

---

# Fixed Return Optionss

---

## FROs

### Finish High FROs



# Fixed Return Options

## Finish High FROs

### Finish High FRO

A Finish High Fixed Return Option is similar to a standard listed call option in that an investor purchasing a Finish High Option is bullish on the underlying security.

- At expiration the holder of a Finish High FRO will automatically receive \$100.00 per contract if the Finish High FRO finishes in-the-money.
- At expiration the writer of a Finish High FRO will automatically be debited \$100.00 per contract if the Finish High FRO finishes in-the-money.
- For a Finish High FRO to be in-the-money the expiration Friday Amex FRO Settlement Index<sup>(SM)</sup> must be above the strike price. For example, if the expiration Friday all day Amex FRO Settlement Index<sup>(SM)</sup> was \$25.01 or higher, the \$25.00 strike price Finish High FRO would be in-the-money.

### Long Finish High FRO

- Maximum Loss is equal to the total purchase price.
- Maximum value of \$100.00 is achieved when the Amex FRO Settlement Index<sup>(SM)</sup> is above breakeven at expiration.
- Breakeven = strike price + .01.
- Automatic exercise when the Amex FRO Settlement Index<sup>(SM)</sup> is above the Finish High FRO strike price at expiration.

The example below illustrates the value of a long \$25.00 strike price Finish High FRO at expiration.



<b>Underlying AFSI* @ Expiration</b>	<b>Long Finish High FRO Value per Contract</b>
\$20.00	\$0.00
\$22.00	\$0.00
\$25.00	\$0.00
<b>\$25.01</b>	<b>\$100.00</b>
\$26.00	\$100.00
\$30.00	\$100.00
\$35.00	\$100.00
\$40.00	\$100.00

\*Amex FRO Settlement Index<sup>(SM)</sup>

### Long Finish High FRO Example

XYZ is trading at \$85.26. Buy 8 of the \$85.00 strike price Finish High FROs expiring in 58 days for \$0.38. Total investment is \$304.00.

<b>Underlying AFSI* @ Expiration</b>	<b>8 Finish High FRO Value</b>	<b>Initial long Finish High FRO Cost</b>	<b>Profit / (Loss)</b>
\$75.00	\$0.00	(\$304.00)	(\$304.00)
\$80.00	\$0.00	(\$304.00)	(\$304.00)
\$85.00	\$0.00	(\$304.00)	(\$304.00)
<b>\$85.01</b>	<b>\$800.00</b>	<b>(\$304.00)</b>	<b>\$496.00</b>
\$87.00	\$800.00	(\$304.00)	\$496.00
\$90.00	\$800.00	(\$304.00)	\$496.00
\$95.00	\$800.00	(\$304.00)	\$496.00
\$100.00	\$800.00	(\$304.00)	\$496.00

\*Amex FRO Settlement Index<sup>(SM)</sup>

- Maximum loss is equal to the total cost of \$304.00.
- Maximum profit is \$496.00 (\$100.00 per contract – the cost of the Finish High FRO).
- Maximum value achieved with the Amex FRO Settlement Index<sup>(SM)</sup> \$0.01 above the strike price at expiration.



## Short Finish High FRO

- Maximum risk of \$100.00 per contract.
- Breakeven = strike price + .01.
- Maximum gain = proceeds received.
- Automatic assignment when the Amex FRO Settlement Index<sup>(SM)</sup> is above the Finish High FRO strike price at expiration.

The example below illustrates the value of a short \$25.00 strike price Finish High FRO at expiration.

Underlying AFSI* @ Expiration	Short Finish High FRO Value per Contract
\$22.00	\$0.00
\$23.00	\$0.00
\$25.00	\$0.00
\$25.01	(\$100.00)
\$28.00	(\$100.00)
\$30.00	(\$100.00)
\$35.00	(\$100.00)
\$40.00	(\$100.00)

\*Amex FRO Settlement Index<sup>(SM)</sup>

## Short Finish High FRO Example

- Willing to risk \$1000.00.
- Finish High FRO trading @ \$0.38 = \$38.00 per contract.
- \$100.00 (maximum short value per contract) - \$38.00 (premium received per contract) = \$62.00 maximum loss per contract.
- \$1000.00 / \$62.00 = 16 contracts.
- Sell 16 Finish High FROs @ \$0.38 = \$608.00 total proceeds (maximum gain).
- If the Amex FRO Settlement Index<sup>(SM)</sup> is greater than the strike price at expiration, the FRO will be assigned 16 contracts x \$100.00 = \$1600.00 debit.
- \$1600.00 debit - \$608.00 proceeds = \$992.00 maximum loss.



