



**Montréal  
Exchange**

# Protective Strategies Using Options



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# Agenda



- Standard investment dilemma.
- Protective strategies using Puts.
- Protective strategies using Calls.
- The Collar strategy.

# Standard Investing Dilemma



- When you start making money, when do you take profits?
- If you start losing on a stock, when do you sell?
- Do you wait for the investment to come back?

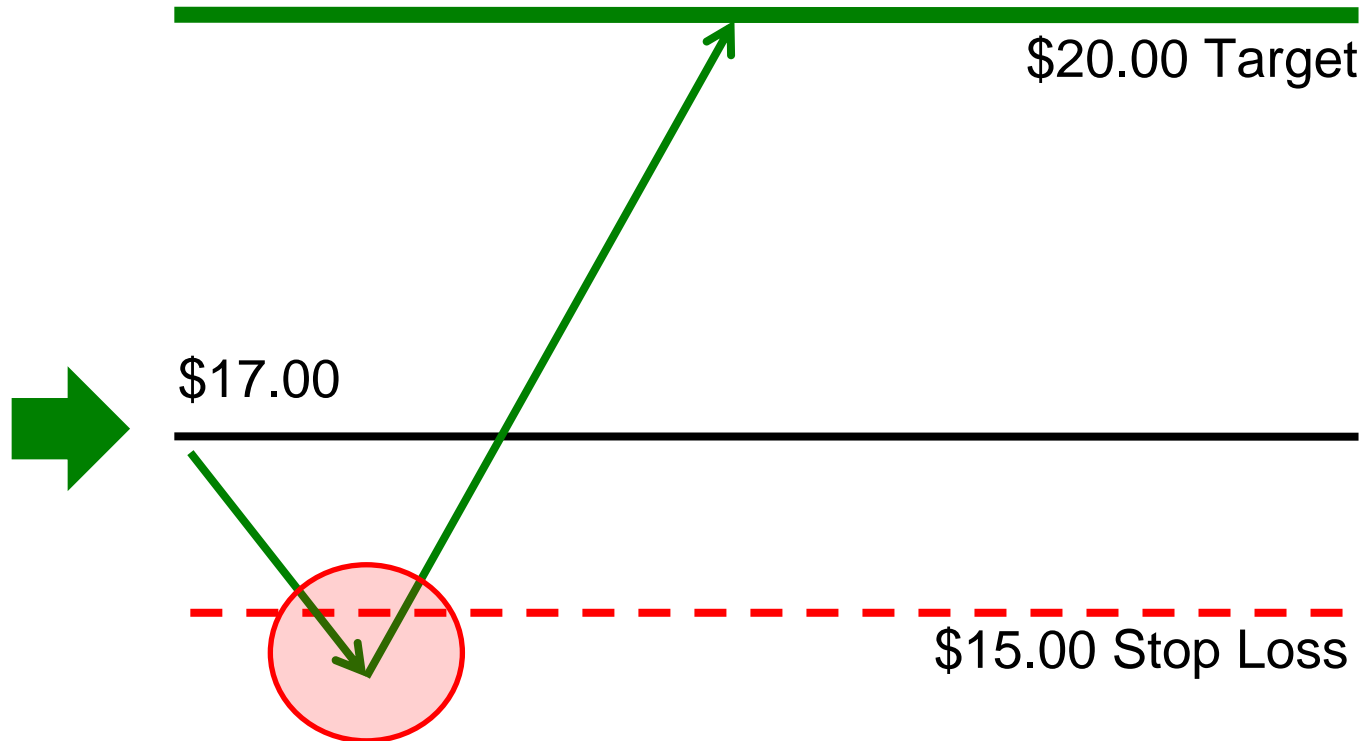
# Stop Losses



- Traditional approach to limiting losses on an investment has always been to put in a stop loss.
- Stop loss is entered as a market order once the specified price has been hit.
- Results in an immediate realization of loss in a volatile market.
- Forces the sale of shares at lower than expected prices in the event of a gap down.

# Disadvantages of stop-loss orders

Stop-loss orders are at risk to market volatility.



