

Options on futures

Get to know the particulars

Leverage, benefits, and risks

It's true that options on futures share some characteristics with stock options, but one of the key differences (and one reason traders choose futures in the first place) is that they're highly leveraged. Since options on futures settle into the underlying futures contract, that means a small up or down movement can mean significant gains and losses—making it all the more important to know both the benefits and risks before trading. So while options on futures have the potential to make more efficient use of your capital, they also have the potential to expire worthless and lose value within a certain period of time.

Limited shelf life

The milk in your fridge isn't the only thing with an expiration date. Options on futures have expirations too. Unlike stock options, which primarily expire on Fridays, options on futures can expire on any weekday and vary by product.

Helpful hint: Next to every options contract on thinkorswim®, there's an expiration with a number in parentheses. That number represents how many calendar days are left for that expiration.

In the example below, the options on futures contract states "APR 19 (25)," which means the expiration is for April 2019 and there are 25 days left until expiration.

Symbol	Days
/NGJ19 <small>ACTIVE</small>	26
/NGK19	56
/NGM19	89
/NGN19	117
/NGQ19	150

Option Chain	Filter: Off	Spread: Single
> APR 19 (25) 1 /NGJ19 (Financial)		
> APR 19 (25) 1 /NGJ19 (Physical)		
> MAY 19 (55) 1 /NGK19 (Financial)		
> MAY 19 (55) 1 /NGK19 (Physical)		
> JUN 19 (88) 1 /NGM19 (Financial)		
> JUN 19 (88) 1 /NGM19 (Physical)		

For illustrative purposes only. Not a recommendation.

Settling the score

As the saying goes, “All good things come to an end.” And when it comes to ceasing trading for options on futures, it’s always different. Similar to the expiration date, the final settlement time varies by product. For example, natural gas options on futures cease trading at 2:30 p.m. ET, when the outright futures contract settlement price is determined. However, the Monday weekly options on futures for the E-mini S&P 500 expire at 4 p.m. ET.

It’s all in the delivery

Futures delivery is either physical or financial. Physically settled contracts expire directly into the actual commodity, while financially settled contracts expire into cash. The type of delivery depends on the expiration cycle. Here’s how you can tell if a contract is physical or financial:

- If it says “Physical,” the options will expire into the underlying futures contract
- If you don’t see “Physical” or “Financial” next to an expiration, it means those options are physical, and therefore expire into the underlying future

Helpful hint: The delivery type will be noted in the Options Chain on thinkorswim®. To bring up the Options Chain, go to Trade > All Products and enter the futures symbol.

TD Ameritrade Futures & Forex LLC doesn’t allow clients to take physical delivery of a futures contract.

In the examples below, natural gas options have both “Financial” (financially settled) options and “Physical” options. However, the E-mini S&P 500 options don’t have a notation of physical or financial, which means they’re considered physical.

Symbol	Days
/NGJ19 ACTIVE	26
/NGK19	56
/NGM19	89
/NGN19	117
/NGQ19	150

Expiration	Quantity	Symbol	Delivery Type
APR 19 (25)	1	/NGJ19	Financial
APR 19 (25)	1	/NGJ19	Physical
MAY 19 (55)	1	/NGK19	Financial

Symbol	Days
/ESH19 ACTIVE	11

Expiration	Quantity	Symbol	Delivery Type
MAR 19 (0)	1	/ESH19 (Monday)	(Wk2)
MAR 19 (2)	1	/ESH19 (Wednesday)	(Wk2)
MAR 19 (4)	1	/ESH19	(Wk2)
MAR 19 (7)	1	/ESH19 (Monday)	(Wk3)
MAR 19 (9)	1	/ESH19 (Wednesday)	(Wk3)
MAR 19 (11)	1	/ESH19	
MAR 19 (18)	1	/ESM19	(Wk4)

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Helpful hint: If your option contract is “in the money” at expiration, your account will receive the underlying contract as a new position. But be aware that your account must have sufficient margin to receive the underlying futures contract, or TD Ameritrade Futures & Forex has the right to liquidate either the option position prior to expiration or the underlying future afterward.

Multipliers: for more than just math problems

Wondering how much a particular options on futures contract is worth? Understanding multiplier is key, as it standardizes a contract for both delivery and price. Standard stock options have a multiplier of 100, which represents the delivery of 100 shares. But the multiplier for options on futures depends on the deliverable of the futures contract. And since almost all futures contracts have different multipliers, it's important to know the multiplier for the product you're trading. To make it simple, let's use an example where the options on futures contract and the underlying futures contract have the same multiplier. Here's how it could work for WTI crude oil (/CL):

- Multiplier for futures contract (/CL) is 1,000 (represents 1,000 barrels of crude oil)
- Multiplier on options on futures would also be 1,000
- If you wanted to buy a 60 strike call for \$1.00, the total premium paid would be \$1,000 (\$1.00 option premium x 1,000 multiplier = \$1,000)
- If call increases to \$1.50, gain would be \$500; if call decreases to \$0.50, loss would be \$500

Want to test-drive your futures strategies without putting any real money on the line?

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The risk of trading futures can be substantial. The valuation of futures may fluctuate, and as a result, investors may lose more than their original investment. Investors must consider whether futures are a suitable investment for their own personal financial situation before trading. Past performance is not indicative of future results.

Futures and futures options trading is speculative and is not suitable for all investors. Please read the [Risk Disclosure for Futures and Options](#) prior to trading futures products.

The paperMoney application is for educational purposes only. Successful virtual trading during one time period does not guarantee successful investing of actual funds during a later time period as market conditions change continuously.

Futures accounts are not protected by the Securities Investor Protection Corporation (SIPC).

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