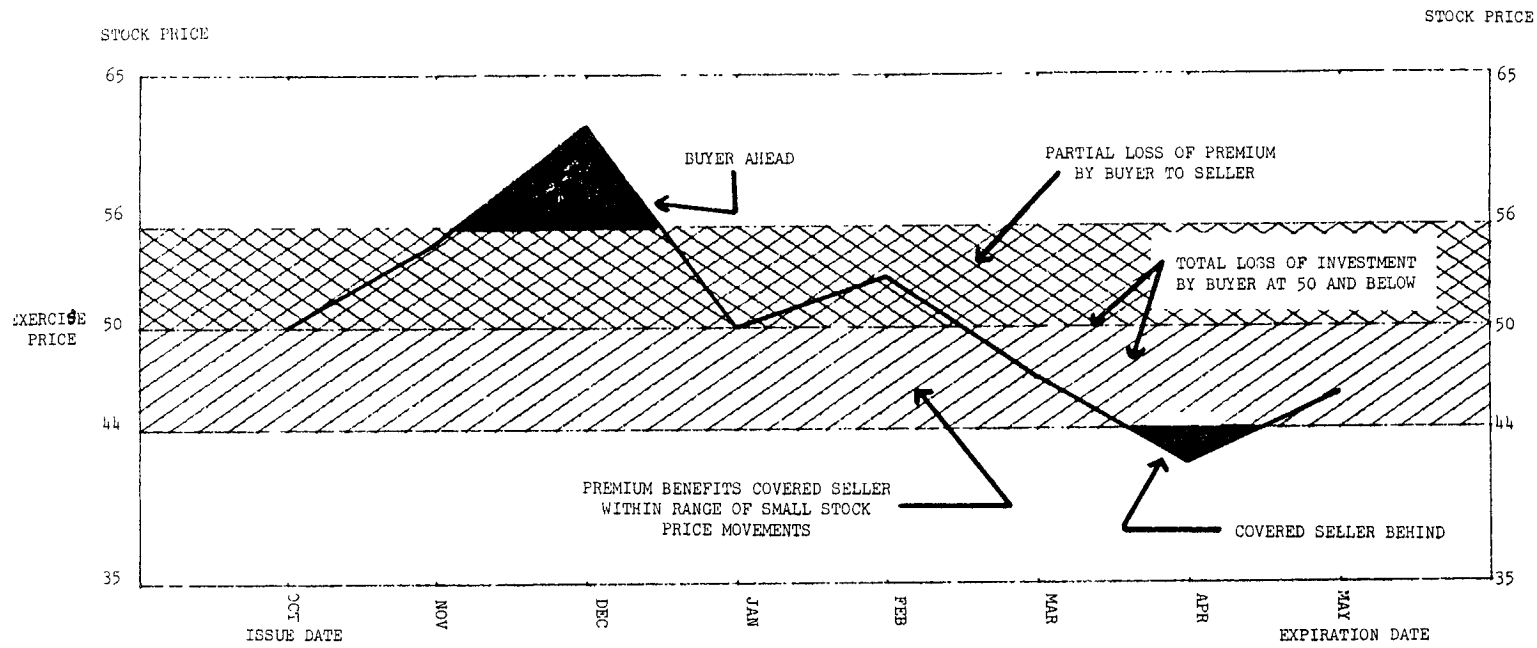


FIGURE 5
 AREA OF BUYER AND SELLER
 ADVANTAGE/DISADVANTAGE FOR A
 HYPOTHETICAL CALL OPTION



OPTION BUYER CAN
 RECOVER A PORTION OF HIS
 PREMIUM AT ANY PRICE ABOVE \$50

EXERCISE PRICE = \$50
 PREMIUM = \$6



OPTIONS SELLER BENEFITS
 FROM THE SALE OF THE OPTION
 WITHIN THE RANGE OF THE
 PRICE MOVEMENTS COVERED
 BY THE PREMIUM

PREPARED BY OPTIONS STUDY STAFF

The buyer of this same call option will be ahead if the price of XYZ rises above 56 per share sufficiently to cover the costs of exercise, his premium and transaction costs (exercise price \$50, plus premium \$6 plus transaction costs). The call option buyer's total outlay and potential loss is limited to the premium plus commissions, whereas his outlay, for 100 shares of stock, would have been \$5,000, plus commissions and he would bear the full risk of a market decline. If the stock price does not change from \$50 per share, however, the call option buyer's option would expire worthless and his whole investment would be lost. A stock investor, on the other hand, is not likely to lose all of his investment because of the high quality stocks underlying options and his ability to sell the stock at any time.

