TRANSCRIPT

Cracking the code: Why use options and some basic strategies

Edward Modla: Welcome, everyone. I hope our audience has been able to navigate their personal and professional lives to their ability and everyone is staying safe out there. I'm happy to be here to talk about options. I've been in the business for over 20 years, most recently for the past five-plus years, teaching the product to investors, advisors and money managers. Today's session will be setting the foundation, getting that basic ground-floor level of education on the option product. I'll get to our outline in just a second.

First our disclaimer: Options are not suitable for everyone. They are certainly a fairly complex tool that can be understood by any investor, but it does take time and dedication and effort; you need to review the characteristics and risks of standardized options before getting approval to trade on a live account. We will have examples and strategies today that don't include some of the costs, including commission fees, margin, interest, and taxes -- those are important costs in a live account but we'll keep things a little bit simple today.

I want to start with a look at options volume through the years; this is very interesting, when you go back to the listed options product launching in 1973, a little more on that later in this first presentation. They saw very gradual, slow growth in that open outcry environment, until we took over with electronic trading, the speed and access to which investors could trade options and use them in their portfolios at the turn of the century, we started to see a tremendous climb in the use of options. It's also around the time of do-it-yourself investing, and with the education available online as investors became more and more familiar with the product, the growth exploded, and you can see a spike in 2011; for those of you trading back then, that was the year of the European sovereign debt crisis that elevated volatility throughout that year. We did see a spike in volume that set a record, and then some stabilization in the options industry, those years '12-'17 were really encouraging, as the volatility level in the market was very low, and there was a lot of complacency in the market, yet options volumes remained steady; you see on the left, the amount of contracts on an annual basis, that's four billion contracts during those years. Two thousand eighteen was a year of increased volatility and that set the record of five billion contracts; 2019 was very close to that. So for context, five billion contracts is about 19.8 million per day, and that is the record-setting pace that we saw in 2018/2019. Here in 2020 with the amount of market fluctuation that we've seen and the incredible amount of volatility, options volume is much higher than that; as I said, the record-setting pace of 19.8 million per day, well so far as we're closing Q1 here in 2020, we've had about 28.2 million contracts per day; if you take out over the course of a year, that is a pace that would go just over seven billion contracts for the year.

Now certainly this is not a time that anybody is celebrating because we know why this is happening: the markets are fluctuating wildly, investors are concerned about their money, people are nervous, and there's also a health and safety aspect attached to all of this. So by no means is it cause for celebration. But within the options industry, it is a time to reflect, and to recognize that options are increasingly becoming a product that investors turn to when the market is at its most stressed conditions, and investors need that tool that can help them manage their finances most appropriately, we're seeing more and more people turn to the options product. So we're not just setting high volume numbers, they're record-setting numbers. This isn't the first correction that we've seen; it's not the last, but we are seeing more and more options volumes.

From my perspective, there's been a lot of interest in investors and money managers coming to our desk at the Options Industry Council interested in options education and those conversations have increased, and speak from a more broad market perspective, John, I want to bring you in for some insight here, I'm seeing a lot of interest in the options product. I'm sure you've had increased conversations with your clients in both quantity and intensity. Now what kind of things are you seeing in the markets now, and what kind of conversations are you having with your clients in this environment?

John Deyeso: Yeah, thanks a lot, Ed; really appreciate it. I want to start by echoing something Ed kicked off with. I hope everybody's saying safe and healthy during these trying times, and hopefully today's webinar series creates a little bit of a distraction, and breathe necessary to get away from that. I also too want to, before I address what I just asked, may say that Fidelity's created a resource center during these times. It allows you to access expert insights, common online services, and to get answers to your questions. I certainly encourage all of you to check that out; tremendous amount of resources being updated almost daily on there, so certainly, Fidelity wants to make sure we're committed and helping you during these times, and staying very well-informed.

