

nabtrade webinar

EXCHANGE TRADED OPTIONS 101



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EXCHANGE TRADED OPTIONS

are complex products



ASIC
Australian Securities &
Investments Commission

ASIC's
MONEYSMART
Financial guidance you can trust

“There are many investments which are complex and difficult to understand (even for experienced investors). Here we provide a brief overview of some of these high-risk products. We recommend you seek professional financial advice before you invest in any of these products.”



- Collateralised debt obligations (CDOs)
- Foreign exchange trading (forex)
- **Futures and options**
- Hedge funds
- Hybrid securities and notes
- Infrastructure investments
- Investment and insurance bonds
- Stapled securities

FOR MORE INFORMATION

www.moneysmart.gov.au/investing/complex-investments

EXCHANGE TRADED OPTIONS 101 WEBINAR



GRAHAM O'BRIEN
Senior Manager, Equity
Derivatives, ASX



VISHAL TECKCHANDANI
Customer Insights Manager,
nabtrade

Opening remarks and what we'll discuss

- The fundamentals of option trading including what they are, how they work and calls vs puts
- The types of options including ASX single stocks, index and weekly options
- How you can use them to strategically protect your shares without the need to sell them
- How investing in options may have the potential to generate income
- How to practice option trading for free using the ASX Options Game, and
- How you can transact options on nabtrade.



45 minutes

Q&A and closing remarks



15 minutes

**Don't forget, you can submit questions
at any time**

You can also download the presentation

ASX Options

Introduction to Options

September 2019



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ASX Options



Fundamentals

What are Options

Calls v Puts

Option Types
Single Stock
Index
Weekly

Option Strategies

Protection

Income Generation

Next Steps

Options Game

Exchange Traded Options create unique payoffs

Prior to the creation of options, only **three choices** existed:



Long a position



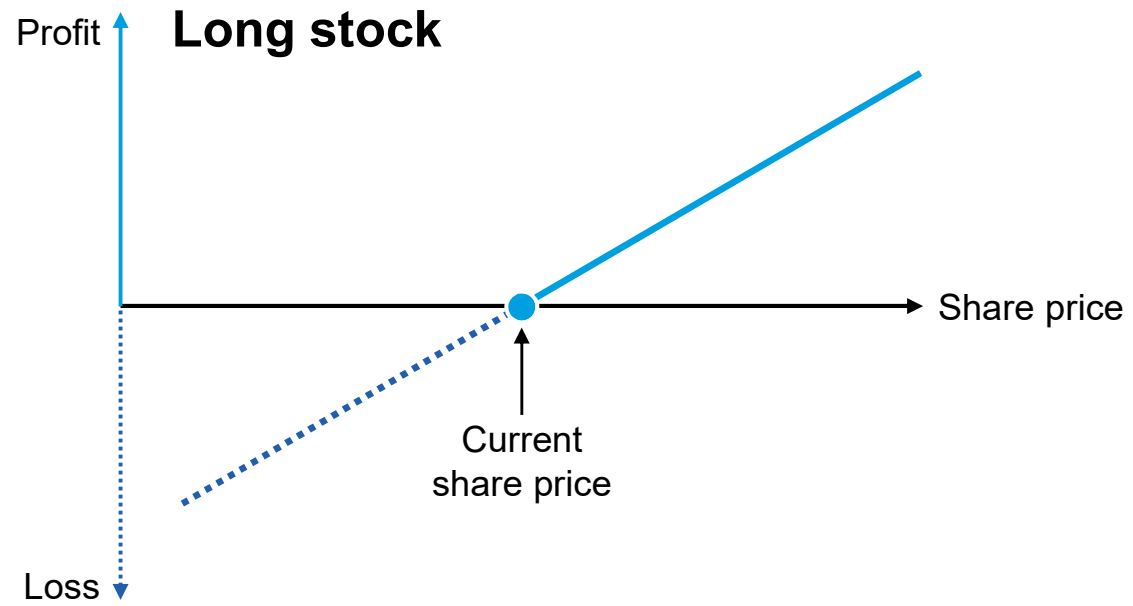
Short a position



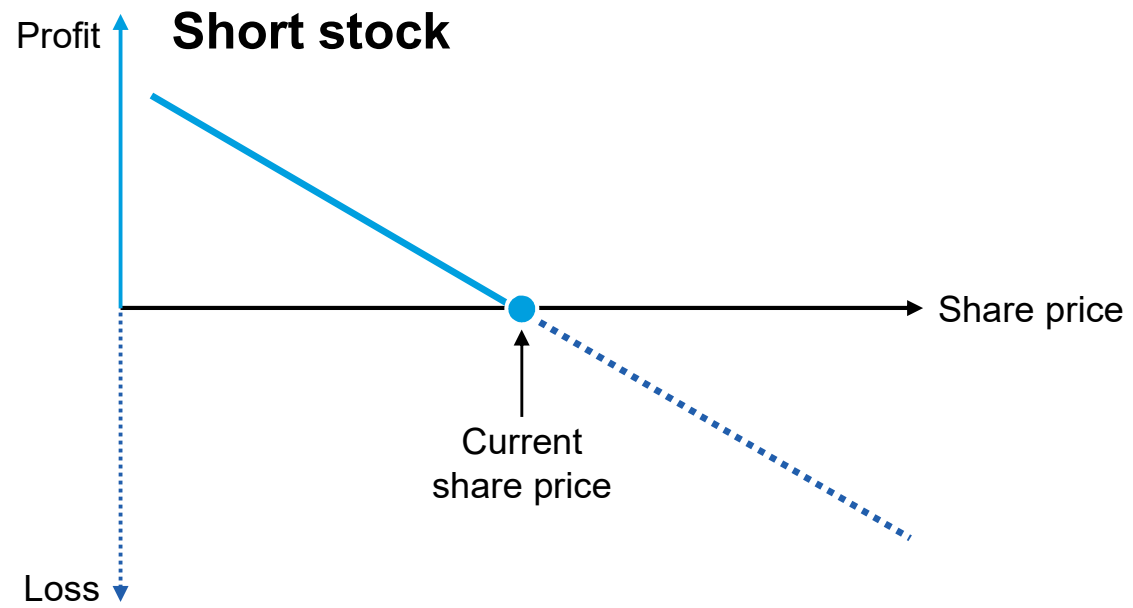
Cash

Options give you options!

