

# CFD Options

## Trade and Margin Examples

### Example Trades

#### Buying a call

Market: UK 100 (current price 6330)

View: UK 100 to rise before mid June.

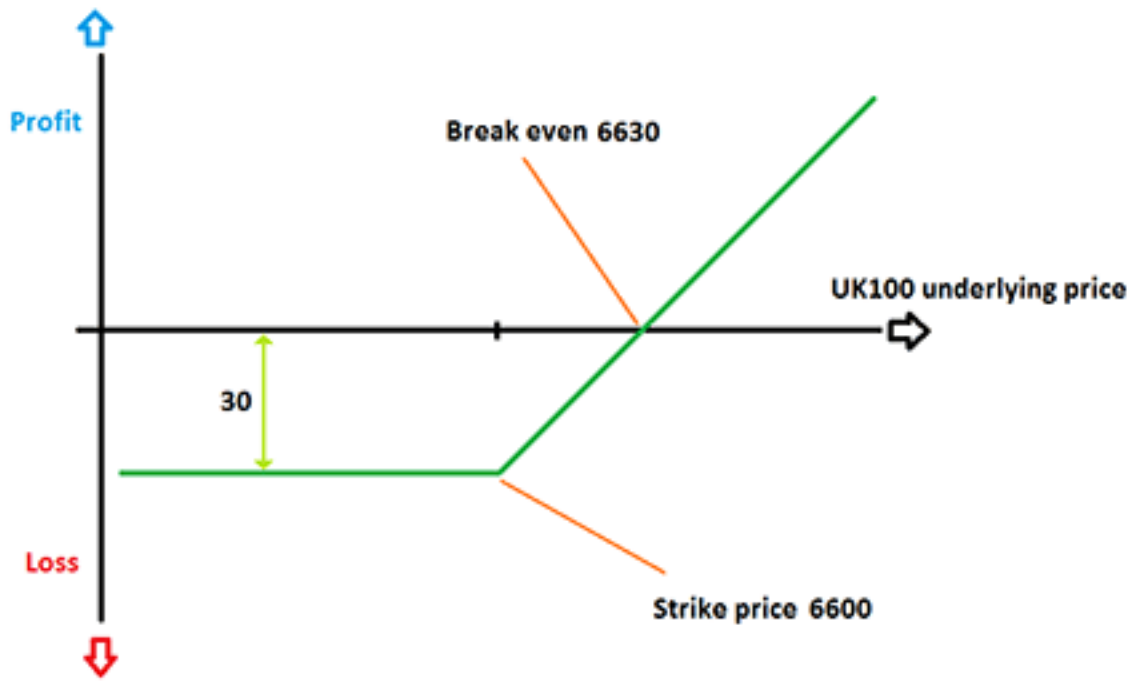
Instrument: UK100 Jun Call 6600 (current price 30)

Position: long 10 CFDs

Margin: GBP 185 (approx.)

Breakeven at expiry: 30 points higher than strike = UK 100 at 6630

Result: UK 100 rallies to a price of 6500, and the price of the call option increases from 30 to 57 (27 points). You decide to close the trade and sell the option at this price, realising a profit of  $\text{GBP } 10 \times 27 = \text{GBP } 270$ .



# Selling a put

Market: DE 30 (current price 7720)

View: DE 30 to rise before mid May.