Regarding the options question that Ed asked me, so many of the conversations right now have obviously been focused on the tremendous uptick in volatility that we've seen. We've seen readings on the VIX that have exceeded 80; we haven't seen that in a very long time. We are seeing, obviously a tremendous amount of volatility, and that's leading to clients wanting to know about the flexibility of this product type. Options allows you to a lot of different things, whether it's generating income, speculating on movements, protecting securities. And so certainly, learning more about this particular product allows you to put, as I say, more tools in the toolbox, allows you to address different market conditions, and that's really been the focal point of the conversations I've been having with clients in the past several weeks.

Edward Modla: Yeah, you certainly mentioned volatility. That is a hot topic today, and I use the same phrase you do: putting tools in the toolbox as you learn the options product and all the strategies that are out there, it's helpful to be able to recognize when do you use these strategies, and when do you not use them? And the more you know, the more informed your decision-making can be.

I'm glad you mentioned where the VIX is and has been. Just very quickly, I've gotten a lot of questions about trading the VIX, and using options on the VIX, so we're not going to get into that today; it's more in-depth discussion. The quick 30-second overview there for anyone who's thinking, boy these VIX levels are just very high; they've got to come down on maybe I can take short positions here in the options. You've got to be very careful. The spot VIX number that you see is not something you can trade. VIX has futures contracts that go out nine months, and they have options listed that expire consistently with those nine months. You can't buy a put option on spot VIX that you see. But you can buy a put option on the futures contracts that are priced totally differently. So unless you understand the futures curve and the conditions of contango and backwardation with respect to the VIX futures curve, you really should take a step back and make sure you understand that before getting into trading VIX options.

Our outline today is going to be relatively basic; we want to set that ground floor and set the foundation for your options knowledge, going to define what they are, and then walk through the outright positions which really set the stage for all options strategies and really are the inputs that you need to understand before putting strategies together. Going to bring John in as well, he's going to walk through the Fidelity platform and show you some things, very useful as you start to use options maybe for the first time, or to implement them a bit more heavily.

Now first a little bit about industry overview and insight, and John just mentioned this: options are a flexible product, and that really is the reason why investors continues to turn to options. You can tailor your portfolio to more precisely fit your market outlook and your risk tolerance if you're using options. There's just so many more things you can do, as opposed to the investor who is not using options. You can see the list here of benefits they provide; if you're looking for hedging techniques to reduce risk, options has strategies that can help you do that. Income generation basically refers to selling options and receiving premium from selling options, but to do so in a responsible way where your risk is controlled. You can use options to acquire stock in a different way than just using market orders and limit orders in the stock market. Leverage is speculating. Not going to focus too much on speculating today, but we'll walk through all the different outright options strategies, and what it means within your portfolio at least from a simple perspective, of how you can use the product to accomplish all of these objectives.

When you trade stock, you don't have too many choices. You can see, you can either buy stock or you can short it. Most investors are never going to short stock, or may never have the approval to do so. So if you're just trading stock, there's not much you can do. If you're bullish, you go ahead and buy and simply make money as it goes up, lose money if it goes down, and if you're concerned about the market conditions, then you pull off and you go into the sidelines and increase your cash positions. Stock trading, there's certainly a place for it, and there's a time and a situation to use outright stock positions, but it's fairly simple. I've heard stock trading defined as playing a game of checkers; it's fairly easy to understand, and you know what your moves are; there's not too many things you can do.

In contrast to that is the options world which would be more like a game of chess. And here you can see all of the different strategies. Now without focusing on each of these strategies, what I want to point out as you glance across the profit and loss graphs here is that some strategies profit as the market moves higher; some strategies profit as the market moves lower. Others on here will profit as the market remains neutral or consolidates; certain strategies have very tight risk controls and others do not. The point is, as John said in the beginning, flexibility, and the understanding of these strategies and the options product can allow you to construct options trades in your portfolio that are much more tailored to what you're looking for, and that certainly can be a great benefit.

