

Index

A

Accounts:

- customer, 107–108
- customer option, 104–106
- discretionary, 106
- institutional customer, 108
- margin, *see* Margin accounts
- proprietary trading, 108

Account statements, 109–110

Account supervision, 103–117

- of account statements, 109–110
- of communications with public, 111–114
- of customer accounts, 107–108
- and customer complaints, 110–111
- of customer confirmations, 109–110
- and duties of ROSFPs, 103–104
- and FINRA Rule 2210, 112–114
- and large option position reporting requirements, 108–109
- and option account compliance, 104–106
- of option agreements, 106
- pretest, 115–117

Agreements, option, 106

All or none (AON) orders, 82

American exercise:

- European vs., 85–86
- of foreign currency options, 67

Analyzing price spreads, 36–49

AON (all or none) orders, 82

At the money options, 12

B

Bear call spreads, 39–41

Bearish, options as, 3

Bear put spreads, 41–43

Binary options, 69

Board brokers, 77

Breakeven point:

- for bear call spreads, 40
- for bear put spreads, 42
- for bull call spread, 38
- for bull put spreads, 44
- for credit put spreads, 44
- for debit call spread, 38
- for debit put spreads, 42
- for long calls, 6
- for long puts, 9
- for long stock long puts, 20
- for long stock short calls, 22
- for long straddles, 31
- for short calls, 7–8
- for short puts, 10–11
- for short stock long calls, 25
- for short stock short puts, 27
- for short straddles, 33

Broad-based options, 85

Brokers:

- board, 77
- commission house, 78
- spread, 79
- two-dollar, 78–79

Bull call spreads:

- analyzing, 36–39
- on T charts, 53–54

Bullish, options as, 2

Bull put spreads, 43–45

Butterfly spreads, 46–47

Buy limit orders, 81

Buy stop orders, 81–82

C

Calendar spreads, 35

Calls:

- buying, 5–6
- covered, taxation of, 95
- defined, 1

foreign currency, 66–67

foreign currency puts and, 66–67

margin requirements when

exercising, 96

margin requirements when writing,

96–97

selling, 6–8

taxation when exercising, 94

on T charts, 50

Capped index options, 61–62

Capped put options, 61–62

Capping, 108

Cash (settlement option), 60

CBOE, *see* Chicago Board Option Exchange

Characteristics and Risks of

Standardized Options (OCC), 76

Chicago Board Option Exchange

(CBOE):

- binary options on, 69
- as options marketplace, 77–79
- weekly options introduced by, 68

Closing option prices, 79

Combinations, 48–49

Commission house brokers, 78

Communications:

- correspondence, 114
- institutional, 113
- with public, 111–114
- retail, 112–113

Complaints, customer, 110–111

Computer technology (XCT), 59

Condor spreads, 47–48

Confirmations, customer, 109

Correspondence, 114

Covered calls, 21–24

- customers approved to write, 105
- margin requirements for, 96–97
- taxation of, 95