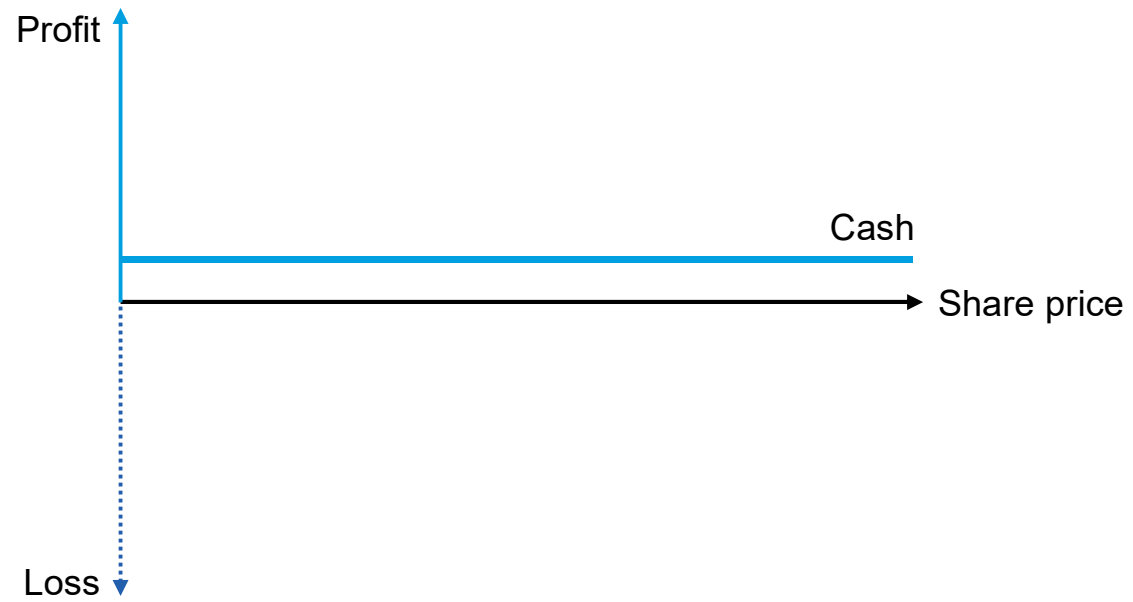
—• Pay-off diagram



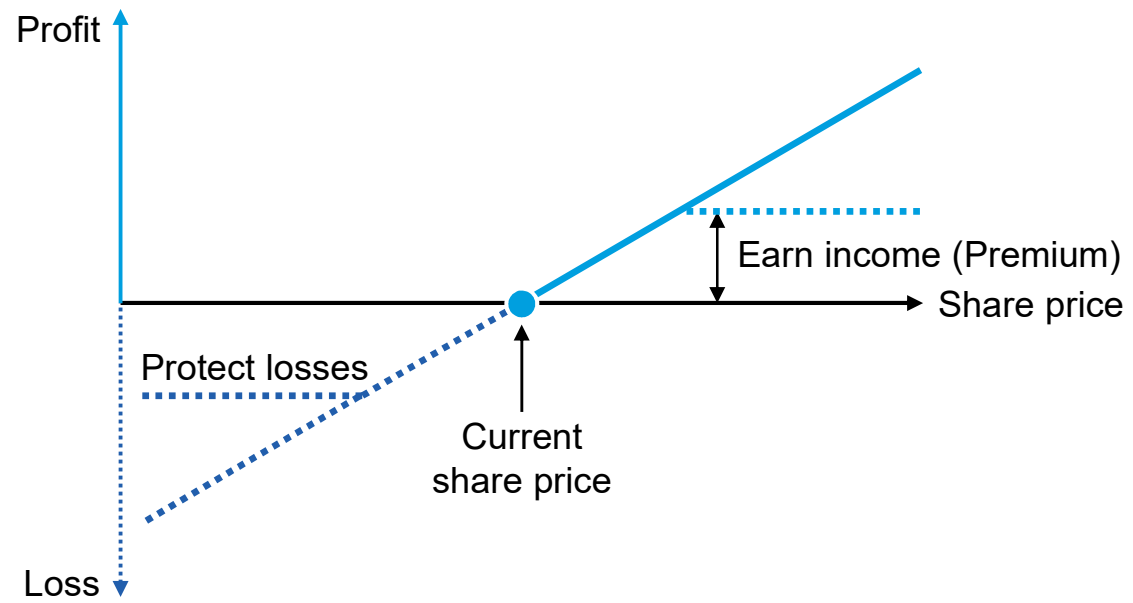
—• Pay-off diagram



—• **Pay-off diagram**



—• Pay-off diagram



What are Options?



What are Options?



A contract between two parties conveying a **right**, but not an **obligation**, to **buy (call)** or **sell (put)** an **underlying security** at a **specified price** within a **specified time** for an **agreed premium**

