Cboe®

EUROPEAN EQUITY OPTIONS

THE ULTIMATE STARTER GUIDE

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Your Journey Begins Here

If you've been wanting to learn more about managing your financial future and about which instruments to use, you've come to the right place. While you might be familiar with products such as shares, bonds, ETFs, futures, crypto and even over-the-counter products like CFDs, in this guide we'll introduce the basics of **European equity options**. We'll walk you step-by-step through several options strategies that you can use in your own trading.

All educational content provided by The Options Institute. If you're ever feeling curious, visit TheOptionsInstituteEurope.com for more in-depth information.

* All examples in this guide utilise options contracts listed on Cboe Europe Derivatives Exchange (CEDX). Nothing in this article constitutes investment advice or recommendation of any trade on specific stock or options contracts mentioned. All examples, tickers, numbers and prices are for illustrative and educational purposes only.

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Options Basics

LEARN MORE ABOUT OPTIONS BASICS HERE ›

European equity options are derivative products. This means that their value is “derived” from or dependent on the value of the underlying stock (asset). They are formal, standardised contracts with defined terms that investors can buy or sell to implement their trade ideas.

An option contract gives the owner of the contract the right, but not the obligation, to purchase or sell an underlying security at a certain price, within a certain time frame.

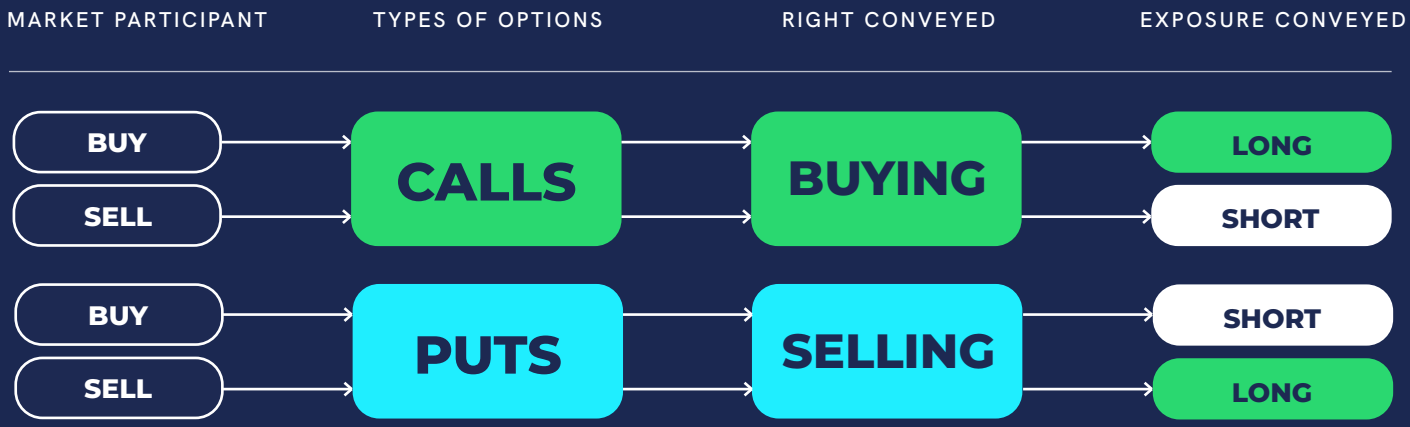
Types of Options

Let's look at a real example of European listed products. Anheuser-Busch stock (**ABI**) can be traded on Cboe Europe's pan-European equities exchange while the equity option (**ABIO**) can be traded on **Cboe Europe Derivatives** (**CEDX**). Whether trading stocks or options, you have exposure to the underlying asset and the possibility of capturing the return on its performance.

Options give you the opportunity to capture the upside or downside performance of a stock.

Calls and Puts

Options come in two types, calls and puts, which can be bought or sold to gain a particular exposure to the underlying asset.



Having a **long exposure** means you expect the underlying asset to go up in value.
Having a **short exposure** means you expect it to go down in value.

The Language of Options

Before we move on, let's take a minute to understand some of the key terms you should know before trading options*.

