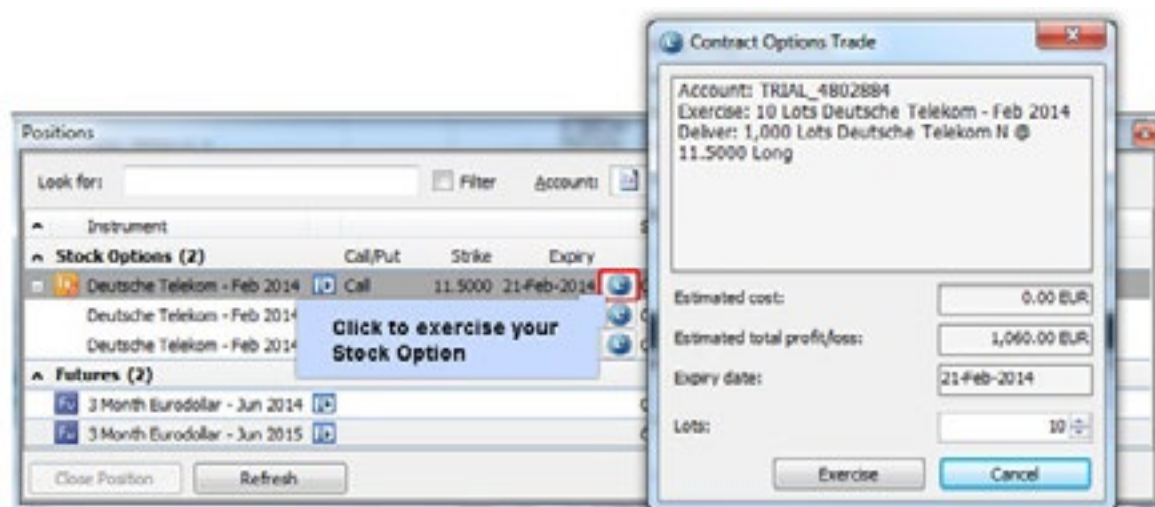
Limit, Stop and Market orders will be supported. Both One-Cancels-Other (OCO) and Good-Till-Canceled (GTC) parameters are available.

Stop orders are by definition "Stop if traded" orders meaning a stop order can only be triggered if it trades for a minimum of one lot in the market. As the price of the Contract Option moves with the underlying, you can be in a situation where you reach the level of your stop, but the stop is not triggered as no one is trading on the strike. Instead of stop orders, we recommend clients to use the alerts in the platform at specific price levels.

4. Exercise & Settlement

Stock Options at Saxo will be American style options. American style options can be exercised at any time before the expiry.

American style Options can be exercised online at any time before the expiry apart from the last trading day or are auto-exercised at expiry.



5. Expiry

All positions are subject to an Auto-Exercise procedure at expiry:

- All long positions on In-the-Money options are assumed to be exercised.
- All short positions on In-the-Money options are assumed to be assigned.
- All positions on Out-of-the-Money & At-the-Money options are abandoned.

A Call Option is In-the-Money when the strike price is below the market price of the underlying asset. A Put Option is In-the-Money when the strike price is above the market price of the underlying asset. Abandonment of In-the-Money positions is not supported.

Thus, clients should close their option positions prior to expiry to avoid delivery.

6. Commissions costs

The existing monthly volume-based pricing for standard Contract Options will be adopted for Stock Options.

Stock Options Contracts	Trade volume: Contracts/Month	
Currency	0-1000	1,001 - 5,000
AUD	AUD 5.00	AUD 3.00
EUR	EUR 3.00	EUR 2.00
GBP	GBP 2.5	GBP 1.5
USD	USD 3.00	USD 2.00
CHF	CHF 4.00	CHF 3.00
HKD	HKD 30	HKD 20
Minimum Ticket	None	

Above 5,000 lots per month clients are encouraged to engage their Account Manager to negotiate commission levels based on the volume they offer.

7. Data Subscription

Access to real time prices to the options and the stocks may require 2 different subscriptions. Note that for US stock options a subscription is also required to receive delayed date.

Please refer to the table for overview of markets and subscription services.

Stock Options Traded in	Subscription needed for the option quotes	Subscription needed for the underlying instrument
CBOE_SO - Chicago Board Options Exchange	CBOE Futures Exchange*	Nasdaq, New York Stock Exchange, Arca
EUREX	EUREX	Deutsche Börse (XETRA), SIX Swiss
EUR_AMS2 - Euronext Equity & Index Derivatives	Euronext Equity & Index Derivatives	NYSE Euronext
EUR_PAR2 - Euronext Equity & Index Derivatives	Euronext Equity & Index Derivatives	NYSE Euronext
HKEX - Hong Kong Exchanges	Hong Kong Stock Exchange	Hong Kong Stock Exchange

8. Client margin profiles

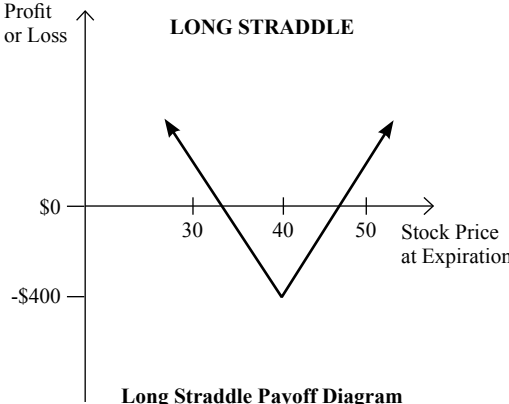
Saxo will operate with two margin profiles:

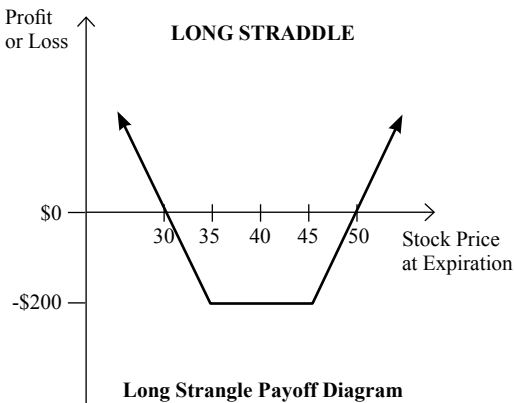
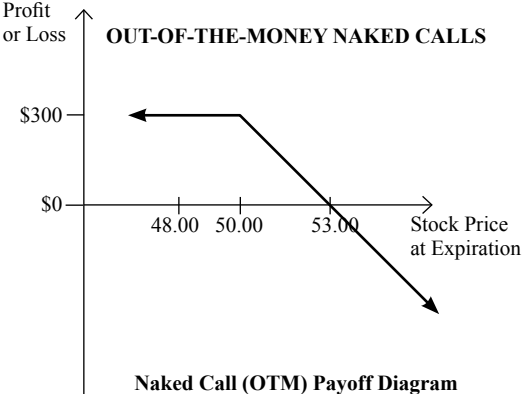
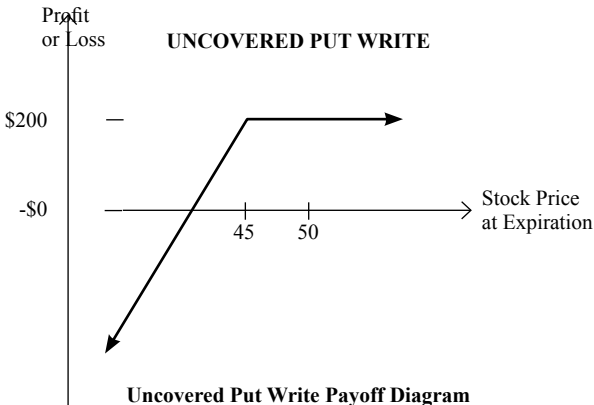
- A basic profile by default which enables clients to buy options only – puts and/or calls.
- An advanced profile for individually assessed clients which enables the client to do the same as the basic profile and to write (sell/short) options and receive margin benefits on option strategies (combinations of options and/or underlying positions).

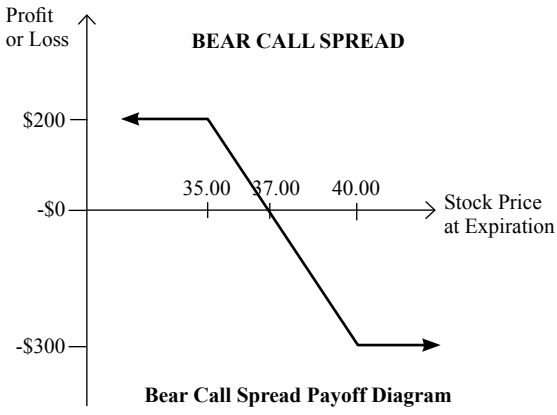
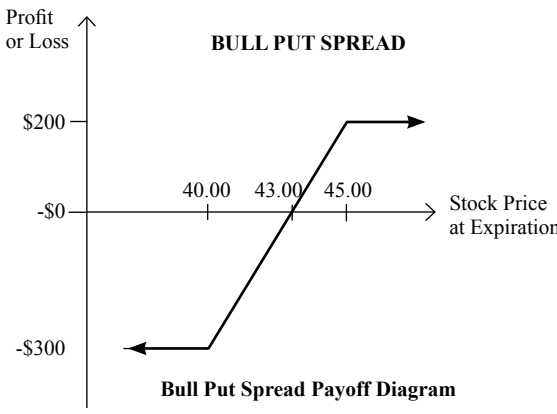
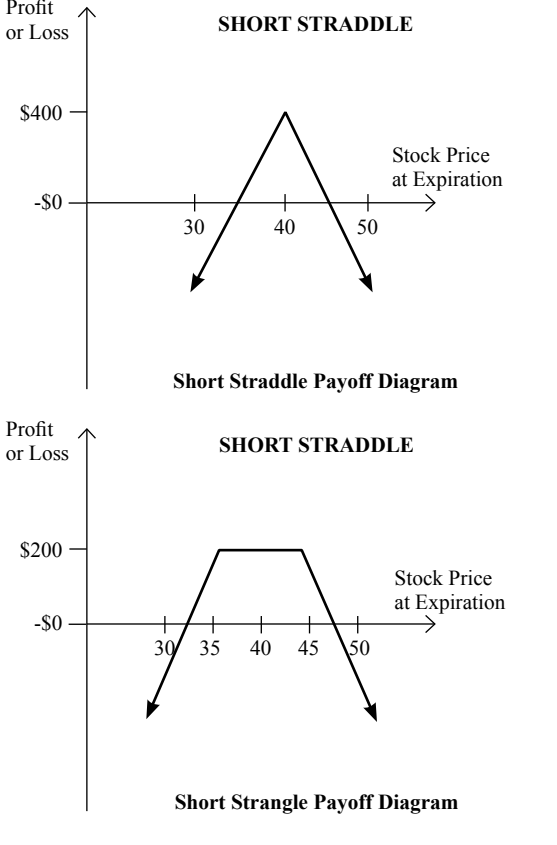
For more information about Margin requirement and Margin reduction schemes please refer to Appendix 3 & 4.

