



**>: Valuation vs. Hedging Strategies.**

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Call: If it goes up to \$50, the call (cost would be \$500,000) represents the right to purchase 100 shares of stock. If a trader bought one option contract at

Chicago Board of Trade

- I could buy 100 shares of stock for \$50,000. I could also buy 100 call options for \$5,000. If the stock goes up to \$60, the call options would be worth \$10,000. If the stock goes down to \$40, the call options would be worthless. I keep it simple. Why take the risk?