ISE Vertical Spread Indexes

ISE SPY Bear Call Option Overlay Index (VCS)

ISE SPY Bull Put Option Overlay Index (VPS)

INTERNATIONAL SECURITIES EXCHANGE.

Disclaimer

For the sake of simplicity, the examples that follow do not take into consideration commissions and other transaction fees, tax considerations, or margin requirements, which are factors that may significantly affect the economic consequences of a given strategy. An investor should review transaction costs, margin requirements and tax considerations with a broker and tax advisor before entering into any options strategy.

Options involve risk and are not suitable for everyone. Prior to buying or selling an option, a person must receive a copy of "Characteristics and Risks of Standardized Options." Copies may be obtained from your broker, one of the exchanges or The Options Clearing Corporation. A prospectus, which discusses the role of The Options Clearing Corporation, is also available, without charge, upon request at 1-888-OPTIONS or www.optionseducation.org.

Any strategies discussed, including examples using actual securities price data, are strictly for illustrative and educational purposes and are not to be construed as an endorsement, recommendation or solicitation to buy or sell securities.

Option - Definition

Options Purchased

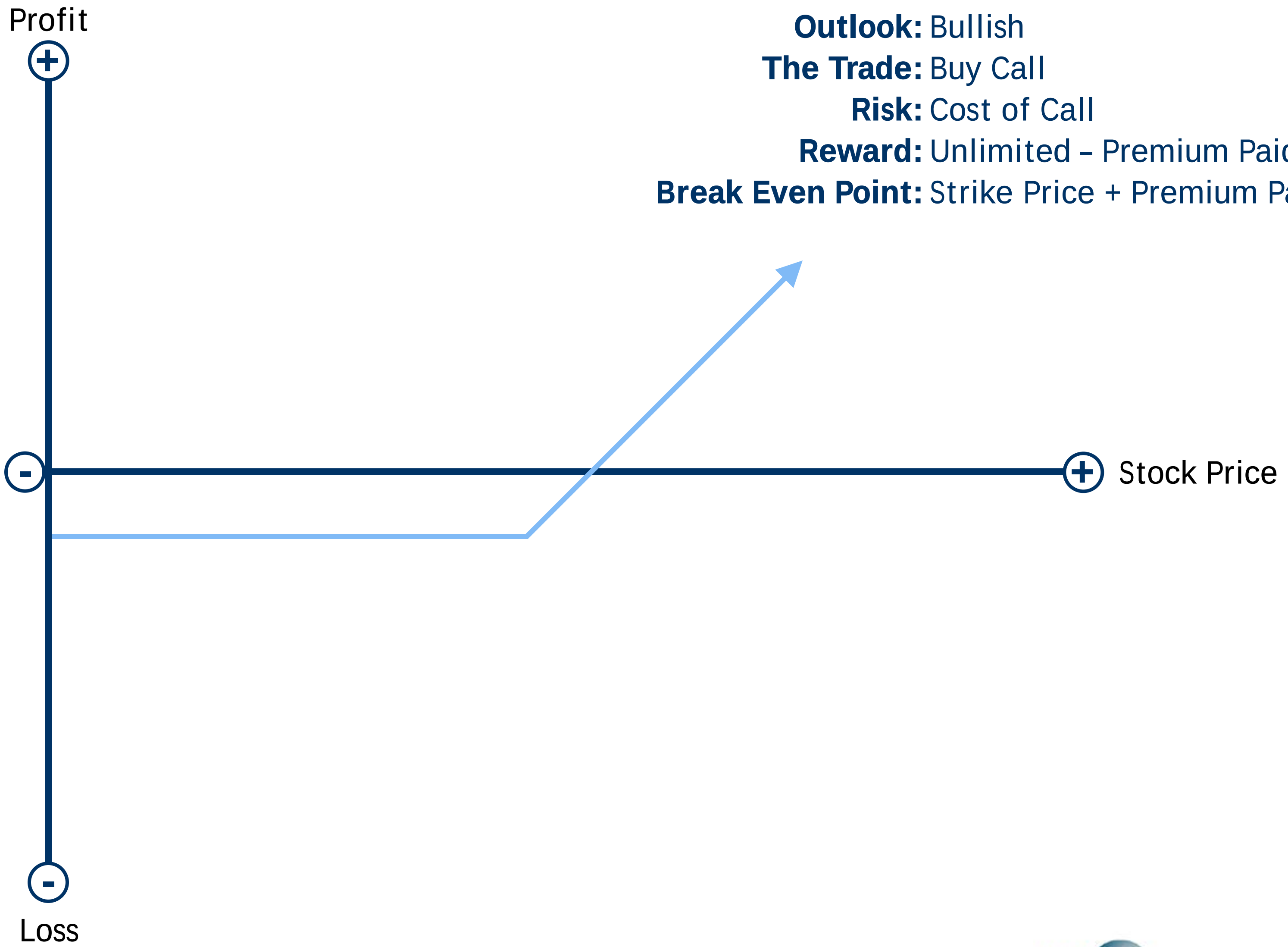
Options provide buyer with the right (not obligation) to buy or sell securities (underlying) at a specific price (strike price) within a set period of time (expiration).

