



The Options Institute

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Unlocking the Basics of Index Options Trading

Raj Shah

Sr. Strategy Associate

The Options Institute, Cboe Europe

Meet Cboe Europe Derivatives & The Options Institute

About Cboe Europe Derivatives

Cboe Europe Derivatives (CEDX) is a pan-European derivatives marketplace which enables participants to access a vibrant equity derivatives market through a single access point, creating efficiencies in trading and clearing. CEDX currently offers equity index derivatives and over 320 pan-European single-stock options. Our mission is to build a modern pan-European marketplace designed to grow the European equity derivatives market overall and create new opportunities for market participants to manage their equity exposure.



Scan to learn more about options trading on CEDX

About The Options Institute

- Education arm of the exchange, providing best-in-class instruction to institutional and retail clients
- Free virtual and in-person programming, plus on-demand content for all experience levels
- Customized curricula and education experiences for corporate clients, sales and compliance teams, and advisors



Online Tools



**Level Up Learning
(Financial Literacy)
Programs**

On-Demand Classes



Live Events



Public Classes

Articles & Videos

Learning Objectives

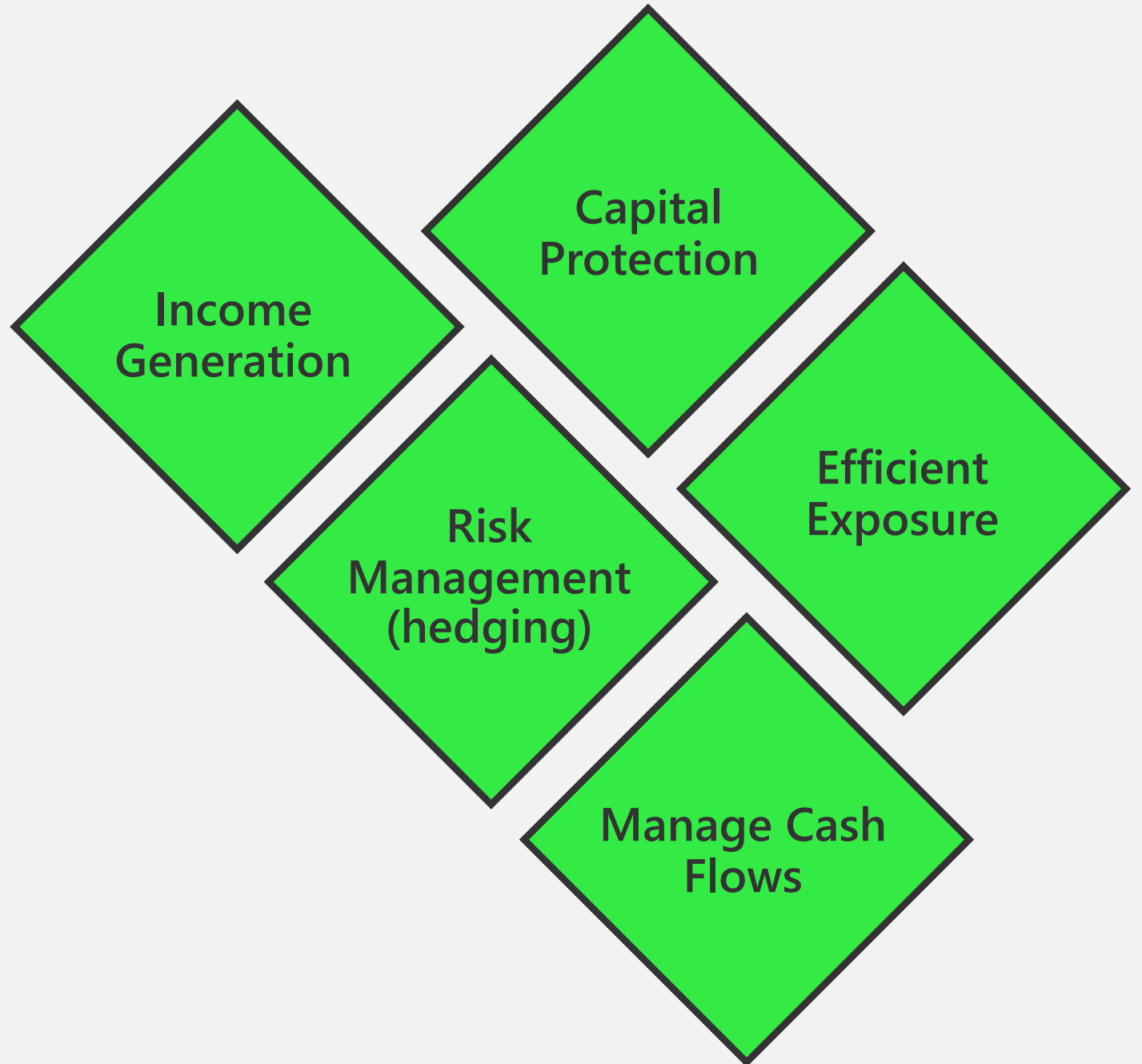
- List the features and characteristics of options and why investors use the product
- Explore index put and call options payout scenarios using payout diagrams

What is an option?

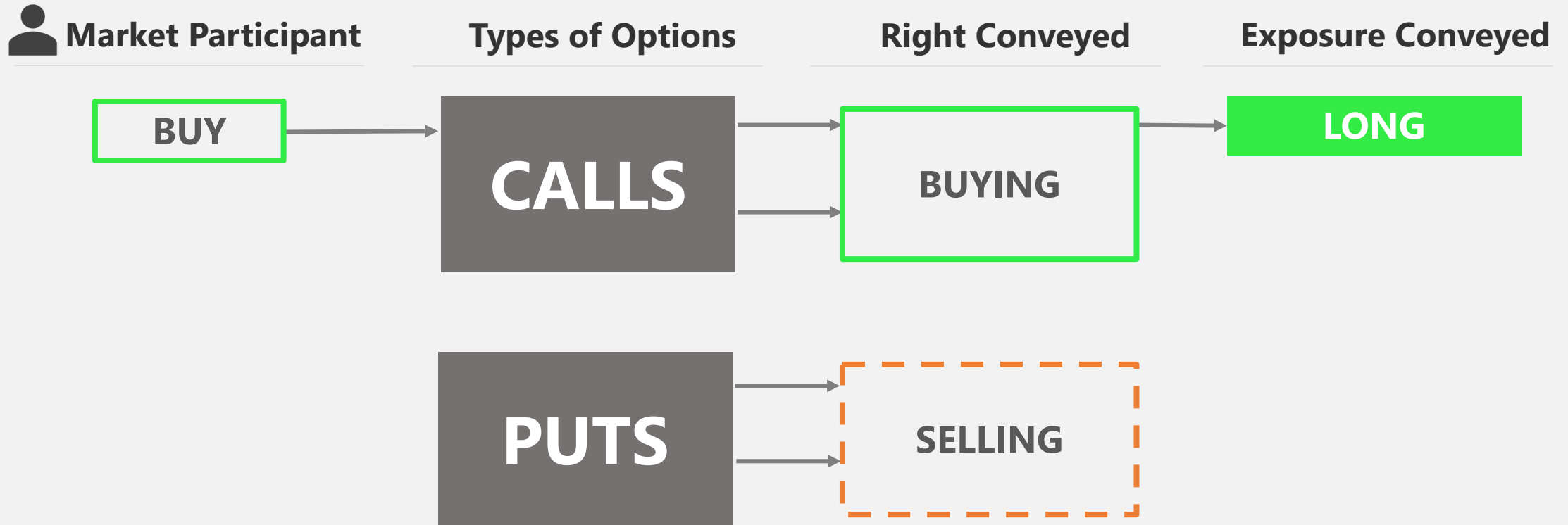
A financial contract that conveys to the owner the ***right, but not the obligation***, to buy or sell (depending on type) the underlying asset at a ***specific price*** within a ***specific timeframe***.



