

OPTIONS GLOSSARY OF TERMS

Alpha

Often considered to represent the value that a portfolio manager adds to or subtracts from a fund's return. A positive alpha of 1.0 means the fund has outperformed its benchmark index by 1%. Correspondingly, a similar negative alpha would indicate an underperformance of 1%.

Alpha Indexes

Each Alpha Index measures the performance of a single name "Target" (e.g. AAPL) versus a "Benchmark (e.g. SPY). The relative daily total return performance is calculated daily by comparing price returns and dividends to the previous trading day. The Alpha Indexes were set at 100.00 as of January 1, 2010. The Alpha Indexes were created by NASDAQ OMX in conjunction with Jacob S. Sagi, Financial Markets Research Center Associate Professor of Finance, Owen School of Management, Vanderbilt University and Robert E. Whaley, Valere Blair Potter Professor of Management and Co-Director of the FMRC, Owen Graduate School of Management, Vanderbilt University.

American- Style Option

An option contract that may be exercised at any time between the date of purchase and the expiration date.

At-the-Money

An option is at-the-money if the strike price of the option is equal to the market price of the underlying index.

Benchmark Component

The second component identified in an Alpha Index.

Call

An option contract that gives the holder the right to buy the underlying index at a specified price for a certain fixed period of time.

Class of Options

Option contracts of the same type (call or put) and style (American or European) that cover the same underlying index.

Closing Purchase

A transaction in which the purchaser's intention is to reduce or eliminate a short position in a given series of options.

Closing Sale

A transaction in which the seller's intention is to reduce or eliminate a long position in a given series of options.

Covered Call Option Writing

A strategy in which one sells call options while simultaneously owning an equivalent position in the underlying security.

Covered Put Option Writing

A strategy in which one sells put options and simultaneously is short an equivalent position in the underlying security.

European-Style Option

An option contract that may be exercised only during a specified period of time just prior to its expiration.

Exchange-Traded Fund (ETF)

A security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. ETFs experience price changes throughout the day as they are bought and sold. One of the most widely known ETFs is called the Spider (SPDR), which tracks the S&P 500 index and trades under the symbol SPY.

Exercise

To implement the right under which the holder of an option is entitled to buy (in the case of a call) or sell (in the case of a put) the underlying index.

Exercise Price (Strike Price)

The stated price per unit of which the underlying index may be purchased (in the case of a call) or sold (in the case of a put) by the option holder upon exercise of the option contract.

Exercise Settlement Amount

The difference between the exercise price of the option and the exercise settlement value of the index on the day an exercise notice is tendered, multiplied by the index multiplier.

Expiration Cycle

An Expiration cycle relates to the dates on which options expire. An option other than the LEAPS®, will be assigned to one of three cycles, the January cycle, the February cycle or the March cycle. At any point in time, PHLX sector index options have contracts with five expiration dates outstanding (three months from the March, June, September, December cycle plus two additional near-term month).

Expiration Date

The last day on which an option may be exercised.

FLEX® Options

Allow traders to specify option contract terms such as expiration date, strike price, exercise style (American or European), and the settlement value with choice of either a.m. settlement (reported at the opening of trading) or p.m. settlement (reported at the close of trading).

Hedge

A conservative strategy used to limit investment loss but effecting a transaction which offsets an existing position.

Holder

The purchaser of an option.

In-the-Money

A call option is in-the-money if the strike price is less than the market price of the underlying index. A put option is in-the-money if the strike price is greater than the market price of the underlying index.

Intrinsic Value

The amount by which an option is in-the-money (see preceding definition).

Long Position

A position wherein an investor's interest in a particular series of options is a net holder (i.e., the number of contracts bought exceeds the number of contracts sold).

Margin Requirement (for Options)

The amount an uncovered (naked) option writer is required to deposit an maintain to cover a position. The margin requirement is calculated daily.

Open Interest

The net total of outstanding open contracts in a particular option series. An opening transaction increases the open interest, while any closing transaction reduces the open interest.

Open Purchase

A transaction in which the purchaser's intention is to create or increase a long position in a given series of options.

Opening Sale

A transaction in which the seller's intention is to create or increase a short position in a given series of options.

Out-of-the-Money

A call option is out-of-the-money if the strike price is greater than the market price of the underlying index. A put option is out-of-the-money if the strike price is less than the market price of the underlying index.

Premium

The price of an option contract, determined by the competitive marketplace, which the buyer of an option pays to the option writer for the rights granted by the option contract.

Put

An option contract that gives the holder the right to sell the underlying index at a specified price for a certain fixed period of time.

Relative Performance Index

An index that measures the total return performance of a target security relative to the adjusted total return performance of a benchmark like the S&P 500.

Series

All option contracts of the same class that have the same expiration date and strike price.

Short Position

A position wherein a person's interest in a particular series of options is a net writer (i.e., the number of contracts sold exceed the number of contracts bought).

Strike Price (Exercise Price)

The stated price per unit for which the underlying index may be purchased (in the case of a call) or sold (in case of a put) by the option holder upon exercise of the option contract.

Target Component

The first component identified in an Alpha Index which is measured against the second component ("Benchmark Component").

The Value

The portion of the option premium that is attributable to the amount of time remaining until the expiration of the option contract. Time value is whatever value the option has in addition to the intrinsic value.

Type

The classification of an option contract as either a call or a put.

Undercover Call Option Writing

A short call option position in which the writer does not own a n equivalent position in the underlying index represented by their option contracts.

Uncovered Put Option Writing

A short put option position in which the writer does not own an equivalent position in the underlying index or has not deposited, in a cash account, cash or cash equivalents equal to the exercise value of the put.

Volatility

A measure of the fluctuation in the market price of the underlying index. Mathematically, volatility is the annualized standard deviation of returns.

Writer

The seller of an option contract.