# Gap slippage





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# Protective Strategies Using Puts



# What does a Put represent?



- Each contract represents a specific price and time frame at which the owner of the Put has the right to SELL the underlying security.

# Considerations



- You own 100 RIM shares at \$43.00
- Wish to benefit from a move higher.
- Own the stock/buy a protective Put
  - What Put strike price to select?
  - What expiration date to select?

# Put Option Selection May 30



## RIM – Research in Motion Limited

Last update: May 30, 2014, 17:30 Montréal time Refresh | Print  
 ▲ Last Price: **43.240** Net Change: **0.640** Bid Price: **43.140** Ask Price: **43.240** 30-Day Historical Volatility: **52.57%**

Calls						Puts					
Month / Strike	Bid Price	Ask Price	Last Price	Impl. Vol.	Vol.	Month / Strike	Bid Price	Ask Price	Last Price	Impl. Vol.	Vol.
+ 11 JN 80.000	0.000	0.050	0.050	N/Av	0	+ 11 JN 80.000	36.750	36.950	37.500	N/Av	0
+ 11 JN 82.000	0.000	0.050	0.050	N/Av	0	+ 11 JN 82.000	38.750	38.950	39.500	N/Av	0
+ 11 JL 34.000	9.250	9.450	8.950	37.52	0	+ 11 JL 34.000	0.120	0.210	0.240	44.49	0
+ 11 JL 36.000	7.450	7.600	7.150	39.48	0	+ 11 JL 36.000	0.270	0.370	0.420	42.59	0
+ 11 JL 38.000	5.700	5.900	5.500	38.85	0	+ 11 JL 38.000	0.550	0.650	0.670	41.11	1
+ 11 JL 40.000	4.200	4.400	4.000	38.94	0	+ 11 JL 40.000	1.020	1.130	1.310	40.19	0
+ 11 JL 42.000	2.930	3.200	2.790	39.23	0	+ 11 JL 42.000	1.720	1.860	1.850	39.48	5
+ 11 JL 44.000	1.930	2.150	1.850	38.53	0	+ 11 JL 44.000	2.630	2.860	3.200	38.49	0
+ 11 JL 46.000	1.220	1.340	1.250	37.94	10	+ 11 JL 46.000	3.850	4.150	4.550	38.19	0
+ 11 JL 48.000	0.750	0.850	0.770	38.35	0	+ 11 JL 48.000	5.500	5.700	6.100	40.32	0
+ 11 JL 50.000	0.440	0.540	0.490	38.87	0	+ 11 JL 50.000	7.150	7.400	7.850	41.01	0
+ 11 JL 52.000	0.260	0.330	0.300	39.40	0	+ 11 JL 52.000	9.000	9.200	9.650	42.92	0
+ 11 JL 54.000	0.160	0.240	0.210	41.12	0	+ 11 JL 54.000	10.850	11.050	11.600	43.49	0

# The Mechanics



1. Own 100 shares of RIM @ \$43.00
2. Buy 1 Put option - July Expiration, 42 Strike
  - Risk on the stock = \$1.00
  - Asking price for Put : \$1.85
  - Break even on position : \$44.85
  - Most you can lose until July expiry : \$2.85
  - Profit potential = unlimited

# Protecting *RIM*



# RIM on June 16



Your entry at \$43.00

\$8.00 Loss/Share

Stock drops to \$35.00

# Option Quotes June 16



## RIM – Research in Motion Limited

Last update: June 16, 2011, 17:30 Montréal time Refresh | Print  
 Last Price: **34.370** Net Change: **-0.090** Bid Price: **34.300** Ask Price: **34.750** 30-Day Historical Volatility: **31.29%**