Options Sold

Options provide seller with the obligation (not right) to deliver or receive securities (underlying) at a specific price (strike price) within a set period of time (expiration).

Options - Long Call

Outlook: Bullish
The Trade: Buy Call
Risk: Cost of Call
Reward: Unlimited – Premium Paid
Break Even Point: Strike Price + Premium Paid



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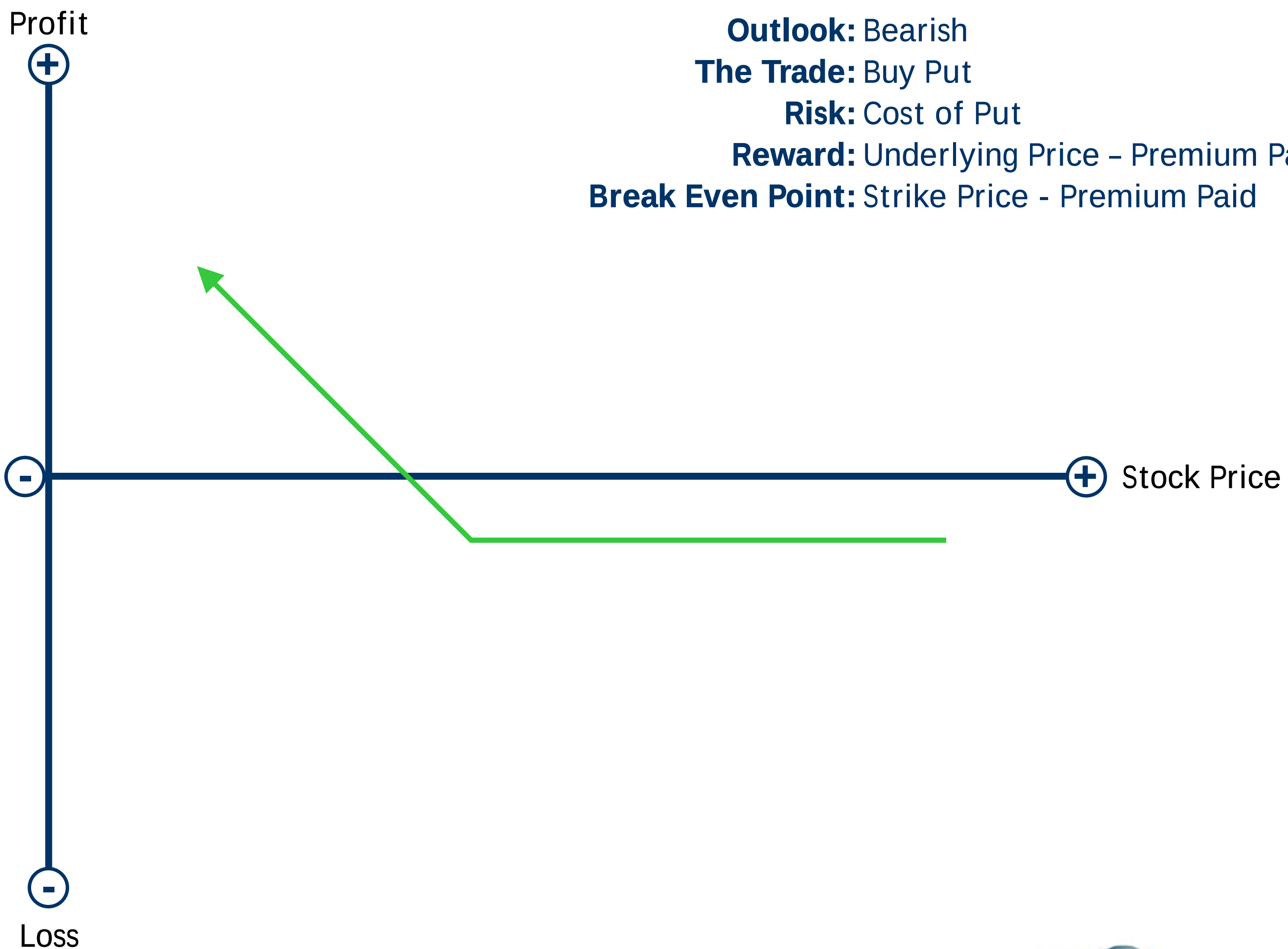
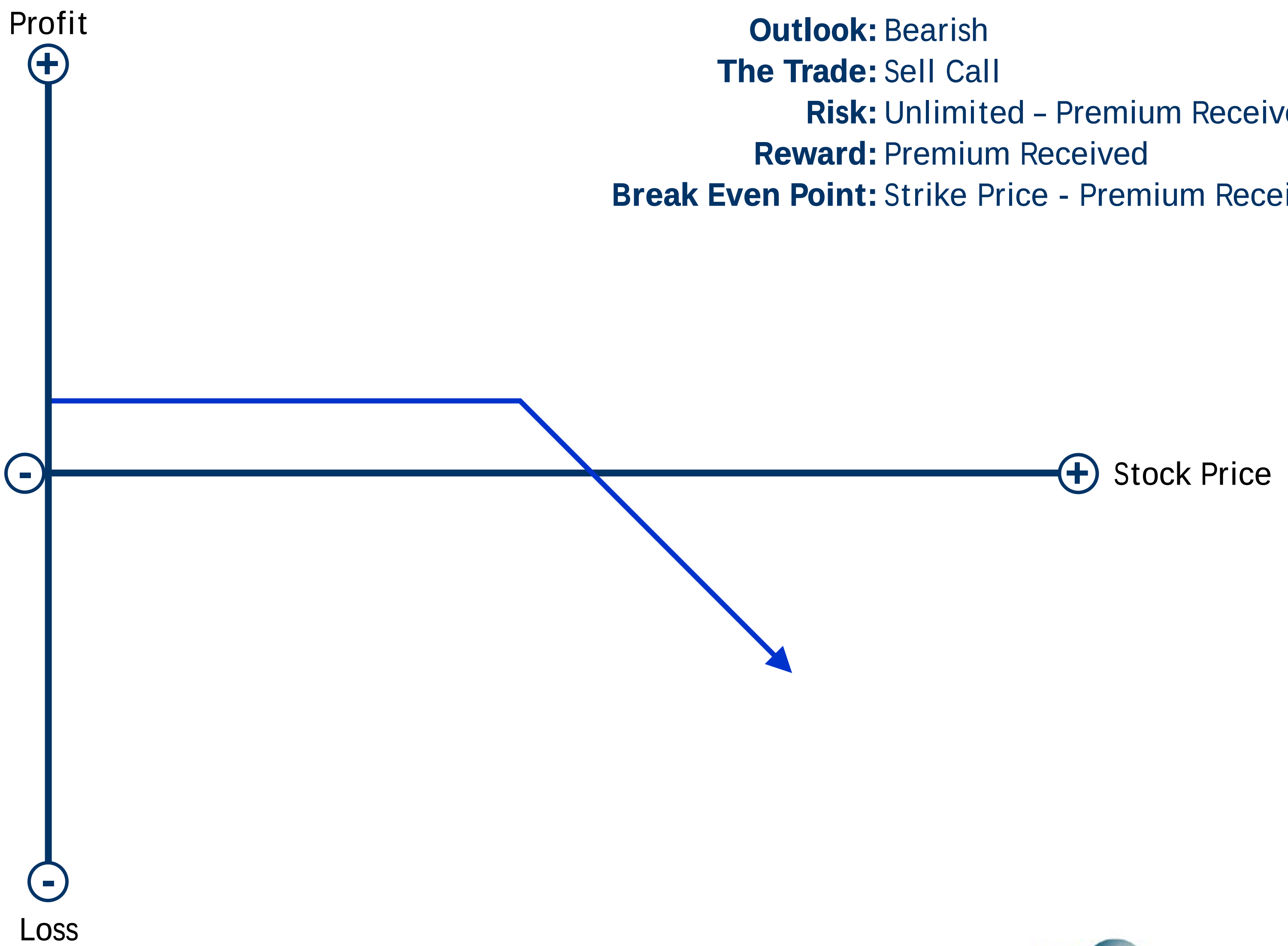
Options - Long Put

