

## The Most Liquid Index Options

**Index options** are a great way to trade. They allow you to place trades based on the movement of a basket of stocks, which has advantages compared to selecting and trading numerous individual stocks. In addition, index options are highly liquid trading vehicles.

One popular index option is the option on the **NASDAQ-100 Index (NDX)**. **NASDAQ-100 Index options** allow you to speculate on the future direction of the Nasdaq-100 Index. With NDX, you trade an option on the underlying basket of stocks that represented in the NASDAQ 100 index. The NASDAQ-100 Index comprises the largest non-financial companies listed on the NASDAQ stock market. Most of the 100 issues are well known companies, such as Microsoft, Qualcomm, Intel, and Cisco Systems.

Another index with high liquidity is the **S&P 100 (OEX)**. **OEX options** allow you to speculate on the movement of the S&P 100 Index. The OEX consists of 100 blue-chip stocks from diverse industry groups - they provide a good measure of the market's overall performance.

**S&P 500 (SPX) Index options** are among the most highly liquid options on the market. The S&P 500 Index is comprised of 500 leading companies (most of them listed on the NYSE) from a diverse array of industries.

**Dow Jones Industrial Average Index options (DJX)** enable you to speculate on the future direction of the Dow. Since their introduction in 1997, DJX Index options have grown to become one of the most popular index options. DJX options are also a highly liquid trading vehicle.

**QQQ options are options on the NASDAQ-100 Index Tracking Stock** and have become very popular in recent years. QQQ options are the most liquid option currently traded on the market. The QQQ, also known as the "cubes" (or "qubes"), are an example of an **exchange-traded fund (ETF)**. ETFs track major stock indexes and can be traded just like a regular stock. The QQQ track the NASDAQ-100 Index, which consists of 100 of the biggest and most important stocks of the NASDAQ Composite Index.

Above we discussed the most liquid index options available today. High liquidity means you can easily get in and out of a position. Other index options are available; however, most do not provide the same degree of liquidity as the ones discussed. If you feel you would rather speculate on the general direction of a basket of stocks (i.e., an underlying index) than analyze a number of individual stocks, then trading index options might just be for you.

## NASDAQ-100 Index Options

The **NASDAQ-100 Index** was launched in January 1985 and comprises the largest non-financial companies listed on the **NASDAQ stock market**. Most of the 100 issues are well known companies, such as Microsoft, Qualcomm, Intel, and Cisco Systems.

**NASDAQ-100 Index Options** were first traded on the Chicago Board Options Exchange (CBOE) in February 1994.

Since the stocks represented in the NASDAQ-100 Index can be very volatile, the prices of NASDAQ-100 Index options can also vary significantly.

### There are several ways you can invest in the NASDAQ-100 index:

- By purchasing contracts of **NASDAQ-100 Index Options (NDX)**. Since each options contract controls 100 shares, you could leverage \$150,000 of equity (assuming a NASDAQ-100 Index price of \$1,500) with a single NDX contract;
- By buying **mini-NDX index options (MNX)**. The price of a MNX option is calculated as **1/10 of the value of the NASDAQ-100 Index**. Assuming a mini-NDX contract costs \$1,500, you could control \$15,000 of equity (a multiplier of 100) with a single MNX contract;
- You can trade the **NASDAQ-100 Tracking Stock (QQQ)**. The value of one QQQ share generally approximates **1/40 of the current value of the NASDAQ-100 index**. For example, if the current price of the NDX is \$1,500, the QQQ price would be approximately \$37.50 per share;
- You can invest in **options on the NASDAQ-100 Index Tracking Stock (QQQ options)**. If a QQQ trades at \$37 per share, one option contract would control \$3,700 of equity (a multiplier of 100).

### QQQ Options are the most liquid option currently traded on the market.

We recommend them as a relatively low risk way of leveraging a part of your trading capital.

## OEX Options (S&P 100 index)

OEX is the ticker symbol for the **S&P 100 Index** ("Standard and Poors S&P 100 Stock Index"). **OEX options** allow traders to speculate on the movement of the OEX. The OEX consists of 100 blue-chip stocks from diverse industry groups - they provide a good measure of the market's overall performance.

**The OEX is a subset of the S&P 500 index;** the OEX is based on 100 of the 500 stocks of the S&P 500. OEX issues are not equally weighted - the larger a stock, the greater its influence on the total index.

Investors have been using OEX options (with American-style exercise) since 1983. More than one billion OEX options have been traded since then, making the OEX one of the most popular equity portfolio management tools in history.

In February 2001, options on iShares(SM) S&P 100 (ticker symbol OEF), with American-style exercise, were introduced.

In July 2001, the CBOE introduced S&P 100 options with European-style exercise (ticker symbol XEO)

OEX options are popular for several reasons:

- Investors can trade OEX options rather than analyzing and investing in the numerous individual stocks of the S&P 100 index. This reduces the number of trading decisions greatly;
- Purchasing S&P 100 options is less risky than buying and selling numerous individual stocks;
- Trading OEX options requires less capital than trading the options of individual stocks.

## **SPX Options (S&P 500 Index)**

**S&P 500 (SPX) options** are among the most highly liquid options on the market. The S&P 500 Index is comprised of 500 leading companies (most of them listed on the NYSE) from a diverse array of industries. Even though many individual traders follow the Dow Jones Index as reliable trading indicator of overall market performance, institutional traders rely more heavily on the S&P 500, considering it the better indicator.

**SPX options** are available for the three months closest to the current date, plus March, June, September, and December. LEAPS options are available for the S&P 500 Index as well. SPX options strike prices are usually set in intervals of 25 points.

**Several factors attract investors to SPX options, including:**

- SPX options are tied to the S&P 500 Index - the world's leading benchmark for institutional investors.

- SPX options allow investors to trade a cumulative basket of a 500-stock portfolio;
- Trading SPX options requires less capital than trading the options of individual stocks;
- S&P 500 index options are a highly liquid trading vehicle.

## **DJX Index Options (Dow Jones Industrial Average)**

**Dow Jones Industrial Average Index options (DJX)** enable the trader to speculate on the future direction of the Dow. Since their introduction in 1997, **DJX Index options** have grown to become one of the most popular index options. A DJX Index options contract is based on the **Dow Jones Industrial Average (DJIA)** - the oldest continuous U.S. market index (established 1896).

To individual investors, the DJIA is probably the world's best known stock index. Made up of 30 large and financially strong companies, the DJIA is the most widely followed index in the world – it is considered a key trading indicator, representative of the U.S. market's performance.

**The DJX Index options contract is calculated as 1/100 of the current value of the DJIA.** For instance, when the DJIA trades at \$10,000, the DJX Index options contract will be priced at approximately \$100. The DJX option strike prices are set in intervals of 100 points.

**DJX Index options are popular for several reasons; they are:**

- Tied to the DJIA – the world's oldest and best known stock index. Individual traders use the DJIA as one of the most widely used trading indicators of the market's overall performance;
- Allow investors to trade a cumulative basket of a 30-stock portfolio. This means investors can trade DJX Index options rather than having to analyze and invest in 30 individual stocks that make up the DJIA.
- Are a highly liquid trading vehicle.