Option Order Example

SIDE	QUANTITY	UNDERLYING	EXPIRY	STRIKE	TYPE	PRICE
Buy	1	ABI	21 June 2024	55	C	€2.19

- **Side** represents your choice to buy or sell the option.
- **Quantity** indicates the number of contracts you are trading.
- **Underlying** identifies the asset you want the rights to.
- **Expiration or expiry** is the date when the contract expires or ends.
- **Strike** is the price you may pay or receive for the underlying asset if the option is exercised.
- **Type** indicates the type of option: call or put.

  CALL: An option contract in which the owner has the **right, but not the obligation** to buy an underlying security at a specific price, within a certain time frame.

  PUT: An option contract in which the owner has the **right, but not the obligation** to sell an underlying security at a specific price, within a certain time frame.
- **Price** is the amount of money you are paying or receiving for the option contract.

* The standard equity option contract size represents 100 shares of the underlying asset and is American style. American style options can be exercised any time before or on the expiry of the contract. In contrast, European style options may only be exercised on expiry.

Options contracts have a **multiplier**. Equity options contracts have a multiplier of 100 in most cases, though it may vary. To calculate the total amount you are expected to pay or receive when trading an options contract, use the formula:

Total Option Premium = # of Contracts x Price x Multiplier

The Advantages & Risks of Options

Options offer flexibility to help you achieve your financial goals. Traders around the world describe two primary reasons for using options:

Income Generation – increasing your financial capital

Capital Protection – seeking to preserve or maintain your existing capital

Taking the benefits and risks into account, traders most often said they are looking for opportunities related to:

Efficient Exposure – this means that investors seek the most cost-effective way to gain access and own positions in specific markets, underlying assets, or risk variables

Risk Management or Hedging – this means investors seek to reduce or eliminate specific variables of exposure in one's portfolio

It's important to mention that options, like all financial products, involve risk (e.g. the risk of losing the invested capital or premium) and are not suitable for all investors. Past performance does not guarantee future results.

CEDX Equity Options Compared* to Other Financial Products

It's always important to understand the embedded risks in any financial product. This chart shows how exchange traded derivatives on CEDX compare to other derivative products.

PRODUCT ATTRIBUTE	CEDX EQUITY OPTIONS	CFDs	WARRANTS
Counterparty Risk	Centrally cleared by Cboe Clear Europe; no direct counterparty risk by design	Investor exposed to the provider and the provider's other counterparties	Investor exposed to warrant issuer
Liquidity Risk	Multiple market makers provide liquidity competitively for the direct benefit of the marketplace	Relatively higher risk due to limited market maker competition	Relatively higher risk due to limited market maker competition
Contract Design	Standardised, mandated by exchange rules	Relatively higher risk due to provider / issuer discretion	Relatively higher risk due to provider / issuer discretion
Creation of New Contracts			
Corporate Action Adjustments			

* Comparison applies to exchange traded options on CEDX only and may not be reflection of advantages or risks on other options exchanges.

Decision-Making Framework

Now that you understand the basic principles of options trading, let's look at the typical process for making and executing decisions with options.

STEP 1

Define your goal

Begin with a clearly defined goal. This step is critical so you can make the best possible decision to reach that goal.

STEP 2

Describe the trade idea that achieves your goal

Once you've chosen the underlying asset you are going to trade, it's time to decide how you believe its price will move during a specific period of time.

Select a financial instrument

Compare and contrast the available financial products that both meet your goal and enable you to express your trade idea. It is important to take into account your risk parameters, available capital, and the maximum loss scenarios.

STEP 3

Construct your trade idea with options

Assuming option contracts are the best choice for expressing your trade idea, you are now ready to select the type of options to use in your strategy. This includes selection of expiry and strike price as well.

STEP 4

Place your trade

To place a trade, retail investors need to have a brokerage account and permission to trade options. Requirements vary by broker platform.

Select your exchange

When trading equity options contracts in Europe, you will be given the choice to select which exchange you want to use through your brokerage account. When you select CEDX, you'll be able to trade options on over 300 popular European stocks.

STEP 5

Track and analyse your results

Review your option's performance and learn from each experience. Make adjustments as needed to ensure that you stay within your risk parameters.

EXPLORE DECISION-MAKING CLASSES HERE ›

Framework Example #1

Now, let's see the framework in action with some common scenarios.

First, let's meet **Gordon**, whose overall goal is to generate income. ABI's stock is currently trading at €56.16. He believes ABI's stock will increase in value, so he chooses to **buy a call option** to execute this trade idea. Here you can see how Gordon's goal, idea, and strategy fit into the framework and what the possible outcomes are.

