

The NFA logo consists of the letters "NFA" in a bold, blue, sans-serif font, enclosed within a thin, yellow, curved line that arches over the letters.

NFA

NATIONAL  
FUTURES  
ASSOCIATION

A man in a black suit is walking a tightrope high above a city. He is holding a black umbrella over his head. To his right, a woman in a white shirt and green pants is walking on a narrow ledge of a building. The background shows a cityscape with buildings and a blue sky with light clouds.

# *Opportunity* AND *Risk*

An Educational Guide to  
Trading  
Options on  
Futures

National Futures Association is a congressionally authorized self-regulatory organization of the United States futures industry. Its mission is to provide innovative regulatory programs and services that protect investors and ensure market integrity.

NFA has prepared this book as part of its continuing public education efforts to provide information to potential investors. The booklet provides a necessary overview of the opportunities and risks in trading futures and options on futures by presenting important information that investors need to know before they invest.

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Chicago, IL 60606  
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Lenz Design • Chicago, Illinois • [www.lenzdesign.com](http://www.lenzdesign.com)

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Philip Nicholson • Varberg, Sweden • [www.illustrations.se](http://www.illustrations.se)

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# *Opportunity* AND *Risk*

An Educational Guide to  
Trading Futures  
and  
Options on Futures

# *Opportunity* AND *Risk*

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# Introduction

For nearly a century and a half, futures markets have fulfilled an important economic function: providing an efficient and effective mechanism for the management of price risks. Beginning with agricultural futures contracts traded on the Chicago Board of Trade in 1865, the U.S. futures markets now list an ever-expanding number of instruments, including metals, energy, financial instruments, foreign currencies, stock indexes, prediction markets and event futures. Additionally, the industry introduced trading in options on futures contracts in 1982.

Just as the types of instruments traded on futures exchanges have evolved, so has the method of trading those instruments. Until the 1990s, futures trading was conducted primarily on the floor of the exchanges. Traders crowded into trading “pits” or “rings”, shouting and signaling bids and offers to each other. This type of trading, known as open-outcry, resulted in competitive, organized price discovery.

In the 1990s, exchanges introduced electronic trading on certain contracts during off-exchange hours. Since then, electronic trading has expanded to include side-by-side open outcry and electronic trading, as well as contracts that are exclusively traded electronically. Futures trading has truly become a 24 hours a day, seven days a week financial marketplace.

Participants in today’s futures markets include mortgage bankers as well as farmers, bond dealers

*mortgage bankers*

*bond dealers*



## Who Trades?

as well as grain merchants, lending institutions and individual speculators. By buying or selling futures contracts—contracts that establish a price level now for items to be delivered later—individuals and businesses seek to achieve what amounts to insurance against adverse price changes. This is called hedging.

Other futures market participants are speculative investors who accept the price risks that

hedgers seek to avoid. Most speculators have no intention of making or taking delivery of the commodity. They seek instead to profit from a change in the price. That is, they buy when they anticipate rising prices and sell when they anticipate declining prices. The interaction of hedgers and speculators helps to provide active, liquid and competitive markets.

Speculative participation in futures trading has become increasingly widespread with the availability of alternative methods of participation. Whereas many futures traders continue to prefer to make their own trading decisions—such as what to buy and sell and when to buy and sell—others choose to utilize the services of a professional trading advisor, or to avoid day-to-day trading responsibilities by establishing a fully managed trading account or participating in a commodity pool which is similar in concept to a mutual fund.

For those individuals who fully understand and can afford the risks which are involved, the allocation of some portion of their capital to futures trading can provide a means of achieving greater diversification and a potentially higher overall rate of return on their investments. There are also a number of ways in which futures can be used in combination with stocks, bonds and other investments.

**Speculation in futures contracts, however, is clearly not appropriate for everyone. Just as it is possible to realize substantial profits in a short period of time, it is also possible to incur substantial losses in a short period of time.**

The possibility of large profits or losses in relation to the initial commitment of capital stems principally from the fact that futures trading is a highly leveraged form of speculation. Only a relatively small amount of money is required to control assets having a much greater value. As we will discuss and illustrate, the leverage of futures trading can work for you when prices move in the direction you anticipate or against you when prices move in the opposite direction.

The pages which follow are intended to help provide you with the kinds of information you should obtain—and the questions you should seek answers to—before making any decisions to trade futures and/or options on futures.