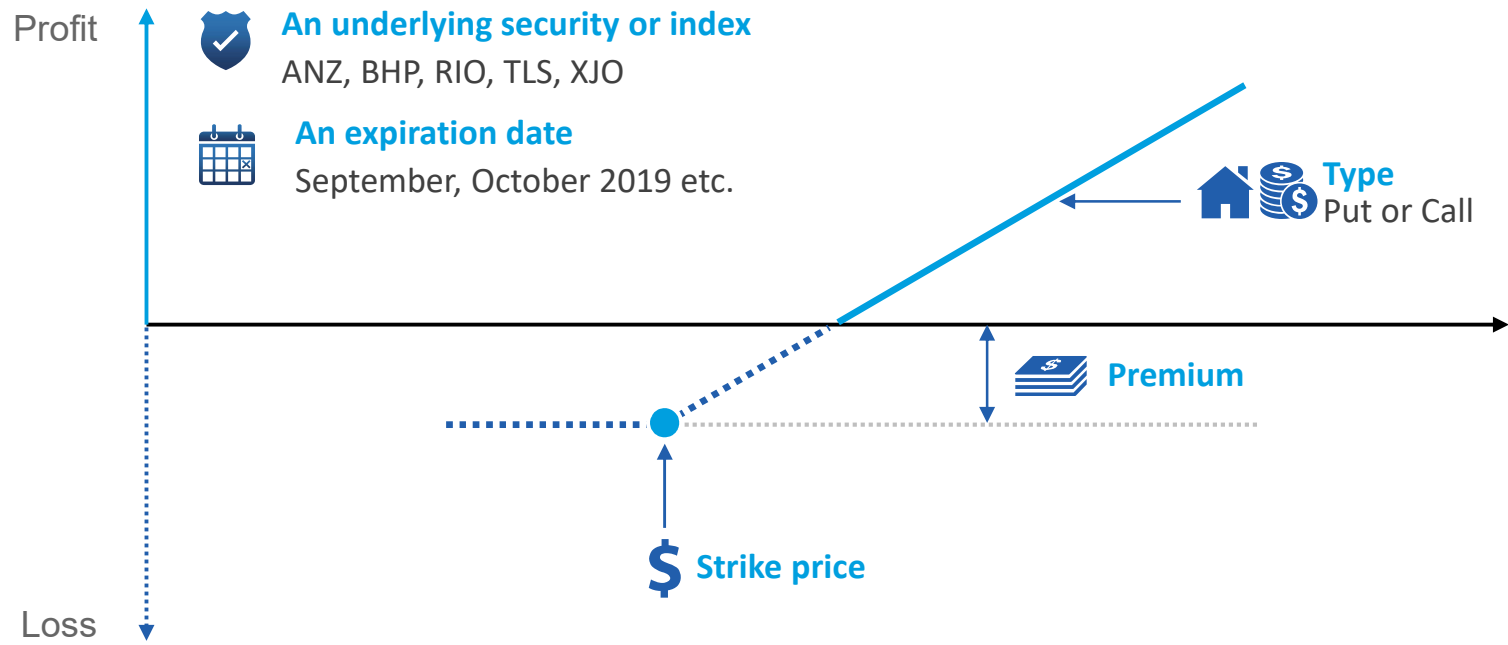


—• **71 stocks, 1 ETF, and 1 index**

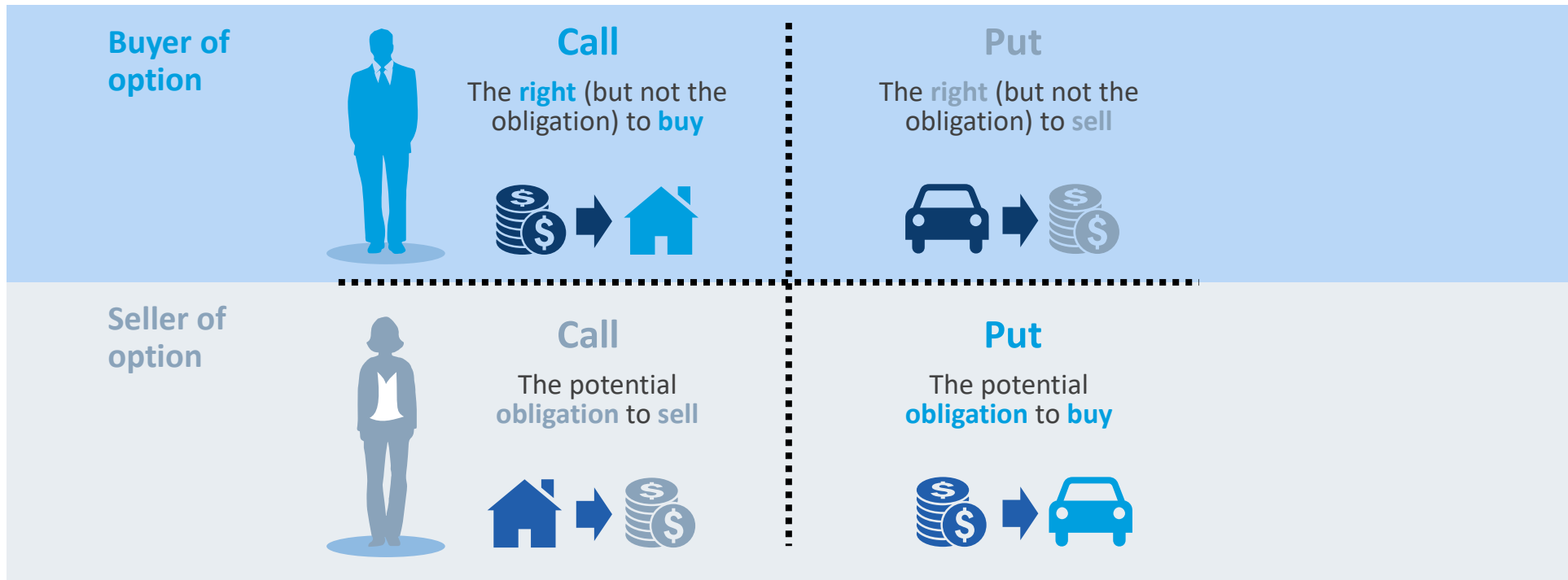
STOCKS:

A2M	BSL	GMG	NCM	SGM	WOW
AGL	BXB	GPT	ORG	SGP	WPL
AMC	CBA	HVN	ORI	SGR	
AMP	CCL	IAG	OSH	SHL	
ANN	CIM	IFL	OZL	STO	
ANZ	COL	ILU	QAN	SUN	
APT	CPU	IPL	QBE	SYD	
ASX	CSL	JHX	RHC	TAH	
AWC	CSR	LLC	RIO	TCL	
AZJ	CTX	MGR	RRL	TLS	ETF:
BEN	CWN	MPL	S32	TWE	STW
BHP	CYB	MQG	SCG	WBC	
BLD	FLT	MTS	SEK	WES	INDEX:
BOQ	FMG	NAB	SGM	WOR	XJO

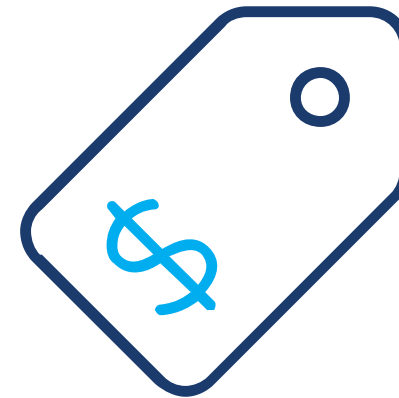
Components of an Option



Calls & Puts (rights vs obligations) – Summary

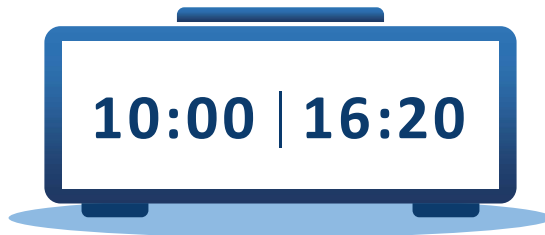


ASX Single Stock Options



ASX Single Stock Options - Overview

Trading hours (AEST)*



Started trading 1976

Usually 100 shares per contract

Generally expires last Thursday of the month

Both American and European exercise styles available

Physically Settled

*Time prescribed in the ASX Operating Rules

ASX Index Options



S&P/ASX 200 Index Options - Overview

Expiration Calendar

November						
M	T	W	T	F	S	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

Index Options
 Single Stock Options

*Time prescribed in the ASX Operating Rules

Trading hours (AEST)*



Late trading (AEST)*



Started trading 1999

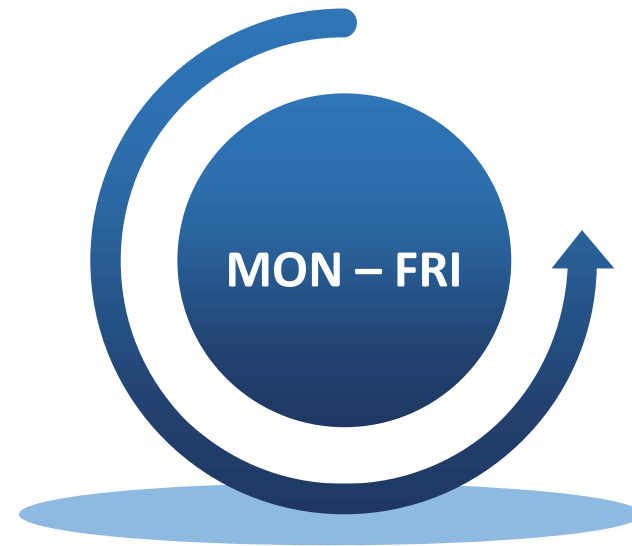
\$10 a tick

Generally expires third Thursday of the month on opening market prices

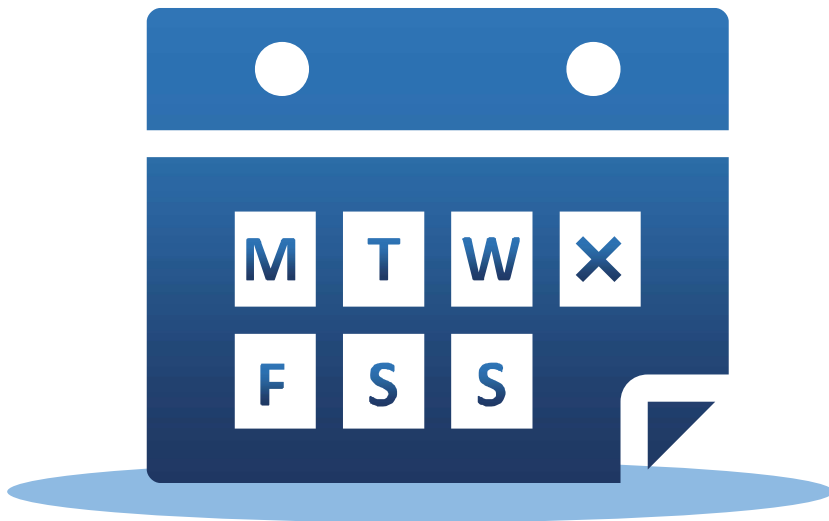
European style only

Cash Settled

ASX Weekly Options



ASX Weekly Options



Weekly options offer expiry dates that occur each week of the month

They are offered on a limited list of underlying securities

ANZ, BHP, CBA, FMG, NAB, NCM
RIO, STO, TLS, WBC & XJO

Strategies

Protecting Shares

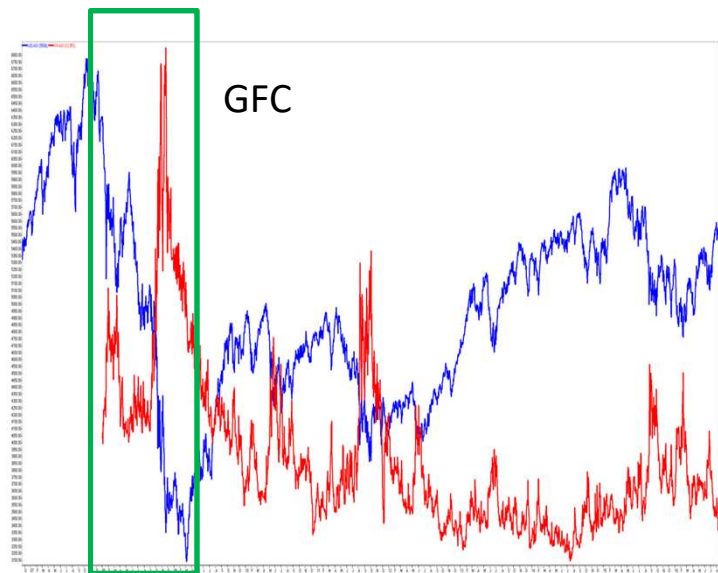


Earning Income



Cost Effective Protection

Extreme bear markets lead to significant losses for unprotected portfolios



Source: IRESS

What alternatives are available?

