

Options trading explodes online in latest trend

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Business has doubled at some option brokerages

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Stock trading may have slowed, but online options trading is soaring.

Options volume overall on individual stocks is down 2.9% from last year, says the Chicago Board Options Exchange. But it's booming at online options traders. "We've seen a 100% increase in online options trading the past six months," says Tom Ascher, executive vice president at Interactive Brokers in Greenwich, Conn.

OptionsXpress, a Chicago online options broker, started last year and has 10,000 customers, and trading volume

is increasing 25% a month, President David Kalt says. At Datek, a Jersey City brokerage, online options trading has doubled — on some days, tripled — from October. Discount broker Charles Schwab says online options trading has doubled since September.

Options are the right to buy or sell a security at a set price by a certain date. The option costs a fraction of the price of the security. But if the stock doesn't reach the strike price, the option expires worthless.

Behind the rise in online options trading:

► **Fear.** Some investors are using options to hedge against losses. An investor with a large stake in IBM could buy puts on the stock. A put is the right to sell a stock at a certain price — a bet that its value will fall below that price. If

IBM tumbles, the rise in the value of the put option will offset losses in the stock itself.

"Options are the hedging vehicle of choice in a scary market," Ascher says.

► **Greed.** If you invest in stocks or mutual funds, you're betting that the stock market will rise. But speculating in options can reap big gains or big losses in either bull or bear markets. "If you think the last 15 years were a bull market we may not see again for a while, you may want some other vehicle that doesn't require the market to move up," says Tom Sosonoff, founder of thinkorswim.com, a Chicago-based online options brokerage.

► **Automation.** Online options sites let investors execute sophisticated options strategies with many different contracts simultaneously. "It's a combi-

nation of hedging and speculating," says Tony McCormick, vice president of equity options at Schwab.

An investor who likes the long-term outlook for a stock but is worried about its short-term prospects might buy a short-term put option and a long-term call, which is the option to buy a stock — a bet that the stock will rise. The strategy is called a calendar spread.

Options trading isn't for everyone, and unskilled investors can lose their entire investment.

"It's like someone who has driven for a long time without an accident and then decides he wants to drive the Indy 500," says Malcolm Makin, a financial planner in Westerly, R.I. "When people start getting into options, they often start getting into things they don't fully understand."