STARTING PORTFOLIO	GOAL	IDEA	OPTIONS STRATEGY	PAYOUT DIAGRAM AT EXPIRATION	ORDER	POSSIBLE OUTCOMES AT EXPIRATION: STOCK AT €65 (ABOVE STRIKE OF €55)	POSSIBLE OUTCOMES AT EXPIRATION: STOCK AT €45 (BELOW STRIKE OF €55)
N/A	Income Generation	Believes ABI stock will **increase** by 5% within the next 6 months	Buy Call		**Bought 1 ABI 21June2024 55 call for €2.19/share** Total Premium Paid = 1 x €2.19 x 100 = €219	((65-55) - €2.19) x 100 **Profit* = €781**	**Loss* = €219**

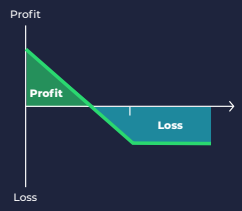
* Example does not include applicable transaction fees and costs, which may vary depending on the broker platform you utilise.

STEP 1 | STEP 2 | STEP 3 | STEP 4 | STEP 5

Framework Example #2

Next, let's meet Nishank, whose overall goal is also to generate income.

ABI's stock is currently trading at €56.16. However, he believes ABI's stock will decrease in value, so he chooses to **buy a put option** to execute this trade idea. Here you can see how Nishank's goal, idea, and strategy fit into the framework and what the possible outcomes are.

STARTING PORTFOLIO	GOAL	IDEA	OPTIONS STRATEGY	PAYOUT DIAGRAM AT EXPIRATION	ORDER	POSSIBLE OUTCOMES AT EXPIRATION: STOCK AT €65 (ABOVE STRIKE OF €55)	POSSIBLE OUTCOMES AT EXPIRATION: STOCK AT €45 (BELOW STRIKE OF €55)
N/A	Income Generation	Believes ABI will **decline** 3% in value over the next 2 months	Buy Put		**Bought 1 ABI 21June2024 55 put for € 1.42/share** Total Premium Paid = 1 x €1.42 x 100 = €142	Loss* = €142	((55 - 45) - €1.42) x 100 Profit* = €858

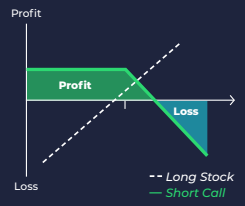
* Example does not include applicable transaction fees and costs, which may vary depending on the broker platform you utilise.

STEP 1 | STEP 2 | STEP 3 | STEP 4 | STEP 5

Framework Example #3

Finally, we'll meet Ally, whose overall goal is to preserve her existing position while generating some income.

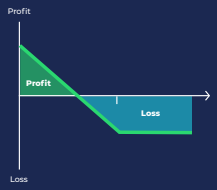
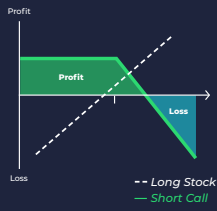
ABI's stock is currently trading at €56.16. She currently owns 1000 shares of ABI. However, she believes ABI stock will not change much in value. To generate income on her position, she chooses to **sell a covered call**. Here you can see how Ally's goal, idea, and strategy fit into the framework and what the possible outcomes are.

STARTING PORTFOLIO	GOAL	IDEA	OPTIONS STRATEGY	PAYOUT DIAGRAM AT EXPIRATION	ORDER	POSSIBLE OUTCOMES AT EXPIRATION: STOCK AT €65 (ABOVE STRIKE OF €60)	POSSIBLE OUTCOMES AT EXPIRATION: STOCK AT €45 (BELOW STRIKE OF €60)
Owns 1000 shares of ABI	Maintain Position and Generate Income	Believes ABI stock will be **unchanged** within the next 3 months	**Sell Covered Call** (This means you sell calls against existing stock position)		**Sell 10 ABI 21June2024 60 calls at €0.40/share** Total Premium Received = 10 x €0.40 x 100 = €400	**profit from stock position + loss from options position** = ((65-56.16) x 1000) + (10 x ((60-65) + €0.40) x 100) = 8840 - 4600 **Profit* = €4240** Plus risk of assignment and loss of stock position	(total options premium received + loss from stock position) = 400 + ((45-56.16) x 1000) = 400 - 11160 **Loss* = €10760**

* Example does not include applicable transaction fees and costs, which may vary depending on the broker platform you utilise.