In case of a margin breach and stop-out is triggered, all option positions will be closed.

Details of the margin requirements and allowances for the advanced profile can be seen below:

Strategy	Initial & maintenance margin
 <p>LONG STRADDLE</p> <p>Long Straddle Payoff Diagram</p>	None

 <p>The diagram shows a V-shaped payoff curve. The vertical axis is labeled 'Profit or Loss' with a zero line and a -\$200 mark. The horizontal axis is labeled 'Stock Price at Expiration' with marks at 30, 35, 40, 45, and 50. The curve starts at (30, 0), goes down to a flat bottom at -\$200 between 35 and 45, and then goes up to (50, 0). Arrows at the ends of the curve indicate it continues infinitely in those directions.</p> <p>LONG STRADDLE</p> <p>Long Strangle Payoff Diagram</p>	<p>None</p>
 <p>The diagram shows a payoff curve that is flat at \$300 until the stock price reaches 50.00, then slopes downward. The vertical axis is labeled 'Profit or Loss' with marks at \$300 and \$0. The horizontal axis is labeled 'Stock Price at Expiration' with marks at 48.00, 50.00, and 53.00. The curve passes through (53.00, 0) and continues downward.</p> <p>OUT-OF-THE-MONEY NAKED CALLS</p> <p>Naked Call (OTM) Payoff Diagram</p>	<p>Stock Options^[1]</p> <p>Call Price + Maximum((X%^[2] * Underlying Price) - Out of the Money Amount), (Y% * Underlying Price))</p> <p>Out-of-the-Money Amount in case of a Call option equals: Max (0, Option Strike Price - Underlying Future Price)</p> <p>Example: short 1 DTE jan14 12.50 Call at 0.08 Spot at 12.30</p> <p>$(0.08 * 100 \text{ shares}) + ((0.15 * 12.30) - (12.50 - 12.30) * 100 \text{ shares})$ 8€ of premium + 164.5€ of margin</p>
 <p>The diagram shows a payoff curve that slopes upward from the bottom left to a flat top at \$200 starting at a stock price of 45. The vertical axis is labeled 'Profit or Loss' with marks at \$200 and -\$0. The horizontal axis is labeled 'Stock Price at Expiration' with marks at 45 and 50. The curve is flat at \$200 for stock prices above 45.</p> <p>UNCOVERED PUT WRITE</p> <p>Uncovered Put Write Payoff Diagram</p>	<p>Stock Options^[1]</p> <p>Put Price + Maximum((X%^[2] * Underlying Price) - Out of the Money Amount), (Y% * Strike Price))</p> <p>Out-of-the-Money Amount in case of a Put option equals: Max (0, Underlying Future Price - Option Strike Price)</p> <p>Example: short 1 DTE jan14 12 Put at 0.06 Spot at 12.30</p> <p>$(0.06 * 100 \text{ shares}) + ((0.15 * 12.30) - (12.30 - 12) * 100 \text{ shares})$</p> <p>6€ of premium + 154.5€ of margin</p>

 <p>The diagram shows the profit or loss for a bear call spread. The y-axis is labeled 'Profit or Loss' with values \$200, -\$0, and -\$300. The x-axis is labeled 'Stock Price at Expiration' with values 35.00, 37.00, and 40.00. The payoff is flat at \$200 for stock prices up to 35.00, then decreases linearly, crossing the x-axis at 37.00, and becomes flat at -\$300 for stock prices above 40.00.</p> <p style="text-align: center;">Bear Call Spread Payoff Diagram</p>	<p>(Maximum ((Strike Long Call - Strike Short Call), 0))</p> <p>Example: short DTE Jan14 12.5 Call at 0.10 and long DTE Jan14 13.5 Call at 0.02</p> <p>$(0.10 - 0.02) * 100 \text{ shares} + (13.5 - 12.5) * 100 \text{ shares}$ 8€ of premium + 100€ of margin</p>
 <p>The diagram shows the profit or loss for a bull put spread. The y-axis is labeled 'Profit or Loss' with values \$200, -\$0, and -\$300. The x-axis is labeled 'Stock Price at Expiration' with values 40.00, 43.00, and 45.00. The payoff is flat at -\$300 for stock prices up to 40.00, then increases linearly, crossing the x-axis at 43.00, and becomes flat at \$200 for stock prices above 45.00.</p> <p style="text-align: center;">Bull Put Spread Payoff Diagram</p>	<p>(Maximum (Short Put Strike - Long Put Strike, 0))</p> <p>Example: Short DTE Jan14 Put 12 Put at 0.08 and long DTE Jan14 11 Put at 0.02</p> <p>$(0.08 - 0.02) * 100 \text{ shares} + (12 - 11) * 100 \text{ shares}$ 6€ of premium + 100€ of margin</p>
 <p>The top diagram is the 'Short Straddle Payoff Diagram'. The y-axis is labeled 'Profit or Loss' with values \$400 and -\$0. The x-axis is labeled 'Stock Price at Expiration' with values 30, 40, and 50. The payoff is zero at 30 and 50, and peaks at \$400 at 40.</p> <p style="text-align: center;">Short Straddle Payoff Diagram</p> <p>The bottom diagram is the 'Short Strangle Payoff Diagram'. The y-axis is labeled 'Profit or Loss' with values \$200 and -\$0. The x-axis is labeled 'Stock Price at Expiration' with values 30, 35, 40, 45, and 50. The payoff is zero at 30 and 50, and is flat at \$200 between 35 and 45.</p> <p style="text-align: center;">Short Strangle Payoff Diagram</p>	<p>If Initial Margin Short Put > Initial Short Call, then Initial Margin Short Put + Price Short Call</p> <p>else</p> <p>If Initial Margin Short Call >= Initial Short Put, then Initial Margin Short Call + Price Short Put</p>

9. Corporate Action

Corporate Actions on shares can affect any options that are listed on those shares. It might be required to adjust the option contracts in such way that the value of a position in such an option before and after the corporate action remains the same. Various exchanges have different ways of treating corporate actions. The option exchanges will decide on case by case bases how a corporate action will affect the option contract and positions on the option contracts.

Example of a Corporate Action

Stock Split example:

eurex circular 071/13

Date: 18 April 2013
Recipients: All Trading Participants of Eurex Deutschland and Eurex Zürich and Vendors
Authorized by: Jürg Spillmann

<u>Commerzbank AG: Share consolidation, ISIN change</u>	
Contact: Derivatives Trading Operations, T +49-69-211-1 12:10	
Content may be most important for: <ul style="list-style-type: none">• Front Office/Trading• Middle + Backoffice• Auditing/Security Coordination	Attachment: none
Summary: On 19 April 2013, the annual general meeting of the company Commerzbank AG will decide, amongst other things, a share consolidation at ratio of 10:1. The transaction will result in an adjustment of the Eurex options and the Eurex stock futures contract on shares of Commerzbank AG (CBK, CBKE, CBKG). Ex date will be 24 April 2013, subject to the decision of the annual general meeting on 19 April 2013 and the entry into the commercial register on 23 April 2013. This circular contains a description of the adjustment procedure.	

Measure:

Share consolidation at a ratio of one new share of Commerzbank AG for each ten existing shares of Commerzbank AG

Last cum trading day:

23 April 2013

Ex date:

24 April 2013

Affected product:

CBK, CBKE, CBKG

Reference to underlying Rules & Regulations:

Contrace Specifications for Futures Contracts and Options Contracts at Eurex Deutschland and Eurex Zürich, section 2.6.10.1(5) and 1.6.7. (4).

ISINs:

The product codes, ISIN of the underlying and product ISIN of the Eurex option (CBK), the Eurex option European type (CBKE) and the Eurex stock futures contract (CBKG) will be as follows:

Product code old/new	ISIN of the underlying old	ISIN of the underlying now	Product ISIN old	Product ISIN new
CBK	DE0008032004	DE000CBK1001	DE0008032004	DE000CBK1001
CBKE	DE0008032004	DE000CBK1001	DE000A1HUFL5	DE000A1HUFL5
CBKG	DE0008032004	DE000CBK1001	DE000A1KQNL1	DE000A1KQNL1

Procedure:

Determination of adjustment factor (R-Factor)

Number of old shares	10
Number of new shares	1
R-factor	10

Options

1. Adjustment of strike prices and contract sizes

Existing strike prices will be multiplied by the R-factor.

The contract size will be divided by the R-factor.

The version number of existing series will be increased by 1.

Strike price old	Version old	Strike price new	Version new	Contract size old	Contract size now
55	0	550	1	100,0000	10,0000
60	0	600	1	100,0000	10,0000
65	0	650	1	100,0000	10,0000
70	0	700	1	100,0000	10,0000
75	0	750	1	100,0000	10,0000
80	0	800	1	100,0000	10,0000

10. Stock Options Physical Delivery & Default Handling

Final Settlement of Stock Options requires physical delivery of the underlying stocks vs. payment of the strike value in cash. In case a client is holding a stock options position, but is short cash, he will not be able to settle the options position and the client will fail to deliver on his contractual obligation.

As a general rule, Saxo clients have responsibility to meet the delivery requirements related to their option positions. As such Saxo will not pre-emptively act on client positions to avoid delivery failure. It will be the responsibility of the client to manage his positions especially when approaching expiry to make sure he can meet any delivery obligations. Notwithstanding the above, in case Saxo could be exposed to uncollateralized losses incurred by clients, Saxo reserves the right to act pre-emptively and close-out some or all of the client's positions that could cause potential losses which the client cannot carry on his account balances.

In case a client failed to meet his delivery obligation, Saxo will act on behalf of the client and without the need to notify the client in advance to resolve the delivery failure. Saxo will resolve a short stock position by acquiring the required stocks at market price, Saxo will resolve a short cash position by liquidating any or all positions under delivery and if available any long option position that provided cover for a settling short option position. **Transactions executed for the purpose of default handling, will be charged additional commissions.**

Therefore Saxo suggests the Clients to close the position before expiry.

11. Expiry Scenario Table

Strategy	Cost / Margin	If exercised / assigned	Funding requirement
Long Call	Premium paid		Cash to buy the underlying required
Long Put	Premium paid	<p>If the client has the stock it is delivered</p> <p>Else</p> <p>The client is given a choice: buy stock or sell-to-close</p>	1 day funding charge
Short Call	Full margin	Short the stock, Saxo Bank acquires the stock and delivers	1 day funding charge
Short Put	Full margin / available cash	1 long stock position	Cash to buy the underlying required
Covered Call	Margin reduction from cover	Long position is delivered, when the short gets assigned	
Strategies	Spread margin	If the short leg gets assigned, the long leg can be exercised automatically	As assignment and exercise happens the same day, no funding is required

PRODUCT BENEFITS

1. Why trade Stock Options?

- Leveraged directional plays with a known loss potential,
- Volatility plays – either positioning for a directional change in volatility or for no change in volatility,
- Portfolio hedging,
- Revenue enhancement on a portfolio – writing options against a portfolio and keeping the premium.
- As opposed to warrants, with Stock Options, you have tighter prices, more volume, more transparency and you can set up combination strategies.

