WHS options guide

Refine your trading style and your market outlook.

Hedge positions.

Benefit from the intelligent and dynamic SPAN margin.

Get started right now.

WH SELFINVEST
Est. 1998
Luxemburg, France, Belgium,
Poland, Germany, Netherlands, Switzerland

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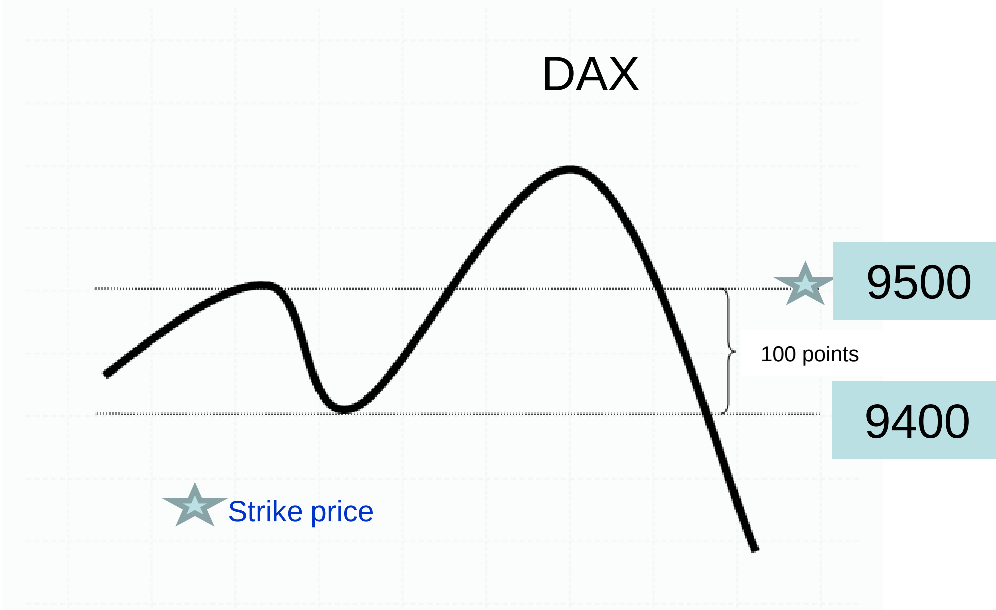
Global overview on Options

What is an option?	An option is a contract between a buyer and a seller for the right to buy or sell an underlying value at a specific price on a particular date.



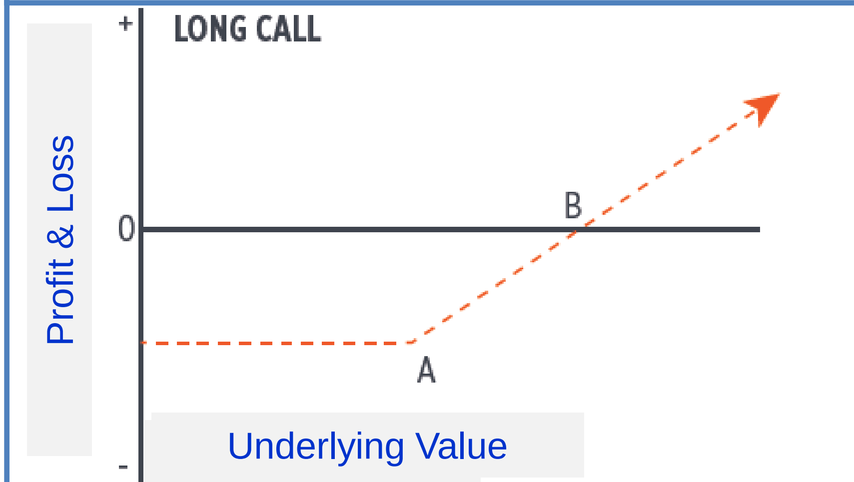
-10	Option Premium
+100	Option resulting in a short position 9500 - 9400 PUT Strike Price – Current Market Price
+90	Overall trade

You believe the DAX will drop in the weeks to come. Options allow you to trade this scenario by buying the right to sell at a certain price level or so called strike price. This right is called a PUT option. The price to obtain this right is called the premium.