Topics covered include:

- *The regulatory structure of the futures industry*
- *How to conduct a background check of a futures firm*
- *How futures contracts are traded*
- *The costs of trading*
- *How gains and losses are realized*
- *How options on futures are traded*
- *How to resolve futures-related disputes*

We have also included a Glossary at the back of this Guide for easy reference. In fact, we suggest that you become familiar with some of the terms included in the Glossary before continuing.

It is not the purpose of this Guide to suggest that you should—or should not—participate in futures and/or options on futures trading. That is a decision you should make only after consultation with your broker or financial advisor and in light of your own financial situation and objectives.

Finally, this Guide focuses primarily on exchange-traded futures and options on futures contracts. For information regarding off-exchange foreign currency (forex) futures and options, consult the NFA brochure “Trading in the Off-Exchange Foreign Currency Market: What Investors Need to Know.” The brochure is available free of charge on NFA’s Web site ([www.nfa.futures.org](http://www.nfa.futures.org)).



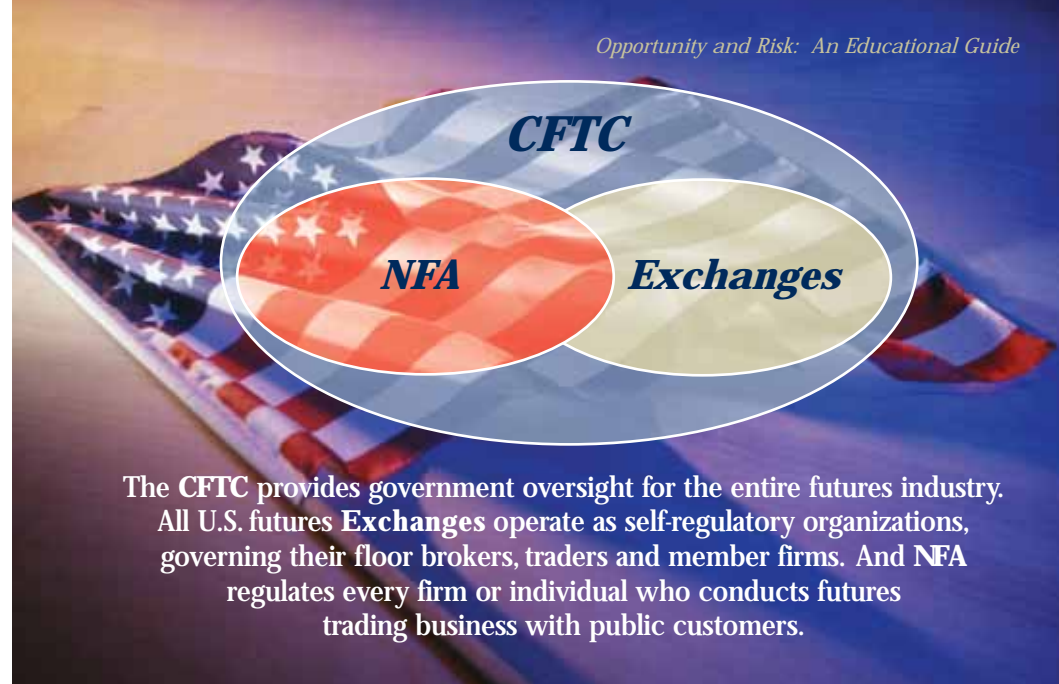
# How the Markets are Regulated

The U.S. futures industry has experienced unprecedented growth in trading volume over the past several years, reflecting the high level of trust and confidence that customers have in the marketplace. This confidence is due in part to a strong, effective regulatory structure that safeguards market integrity and protects investors. This regulatory structure has three main components.

**The Commodity Futures Trading Commission (CFTC).** In 1974 Congress established the CFTC, a federal regulatory agency with jurisdiction over futures trading. The enforcement powers of the CFTC are

similar to those of other major federal regulatory agencies, including the power to seek criminal prosecution by the Department of Justice where circumstances warrant such action.

**National Futures Association (NFA).** The same legislation authorized the creation of “registered futures associations,” giving the futures industry the opportunity to create a nationwide self-regulatory organization. NFA is the industrywide, self-regulatory organization for the U.S. futures industry. NFA’s mission is to develop rules, programs and services that safeguard market integrity, protect investors and help its Members meet their regulatory responsibilities. Firms and individuals that violate NFA rules of professional ethics and conduct or



## Regulatory Relationships

that fail to comply with financial and record-keeping requirements can, if circumstances warrant, be permanently barred from engaging in any futures-related business with the public.