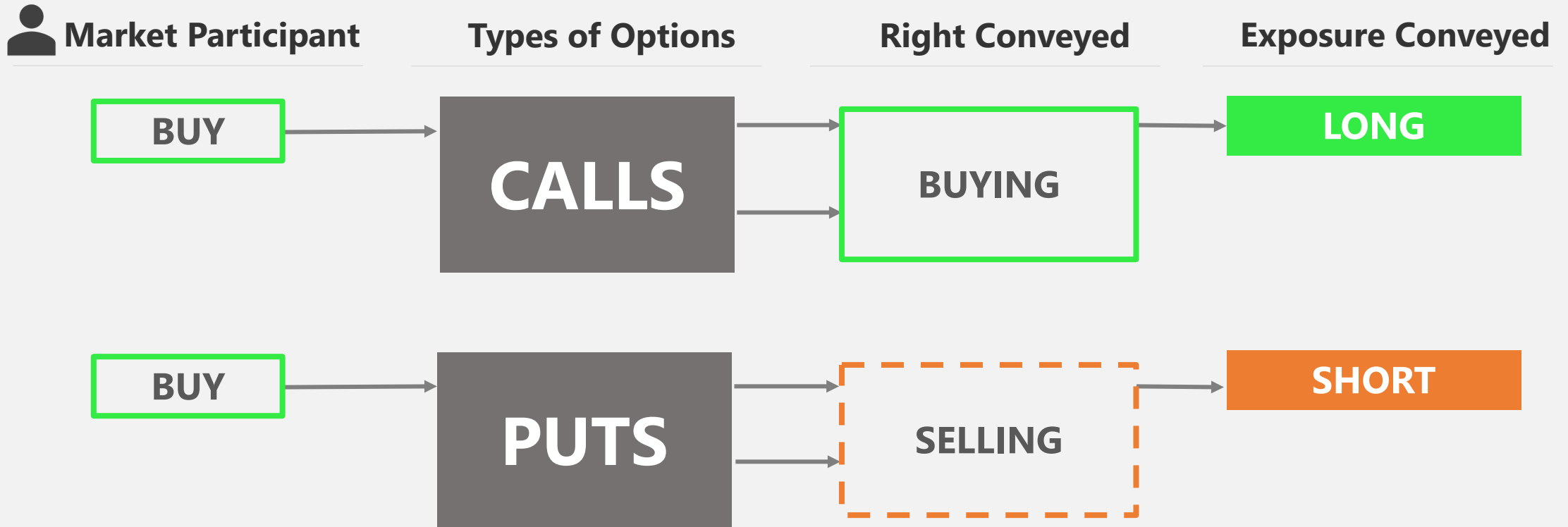
Why use options?



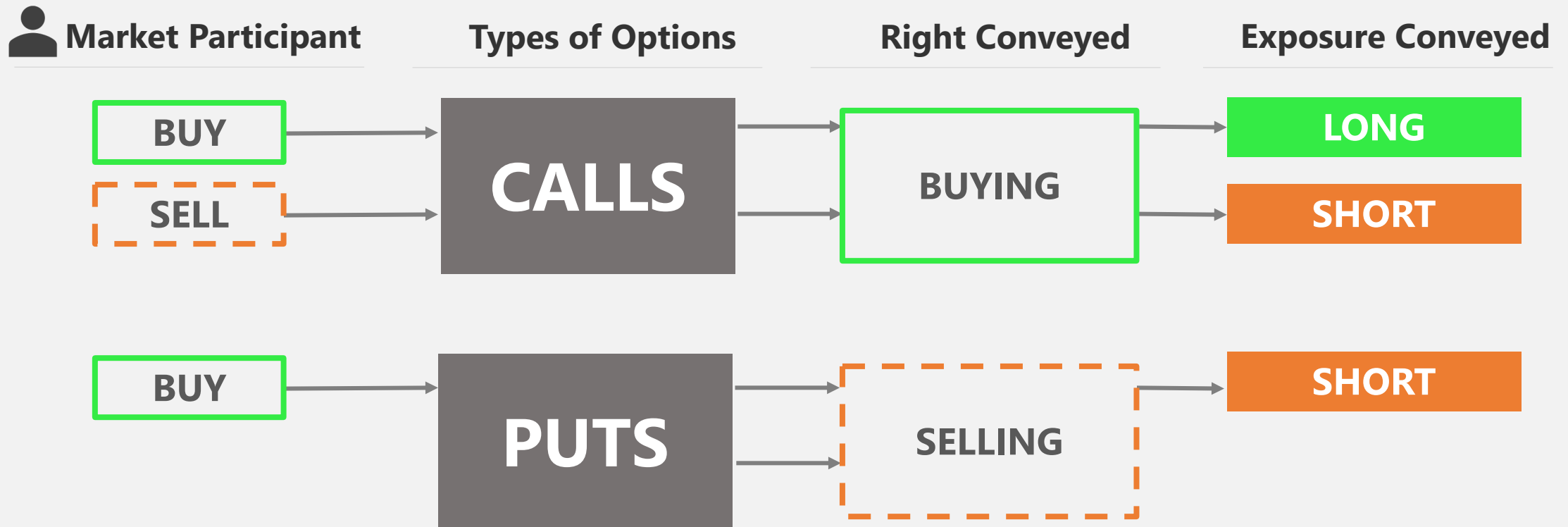
Building blocks of choice and flexibility.



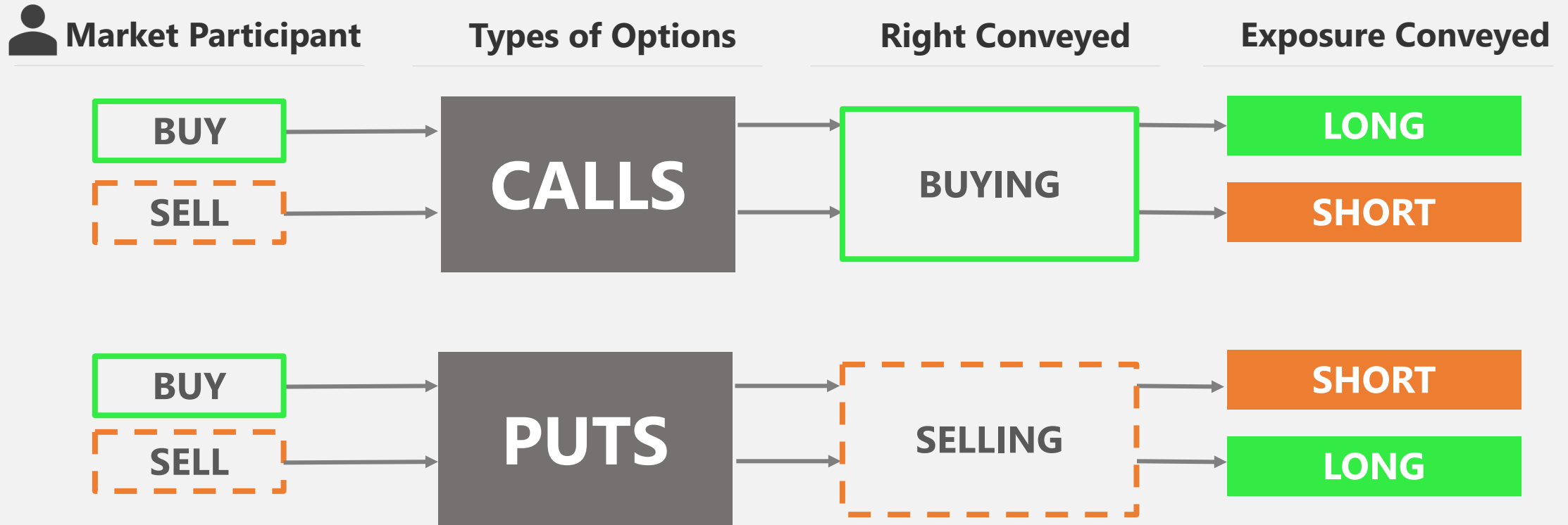
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Building blocks of choice and flexibility.



