

TRANSACTION COSTS

The transaction costs of options investing consist primarily of commissions (which are imposed in opening, closing, exercise and assignment transactions), but may also include margin and interest costs in particular transactions. The impact of transaction costs on profitability is often greater for options transactions than for transactions in the underlying interests because these costs are often greater in relation to options premiums than in relation to the prices of underlying interests. Transaction costs are especially significant in option strategies calling for multiple purchases and sales of options, such as spreads and straddles. Transaction costs may be different for transactions effected in foreign options markets than for transactions effected in U.S. markets. Readers should always discuss transaction costs with their brokerage firms before engaging in options transactions.

MARGIN REQUIREMENTS

Writers of options, other than certain covered call option writers and certain writers of cash secured puts (discussed below), must comply with applicable margin requirements.

In the stock market, margin refers to buying stock or selling stock short on credit. Margin customers are required to keep securities on deposit with their brokerage firms as collateral for their borrowings. But options, unlike stock, cannot be bought on credit under current regulations. In the options market, margin means the cash or securities required to be deposited by an option writer with his brokerage firm as collateral for the writer's obligation to buy or sell the underlying interest, or in the case of cash-settled options to pay the cash settlement amount, if assigned an exercise. Minimum margin requirements are currently imposed by the Board of Governors of the Federal Reserve System, the options markets and other self-regulatory organizations, and higher margin requirements may be imposed—either generally or in individual cases—by the various brokerage firms.

Uncovered writers may have to meet calls for substantial additional margin in the event of adverse market movements. Even if a writer has enough equity in his account to avoid a margin call, increased margin requirements on his option positions will make that equity unavailable for other purposes.