**U.S. futures exchanges and clearing organizations.** Futures Commission Merchants (FCMs) which are members of an exchange are subject to not only CFTC and NFA regulation but also to regulation by the exchanges and clearing organizations of which they are members. Exchange and clearing corporation staffs are responsi-

ble, subject to CFTC oversight, for monitoring the business conduct and financial responsibility of their member firms. Violations of exchange rules can result in substantial fines, suspension or revocation of trading privileges, and loss of exchange or clearing corporation membership.

Although the various regulatory organizations in the futures industry have their own specific areas of authority, together they form a regulatory partnership that oversees all industry participants.

## Conducting Business with a Registered Firm

Membership in NFA is mandatory, assuring that everyone conducting business with the public on the U.S. futures exchanges—more than 4,000 firms and 55,000 associates—must adhere to the same high standards of professional conduct. You can quickly verify whether a particular firm or person is currently registered with the CFTC and is an NFA Member through NFA's Background Affiliation Status Information Center (BASIC), found on NFA's Web site ([www.nfa.futures.org](http://www.nfa.futures.org)).

BASIC contains current and historical registration informa-



tion concerning all current and former CFTC registrants, including name, business address and registration history in the futures industry. BASIC also contains information concerning disciplinary actions taken by NFA, the CFTC and all the U.S. futures exchanges. If you are researching a firm, you should also conduct a background check of all the individuals listed as principals of the firm, as well as the firm's salespeople.

**A BASIC background check will tell everything you need to know about the status of your financial firm or advisor ([www.nfa.futures.org](http://www.nfa.futures.org)).**

Sometimes the firm will have no disciplinary history, but one or more of the principals or salespeople may have been disciplined while working at other firms.

In addition, BASIC gives you details concerning NFA arbitration matters involving disputes between investors and NFA

Members if the case went to hearing and an award was issued after January 1, 1990. You will also find summary data concerning the number of cases filed by investors against registered firms and individuals with the CFTC reparations program.

# Introduction to Options on Futures

Although futures contracts have been traded on U.S. exchanges since 1865, options on futures contracts were not introduced until 1982. There are two styles of options—American and European. For the purposes of this discussion, we will focus on American-style options.

An option on a futures contract gives the option buyer the right—but not the obligation—to buy or sell a particular futures contract at a stated price at any time prior to a specified date. There are two types of options: calls and puts.

A call option conveys to the option buyer the right to pur-

chase a particular futures contract at a stated price at any time during the life of the option. A put option conveys to the option buyer the right to sell a particular futures contract at a stated

price at any time during the life of the option.

Options on futures contracts can offer a wide range of investment opportunities.

However, options trading is a speculative investment and should be treated as such. Even though the purchase of options on futures contracts limits your potential losses to the amount of the investment, it is nonetheless possible to lose your entire investment in a short period of time. And for investors who sell rather than buy options, there may be no limit at all to the size of potential losses.





## The Arithmetic of Option Premiums

An option premium is the price paid by the buyer of the option and received by the seller of the option. At the time you purchase a particular option, its premium cost may be \$1,000. A month or so later, the same option may be worth only \$800 or \$700 or \$600. Or it could be worth \$1,200 or \$1,300 or \$1,400.

Since an option is something that most people buy with the intention of eventually liquidating (hopefully at a higher price), it's important to have at least a basic understanding of the components which make up the premium. There are

two, known as intrinsic value and time value. The premium is the sum of these.

$$\text{Premium} = \text{Intrinsic Value} + \text{Time Value}$$

### Intrinsic Value

Intrinsic value is the amount of money that could currently be realized by exercising the option at its strike price and liquidating the acquired futures position at the present price of the futures contract

For example, at a time when a U.S. Treasury bond futures contract is trading at a price of 120-00, a call option conveying the right to purchase the futures contract at a below-the-market strike price of 115-00 would have an intrinsic value of \$5,000.

An option that currently has intrinsic value is said to be “in-the-money” (by the amount of its intrinsic value). An option that does not currently have intrinsic value is said to be either “at-the-money” or “out-of-the-money.”

For example, at a time when a U.S. Treasury bond futures contract is trading at 120-00, a call option with a strike price of 123-00 would be “out-of-the-money” by \$3,000.