THE LANGUAGE OF OPTIONS

Sell 1 ABC Nov 115 C at 15.50

THE LANGUAGE OF OPTIONS

SIDE

Sell 1 ABC Nov 115 C at 15.50

THE LANGUAGE OF OPTIONS

SIDE **QUANTITY**

Sell **1** **ABC** **Nov** **115** **C** **at** **15.50**

THE LANGUAGE OF OPTIONS

SIDE	QUANTITY	UNDERLYING						
Sell	1	ABC	Nov	115	C	at	15.50	

THE LANGUAGE OF OPTIONS

SIDE	QUANTITY	UNDERLYING	EXPIRY				
Sell	1	ABC	Nov	115	C	at	15.50

THE LANGUAGE OF OPTIONS

SIDE	QUANTITY	UNDERLYING	EXPIRY	STRIKE			
Sell	1	ABC	Nov	115	C	at	15.50

THE LANGUAGE OF OPTIONS

SIDE	QUANTITY	UNDERLYING	EXPIRY	STRIKE	TYPE		
Sell	1	ABC	Nov	115	C	at	15.50

THE LANGUAGE OF OPTIONS

SIDE	QUANTITY	UNDERLYING	EXPIRY	STRIKE	TYPE	PRICE
Sell	1	ABC	Nov	115	C	at 15.50

THE LANGUAGE OF OPTIONS

SIDE	QUANTITY	UNDERLYING	EXPIRY	STRIKE	TYPE		PRICE
Sell	1	ABC	Nov	115	C	at	15.50

"Sell one ABC November 115 Call at 15.50"

THE LANGUAGE OF OPTIONS

SIDE	QUANTITY	UNDERLYING	EXPIRY	STRIKE	TYPE		PRICE
Sell	1	ABC	Nov	115	C	at	15.50

"Sell one ABC November 115 Call at 15.50"

SIDE	QUANTITY	UNDERLYING	EXPIRY	STRIKE	TYPE		PRICE
Buy	3	ABC	Nov	120	P	for	10.60

"Pay 10.60 for three ABC November 120 Puts"

THE LANGUAGE OF OPTIONS

#

Quantity

The number of option contracts (calls or puts) you buy or sell.

X

Contract Size

(a.k.a. Multiplier)

The amount of underlying asset that one derivatives contract controls.

Equity options are standardized at 100 shares per contract.

THE LANGUAGE OF OPTIONS

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What is Leverage?

Total **Premium** = Quantity x Contract Multiplier x **Price (or level)**

Notional Value = Quantity x Contract Multiplier x Strike Price

Total Premium = $3 \times 100 \times 10.60 = \text{£}3,180$

Notional Value = $3 \times 100 \times 120 = \text{£}36,000$

THE LANGUAGE OF OPTIONS

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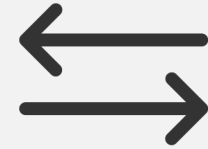
Exercise

American Style

Can be exercised any time **before or on** the expiry date

European Style

Can only be exercised **on** the expiry date



Settlement

Physical Settlement

The underlying changes hands and a payment occurs equal to amount of strike price (K)

Cash Settlement

A cash payment of the difference between the strike (K) and the settlement value

THE LANGUAGE OF OPTIONS

#

Quantity

The number of option contracts (calls or puts) you buy or sell.

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Exercise

American Style

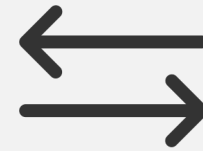
Can be exercised any time before or on the expiration date

Single Stock Options

European Style

Can only be exercised on the expiration date

Index Options



Settlement

Physical Settlement

The underlying changes hands. Settlement occurs equal to the amount of strike price (K)

Cash Settlement

A cash payment of the difference between the strike (K) and the settlement value

EXAMPLE: INDEX CALL OPTION

Index Ticker	BUK100P
Index Level (£)	£867.72
Side	Buyer
Expiry	December
Strike (K)	870
Type	Call
Interest	0
Dividend	0
Premium (P)	£17.55



EXAMPLE: INDEX CALL OPTION

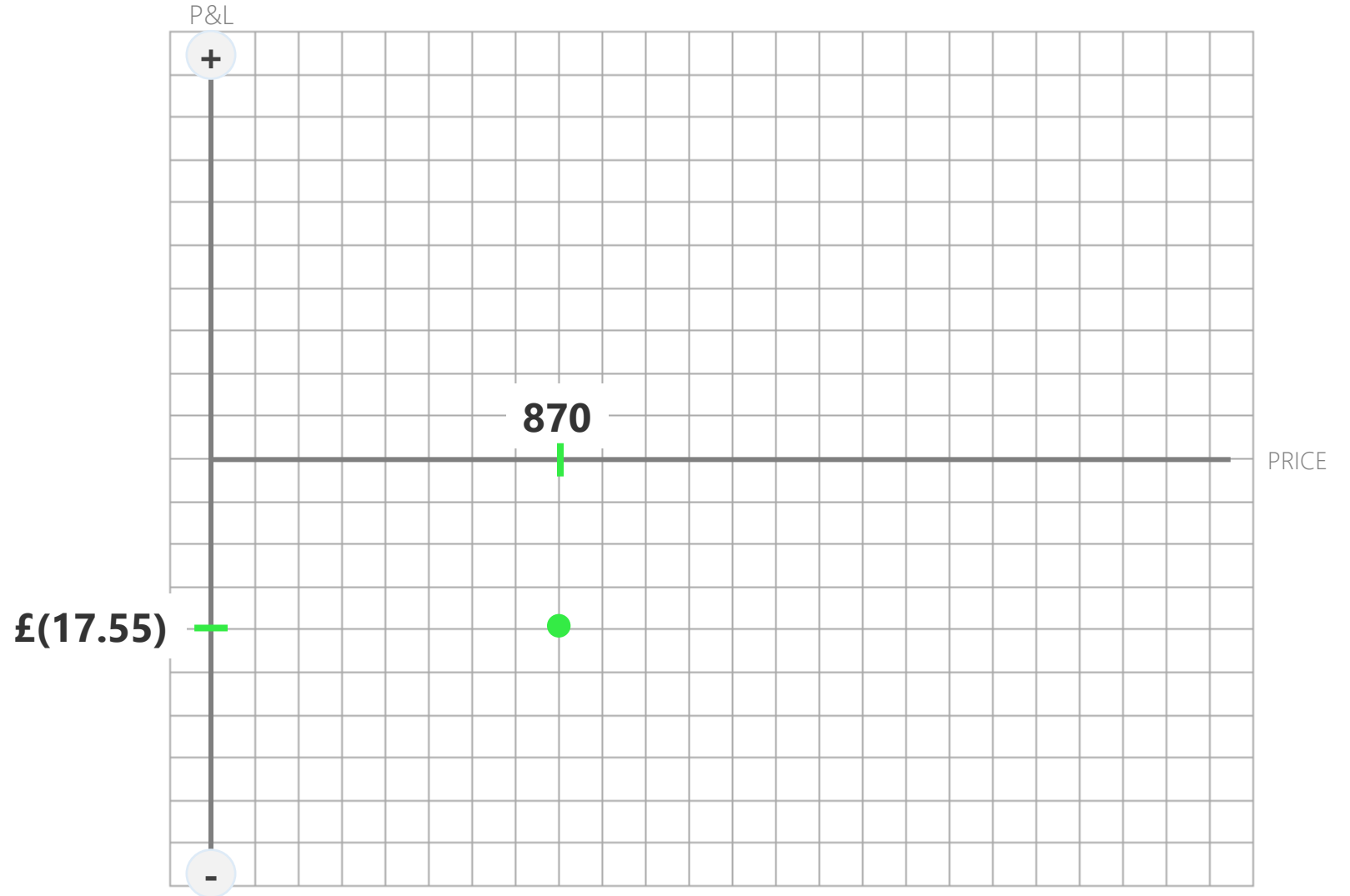
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What is the break-even price?