2. Unique Selling Points of Contract Options at Saxo Capital Markets

1. Stock Options will be part of Saxo's multi-asset offering, which means:
 - Portfolio hedging and enhancement strategies will be possible on portfolios of Saxo's existing asset classes.
2. Saxo will not charge a minimum ticket fee or carrying cost
 - Some ETO brokers charge clients a minimum ticket fee and charge for holding positions overnight in addition to the trading cost. Saxo will not charge either.
3. Saxo will not charge for the use of its software (trading platforms)
 - Some ETO brokers charge clients for using their trading platforms. End clients will not be charged additional fees to use Saxo's ClientStation (SaxoTrader) and WebTrader platforms.
4. Saxo's multi-language service and support
 - Saxo is renowned for its high service levels in many languages and, in many cases, with a true local presence. Some Listed Options brokers have a perceived weakness in their service levels.
5. Online exercise of options
 - Some Listed Options brokers require clients wishing to exercise options before expiry to do so manually by telephone. Saxo will offer online exercise in addition to manual exercise.

FAQS

1. What happens with the Stock Option position once it gets exercised /expires?

The Stock Option position always gets exercised into a specific stock position that is visible on the Account Summary.

2. What happens with the Stock Option position if the Exchange deactivates the underlying asset?

If the Exchange at which the Stock Option is traded deactivates the underlying asset, Saxo has to notify its clients and remove the related positions from the clients trading accounts.

3. Do clients have an access to trade Stock Options on live streaming prices?

Clients will be enabled to trade Stock Options on live streaming prices as long as they subscribe to the exchanges data.

4. Are clients allowed to trade Stock Options short?

Clients on the advanced profile can trade Stock Options short. Speak to your Account Executive.

5. What are clients' possibilities to exercise a Stock Option?

Clients can exercise American Style Stocks Options anytime. One should bear in mind that if the margin utilization level is not sufficient, the exercise prior to expiry might be blocked.

6. What is required to be able to trade Stock Options?

Stock Options are classified as a complex product. Thus, clients have to fulfill a Client Suitability Assessment in order to be enabled for trading Stock Options.

7. Which products are covered with Stock Options?

Initially Saxo offers Stock Options on the 200 most active Stock Options across US, Europe and APAC.

8. Are contract specifications on Stock Options defined by Saxo and universal for all the instruments?

No, Stock Options specifications are instrument-specific and defined by the Exchange and the Clearing House.

9. Are there specific rules related for Introducing Brokers who enter block orders on Stock Options?

Yes, when Introducing Broker place block orders, the posting mode is verified against the individual client positions participating in the block order as listed in the allocation key.

10. How can a client turn his position from being long to short on Stock Options?

When a client wants to turn a positions, e.g. from long to short, the client need to close the open position first and then open a position on the opposite side.

APPENDIX 1: TRADABLE INSTRUMENTS AT LAUNCH

US Stock Options

SPDR S&P 500 ETF Trust
Bank of America Corp
Financial Select Sector SPDR Fund
Citigroup Inc.
iShares Russell 2000 Index Fund
iShares MSCI Emerging Markets Index Fund
SPDR Gold Shares
PowerShares QQQ Trust Series 1
Microsoft Corporation
Apple Inc
iShares Silver Trust
Ford Motor Co.
Facebook Inc.
iPath S&P 500 VIX ST Futures ETN
Cisco Systems Inc.
JP Morgan Chase & Co.
Intel Corp
General Electric Co.
iShares MSCI EAFE Index Fund
Yahoo Inc.
Hewlett Packard Co.
Pfizer
American International Group Inc.
Wells Fargo & Co.
AT&T Inc
Chesapeake Energy Corporation
Morgan Stanley
Exxon Mobil Corporation
BlackBerry
Verizon Communication Inc.
Qualcomm Inc.
Halliburton Co.
Dell Inc.
Wal-Mart Stores Inc.
Caterpillar Inc.
MetLife Inc.
United States Steel Corporation

Google Inc.
The Walt Disney Company
McDonald's Corp.
ProShares UltraShort S&P 500 ETF
Netflix Inc.
Goldman Sachs Group Inc
Nvidia Corp.
Boeing Co.
Amazon.com Inc
International Business Machines Corporation
Baidu Inc.
Direction Daily Financial Bear 3X Shares
Direction Daily Small Cap Bear 3X Shares
Direction Daily Financial Bull 3X Shares
Direction Daily Small Cap Bull 3X Shares
ProShares Ultra S&P 500

European Stock Options

Germany

DEUTSCHE TELEKOM AG-REG
COMMERZBANK AG
E.ON SE
DAIMLER AG-REGISTERED SHARES
DEUTSCHE BANK AG-REGISTERED
SAP AG
RWE AG
BASF SE
SIEMENS AG-REG
THYSENKRUPP AG
DEUTSCHE POST AG-REG
BAYERISCHE MOTOREN WERKE AG
ALLIANZ SE-REG
BAYER AG-REG
INFINEON TECHNOLOGIES AG
DEUTSCHE LUFTHANSA-REG
VOLKSWAGEN AG-PREF
K+S AG-REG
MUECHENER RUECKVER AG-REG
ADIDAS AG

France

ARCELORMITTAL
AXA SA
FRANCE TELECOM SA
SOCIETE GENERALE
CREDIT AGRICOLE SA
BNP PARIBAS
GDF SUEZ
VIVENDI
CARREFOUR SA
TOTAL SA
BOUYGUES SA
SANOFI
VEOLIA ENVIRONNEMENT
COMPAGNIE DE SAINT-GOBAIN
SCHNEIDER ELECTRIC SA
DANONE
STMICROELECTRONICS NV
EADS NV
EDF
VINCI SA
CAP GEMINI
ALSTOM
RENAULT SA
LVMH MOET HENNESSY LOUIS VUI
PERNOD-RICARD SA
VALLOUREC
AIR LIQUIDE SA
PPR
LAFARGE SA

Netherland

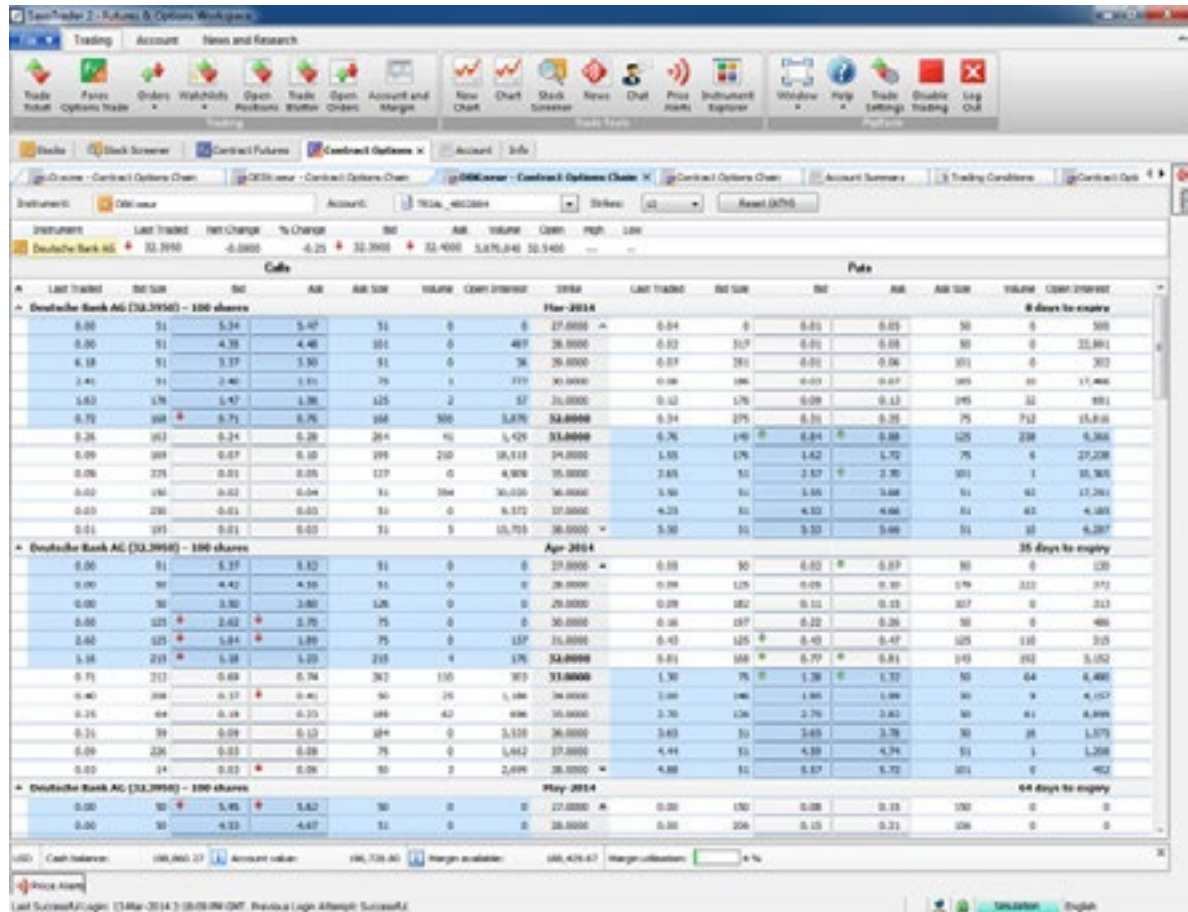
ING GROEP NV-CVA
ARCELORMITTAL
KONINKLIJKE KPN NV
ROYAL DUTCH SHELL PLC-A SHS
AEGON NV
KONINKLIJKE PHILIPS ELECTRON
UNILEVER NV-CVA

KONINKLIJKE AHOLD NV
ASML HOLDING NV
SBM OFFSHORE NV
POSTNL NV
AIR FRANCE-KLM
AKZO NOBEL
KONINKLIJKE DSM NV
ROYAL IMTECH NV
REED ELSEVIER NV
FUGRO NV-CVA
HEINEKEN NV
RANDSTAD HOLDING NV

APAC Stock Options**Hong Kong**

CHINA CONSTRUCTION BANK-H
BANK OF CHINA LTD-H
IND & COMM BK OF CHINA-H
CHINA MOBILE LTD
HSBC HOLDINGS PLC
HONG KONG EXCHANGES & CLEAR
TENCENT HOLDINGS LTD
CHINA LIFE INSURANCE CO-H
PING AN INSURANCE GROUP CO-H
AIA GROUP LTD
CNOOC LTD
CHINA PETROLEUM & CHEMICAL-H
PETROCHINA CO LTD-H
SANDS CHINA LTD
CHINA MERCHANTS BANK-H
BOC HONG KONG HOLDINGS LTD
BANK OF COMMUNICATIONS CO-H
ESPRIT HOLDINGS LTD
CHINA SHENHUA ENERGY CO-H
CHINA COAL ENERGY CO-H


APPENDIX 2: PLATFORM SCREENSHOTS



Client Station Option chain

DBK/H14C33:xeur - Contract Options Orders

Instrument:

 **DBK:xeur**

Stock Options: Deutsche Bank

Order

Entry Order

Expiry:

Mar-2014 (8 Days)

Strike:

33.0000

Call/Put:

Call

Quantity:

10

Buy/Sell:

Buy to Open

Entry type:

Limit

Price:

0.27

Duration:

G.T.C.