### Time Value

Options also have time value. In fact, if a given option has no intrinsic value—currently “out-of-the-money”—its premium will consist entirely of time value.

Time value is the amount option buyers are presently willing to pay (and option sellers are willing to accept)—over and above any intrinsic value the option may have—for the specific rights that a given option conveys. It reflects, in effect, a

consensus opinion as to the likelihood of the option's increasing in value prior to its expiration.

The three principal factors that affect an option's time value are:



- 1 Time remaining until expiration.** Time value declines as the option approaches expiration. At expiration, it will no longer have any time value. (This is why an option is said to be a wasting asset.)
- 2 Relationship between the option strike price and the current price of the underlying futures contract.** The further an option is removed from being worthwhile to exercise—the further “out-of-the-money” it is—the less time value it is likely to have.

**3 Volatility.** The more volatile a market is, the more likely it is that a price change may eventually make the option worthwhile to exercise. Thus, the option's time value and premium are generally higher in volatile markets.

## Understanding Options Transaction Fees

Before you decide to buy and/or sell (write) options, you should understand the other costs involved in the transaction—commissions and fees.

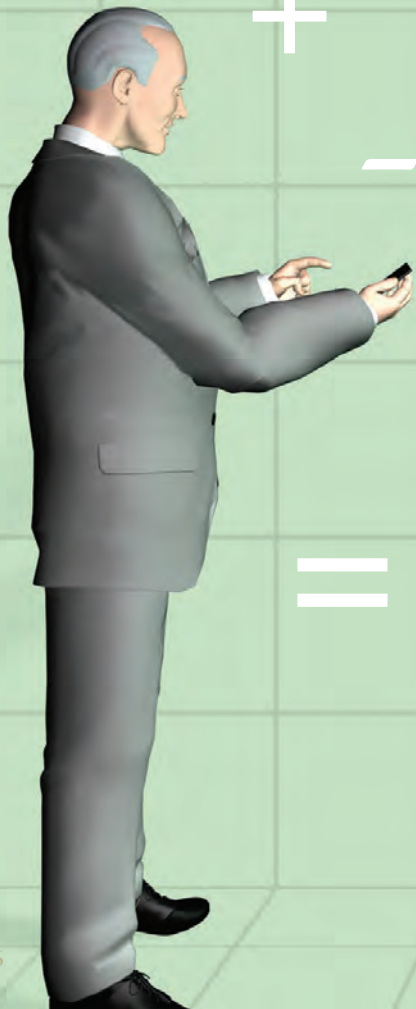
Commission is the amount of money, per option purchased or sold, that is paid to the brokerage firm for its services, including the execution of the order on the trading floor of the exchange. The commission charge increases the cost of purchasing an option and reduces the sum of money received from selling an option. In both cases, the premium and the commission should be stated separately.

Each firm is free to set its own commission charges, but the charges must be fully disclosed in a manner that is not misleading. In considering an

option investment, you should be aware that:

- Commission can be charged on a per-trade or a round-turn basis, covering both the purchase and sale.
- Commission charges can differ significantly from one brokerage firm to another.
- Some firms charge commissions per option transaction and others charge a percentage of the option premium, usually subject to a certain minimum charge.
- Commission charges based on a percentage of the premium can be substantial, particularly if the option is one that has a high premium.
- Commission charges can have a major impact on your chances of making a profit. A high commission charge reduces your potential profit and increases your potential loss.

You should fully understand what a firm's commission charges will be and how they're calculated. If the charges seem high—either on a dollar basis or as a percentage of the option premium—you might want to seek comparison quotes from one or two other firms. If a firm seeks to justify an unusually high commission charge on the basis of its services or performance record, you might want to ask for a detailed explanation or documentation in writing. In addition to commissions, some firms will include a separate charge for exchange and NFA fees.



## Leverage

Just as in futures trading, leverage plays an important role in trading options on futures. The premium paid for an option is only a small percentage of the value of the assets covered by the underlying futures contract. Therefore, even a small change in the futures contract price can result in a much larger percentage profit—or a much larger percentage loss—in relation to the premium. Consider the following example:

An investor pays \$200 for a 100-ounce gold call option with a strike price of \$500 an ounce at a time when the gold futures price is \$500 an ounce. If, at expiration, the futures price has risen to \$503 (an increase of less than one percent), the option value will increase by \$300 (a gain of 150 percent on your original investment of \$200).

