

Monitoring Your Option Trades, Exercise and Assignment

Edward J Modla

Executive Director, Investor Education
OCC

Bill Purvin

Regional Brokerage Consultant
Fidelity Investments



Disclaimer

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 or by contacting your broker, any exchange on which options are traded, or The Options Clearing Corporation at 125 S. Franklin St., #1200, Chicago, IL 60606.

In order to simplify the calculations 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.

Any strategies discussed, including examples using actual securities and price data, are strictly for illustrative and educational purposes and should not be construed as an endorsement, recommendation, or solicitation to buy or sell securities. Past performance is not a guarantee of future results.

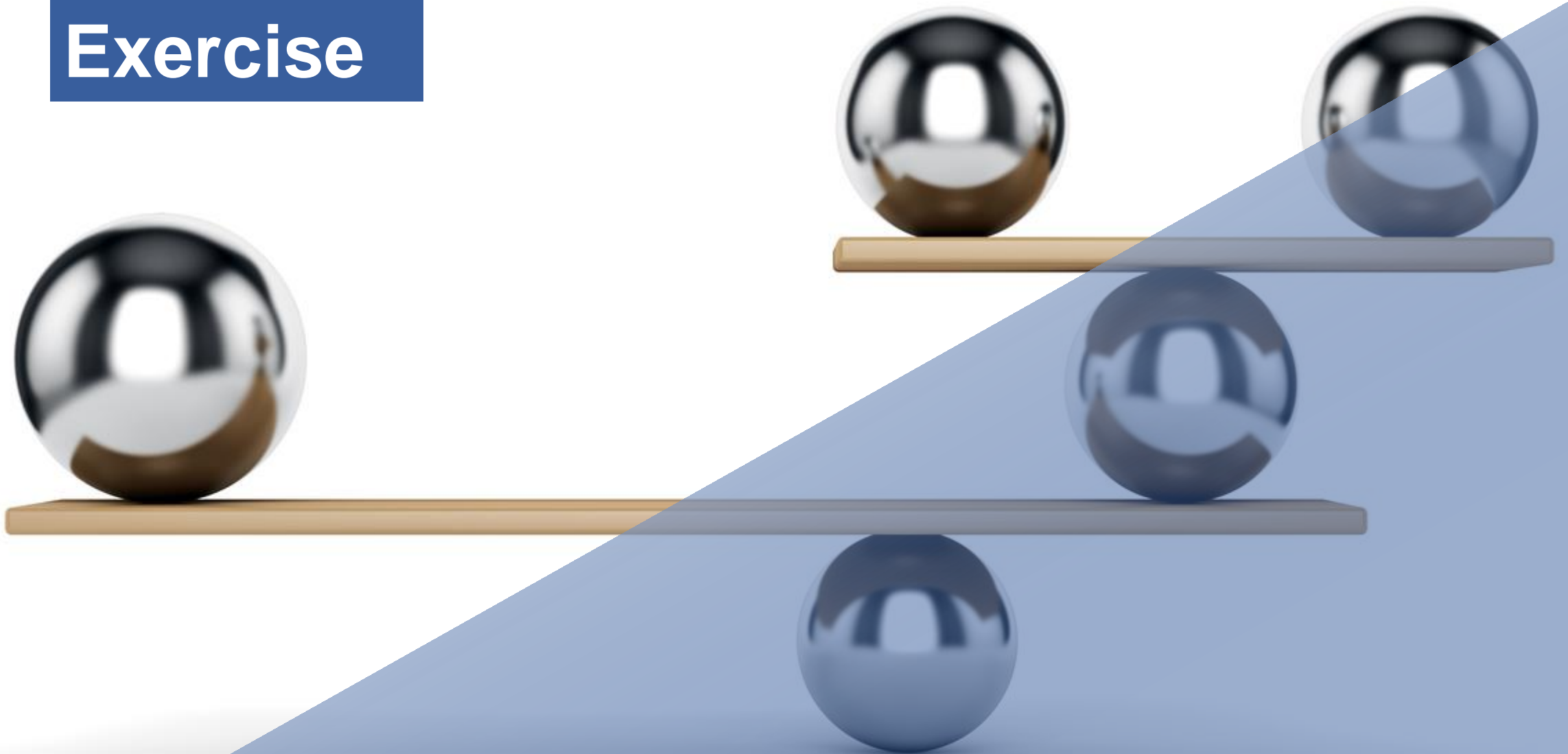
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Presentation Outline

