

5. Options for Managing Risk

- A. Having options is a good thing – especially when it comes to managing your money. If you feel nervous about the direction of today's stock markets, it's with good reason. A six-week buying binge on Wall Street lost steam and then perked up – both during this past week. Without any clear sense of direction, it's no wonder investors look for ways to limit losses or leverage small gains in their portfolios. That is exactly what many European and U.S. investors are doing these days through the options markets.
- B. Although marketed as a hedge against other investments, options aren't riskless and amateur investors could get severely burned. Since options are linked to the price movements of an underlying asset, such as a stock, they often have high price-volatility that could be a gamble. And although you can buy as little as one option at a time, remember that you could lose your entire investment. So tread with care, and only dip into disposable income that you can afford to lose.
- C. Options are securities that allow buyers and sellers to transfer risk. They give the holder the right – but not the obligation – to buy or sell an asset at a set price at some future date. Because the investor doesn't own the actual asset (such as a stock, for example) an option is called a derivative because its value is derived from another asset.
- D. Unsurprisingly, as stock-market valuations have declined and investors scramble to minimize their losses, option-trading volumes have ballooned. According to the LSE, about £52 billion (€81.9 billion) of covered guarantees, a type of option, changed hands in continental Europe in 2001 – not an insignificant number. Volume trends are similar in the U.S. options markets. The Options Clearing Corp., the clearing house for all U.S. exchange-listed options, estimates that total U.S. equities option contracts traded between 1999 and 2001 increased 62%.
- E. The choice of options – on both sides of the Atlantic – is broad. Investors can trade options linked to single stocks, major stock indexes such as the Nasdaq Composite, commodities, or even changes in weather. The market is big and international. (European investors, for example, can buy U.S. options through their stock brokers, and vice versa.
- F. Here is a short guide to options: what they are, strategies for using them, risks to watch out for, and places to go for more information. The difference between options and warrants is small. Both allow investors to trade risk associated with an underlying asset. Both are listed and traded on exchanges, and the majority are tailored by investment banks to match a customer's order.
- G. Warrants can be divided into two main types: company and covered warrants. Company warrants are issued directly by companies to create new shares. There are over 100 such company warrants currently trading on the London Stock Exchange, but it is a fairly illiquid market. Covered warrants, on the other hand, are issued by financial institutions that „create” the warrants synthetically by buying or selling the underlying asset. The process of creating the warrant in this way is called „covering”: hence, the name „covered warrant.” Because covered warrants can be based on any asset that is widely traded, investment banks can create a broad variety of warrants on shares, commodities, or incides.
- H. When you choose an option, the first step is to identify a stock, index, or commodity (or „underlying asset”) on which you have a strong view. If you think the underlying asset's price will rise, buy a „call” option, which gives you the right to buy the underlying asset at a certain price (called an „exercise or strike price”) by a future date. Conversely, if you think the price will fall, buy a „pu” option, which give you the right to sell the asset at a pre-specified price.

Első feladat

Olvassa el az „Options for managing risks” című szöveget és állapítsa meg, hogy melyik alcím (1-7-ig) fejezi ki legjobban az egyes bekezdések (A-H) értelmét, a példa (A – 0) szerint. Vigyázat! Eggyel több cím van!

Alcímek:

0. Investors take their chances with warrants

1. Defining options
2. Trading with options
3. The process of decision-making
4. Types of guarantees
5. Distinguishing options
6. Wide-range of options
7. Bewaring of buying
8. Risk management

A	B	C	D	E	F	G	H
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Második feladat

Olvassa el újra a szöveget és döntse le, hogy az állítások igazak vagy hamisak a megadott példa (0) szerint.

	Statements	True	False
0.	Stock markets are fluctuating	X	
8.	Investors try to manage their risks through options markets.		
9	Options provide absolute guarantee.		
10.	The number of options in Europe has gone up in 2001.		