Now what you see here, these strategies, it's not the full universe of options strategies that are available to you. You see these terms: long call, short call, other strategies, short strangle, collar. We use those terms because when we mention that name, everyone knows what we're talking about. We can be on the same page. But in reality, in a live account, you may or may not use these strategies as they're defined; you may tailor them and take off one piece or add another or vary your quantities, and the more you understand options, the better position you'll be to do that. So let's get into it and start defining options and walking out the four outright positions.

Options are contracts. You know, they're traded on different exchanges. Stocks trade on their own exchange; options trade on separate exchanges. Buyers of options contracts pay up front for the right to buy or sell an underlying asset. More simply stated, buyers pay for the right to buy our sell shares of stock, or shares of an ETF. Sellers of options are on the other side; they get paid up front, immediately, cash, nonrefundable, and in exchange for that payment, sellers take on the obligation to potentially be required to buy or sell shares of stock. Each options contract is going to define what stock is going to be involved here, the price at which that executed transaction could take place if the buyer chooses to do so, and the seller is obligated to do so, and there's an expiration date. Options are priced at least in part based on how long they exist until expiration. That's the overview.

Now there are two types of options that can be bought or sold, and that is calls, or puts. For equity and ETF options, the underlying asset, or the amount of shares to be purchased or sold is 100, and options are priced accordingly. So you can buy or sell a call; you can buy or sell a put. And I want to break out those four pieces, because that is the foundation for all options strategies.

An equity call buyer pays up front, nonrefundable, to own the right to buy shares of stock at the price defined within the contracts. If you own the right to buy shares at a certain price and that stock price moves higher, the value of what you own is likely to go up. There are other pricing factors involved, and we'll get to that later today, but this is a bullish strategy that an investor might use as a speculative trade if they wanted to avoid spending the amount of cash that would be required to buy shares of stock. Equity call buyers purchase the right to buy shares of stock hoping that that stock price moves up and the value of what they own increases.

An equity call seller is paid upfront cash, and now takes on the obligation to sell shares of stock. In other terminology, an equity call seller is the writer, or is known to be a short a contract. Undoubtedly, the equity call seller already owns shares of stock. This is the strategy I'll walk in a little more detail at the end of this first session. And think, you have an obligation by selling the call, an obligation to sell shares of stock if you already own those shares and you're comfortable selling stock at a certain price, you can choose, and review or discover an options contract that has a strike price you're comfortable selling shares at, and you can sell a call option, get paid up front, and effectively work a close substitute to a limit order to sell your shares and get paid for it. A little more on that later on. Let's look over to the other side.

Now put options, they just have the opposite perspective, but not too difficult; we start the same way. An equity put buyer, just like a call buyer, pays up front, it's nonrefundable, and now they own the option; in this case, they own a put option. This gives the put holder the right to sell shares of stock at the strike price of the options contracts. Really two motivations you can have here, if you're bearish on the stock and you think the price is going to go lower, and you're not an investor who's going to short the shares, this could be a way to capitalize on bearish movements in the market.

But also this is a hedging technique, very popular to use. If you're bullish on a stock and you own shares, and your shares are going higher, and you'd like to capitalize on that upper movement, but you want to protect the downside: paying for the right to sell your stock if things go in the wrong direction. And you pay for that upfront.

Now equity put seller might be the most difficult one for those new to this terminology to understand, but we start the same way as calls again, selling an option, we receive premium, are paid upfront, and take on the obligation to buy shares of stock. Motivation here is usually that the investor wants those shares of stock, might be trading at higher levels than your comfortable paying for, so by selling a put option, you can get paid, and effective work a close substitute to a limit order, to buy shares of stock, but instead of just working a limit order, you sell a put, you're paid to sell that put, and if your obligation to buy the shares comes to fruition, you're perfectly comfortable with that very popular strategy known as the cash secured put.