### Calls

Month / Strike	Bid Price	Ask Price	Last Price	Impl. Vol.	Vol.
+ 11 JL 28.000	7.100	7.350	7.000	86.39	0
+ 11 JL 29.000	6.250	6.550	6.150	83.34	0
+ 11 JL 30.000	5.450	5.700	5.700	79.29	2
+ 11 JL 32.000	4.000	4.200	4.350	73.58	2
+ 11 JL 34.000	2.950	3.000	3.000	72.30	130
+ 11 JL 36.000	1.900	2.090	2.120	68.95	369
+ 11 JL 38.000	1.300	1.310	1.320	67.46	295
+ 11 JL 40.000	0.800	0.950	0.850	68.16	16
+ 11 JL 42.000	0.530	0.620	0.550	68.69	16
+ 11 JL 44.000	0.340	0.390	0.300	68.81	15
+ 11 JL 46.000	0.210	0.280	0.230	70.14	0
+ 11 JL 48.000	0.150	0.200	0.170	72.25	0
+ 11 JL 50.000	0.100	0.180	0.160	N/Av	0
+ 11 JL 52.000	0.070	0.160	0.150	N/Av	0
+ 11 JL 54.000	0.050	0.140	0.160	N/Av	0

### Puts

Month / Strike	Bid Price	Ask Price	Last Price	Impl. Vol.	Vol.
+ 11 JL 28.000	0.400	0.490	0.450	68.81	0
+ 11 JL 29.000	0.560	0.650	0.550	67.48	1
+ 11 JL 30.000	0.750	0.810	0.810	65.18	62
+ 11 JL 32.000	1.270	1.420	1.300	63.11	60
+ 11 JL 34.000	2.100	2.240	2.240	61.54	213
+ 11 JL 36.000	3.150	3.300	3.350	59.13	24
+ 11 JL 38.000	4.450	4.600	4.750	56.31	0
+ 11 JL 40.000	5.950	6.150	5.800	52.88	6
+ 11 JL 42.000	7.650	7.900	7.650	49.09	6
+ 11 JL 44.000	9.400	9.700	9.950	N/Av	0
+ 11 JL 46.000	11.350	11.600	11.900	N/Av	0
+ 11 JL 48.000	13.300	13.500	13.800	N/Av	0
+ 11 JL 50.000	15.250	15.500	15.750	N/Av	0
+ 11 JL 52.000	17.200	17.450	17.750	N/Av	0
+ 11 JL 54.000	19.150	19.400	19.750	N/Av	0

# Continue To Hold Both...



- Put option does not expire until July 15, 2011
- Profits are fully protected regardless of how low the shares drop.

# RIM at July 15 Expiration



Your entry at \$43.00

\$17.00 Loss/Share

Stock drops to \$26.00 on expiry

# RIM at July 15 Expiration



## RIM – Research in Motion Limited

Last update: July 15, 2011, 17:30 Montréal time

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▲ Last Price: **26.240** Net Change: **0.060** Bid Price: **26.240** Ask Price: **26.300** 30-Day Historical Volatility: **79.42%**

### Calls

### Puts

Month / Strike	Bid Price	Ask Price	Last Price	Impl. Vol.	Vol.	Month / Strike	Bid Price	Ask Price	Last Price	Impl. Vol.	Vol.
+ 11 JL 30.000	0.000	0.050	0.020	N/Av	62	+ 11 JL 30.000	3.650	3.800	3.600	N/Av	21
+ 11 JL 32.000	0.000	0.050	0.060	N/Av	0	+ 11 JL 32.000	5.650	5.800	5.700	N/Av	3
+ 11 JL 34.000	0.000	0.050	0.060	N/Av	0	+ 11 JL 34.000	7.650	7.800	7.700	N/Av	6
+ 11 JL 36.000	0.000	0.040	0.040	N/Av	0	+ 11 JL 36.000	9.650	9.800	9.900	N/Av	0
+ 11 JL 38.000	0.000	0.040	0.050	N/Av	0	+ 11 JL 38.000	11.650	11.800	11.900	N/Av	0
+ 11 JL 40.000	0.000	0.020	0.040	N/Av	1	+ 11 JL 40.000	13.650	13.800	13.900	N/Av	0
+ 11 JL 42.000	0.000	0.040	0.040	N/Av	0	+ 11 JL 42.000	15.650	15.800	15.850	N/Av	1
+ 11 JL 44.000	0.000	0.020	0.050	N/Av	0	+ 11 JL 44.000	17.650	17.800	17.900	N/Av	0
+ 11 JL 46.000	0.000	0.040	0.040	N/Av	0	+ 11 JL 46.000	19.650	19.800	19.850	N/Av	0
+ 11 JL 48.000	0.000	0.040	0.040	N/Av	0	+ 11 JL 48.000	21.650	21.800	21.850	N/Av	0
+ 11 JL 50.000	0.000	0.040	0.040	N/Av	0	+ 11 JL 50.000	23.650	23.800	23.850	N/Av	0
+ 11 JL 52.000	0.000	0.040	0.040	N/Av	0	+ 11 JL 52.000	25.650	25.800	25.850	N/Av	0
+ 11 JL 54.000	0.000	0.040	0.040	N/Av	0	+ 11 JL 54.000	27.650	27.800	27.850	N/Av	0