Because of the secondary market, either the buyer or the seller or both can close out the option position at any point until expiration by resale or repurchase at whatever the value of the option appears to be at that time. Thus, loss of premium can be reduced or profits realized through closing transactions in the secondary market.

b. Put Option

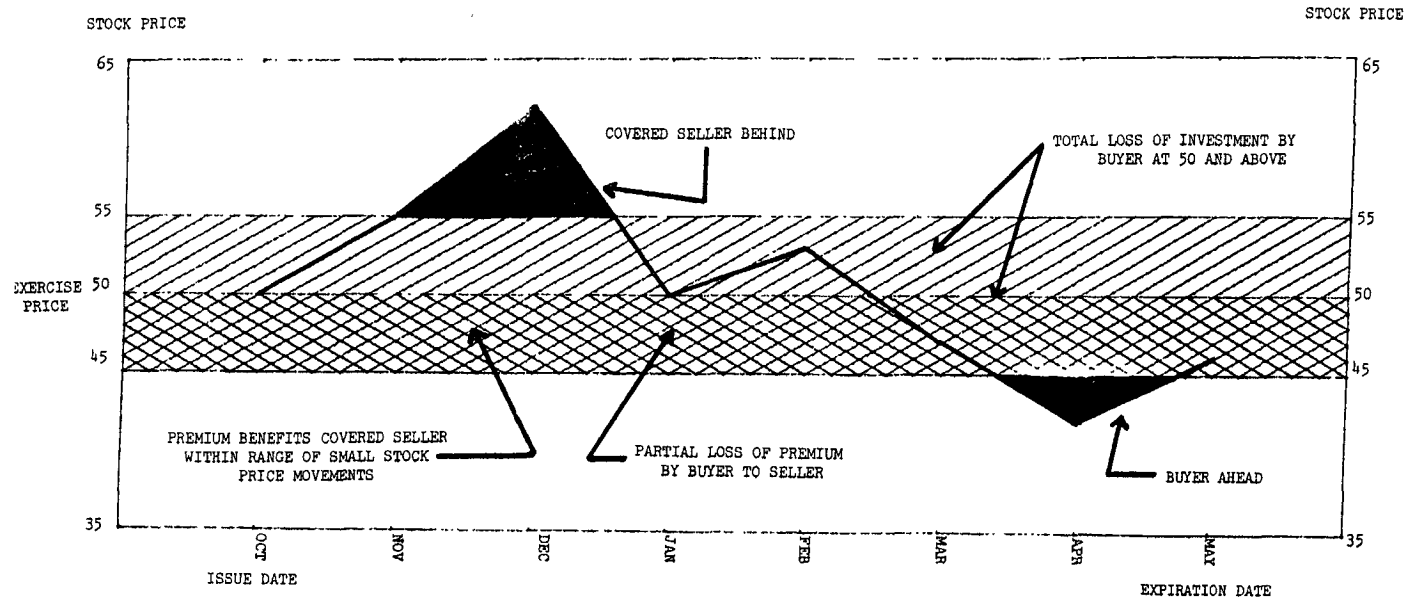
The writer of a put is obligated to buy stock, at any time during the life of the put, at the exercise price, upon delivery by the put holder of the underlying shares. For the writer of an XYZ May 50 put to protect himself from assuming the risk of a drop in the stock's price, he could sell XYZ shares short, say at \$50 a share. A premium of \$500, received by the put writer who has an equivalent short position in the stock, would place him ahead if the price of XYZ rises no higher than \$55 per share

(less transactions costs) or declines to no less than \$45 per share (plus transactions costs during the life of the option (see Figure 6). If XYZ sells below 50 per share, the put writer may be called upon to buy XYZ stock at 50 per share. If that happens, he will lose the benefit of part or all of the premium depending upon how far the market is below \$50 per share. The put buyer will continue to recover portions of his premium until the stock sells below 45 (plus an amount sufficient to pay transaction costs) at which point he would have recovered the premium from the put purchase and entered his gross profit region. If the put buyer also owns XYZ stock at the time of the purchase of the put option, he has what is referred to as a "protective" put and he will assure himself of a gross sale price of \$50, net \$45 (\$50 less his premium) in the event of a price decline. Again, of course, no allowance has been made for commission costs. By paying the premium, however, the put buyer would have indicated his willingness to accept a net price of \$45 a share and to give up the benefits of small gains (i.e., gains up to \$5 plus transaction costs) for protection against a large loss (i.e., declines exceeding \$5 plus transaction costs) if the stock price declines.

The listed puts could be liquidated at any time in the secondary trading market, recovering part or all of the premium value and taking losses or profits.