- Covered puts, 97–98
 - Credit put spreads, 43–45
 - Credit spreads, 98
 - Currency markets, 64
 - Currency options, 64–67
 - buying foreign currency calls and puts, 66–67
 - and currency markets, 64
 - foreign, 65–66
 - pretest, 72–73
 - and spot rates, 64–65
 - Currency transactions, 64
 - Customers:
 - approved to write covered calls, 105
 - approved to write uncovered calls, 105–106
 - institutional, 108
 - Customer accounts, 107–108
 - Customer complaints, 110–111
 - Customer confirmations, 109
 - Customer information, 104–105
 - Customer option accounts, 104–106
 - Customer orders, 80
- D**
- Day orders, 80
 - Debit call spreads, 36–39
 - Debit put spreads, 41–43
 - Debit spreads, 98
 - Diagonal spreads, 35–36
 - Discretionary accounts, 106
 - Dow Jones Industrial Average (DJIA), 59
 - Dow Jones Industrials (DJX), 59
 - DRG (pharmaceutical index), 59
- E**
- Electronic system, 80
 - ETFs (exchange-traded funds), 76
 - European exercise:
 - American vs., 85–86
 - of foreign currency options, 67
 - Exchanges, 76–77
 - Exchange-traded funds (ETFs), 76
 - Executable limit orders, 80
 - Exercise:
 - American vs. European, 85–86
 - of calls, and taxation, 94
 - of calls, margin requirements for, 96
 - of foreign currency options, 67
 - of index options, 60–61
 - in options marketplace, 85
 - as outcome of options, 3
 - of puts, and taxation, 95
 - of puts, margin requirements for, 96
 - Exercise limits, 86
- Exercise price, 4
- Expirations:
 - of foreign currency options, 67
 - in options marketplace, 85
 - as outcome of options, 4
- Exporters, 66
- F**
- Fast markets, 79–80
 - Fill or kill (FOK) orders, 83
 - FINRA Rule 2210, 112–114
 - Flex options, 68
 - FOK (fill or kill) orders, 83
 - Foreign currency calls and puts, 66–67
 - Foreign currency options, 65–66
 - Forward stock splits, 86–87
 - Forward transactions, 64
- G**
- Good til cancel (GTC) orders, 80
- H**
- Hedge:
 - investor's use of, 29
 - options as, 19
 - Holding period, 94
- I**
- Immediate or cancel (IOC) orders, 82
 - Importers, 66
 - Index options, 59–62
 - capped, 61–62
 - exercising, 60–61
 - positions, 61
 - pretest, 72
 - settlement of, 60
 - Index options positions, 61
 - Information, from customer, 104–105
 - Institutional communications, 113
 - Institutional customers, 108
 - Institutional customer account, 108
 - Interbank market, 64
 - Interest rate options, 62–64
 - pretest, 71–73
 - price-based, 62–63
 - rate-based, 63–64
 - In the money options, 11–12
 - Intrinsic value, 13
 - Investors, 66–67
 - IOC (immediate or cancel) orders, 82
- L**
- Large option positions, 108–109
 - Large option position reports (LOPRs), 108–109
- LEAPS (long-term equity anticipation securities), 93
- Limited power of attorney, 106
- Listed options, 76
- Live orders, 81
- Long stock, 34
- Long stock long puts:
 - as strategy, 19–21
 - on T charts, 51–52
- Long stock short calls:
 - as strategy, 21–24
 - on T charts, 51
- Long straddles:
 - as multiple positions, 29–31
 - on T charts, 53
- Long-term equity anticipation securities (LEAPS), 93
- LOPRs (large option position reports), 108–109
- M**
- Margin accounts:
 - short positions executed in, 98
 - spread positions established in, 98
 - uncovered calls executed in, 97
 - Margin requirements, 95–98
 - pretest, 101–102
 - when establishing spreads, 98
 - when exercising calls, 96
 - when exercising puts, 96
 - when writing calls, 96–97
 - when writing puts, 97–98
 - Markets:
 - currency, 64
 - fast, 79–80
 - interbank, 64
 - options, 76–77
 - Market orders, 80
 - Market volatility options (VIX), 67
 - Married puts, 19–21
 - Maximum gain:
 - for bear call spreads, 39
 - for bear put spreads, 41–42
 - for bull call spread, 37
 - for bull put spreads, 43–44
 - for credit put spreads, 43–44
 - for debit call spread, 37
 - for debit put spreads, 41–42
 - for long calls, 5
 - for long puts, 8
 - for long stock long puts, 20
 - for long stock short calls, 22–23
 - for long straddles, 30
 - for short calls, 7
 - for short puts, 10