Global overview on Options

Evolution of profit/loss after **BUYING** a Call or a Put

CALL



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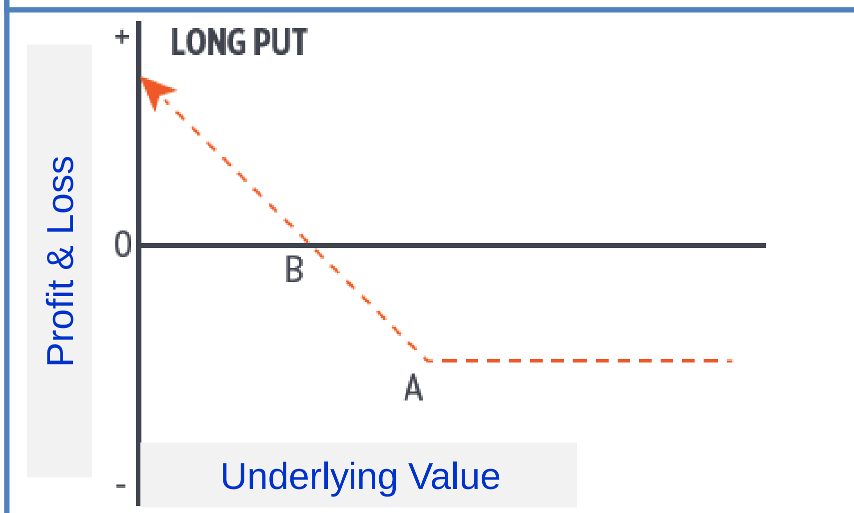
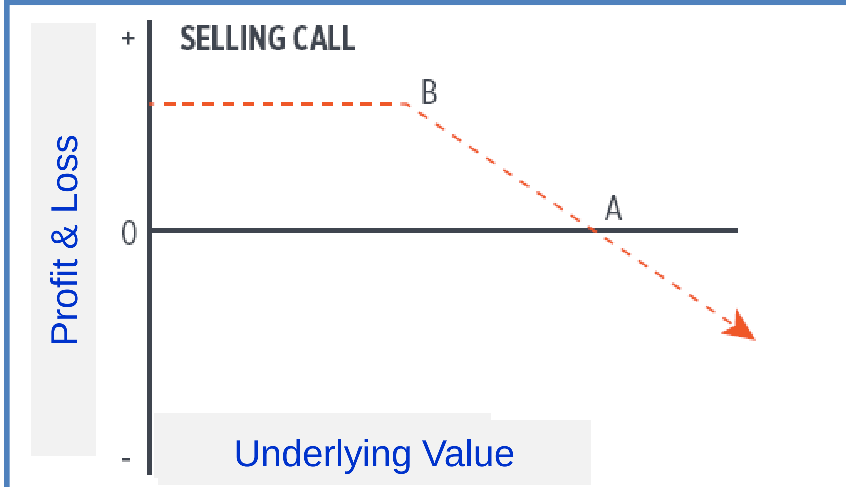


Evolution of profit/loss after **SELLING** a Call or a Put

CALL



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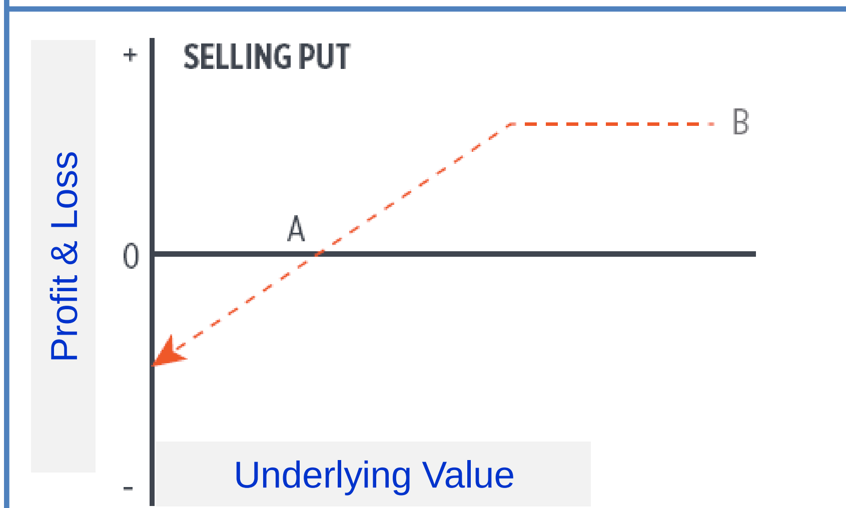
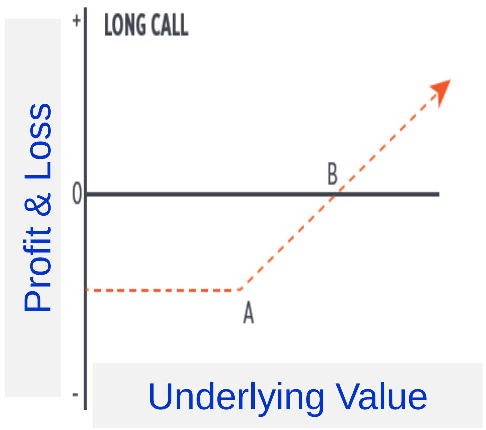


