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Audio Script
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Every example that we use is for illustrative purposes only and we do not include any commission and fees.

If you own shares of stock, you could hedge them by buying a “Put” option.

Imagine you own 100 shares of XYZ, which is currently trading around $50 per share.

If XYZ falls to $20, perhaps due to some calamitous event or announcement, your position would lose $3,000 in value.

If you’re worried about potential future losses, you can buy what’s called a “protective put.”

To hedge, you would choose a strike price and a time frame. You now own the right to sell XYZ at the agreed strike price at any time within the specified time frame.

To put it another way, you’re hedged against some loss for any time during that period in exchange for the premium you paid for the protective put.

If you choose to sell, your position only loses $1000 in value, compared to losing $3000 without the option.

This is how people can use options to hedge their investments.

Disclosure:

Options involve risk and are not suitable for all investors. Certain requirements must be met to trade options. Before engaging in the purchase or sale of options, investors should understand the nature of and extent of their rights and obligations and be aware of the risks involved in investing with options. Please read the options disclosure document titled "Characteristics and Risks of Standardized Options" before considering any option transaction. You may also contact us call at 1.877.653.4732 for a copy. A separate client agreement is needed. Option orders are subject to a per-contract charge.

View definitions for investment terms in our Glossary.

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