

Comparing options on futures with stock options

What's alike and what's not

Know your options

An option is an option (in some ways). Sure, there are some key similarities when it comes to stock options and options on futures, like how the prices are calculated using the same inputs. And there's the fact that you can use a lot of the same strategies, like vertical spreads, iron condors, and straddles. But there are some key differences that are important to know as well.

	Options on futures	Options on stocks
Diversification	Access to a wide variety of asset classes, such as stock indices, energies, interest rates, metals, currencies, and agriculture	Can trade options on companies in different sectors or different indices
Capital efficiency	Uses SPAN margin, which evaluates trades using a risk-based model	Uses Regulation T margin
Trading hours	Trade virtually 24 hours a day, six days a week	Trade from 8:30 a.m. to 3 p.m. CT ¹
Day trading	No pattern day trader rule	Pattern day trader rule applies ²
Expiration	Settles to underlying futures contract or cash (important to note that underlying futures contract expires)	Settles to underlying equity or, if equity index options, to cash

1. Equity options trade until 4 p.m. ET. Index options trade until 4:15 p.m. ET.

2. You are considered a pattern day trader if you place four day trades or more within a five-day period. You must also maintain an account balance of \$25,000 or more. TD Ameritrade does not recommend, endorse, or promote a "day trading" strategy, which may involve significant financial risk.

Similarities played out

Above was a comparison of options on futures and stock options, but here are two examples of how they really are similar. As you'll see, trading options on the E-mini S&P future (/ES) provides the same exposure to the S&P 500 Index as trading options on SPX.

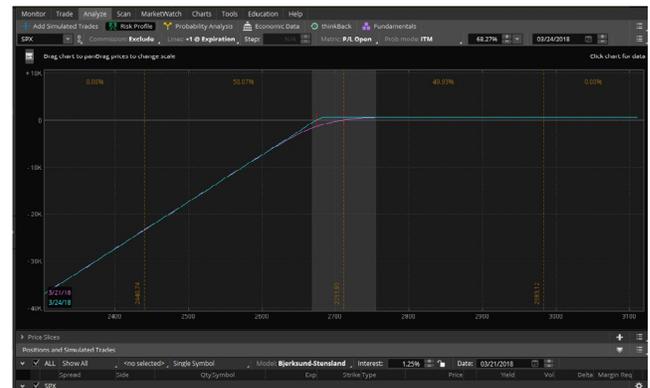
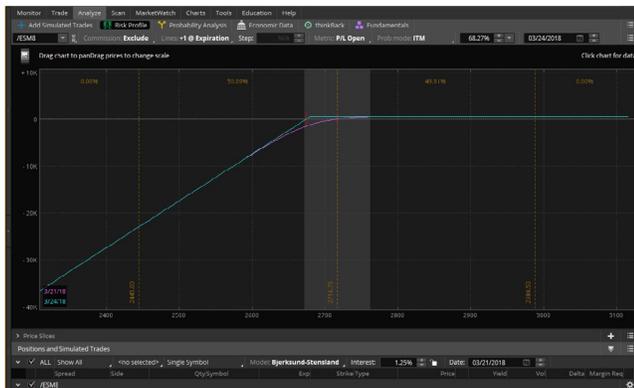
	Sell 2 /ESM8 Mar 18 (Wk4) 2680 Put (\$50 x S&P 500 Index)⁴	Sell 1 SPX Mar 18 (Wk4) 2680 Put
Price³	\$5.25	\$5.25
Credit received	\$525	\$525
Margin requirement	\$11,259	\$51,051

	Sell 2 Vertical Apr 18 (Wk1) 2630/2625 Put @ 0.50 LMT (\$50 x S&P 500 Index)⁴	Sell 1 Vertical SPX Apr 18 (Wk1) 2630/2625 Put @ 0.50 LMT
Price³	\$0.50	\$0.50
Credit received	\$50	\$50
Margin requirement	\$254	\$450

3. Market prices as of March 21, 2018. For illustrative purposes only.

4. Multiplier for /ES is \$50 x S&P 500 Index.

In addition to having the same exposure, the risk profiles for both /ES and SPX trades look the same too.



For illustrative purposes only. Not a recommendation.

So what's the difference?

From pricing to contract specs, there are some major differences between options on futures and stock options.

	Options on futures	Options on stocks
Pricing	Based on the underlying future	Based on the underlying stock
Settlement	Depending on product, can settle directly into underlying future or can settle into cash TD Ameritrade Futures and Forex does not allow physical delivery	Stock options settle into underlying stock; Index options settle into cash
Exercising style	Can be American or European style, and may only be exercised on their expiration date	American style, and may be exercised at any time
Tick size	Tick size will vary depending on the underlying future	Typically have a standard multiplier of 100
Contract specifications	Vary for futures, and are important to know before getting involved	Same specifications for each contract

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Greater leverage creates greater losses in the event of adverse market movements.

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Futures accounts are not protected by the Securities Investor Protection Corporation (SIPC).

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Options on futures are not suitable for all clients, and the risk of loss in trading futures and options on futures could be substantial. Additionally, some options expire prior to the final settlement or expiration of the underlying futures contract.

Options writing as an investment is absolutely inappropriate for anyone who does not fully understand the nature and extent of the risks involved and who cannot afford the possibility of a potentially unlimited loss. It is also possible in a market where prices are changing rapidly that an option writer may have no ability to control the extent of losses.

The paperMoney application is for educational purposes only. Successful virtual trading during one time period does not guarantee successful investing of actual funds during a later time period, as market conditions change continuously.

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