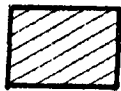
FIGURE 6

AREA OF BUYER AND SELLER
ADVANTAGE/DISADVANTAGE FOR A
HYPOTHETICAL PUT OPTION



OPTION BUYER CAN
RECOVER A PORTION OF HIS
PREMIUM AT ANY PRICE BELOW \$50

EXERCISE PRICE = \$50
PREMIUM = \$5



OPTIONS SELLER BENEFITS
FROM THE SALE OF THE OPTION
WITHIN THE RANGE OF THE
PRICE MOVEMENTS COVERED
BY THE PREMIUM

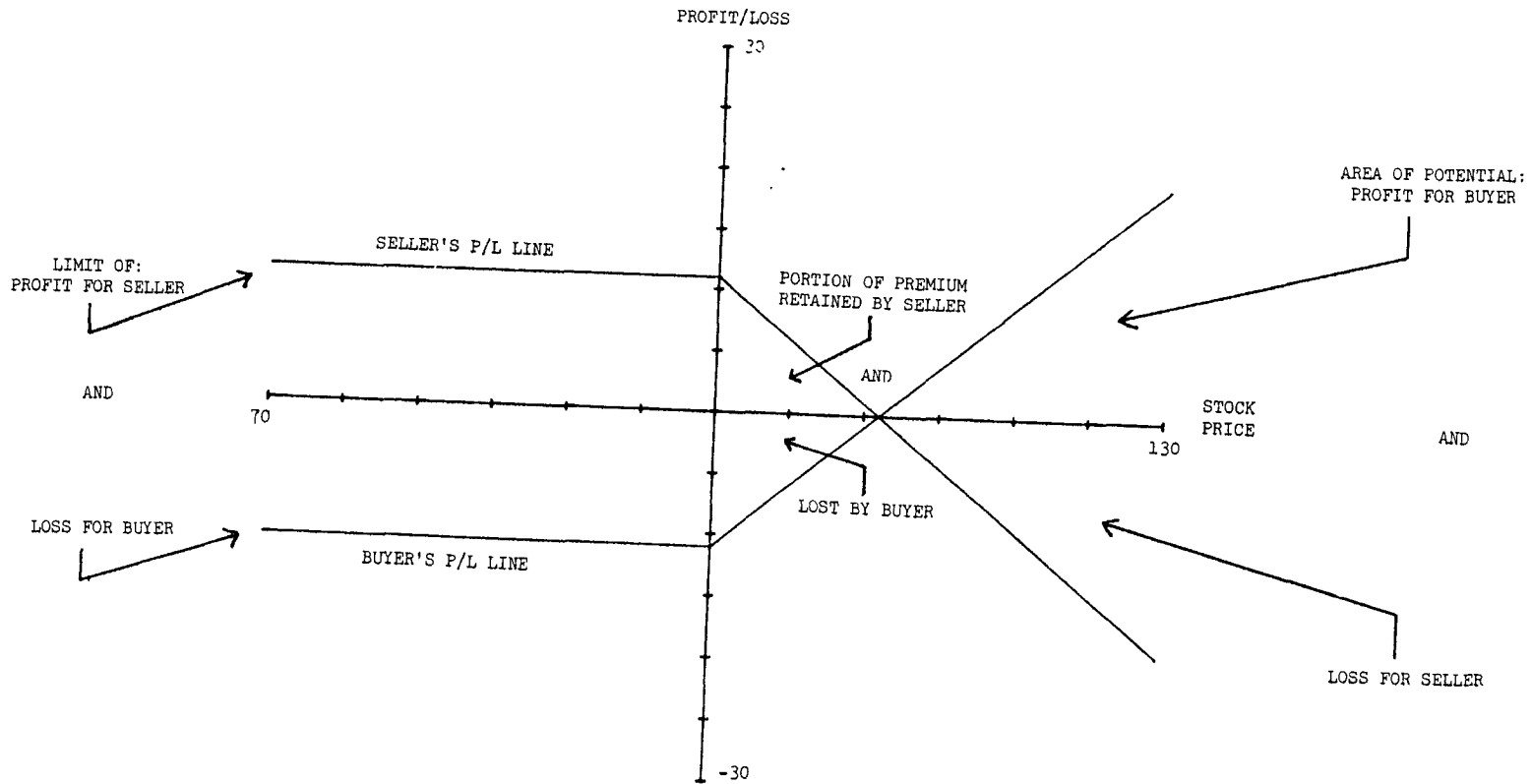
PREPARED BY OPTIONS STUDY STAFF

c. Gains or Losses to Options Buyers are Offset by
Losses or Gains to Options Sellers

The above diagrams show how the options buyer and seller each may fare as the stock price moves up and down during the life of the option. The manner in which any gain or loss realized by the options seller is offset by an equivalent gain or loss for the options buyer (exclusive of transactions costs) can be illustrated by simple diagrams showing the areas of potential loss and profit of buyers and sellers of options contracts in circumstances where the writer is uncovered (see Figures 7 and 8). These illustrations assume that there are no pricing biases or market inefficiencies which are disadvantageous to buyers relative to sellers and vice versa.

