

both sides of a combination transaction, and the increased risk exposure that would result from the exercise or closing out of one side of the trade while the other side of the trade remains outstanding. Also, the transaction costs of combination transactions can be especially significant, since separate costs are incurred on each component of the combination. This can have the effect of requiring a substantial favorable price movement in the underlying interest before a profit can be realized.

Where a combination transaction involves the writing of an in the money American-style option, an investor must keep in mind the possibility of being assigned an exercise, which would eliminate that component of the transaction and could materially change the investor's risk position.

In the case of straddle writing, where the investor writes both a put and a call on the same underlying interest at the same exercise price in exchange for a combined premium on the two writing transactions, the potential risk is unlimited (except in the case of capped options). To the extent that the price of the underlying interest is either below the exercise price by more than the combined premium, or above the exercise price by more than the combined premium, the writer of a straddle will incur a loss when one of the options is exercised. Indeed, if the writer is assigned an exercise on one option position in the straddle and fails to close out the other position, subsequent fluctuations in the price of the underlying interest could cause the other option to be exercised as well, causing a loss on both writing positions.

Combinations involving different styles of options present added complexities. For example, the assigned writer of an American-style option would be unable to cover by exercising a European-style or capped-style option that he holds unless the assignment happened to occur during the exercise period of that option.

Combination transactions involving all cash-settled options also pose the same risks that are discussed for index options under "Special Risks of Index Options" below.

2. If a trading market in particular options were to become unavailable, investors in those options could no longer engage in closing transactions. Moreover, even if the market were to remain available, there may