- for short stock long calls, 25–26
- for short stock short puts, 28
- for short straddles, 32
- Maximum loss:
 - for bear call spreads, 39–40
 - for bear put spreads, 42
 - for bull call spread, 37
 - for bull put spreads, 44
 - for credit put spreads, 44
 - for debit call spread, 37
 - for debit put spreads, 42
 - for long calls, 5–6
 - for long puts, 9
 - for long stock long puts, 20–21
 - for long stock short calls, 23–24
 - for long straddles, 30–31
 - for short calls, 7
 - for short puts, 10
 - for short stock long calls, 26–27
 - for short stock short puts, 29
 - for short straddles, 32
- Maximum spreads, 77
- Multiple option positions, 29–34
- N**
- Naked options, 45
- Narrow-based options, 85
- Nasdaq 100 (NDX), 59
- Not held (NH) orders, 83
- O**
- OCC, *see* Option Clearing Corporation
- OEX (S&P 100), 59
- Oil index (OIX), 59
- Opening option prices, 79
- Options, 1–18
 - binary, 69
 - broad-based, 85
 - as bullish vs. bearish, 2–3
 - buying calls, 5–6
 - buying puts, 8–9
 - capped index, 61–62
 - capped put, 61–62
 - characteristics of, 4
 - classification of, 1–2
 - currency, *see* Currency options
 - defined, 1
 - exercise price of, 4
 - flex, 68
 - foreign currency, 65–66
 - as hedge, 19
 - index, *see* Index options
 - interest rate, *see* Interest rate options
 - intrinsic value and time value of, 13
 - listed, 76
 - managing option position, 4–5
 - at the money, 12
 - in the money, 11–12
 - naked, 45
 - narrow-based, 85
 - opening and closing prices of, 79
 - outcomes for, 3–4
 - premiums, 11–12
 - pretest, 15–18
 - price-based, 62–63
 - rate-based, 63–64
 - selling calls, 6–8
 - selling puts, 9–11
 - specialized, 76
 - standardized, 76
 - VIX, 67
 - weekly, 68–69
- Option (market volatility options), 67
- Option account compliance, 104–106
- Option agreements, 106
- Option classes, 2
- Option Clearing Corporation (OCC):
 - function of, 75–76
 - standardized options guaranteed by, 4
- Options market makers, 78
- Options marketplace, 75–92
 - American vs. European exercise in, 85–86
 - CBOE, 77–79
 - exchanges as, 76–77
 - expiration and exercise in, 85
 - fast markets and trading halts, 79–80
 - and OCC, 75–76
 - opening and closing option prices in, 79
 - and option order tickets, 84–85
 - order execution in, 80
 - position and exercise limits in, 86
 - pretest, 89–92
 - priority of orders in, 83
 - and stock dividends, 86–87
 - and stock splits, 86–87
 - and trade reporting, 83–84
 - types of orders in, 80–83
- Option orders, 106
- Option order tickets, 84–85
- Option positions:
 - large, reporting requirements of, 108–109
 - managing, 4–5
 - multiple, strategies and, 29–34
 - taxation when closing, 94
 - T chart to evaluate, 49–54
- Option premiums, 11–12
- Option series, 2
- Orders, 80–83
 - AON, 82
 - buy limit, 81
 - buy stop, 81–82
 - customer, 80
 - day, 80
 - executable limit, 80
 - FOK, 83
 - GTC, 80
 - IOC, 82
 - live, 81
 - market, 80
 - NH, 83
 - option, 106
 - priority of, in options marketplace, 83
 - sell limit, 81
 - sell stop, 82
 - spread, 83
 - stop, 81
 - stop limit, 82
 - stop loss, 81
- Order book official, 77
- Order execution, 80
- OTC (over the counter), 76
- Outcomes, of options, 3–4
- Out of the money options, 12
- Over the counter (OTC), 76
- P**
- Pegging, 108
- Pharmaceutical index (DRG), 59
- Philadelphia Stock Exchange (PHLX), 65
- Positions:
 - index options, 61
 - large option, 108–109
 - managing option, 4–5
 - multiple option, 29–34
 - short, 98
 - spread, 98
 - taxation when closing option, 94
- Position limits, 86
- Power of attorney, limited, 106
- Premiums:
 - option, 11–12
 - price-based options, 62–63
 - spread, *see* Spread premium
- Prices:
 - closing option, 79
 - exercise, 4
 - opening option, 79
 - strike, 4
- Price-based options, 62–63