# Automatic Exercise



- If the options contract is \$0.01 in – the – money.
- Only triggered at the market close on the expiration date.
- The Clearing Corporation assumes the option holder wishes to exercise their right.

# Implications



- As a RIM Put option holder, the shares will be sold at the strike price.
- The investor will receive \$42.00 per share despite the drop to \$26.00.
- Investor loses the premium paid for the Put as well as the difference between the share purchase price and the strike...but has guaranteed the sale of the shares at \$42.00

# Without the Put



- On July 15, the investor is sitting with a **39% LOSS** on the shares.
- Investor can continue to hold...hoping for a reversal.

# Result with the Put



- Shares are automatically sold at \$42.00
- Has insured the sale of the shares at the strike.
- Must consider the cost of the Put and risk on the stock:
  - \$1.00 risk on the stock
  - $\$43.00 - \$1.00 - \$1.85 = \$40.15$  (Net Sale)
  - $\$43.00 - \$40.15 = \$2.85$
  - Net result is **6% LOSS** instead of **39%**

# Alternatively...



- The investor can sell the Put back into the options market for the BID price.

	BID	ASK	LAST
+ 11 JL 42.000	15.650	15.800	15.850

- Sell the Put and collect \$15.65 or \$1565.00
  - Loss on shares = \$17.00 (\$1700.00)
  - Profit on the Put is \$13.80 (\$1380.00)
  - Net result = **\$3.20 loss** or **- 7.4%**

# The Result



- The investor can use the Put profits to buy more shares at the lower price.
- Or, simply continue to hold the shares with the expectation of a reversal.
- And purchase another Put at a lower strike if concerned about further downside.



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# Protective Strategies Using Calls



# What does a Call represent?



- Each contract represents a specific price and time frame at which the owner of the Call has the right to BUY the underlying security.

# Short Tim Hortons - THI

June 17<sup>th</sup>



UNIDENTIFIED RISK

Sell short 100 shares at \$44.00

June 17, Expectation that THI will drop in value

# Considerations



- You sell short 100 THI shares at \$44.00
- Wish to benefit from a move lower.
- Short the stock/buy a protective Call
  - What Call strike price to select?
  - What expiration date to select?

# Call Option Selection June 17



## THI – Tim Hortons

Last update: June 17, 2011, 7:30 Montréal time Refresh | Print  
 ▼ Last Price: **43.410** Net Change: **-0.220** Bid Price: **43.410** Ask Price: **43.570** 30-Day Historical Volatility: **10.86%**