But always remember that leverage is a two-edged sword. In the above example, unless the futures price at expiration had been above the option's \$500 strike price, the option would

have expired worthless, and the investor would have lost 100 percent of his investment plus any commissions and fees.

## Calculating the Break-Even Price

Before purchasing any option, it's essential to determine precisely what the underlying futures price must be in order for the option to be profitable at expiration (or whenever you choose to offset it). The calculation isn't difficult. All you need to know to figure a given option's break-even price is the following:

- The option's strike price;
- The premium cost; and
- Commission and other transaction costs.

Use the following formula to determine the break-even price for a call option if you are the purchaser:

$$\text{Option Strike Price} + \text{Option Premium} + \text{Commission \& Transaction Costs} = \text{Break-Even Price}$$

Example: It's January and the 1,000 barrel April crude oil futures contract is currently trading at around \$62.50 a barrel. Expecting a potentially significant increase in the futures price over the next several months, you decide to buy an April crude oil call option with a strike price of \$63. Assume the premium for the option is 95¢ a barrel and that the commission and other transaction costs are \$50, which amounts to 5¢ a barrel.

Before investing, you need to know how much the April crude oil futures price must increase by expiration in order for the option to break even or yield a net profit after expenses. The answer is that the futures price must increase to \$64.00 for you to break even and to above \$64.00 for you to realize any profit.

$$\begin{array}{r} \text{Option} \\ \text{Strike Price} \end{array} \quad \$63.00$$

$$\begin{array}{r} \text{Premium} \\ \text{Commission} \\ \text{\& Transaction Costs} \end{array} \quad \begin{array}{r} + .95 \\ + .05 \end{array}$$


---


$$\text{Break-Even Price} \quad \$64.00$$





The option will exactly break even if the April crude oil futures price at expiration is \$64.00 a barrel. For each \$1 a barrel the price is above \$64.00, the option will yield a profit of \$1,000.

If the futures price at expiration is \$64.00 or less, there will be a loss. But in no event can the loss exceed the \$1,000 total of the premium, commission and transaction costs.

The arithmetic for determining the break-even price for purchasing a put option is the same as for a call option except that instead of adding the premium, commission and transaction costs to the strike price, you subtract them.



$$\text{Option Strike Price} - \text{Option Premium} - \text{Commission \& Transaction Costs} = \text{Break Even Price}$$

Example: The price of gold is currently about \$500 an ounce, but during the next few months you think there may be a sharp decline. To profit from the price decrease if you are right, you consider buying a put option with a strike price of \$495 an ounce. The option would give you the right to sell a specific gold futures contract at \$495 an ounce at any time prior to the expiration of the option.

Assume the premium for the put option is \$3.70 an ounce (\$370 in total) and the commission and transaction costs are \$50 (equal to 50¢ an ounce).

For the option to break even at expiration, the futures price must decline to \$490.80 an ounce or lower.



*Option Strike Price*     \$495.00

*Premium*                     - 3.70

*Commission & Transaction Costs*     - .50

---

*Break-Even Price*     \$490.80

The option will exactly break even at expiration if the futures price is \$490.80 an ounce. For each \$1 an ounce the futures price is below \$490.80 it will yield a profit of \$100.

If the futures price at expiration is above \$490.80, there will be a loss. But in no case can the loss exceed \$420—the sum of the premium (\$370) plus commission and other transaction costs (\$50).



## Factors Affecting the Choice of an Option

If you expect a price increase, you'll want to consider the purchase of a call option. If you expect a price decline, you'll want to consider the purchase of a put option. However, in addition to price expectations, there are two other factors that affect the choice of option:

- The amount of time until the expiration of the option (time value); and
- The option strike price (intrinsic value).

### The length of an option

One of the attractive features of options is that they allow time for your price expectations to be realized. The more time you allow, the greater likelihood the option could eventually become profitable. This could influence your decision about whether to buy, for example, an option on a March futures con-

tract or an option on a June futures contract.

Bear in mind that the length of an option (such as whether it has three months to expiration or six months) is an important variable affecting the cost of the option. An option with more time commands a higher premium.

### The option strike price

The relationship between the strike price of an option and the current price of the underlying futures contract is, along with the length of the option, a major factor affecting the option premium. At any given time there may be trading in options with a half dozen or more strike prices—some of them below the current price of the underlying futures contract and some of them above.