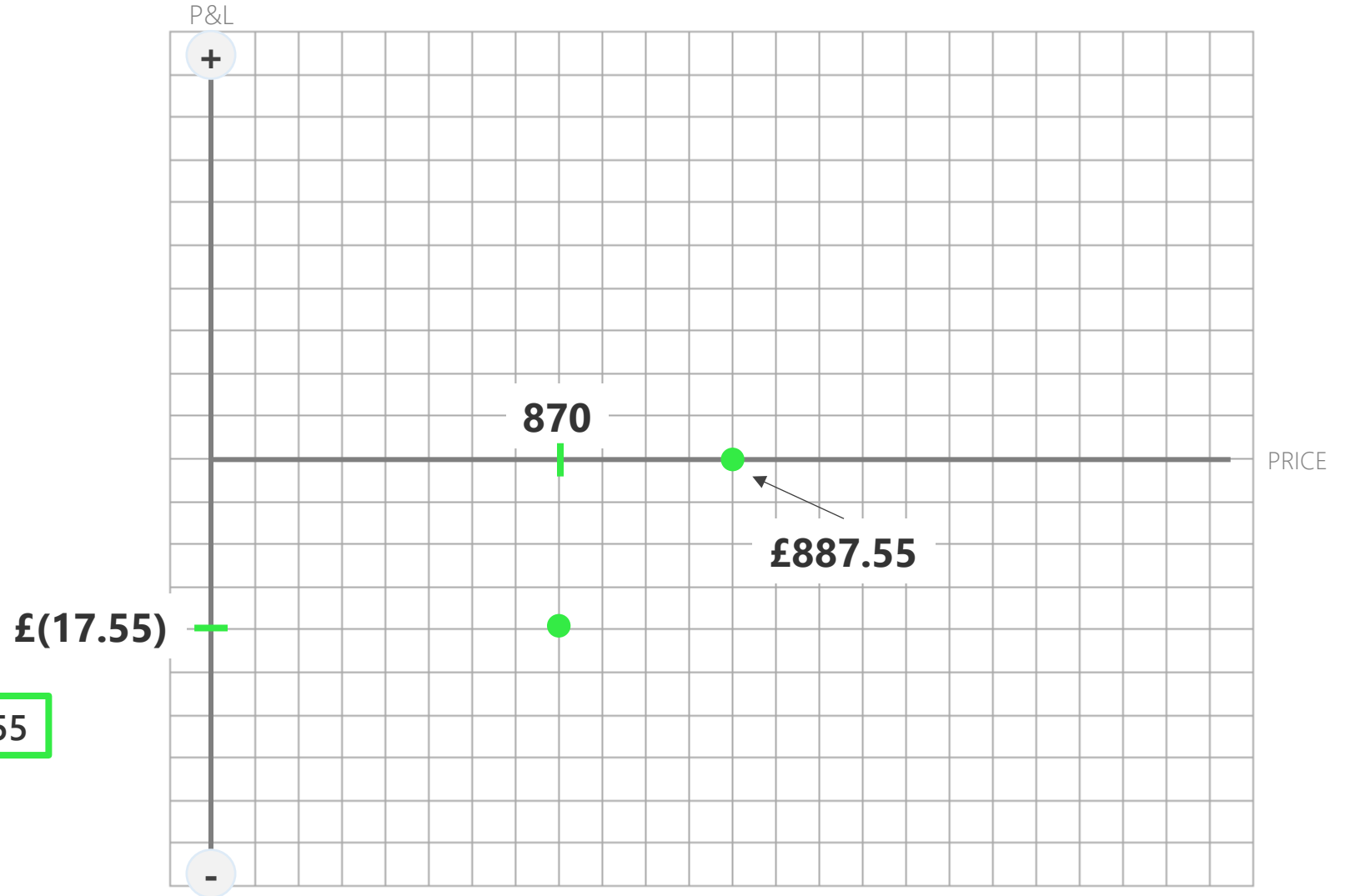


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What is the break-even price?