Take Profit / Stop Loss

☐ Limit:

%

☐ Stop

%

Info

Est. cost if filled (EUR):

61.00

Premium (EUR):

270.00

Bid / Ask (EUR):

0.24 / 0.28

Net position:

0

Initial margin (EUR):

-

Maint. margin (EUR):

-

Expiry date:

21-Mar-2014

Open interest:

1,429

Exercise:

American

Settlement:

Physical Delivery

Underlying:

Deutsche Bank AG

Contract Size:

100

Place Order(s)

APPENDIX 3: MARGIN REQUIREMENTS

Order Ticket

For certain instruments, we require a margin charge to cover potential losses involved on holding a position in the instrument. Stock Options are such instruments.

Stock Options are treated as Full Premium Style Options.

Full Premium Example:

When acquiring a long position in a full premium option, the premium amount is deducted from the client's cash balance. The value from an open long option position will not be available for margin trading other than indicated in the margin reduction schemes.

A client buys one Apple Inc. DEC 2013 530 Call @ \$25 (Apple Inc. Stock trading at \$529.85. One option equal 100 shares, buy/sell commissions \$6.00 per lot and exchange fee is \$0.30).

With a cash balance of \$10,000.00, his account summary will show:

Cash and Position Summary		
Position Value	$1 * 25 * 100 \text{ shares} =$	\$2,500.00
Unrealized Profit/Loss		--
Cost to Close	$- 1 * (\$6 + \$0.30) =$	- \$6.30
Unrealized Value of Positions		\$2,493.70
Cash Balance		\$10,000.00
Transactions not Booked	$- (\$2,500 + \$6.30) =$	- \$2,506.30
Account Value		\$9,987.40
Not Available as Margin Collateral	$- 1 * 25 * 100 \text{ shares} =$	- \$2,500.00
Used for Margin Requirement		--
Available for Margin Trading		\$7,487.40

In case of a full premium option, the transactions not booked will be added to the client's cash balance in overnight processing. The next day when the option market has moved to \$41 (spot at 556.50), the account summary will show:

Cash and Position Summary		
Position Value	$1 * 41 * 100 \text{ shares} =$	\$4,100.00
Unrealized Profit/Loss		--
Cost to Close	$- 1 * (\$6 + \$0.30) =$	- \$6.30
Unrealized Value of Positions		\$4,093.70
Cash Balance		\$7,493.70
Transactions not Booked		--
Account Value		\$11,587.40
Not Available as Margin Collateral	$- 1 * 41 * 100 \text{ shares} =$	- \$4,100.00
Used for Margin Requirement		--
Available for Margin Trading		\$7,487.40

Position Value: Increased due to the price of the option is higher.

Unrealized Value of Positions: Increased due to the price of the option is higher.

Cash Balance: Reduced by the price of the option. Transactions not Booked is now zero.

Account Value: Increased due to the price of the option is higher.

Not Available as Margin Collateral: Increased to the new value of the position.

Short Option Margin

Short option position exposes the holder of that position of being assigned to deliver the underlying proceeds when another market participant who holds a long position exercises his option right. Losses on a short option position can be substantial when the market moves against the position. We will therefore charge premium margin to ensure sufficient account value to be available to close the short position and additional margin to cover overnight shifts in the underlying value. The margin charges are monitored in real-time for changes in market values and a stop out can be triggered when the total margin charge for all margined positions exceeds the client's margin call profile.

The generic formula for the short option margin charge is:

$$\text{Short Option Margin} = \text{Premium Margin} + \text{Additional Margin}$$

The Premium Margin ensures that short option position can be closed at current market prices and equals the current Ask Price at which the option can be acquired during trading hours. The Additional Margin serves to cover overnight price changes in the underlying value when the option position cannot be closed because limited trading hours.

Stock Options

For options on Stocks, the additional margin equals a percentage of the underlying reference value minus a discount for the amount that the option is out-of-the-money.

$$\text{Additional Margin Call} = \text{Max} (X\% * \text{Underlying Spot}) - \text{Out-of-the-Money Amount}, Y\% * \text{Underlying Spot})$$

$$\text{Additional Margin Put} = \text{Max} (X\% * \text{Underlying Spot}) - \text{Out-of-the-Money Amount}, Y\% * \text{Strike Price})$$

The margin percentages are set by Saxo Bank and are subject to change. The actual values can vary per option contract and are configurable in the margin profiles. Clients can see the applicable values in the trading conditions of the contract.

The out-of-the-money amount for a call option equal:

$$\text{Max} (0, \text{Option Strike} - \text{Underlying Spot})$$

The out-of-the-money amount for a call option equal:

$$\text{Max} (0, \text{Underlying Spot Price} - \text{Option Strike})$$

To get the currency amount involved, the acquired values need to be multiplied with the trading unit (100 shares).

Example: Let's suppose FORM applied an X margin of 15% and a Y margin of 10% on Apple stocks.

A Client shorts an Apple DEC 2013 535 Call at \$1.90 (Apple stock at 523.74). The option figure value is 100 shares. The OTM amount is 11.26 stock points (535 – 523.74), resulting in an additional margin of 67.30 stock points (\$6,730). In the account summary, the premium margin is taken out of the position value:

Cash and Position Summary		
Position Value	- 1 * \$1.90 * 100 shares =	- \$190.00
Unrealized Profit/Loss		--
Cost to Close	- (6 + \$0.30) =	- \$6.30
Unrealized Value of Positions		- \$196.30
Cash Balance		\$10,000.00
Transactions not Booked	\$190 - (\$6 + \$0.30) =	\$183.70
Account Value		\$9,987.40
Not Available as Margin Collateral		--

APPENDIX 4: MARGIN REDUCTION SCHEMES

Used for Margin Requirement	- 100 shares * ((0.15 * 523.74) – 11.26)	- \$6,730.00
Available for Margin Trading		\$3,257.40

Short option positions in American Style Options can be combined with long option positions or covering positions in the underlying deliverable to offset the high risk exposure. As such, the margin charges can be reduced or even waived. We will provide margin reduction on the following position combinations:

- Covered Call
- Call/Put Spread
- Short Straddle

Covered Call

A short call position can be offset with a long position in the underlying stock.

Call / Put Spread

A spread position allows a long option position to cover for a short option position of an option of the same type, and same underlying deliverable. When the long option is deeper in the money compared to the short option (debit spread), the value of the long option is used up to the value the short option for coverage with no additional margin to be required.

When the short leg is deeper in the money compared to the long leg (credit spread), the full value of the long option is used for coverage plus an additional margin equal to the strike difference.

Note: To trade out of a spread position, it is recommended to first close the short leg before closing the long leg to avoid the high margin charge of the naked short option position. However, as the spread margin reservation might not be sufficient to cover the cash amount required to buy back the short option position, a client might find himself locked into a position that he cannot trade out off without additional funds have been made available.

Short Straddle / Strangle

The short straddle / strangle rule is different compared to the Covered and Spread rules as the legs of the short straddle do not provide coverage for each other. A short straddle / strangle combines a short call with a short put. Since the exposure of the short call and short put are opposite in regard to market direction, only the additional margin of the leg with the highest margin charge is required.

When the call leg of the strangle position is assigned, the client needs to deliver the underlying stock. Vice versa, when the put is assigned, the client needs to take delivery of the underlying Stock. The long Stock can be combined with the remaining call leg of the original strangle, resulting into a cover call.

APPENDIX 5: OPTION INTRODUCTION

Definition

An option is a contract between two parties in which the Stock option buyer (holder) purchases the right (but not the obligation) to buy/sell 100 shares of an underlying stock at a predetermined price from/to the option seller (writer) within a fixed period of time.

Option Contract Specifications

The following terms are specified in an option contract: The two classes of options are puts and calls. Call options confer the buyer the right to buy the underlying stock while put options give him the rights to sell them.

Strike Price, Option Premium & Moneyness

When selecting options to buy or sell, for options expiring on the same month, the option's price (premium) and moneyness depends on the option's strike price.

Strike Price

The strike price is the price at which the underlying stock is to be bought or sold when the option is exercised. It's relation to the market value of the underlying stock affects the moneyness of the option and is a major determinant of the option's premium.

Definition:

The strike price is defined as the price at which the holder of an option can buy (in the case of a call option) or sell (in the case of a put option) the underlying stock when the option is exercised. Hence, strike price is also known as exercise price.

Relationship between Strike Price & Call Option Price

For call options, the higher the strike price, the cheaper the option. The following table lists option premium typical for near term call options at various strike prices when the underlying stock is trading at 50.

Strike Price	Moneyness	Call Option Premium	Intrinsic Value	Time Value
35	ITM	15.50	15	0.50
40	ITM	11.25	10	1.25
45	ITM	7	5	2
50	ATM	4.50	0	4.50
55	OTM	2.50	0	2.50
60	OTM	1.50	0	1.50
65	OTM	0.75	0	0.75

Relationship between Strike Price & Put Option Price

Conversely, for put options, the higher the strike price, the more expensive the option. The following table lists option premium typical for near term put options at various strike prices when the underlying stock is trading 50.

Strike Price	Moneyness	Put Option Premium	Intrinsic Value	Time Value
35	ITM	0.75	0	0.75
40	ITM	1.50	0	1.50
45	ITM	2.50	0	2.50
50	ATM	4.50	0	4.50
55	OTM	7	5	2
60	OTM	11.25	10	1.25
65	OTM	15.50	15	0.50

Options Premium

In exchange for the rights conferred by the option, the option buyer has to pay the option seller a premium for carrying on the risk that comes with the obligation. The option premium depends on the strike price, volatility of underlying, as well as the time remaining to expiration. There are two components to the options premium, the intrinsic value and the time value.

Intrinsic Value

The intrinsic value is determined by the difference between the current trading price and the strike price. Only in the money options have intrinsic value. Intrinsic value can be computed for in-the-money options by taking the difference between the strike price and the current trading price. Out-of-the-money options have no intrinsic value.