A call option with a lower strike price will have a higher premium cost than a call option with a higher strike price because the lower strike price will more likely and more quickly

become worthwhile to exercise. For example, the right to buy a crude oil futures contract at \$61 a barrel is more valuable than the right to buy a crude oil futures contract at \$62 a barrel.

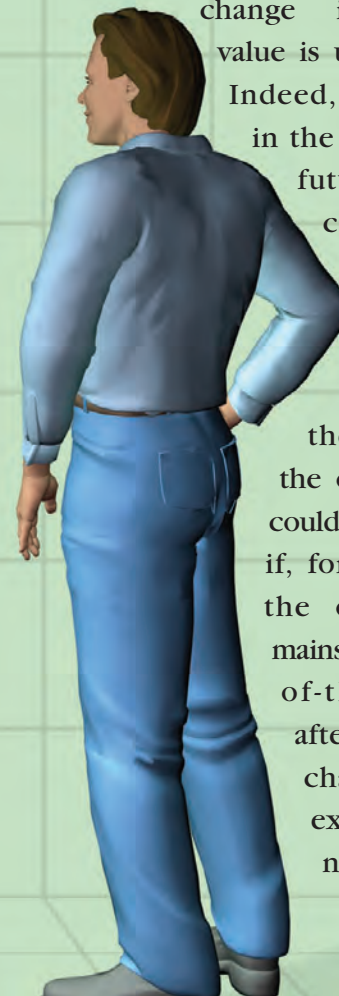
Conversely, a put option with a higher exercise price will have a higher premium cost than a put option with a lower exercise price. For example, the right to sell a crude oil futures contract at \$62 a barrel is more valuable than the right to sell a crude oil futures contract at \$61 a barrel.

While the choice of a call option or put option will be dictated by your price expectations and your choice of expiration month by when you look for the expected price change to occur, the choice of strike price is somewhat more complex. That's because the strike price will influence not only the option's premium cost but also how the value of the option, once purchased, is likely to respond to subsequent changes in the underlying futures contract price. Specifically, options

that are out-of-the-money do not normally respond to changes in the underlying futures price the same as options that are at-the-money or in-the-money.

Generally speaking, premiums for out-of-the-money options do not reflect, on a dollar for dollar basis, changes in the underlying futures price. The change in option value is usually less.

Indeed, a change in the underlying futures price could have little effect, or even no effect at all, on the value of the option. This could be the case if, for instance, the option remains deeply out-of-the-money after the price change or if expiration is near.



## After You Buy an Option

At any time prior to the expiration of an option, you can:

- Offset the option;
- Continue to hold the option; or
- Exercise the option.

### Offset the Option

Liquidating an option in the same marketplace where it was bought is the most frequent method of realizing option profits. Liquidating an option prior to its expiration for whatever value it may still have is also a way to reduce your loss (by recovering a portion of your investment) in case the futures price hasn't performed as you expected it would, or if the price outlook has changed.

In active markets, there are usually other investors who are willing to pay for the rights your option conveys. How much they are willing to pay (it may be more or less than you paid) will depend on (1) the current futures price in relation to the option's strike price, (2) the length of time still remaining until expiration of the option and (3) market volatility.

Net profit or loss, after allowance for commission charges and other transaction costs, will be the difference between the premium you paid to buy the option and the premium you receive when you liquidate the option.

Example: In anticipation of rising sugar prices, you bought a call option on a sugar futures contract. The premium cost was \$950 and the commission and transaction costs were \$50. Sugar prices have subsequently risen and the option now commands a premium of \$1,250. By liquidating the option at this price, your net gain is \$250. That's the selling price of \$1,250 minus the \$950 premium paid for the option minus \$50 in commission and transaction costs.

<i>Premium paid for option</i>	<i>\$ 950</i>
<i>Premium received when option is liquidated</i>	<i>\$ 1,250</i>
<i>Increase in premium</i>	<i>\$ 300</i>
<i>Less transaction costs</i>	<i>\$ 50</i>
<hr/>	
<i>Net profit</i>	<i>\$ 250</i>

You should be aware, however, that there is no guarantee that there will actually be an active market for the option at the time you decide you want to liquidate. If an option is too far removed from being worthwhile to exercise or if there is too little time remaining until expiration, there may not be a market for the option at any price.



