

call would be only \$4. Should the price of the stock drop to \$40 or below, the call would no longer have any intrinsic value.

**EXAMPLE OF A PUT WITH INTRINSIC VALUE:**

At a time when the current market price of XYZ stock is \$46 a share, an XYZ 50 put would have an intrinsic value of \$4 a share. Were the market price of XYZ stock to increase to \$50 or above, the put would no longer have any intrinsic value.

**EXAMPLE OF TIME VALUE:** At a time when the market price of XYZ stock is \$40 a share, an XYZ 40 call may have a current market price of, say, \$2 a share. This is entirely time value.

An option with intrinsic value may often have some time value as well—that is, the market price of the option may be greater than its intrinsic value. This could occur with an option of any style.

**EXAMPLE:** With the market price of XYZ stock at \$45 a share, an XYZ 40 call may have a current market price of \$6 a share, reflecting an intrinsic value of \$5 a share and a time value of \$1 a share.

An option's time value is influenced by several factors (as discussed above under "Premium"), including the length of time remaining until expiration. An option is a "wasting" asset; if it is not sold or exercised prior to its expiration, it will become worthless. As a consequence, all else remaining the same, the time value of an option usually decreases as the option approaches expiration, and this decrease accelerates as the time to expiration shortens. However, there may be occasions when the market price of an option may be lower than the market price of another option that has less time remaining to expiration but that is similar in all other respects.

An American-style option's time value is also influenced by the amount the option is in the money or out of the money. An option normally has very little time value if it is substantially in the money. Although an option that is substantially out of the money has only time value, the amount of that time value is normally less than the time value of an option having the same underlying interest and expiration that is at the money.

Another factor influencing the time value of an option is the volatility of the underlying interest. All else being