Time Value

An option's time value is dependent upon the length of time remaining to exercise the option, the moneyness of the option, as well as the volatility of the underlying security's market price.

The time value of an option decreases as its expiration date approaches and becomes worthless after the date. This phenomenon is known as time decay. As such, options are also wasting assets.

For in-the-money options, time value can be calculated by subtracting the intrinsic value from the option price. Time value decreases as the option goes deeper into the money. For out-of-the-money options, since there is zero intrinsic value, time value = option price.

Typically, higher volatility gives rise to higher time value. In general, time value increases as the uncertainty of the option's value at expiry increases.

Effect of Dividends on Time Value

Time value of call options on high cash dividend stocks can get discounted while similarly, time value of put option can get inflated.

Moneyness

Moneyness is a term describing the relationship between the strike price of an option and the current trading price of its underlying. In options trading, terms such as in-the-money, at-the-money and out-of-the money describe the moneyness of options.

At-the-Money (ATM)

An at-the-money option is a call or put option that has a strike price that is equal to the market price of the underlying asset. While the premiums for at-the-money options are relatively lower than in-the-money options, it possesses no intrinsic value and contains only time value which is greatly influenced by the volatility of the underlying and the passage of time.

Often, it is not easy to find an option with a strike price that is exactly equal to the market price of the underlying. Hence, close to the money or near to the money options are bought or sold instead.

In-the-Money (ITM)

A call option is in-the-money when its exercise price is below the current trading price of the underlying asset. A put option is in-the-money when its exercise price is above the current trading price of the underlying asset.

In-the-money options possess significant intrinsic value and are generally more expensive.

Out-the-Money (OTM)

Calls are out-of-the money when their strike price is above the market price of the underlying asset. Put options are out-the-money when their strike price is below the market price of the underlying asset.

Out-the-money options have zero intrinsic value and possess greater likelihood of expiring worthless, aspects which make them relatively cheaper.

Expiration Date

Option contract are wasting assets and all options expire after a period of time. Once the option expires, the right to exercise no longer exists and the option becomes worthless. The expiration month is specified for each option contract. The specific date on which expiration occurs depends on the type of option. For instance, Stock options listed on Eurex expire on the third Friday of the expiration month.

Option style

An option contract can be either American style or European style. The manner in which options can be exercised also depends on the style of the option. American style options can be exercised any time before expiration while European style options can only be exercise on expiration date itself. At Saxo Bank we will only list American style stock options.

Underlying Asset

The underlying asset is the security which the option seller has the obligation to deliver to or purchase from the option holder in the event the option is exercised. In case of stock options, the underlying asset refers to the shares of a specific company. Options are also available for other types of securities such as currencies, indices and commodities.

Contract Multiplier

The contract multiplier states the quantity of the underlying asset that needs to be delivered in the event the option is exercised. For stocks options, in general each contract covers 100 shares.

The Option Market

Participants in the options market buy and sell call and put options. Those who buy options are called holders. Sellers of options are called writers. Option holders are said to have long positions, and writers are said to have short positions.

APPENDIX 6: OPTION BASIS

An Investor can use options to achieve a number of different things depending on the strategy the investor employs. Novice option traders will be allowed to buy calls and puts, to anticipate rising as well as falling markets.

Example:

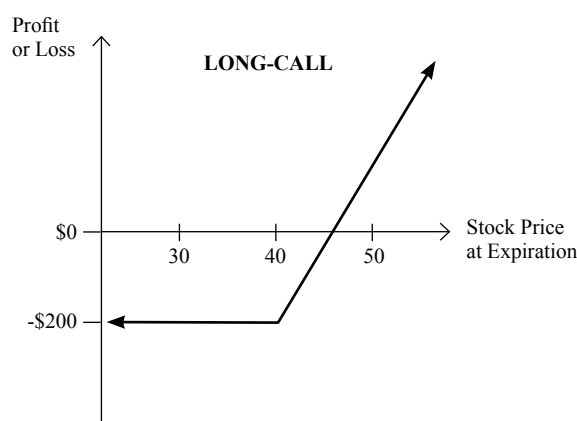
Buying Call or Long Call

The long call option strategy is the most basic option trading strategy whereby the options trader buys call options with the belief that the price of the stock will rise significantly beyond the strike price before the expiration date.

Leverage:

Compared to buying the underlying outright, the call option buyer is able to gain leverage since the lower priced calls appreciate in value faster percentage-wise for every point rise in the price of the underlying.

However, call options have a limited lifespan. If the underlying stock price does not move above the strike price before the option expiration date, the call option will expire worthless.



Unlimited Profit Potential

Since there can be no limit as to how the stock price can be at expiration date, there is no limit to the maximum profit possible when implementing the long call option strategy.

The formula for calculating profit is given below:

- **Maximum profit = Unlimited**
- **Profit Achieved When Price of Underlying \geq Strike Price of Long Call + Premium Paid**
- **Profit = Price of underlying – Strike Price of Long Call – Premium Paid**

Limited risk

Risk for the long call options strategy is limited to the price paid for the call option no matter how low the stock price is trading on expiration date.

The formula for calculating maximum loss is given below:

- **Max Loss = Premium Paid + Commissions Paid**
- **Max Loss Occurs when Price of Underlying \leq Strike Price of Long Call**

Breakeven Point

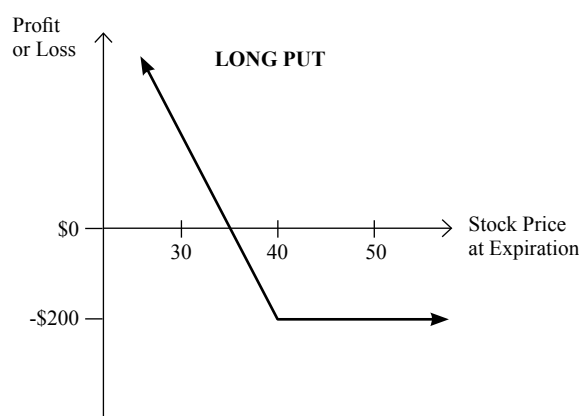
The stock price at which breakeven is achieved for the long call position can be calculated using the following formula.

- **Breakeven Point = Strike Price of Long Call + Premium Paid**

Long Put

The long put option strategy is a basic strategy in options trading where the investor buy put options with the belief that the price of the underlying will go significantly below the striking price before the expiration date.

Compared to short selling the underlying, it is more convenient to bet against an underlying by purchasing put options. The risk is capped to the premium paid for the put options, as opposed to unlimited risk when short selling the underlying outright.



Unlimited Potential

Since stock price in theory can reach zero at expiration date, the maximum profit possible when using the long put strategy is only limited to the striking price of the purchased put less the price paid for the option.

The formula for calculating profit is given below:

- **Maximum Profit = Unlimited**
- **Profit Achieved when Price of Underlying = 0**
- **Profit = Strike Price of Long Put – Premium Paid**

Limited risk

Risk for implementing the long put strategy is limited to the price paid for the put option no matter how high the underlying price is trading on expiration date.

The formula for calculating maximum loss is given below:

- **Max Loss = Premium Paid + Commissions Paid**
- **Max Loss Occurs When Price of Underlying \geq Strike Price of Long Put**

Breakeven Point

The underlier price at which breakeven is achieved for the long put position can be calculated using the following formula.

- **Breakeven Point = Strike Price of Long Put – Premium Paid**

Covered calls

The covered call is a strategy in options trading whereby call options are written against a holding of the underlying security.

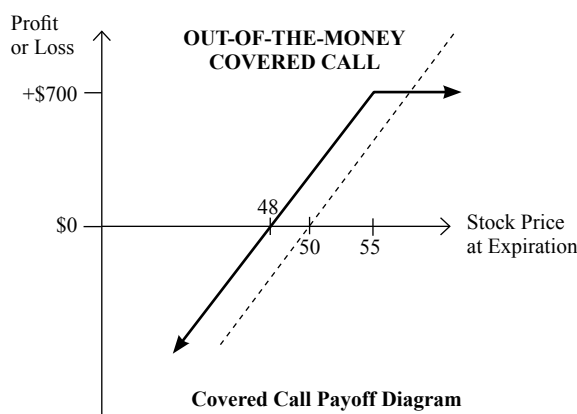
Covered Call (OTM) construction Long 100 shares Sell 1 Call

Using the covered call option strategy, the investor gets to earn a premium writing calls while at the same time appreciate all benefits of underlying stock ownership, such as dividends and voting rights, unless he is assigned an exercise notice on the written call and is obliged to sell his shares.

However, the profit potential of covered call writing is limited as the investor had, in return for the premium, given up the chance to fully profit from a substantial rise in the price of the underlying asset.

Out-of-the-money Covered Call

This is a covered call strategy where the moderately bullish investor sells out-of-the-money calls against a holding of the underlying shares. The OTM covered call is a popular strategy as the investor gets to collect premium while being able to enjoy capital gains if the underlying stock rallies.



Limited Profit Potential

In addition to the premium received for writing the call, the OTM covered call strategy's profit also includes gain if the underlying stock price rises, up to the strike price of the call option sold.

The formula for calculating maximum profit is given below:

- **Max Profit = Premium received – Purchase Price of the Underlying + Strike Price of Short Call – Commissions Paid**
- **Max Profit Achieved when Price of Underlying \geq strike Price of Short Call**

Unlimited Loss Potential

Potential losses for this strategy can be very large and occurs when the price of the stock falls. However, this risk is no different from that which the typical stockowner is exposed to. In fact, the covered call writer's loss is cushioned slightly by the premiums received for writing the calls.

The formula for calculating loss is given below:

- **Maximum loss = Unlimited**
- **Loss Occurs When Price of Underlying < Purchase Price of Underlying – Premium received**
- **Loss = Purchase Price of Underlying – Price of Underlying – Max Profit + Commissions Paid**

Breakeven Points

The stock price at which breakeven is achieved for the covered call (OTM) position can be calculated using the following formula.

- **Breakeven Point = Purchase Price of Underlying – Premium Received**

Bull Call Spread

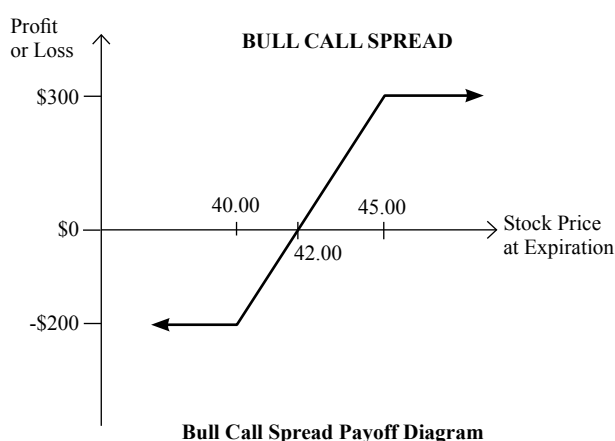
The Bull Call Spread option trading is employed when the options trader thinks that the price of the underlying asset will go up moderately in the near term.