Assuming, though, that there's still an active market, the price you get when you liquidate will depend on the option's premium at that time. Premiums are arrived at through open competition between buyers and sellers according to the rules of an exchange.

## ***Continue to Hold the Option***

The second alternative you have after you buy an option is to hold an option right up to the final date for exercising or liquidating it. This means that even if the price change you've anticipated doesn't occur as soon as you expected—or even if the price initially moves in the opposite direction—you can continue to hold the option if you still believe the market will prove you right. If you are wrong, you will have lost the opportunity to limit your losses through offset. On the other hand, the most you can lose by continuing to hold the option is the sum of the premium and transaction costs. This is why it is sometimes said that option buyers have the advantage of staying power. You should be aware, however, that options typically decline in value as they approach expiration. (See “Time Value” on page 55).

## ***Exercise the Option***

You can also exercise the option at any time prior to the expiration of the option. It does not have to be held until expiration. It is essential to understand, however, that exercising an option on a futures contract means that you will acquire either a long or short position in the underlying futures contract—a long futures position if you exercise a call and a short futures position if you exercise a put.

**Example:** You've bought a call option with a strike price of 70¢ a pound on a 40,000 pound live cattle futures contract. The futures price has risen to 75¢ a pound. Were you to exercise the option, you would acquire a long cattle futures position at 70¢ with a “paper gain” of 5¢ a pound (\$2,000). And if the futures price were to continue to climb, so would your gain.

*hold*  
*exercise*  
*offset*

But there are both costs and significant risks involved in acquiring a position in the futures market. For one thing, the broker will require a margin deposit to provide protection against possible fluctuations in the futures price. And if the futures price moves adversely to your position, you could be called upon—perhaps even within hours—to make additional margin deposits. There is no upper limit to the extent of these margin calls.

Secondly, unlike buying an option, which limits potential losses, a futures position has potentially unlimited risk. The further the futures price moves against your position, the larger your loss.

Even if you were to exercise an option with the intention of promptly liquidating the futures position acquired through exercise, there's the risk that the futures price which existed at the moment may no longer be available by the time you are able to liquidate the futures position. Futures prices can and often do change rapidly.

For all these reasons, only a small percentage of option buyers elect to realize option trading profits by exercising an option. Most choose the alternative of having the broker offset—i.e., liquidate—the option at its currently quoted premium value.



## ***Who Sells (Writes) Options and Why***

Up to now, we have discussed only the buying of options. But it stands to reason that when someone buys an option, someone else sells it. In any given transaction, the seller may be someone who previously bought an option and is now liquidating it. Or the seller may be an individual who is participating in the type of investment activity known as options writing.

The attraction of option writing to some investors is the opportunity to receive the premium that the option buyer pays. An option buyer anticipates that a change in the option's underlying futures price at some point in time prior to expiration will make the option worthwhile to exercise. An option writer, on the other hand, anticipates that such a price change won't occur—in which event the option will expire worthless and he will retain the entire amount of the option premium that was received for writing the option.

Example: At a time when the March U.S. Treasury Bond futures price is 125-00, an investor expecting stable or lower futures prices (meaning stable or higher interest rates) earns a premium of \$400 by writing a call option with a strike price of 129. If the futures price at expiration is below 129-00, the call will expire worthless and the option writer will retain the entire \$400 premium. His profit will be that amount less the transaction costs.

While option writing can be a profitable activity, it is also an extremely high risk activity. In fact, an option writer may have an unlimited risk. Except for the premium received for writing the option, the writer of an option stands to lose any amount the option is in-the-money at the time of expiration (unless he has liquidated his option position in the meantime by making an offsetting purchase).



In the previous example, an investor earned a premium of \$400 by writing a U.S. Treasury Bond call option with a strike price of 129. If, by expiration, the futures price has climbed above the option strike price by more than the \$400 premium received, the investor will incur a loss. For instance, if the futures price at expiration has risen to 131-00, the loss will be \$1,600. That's the \$2,000 the option is in-the-money less the \$400 premium received for writing the option (not including transaction costs).

As you can see from this example, option writers as well as option buyers need to calcu-

late a break-even price. For the writer of a call, the break-even price is the option strike price plus the net premium received after transaction costs. For the writer of a put, the break-even price is the option strike price minus the premium received after transaction costs.

An option writer's potential profit is limited to the amount of the premium less transaction costs. The option writer's potential losses may be unlimited. And an option writer may need to deposit funds necessary to cover losses as often as daily.

