Primer: Equity (stock and ETF) Options

What are Equity Options?

Contracts based on individual stocks or exchange-traded funds (ETF). A standard equity option controls 100 shares.

Equity options provide direct exposure to individual companies or ETF performance.

Key Characteristics

- Standardized terms set by the exchange
- One standard options contract has a 100 multiplier
- Can be affected by corporate actions like mergers, splits, or special dividends

Premium and Pricing

- Premium quoted on a per share basis
- Multiply by 100 to calculate total cost

Settlement

- Upon exercise physical delivery of shares between buyer and seller
- American-style settlement allowing exercise by the buyer up at any time prior to expiration

Example

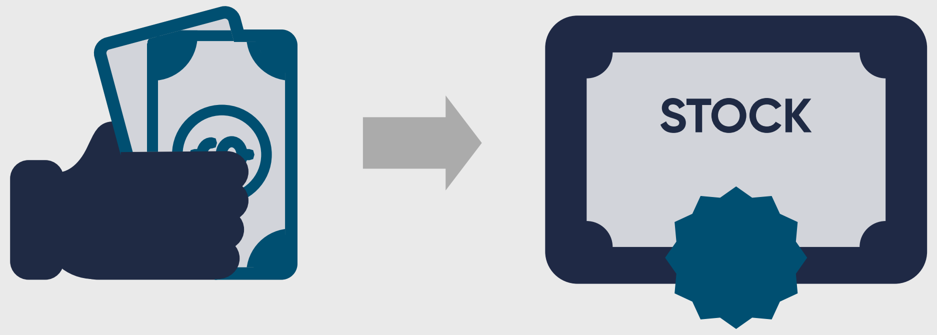
An investor who purchases an equity call option on stock symbol XYZ with a $50 exercise price has the right to exercise the call option and pay $5,000 ($50 x 100) in exchange for receipt of 100 XYZ shares.

Purchase

Purchases XYZ
$50 Call

Upon Exercise

Pays $5,000
($50 x 100)



Receives 100
Shares of XYZ
at $50/Share

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., Chicago, IL 60606. Individuals should not enter into options transactions until they have read and understood this document.

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