Bull call spreads can be implemented by buying an at-the-money call option while simultaneously writing a higher striking out-of-the-money call option of the same underlying and the same expiration month.

Bull Call Spread Construction

Buy 1 ATM Call
Sell 1 OTM Call

By shorting the-out-of-the-money call, the options trader reduces the cost of establishing the bullish position but forgoes the chance of making a large profit in the event that the underlying asset price skyrockets.



Limited Upside Profits

Maximum gain is reached for the bull call spread options strategy when the underlying price move above the higher strike price of the two calls and its equal to the difference between the price strike of the two call options minus the initial debit taken to enter the position.

The formula for calculating maximum profit is given below:

- **Max Profit = Strike Price of Short Call – Strike Price of Long Call – Net Premium Paid – Commissions Paid**
- **Max Profit Achieved When Price of Underlying \geq Strike Price of Short Call**

Limited Downside Risk

The bull call spread strategy will result in a loss if the underlying price declines at expiration. Maximum loss cannot be more than the initial debit taken to enter the spread position.

The formula for calculating maximum loss is given below:

- **Max Loss = Net Premium Paid + Commissions Paid**
- **Max Loss Occurs When Price of Underlying \leq Strike Price of Long Call**

Breakeven Point

The stock price at which breakeven is achieved for the bull call spread position can be calculated using the following formula.

- **Breakeven Point = Strike Price of Long Call + Net Premium Paid**

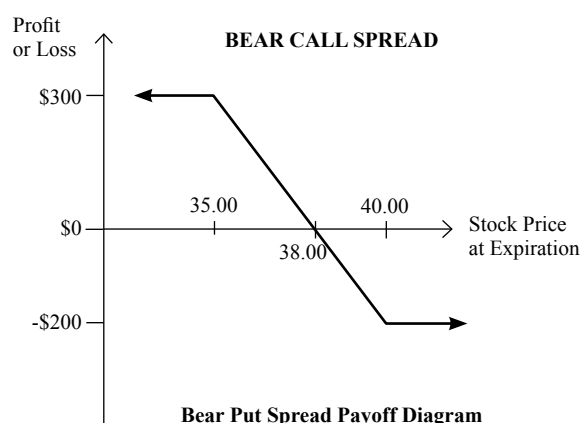
Bear Put Spread

The bear put spread option strategy is employed when the options trader thinks that the price of the underlying asset will go down moderately in the near term.

Bear put spread can be implemented by buying a higher striking in-the-money put option and selling a lower striking out-of-the-money put option of the same underlying security with the same expiration date.

Bear Put Spread Construction Buy 1 ITM Put Sell 1 OTM Put

By shorting the out-of-the-money put, the options trader reduces the cost of establishing the bearish position but forgoes the chance of making a large profit in the event that the underlying asset price plummets.



Limited Downside Profit

To reach maximum profit, the underlying needs to close below the strike price of the out-of-the-money put on the expiration date. Both options expire in the money but the higher strike put that was purchased will have higher intrinsic value than the lower strike put that was sold. Thus, maximum profit for the bear put spread option strategy is equal to the difference in strike price minus the debit taken when the position was entered.

The formula for calculating maximum profit is given below:

- **Max profit = Strike Price of Long Put – Strike Price of Short Put – Net Premium Paid – Commissions**
- **Max Profit Achieved When Price of Underlying \leq Strike Price of Short Put**

Limited Upside Risk

If the stock price rise above the in-the-money put option strike price at the expiration date, then the bear put spread strategy suffers a maximum loss equal to the debit taken when putting on the trade.

- **Max Loss = Net Premium Paid + Commissions Paid**
- **Max Loss Occurs when Price of Underlying \geq Strike Price of Long Put**

Breakeven Point

The stock price at which breakeven is achieved for the bear put spread position can be calculated using the following formula.

- **Breakeven Point = Strike Price of Long Put – Net Premium Paid**

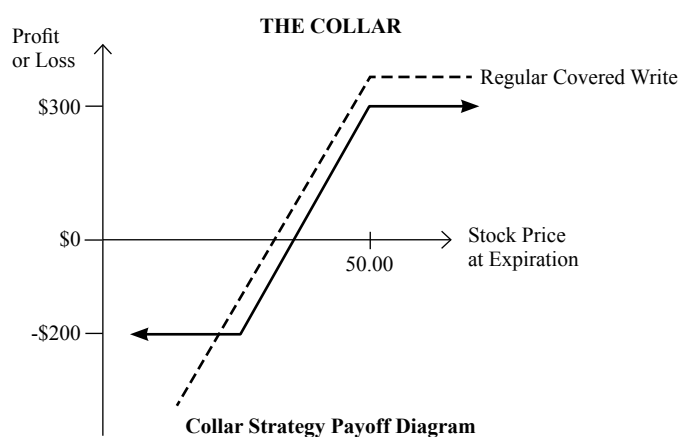
Risk Reversal

A risk reversal is an option strategy that is constructed by holding shares of the underlying stock while simultaneously buying protective puts and selling call options against the holding. The puts and the calls are both out-of-the-money options having the same expiration month and must be equal in number of contracts.

Risk Reversal Strategy Construction
Long 100 shares
Sell 1 OTM Call
Buy 1 OTM Put

Technically, the Risk reversal Strategy is the equivalent of an out-of-the-money covered call strategy with the purchase of an additional protective put.

The Risk Reversal Strategy is a good strategy to use if the options trader is writing covered call to earn premium but wish to protect himself from an unexpected sharp drop in the price of the underlying asset.



Limited Profit Potential

The formula for calculating maximum profit is given below:

- **Max Profit = Strike Price of Short Call – Purchase Price of Underlying + Net Premium Received – Commissions Paid**
- **Max Profit Achieved When Price of Underlying \geq Strike Price of Short Call**

Limited Risk

The formula for calculating maximum loss is given below:

- **Max Loss = Purchase Price of Underlying – Strike Price of Long Put – Net Premium Received + Commissions Paid.**
- **Max Loss Occurs When Price of Underlying \leq Strike Price of Long Put**

Breakeven Point

The stock price at which breakeven is achieved for the risk reversal strategy position can be calculated using the following formula.

- **Breakeven Point = Purchase Price of Underlying + Net Premium Paid**

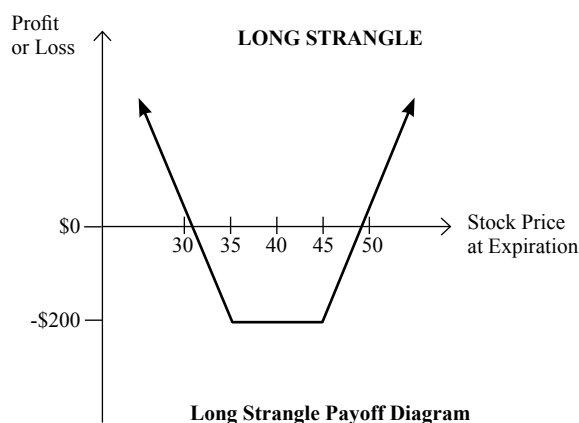
Long strangle

The Long strangle, is a neutral strategy in options trading that involve the simultaneous buying of a slightly out-of-the-money put and a slightly out-of-the-money call of the same underlying asset and expiration date.

Long Strangle Construction

Buy 1 OTM Call
Buy 1 OTM Put

The long options strangle is an unlimited profit, limited risk strategy that is taken when the options trader thinks that the underlying stock will experience significant volatility in the near term. Long strangles are debit spreads as a net debit is taken to enter the trade.



Unlimited Profit Potential

A large gain for the long strangle option strategy is attainable when the underlying stock price makes a very strong move either upwards or downwards at expiration.

The formula for calculating profit is given below:

- **Maximum Profit Unlimited**
- **Profit Achieved When Price of Underlying > Strike Price of Long Call + Net Premium Paid or Price of Underlying < strike Price of Long Put – Net Premium Paid**
- **Profit = Price of Underlying – Strike Price of Long Call – Net Premium Paid or Strike Price of Long Put – Price of Underlying – Net Premium Paid**

Limited Risk

Maximum loss for the long strangle options strategy is hit when the underlying stock price on expiration date is trading between the strike prices of the options bought. At this price, both options expire worthless and the options trader loses the entire initial debit taken to enter the trade.

The formula for calculating maximum loss is given below:

- **Max Loss = Net Premium Paid + Commissions Paid**
- **Max Loss Occurs When Price of Underlying is in between Strike Price of Long Call and Strike Price of Long Put**

Breakeven Points

There are 2 breakeven points for the long strangle position: The breakeven points can be calculated using the following formulae:

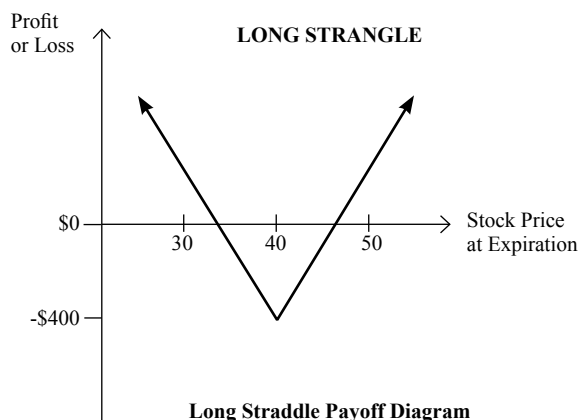
- **Upper Breakeven Point = Strike Price of Long Call + Net Premium Paid**
- **Lower Breakeven Point = Strike Price of Long Put – Net Premium Paid**

Long straddle

The Long straddle is a neutral strategy in options trading that involve the simultaneously buying of a put and a call of the same underlying asset, striking price and expiration date.

Long straddle construction
Buy 1 ATM Call
Buy 1 ATM Put

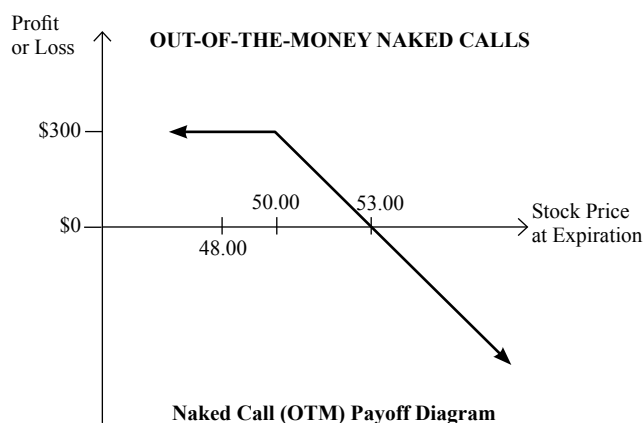
Long straddle options are unlimited profit, limited risk options trading strategies that are used when the options trader thinks that the underlying asset will experience significant volatility in the near term.