Calls						Puts					
Month / Strike	Bid Price	Ask Price	Last Price	Impl. Vol.	Vol.	Month / Strike	Bid Price	Ask Price	Last Price	Impl. Vol.	Vol.
+ 11 JL 38.000	5.500	5.700	5.900	38.24	0	+ 11 JL 38.000	0.020	0.140	0.140	30.11	0
+ 11 JL 40.000	3.550	3.800	4.000	29.64	0	+ 11 JL 40.000	0.070	0.180	0.180	22.92	0
+ 11 JL 42.000	1.890	2.080	2.230	24.67	0	+ 11 JL 42.000	0.400	0.450	0.300	20.45	18
<b>+ 11 JL 44.000</b>	0.680	<b>0.850</b>	0.950	21.61	0	+ 11 JL 44.000	1.160	1.310	1.220	18.57	0
+ 11 JL 46.000	0.160	0.240	0.340	20.51	18	+ 11 JL 46.000	2.520	2.740	2.620	N/Av	0
+ 11 JL 48.000	0.010	0.140	0.140	23.33	0	+ 11 JL 48.000	4.400	4.600	4.450	N/Av	0
+ 11 JL 50.000	0.000	0.120	0.130	N/Av	0	+ 11 JL 50.000	6.350	6.600	6.450	N/Av	0
+ 11 JL 52.000	0.000	0.120	0.130	N/Av	0	+ 11 JL 52.000	8.350	8.600	8.450	N/Av	0
+ 11 JL 54.000	0.000	0.120	0.130	N/Av	0	+ 11 JL 54.000	10.350	10.600	10.450	N/Av	0
+ 11 JL 56.000	0.000	0.120	0.130	N/Av	0	+ 11 JL 56.000	12.350	12.600	12.450	N/Av	0
+ 11 JL 58.000	0.000	0.120	0.130	N/Av	0	+ 11 JL 58.000	14.350	14.600	14.450	N/Av	0
+ 11 OC 36.000	7.650	7.950	8.100	29.42	0	+ 11 OC 36.000	0.230	0.320	0.300	24.79	0

# The Mechanics



1. Short 100 shares of THI @ \$44.00
2. Buy 1 Call option - July Expiration, 44 Strike
  - Asking price for Call = \$0.85
  - Break even on position : \$43.15
  - Most you can lose until July expiry : \$0.85
  - Profit potential = unlimited

# Short *THI*

June 17<sup>th</sup>



# Short THI

July 5<sup>th</sup>



# Option Quotes July 5<sup>th</sup>



## THI – Tim Hortons

Last update: July 5, 2011, 17:30 Montréal time

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Last Price: **47.500**

Net Change: **-0.100**

Bid Price: **47.500**

Ask Price: **47.520**

30-Day Historical Volatility: **8.99%**

### Calls

### Puts

Month / Strike	Bid Price	Ask Price	Last Price	Impl. Vol.	Vol.	Month / Strike	Bid Price	Ask Price	Last Price	Impl. Vol.	Vol.
+ 11 JL 36.000	11.400	11.550	11.750	N/Av	0	+ 11 JL 36.000	0.000	0.110	0.110	85.26	0
+ 11 JL 38.000	9.400	9.550	9.700	N/Av	0	+ 11 JL 38.000	0.000	0.110	0.110	70.80	0
+ 11 JL 40.000	7.400	7.600	7.750	43.68	0	+ 11 JL 40.000	0.000	0.040	0.040	48.56	0
+ 11 JL 42.000	5.300	5.600	5.750	N/Av	0	+ 11 JL 42.000	0.000	0.050	0.050	37.66	0
+ 11 JL 44.000	<b>3.450</b>	3.600	3.700	26.52	0	+ 11 JL 44.000	0.000	0.060	0.060	26.09	0
+ 11 JL 46.000	1.530	1.650	1.690	17.81	108	+ 11 JL 46.000	0.060	0.140	0.160	17.96	0
+ 11 JL 48.000	0.260	0.330	0.460	16.14	0	+ 11 JL 48.000	0.790	0.920	0.910	17.95	0
+ 11 JL 50.000	0.010	0.130	0.140	22.53	0	+ 11 JL 50.000	2.440	2.610	2.520	N/Av	0
+ 11 JL 52.000	0.000	0.110	0.110	N/Av	0	+ 11 JL 52.000	4.400	4.600	4.500	N/Av	0
+ 11 JL 54.000	0.000	0.110	0.110	N/Av	0	+ 11 JL 54.000	6.400	6.600	6.500	N/Av	0
+ 11 JL 56.000	0.000	0.110	0.110	N/Av	0	+ 11 JL 56.000	8.400	8.600	8.500	N/Av	0

# Implications



- As a Call option holder, you have the right to buy the shares at the strike.
- The investor will cover at \$44.00 per share despite the rally to \$47.50
- Investor loses the premium paid for the Call ...but is guaranteed to cover the shares at \$44.00

# Without the call



- On July 5, the investor is sitting with a **8% LOSS** on the shares.
- Investor can continue to stay short the shares ...hoping for a reversal.