Option premiums reflect the risks being assumed by the writer or alternatively the costs of reinsuring against those risks through covering hedging transactions. They also reflect the option buyer's perception of the value to him of the potential benefits from expected price movements in the underlying stock as well as the avoidance of the usual costs associated with taking positions in the underlying security. Because of the general equivalence of the costs of alternative positions in puts and calls and of the probabilities associated with short-run upward and downward price movements in underlying securities, the risks in writing and the potential returns in buying a call and a put tend to approximate each other. The interrelationship between the stock, a put and a call, is such that there exists a

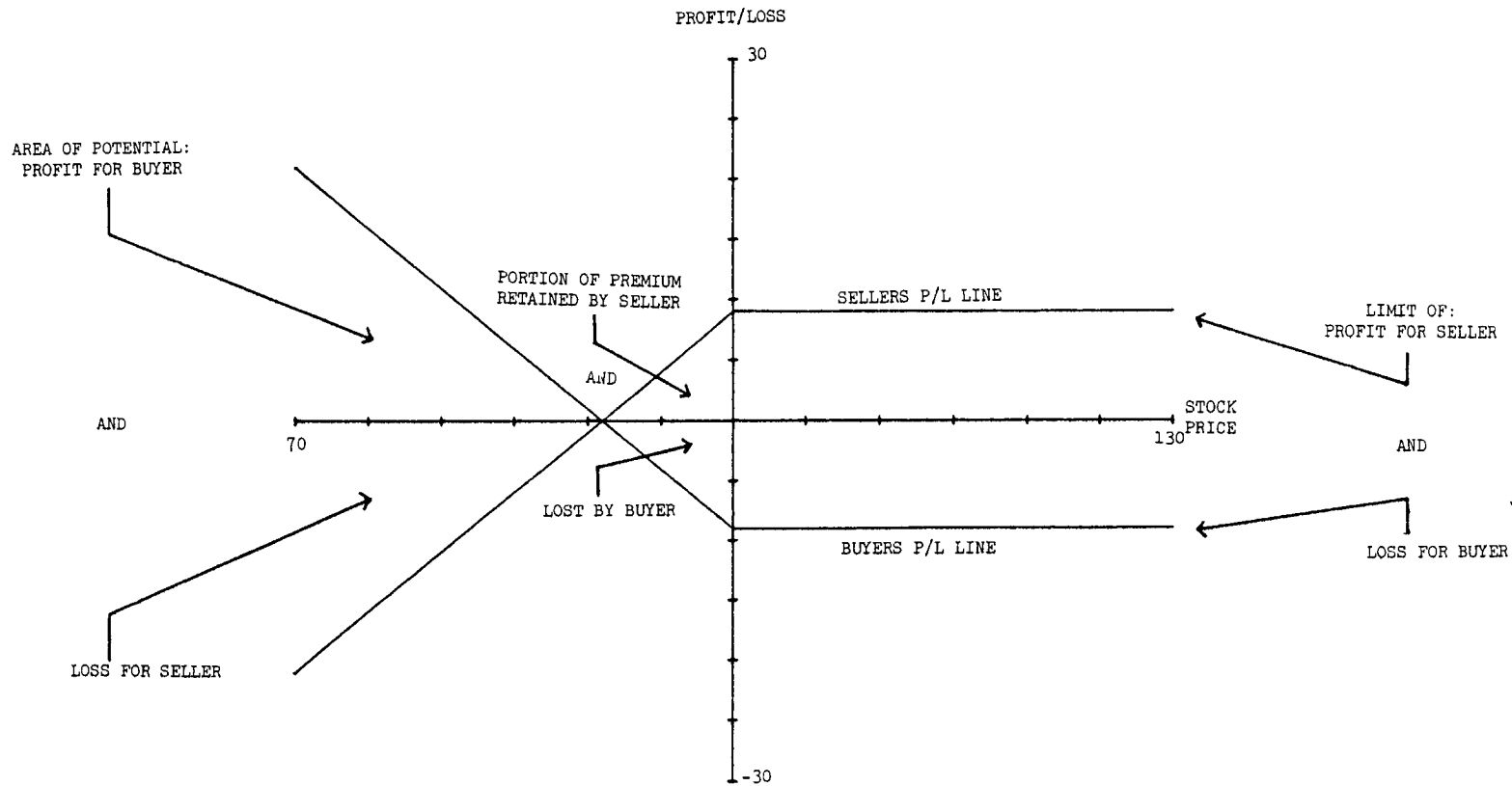
FIGURE 7
 PROFIT/LOSS POTENTIAL OF A PURCHASE
 AND UNCOVERED SALE OF A CALL OPTION */



*/ THE AREAS OF POTENTIAL PROFIT AND
 LOSS ARE BEFORE ANY ALLOWANCE FOR
 COMMISSION CHARGES.

PREPARED BY OPTIONS STUDY STAFF

FIGURE 8
 PROFIT/LOSS POTENTIAL OF A PURCHASE
 AND UNCOVERED SALE OF A PUT OPTION */



*/ THE AREAS OF POTENTIAL PROFIT AND LOSS ARE BEFORE ANY ALLOWANCE FOR COMMISSION CHARGES.

PREPARED BY OPTIONS STUDY STAFF

process called conversion through which a put can be converted into a call and a call into a put. For example, the combination of the purchase of the underlying security on margin plus the purchase of a put is the functional equivalent of a long position in a call option. Likewise, a short sale of stock and the purchase of a call is the equivalent of a long position in a put option.