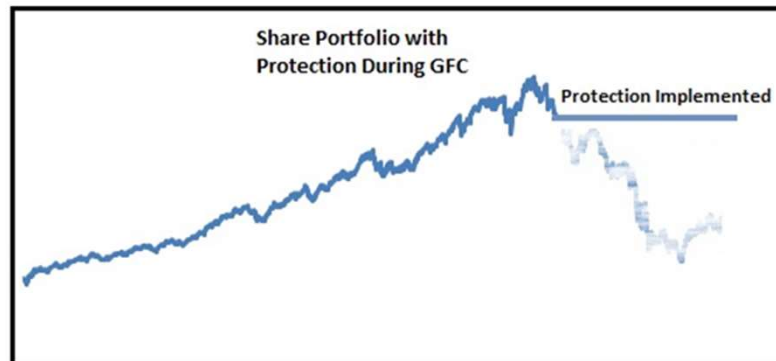
- Do nothing
- Shift to sectors with better performance
- Sell stock sit in cash
- Place stop losses
- Buy protection (Options)

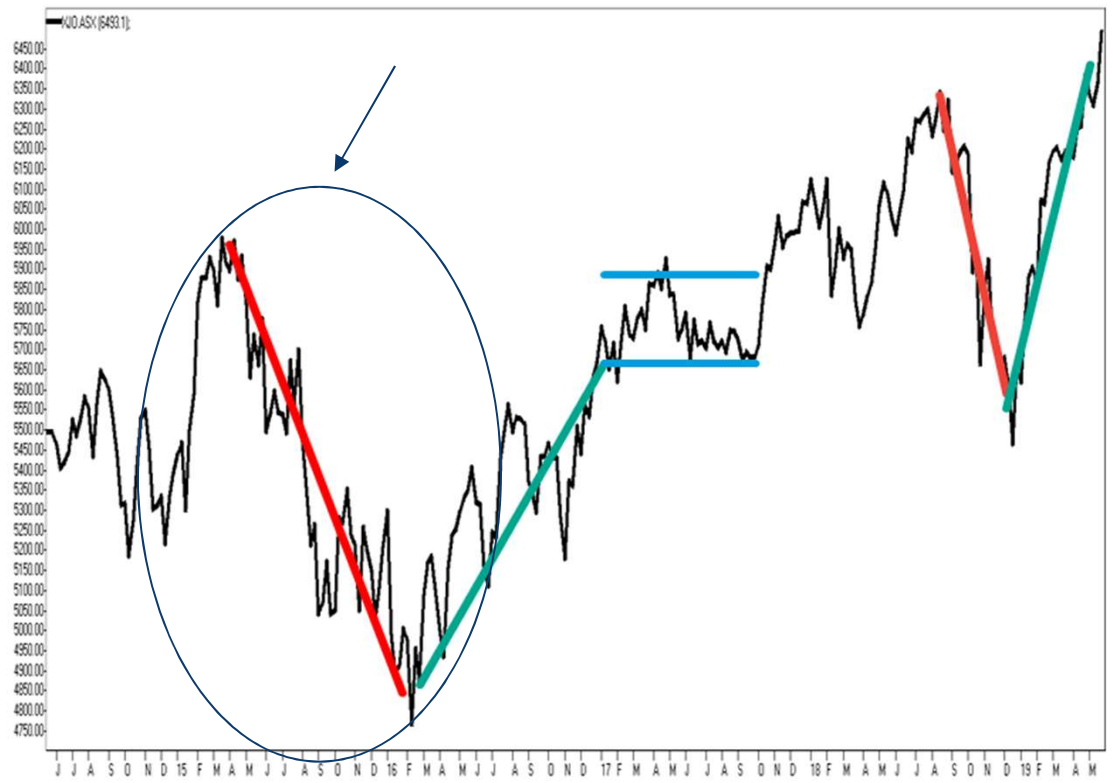
Portfolio Protection

Reducing sharemarket risk without selling shares

Purchasing portfolio protection from the options market:

- Returns cash to offset capital loss in portfolio
- SMSF continues to receive income (dividends & franking credits)
- Protection only used when market falls
- Continue to benefit if market rises