Outlook: Bearish
The Trade: Buy Put
Risk: Cost of Put
Reward: Underlying Price – Premium Paid
Break Even Point: Strike Price - Premium Paid



Options - Short Call



Outlook: Bearish
The Trade: Sell Call
Risk: Unlimited – Premium Received
Reward: Premium Received
Break Even Point: Strike Price - Premium Received

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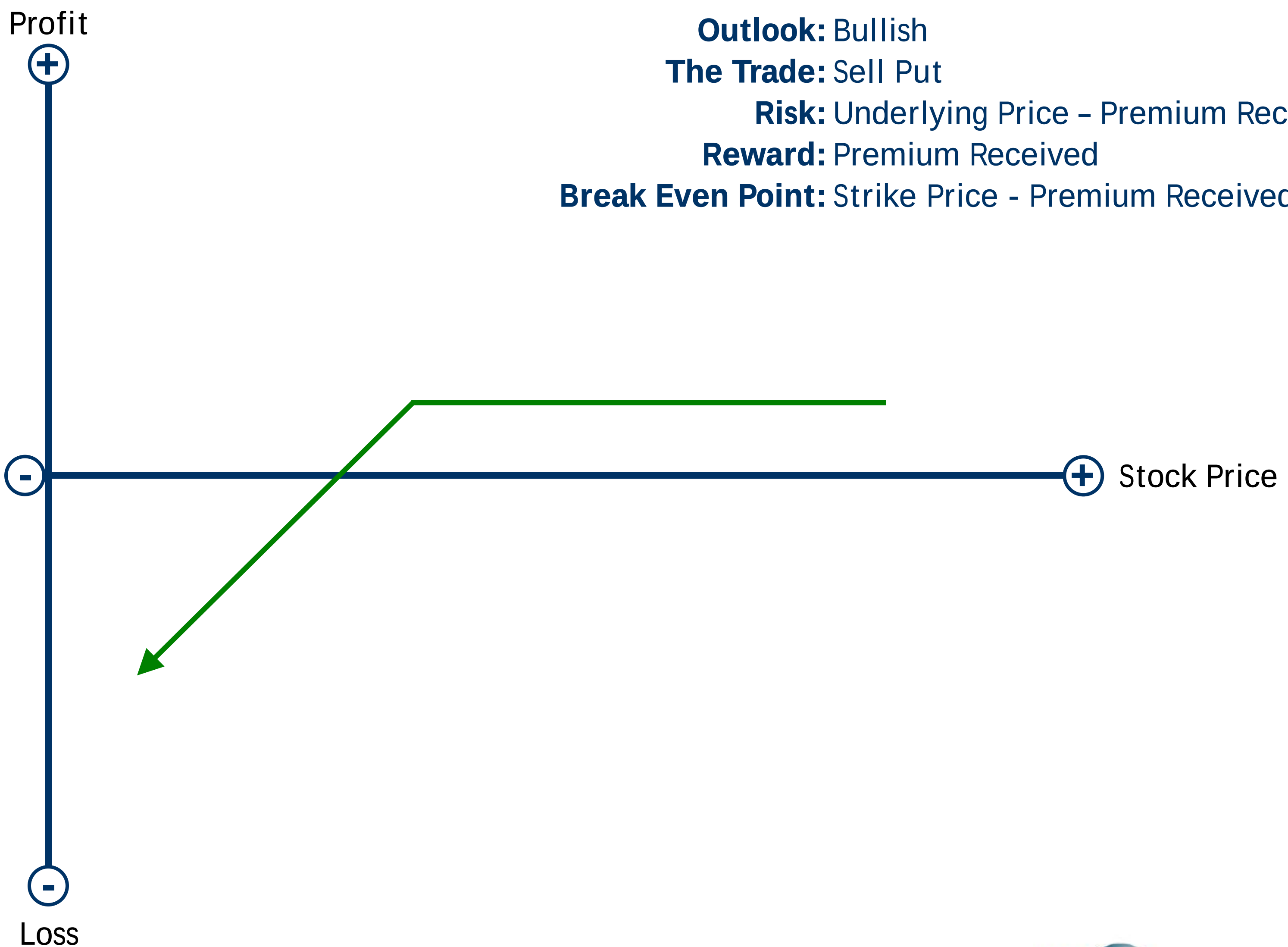
Options - Short Put