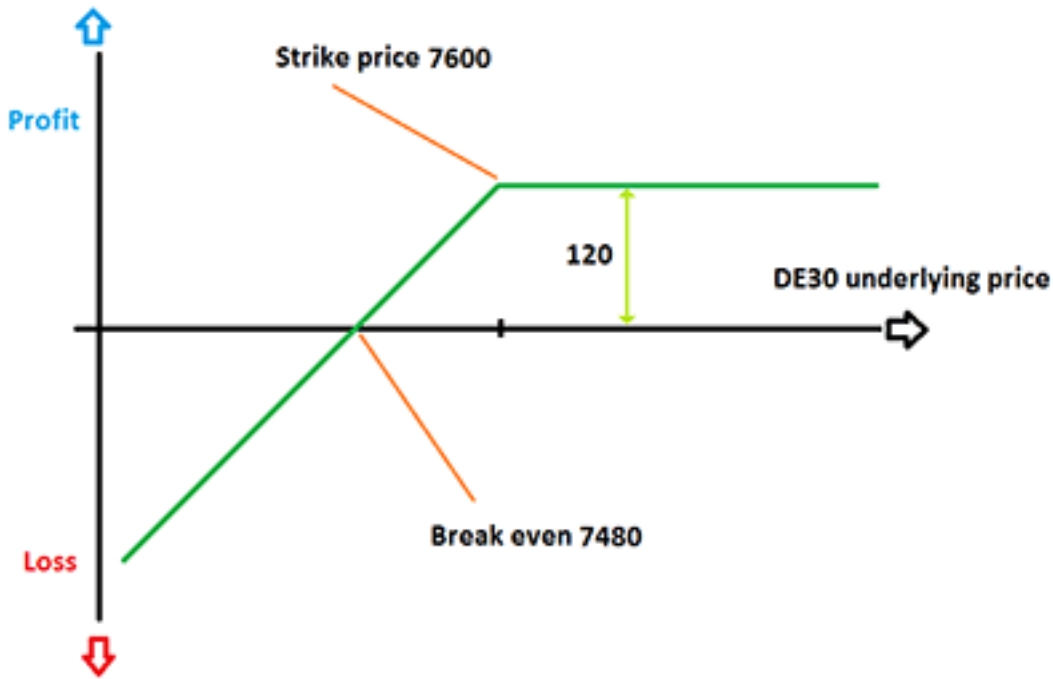
Instrument: DE30 May Put 7600 (current price 120)

Position: short 10 CFDs

Margin: EUR 500 (approx.)

Breakeven at expiry: 120 points lower than strike = DE 30 at 7480

Result: By expiry (3<sup>rd</sup> Friday in May) the DE 30 settlement level is 7454. The option will be settled at price of 146 (strike – expiry level). This is done by our system buying 10 CFDs at a price of 146 to close your trade, realising a loss of 26 points, EUR 10 x 26 = EUR 260 loss.



# Straddle Strategy

A straddle can be created by buying or selling, but the following is an example of a selling straddle.

Market: UK 100

View: UK 100 to stay within a range.

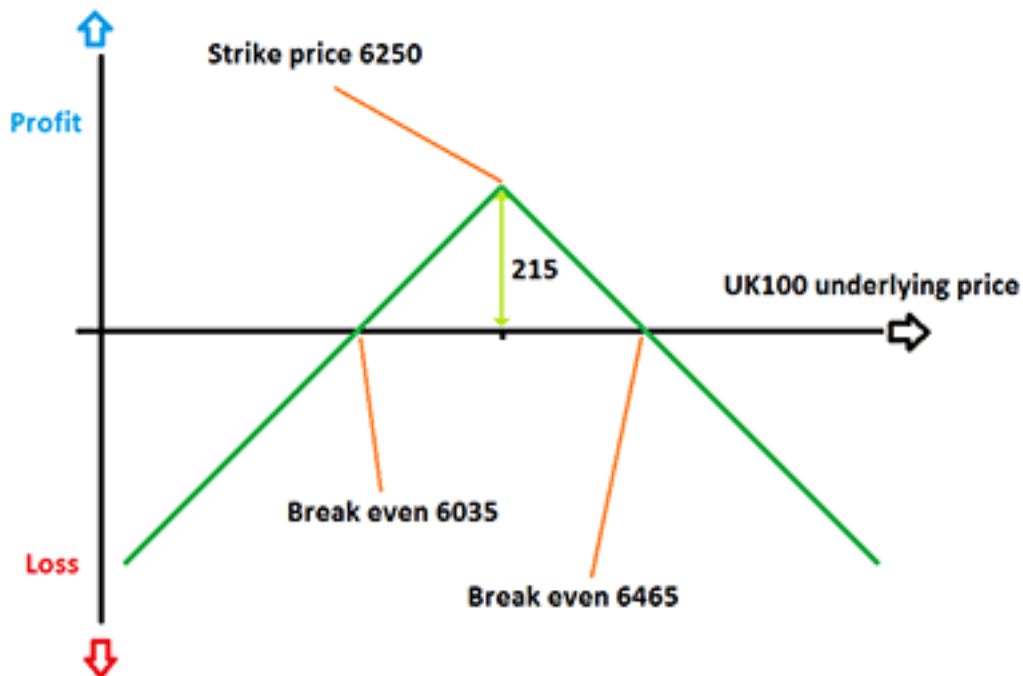
Instrument: UK100 May Call 6250 (current price 129) and UK100 May Put 6250 (current price 86)