£887.55

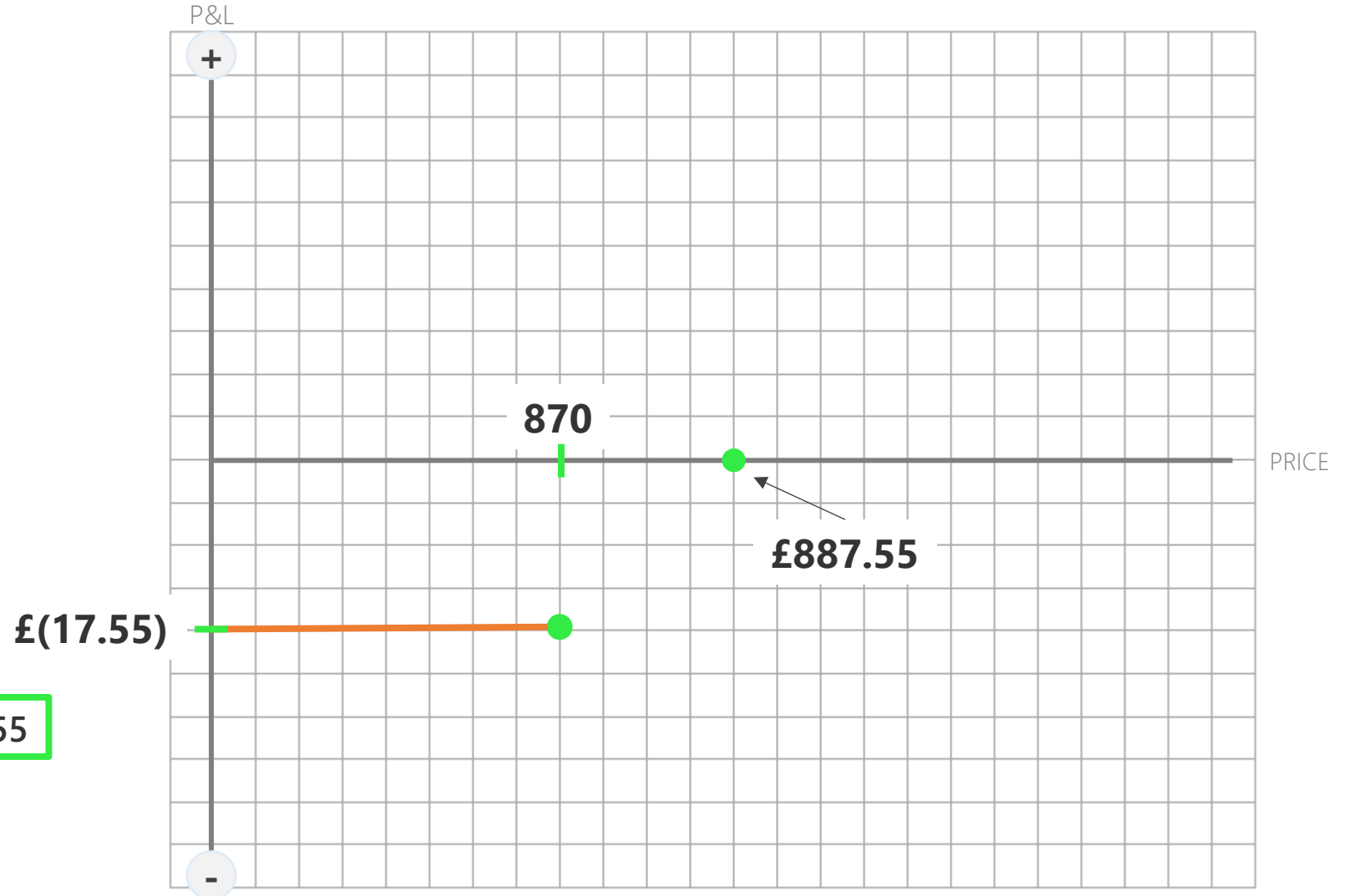


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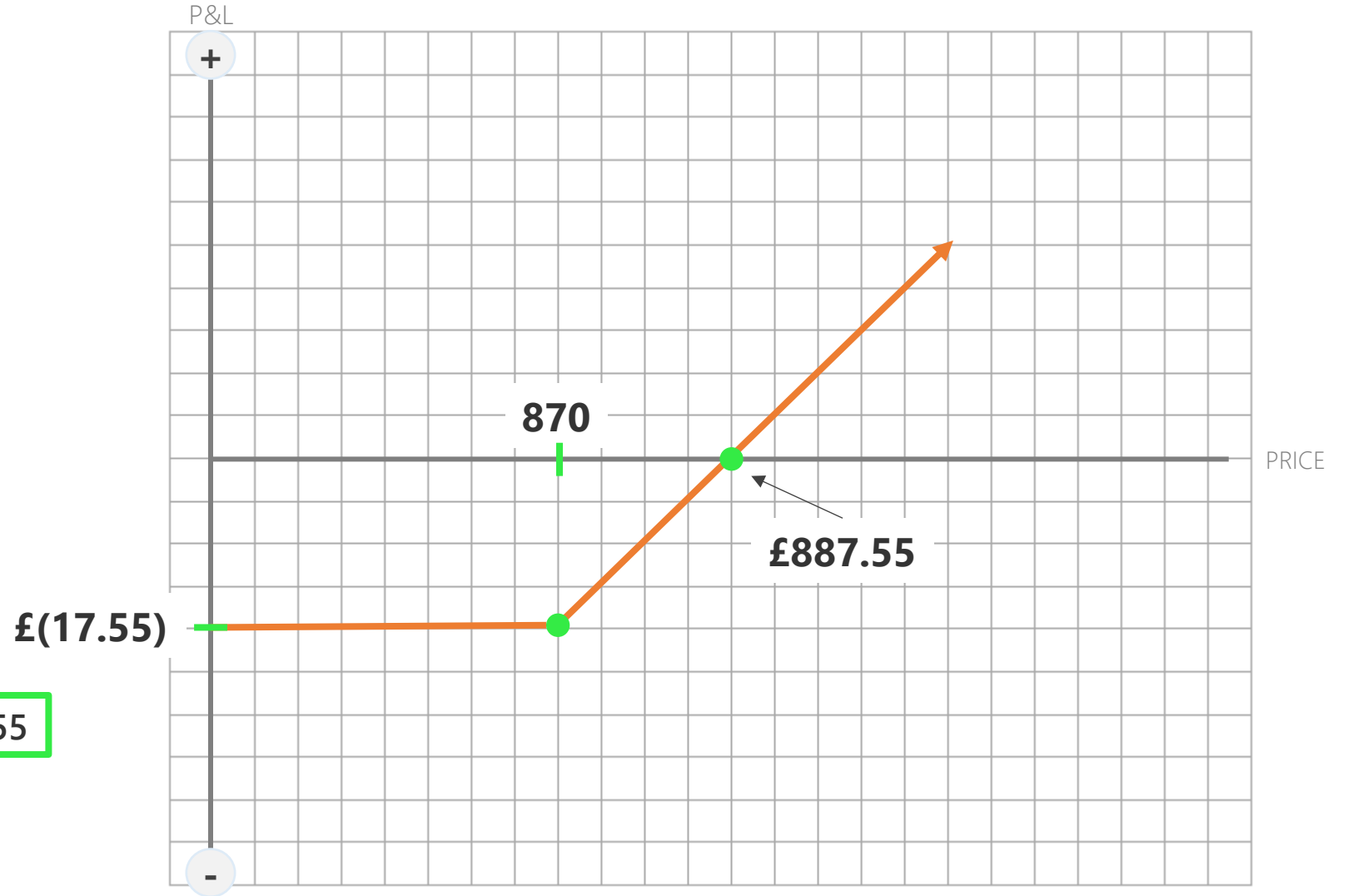


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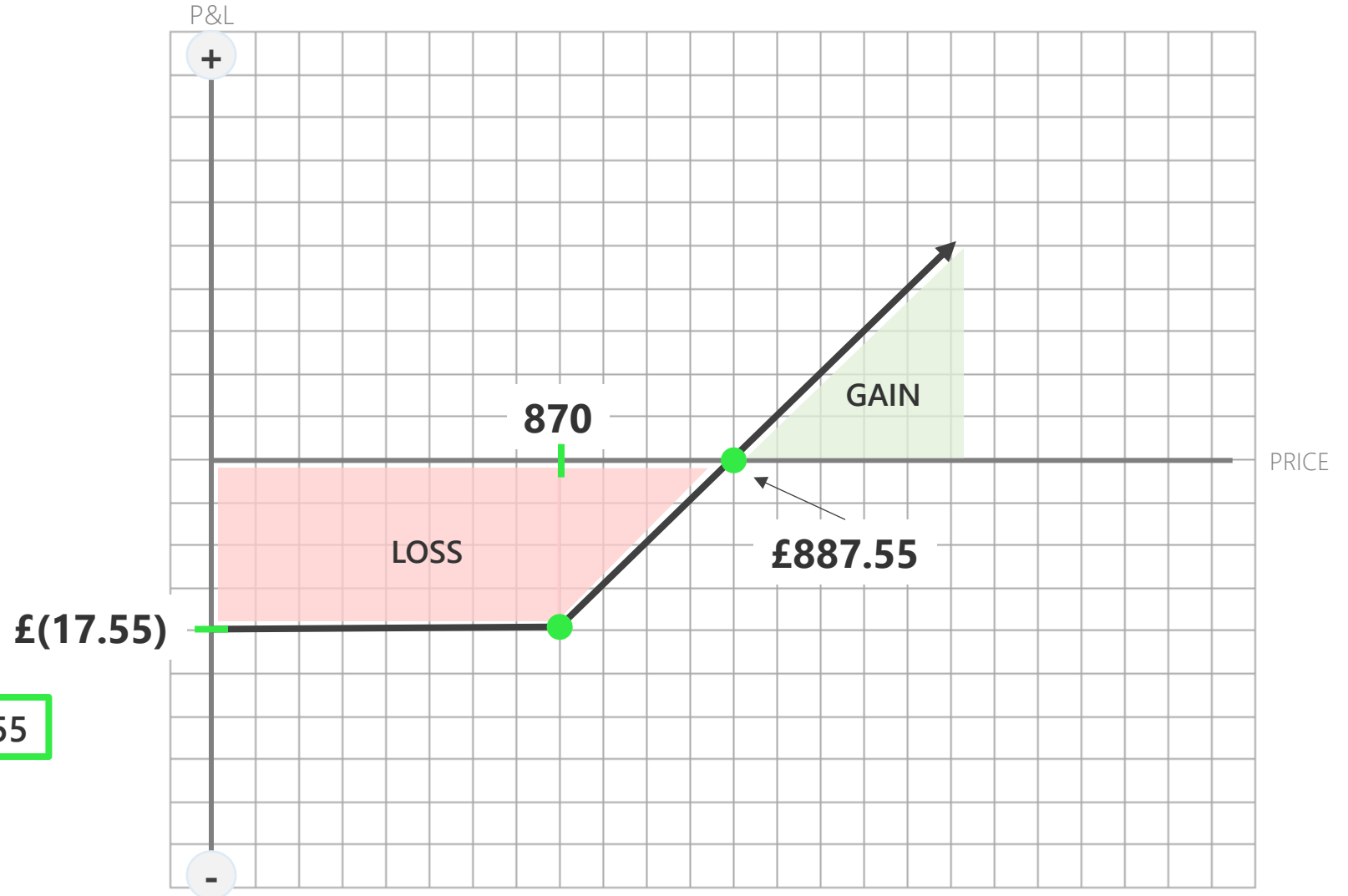