Outlook: Bullish
The Trade: Sell Put
Risk: Underlying Price – Premium Received
Reward: Premium Received
Break Even Point: Strike Price - Premium Received



Options – Vertical Bear Call Spread

MULTI-LEG OPTIONS INVESTMENT STRATEGIES

Vertical Bear Call Spread: A neutral to bearish multi leg options strategy. Premium is collected through the sale of a call (obligation to deliver the underlying). Part of the premium received is used to buy a call (right to buy the underlying) at a higher strike price. Selling a call theoretically represents unlimited risk. Buying a call limits the risk to the difference between the sold and bought strike prices (strike spread). For example:

SLD:	SPY JUN 138 CALL @ 3.11 (Receive $311)
BOT:	SPY JUN 141 CALL @ 1.62 (Pay $162)
Net Credit:	$311 - $162 = $149
$-At-Risk:	Difference in Strikes – Net Credit
	((141 – 138) x 100) - $149 = $151
MAX G/L:	Max Gain = $149 (49.67%) / Max Loss = $151 (-50.33%)

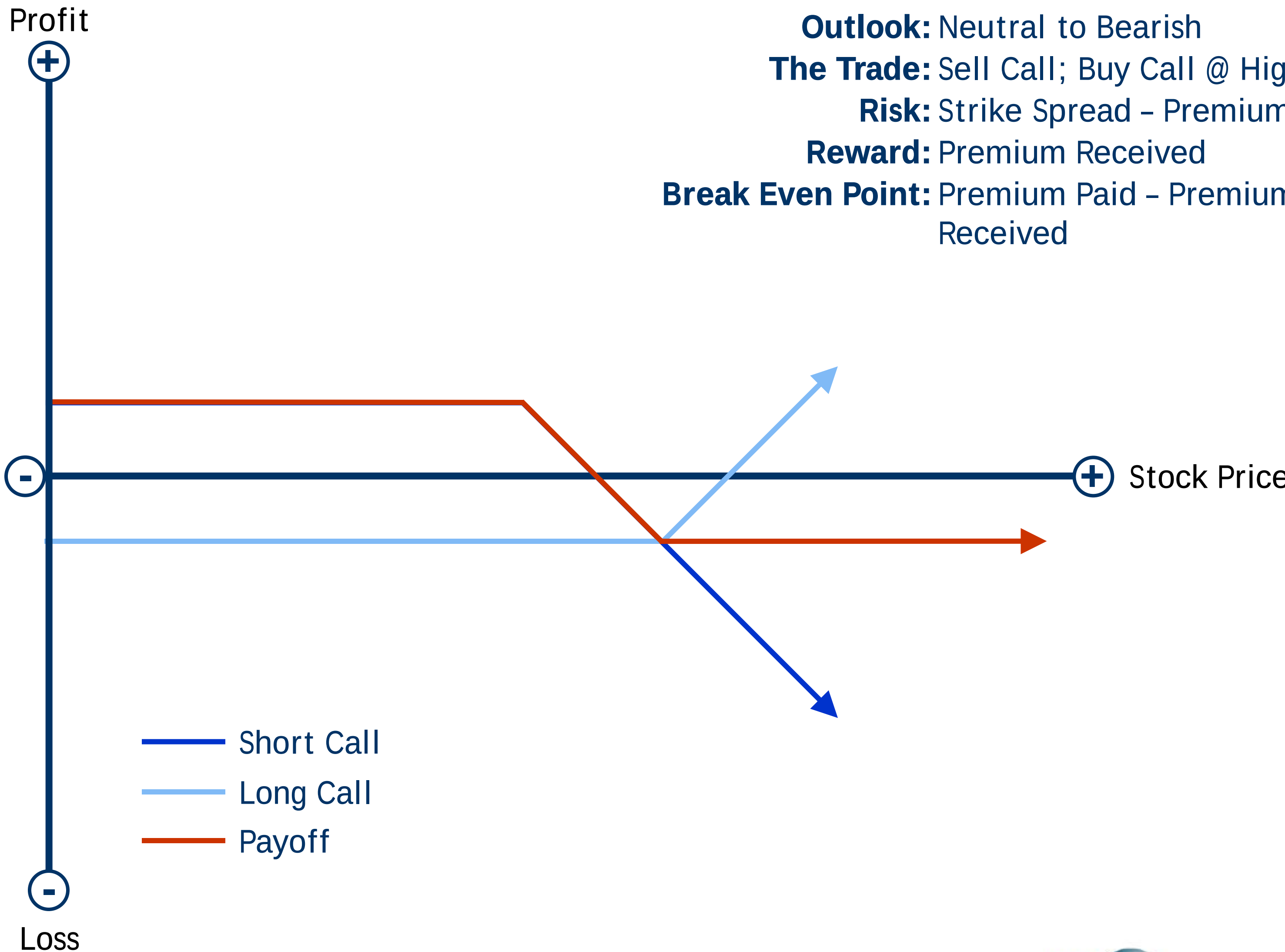
Collateral for this position would generally be determined by the strike spread. Collateral of $300 would be required to establish this position and is the basis for all G/L calculations.

