ADA As Produced Script
[Music and various on screen images in background throughout]

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On screen copy:
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On screen copy:
So why **do** people trade options?

On screen disclosure:
NOTE: The securities in this video are fictional. Everyone's situation is different, and this video is not financial advice. Do your own research.

People trade options for a variety of reasons.

On screen copy:
Hedging their Investments
Investors can hedge their holdings from losses beyond a certain point

One reason is to hedge their holdings from future losses over a period of time with a protective put.

On screen copy:
A little background before we begin…

Before we explain hedging with a protective put, we would like to make you aware of some key concepts:

A protective put is one example of a hedging strategy. A put is a type of option that represents the right to sell. Each contract represents 100 shares and includes an agreed upon price known as the strike price, and a specified time frame, known as the expiration date.

On screen copy:
Protective Put
Put
Right to sell
1 Contract
100 Shares
Strike Price
Agreed price
Expiration Date
Time frame

On screen disclosure:
Every example that we use is for illustrative purposes only and we do not include any commission and fees.

On screen copy:
OPTIONS CONTRACT
XYZ Stock
100 Shares

If you own shares of a stock, you could hedge them by buying a “Put” option. Imagine you own 100 shares of XYZ, which is currently trading around $50 per share.

On screen copy:
Buying a Protective Put
XYZ STOCK PRICE
TODAY
MARKET PRICE $50.00
MARKET PRICE $20.00

On screen disclosure:
For illustrative purposes only, not an actual investment. Example does not include trade commissions or other fees

[Line graph shows fictional stock’s price falling]

If XYZ falls to $20, perhaps due to some calamitous event or announcement, your position would lose $3,000 in value.

If you're worried about a potential future loss, you can buy what's called a "protective put."

On screen copy:
REW

To hedge, you would choose a strike price and a time frame. You now own the right to sell XYZ at the agreed strike price at any time within the specified time frame. To put it another way, you're hedged against some loss for any time during that period in exchange for the premium you paid for the protective put.

On screen copy:
Buying a Protective Put
PREMIUM $6.00
XYZ STOCK PRICE
Break Even = $56.00 (stock purchase price at $50.00 + premium at $6.00)
Max Gain = Unlimited, Max Loss = Premium
MARKET PRICE $50.00
BREAK EVEN
EXPIRATION DATE
HEDGED PERIOD
STRIKE PRICE $40.00
TODAY
60 DAYS FROM NOW

On screen disclosure:
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[Line graph shows a hedged period with a strike price set to expire in 60 days]

If you choose to sell, your position only loses $1000 in value, compared to losing $3000 without the option.

On screen copy:
Buying a Protective Put
PREMIUM $6.00
XYZ STOCK PRICE
Break Even = $56.00 (stock purchase price at $50.00 + premium at $6.00)
Max Gain = Unlimited, Max Loss = Premium
BREAK EVEN
STRIKE PRICE $40.00
MARKET PRICE $20.00

TODAY
10 DAYS FROM NOW

On screen disclosure:
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[Line graph shows market price falling below strike price within the hedged period]

This is how people can use options to hedge their investments.

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[End of transcript]