Recognizing the necessary interrelationships between put and call prices, Hans Stoll developed a theory of put and call parity. ^{9/} According to this theory, and subsequent tests of it, an arbitrage mechanism tends to keep put and call prices in line with each other through riskless conversion activities. Stoll pointed out how a put could be converted into a call (and/or a call converted into a put) at no risk to the converter. The principle of put and call parity has been used by other researchers to assess the pricing efficiency of the options market.

^{9/} Stoll, Hans R., "The Relationship Between Put and Call Option Prices," The Journal of Finance, December 1969. Merton later concluded that the theory was applicable only to a European option, one not exercisable until maturity. See Merton, R. C., "The Relationship Between Put and Call Option Prices: Comment," The Journal of Finance, 28 (March 1973) pp. 183-184.

B. PRINCIPAL STRATEGIES

1. Introduction

Options participants can be grouped into three categories: 1) public non-professional participants, 2) professional money managers, and 3) professional traders and arbitrageurs. The basic purposes served these participants by the various common types of options transactions are: to obtain leverage, to hedge positions in the underlying security, to increase current income from securities holdings, to arbitrage for profit, to speculate or trade on perceived over-and-undervalued situations, and to facilitate the provision of brokerage and marketmaking services in the underlying stocks.

Investors have varying user perspectives as they approach the options market. Traders, for example, attempt to capitalize on undervalued and overvalued situations by using complex mathematical models and computer techniques to detect and arbitrage against perceived illogical divergences in prices. Studies of option price patterns, however, indicate that while price divergences do occur which may provide profitable trading opportunities for professionals the divergences generally are too small for trading opportunities by members of the public because of transaction costs. Other, generally sophisticated, investors perceive an opportunity to adjust the risk-reward mix of their portfolio of assets in a more precise manner because of the additional combinations of risk and potential return opened up to them by the availability of exchange traded options.

Risk management and risk adjusted performance have become basic criteria upon which professional managerial ability is evaluated. Most individual investors in options, however, are probably using option purchases and sales as a substitute for stock purchases and sales. Dealing in options enables them to take short-term positions in the stock, or shift out of the stock in the short-term with lower transactions costs; and, for buyers, it offers greater leverage than would be the case if they were trading directly in the underlying securities.

2. Ten Basic Strategies

Although there are a great many different options strategies, Harris Associates, Inc., in its survey of options investors, 10/ listed ten common strategies that appear to be commonly employed by investors:

Buying

- 1) Buying options in combination with stock ownership.
- 2) Buying options in combination with fixed-income securities.
- 3) "Pure" buying of options without underlying stock or fixed-income securities.

Mixed Strategies

- 4) Buying options against a short position in underlying stock.

10/ A Survey of Investors In the Listed Options Market, Louis Harris Associates for the American Stock Exchange, Inc., May 1976, p. 112. The source of data for this survey was interviews with a clustered systematical probability sample of 319 options customers selected from 5 of the 20 largest options retail firms. The firms were selected on the basis of various subjective characteristics, including willingness to cooperate.

- 5) buying options as a hedge against a short position in securities related to the underlying security.
- 6) Selling options hedged against other related securities.
- 7) Spreading options by buying and selling different options in the same underlying securities.

Selling

- 8) Selling fully covered options.
- 9) Selling partially covered options.
- 10) selling completely uncovered options.

The strategies that the Harris survey identified are as follows: 11/

- 1) "Pure" buying of options without underlying stock or fixed-income securities

This "strategy" is the most commonly employed by options buyers.

It entails a substantially higher degree of risk than does the simple investment in the underlying stock because relatively large increases in the price of the underlying stock are required if the buyer is to profit from this activity. While the leverage obtainable through the purchase of options holds forth the potential for large profits if the relatively large increase in stock prices occurs, such large increases are relatively infrequent and, theoretically, are offset by more frequent, smaller losses. Moreover, attempts to roll-over options positions, because of the frequent payment of commissions on such roll-over transactions, will generally eliminate the possibility that investors on the average will realize any long-term

11/ The Options Study does not endorse or recommend any of the strategies described at pp. 28-34. They are used only to illustrate the common strategies that the Harris survey found.

profit from this strategy. The simple buying of options is a highly efficient substitute for short-term trading in the stock. The use of options enables a short-term trader to avoid the substantially larger commissions required and to use less funds than would be required to meet the purchase of an equivalent position in the stock. It may thus help him to obtain a much larger position in a stock with a limited amount of capital. It also exposes him to a risk of losing his entire investment.