# Considerations



- Continue to stay short and hold the call.
- Sell the call and anticipate a reversal.
- Cover the shares and sell the call.

# Sell the Call



- The call can be sold at the BID price.
- BID price = \$3.45 (\$345.00)
  - $\$3.45 - \$0.85 = \$2.60$  profit on the Call
  - $\$3.50$  loss on the shares -  $\$2.60 = \$0.90$  loss
- Net result is **2% loss** instead of **8%**
- Risk is continuing to remain short and the stock continuing to rally.

# Cover the Shares and Sell Call

- You are no longer bearish on the shares
  - Cover the shares for \$47.50 (debit)
  - Sell the Call for \$3.45 (credit)
  - Net result \$44.05
  - Add the cost of the Call = \$0.85
  - Result is \$44.90

LOSS INCURED:  $\$44.90 - \$44.00 = -\$0.90$

Instead of **\$3.50**.

# Risks



- If you continuously buy options for protection you can experience accumulating losses.
- With each Put we purchase, we raise the break even of the position.
- At some point we must admit that we are wrong on the direction

# Summary



When you buy protective Calls/Puts:

- It prevents feeling trapped in a losing position.
- It prevents you from making a short-term trade into a long-term holding.
- Gives you the control to reposition.



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# The Collar Strategy



Toronto Stock Exchange | TSX Venture Exchange | **Montréal Exchange** | Natural Gas Exchange | Montréal Climate Exchange | Boston Options Exchange

Canadian Derivatives Clearing Corporation | TMX Datalinx | Equicom | PC Bond | Shorcan

# The Collar Strategy



- Also known as the Hedge Wrap.
- Creating a position that limits the risk as well as the profit potential.
- Ideal for existing positions that are already profitable with limited profitability anticipated.
- Involves a combination of two strategies.

# Components



- The first component is the sale of a Call option creating a Covered Call position.
- Profit on the underlying is now limited to the sold strike.
- The second component requires the purchase of a Protective Put.
- The credit received from the Covered Call is applied to the cost of the Put.

# When To Use a Collar



- Investor wishes to continue to hold the shares in a company but has short-term concerns.
- Concerns may be technical or fundamental.
- Can be applied inside and outside of registered accounts.

# Collar on Toronto Dominion Bank (TD)



April 11<sup>th</sup> 2011

- Investor has held TD shares long and is concerned about a possible sell off.
  - Bought at \$70.00, price is \$84.00 = **\$14.00 profit**
  - Investor wishes to protect profits at a reduced cost.

# The First Step

Buy 1 Put option

- July Expiration
- 84 Strike
- Asking price for Put = \$2.91



# Option Quotes April 11<sup>th</sup>



## TD – Toronto-Dominion Bank (The)

Last update: Apr. 11, 2011, 17:30 Montréal time

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▼ Last Price: **84.350** Net Change: **-0.590** Bid Price: 84.320 Ask Price: 84.390 30-Day Historical Volatility: 15.94%

