



# OPTIONS TRADING GUIDE

# CONTENTS

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<b>OPTIONS TRADING GUIDE</b> .....	3
<b>WHAT ARE OPTIONS?</b> .....	4
<b>Call Option</b> .....	4
<b>Put Option</b> .....	4
<b>TRADING OPTIONS AT LCG</b> .....	4
<b>Example</b> .....	4
<b>MARKET INFORMATION</b> .....	5
<b>Spread bet</b> .....	5
<b>CFD</b> .....	5
<b>Margins</b> .....	5
<b>WHAT IS SPAN MARGINING?</b> .....	6
<b>WHAT HAPPENS AT EXPIRY</b> .....	6
<b>OPTIONS ON UNBORROWABLE STOCKS</b> .....	6

# OPTIONS TRADING GUIDE

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*“The power of options lies in their versatility.”*

[www.investopedia.com/university/options](http://www.investopedia.com/university/options)

*“Options today are hailed as one of the most successful financial products to be introduced in modern times. Options have proven to be superior and prudent investment tools”*

[www.nasdaq.com/investing/options-guide](http://www.nasdaq.com/investing/options-guide)

Options can be used to take advantage of nearly any market condition. Bullish, bearish or even sideways and range bound.

# WHAT ARE OPTIONS?

There are two types of option:

## Call Option

the right (but not obligation) to buy an underlying asset at a specific price before a certain expiry date.

## Put Option

the right (but not obligation) to sell an underlying asset at a specific price before a certain expiry date.

# TRADING OPTIONS AT LCG

- At LCG you can trade options as a spread bet or as a CFD
- Go long or short both Calls and Puts
- Combine two or more options to create strategies
- Limited risk for option buyers
- Trade everything in one place here at LCG
- Portfolio margining for multiple option positions.

### Example

#### Buying a Call:

Apple is trading at \$100 and you think it's going higher... much higher!

With \$1,000 in your account you could:

1) Buy 200x Apple CFDs

OR

2) Buy an Apple call option.  
Buy 2,000x Apple \$102 call expiry  
in 1 month CFDs at a price of \$0.50.

#### Scenario A: Apple drops a few dollars.

- 1) You risk having your position stopped out due to insufficient funds in your account.
- 2) The option remains open. When buying equity options the margin is your maximum loss.

#### Scenario B: Apple increases to \$120.

- 1) Profit of \$20 for each Apple CFD you had.  $200 \times \$20 = \$4,000$  profit.
- 2) Profit on the Apple \$102 call expiry in 1 month CFDs is \$18 for each option.  $2,000 \times \$18 = \$36,000$  profit.

# MARKET INFORMATION

## Spread bet

Market	Spread	Trading Hours	Min Bet Size
UK equities	1p*	08:00-16:30	£50
EU equities	5c*	08:00-16:30	€50
US equities	5c*	14:30-21:00	\$50
UK 100 Index	From 2 points	08:05 Mon to 21:00 Fri (23hrs per day)	£10
Germany 30 Index	From 2 points	08:05 Mon to 21:00 Fri (23hrs per day)	€10
EURUSD, GBPUSD, AUDUSD	From 4 pips	08:05 Mon to 21:00 Fri (24hrs per day)	\$50
USDJPY	From 4 pips	08:05 Mon to 21:00 Fri (24hrs per day)	¥500

Note: \*the additional spread we charge on top of the market spread. For equities you must have a spread bet account in the currency of the option instrument you wish to trade. If you already have an account but need another in a different currency you can create this very quickly and easily within MyLCG.

## CFD

Market	Spread	Trading Hours	Min trade size	Value of 1 point/lot	Shares equivalent to 1 lot
UK equities	1p*	08:00-16:30	5 lots	£10	1,000
EU equities	5c*	08:00-16:30	50 lots	€1	100
US equities	5c*	14:30-21:00	50 lots	\$1	100
UK 100 Index	From 2 points	08:05 Mon to 21:00 Fri (23hrs per day)	1 lot	£10	n/a
Germany 30 Index	From 2 points	08:05 Mon to 21:00 Fri (23hrs per day)	2 lots	€5	n/a
EURUSD, GBPUSD, AUDUSD	From 4 pips	08:05 Mon to 21:00 Fri (24hrs per day)	5 lots	USD 10	n/a
USDJPY	From 4 pips	08:05 Mon to 21:00 Fri (24hrs per day)	5 lots	JPY 1,000	n/a

Notes: Discounts available for large size.