To put all of that together, and this is just a summary slide that you see, calls and puts, what it means to be long or short calls and puts, with rights and obligations, it's a very useful snapshot of what I just walked through, because every single options strategy that exists comes from the understanding of these four trades. This is it. You can either buy a call, buy a put, sell a call, sell a put. There's nothing else you can do, but you can then merge these trades together, and you can do two at a time, three at a time, four at a time, you can change quantities, change expiration dates, make this as simple or as complex as you want, but it all starts here with the foundation of these four outright positions.

I want to keep going and start to open doors of a few more interesting and cooler concepts with the options product. First of all, contract terms: exchanges set standardized terms on the options product so that they can be fungible. Before listed options existed, prior to 1973, investors and advisors, they could still trade options, but it was a direct negotiation with the counterparty, where each term was negotiated, and they came to an agreement on price. Well the exchanges changed that and standardized terms. What that effectively allowed as an investor can buy an option from somebody and sell it to somebody else to close the position. Options became fungible because they became standardized.

So let's just walk through what that is, an example, our stock symbol XYZ, the Jan 17, 2021 45 call trading at $2.50. Well certainly, the stock has to be identified. The ticker symbol that is to be traded will be identified; in this case that is XYZ, and now you know that the rights you purchase, or the obligations that you take on are for 100 shares of stock XYZ. Also, there's going to be an expiration date. This is the day on which the option ceases to exist. Officially, options cease to exist at 11:59 PM Eastern on their expiration day; however, as an option older, you do not have all the way up until that minute to decide what you want to do with your options contract. Your brokerage firm will have a cutoff time by which you'll have to communicate those instructions on whether or not you'd like to exercise your rights. As far as being on the sell side, there also would be a communication process that your brokerage firm would reach out and let you know that you've been assigned. All of that activity takes place afterhours, and on the expiration day, the option will then cease to exist.

Also, whether it's a call or put will be identified along with its strike price; in this case, this is a call option, and the strike price, the price at which the exchange of shares can take place, is $45, and the last component here is the premium amount. Standardized options are written on 100 shares of stock. Options are quoted on a per-share basis, so this $2.50 represents $250 net.

So I'm going to read through this particular from each perspective: if you bought this option, what it means is, you paid $250 upfront, and now you own the right to buy 100 shares of stock XYZ at $45 a share, and you own that right all the way through January 17th of 2021. Now you can see why, much more clear, you're bullish. You want that price to go up to $45, to $48, $50, $55, because the value of what you own is going to continue to increase.

If you sold this option and you're on the other side, you received $250 upfront and now you're under the obligation to deliver or sell 100 shares of stock XYZ at a price of 45, and you are under that obligation all the way until January 17, 2021, and you're paid for taking on that obligation. In this case, you may have owned the shares from $30, $35, or $40, and now you're willing to get rid of it. If the stock moves up another 10% over the next year, you're willing to sell at $45; you're very comfortable with that. In the meantime, if the stock consolidates, or just drifts higher, or even moves the other way, you've received some premium upfront from cash in your account today that can reduce your breakeven points and increase your likelihood of success.

That is the covered call, which I want to dive into just briefly, just to walk through one strategy, arguably one of the more common strategies that investors use when they begin trading options is the covered call, where an investor sells one call contract for each 100 shares owned. If you own 500 shares, you can sell five contracts. If you own a thousand shares, you can sell ten, or choose how many you'd like to sell. The quantity is totally up to you. The goal here is to increase returns. You want that cash in your pocket so you can increase your likelihood of success on the trade; you'll see that more clearly on the next slide, and you lower your breakeven point. So you get a little bit of buffer to the downside when you're selling calls; there is a slight bit of hedging benefits from covered calls, but really, you're bullish here, and you want to increase your returns on the stock moving higher.