Naked Call Writing

The naked call write is a risky options trading strategy where the options trader sells calls against stock which he does not own. Also known as uncovered call writing.

The out-of-the-money naked call strategy involves writing out-of-the money call options without owning the underlying stock. It is a premium collection options strategy employed when one is neutral to mildly bearish on the underlying.



Limited Profit Potential

Maximum gain is limited and is equal to the premium collected for selling the call options.

The formula for calculating maximum profit is given below:

- **Max Profit = Premium received – Commissions Paid**
- **Max Profit Achieved When Price of Underlying \leq Strike Price of Short Call**

Unlimited Loss Potential

If the underlying price goes up dramatically at expiration, the out-of-the-money naked call writer will be required to satisfy the options requirements to sell the obligated underlying to the options holder at the lower price buying the underlying from the open market price. Since there is no limit to how high the underlying price can be at expiration, maximum potential losses for writing out-of-the-money naked calls is therefore theoretically unlimited.

The formula for calculating loss is given below:

- **Maximum Loss = Unlimited**
- **Loss Occurs When Price of Underlying $>$ Strike Price of Short Call + Premium Received**
- **Loss = Price of Underlying – Strike price of Short Call – Premium Received + Commissions Paid**

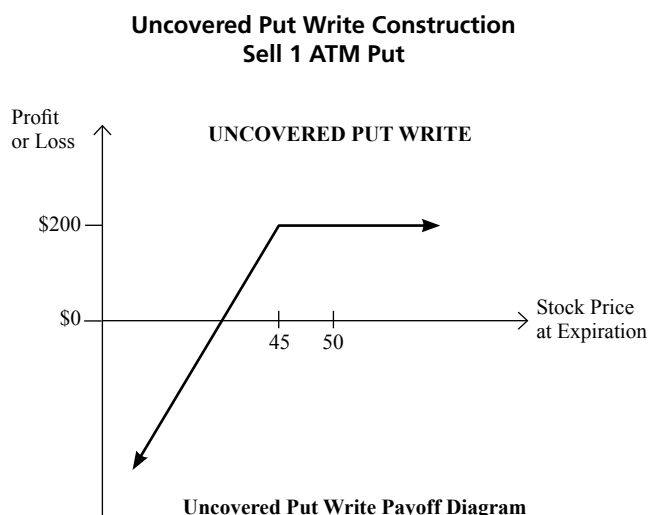
Breakeven Point

The stock price at which break-even is achieved for the naked call (OTM) position can be calculated using the following formula.

- **Breakeven Point = Strike Price of Short Call + Premium Received**

Uncovered Put write

Writing uncovered puts is an option trading strategy involving the selling of put options without shorting the obligated underlying. Also known as naked put write or cash secured put, this is a bullish options strategy that is executed to earn a consistent profits by ongoing collection of premium.



Limited profits with no upside risk

Profit for the uncovered put write is limited to the premiums received for the options sold.

The naked put writer sells slightly out-of-the-money puts month after month, collecting premiums as long as the stock price of the underlying remains above the put strike price at expiration.

- **Max Profit = Premium received – Commissions Paid**
- **Max Profit Achieved when Price of Underlying \geq Strike Price of short Put**

Unlimited downside risk with little downside protection

While the premium collected can cushion a slight drop in the underlying price, loss resulting from a catastrophic drop in the price of the underlying can be huge.

The formula for calculating loss is given below:

- **Maximum Loss = Unlimited**
- **Loss Occurs When Price of Underlying $<$ Strike Price of Short Put – Premium Received**
- **Loss = Strike Price of Short Put – Price of Underlying – Premium received + Commissions Paid**

Breakeven Point

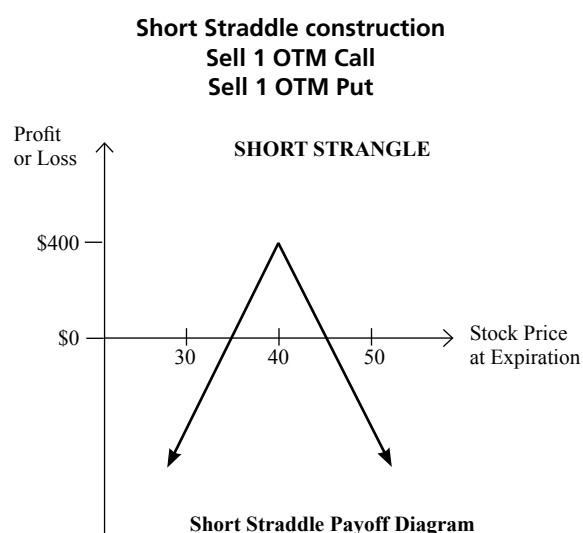
The stock price at which breakeven is achieved for the uncovered put write position can be calculated using the following formula.

- **Breakeven Point = Strike Price of Short Put – Premium Received**

Short straddle

The short straddle or naked straddle sale is a neutral options strategy that involve the simultaneous selling of a put and a call of the same underlying stock, striking price and expiration date.

Short straddles are limited profit, unlimited risk options trading strategies that are used when the options trader thinks that the underlying securities will experience little volatility in the near term.



Limited Profit

Maximum profit for the short straddle is achieved when the underlying stock price on expiration date is trading at the strike price of the options sold. At this price, both options expire worthless and the options trader gets to keep the entire initial credit taken as profit.

The formula for calculating maximum profit is given below:

- **Max Profit = Net Premium Received**
- **Max Profit Achieved When Price of Underlying = Strike Price of Short Call/Put**

Unlimited Risk

Large losses for the short straddle can be incurred when the underlying price makes a strong move either upwards or downwards at expiration, causing the short call or the short put to expire deep in the money.

The formula for calculating loss is given below:

- **Maximum Loss = Unlimited**
- **Loss Occurs when Price of Underlying > Strike Price of Short call + Net premium received or Price of underlying < Strike Price of Short put – Premium received.**

Breakeven Points

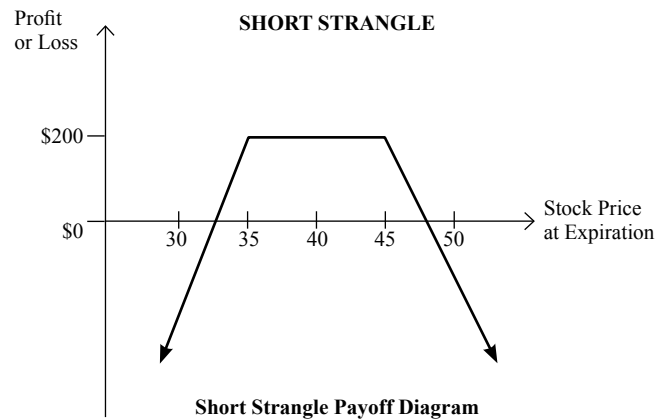
There are 2 breakeven points for the short straddle position. The breakeven points can be calculated using the following formulae.

- **Upper Breakeven Point = Strike Price of Short Call + Net Premium Received**
- **Lower Breakeven Point = Strike Price of Short Put – Net Premium Received**

Short Strangle

The short strangle, also known as sell strangle, is a neutral strategy in options trading that involve the simultaneous selling of a slightly out-of-the-money put and a slightly out-of-the-money call of the same underlying and expiration date.

The short strangle option strategy is a limited profit, unlimited risk options trading strategy that is taken when the options trader thinks that the underlying stock will experience little volatility in the near term.



Limited Profit

Maximum Profit for the short strangle occurs when the underlying stock price on expiration date is trading between the strike prices of the options sold. At this price, both options expire worthless and the options trader gets to keep the entire initial credit taken as profit.

The formula for calculating maximum profit is given below:

- **Max Profit = Net Premium Received**
- **Max Profit Achieved When Price of underlying is in between the Strike Price of the Short Call and the Strike Price of the Short Put**

Unlimited Risk

Large losses for the short strangle can be experienced when the underlying stock price makes a strong move either upwards or downwards at expiration.

The formula for calculating loss is given below:

- **Maximum Loss = Unlimited**
- **Loss Occurs When Price of underlying > Strike Price of short Call + Net Premium Received or Price of Underlying < Strike Price of Short Put – Net Premium Received**
- **Loss = Price of Underlying – strike Price of Short Call – Net Premium received or Strike Price of short Put – Price of Underlying – Net Premium Received**

Breakeven Points

There are 2 breakeven points for the short strangle position. The breakeven points can be calculated using the following formulae.

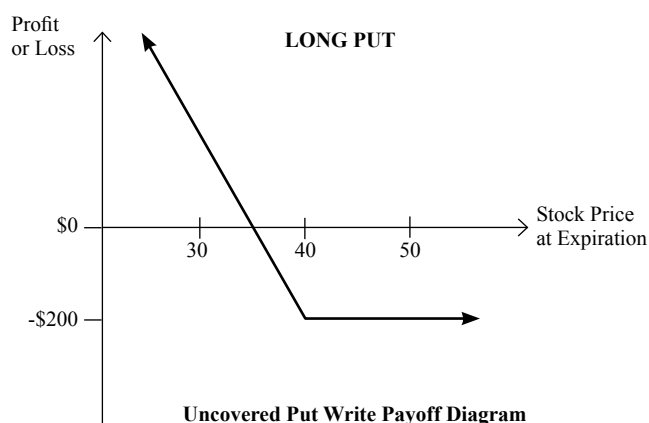
- **Upper Breakeven Point = Strike Price of Short Call + Net Premium Received**
- **Lower Breakeven Point = Strike Price of Short Put – Net Premium Received**

APPENDIX 7: STOCK OPTIONS BEGINNERS TUTORIAL

Long Put strategy

A Simplified Example

Suppose the stock of XYZ company is trading at \$40. A put option contract with a strike price of \$40 expiring in a month's time is being priced at \$2. You strongly believe that XYZ stock will drop sharply in the coming weeks after their earnings report. So you paid \$200 to purchase a single \$40 XYZ put option



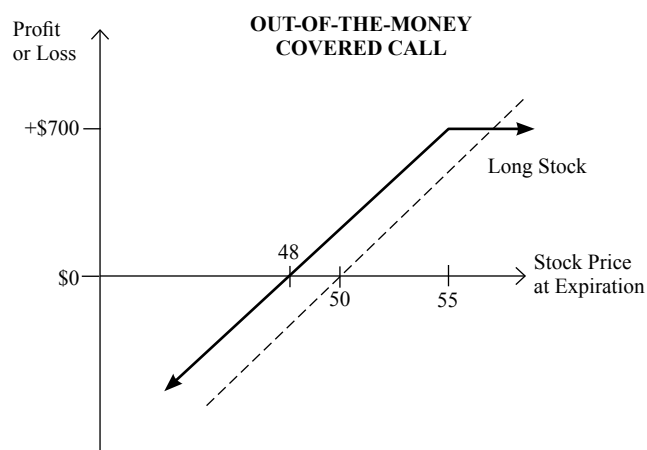
Say you were spot on and the price of XYZ stock plunges to \$30 after the company reported weak earnings and lowered its earnings guidance for the next quarter. With this crash in the underlying stock price, your put buying strategy will result in a profit of \$800.