### Calls

### Puts

Month / Strike	Bid Price	Ask Price	Last Price	Impl. Vol.	Vol.	Month / Strike	Bid Price	Ask Price	Last Price	Impl. Vol.	Vol.
+ 11 JL 60.000	24.450	24.700	25.300	49.40	0	+ 11 JL 60.000	0.050	0.140	0.140	32.58	0
+ 11 JL 62.000	22.450	22.700	23.300	45.50	0	+ 11 JL 62.000	0.070	0.150	0.150	30.50	0
+ 11 JL 64.000	20.500	20.700	21.350	42.06	0	+ 11 JL 64.000	0.090	0.150	0.160	28.13	0
+ 11 JL 66.000	18.500	18.750	19.350	38.66	0	+ 11 JL 66.000	0.130	0.170	0.180	26.42	0
+ 11 JL 68.000	16.550	16.800	17.400	35.60	0	+ 11 JL 68.000	0.170	0.240	0.230	25.13	0
+ 11 JL 70.000	14.600	14.850	15.450	32.49	0	+ 11 JL 70.000	0.240	0.290	0.300	23.55	0
+ 11 JL 72.000	12.700	12.950	13.550	29.86	0	+ 11 JL 72.000	0.340	0.390	0.370	22.28	0
+ 11 JL 74.000	10.800	11.050	11.650	27.06	0	+ 11 JL 74.000	0.480	0.570	0.510	21.28	0
+ 11 JL 76.000	9.050	9.250	9.800	25.12	0	+ 11 JL 76.000	0.680	0.750	0.650	19.95	20
+ 11 JL 78.000	7.300	7.500	8.050	22.94	0	+ 11 JL 78.000	0.980	1.060	1.100	18.95	10
+ 11 JL 80.000	5.700	5.850	5.500	21.10	5	+ 11 JL 80.000	1.400	1.500	1.550	18.01	21
+ 11 JL 82.000	4.200	4.400	4.900	19.48	0	+ 11 JL 82.000	1.980	2.080	1.850	17.05	120
+ 11 JL 84.000	2.890	3.100	3.050	17.94	7	- 11 JL 84.000	2.780	<b>2.910</b>	2.670	16.34	0
+ 11 JL 86.000	1.960	2.070	2.110	17.14	13	+ 11 JL 86.000	3.800	3.950	4.000	15.57	1
+ 11 JL 88.000	1.190	1.250	1.250	16.12	40	+ 11 JL 88.000	5.050	5.250	4.850	14.86	0

# Long TD plus Protective Put

April 11<sup>th</sup>



# The Second Step



The investor feels the cost of the \$84.00 put protection is too high.

## Sell 1 Call option

- July Expiration
- 86 Strike
- Bid price for the Call = \$1.96

# Option Quotes April 11<sup>th</sup>



## TD – Toronto-Dominion Bank (The)

Last update: Apr. 11, 2011, 17:30 Montréal time Refresh | Print  
▼ Last Price: **84.350** Net Change: **-0.590** Bid Price: **84.320** Ask Price: **84.390** 30-Day Historical Volatility: **15.94%**

Calls						Puts					
Month / Strike	Bid Price	Ask Price	Last Price	Impl. Vol.	Vol.	Month / Strike	Bid Price	Ask Price	Last Price	Impl. Vol.	Vol.
+ 11 JL 60.000	24.450	24.700	25.300	49.40	0	+ 11 JL 60.000	0.050	0.140	0.140	32.58	0
+ 11 JL 62.000	22.450	22.700	23.300	45.50	0	+ 11 JL 62.000	0.070	0.150	0.150	30.50	0
+ 11 JL 64.000	20.500	20.700	21.350	42.06	0	+ 11 JL 64.000	0.090	0.150	0.160	28.13	0
+ 11 JL 66.000	18.500	18.750	19.350	38.66	0	+ 11 JL 66.000	0.130	0.170	0.180	26.42	0
+ 11 JL 68.000	16.550	16.800	17.400	35.60	0	+ 11 JL 68.000	0.170	0.240	0.230	25.13	0
+ 11 JL 70.000	14.600	14.850	15.450	32.49	0	+ 11 JL 70.000	0.240	0.290	0.300	23.55	0
+ 11 JL 72.000	12.700	12.950	13.550	29.86	0	+ 11 JL 72.000	0.340	0.390	0.370	22.28	0
+ 11 JL 74.000	10.800	11.050	11.650	27.06	0	+ 11 JL 74.000	0.480	0.570	0.510	21.28	0
+ 11 JL 76.000	9.050	9.250	9.800	25.12	0	+ 11 JL 76.000	0.680	0.750	0.650	19.95	20
+ 11 JL 78.000	7.300	7.500	8.050	22.94	0	+ 11 JL 78.000	0.980	1.060	1.100	18.95	10
+ 11 JL 80.000	5.700	5.850	5.500	21.10	5	+ 11 JL 80.000	1.400	1.500	1.550	18.01	21
+ 11 JL 82.000	4.200	4.400	4.900	19.48	0	+ 11 JL 82.000	1.980	2.080	1.850	17.05	120
+ 11 JL 84.000	2.890	3.100	3.050	17.94	7	+ 11 JL 84.000	2.780	2.910	2.670	16.34	0
<b>+ 11 JL 86.000</b>	<b>1.960</b>	2.070	2.110	17.14	13	+ 11 JL 86.000	3.800	3.950	4.000	15.57	1
+ 11 JL 88.000	1.190	1.250	1.250	16.12	40	+ 11 JL 88.000	5.050	5.250	4.850	14.86	0

