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Using a Call Option to Create a Minimum Price on Cash or Forward Contracts

Sell Cash or Forward Contract Now and Buy a Call Option

If you offset option with a profit (rally required) add call option profit to Cash Sale or Forward Contract

TODAY'S FLOOR CALCULATION

Futures Month	Dec 08
Futures Price	\$ 5.60
- Basis	\$ 0.50
= Cash or Forward Contract Price	\$ 5.10
- Call Option Premium	\$ 0.5500
- Trade Costs	\$ 0.01
= Cash Floor	\$ 4.54
Expiration Date	11/21/08

Example if a Market Goes HIGHER

This is for any situation where the market is **HIGHER than your strike price** when you offset the call and assumes no benefit from remaining time value.

Example HIGHER Estimated	
Futures Price	
Futures Price	\$ 7.50
- Call Option Strike	\$ 6.20
= Value of Call Option	\$ 1.30
- Premium Cost	\$ 0.5500
- Trade Cost	\$ 0.01
+ Cash or Forward Contract Price	\$ 5.10
= Net Price	\$ 5.84

Example if a Market Goes LOWER

This is for any situation where the market is **LOWER than your strike price** and the option is allowed to expire worthless.

Example LOWER Estimated	
Futures Price	
Your Cash or Forward Contract Price	\$ 5.10
- Call Option Premium	\$ 0.5500
- Trade Cost	\$ 0.01
= Net Cash Floor	\$ 4.54

Pros	Cons
* Open Upside	* Delivery Commitment
* Floor Price Established	* Floor price lower than what you can "lock in"
* Managed Risk	
* Fixed Cost of premium	
* No Margin Calls	

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