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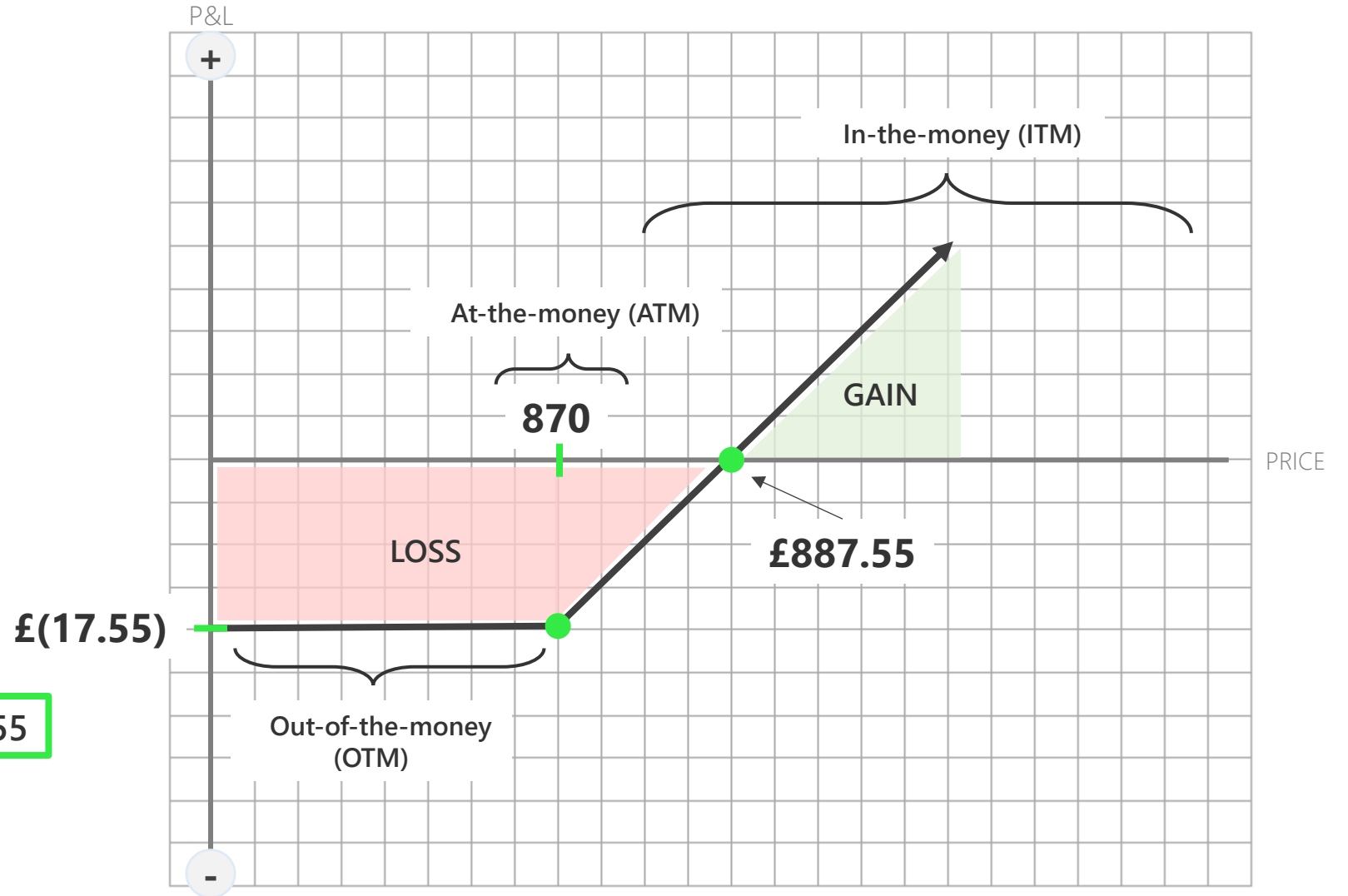
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Expiry	December
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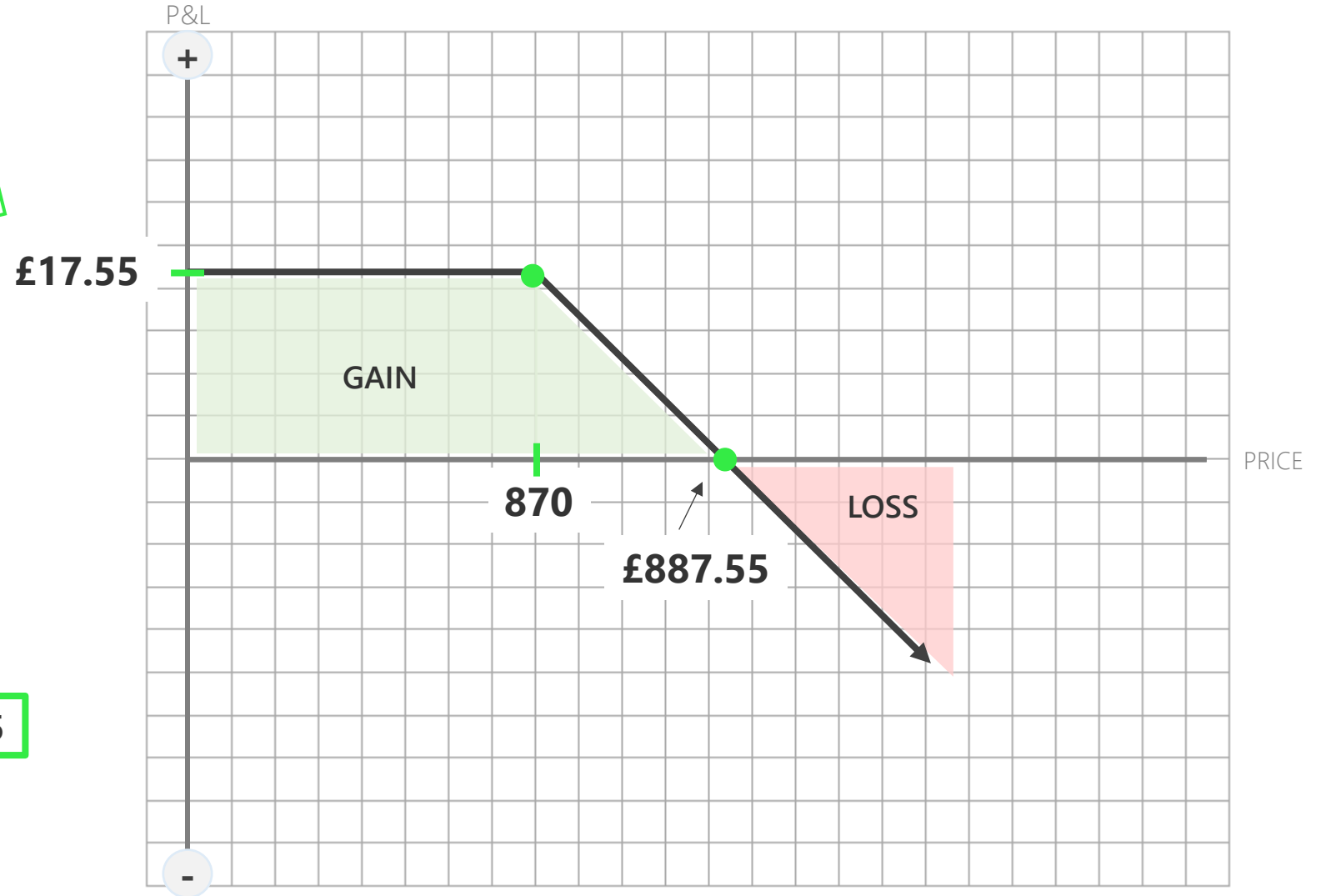
What is the break-even price? £887.55



EXAMPLE: INDEX CALL OPTION

Index Ticker	BUK100P
Index Level (£)	£867.72
Side	Seller
Expiry	December
Strike (K)	870
Type	Call
Interest	0
Dividend	0
Premium (P)	£17.55