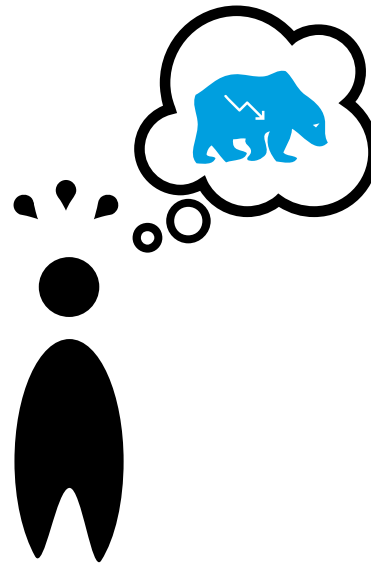


Source: IRESS

In April 2015 S&P/ASX 200 Index @ 5,950 points

—• **Put Options/Protective Puts**

S&P/ASX 200 index
worth **\$59,500**
at **5,950 points**



Nervous about another
market correction

Put Options can hedge the
portfolio against market
hiccups

—• Put Options/Protective Puts

S&P/ASX 200 index
worth **\$59,500**
at **5,950 points**



Consider buying

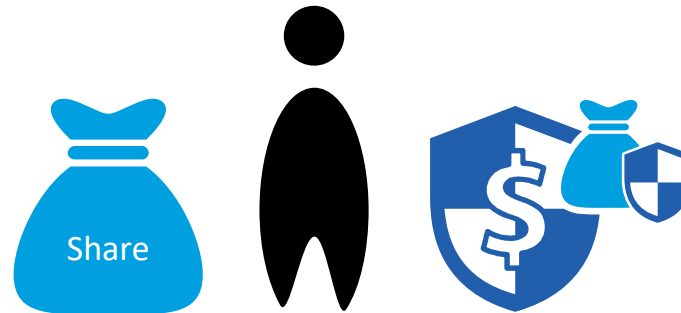
1 S&P/ASX 200 September **5950 Puts**

Assume price is **100 points** each or **\$1,000**
per contract

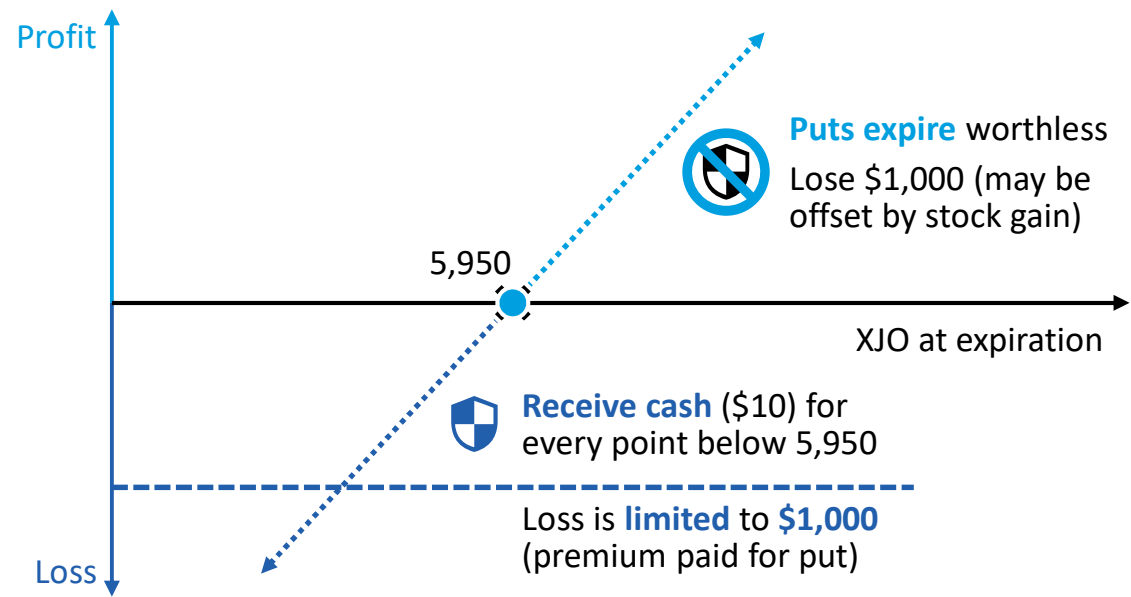


—• **Protective Put Purchase**

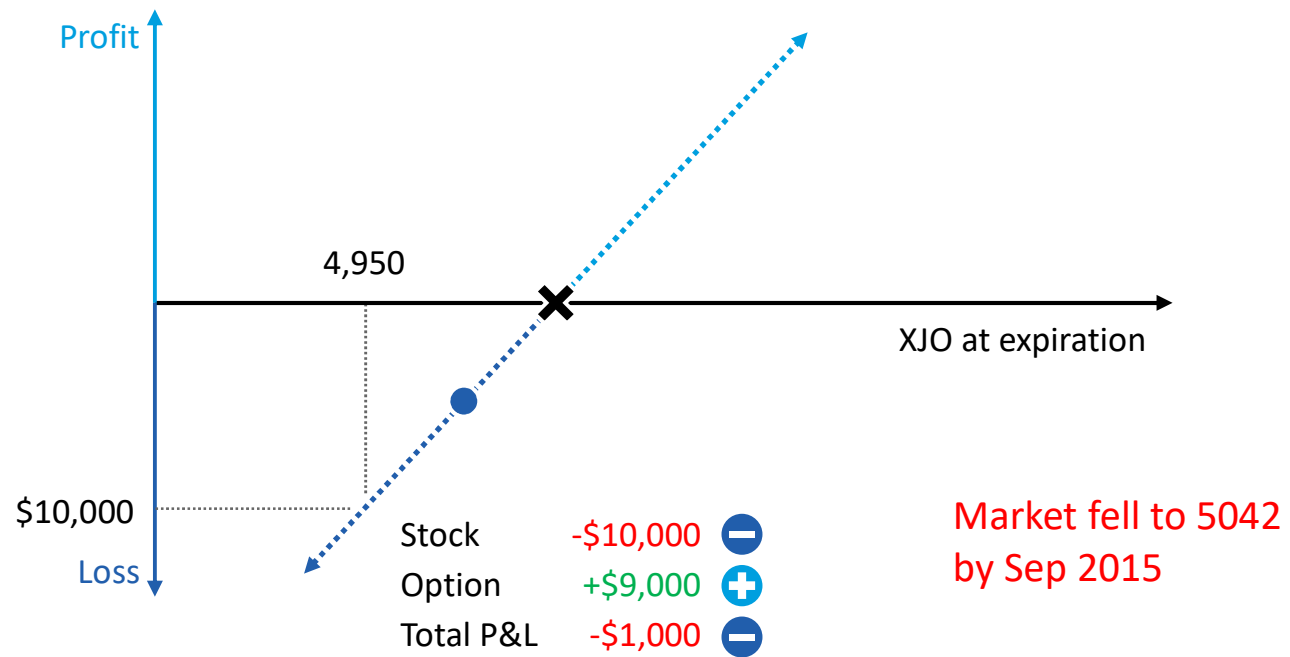
$$\begin{array}{rcccl} \text{Own} & & \text{5950 put} & & \text{Position} \\ \text{shares} & & & & \text{investment (b/e)} \\ \$59,500 & + & \$1,000 & = & \$60,500 \end{array}$$