Let's take a look at how we obtain this figure.

If you were to exercise your put option after earnings, you invoke your right to sell 100 shares of XYZ stock at \$40 each. Although you don't own any share of XYZ company at this time, you can easily go to the open market to buy 100 shares at only \$30 a share and sell them immediately for \$40 per share. This gives you a profit of \$10 per share. Since each put option contract covers 100 shares, the total amount you will receive from the exercise is \$1000. As you had paid \$200 to purchase this put option, your net profit for the entire trade is \$800.

Out-of-the-money Covered Call

This is a covered call strategy where the moderately bullish investor sells out-of-the-money calls against a holding of the underlying shares. The OTM covered call is a popular strategy as the investor gets to collect premium while being able to enjoy capital gains (albeit limited) if the underlying stock rallies



Example

An options trader purchases 100 shares of XYZ stock trading at \$50 in June and writes a JUL 55 out-of-the-money call for \$2. So he pays \$5000 for the 100 shares of XYZ and receives \$200 for writing the call option giving a total investment of \$4800.

On expiration date, the stock had rallied to \$57. Since the striking price of \$55 for the call option is lower than the current trading price, the call is assigned and the writer sells the shares for a \$500 profit. This brings his total profit to \$700 after factoring in the \$200 in premiums received for writing the call.

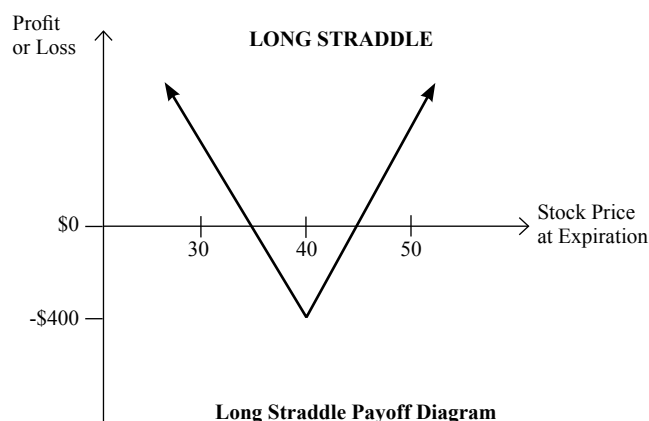
It is interesting to note that the buyer of the call option in this case has a net profit of zero even though the stock had gone up by 7 points.

However, what happens should the stock price had gone down 7 points to \$43 instead? Let's take a look.

At \$43, the call writer will incur a paper loss of \$700 for holding the 100 shares of XYZ. However, his loss is offset by the \$200 in premiums received so his total loss is \$500. In comparison, the call buyer's loss is limited to the premiums paid which is \$200.

Play Earnings with Straddles

Buying straddles is a great way to play earnings. Many a times, stock price gap up or down following the quarterly earnings report but often, the direction of the movement can be unpredictable. For instance, a sell off can occur even though the earnings report is good if investors had expected great results.



The strategy here is to buy the straddle two to three weeks ahead of earnings. Significant price movement is necessary for a straddle to make money and in the case of earnings play. There are three events that can occur during this period which can create price movements sufficient enough to generate profit:

- Prior to the earnings, excitement abounds and the underlying stock price may trade up or down ahead of the actual earnings due to increased speculation. Sometimes, price may move so much that you may be able to exit the position with a small profit without holding into earnings.
- Immediately after earnings announcement, stock price typically gap up or down 5% to 10%, depending on the report. Rare is the case when stock price remains unchanged.
- A third event, unlikely but not impossible, is the profit warning that may be issued a few weeks prior to the earnings report. Large downward movements are typical following such warnings and are usually big enough to allow a profitable exit.

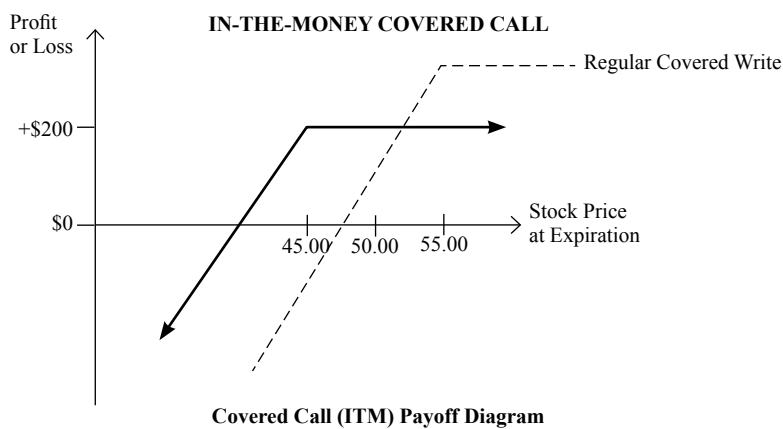
Unless you are very certain that the gap up or down after the report will be huge, never buy the straddle just one day before earnings, as this is the time when the premiums of at-the-money option get bid up very high due to heightened anticipation. Lookout for stocks displaying a history of gap movements during earnings by examining the historical price chart.

Dividend Extraction

Some stocks pay generous dividends every quarter. You qualify for the dividend if you are holding on the shares before the ex-dividend date.

Many people have tried to buy the shares just before the ex-dividend date simply to collect the dividend payout only to find that the stock price drop by at least the amount of the dividend after the ex-dividend date, effectively nullifying the earnings from the dividend itself.

There is, however, a way to go about collecting the dividends using options. On the day before ex-dividend date, you can do a covered write by buying the dividend paying stock while simultaneously writing an equivalent number of deep in-the-money call options. The call strike plus the premium received should be equal or greater than the current stock price.



On ex-dividend date, assuming no assignment takes place, you will have qualified for the dividend. While the underlying stock price will have drop by the dividend amount, the written call options will also register the same drop since deep-in-the money options have a delta of nearly 1. You can then sell the underlying stock, buy back the short calls at no loss and wait to collect the dividends.

The risk in using this strategy is that of an early assignment taking place before the ex-dividend date. If assigned, you will not be able to qualify for the dividends. Hence, you should ensure that the premium received when selling the call options takes into account all transactions costs that will be involved in case such an assignment od occur.

APPENDIX 8: OPTIONS GLOSSARY

American Option:

An option that can be exercised, at the holder's choice, at any time until the option expires.

Assignment:

The obligation incumbent on an option seller to fulfill his contractual requirements (purchase or sale of underlying instrument), in response to a buyer's decision to exercise an option.

At the money:

An option is at the money when the value of the underlying instrument is the same or almost the same as the strike price of the option contract.

Beta:

A measure of the sensitivity of an asset X to a benchmark index Y.

Call:

An option contract granting the holder the right to buy the underlying asset at the agreed strike price. A call obliges the writer too sell the underlying at the agreed strike price if he is assigned against.

Cash settlement:

Cash settlement is equivalent to a final margin call on the maturity date. Exercise give rise to the payment of:

Call options: the difference between the closing settlement price and the call option strike price.

Put options: the difference between the put option strike price and the closing settlement price.

Class (of options):

A set of traded options of the same category (American or European) within the same maturity range (short-term or long-term) and pertaining to the same instrument.

Clearing house:

An organization that registers transactions and provides members with a guarantee of final settlement.

Closing Index:

The last index calculated and published when the markets close, used as the basis of margin calculation.

Closing settlement price/Delivery settlement price:

Computed on the expiration date (options) or the last day of trading (futures), the closing settlement price is the reference price for expiring options and for final payment of variation margin on futures.

Contract size/Multiplier:

The amount of the underlying asset in an option or future contract.

Contract value:

Obtained by multiplying the premium's quoted price by the contract size (multiple).

Cross-margining:

A facility whereby initial margin is computed on the basis of a portfolio comprising either options and futures on the same product (option cross-margining) or several contracts (inter contract cross-margining). A portfolio is sometimes exposed to risk from diverging market movements: cross-margining captures this fact, making it possible to reduce initial risk.

Daily price limit:

The maximum permitted price movement relative to the previous daily settlement set by the market operator. When the daily price limit is reached, trading can be suspended, a new price limit is set, variation margin is called and trading resumes.

Daily settlement price:

Computed and disseminated each trading day, the daily settlement price is used to determine variation margin for futures contracts and fluctuation limits for the following trading day. It is also used as a reference for early exercise of American equity options.

Delta:

A measure of how much an option's price will vary for a change in the price of the underlying. Delta ranges from 0 to 1 for call options, and between -1 and 0 for put options.

European option:

An option that can be exercised by the buyer only on the contract expiration date.

Exercise:

A decision, reserved for the option holder, to request execution of the contract.

Expiration date:

The day on which an option contract expires, or the last trading day for a futures contract.

Futures/Futures contract:

A legally binding agreement between a buyer and a seller on a market for derivative financial instruments. Contract specifications are standardized. They include a firm and final price for payment – and, where appropriate, delivery of the underlying asset – at a fixed date in future.

In the money:

A call option is in the money when the market price of the underlying is above the option strike price. A put option is in the money when the strike price is above the market price of the underlying.

Initial margin:

Initial payment paid by members to the clearing house and by clients to clearing house members to open a futures position or to write options. Initial margin covers the risk of default and is adjusted daily by calls for variation margin.

Option:

An option gives the buyer (holder) the right, but not the obligation, to buy (in the case of a call option) or sell (in the case of a put option) a set quantity of the underlying asset at a specified price (strike price) for a given period of time.

Out of the money:

A call option is out of the money when the market price of the underlying is below the option strike price. A put option is out of the money when its strike price is below the market price of the underlying.

Premium:

The option price resulting from matching of buy and sell orders submitted to the market.

Put:

An option contract granting the purchaser the right to sell the underlying asset at the agreed strike price. A put obliges the seller to purchase the underlying at the agreed strike price if he is assigned against.

Series (of options)

All options of the same class, the same type (call or put) bearing on the same quantity of the underlying instrument, and having the same strike price and the same expiration date.

Strike price/Exercise price:

The price at which the option holder may purchase (in the case of a call) or sell (in the case of a put) the underlying asset.

Underlying/Underlying asset:

The asset on which a futures or option contract is based.

Variation margin:

At the end of each trading day, trader's positions are marked to market on the basis of the daily settlement price, thereby producing a potential loss or gain that is paid into the account or collected from it.



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