What is the break-even price? £887.55

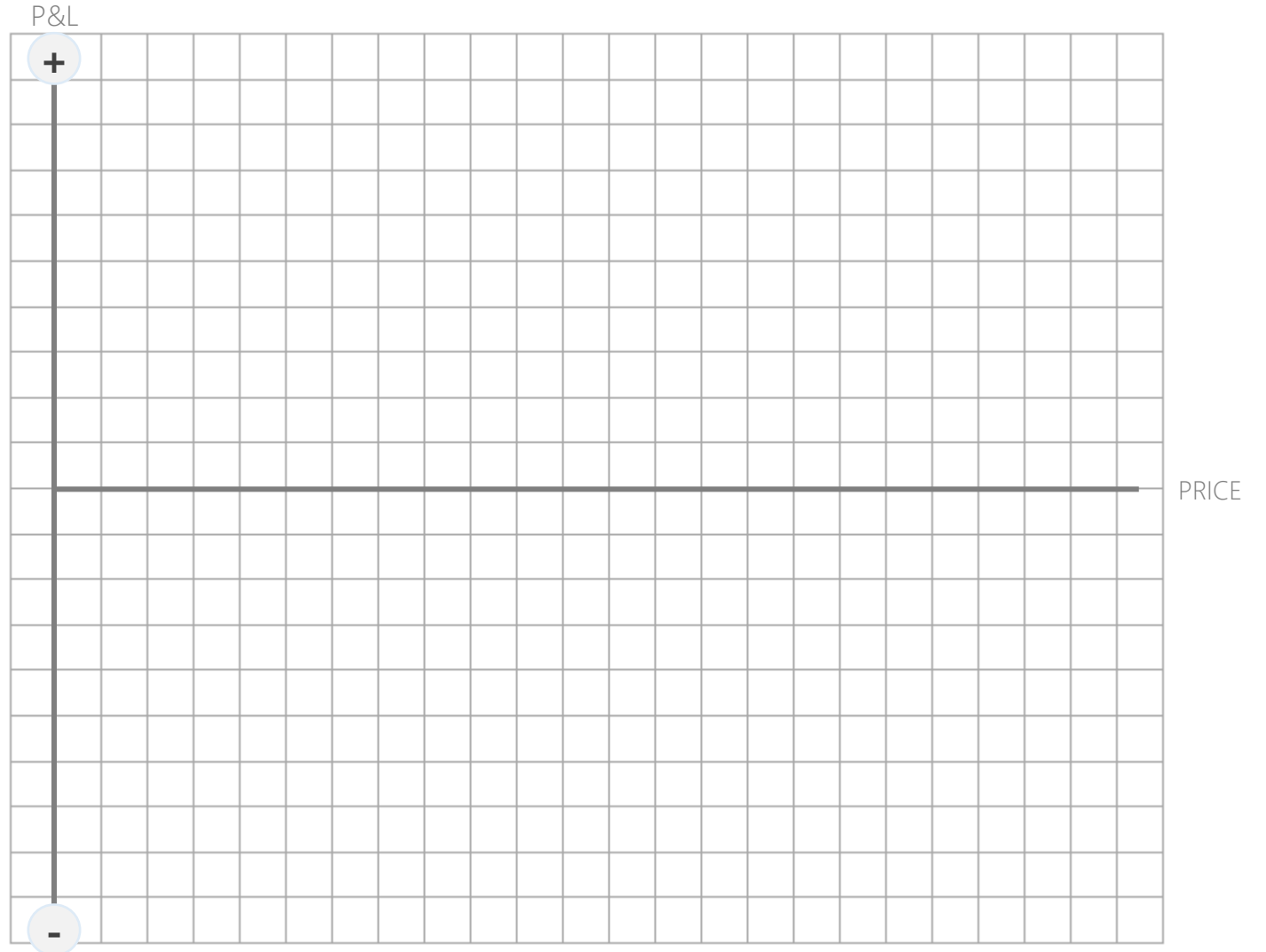


EXAMPLE: INDEX PUT OPTION

Index Ticker	BUK100P
Index Level (£)	£867.72
Side	Buyer
Expiry	December
Strike (K)	870
Type	Put
Interest	0
Dividend	0
Premium (P)	£51.15



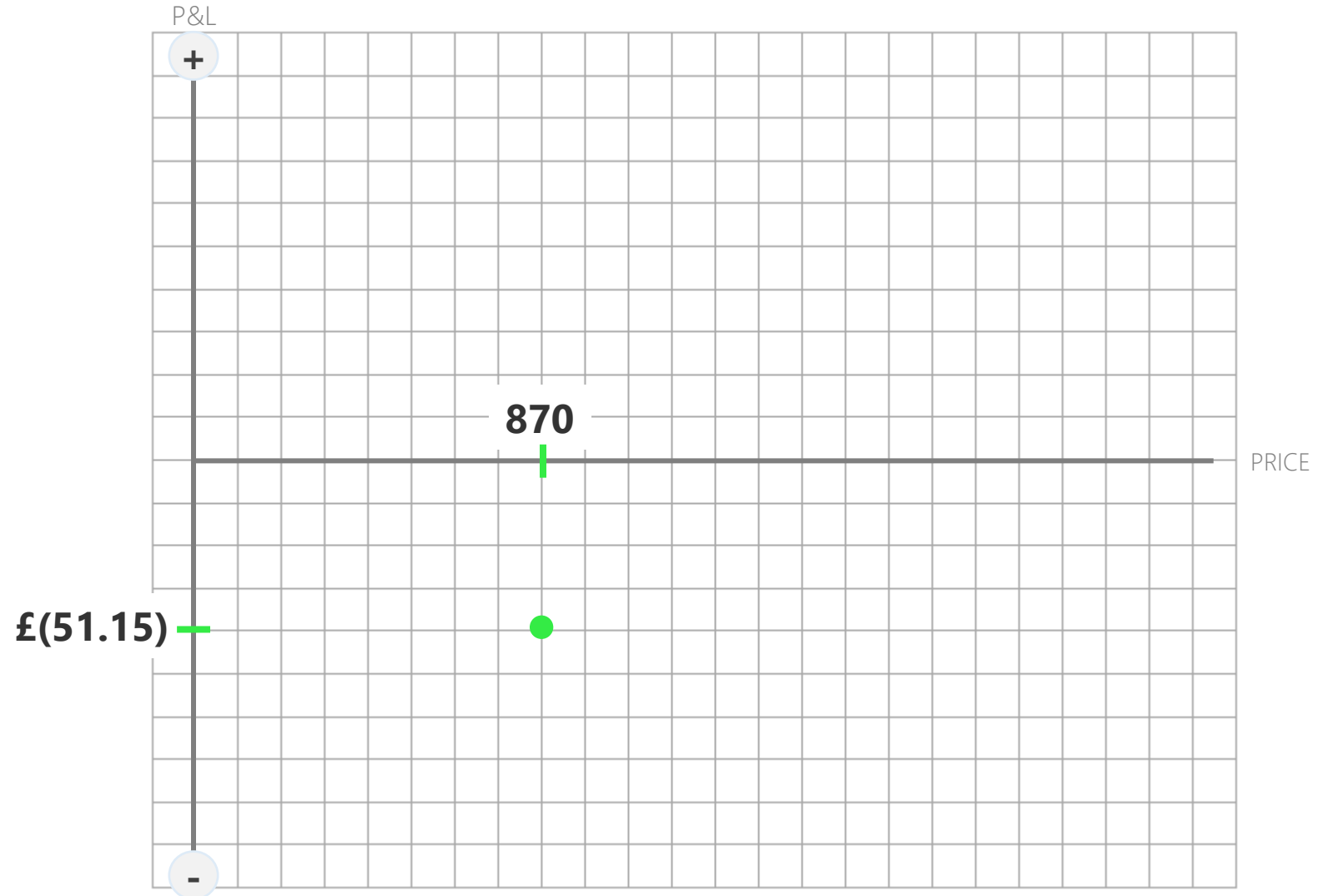
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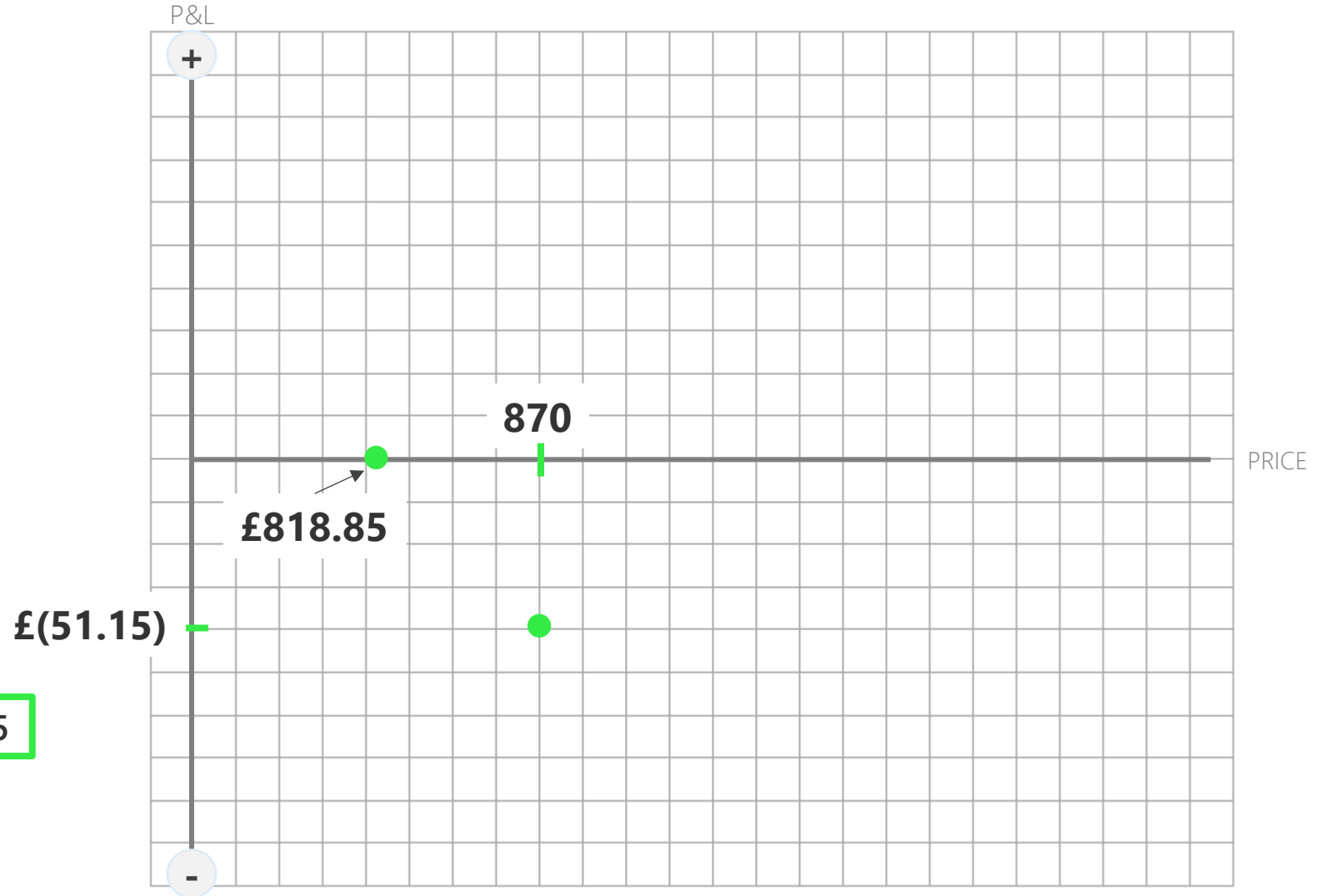
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What is the break-even price? £818.85

