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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
Futures Price
- Basis
= Cash or Forward Contract Price
- Call Option Premium
- Trade Costs \$ 0.01
= Cash Floor
Expiration Date

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
- Call Option Strike
= Value of Call Option
- Premium Cost
- Trade Cost \$ 0.01
+ Cash or Forward Contract Price
= Net Price

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
- Call Option Premium
- Trade Cost \$ 0.01
= Net Cash Floor

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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