2) Selling fully covered options

This strategy is a substitute for the short-term sale of stock. While most investors who write fully covered options appear to do so in the hope of increasing their returns from a given stockholding, the evidence indicates that they are merely transferring the short-term risk of small movements in the price of the underlying security to the option buyer in exchange for giving up the potential for large profits from the underlying stockholding. ^{12/} The net effect is that both the risks and potential rewards of stock ownership have been reduced. In effect, the fully covered writer is engaging in a partial sale of his security position

^{12/} Merton points out that in quiet periods when little company-specific information is arriving at the market, writers will tend to make what appear to be greater than normal profits and buyers will appear to lose. However, in the relatively infrequent active periods, the writers will suffer large losses, or, if covered, will forego large profits, and the buyers will profit because movements in stock prices occasionally exhibit large discontinuities or "jumps" in movement. The writer's large losses occur just frequently enough to, on the average, offset the almost steady excess return. Merton, Robert C., "Options Pricing When Underlying Stock Returns are Discontinuous," Journal of Financial Economics (1976), p. 132.

for the period covered by the option contract. If he wishes to maintain a long-term position in the underlying security, but does not believe that it will rise substantially during the period covered by the option contract, then he can trade on this belief at significantly lower costs by writing options than he could by temporarily transferring his stock ownership. By writing an option, he is effectively taking himself out of the market for that security until the price moves up or down by the amount of the premium, except that he retains the right to any dividends as long as he retains the stock and may retain certain tax advantages that would be lost on the sale of the stock.

3) Buying options in combination with present or potential stock ownership

The purchase of calls increases the leverage and risks of a portfolio holding the underlying stock. Placing all of one's investment in options, however, does entail substantially greater risks of loss than either holding the underlying security or holding some portion of one's funds in the underlying security along with the purchase of call options. Call options may be purchased for the specific purpose of fixing the future price of security purchases in circumstances in which an investor, who currently does not have sufficient money to take the position in the stock desired, anticipates additional funds in the future.

4) Buying options in combination with fixed-income securities

This particular approach to buying options is frequently used as an illustration of a conservative use of options, in that the risk of such a combined investment can be significantly lower than investment in the underlying security alone. Whether it is more or less risky depends on the proportion of options in the combined investment. In effect, the purchase of options involves a high degree of risk and the purchase of quality fixed-income securities a relatively lower degree of risk. There are many possible variations as one adjusts the proportion of the investment that is in fixed-income securities and alternatively in options. While this strategy is frequently discussed in options articles and publications, only a very small percentage of investors actually employs this technique. ^{13/}

5) Buying options against short position in underlying stock

Options can be used by traders to hedge a short position in the underlying stock or alternatively to hedge against a decline in the underlying stock. Because the short seller is exposed to very substantial losses if he is wrong (and the stock price rises substantially), his potential losses can be limited by the purchase of call options. If he is right (and the stock price declines substantially), the premium paid for the calls is the cost of his partial protection against large losses and offsets

^{13/} See Harris Report pp. 107-108. Only 5 percent of the investors in that survey used this strategy.

a portion of his gains. Similarly, an investor wishing to hedge against a substantial loss in a stock held in a portfolio might purchase a put option.

6) Spreading options: buying and selling different options in the same underlying securities

Traders and arbitrageurs attempt, whenever possible, to buy undervalued and sell overvalued options and to hedge positions taken in options and in the underlying securities in a manner which capitalizes on perceived undervalued and overvalued situations. The technique of spreading involves the taking of positions in different options in the same underlying securities on opposite sides of the market. Spread positions also may involve holding an option with a different expiration date from that of the option written, holding and writing options with different exercise prices but with the same expiration date, or holding and writing options with different expiration dates and exercise prices. Because spreading activities require the near simultaneous execution of buy and sell transactions and correct judgment respecting the appropriateness of the relative prices of the options contracts used in the spread, a high degree of sophistication and knowledge of options and option values is required in order to profit from spreading activities as well as close attention to total transactions costs.

7) Buying options as a hedge with respect to related securities

Some stocks without options tend to move in relation to other stocks, on which listed options are available. Options can be used to hedge positions

in these other related securities without listed options. Consequently, options might be used to hedge a position in a security of another company in the same industry. In addition options may be used to hedge a position in bonds convertible into the stock underlying an option.

8) Selling options to hedge against other securities

The writing of options provides a hedge against smaller short-term moves in the price of a related security. For example, a block positioner having a long position in a related stock or convertible bond that has been purchased from a customer may wish to hedge his risk until he is able to sell the securities in the market. He might write options and effectively shift some of his short-term risk exposure in those securities to options buyers until his position is sold at which time he can close out his options positions by repurchasing calls in the market. Similarly, he might write puts against short positions in the security.

9) Selling partially covered options

The sale of partially covered options involves the writing of more than one option contract for each hundred shares of the underlying security held in portfolio. The rationale for a partially uncovered position is that the change in the price of the option that usually occurs, for those not deep-in-the-money is a result of a change in the underlying stock

^{14/} A call option, which is exercisable for substantially less than the current market price of the underlying stock, is referred to as being "deep-in-the-money," and conversely for a put option.

is not on a dollar-for-dollar basis. Therefore, an option writer may believe that his risk from price changes in the option contracts he has written is adequately hedged by the price change that occurs in the shares of the underlying security being used as a cover. For example, contracts that are out-of-the-money ^{15/} may rise in price by an amount much less than the increase of the stock. The risk of partially covered writing activities is that they depend upon the use of a delta factor or hedge ratio which changes sometimes rapidly, so that to the extent the option position is uncovered the exposure is that of a writer of an uncovered option.