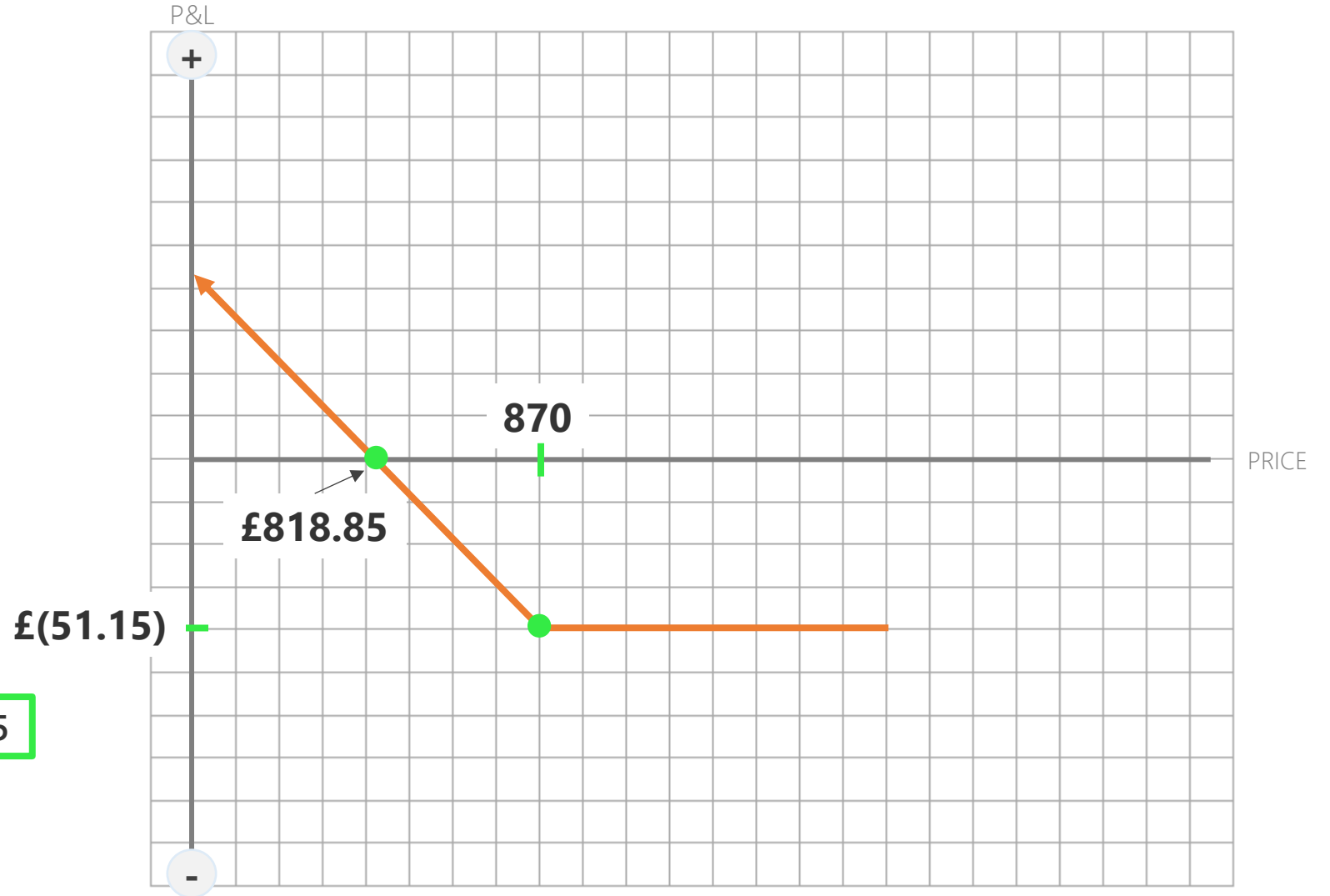


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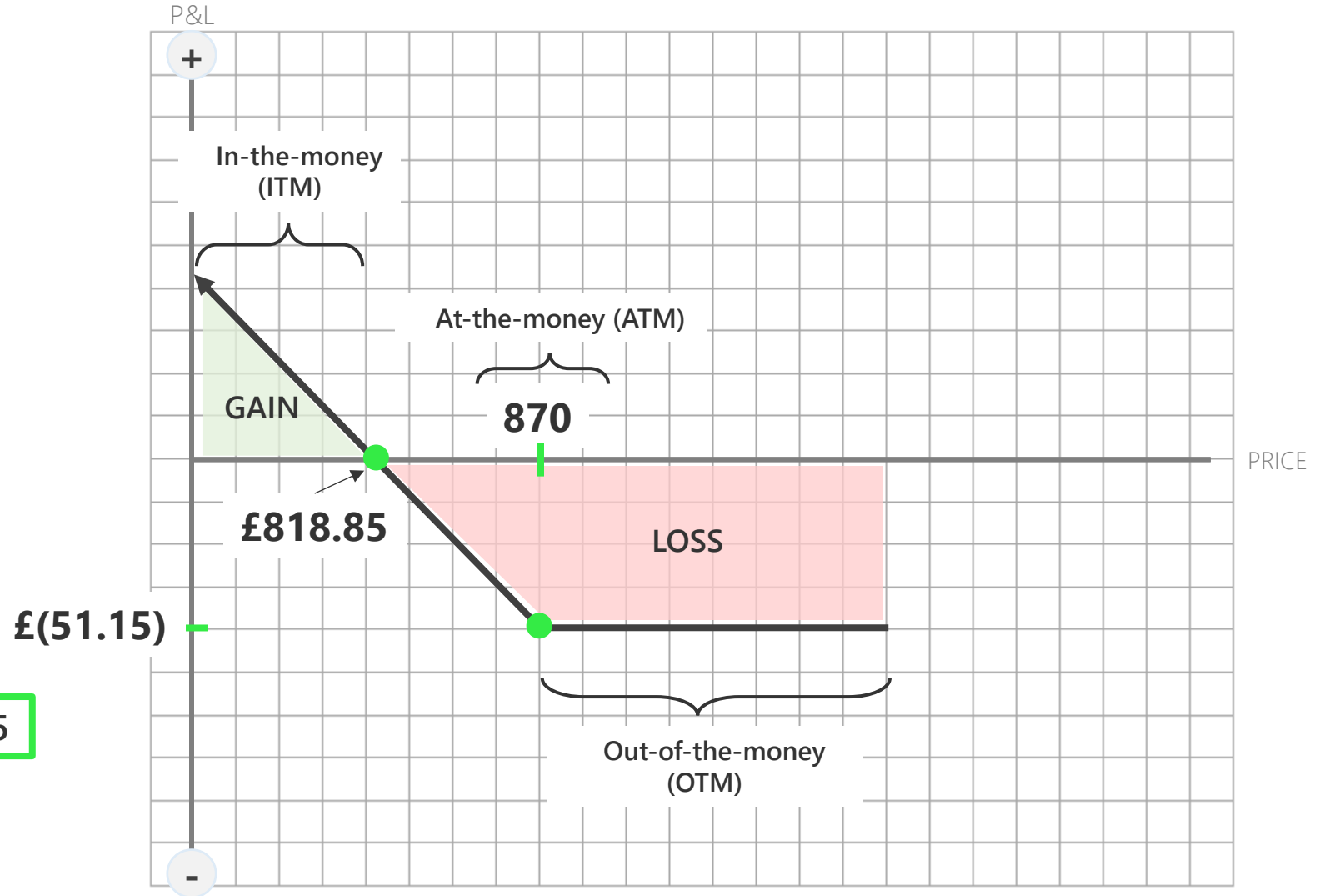
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What is the break-even price? £818.85



Review

1. List the features and characteristics of options and why investors use the product

2. Explore index put and call options payout scenarios using payout diagrams

Thank You!

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The Options Institute!

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