STEP 1 STEP 2 STEP 3 STEP 4 STEP 5

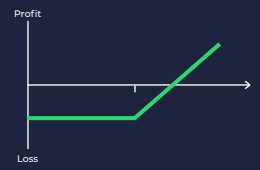
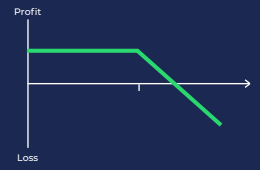
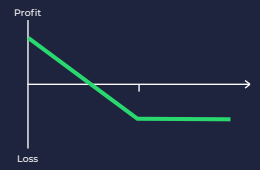
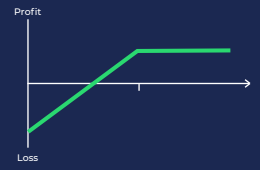
Framework Examples

	STARTING PORTFOLIO	GOAL	IDEA	OPTIONS STRATEGY	PAYOUT DIAGRAM AT EXPIRATION	ORDER	POSSIBLE OUTCOMES AT EXPIRATION	
							STOCK AT €65	STOCK AT €45
Gordon	N/A	Income Generation	↑ Believes ABI stock will **increase** by 5% within the next 6 months	**Buy Call**		**Bought 1 ABI 21June2024 55 call for €2.19/share** Total Premium Paid = 1 x €2.19 x 100 = €219	((65-55) - €2.19) x 100 **Profit* = €781**	**Loss* = €219**
Nishank	N/A	Income Generation	↓ Believes ABI will **decline** 3% in value over the next 2 months	**Buy Put**		**Bought 1 ABI 21June2024 55 put for € 1.42/share** Total Premium Paid = 1 x €1.42 x 100 = €142	**Loss* = €142**	((55 - 45) - €1.42) x 100 **Profit* = €858**
Ally	Owns 1000 shares of ABI	Maintain Position and Generate Income	Believes ABI stock will be **unchanged** within the next 3 months	**Sell Covered Call** *(This means you sell calls against existing stock position)*		**Sell 10 ABI 21June2024 60 calls at €0.40/share** Total Premium Received = 10 x €0.40 x 100 = €400	profit from stock position + loss from options position = ((65-56.16) x 1000) + (10 x ((60-65) + €0.40) x 100) = 8840 - 4600 **Profit* = €4240**	(total options premium received + loss from stock position) = 400 + ((45-56.16) x 1000) = 400 - 11160 **Loss* = €10760**

* Example does not include applicable transaction fees and costs, which may vary depending on the broker platform you utilise.

Options Performance

As we've seen, **options offer flexibility and choice to your investment strategies**. However, it's always important to remember the associated risks and costs, including transaction costs and fees. This table provides a summary of the maximum financial gain/loss at expiration for call and put positions.

TYPE	SIDE	PAYOUT DIAGRAM AT EXPIRATION	MAXIMUM GAIN/LOSS ↑ POSSIBLE OUTCOME #1 UNDERLYING PRICE INCREASES ABOVE STRIKE PRICE AT EXPIRATION	MAXIMUM GAIN/LOSS ↓ POSSIBLE OUTCOME #2 UNDERLYING PRICE DECREASES BELOW STRIKE PRICE AT EXPIRATION
Calls	**Buy**		**Unlimited** potential **gain**	**Lose** the total premium paid
Calls	**Sell**		**Unlimited** potential **loss**	**Retain** the total premium collected
Puts	**Buy**		**Lose** the total premium paid	Significant, but **limited** potential **gain**
Puts	**Sell**		**Retain** the total premium collected	Significant, but **limited** potential **loss**

Unlocking European Equity Options with CEDX

CEDX is a modern, efficient pan-European derivatives exchange, that lets you trade options on companies from across Europe. It offers a single access point, on-screen liquidity, clearing efficiencies, and an overall enhanced product design.

We're part of Cboe Global Markets which runs some of the largest options markets in the US – we founded the listed US options market. We're bringing our options expertise to Europe, with a particular focus on deep and liquid on-screen markets.

Real Time Prices

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No Exchange Fees

There are currently no exchange fees for investors*

Coverage

Options from 14 countries

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