10) Selling completely uncovered options

This activity involves the writing of options without a position in the underlying stock. The risks are large, even larger than the pure buying of options. The writer of uncovered options can expect a profit limited to the amount of the premiums received, but, like a short-seller, he has theoretically unlimited potential liability if the market moves against him, in the case of a call, and a loss which is limited only by the exercise price in the case of a put.

3. Survey of Investor Use of Option Strategies

The Harris survey found that the buying of options in combination with fixed-income securities was the least used buying strategy among individual options investors with only 5 percent using that approach.

^{15/} A call option, which is exercisable at a price higher than the current market price of the underlying stock, is referred to as being "out-of-the-money," and conversely for a put option.

Only 59 percent of individual options investors were even aware of that strategy. 16/ The simple strategy of buying options alone (pure buying) was, in fact, the strategy used by 58 percent of the persons surveyed. 17/

Among individual investors, the Harris survey found that 74 percent had used some kind of pure buying strategy, 61 percent had used some form of pure selling strategy, and 38 percent had mixed strategies involving both buying and selling activities. Among investors who utilized pure selling strategies, 56 percent did so on a fully covered basis, 19 percent on a partially covered basis, and 19 percent on a completely uncovered basis. Among individuals investing a total of \$2,500 or less in options, 49 percent engaged in pure buying without the underlying stock or fixed-income securities, 23 percent in buying in combination with stock ownership, and 41 percent had engaged in selling fully covered options. 18/

In contrast to individual investors, 79 percent of the institutional investors surveyed concentrated their activities on the selling of fully covered options. Only 25 percent of institutions engaged in the pure buying of options without the underlying stock or fixed income securities; and 32 percent purchased options in combination with stock ownership. Only 7 percent of institutional investors purchased options in combination with fixed-income securities. Many institutions are restricted to more conservative covered writing activities by either legal or self-imposed guidelines for investing. The Harris survey reported that 35

16/ Harris report, pp. 107-108.

17/ Harris report, p. 108.

18/ Harris report, pp. 106ff.

percent of responding institutions were restricted to covered writing, and 56 percent of those institutions with \$1 million or more in assets were so restricted. 19/

Another survey of individual options investors undertaken by the Management Analysis Center, Cambridge, Massachusetts and sponsored by the CBOE found that the strategies followed by options investors were: mostly buying (28 percent), mostly spreading (6 percent), mostly selling uncovered (4 percent), and mostly selling covered (62 percent). 20/ While this latter study differs with respect to the specific questions that were asked of investors, it found, as did the Harris survey, that the two strategies most frequently followed by investors were the simple buying and covered writing of options contracts. The percentages cannot be directly compared because, among other things, the AMEX sponsored survey asked investors whether they had used particular strategies while the CBOE sponsored survey asked investors which strategy they most frequently followed. Neither survey included interviews with broker-dealers, a professional, but extremely important group, using options in their activities. Block-positioning firms, marketmakers and other broker-dealers make extensive use of options in providing dealer services to the public market, as is described below in the Trading Practices chapter.

19/ Harris report, pp. 109ff.

20/ Robbins, et al p. 74.

As the above indicates, an options strategy can be used for a stock strategy and stock and options can be use in combination to achieve alternative investment strategies. Exhibit I (attached) sets out a detailed list of how various stock and options strategies can be used as a substitute for other stock and options strategies.

4. Writing Options for Premiums

While all of the above strategies are used by investors, options advertising by broker-dealers and sales presentations by registered representatives often emphasize the writing of covered options to obtain premium income and as a means to reduce the risk of adverse market price movements, as is discussed more fully in the chapter on Sales Practices.

The effects of altering the risk-return ratio through options, however, generally is not emphasized by broker-dealers and their registered representatives or by published materials currently available to the general public. For example, the following excerpt from a handbook on options states:

After you read this book, you will never be satisfied with less than 40 percent return, compounded annually. The more you know about the stock market, the more you realize that options writing is the only way to invest. ^{21/}

One west Coast brokerage firm's radio advertisement conveyed a similarly

^{21/} Auster, Rolf, Options Writing and Hedging Strategies, Hicksville, New York, 1975, p. 3.

optimistic view of options writing:

For a substantial number of investors, selling Call Options is producing premium income in the neighborhood of 12% to 20% on many good stocks. That's in addition to the stocks' regular dividends. Of course, like any investment, there are risks to consider as well as opportunities.