## Margins

Option Position	Margin Calculation
Long	100%
Short	LCG version of SPAN
Portfolio	LCG version of SPAN

All trading involves risk. Losses can exceed deposits.

# WHAT IS SPAN MARGINING?

We run 16 different scenarios – stress testing the underlying price and volatility as well as reducing the time to expiry by 1 day. The scenario that caused the worst PL is your margin.

The amount we stress test the underlying price is called the “Underlying Scan Range” (USR). The amount we stress test the volatility is called the “Volatility Scan Range” (VSR). All options which have the same underlying will have the same USR and VSR.

	Underlying shift	Volatility shift
Scenario 1	Unchanged	Increase by 100% of VSR
Scenario 2	Unchanged	Decrease by 100% of VSR
Scenario 3	Increase by 33.3% of USR	Increase by 100% of VSR
Scenario 4	Increase by 33.3% of USR	Decrease by 100% of VSR
Scenario 5	Decrease by 33.3% of USR	Increase by 100% of VSR
Scenario 6	Decrease by 33.3% of USR	Decrease by 100% of VSR
Scenario 7	Increase by 66.7% of USR	Increase by 100% of VSR
Scenario 8	Increase by 66.7% of USR	Decrease by 100% of VSR
Scenario 9	Decrease by 66.7% of USR	Increase by 100% of VSR
Scenario 10	Decrease by 66.7% of USR	Decrease by 100% of VSR
Scenario 11	Increase by 100% of USR	Increase by 100% of VSR
Scenario 12	Increase by 100% of USR	Decrease by 100% of VSR
Scenario 13	Decrease by 100% of USR	Increase by 100% of VSR
Scenario 14	Decrease by 100% of USR	Decrease by 100% of VSR
Scenario 15	Increase by 200% of USR*	Unchanged
Scenario 16	Decrease by 200% of USR*	Unchanged

\*we only take 35% of the PL in scenarios 15 and 16.

## Underlying Scan Range USR

The 'delta adjusted notional size' is calculated (delta x underlying price x trade size) from all the positions you have within the same underlying.

Note: options with a delta of less than 5 shall be considered to have a delta of 5. Any positions you have in the underlying (cash or futures) will be used in the option margin calculation. The delta adjusted notional is used to determine which margin Tier your portfolio falls under (as per our normal margin/leverage tables) and the Margin Rate/Leverage for that tier will be used as the USR.

## Volatility Scan Range VSR.

All options will have a VSR of 45% of the implied volatility.

We will charge you a margin of the greater of 100% of the option premium OR the SPAN margin as explained here.

**Options Margin = Option Premium + Additional Margin**

# MARGIN EXAMPLE

This is based on a portfolio of UK 100 options and underlying.

Instrument	Price	Position	Delta	Delta Adjusted Notional Size
UK 100 16Dec P 6300	35	-100	-0.11	77,000
UK 100 18Nov P 6800	43	+25	-0.24	-42,000
UK 100 18Nov C 7200	39	-100	0.25	-175,000
UK 100	7000	+15	1	105,000
			TOTAL	-35,000

Short £35,000 is in Tier 1 for UK 100 which is 0.2% margin (or leverage of 500). USR = 0.2% of underlying price (7000). VSR = 45% of the implied volatility.

Option Premium = £8,475 (this is the price of the option x position)

UK 100 margin = £210

**TOTAL margin needed = £9,916** (using SPAN: in this case Scenario 11 will cause the biggest loss)

Additional Margin = £9,916 - £8,475 - £210 = **£1,231** (this will be booked to your account and will appear as "Option Margin")

## WHAT HAPPENS AT EXPIRY

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For equities that finish ITM\* you will receive a position in the underlying instrument at the strike price  $\pm$  our standard bid/ask spread and the option will be closed at a price of 0. You must ensure you have enough Free Margin in your account to take the position in the underlying instrument. If you do not you risk your account being liquidated.

For all other options we will close the option at the 'intrinsic value'. This is referred to as 'cash settling'. Intrinsic Value = Max (Underlying Price - Strike, 0) for Calls. Max (Strike - Underlying Price, 0) for Puts.

## OPTIONS ON UNBORROWABLE STOCKS

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If you buy a put or sell a call on a stock which we are not able to borrow and it is ITM\* or close to being ITM\* then you will be required to take a long position in the underlying stock at least 1 hour before the expiry time in order to take delivery from the assignment or exercise of the option.

*\*ITM = In-The-Money*

**Call:** where the current market price is higher than the strike price.

**Put:** where the current market price is lower than the strike price.



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**Risk Warning:**

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