- Price spreads:
 analyzing, 36–49
 defined, 35
- Priority of orders, 83
- Proprietary trading account, 108
- Protective puts, 95
- Puts:
 buying, 8–9
 capped, 61–62
 covered, 97–98
 defined, 1
 foreign currency calls and, 66–67
 margin requirements when exercising, 96
 margin requirements when writing, 97–98
 married, 19–21
 protective, 95
 selling, 9–11
 taxation when exercising, 95
 on T charts, 50
 uncovered, 98
- R**
- Rate-based options, 63–64
- Ratio call writing, 24
- Ratio spreads, 45
- Registered option and security futures principals (ROSFs), 103–104
- Regulation T, 96
- Retail communications, 112–113
- Reward, 49
- Risk, 49
- Risk disclosure document, 105–106
- ROSFs (registered option and security futures principals), 103–104
- Rotation, in option market, 79
- S**
- Sale, as options outcome, 3
- Sell limit orders, 81
- Sell stop orders, 82
- Semiconductor index (SOX), 59
- Settlement (index options), 60
- Short stock long calls:
 as strategy, 24–27
 on T charts, 52
- Short stock short puts:
 as strategy, 27–29
 on T charts, 52–53
- Short straddles, 32–34
- SOX (semiconductor index), 59
- S&P 100 (OEX), 59
- S&P 500 (SPX):
 as broad-based index, 59
 and VIX, 67
- Specialists, 78
- Specialist system, 77
- Specialized options, 76
- Spot rates, 64–65
- Spot transactions, 64
- Spreads, 34–36
 analyzing price, 36–49
 bear call, 39–41
 bear put, 41–43
 bull call, 36–39, 53–54
 bull put, 43–45
 butterfly, 46–47
 calendar, 35
 condor, 47–48
 credit, 98
 credit put, 43–45
 debit, 98
 debit call, 36–39
 debit put, 41–43
 diagonal, 35–36
 margin requirements when establishing, 98
 maximum, 77
 price, 35–49
 ratio, 45
 time, 35
 variable, 45
 vertical, 35
- Spread brokers, 79
- Spread orders, 83
- Spread premium:
 for bear call spreads, 40–41
 for bear put spreads, 42–43
 for bull call spread, 38–39
 for bull put spreads, 44–45
 for credit put spreads, 44–45
 for debit call spread, 38–39
 for debit put spreads, 42–43
- SPX, *see* S&P 500
- Standard and Poor's, *see* S&P 500
- Standardized options, 76
- Statements, account, 109–110
- Stock dividends, 86–87
- Stock splits, 86–87
- Stop limit orders, 82
- Stop loss orders, 81
- Stop orders, 81
- Straddles, 34
 long, 29–31, 53
 selling, against long stock, 34
 short, 32–34
- Strategies, 19–58
 analyzing price spreads, 36–49
 long stock long puts, 19–21
 long stock short calls, 21–24
 multiple option positions and, 29–34
 options as hedge, 19
 pretest, 55–58
 short stock long calls, 24–27
 short stock short puts, 27–29
 spreads, 34–36
 T chart to evaluate, 49–54
- Strike price, 4
- Synthetics (term), 49
- T**
- Taxation, 93–95
 of covered calls, 95
 pretest, 99–101
 of protective puts, 95
 when closing option positions, 94
 when exercising calls, 94
 when exercising puts, 95
- T charts, 49–54
- Time spreads, 35
- Time value, 13
- Trade reporting, 83–84
- Trading halts, 79–80
- Transactions:
 currency, 64
 forward, 64
 spot, 64
- Treasury bills, 62–64
- Treasury bonds, 62–64
- Treasury notes, 62–64
- Two-dollar brokers, 78–79
- U**
- Uncovered calls:
 customers approved to write, 105–106
 margin requirements for, 97
- Uncovered puts, 98
- V**
- Variable spreads, 45
- Vertical spreads, 35
- W**
- Weekly options, 68–69
- Writing:
 of calls, 96–97
 of puts, 97–98
- X**
- XCT (computer technology), 59