

Making Your First Trade

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Options involve risks and are not suitable for everyone. Individuals should not enter into options transactions until they have read and understood the risk disclosure document, *Characteristics and Risks of Standardized Options*, available by visiting OptionsEducation.org. To obtain a copy, contact your broker or The Options Industry Council at 125 S. Franklin St., Suite 1200, Chicago, IL 60606

In order to simplify the computations used in the examples in these materials, **commissions, fees, margin, interest and taxes have not been included.** These costs will impact the outcome of any stock and options transactions and must be considered prior to entering into any transactions. Investors should consult their tax advisor about any potential tax consequences.

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Presentation Outline

- Cycles & Chains
- Order Types
- Open Interest
- Contract Adjustments



Cycles & Chains

Expiration Cycles

When the listed options market began all equity option classes were assigned into one of three cycles:

Quarterly Cycles	Expiration Cycle Months
January Cycle (Cycle 1)	January, April, July, October
February Cycle (Cycle 2)	February, May, August, November
March Cycle (Cycle 3)	March, June, September, December

- Two nearest-term, consecutive calendar months + next two farther-term quarterly cycle months
- More frequently traded securities list many, many more expiry's (determined by Exchange)

Expiration Cycles

- Let's look at an example: XYZ is a **Cycle 2** option and it's now December. Which months are available to trade and which will be added next?

Quarterly Cycles	Expiration Cycle Months
January Cycle (Cycle 1)	January, April, July, October
February Cycle (Cycle 2)	February, May, August, November
March Cycle (Cycle 3)	March, June, September, December

- Two near-term months are **December** and **January**
- Next two farther-term cycle months are **February** and **May**
- After December expires, **August** would be added

Option Chains

What are they?

- Array of information detailing all options available to trade in a security

What do they tell us?

- In addition to available strikes, chains can detail current bid/ask market and size, volume, open interest, IV, Greeks, etc.

Where to find them?

- Online trading sites, brokerage platforms, and OIC Quotes page (OptionsEducation.org)

Option Chains

Symbol: Apply to: Detailed Options Chains Symbol lookup

[Stock Quotes](#) | [Detailed Options Chains](#) | [Historical Volatility](#) | [Quotes Home](#)

20-minutes delayed data - Provided by IVolatility.com

Options Root:

Price	Change (%)	52 wk High	52 wk Low	Stock Volume <input type="text" value="65688789"/>	Avg. options volume <input type="text" value="2,490,080"/>	Avg. options open interest <input type="text" value="22,217,760"/>
311.93	↓ -0.09 (-0.03%)	312.56 19-Nov	234.34 24-Dec			

ATM ATM+OTM ATM+ITM All near-the-money

Expiration Call Put Call & Put

Expiry: Dec 20, 2019 Days: 31

Strike	Option Symbol	Bid/Ask Mean	Bid	Ask	Change (%)	Volume	Open Interest	Implied Vola%	Delta	Gamma	Theta	Alpha	Vega	Rho
311.0	C XYZ	4.545	4.52	4.57	-0.19 (-4.11)	5834	48,942	11.90%	0.5236	0.0367	-0.0645	-0.5693	0.3609	0.1348
	P XYZ	4.005	3.98	4.03	0.14 (3.62)	6226	9,442	11.73%	-0.4739	0.0374	-0.0724	-0.5168	0.3618	-0.1263
312.0	C XYZ	3.885	3.86	3.91	-0.19 (-4.66)	6038	30,401	11.43%	0.4857	0.0383	-0.0623	-0.6148	0.3614	0.1253
	P XYZ	4.415	4.39	4.44	0.14 (3.40)	5432	10,239	11.46%	-0.5118	0.0384	-0.0713	-0.5381	0.3615	-0.1364

Order Types and Open Interest



Order Types

Buy to Open: Purchase transaction to create or add to a long options position

Buy to Close: Purchase transaction to exit or reduce a short options position

Sell to Open: Sale transaction to create or add to a short options position

Sell to Close: Sale transaction to exit or reduce a long options position



Order Types

Market Order: An order placed with a broker to immediately buy or sell a stock or option at the best available price.

Limit Order: An order placed with a broker to buy or sell stock or options at a specific price.

Expiry: Dec 20, 2019		Days: 31		
Strike ?	Option Symbol	Bid/Ask Mean	Bid	Ask
311.0	C XYZ	4.545	4.52	4.57
	P XYZ	4.005	3.98	4.03
312.0	C XYZ	3.885	3.86	3.91
	P XYZ	4.415	4.39	4.44

Open Interest

- Total number of open contracts carried over from the close of one business day to the open of the next
- Can be used to spot trends in the market but, can also be misleading

If Buy is:		And Sell is:	Open Interest then:
To Open	+	To Open	Increases by 1
To Open	+	To Close	No change
To Close	+	To Open	No change
To Close	+	To Close	Decreases by 1

How Does Your Trade Affect Your Account Balance?

	Cash	Position	Account Balance
Jun 35 put quoted \$2.75b/\$2.85a Sell to open 1 Jun 35 put at \$2.75	+\$275 (\$2.75 x 1 x \$100)	-1 Jun 35p (\$2.85 x 1 x \$100)	-\$10 (\$275 - \$285)
Three weeks later, the market for the Jun 35 put is \$1.55b/\$1.65a	+\$275	-1 Jun 35p (\$1.65 x 1 x \$100)	+\$110 (\$275 - \$165)
June 35 put expires out of the money & worthless	+\$275	No option position	+\$275

Excluding commissions, fees, etc.

The above transaction reflects selling a put to open

Selling a cash covered or naked put will have an associated cash/margin requirement

Contract Adjustments

Corporate Actions can result in option contract adjustments:

- *Certain stock splits (odd splits and reverse splits)*
- *Certain special dividends/distributions*
- *Mergers*

Result is a change in option symbol and potential change in options components (quantity, multiplier, deliverable, etc.)

- ***Refer to OCC Information Memos for contract adjustment specifics***
- ***OCC Investor Services investorservices@theocc.com***