Option writing as an investment is absolutely inappropriate for anyone who does not fully understand the nature and the extent of the risks involved and who cannot afford the possibility of a potentially unlimited loss. It is also possible in a market where prices are changing rapidly that an option writer may have no ability to control the extent of his losses. Option writers should be sure to read and thoroughly understand the Risk Disclosure Statement that is provided to them.



## If a Dispute Should Arise

All but a small percentage of transactions involving regulated futures and options on futures contracts take place without problems or misunderstandings. However, in any business in which millions of contracts are traded each day, occasional disagreements are inevitable. Obviously, the best way to resolve a disagreement is through direct discussions by the parties involved. Failing this, however, participants in futures markets have several alternatives (unless some particular method has been agreed to in advance).

In many circumstances, it may be possible to seek resolution through the exchange where the futures contracts were traded or to file a claim for reparations with the CFTC. Unless you have signed a pre-dispute arbitration agreement, you can also file a claim in court. However, most investors choose to resolve the disagreement through the arbitration program conducted by National Futures Association.



The best way to resolve a disagreement is through direct discussions by the parties involved.

*There are several advantages:*

- It tends to be faster and less expensive than the other alternatives.
- You have a choice of selecting industry or non-industry related arbitrators.
- You do not necessarily have to know what the law is to successfully prove your claim.
- In some cases, it may be possible to conduct arbitration entirely through written submissions.

If a hearing is required, it can generally be scheduled at a time and place convenient for both parties.

- Unless you wish to do so, you do not have to employ an attorney.

For a plain language explanation of the arbitration program and how it works, write or phone NFA for a copy of *Arbitration: A Way to Resolve Futures-Related Disputes*. This free booklet is also available on NFA's Web site.

# ***Additional Resources***

Commodity Futures Trading  
Commission (CFTC)  
Three Lafayette Centre  
1155 21st Street, NW  
Washington, DC 20581  
(202) 418-5800  
[www.cftc.gov](http://www.cftc.gov)

CBOE Futures Exchange (CFE)  
400 S. LaSalle St.  
Chicago, IL 60605  
(312) 786-5600  
[www.cfe.cboe.com](http://www.cfe.cboe.com)

Chicago Board of Trade (CBOT)  
141 W. Jackson Blvd.  
Chicago, IL 60604  
(312) 435-3500  
[www.cbott.com](http://www.cbott.com)

Chicago Climate Futures Exchange (CCFE)  
400 S. LaSalle St.  
Chicago, IL 60605  
(312) 554-3350  
[www.chicagoclimatex.com](http://www.chicagoclimatex.com)

Chicago Mercantile Exchange (CME)  
30 S. Wacker Dr.  
Chicago, IL 60606  
(312) 930-1000  
[www.cme.com](http://www.cme.com)

HedgeStreet  
1825 S. Grant St., Suite 500  
San Mateo, Ca 94402  
[www.hedgestreet.com](http://www.hedgestreet.com)

Kansas City Board of Trade (KCBT)  
4800 Main St., Suite 303  
Kansas City, MO 64112  
(816) 753-7500  
[www.kcbt.com](http://www.kcbt.com)

Minneapolis Grain Exchange (MGE)  
400 S. Fourth St.  
Minneapolis, MN 55415  
(612) 321-7101  
[www.mgex.com](http://www.mgex.com)

New York Board of Trade (NYBOT)  
174 Hudson St.  
New York, NY 10013  
(718) 391-7000  
[www.nybot.com](http://www.nybot.com)

New York Mercantile Exchange (NYMEX)  
One North End Avenue  
World Financial Center  
New York, NY 10282-1101  
(212) 299-2000  
[www.nymex.com](http://www.nymex.com)

OneChicago  
141 W. Jackson Blvd., Suite 2240  
Chicago, IL 60604  
(312) 424-8500  
[www.onechicago.com](http://www.onechicago.com)

Philadelphia Board of Trade (PBOT)  
1900 Market St.  
Philadelphia, PA 19103  
(215) 496-5000  
[www.phlx.com/pbot](http://www.phlx.com/pbot)

U.S. Futures Exchange (Eurex US)  
233 S. Wacker Dr., Suite 2450  
Chicago, IL 60606  
(312) 544-1100  
[www.eurexus.com](http://www.eurexus.com)