These statements focus on the premiums that at times are available on the sale of options and seem to imply that the overall rate of return on a securities portfolio can be increased by the sale of options. They ignore the effects on overall return that result from reducing risks when stocks and options are efficiently priced. It can be shown that portfolios including options can be constructed which incorporate less risk and lower potential return than an investment in the underlying stock. In an article appearing in the Journal of Business, Merton, Scholes and Gladstein reported on the simulated return on a fully covered writing program for a portfolio of 136 stocks on which listed options were available as of December 1975 over a 12-1/2 year period from July 1, 1963 to December 31, 1975. 22/ Options prices were simulated using a derivation of the Black Scholes options pricing model although they also included dividends. Merton, Scholes and Gladstein concluded that investors can reduce the risk exposure for a portfolio of stocks through writing options but that, over a period of time, writing options on a portfolio will reduce the expected rate of return. They also concluded that the premium on covered call writing

22/ Merton, Robert C., Scholes, Myron S., and Gladstein, Mathew L., "The Returns and Risk of Alternative Call Option Portfolio Investment Strategies," The Journal of Business, April 1978, p. 189.

should not be considered extra income to be added to the usual return on a stock investment as some brokerage firm advertisements have implied. 23/

Merton, Scholes and Gladstein summarized the results of their study as follows:

Because the levels of both option premiums and expected returns will vary depending on the perceived levels of volatility for the underlying stocks and interest rates, an unconditional estimate for the expected return on a fully covered strategy is difficult to make. However, based on the simulations, an expected semiannual return of between 3% and 4% appears to be a reasonable estimate for an at-the-money fully covered strategy when the expected returns on the underlying stocks are between 5% and 6%. The fully covered strategy will frequently produce realized returns somewhat higher than the expected level. But because of the negative skewness of the returns, these higher returns will be counter balanced by the relatively infrequent but substantially lower returns that will be realized if the underlying stocks decline sharply. 24/

While the Merton, Scholes and Gladstein study concluded that a consistent practice of writing covered options would most probably reduce the overall rate of return on the covered call writer's stock portfolio, it also concluded that the covered call writer could reduce the volatility of the rate of return. Based on their simulated 136 stock sample, the study concluded that a consistent practice of writing covered calls would have reduced the standard deviation of the portfolio returns by approximately 70 percent

23/ Merton et al, pp. 213-214.

24/ Ibid., pp. 213-214.

if in-the-money options were sold, by about 55 percent if at-the-money options were sold, 25/ and by 35 percent if the out-of-the-money options were sold. 26/

Although the Merton, Scholes and Gladstein study relied upon simulation, their results correspond with economic theory that there is a basic correlation in the long run between risk and reward. While their study would seem to imply that the purchase of options in combination with fixed-income securities would have been beneficial over this 12-1/2 year period, this period was characterized by the largest bull market and the most severe bear market since 1929-1932. Unfortunately, comparable simulations were not undertaken for "pure buying" strategies, the one most commonly used by buyers. However, the Merton, Scholes and Gladstein study demonstrates the need for brokers and dealers to have studies to back up any claims to customers concerning potential returns on options, as is recommended in the chapter on Sales Practices.

25/ When an option's exercise price is the same as the price of its underlying stock, the option is said to be at-the-money.

26/ Ibid., pp. 209-210.

EXHIBIT 1

The Relationship Between Puts, Calls,
Straddles and Stocks

The relationship between puts, calls, straddles and stocks is summarized below in terms of the risk and rewards resulting from stock price movements during the life of the option to illustrate the relationship between stocks and options positions. A stock position whether held alone or in combination with options does not have a limited life as does the option. The purchaser or holder of a put, call or stock is referred to as being long, and the seller of stock which is not owned, or the seller of a put or call is referred to as being short. In summarizing the relationship below, each reference to stock long or short is to 100 shares of stock. It is assumed that the exercise price and expiration dates are the same for any combination of either puts or calls or both and that the purchase price of a long stock position or sales price of a short stock position is the same as the exercise price of the options. It is also assumed that the premiums received on the sale of a put or call would be the same as the premiums paid on the purchase of a put or call, although this would rarely be the case. In addition, the following summary does not cover the different amounts of capital and margin that must be used to establish the different positions or the effect of commissions and dividends. In most instances, combining options and stocks

positions in the strategies listed below would be more costly than the equivalent single stock or option strategy with respect to which it is equal.

Long Stock = long call and short put. Buying a call and selling a put with the same exercise price has the same market risk reward during the life of the option as owning stock because the long call provides the right to a benefit from an increase in the stock price and the short put results in having the risk of ownership in the event of a stock price decline.

Short Stock = long put and short call. Either of these positions benefits from a stock price decline but provides no protection against loss in the event of a stock price increase.

Long Call = long stock and long put. A long call provides the right to benefit from an increase in the stock price but a premium has been paid to limit loss. Similarly, buying a put to protect a long stock position involves paying a premium to limit loss.

Long Put = long call and short stock. The short stock position will benefit if the stock price declines, but the loss in the event of a stock price increase is limited to the premium paid for the option.

Short Call = short stock and short put. The maximum profit on either position is limited to the premium on the sale of the option (except