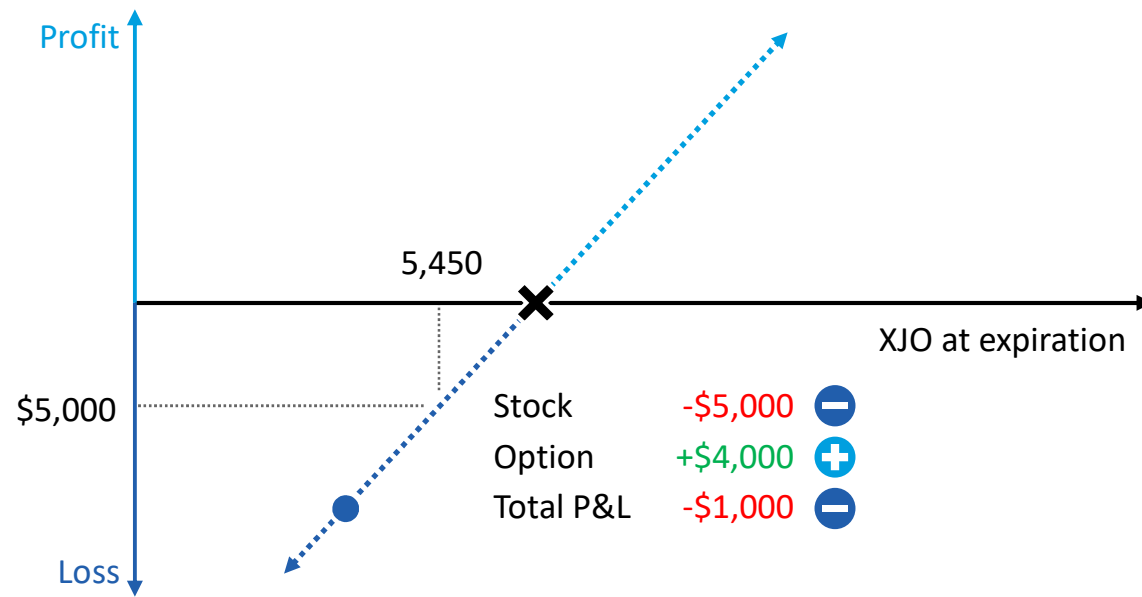
• **Protective Put Purchase**



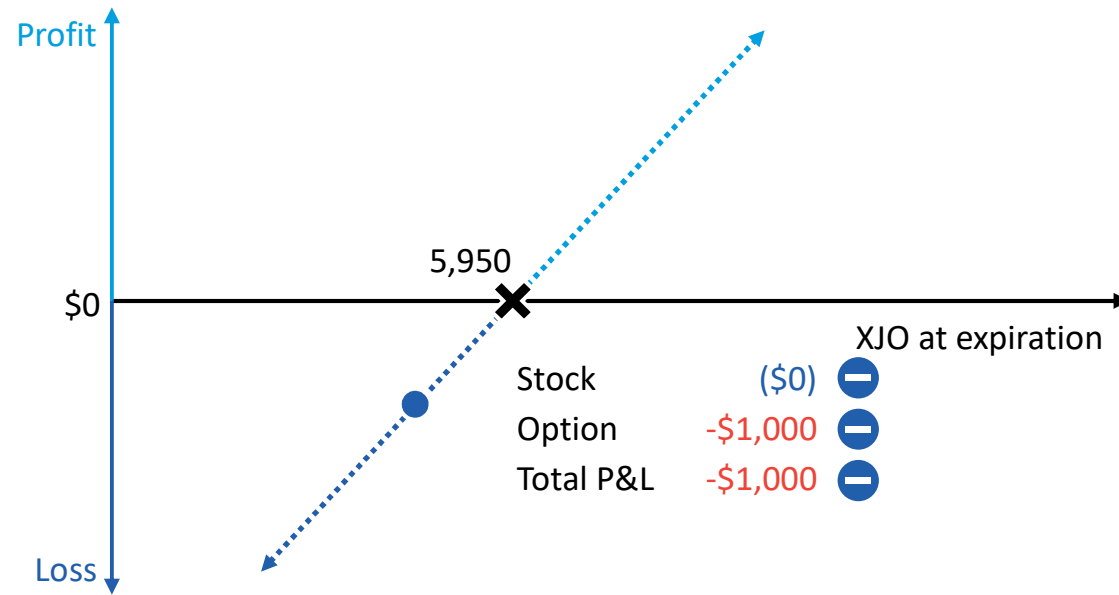
—• Protective Put Purchase



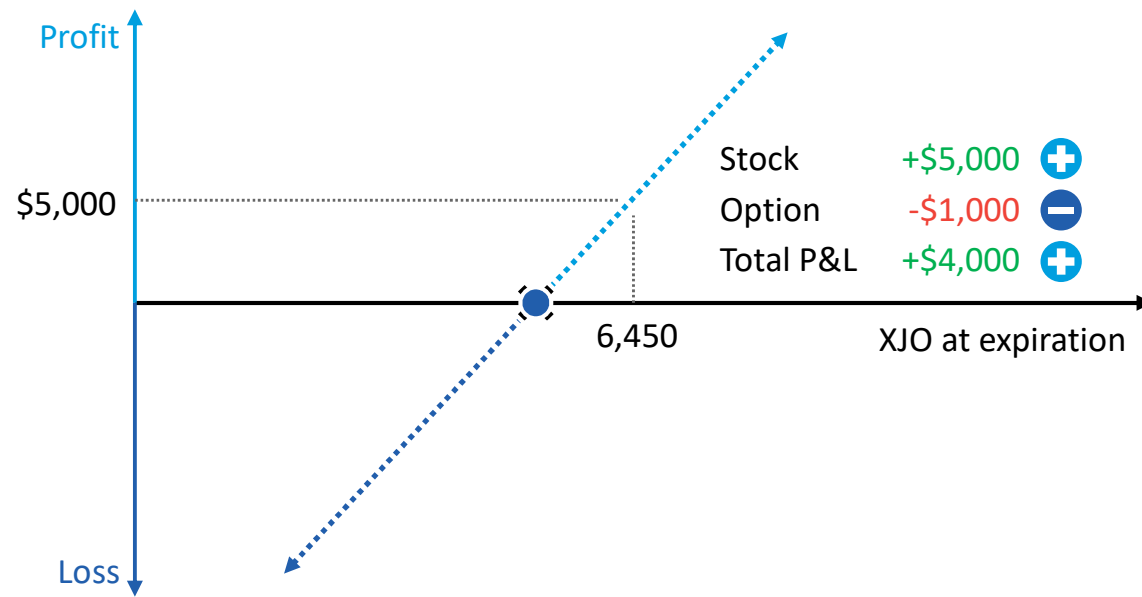
• **Protective Put Purchase**



—• **Protective Put Purchase**



• Protective Put Purchase



—• The Protective Put Strategy



Acts like
insurance



Maximum risk/loss in this
example is the
“**cost of insurance**”
\$1,000 or 2%



Insurance expired in
September

Buying Protection – as at 2 September 2019

Like an insurance policy there are a number of factors that influence the premium paid for protection:

- Portfolio Value
- Excess (Protection level)
- Length of Protection
- Market Risk



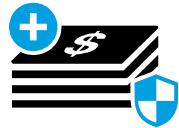
Market volatility up to 14% (from 9.5%)
Index now trading at 6,600 points

	3 Months	6 Months	12 Months
0% Excess	2.5%	3.4%	4.5%
5% Excess	0.8%	1.5%	2.6%
10% Excess	0.2%	0.5%	1.3%

Note: The table assumes a market volatility level of approx. 14% and S&P/ASX 200 Index Value of 6,600

Income Generation

Selling Calls over Stock You Own



Reasons for selling calls against shares currently owned:

- Enhance returns from investment
- Pre-set sale price for shares
- Provide limited downside protection

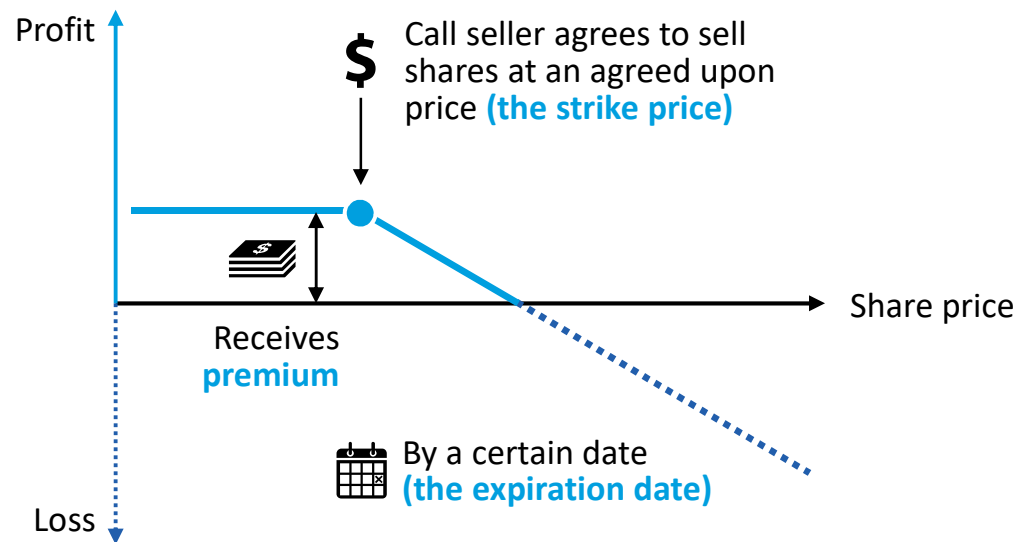


When to use:

Neutral to moderately bullish on the shares

Ideal for stocks that are range bound
Can be used to enhance dividends on low yielding stocks

Buy-Write or Covered Calls



A call is **covered** if the investor **owns** the underlying shares

Selling Calls

CBA as at September 4 2019

Hold 500 CBA shares trading at \$78.30/share



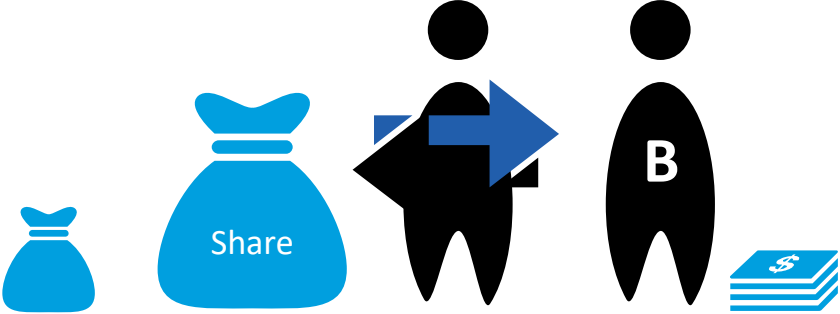
Outlook is **neutral** to **moderately bullish** on CBA