In exchange for all of that, what you give up is the far upside potential. You can see here on the chart, above $55, and that's the strike price we sold, we sold the XYZ 55 call option, above that level, you can't make any more money, because you're obligated to sell shares there. But you can see at that level of 55 or below, the covered call with outperform just owning the shares outright, and that's become of the premium received, that $1.75, the calculations there on the right, on the bottom, the breakeven at expiration is the stock price you paid, in this case $52, minus the premium from the options received, the $1.75. Now you have a new breakeven point that lowers your cash expense outright, that increases your likelihood of success. Again, you'll outperform owning stock outright at all levels except for that significant move high. It's a pretty conservative strategy meant to buffer the downside and ease investors into it here. Your risk is similar to just owning stock, and that's to the downside, and there's an overview of covered call. So listed options are fungible; you have contract terms. You need to have a good understanding of the four outright options positions, and here's a brief look at one of the more common strategies.

Probably a good time, John, to pull up the platform and show our viewers and listeners a little bit about what Fidelity has to offer, and to walk through some of those details on Fidelity platform.

John Deyeso: Great, thanks a lot Ed. I'm sure I speak on behalf of all the listeners, that was a great introduction as far as what are options, some base use cases, and some of the introductory strategies, I'd like to call.

So now what I'd like to do is let's make this a little more real world, so let's do a little show here to go along with the tell. So what I'd like to do is go over with you the information and the research available on Fidelity's website. Additionally, I'm going to walk you through some of those basic trades that Ed had just introduced, and a great tool that we have in our Active Trader Pro platform that can help you to remember matching your strategy with the outlook.

So starting here on Fidelity.com in our options page, the way I navigated here was from "News and Research," and in the dropdown menu I'm just going to "Options." As I get here onto the main page, I'm dropped on the "Quotes and Tools" section, but what I want to focus on first is the information and research available from the Fidelity in the options market on any given day. So what I can do here is actually flip to this tab, "Market Overview." What this is going to do is show me market commentary, in the top-middle of the page, provided by Argus; they're a third-party research firm that we subscribe to on your behalf. They're doing a daily writeup on what's going on in the markets, how that impacts the options markets. This also has focus lists, market scanners, and brief information just regarding IV index monitors and things like that.

As I flip the tab further to "Trading Ideas," now I come to a market scanner where I could scan for opportunities in the options market. We're going to talk more about this in the series to come, but you know, certainly a good way to scan the options markets with specific criteria that pertain more to options.

But below where I clicked on "Trading Ideas," I can go to Strategy Ideas. This is a great tool for somebody that's beginning to try to match outlook to the different strategies available. So I could click on, let's say "Bullish." Speaking in plain English here, I think something's going to go up in value. So once I click on that, you can see that it then shades to a darker, the ones that don't pertain to bullish strategies, and then leaves highlighted the strategies that are more for a bullish outlook. I could switch that from "Bullish" to "Bearish"; I think something’s going to go down in value. And here are the strategies that would fit that outlook.

So that’s how you could start to narrow down what strategies you might use in different markets. And then, learn more about those strategies before we implement, but a great way to filter through.

Additionally to the right-hand side here, in the top, you could see tools, intraday trade ideas. So this is, again, written by strategists, going through on a daily basis, what are some ideas today for trades that you may consider and look at? And then also, next intraday trade ideas at the top: “Expert Options Analysis,” and so this is coming from my vol just on a daily basis, a little bit of an outlook on the options market. So a lot coming at you from third parties that we subscribe to for information and research on a daily basis for the options market.

A little bit of a shout out internally for a group that we have, the Trading Strategy Desk, who are the men and women answering your questions today behind the scenes. If I go to “News and Research,” and I come down to “Learning Center,” that’ll drop you into what I call Fidelity’s digital library. On the righthand side, you see where it says, “Events and webinars,” it’s like we went to sign up for today. You can go to strategy desk coaching sessions, and as I come in here, the first one: daily market briefings. How'd you like to join a morning and afternoon briefing from trading strategy desk professionals here at Fidelity? Just talking about what's going on in the marketplace today. Everything that's been going on, new terms like limit up, limit down, certainly now we know what those mean, and there's certain thresholds. I mean, going through what's happening in the market, what's leading to that, what's that going to mean for today's trading session and digest of things really come to fruition.