- If the Amex FRO Settlement Index<sup>(SM)</sup> is less than the strike price at expiration, the FRO will expire worthless and the maximum gain of \$608.00 will be realized.

The table below illustrates the profit and loss potential for the above example.

<b>Short 16 Finish</b>			
<b>AFSI* @ Expiration</b>	<b>Premium Received</b>	<b>High FROs Max. Value</b>	<b>Finish High FRO P &amp; (L)</b>
\$15.00	\$608.00	\$0.00	\$608.00
\$20.00	\$608.00	\$0.00	\$608.00
\$24.99	\$608.00	\$0.00	\$608.00
\$25.00	\$608.00	\$0.00	\$608.00
\$25.01	\$608.00	(\$1,600.00)	(\$992.00)
\$30.00	\$608.00	(\$1,600.00)	(\$992.00)
\$35.00	\$608.00	(\$1,600.00)	(\$992.00)

\*Amex FRO Settlement Index<sup>(SM)</sup>

## Summary

Finish High FROs are similar to standard list call options in many ways. Long Finish High FROs and long standard listed call options both have an easily identified maximum loss potential and both are bullish in nature. There are, however, significant differences. The standard listed call option has an unlimited profit potential above breakeven until expiration, but the Finish High FRO has a maximum profit potential of \$100.00 less the premium paid. The breakeven point for the standard listed call option is the strike price plus the premium paid. The Finish High FRO has a breakeven point of the strike price plus \$0.01 and therefore, reaches breakeven faster. With its defined maximum profit potential and lower breakeven point the long Finish High FRO will probably outperform the long standard listed call option in moderately bullish situations, but will lag behind the long standard listed call option in truly bullish ones. By nature, the long Finish High FRO will be priced less than a long standard listed call option with the same strike price. This will allow the investor to either manage risk or increase leverage. And since reaching the breakeven point is easier, under the right



circumstances the Finish High FRO should reach profitability more quickly than the long standard listed call option.

**For the sake of simplicity, the examples shown do not take into consideration commissions and other transaction fees, tax considerations, or margin requirements, which are factors that may significantly affect the economic consequences of a given strategy. An investor should review transaction costs, margin requirements and tax considerations with a broker and tax advisor before entering into any options strategy.**

**Fixed Return Options (FROs) involve risk and are not suitable for everyone. Prior to buying or selling a FRO, a person must receive a copy of *Characteristics and Risks of Standardized Options*. Copies may be obtained from your broker, one of the options exchanges or The Options Clearing Corporation, One North Wacker Drive, Suite 500, Chicago, IL 60606 or call 1-888-OPTIONS or visit [www.888options.com](http://www.888options.com).**

**FROs exercise and assignment is based on an all day expiration day Amex FRO Settlement Index<sup>(SM)</sup> so it is possible for the standard listed options to be in-the-money at expiration and the FROs to be out-of-the-money or for the FROs to be in-the-money and the standard listed options to be out-of-the-money. An investor must understand FROs settlement before entering into any FROs transaction.**

**Any strategies discussed, including examples using actual securities and price data, are strictly for illustrative and education purposes and are not to be construed as an endorsement, recommendation or solicitation to buy or sell securities. Supporting documentation will be supplied upon written request.**

**Copyright © 2007 American Stock Exchange LLC. All rights reserved. No part of this publication may be reproduced in any form or by any means without the express prior written permission of the American Stock Exchange LLC.**

**Fixed Return Options<sup>(SM)</sup>, FROs<sup>(SM)</sup>, Finish High<sup>(SM)</sup>, Finish High FROs<sup>(SM)</sup>, Finish Low<sup>(SM)</sup>, Finish Low FROs<sup>(SM)</sup>, HiFRO<sup>(SM)</sup>, LoFRO<sup>(SM)</sup> and Amex FRO Settlement Index<sup>(SM)</sup> are service marks of the American Stock Exchange LLC.**