Different strategies using Options

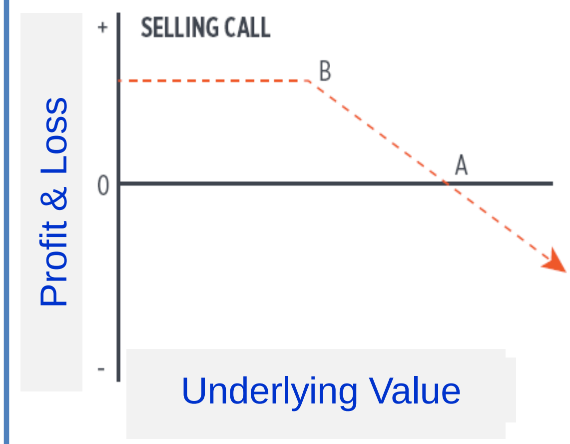
BUYING a CALL option

The trader anticipates that the price of a underlying will rise and wants to take advantage of that movement. The profit is unlimited while the loss is limited to the price of the premium.



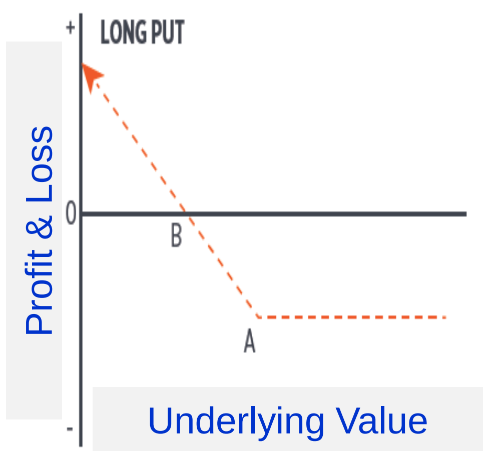
SELLING a CALL option

The trader anticipates that the price of a underlying will fall. They will sell the call and collect the premium. The profit is limited to the premium received while the loss is unlimited.



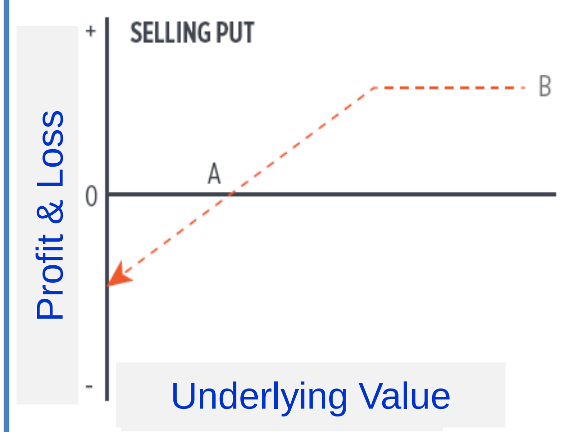
BUYING a PUT option

The trader anticipates that the price of a underlying will fall and wants to take advantage of that movement. The profit is unlimited while the loss is limited to the price of the premium.



SELLING a PUT option

The trader anticipates that the price of a underlying will rise. They will sell the put and collect the premium. The profit is limited to the premium received while the loss is unlimited.



Single vanilla options

It's a one-side only CALL or PUT position.
Either you
BUY the right and you pay the premium
or you SELL the right and collect the premium.

When you buy, the risk is limited to the premium you have paid initially.
When you sell, the risk is potentially unlimited if you don't hold the underlying in your account.

This strategy is also referred to as a 'directional' trade, because you can only benefit from it when the market trends in one direction.