# TD Collar

April 11<sup>th</sup>

Benefit in profits up to the written strike.



# Net Cost of the Collar



- Buy 1 July 84.00 Put = - \$2.91
- Sell 1 July 86.00 Call = +\$1.96
- Cost of the Collar = \$0.95/share.
- **The cost of the protection has been reduced by 67%**

# The Result at July 15 Expiration



# Option Quotes July 15<sup>th</sup>



## TD – Toronto-Dominion Bank (The)

Last update: July 15, 2011, 17:30 Montréal time

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▼ Last Price: **79.230** Net Change: **-0.300** Bid Price: **79.150** Ask Price: **79.360** 30-Day Historical Volatility: **13.57%**

### Calls

### Puts

Month / Strike	Bid Price	Ask Price	Last Price	Impl. Vol.	Vol.	Month / Strike	Bid Price	Ask Price	Last Price	Impl. Vol.	Vol.
+ 11 JL 80.000	0.000	0.060	0.100	N/Av	3	+ 11 JL 80.000	0.610	0.860	0.800	N/Av	283
+ 11 JL 82.000	0.000	0.030	0.030	N/Av	257	+ 11 JL 82.000	2.590	2.840	2.920	N/Av	97
+ 11 JL 84.000	0.000	0.050	0.050	N/Av	0	+ 11 JL 84.000	4.600	4.850	5.000	N/Av	12
- 11 JL 86.000	0.000	0.050	0.050	N/Av	0	+ 11 JL 86.000	6.600	6.850	7.050	N/Av	16
+ 11 JL 88.000	0.000	0.050	0.050	N/Av	0	+ 11 JL 88.000	8.600	8.850	8.750	N/Av	0
+ 11 JL 90.000	0.000	0.050	0.050	N/Av	0	+ 11 JL 90.000	10.600	10.850	10.750	N/Av	0
+ 11 JL 92.000	0.000	0.050	0.050	N/Av	0	+ 11 JL 92.000	12.600	12.850	12.750	N/Av	0
+ 11 JL 94.000	0.000	0.050	0.050	N/Av	0	+ 11 JL 94.000	14.600	14.850	14.750	N/Av	0
+ 11 JL 96.000	0.000	0.050	0.050	N/Av	0	+ 11 JL 96.000	16.600	16.850	16.750	N/Av	0
+ 11 JL 98.000	0.000	0.050	0.050	N/Av	0	+ 11 JL 98.000	18.600	18.850	18.750	N/Av	0
+ 11 JL 100.000	0.000	0.050	0.050	N/Av	0	+ 11 JL 100.000	20.550	20.850	20.750	N/Av	0

# Results – July Expiration



- Put worth = \$4.60
- Call expires worthless, you keep the credit.
- Net cost of the Collar = \$0.95
- Profit on the Put:  $\$4.60 - \$0.95 = \$3.65$

# Results of the Collar

- Loss on shares:  $\$84.00 - \$79.00 = - \$5.00$
- Profit on Put =  $+\$3.65$
- $\$5.00$  loss -  $\$3.65$  profit on Put =  $- \$1.35$
- The investor has locked in 90% of the profit despite the drop in shares.

# Summary



- The collar reduces the cost but caps the upside.
- A loss is still incurred, but considerably less than without the protection.
- The Investor can:
  - Allow the stock to be sold at the 84 strike.
  - Sell the Put and continue to hold the shares.
  - Buy another Put.

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Jason Ayres, DMS  
Founder & President

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