Position: short 10 CFDs of Call AND short 10 CFDs of Put

Margin: GBP 480 (approx.)

Breakeven at expiry:  $129 + 86 = 215$  away from strike = UK 100 at 6035 and 6465

Result: At expiry the market settles at 6378. At expiry, the Call price is 128 (i.e.  $6378 - 6250$ ), realising a profit of  $GBP\ 10 \times (129 - 128) = GBP\ 10$ . The Put settles at a price of 0, realising a profit of  $GBP\ 10 \times (86 - 0) = GBP\ 860$ . Your total profit is  $GBP\ 10 + GBP\ 860 = GBP\ 870$  on this trade.



# Margin Calculations and Examples

## Option Margins

Our margin calculation is designed to take into account the main risks associated with trading options. These risks are movements in the underlying price (Delta Margin) and movements in volatility (Vega Margin).

The Delta Margin and Vega Margin are calculated net for your entire portfolio. This means that options, futures and daily funded bets within the same market are cross margined, giving you a total margin based on the risk of your portfolio.

**Delta:** This is how the option price changes as the underlying price increases. For example, a Delta of 0.5 would imply that if the underlying market price increases by 1 point, then the option price would increase by 0.5 points. A -0.5 Delta would imply that if the underlying market price increases by 1 point then the option price would decrease by 0.5 points.

**Vega:** The Vega is a measurement of how the option price changes as the implied volatility increases. A Vega of 5.2 would mean that if the implied volatility increases by 1 percentage point then the price of the option will increase by 5.2 points.

## CFD Options Margin Calculation:

Margin = net Delta Margin + net Vega Margin

net Delta Margin = Number of CFDs x Delta x Underlying Margin

net Vega Margin = Number of CFDs x Vega x Volatility x VolFactor

Underlying Margin = Underlying GFT Price x IM Factor

Volatility = GFT's implied volatility for the specific option

VolFactor = A multiplier set by GFT. This is used to scale the Vega Margin to a value that reflects the level of risk taken. See individual Market Information Sheets (MIS) for details.

*Note: For Single Stock Equity options the 'Number of CFDs' used in the above formulas must be divided by 100 (otherwise your margin will be calculated in pence or cents).*

## CFD Options Margin Example

Setup: 30 days to expiry, Implied Volatility = 12%. This gives a Delta of -0.2, a Vega of 5.2 and a Volatility Factor of 21.7

Market: UK 100 (current price 6478, underlying margin 0.5%)

Instrument: UK100 Jun13 P 6300 (current price 25) [Delta = -0.2 Vega = 5.2]

Position: short 10 CFDs

Delta Margin = Number of CFDs x Delta x Underlying Margin  
 $10 \times -0.2 \times (0.5\% \times 6478) = \text{GBP } 64.78$

Vega Margin = Number of CFDs x Vega x Volatility x VolFactor  
 $10 \times 5.2 \times 12\% \times 21.7 = \text{GBP } -135.41$

**Total margin = 64.78 + 135.41 = GBP 200.19** (we take the absolute value of the net Delta Margin and net Vega Margin. Therefore, net negative margins are assumed to be positive.)

In comparison, if you were to trade .UK100.cfd on its own at GBP 10 per point, your margin would have been **GBP 323.90**.

Any trading scenarios shown in this material are for illustrative and educational purposes only. They should not be considered recommendations or advice. Most examples do not factor in fees and taxes. These costs will impact the outcome of your transaction.

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