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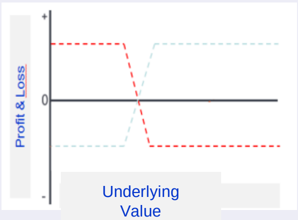
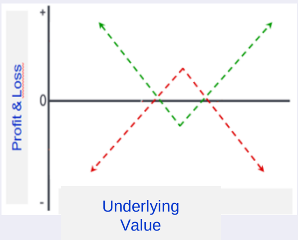
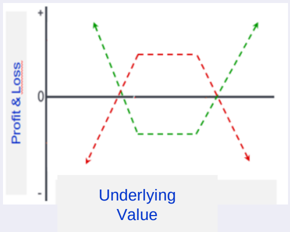
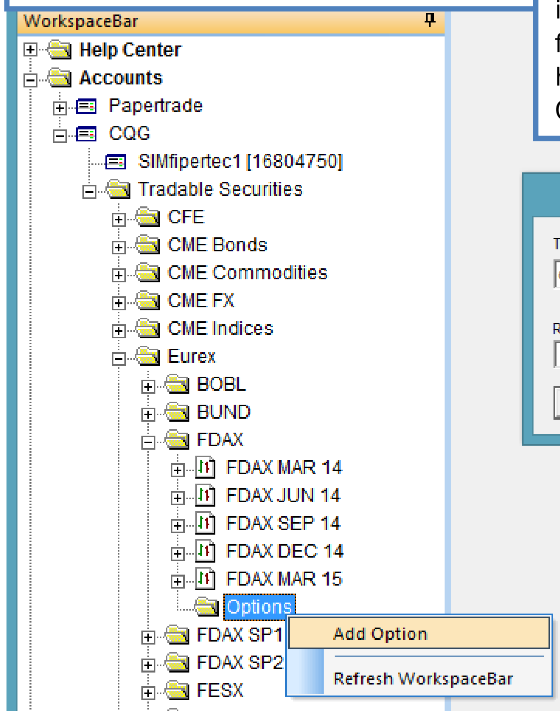
Different strategies using Options

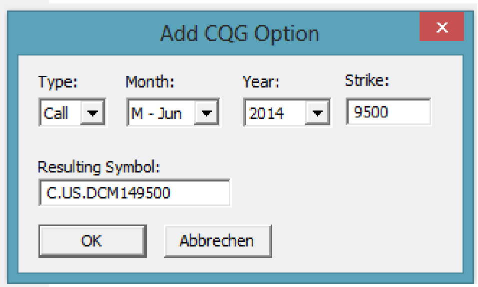
Strategy	General	Structure	Use	Risk/Reward	Evolution
Vertical	This is a two-side or 'legs' strategy on the same underlying. A simultaneous buy and sell of two different strike prices is referred to as a spread. Vertical means that the spread is build using options with the same expirations.	BULL SPREAD: Buy low strike and sell high strike. Same expiration and quantity.	Moderately bullish	Loss limited to the premium paid. Profit is capped at the number of pips between strikes minus pips paid.	
		BEAR SPREAD: Sell low strike and buy high strike.	Moderately bearish	Loss limited to the number of pips between strikes minus pips received. Profit is capped at the premium collected.	
		Same expiration and quantity.	Directional trade with less exposure to volatility than a plain vanilla structure.		
Straddle	With a straddle, you buy both a call and a put on the same underlying with the same strike price and expiry.	BUY at the money CALL, BUY at the money PUT	Neutral	Loss is limited to the premium paid and profits are potentially unlimited.	
		SELL at the money CALL, SELL at the money PUT	Neutral	Loss is potentially unlimited while profits are capped at the premium collected.	
		Same strike, quantity and expiration.	Stable market expected	Generate income in flat market, volatility expected to decrease.	
Strangle	A strangle has a similar set up to a straddle: you open both a call and a put on the same underlying. These must both be going either long (a long strangle) or short (a short strangle), and have the same expiry. With a strangle, however, your put has a lower strike price than the call.	BUY out the money CALL, BUY out the money PUT	Neutral	Loss is limited to the premium paid and profits are potentially unlimited.	
		SELL out the money CALL, SELL out the money PUT	Neutral	Loss is potentially unlimited while profits are capped at the premium collected.	
		Similar Delta, same quantity and expiration.	Stable market expected	Generate income in flat market, volatility is expected to decrease.	