Source: IRESS

Selling Calls

Sell 5 CBA September \$83.00
Calls at \$0.14 each



Selling Calls

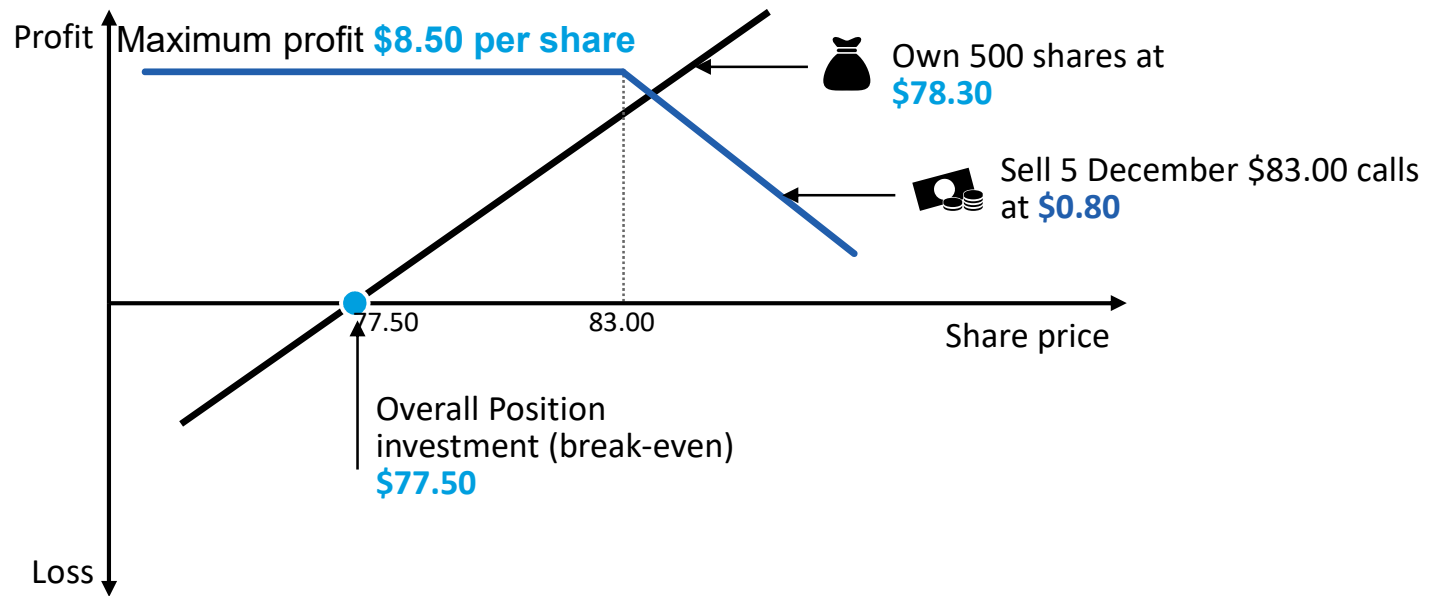


Long 500 shares in CBA at **\$78.30**

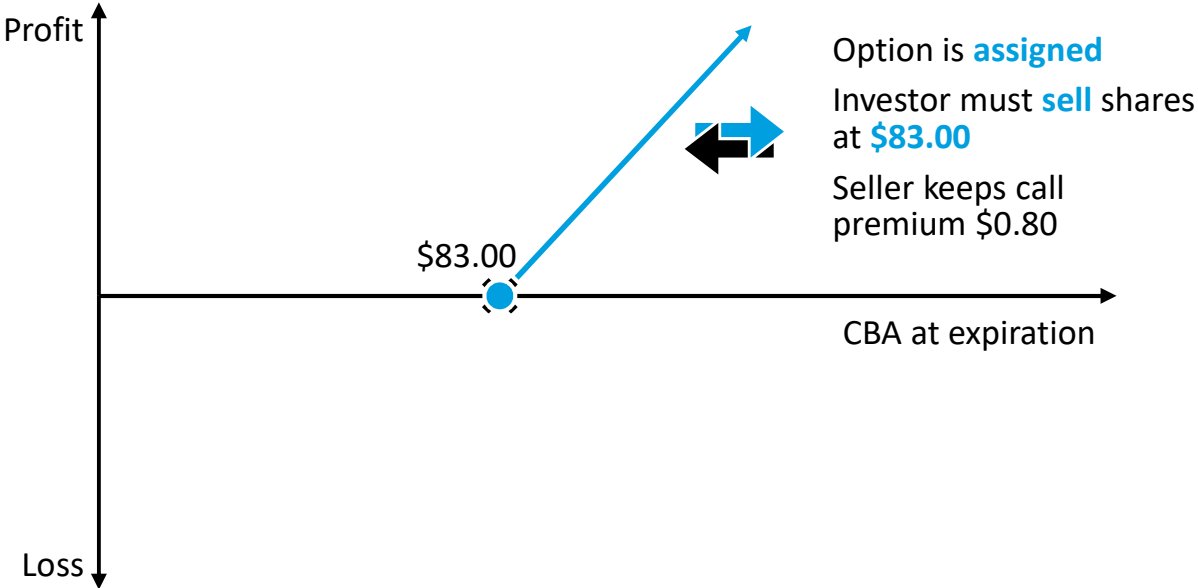


Short **5** CBA December **\$83.00** Calls at **\$0.80**

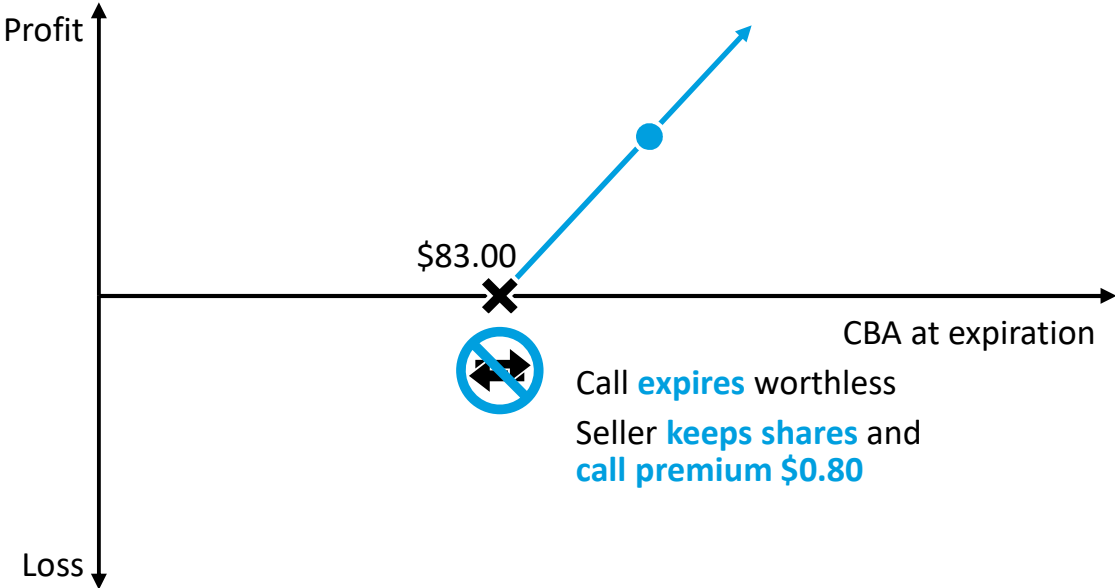
Selling Calls



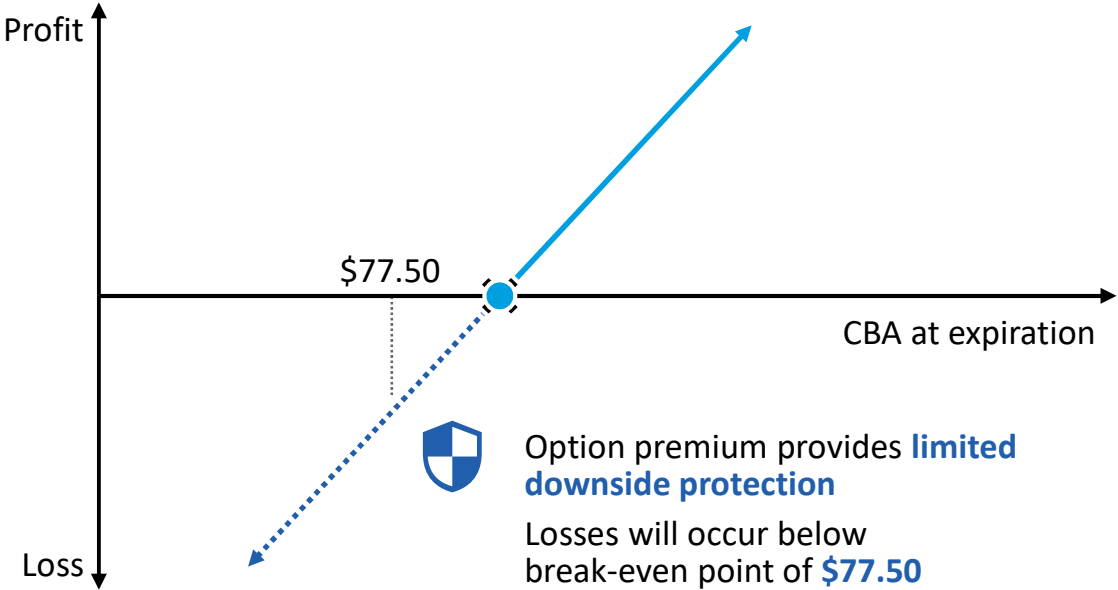
At expiry



At expiry



At expiry



Selling Covered Calls

Benefits



Income from
selling call
(\$3.20 per annum)
4% p.a



Partial hedge



Risks



Caps upside



Downside risk
if stock falls

Options Game



ASX / TRADEFLOOR OPTIONS GAME

- **PRATICE OPTION TRADING FOR FREE** - in a simulated market, with real time prices and market conditions.
 - **TRY OUT NEW STRATEGIES** – with proprietary trading widgets (margin calculator, stress testing, stock screener, pay off diagrams etc)
 - **CHALLENGE FRIENDS AND WORK COLLEAGUES** – track your progress through the leader board
 - Trade as little or as much as you like.
 - Its completely free and doesn't require any credit card details or payments.
-

GAME INFORMATION

- Each player is given a virtual **\$50,000** in cash and a stock portfolio
- A cash prize of **\$500** will be given to the person with the largest portfolio value at the end of the competition.
- Weekly prizes of **\$100** free brokerage.
- Market hours 10:20am – 4pm with live prices

The game runs from **27th September – 25th October**

Register at optionsgame.com.au

GAME PRIZES & RULES

Thank you



EXCHANGE TRADED OPTIONS 101

With nabtrade



IMPORTANT INFORMATION



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- Stapled securities

FOR MORE INFORMATION

www.moneysmart.gov.au/investing/complex-investments

REASONS TO INVEST

in ETOs with nabtrade



Enjoy competitive
brokerage

70+

Options

Online trading (transaction size)

Brokerage	\$34.95	0.35% of trade
Trade size	Up to and including \$10K	Above \$10,001

Over the phone

Brokerage	\$49.95 OR 0.55% of trade
	Whichever is greater

ASX Clear transaction fee (equity options)

\$0.13 per contract + GST

Equity trade from option exercise or assignment

\$59.95 or 0.11% of trade value (whichever is greater)

ASX Clear transaction, exercise or assignment fee (index options)

\$0.35 per contract + GST

ASX Clear exercise or assignment fee (equity options)

\$0.05 per contract + GST

ENABLING ETO TRADING

on your nabtrade account



The screenshot shows the nabtrade user interface. At the top, there's a search bar and market data (S&P 500 3000.9 +21.5 (0.72%)). The navigation menu includes 'Total Wealth', 'Trading', 'Insight Centre', 'Cash', 'Equity Lending', 'Admin', 'Products', 'Help', 'Scan', and 'Trade'. Below the menu, there are tabs for 'Accounts', 'Holdings', 'Orders', 'Watchlists', 'Announcements', and 'Funds Transfer'. The main content area is divided into 'Personal details' and 'Outstanding actions'. The 'Personal details' section shows the user's name (Mr Joe King), address (10 Queen St, EDMONTON, QUEENSLAND 4869), and trading PIN (01?). The 'Outstanding actions' section shows a