So those are some of the information and research sources that we make available, and certainly love to see more of you utilize to again get an outlook on almost a daily basis here.

Transitioning from our website, I'm going to go to Fidelity's trading software, Active Trader Pro. For those of you that are not familiar, this is a downloadable software to a macro PC. The big benefits here is that I can customize a layout of the markets and my account to really fit my eye, and it's streaming; you can see the numbers changing in real-time.

I'm going to highlight several tools today throughout the webinar series, but for right now, what I want to focus on, is a tool that we have called the option trade builder. What I want to do again is matching whatever outlook you have to what strategies may fit that, and as Ed said, the foundational strategies, and then watch it through placing a trade very easily. So a way to access that is there's a dropdown menu in the top-center for options. This is all the tools dedicated for options on this platform, and right here, I have the option trade builder. Let me go ahead and pull that up here, and I'm actually going to close some of the windows behind, so there's less noise going on here.

What it's going to ask me to do first is put in a symbol. I'm going to use FTY; that's an ETF that tracks the S&P 500. A lot of you may have heard of it prior to today's webinar. And so, the tool's going to ask you to do, once you put in the underlying stock or exchange-traded fund, it's going to ask you, what's your outlook? Again, in plain English, do you think it's going to go up? You'd select "Bullish." If you think it's going to stay right around where it is right now, you'd select "Neutral." Or if you think it's going to go down, would select "Bearish." So obviously, the S&P 500 has been all over the place in the last several weeks, adding to a lot of the market volatility. So our outlook going forward may be, okay, is it going to rebound, or is it going to go down further, or do we think it's going to remain right where it is?

Let's say we thought it was going to rebound, and we have a bullish outlook. So I click on "Bullish." What the tool's telling me is that there are a few basic strategies that I've alluded to, the foundational strategies, that allow me to take a bullish stance and use an options strategy; that is, buying a call. If I hover over any one of these, it'll tell me what really the trade entails. So buying a call. What happens if the stock finishes above the strike price. If the stock price is above the strike price at expiration, then you have the right to buy the stock at the strike price. What happens when the stock finishes below the strike price? If the price of the stock finishes below the strike price at expiration, then your option will expire worthless, and you will lose the premium you paid for the contract. So it walks me through those diagrams and also a little bit of what I've made profit from, but also highlights the risk for me. Going to cash covered put, what happens if the stock finishes above the strike, or below the strike. And then also additionally, the trade that Ed had highlighted, the covered call, that includes owning stock and selling a call that covers the shares.

Let's use the "Buy Call" example just for right here. So I'll click on "Buy Call." So again, I'll have a bullish outlook; I'm going to buy a call contract, and I'll hit "Next." What this is showing me is in a simplified option chain, it allows me on the left-hand side to choose a strike price, and then up top, the expiration. So remember that these contracts have a shelf life, and I'm going to pick a price level that I think it'll appreciate to, and an expiration that I feel comfortable with that's happening with it. So for expiration, I can just scroll to the righthand side to look at contracts that expire in a longer timeframe. So let's say I went out a couple of months to May, and then right now, you can see on the top left, it's showing me SPY's at 245. Let me scroll down so that I can actually go up in the price levels, and let's go to, let's say a 250, and I will choose the May 15th, 2020 250 contract. I will click on this $16.27. Remember, Ed told us, that's quoting per share; each contract covers 100 shares, so that's really $1,642 if I were to purchase one contract. "Contract Details," now that I've clicked on it showing below, it's the May 15th, 2020, $2.50 call. The last trade, $16.18, it's just like a stock, so it's going to show a last trade change; it's up $1.43 from yesterday's close. The current bid is $16.07. It has x50; there's 50 contracts being bid at that price currently. Ask price, $16.23 x12. Then we have volume; there's 5,963 contracts that have actually traded hands at this level today. Open interest of 21,000; more to come on that in a following series. And then it shows on the right-hand side the probably of SPY finishing above 250 by May 15th, 2020 is 46% currently.