Pairs that are very close to or At-The-Money (ATM) are more likely to have the underlying trade through them and incur maximum losses. Pairs that are further away from ATM are less attractive from a net credit perspective, but require larger moves of the underlying to put the position at risk. Pairs that are quite far away from ATM exhibit higher levels of price volatility due to the low absolute price levels at which they trade. Being too close or too far away from ATM each present their own risks.

ISE INTERNATIONAL SECURITIES EXCHANGE.

Options – Vertical Bear Call Spread

Outlook: Neutral to Bearish
The Trade: Sell Call; Buy Call @ Higher Strike
Risk: Strike Spread – Premium Received
Reward: Premium Received
Break Even Point: Premium Paid – Premium Received



Options – Vertical Bull Put Spread

MULTI-LEG OPTIONS INVESTMENT STRATEGIES

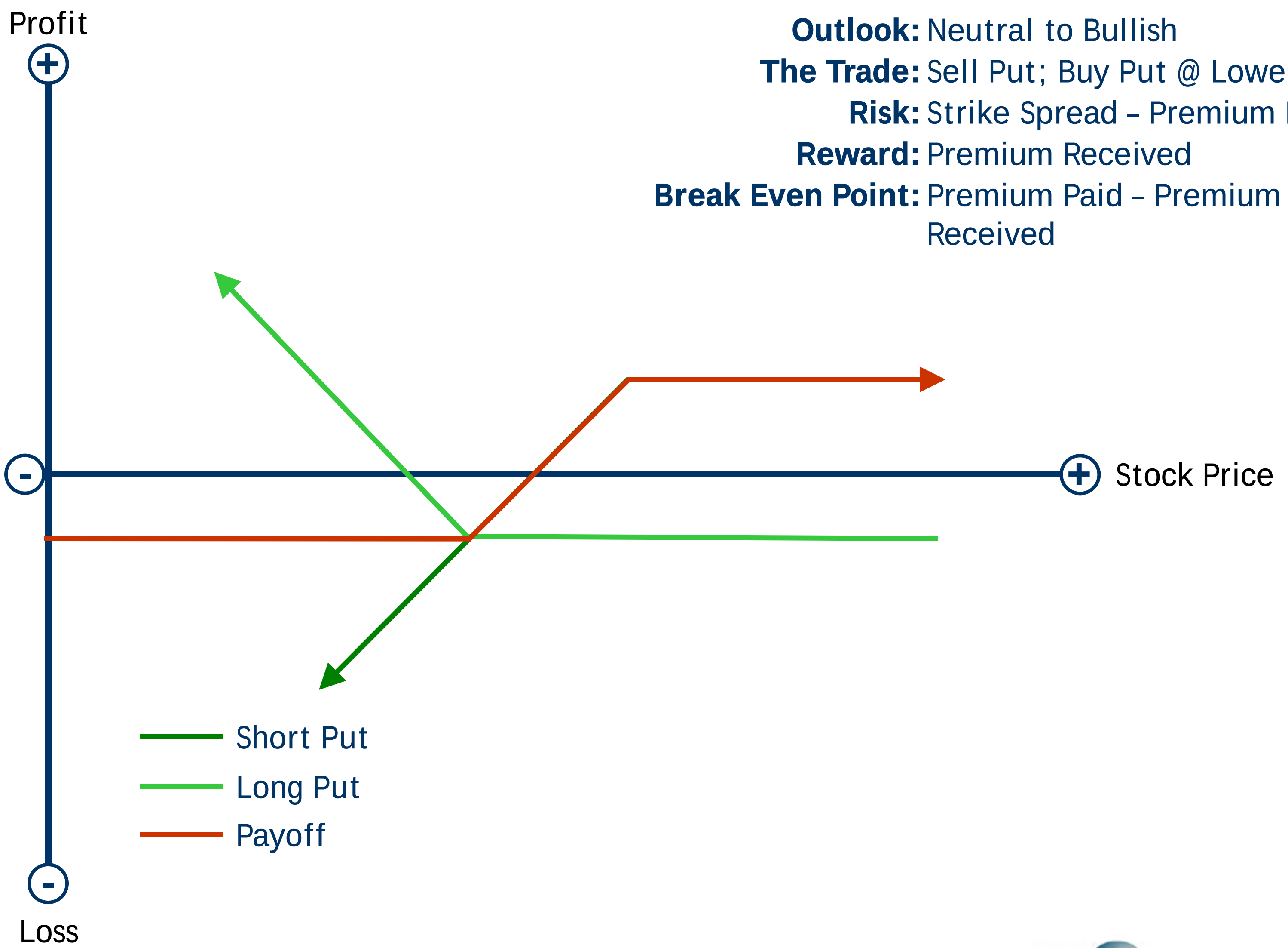
Vertical Bear Put Spread: A neutral to bullish multi leg options strategy. Premium is collected through the sale of a put (obligation to receive the underlying). Part of the premium received is used to buy a put (right to sell the underlying) at a lower strike price. Selling a put theoretically represents risk equal to the contract strike price. Buying a put limits the risk to the difference between the sold and bought strike prices (strike spread). For example:

SLD:	SPY JUN 138 PUT @ 4.06 (Receive $406)
BOT:	SPY JUN 135 PUT @ 2.90 (Pay $290)
Net Credit:	$406 - $290 = $116
$-At-Risk:	Difference in Strikes – Net Credit
	((138 – 135) x 100) - $116 = $184
MAX G/L:	Max Gain = $116 (38.67%) / Max Loss = $184 (-61.33%)

Collateral for this position would generally be determined by the strike spread. Collateral of $300 would be required to establish this position and is the basis for all G/L calculations.

Pairs that are very close to or At-The-Money (ATM) are more likely to have the underlying trade through them and incur maximum losses. Pairs that are further away from ATM are less attractive from a net credit perspective, but require larger moves of the underlying to put the position at risk. Pairs that are quite far away from ATM exhibit higher levels of price volatility due to the low absolute price levels at which they trade. Being too close or too far away from ATM each present their own risks.

Options – Vertical Bull Put Spread



Outlook: Neutral to Bullish

The Trade: Sell Put; Buy Put @ Lower Strike

Risk: Strike Spread – Premium Received

Reward: Premium Received

Break Even Point: Premium Paid – Premium Received

Index Price History (01/21/05 – 04/20/12)

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