- Exercise
- Assignment
- Position Management Examples



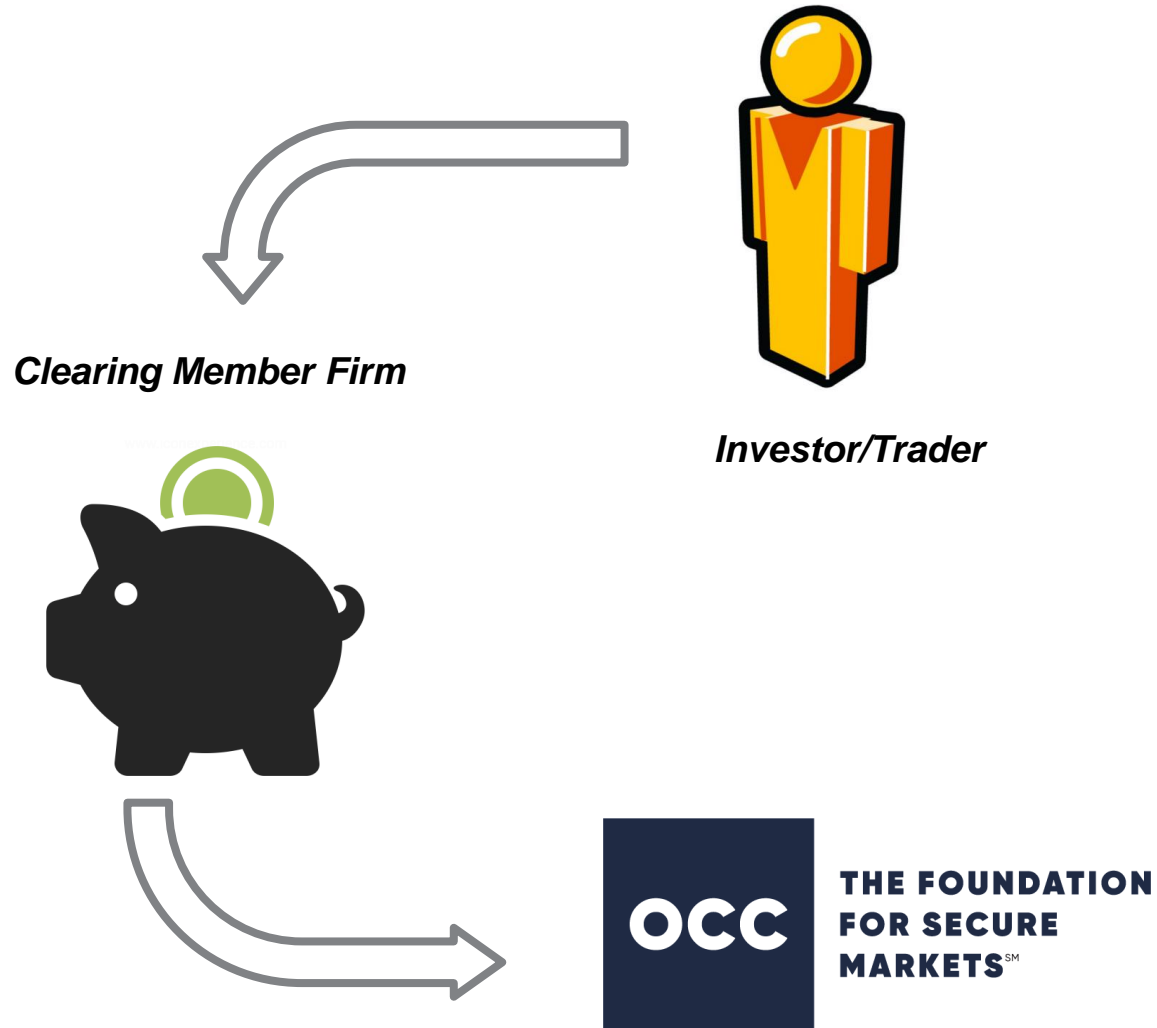
Exercise



Exercise: Buy or Sell Underlying Stock

- The option **buyer** has the **right**:
 - to buy (for a call) or sell (for a put)
 - 100 shares of underlying stock/ETF
 - at the strike price per share
- To exercise, the buyer issues an exercise notice to his/her brokerage firm (or Auto-ex)
- Early exercise for calls = possible before ex-dividend date (ITM options)
- Early exercise for puts = possible if deep ITM

Exercise Process



Assignment



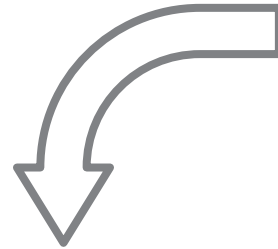
Assignment: Buy or Sell Underlying Stock

- The option seller has the obligation:
 - to sell (for a call) or buy (for a put)
 - 100 shares of underlying stock/ETF
 - at the strike price per share
- Assignment notice is received from seller's brokerage firm
- Option writers are obligated to fulfill the terms of the contract at the discretion of the option holder regardless of where the stock is trading

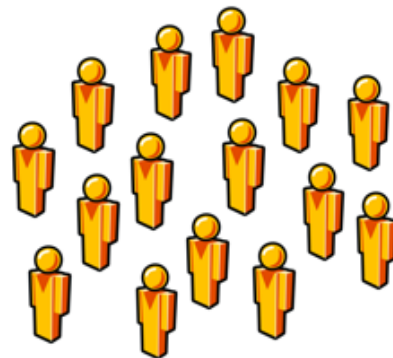
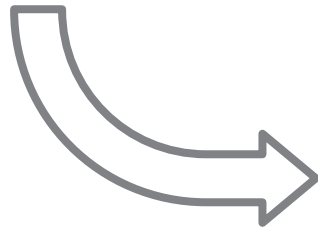
Assignment Process