We'll talk more about the option greeks in a following session, or some of the main ones, and that's a little bit of how we're deriving with the current market conditions the probability of reaching this price level in moneyness by the expiration.

Now that I've selected all of that, and I have that information, I'll click "Next," and now it's outlining for me the basis of this trade. I have at the top a buy to open one contract of the May 15, 2020 250 strike price. You can enter this as a limit or a market order; we'll talk more about the order types in a following session. The premium you will pay, again remember, this was in, we have to roll it out, so it's $16.13, so actually it'll cost me $1,613 for one contract, representing 100 shares. The benefits, if the price goes above 250, you will have the right to purchase the stock at the strike price up until May 15, 2020. So it's again reminding me the outline of this trade. That's why I think this tool's so useful for someone getting started with options trading. I pick my outlook, it highlights the strategies available. I pick which contracts I want to do. It then constantly reminds me the benefits and then on the risk side, if the price of SPY stays below 250 by that timeframe, so it didn't appreciate above the price level I was thinking it would, then the option will expire worthless, and I may lose that premium that I spent upfront.

Ed highlighted it; these have additional risks because of their complexities. Another huge risk is that they have a shelf life. Unlike buying a stock, where I theoretically have an unlimited timeframe, where you have a finite timeframe when you're trading options. And that's an important thing; we can put that actually into our benefit in some option strategies, but also too, remember that I have a limited timeframe regardless of whether I'm buying and selling to close your option at any point until the expiration, or realize the potential gain or loss accrued. When I purchase an option contract, I can sell it before expiration, exercise it in a lot of cases before expiration, or hold it all the way through expiration. If I were to sell this call contract, I can buy it back as long as it's in my account to close, or I can hang onto it all the way through expiration as well. If I decided that this was a trade I wanted to go forward with, I could simply click "Load Trade Ticket."

That is the Option Trade Builder, and I think a great tool that a lot of you could leverage, placing your first option trades, or even if you have traded options in the past, just a very easy one to guide you through matching an outlook to a strategy and very easily getting to a trade. We did bullish; I'll just click on neutral and show the strategies matching that. So covered call and cash covered put, if we think it's going to stay, again, right around where it's trading now, or bearish; if I thought it was going to go down in value, the SPY, the S&P

500, I could purchase a put. The put would theoretically appreciate in value as SPY depreciated. That's my outlook; I think it's going to go down in value. Now it might be just purely speculative; I don't have any positions, and I'm just buying the put because I think the SPY's going to go down, or I might actually have a portfolio that closely mimics the S&P 500, or I can do this on individual companies; let's say I own a particular company; in his example, company XYZ, I could potentially buy puts on XYZ as protection to the downside, because I'm not just purely speculating it's going to go down; I'm trying to protect myself, and I have something that would appreciate in value if XYZ went down, and therefore stemming to the losses that I'm going to be having on my underlying position.

So that is a little bit about the information and research available on our website from third parties that we subscribe to on your behalf, or even our in-house Trading Strategy Desk professionals. And then, the Option Trade Builder within Active Trader Pro. I think a great way to match your outlook to an options strategy, walks you through what your risks and your potential profits are in plain English, and can really help to build that foundational understanding. I know there's a lot more eccentric options strategies out there, and again I will both say that everything builds off of this; doesn't matter whether you went from one leg, to two to three to four; it's all going to build from here. And so understanding these very well and how they operate and how you can use them is certainly going to act as, you know, a great first step in your options education.

END OF AUDIO FILE

Options trading entails significant risk and is not appropriate for all investors. Certain complex options strategies carry additional risk. Before trading options, contact Fidelity Investments by calling 800-544-5115 to receive a copy of *Characteristics and Risks of Standardized Options*. Supporting documentation for any claims, if applicable, will be furnished upon request.

There are additional costs associated with option strategies that call for multiple purchases and sales of options, such as spreads, straddles, and collars, as compared with a single option trade.

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