Options and WHSFutureStation NANO

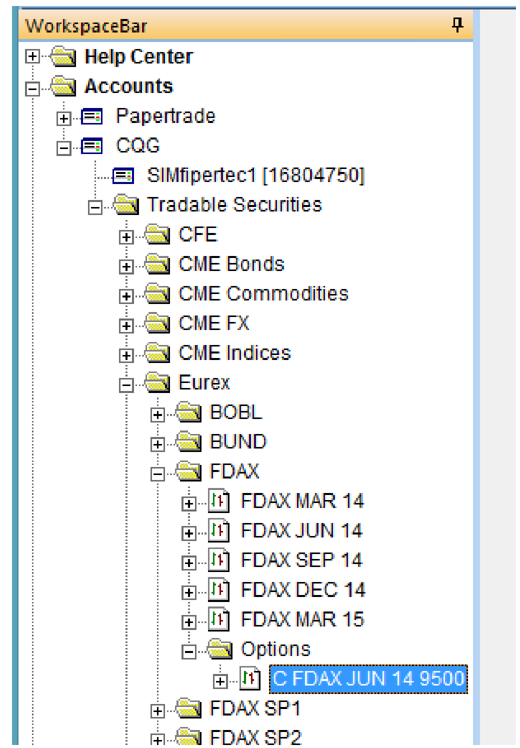
In order to be able to trade Options on Futures you need to be permissioned by your broker. Once you are permissioned, open the WorkspaceBar and navigate to a Future on which you want to trade an option. Given you are permissioned you will see an empty folder named “Options” for the FDAX. To add an option to the Options folder rightclick on it and select “Add Option”:



A dialog will show up that allows to specify the CQG symbol id of the option.
Use the drop down fields and the strike field to specify the desired option.
Depending on the underlying the strike price contains 3 to 5 digits. See below for various examples.
You might also directly enter the id into the “Resulting Symbol” field, given you have the id at hand.
Click “OK” when ready.



The option can now be used just like any other symbol. To trade it, drag & drop it into a CQG account.



Options and CQG M

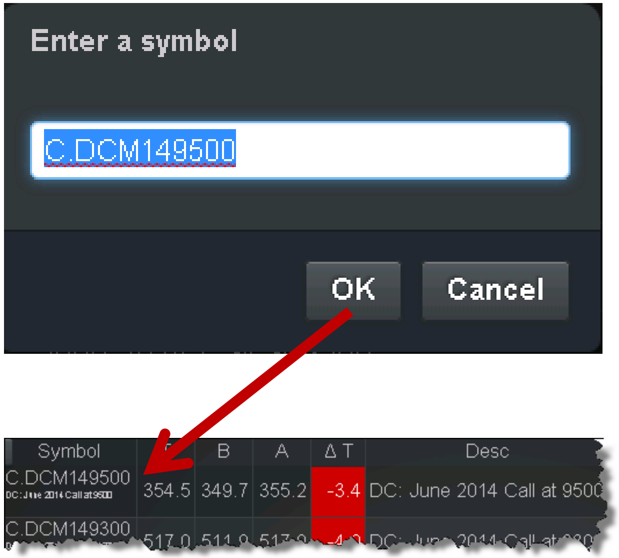
Trading options in CQG M is very easy and straight-forward.

Important is to know the way the symbol for a specific option is build up inside the trading environment. Similar to WHSFutureStation NANO the complete symbol is build up out of the following elements:

- CALL(C) or PUT(P)
- CQG symbol for the underlying
- Expiration month and year
- Strike price

C . DCM149500

The CQG M however does not offer the convenient selection tool that NANO has. The inputs need to be entered manually.
Example:
To get a quote for the 9500 CALL on the FDAX with expiration in June 2014. We need to break it down to:



Month codes:

January	***F*** *+ Year*
February	***G*** *+ Year*
March	***H*** *+ Year*
April	***J*** *+ Year*
May	***K*** *+ Year*
June	***M*** *+ Year*
July	***N*** *+ Year*
August	***Q*** *+ Year*
September	***U*** *+ Year*
October	***V*** *+ Year*
November	***X*** *+ Year*
December	***Z*** *+ Year*

Note that the C or P for Call or Put is followed by a "."
The rest is connected, no spaces nor punctuation marks.