**THE FOUNDATION
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MARKETSSM**



Clearing Member Firm



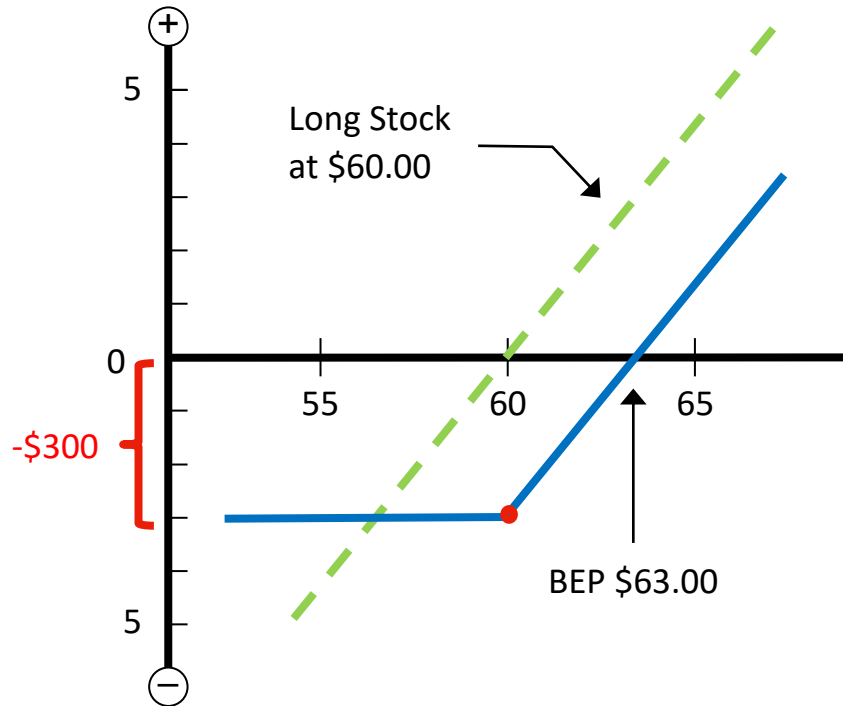
Investors/Traders

Position Management



Call Buying Example

Buy 60.00 strike call at \$3.00

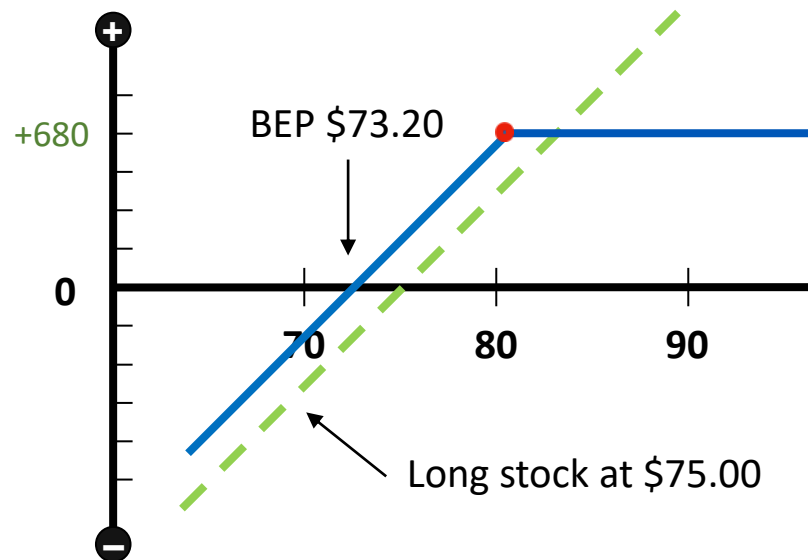


Break-even at Expiration:
Strike Price + Call Premium Paid
 $\$60.00 + \$3.00 = \$63.00$

Maximum Loss:
\$3.00 Call Premium Paid
\$300.00 Total

Covered Call Example

Own 100 shares XYZ at \$75.00
Sell 1 XYZ 80 call at \$1.80



Does not include commissions, fees, margin interest or taxes.

Break-even at Expiration:

Stock Price Paid –
Call Premium Received
 $\$75.00 - \$1.80 = \$73.20$

Maximum Profit if Assigned:

Effective Stock Sale Price –

- Stock Price Paid

$$(\$80.00 + \$1.80) - \$75.00 = \$6.80$$

- \$680.00 Total

Managing Covered Calls Considerations

- Stock up (above strike):
 - Hold in attempt to maximize gain
 - Close position if maximum gain is almost reached
 - Accept assignment
- Stock unchanged:
 - Evaluate position and implement most prudent strategy – hold shares, sell another call, close position, etc.
- Stock down:
 - Hold shares in anticipation of share price appreciation
 - Roll down by selling a lower strike call
 - Close position and reallocate capital



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