progress bar with 'Complete', 'In progress', and 'Outstanding' categories. Below this, there are tabs for 'Settings', 'Nicknames', 'Personal Details', 'Alerts & Notifications', 'Document Vault', 'Shared Access', and 'Permissions'. The 'Permissions' tab is selected, and a red arrow points to it. A yellow callout box with the text 'Permissions: For additional Products & Services click Subscribe/Apply and follow the instructions.' is positioned above the permissions table. The table lists various permissions for Mr Joe King, with red circles '1' and '2' highlighting the 'Apply' buttons for 'Options Trading Questionnaire' and 'Exchange Traded Options' respectively.

Mr Joe King	More Info	Subscribe
IRESS Trader		Subscribe
Morningstar Premium Research	More Info	Subscription
Options Trading Questionnaire		Apply
Mr Joe King - NT01010101	More Info	Apply
High Interest Account		Apply
New Trading account		Apply
Broker Sponsored Transfer		Apply
Issuer Sponsored Conversion		Apply
Mr Joe King - NT01010101	More Info	Apply
Exchange Traded Options	More Info	Apply
Partly Paid Securities		Apply
Warrants		Apply
Dividend Crediting		Apply
mFunds		✓
Mr Joe King - NT01010101		✓
International Equities		✓

How to enable ETO trading on your nabtrade account.

Login to your nabtrade account. Go to Admin > Permissions.

1. ETO QUESTIONNAIRE
2. ETO APPLICATION

USEFUL INFORMATION

you can access with an account



National Australia Bank Limited (NAB):ASX
Banking & Investment Services Sector - Large Cap Stock

\$28.89 +0.10(0.35%) Bid/Units: 28.88/2199 Ask/Units: 28.89/1731 VWAP: 28.9412 Day Range: 28.84-29.00 Volume: 2,394,351

Company Snapshot: NAB's performance since YTD is up 19.81%. NAB has paid an annual dividend of 1.58 which, at its current stock price, produces a yield of 5.38%.

Derivatives: **1** **Calls & Puts** **2** Expiry: September 12 2019 Display: In the Money

Calls expiring on September 12 2019

Code	Last Price	Bid	Ask	Volume	Open Interest	Exercise Price
NABTY8	0.00	--	--	0	0	0.01
NABWB8	0.00	--	--	0	0	22.00
NABT28	0.00	--	--	0	0	22.50
NABU28	0.00	--	--	0	0	23.00
NABU48	0.00	--	--	0	0	23.50
NABU68	0.00	--	--	0	0	24.00
NABU88	0.00	--	--	0	0	24.50
NABUA8	0.00	--	--	0	0	25.00
NABUC8	0.00	--	--	0	0	25.50
NABUE8	0.00	--	--	0	0	26.00
NABUG8	0.00	--	--	0	0	26.50
NABUI8	0.355	1.68	2.08	800	800	27.00
NABUK8	0.60	1.235	1.535	20	140	27.50
NABUM8	0.065	0.73	1.03	0	0	28.00
NABUQ8	0.09	0.31	0.455	20	300	28.50

Puts expiring on September 12 2019

Code	Last Price	Bid	Ask	Volume	Open Interest
NABVE8	0.00	--	--	0	0
NABW8	0.00	--	--	0	85
NABVE8	0.00	--	--	0	0
NABVE8	0.00	--	--	0	0
NABV8	0.00	--	--	0	0
NABV28	0.00	--	--	0	0

How to find ETOs on nabtrade.

Login to your nabtrade account and type in a stock code (for example NAB:ASX).

1. DERIVATIVES
2. EXCHANGE TRADED OPTIONS

You can filter information by:

- Calls and puts
- Expiry dates
- In, near or out of the money

Click on an ETO security to place a trade.

CHECK OUT WHAT NABTRADE HAS TO OFFER



www.nabtrade.com.au



13 13 80



Q&A!

Please don't forget to complete the feedback form after the webinar concludes