To know the CQG symbol of the underlying, please use:
http://www.cqg.com/docs/symbols.pdf

To know the symbol for the month, please use the table on the left

Q / What is the type of account that I need to trade options?
A CFDFX Options can be traded with a normal CFDFX account. To trade options on Futures, a Futures account with CQG data feed is obligatory. If you do not see the options in your platform, please contact the support desk as the necessary permissions may be missing for your account.
Q / What is an option?
An option is a contract between a buyer and a seller for the right to buy or sell an underlying financial product at a specific price on a particular date.
Q / What's a call and what's a put?
A call is an option for the right to buy an underlying.
If the trader anticipates that the price of the underlying will rise, they may take advantage of that movement by buying a call.
A put is an option for the right to sell the underlying.
If the trader anticipates that the price of the underlying will fall, they may take advantage of that movement by buying a put.
In both of these scenarios, the trader becomes the holder, the person who will have the right to buy or sell the underlying.
The seller becomes the writer of your call or put and they would be required to honor the terms of your option.
Q / But I can also sell a call or put, right?
That's correct. In the scenarios in the previous question, you are buying or going long on a call or put.
If you are going long a call or a put, you can close out of your position before expiry by selling your call or put.

	PUT	CALL
BUYER	Right to Sell	Right to Buy
SELLER	Obligation to Buy	Obligation to Sell

Q / When can I trade options?
Depending on the exchange at which it is listed, the option will have specific trading hours. Please refer to the official website of the exchange for up-to-date information.
Q / What is the option expiry?
The EXPIRY or the expiration date is the date in the option contract when the option expires. Expiry date is not per definition the same as exercise date. American style options allow exercise during the whole lifetime of the option. Therefore exercise date can be prior to the predefined expiry date. Please refer to the official website of the exchange for up-to-date information on exact expiration times and dates and the settlement procedures after exercise and/or expiry.
Q / Can I exercise an option before the expiry?
Yes, in the case of an American Style option. Most US markets will use this system. Options on miniS&P Futures for example are Americal Style, so the exercise of them can take place at any given moment during the lifetime of that option when in the money. European exchange will rather offer European Style options, which mean they can only be exercised on expiration date in case they expired in the money. On CFDFX the European Style is being used across the board.
Q / What is the strike of an option?
The strike price is the specific price in the option contract that your buy or sell forex position would be opened at on the expiry if your option was in-the-money.
Q / Can I pick any strike price?
WHS will offer a number of fixed strikes for each underlying available. Strikes are selected at convenient intervals within the likely range of the underlying. For exchange traded products, the exchange itself will define available strike prices. For CFDFX products, WHS will define them.
Q / Why does the premium change on my option?
When you open an option, you'll notice the value of the premium changes over time.
Many factors may have an impact on the price of an option: the price of the underlying, interest rates, the strike price, volatility and the amount of time until expiration.
Q / Why does the expiry date have an impact on premium?
Time value is one of two components in an option's premium. When an option has a lot of time before it expires, it is considered to have a greater chance of ending up in-the-money. That's why options with a lot of time have a higher time value. As the option gets closer to its expiry, the time value of the premium will drop because there's less time in the option.

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Practical examples

Options trades alongside normal Futures positions inside WHSFutureStation NANO

CQG - ZM001 [356734]

Name	Buy	Sell	Exit	Position	Traded	Bid	Ask	Last	P/L	Cum. P/L	Study: State
C FESX MAY 14 3200	Buy	Sell	Exit	-1	10.30	10.30	11.80		0.00	0.00	n/a - Drag & Drop a ...
FESX JUN 14	Buy	Sell	Exit	1	3184	3183	3184	3183	-10.00	0.00	n/a - Drag & Drop a ...

Options trades alongside normal Futures positions in the Daily Account Statement

Date	Open Position	Trade Price	Current Price	Curr	Market Revaluation	Option P&L or Prem Value(*)
	DOW JONES EURO STOXX 50 10 ERX					
14MAY14	S 1 MAY14 3200.00 Call	10.30	13.90	EUR	-139.00	-36.00
	NET -1 AVG SOLD 10.30				**-139.00**	**-36.00**
14MAY14	B 1 JUN14	3184.00	3189.00	EUR	50.00	
	NET +1 AVG BGHT 3184.00				**50.00**	**0.00**

OPEN POSITION VALUE

		EUR
Dow Jones EURO Stoxx 50	FUTURES	-31,840.00
Dow Jones EURO Stoxx 50	OPTIONS	103.00

MARKET REVALUATION BREAKDOWN

Variation Margins - Fut & Fut Style Options		Amount	Profit / Loss	**Total Amount**	**Total P&L**
EDOX - Futures	EUR	50.00	50.00	**50.00**	**50.00**
Net Premium Options Market Value					
EDOX - Options	EUR	-139.00	-36.00	**-139.00**	**-36.00**