

The background features a vibrant orange-to-blue gradient. At the top, there is a faint, glowing line graph with data points. Below the graph, a large, curved digital display shows various market data points in white and blue text, including numbers like '42.09+1.45' and '46.90'.

HedgeStreet.
EXCHANGE

What are **BINARY OPTIONS?**

HedgeStreet's Guide to Binary Options

What are BINARY OPTIONS?

Options are financial instruments that have attracted a great deal of attention lately. Option Exchanges have risen in popularity and have provided traders and investors a novel way to invest in the markets that affect our economy.

In Europe and the United States, digital-options, event-options, and all-or-nothing binaries (more commonly known as Binary Options) have risen in popularity. There is no simpler concept in speculation than a straightforward 'yes/no' proposition, which is precisely what a Binary Option represents and that is the main reason Binary Options are so popular.

The increased awareness of this financial trading tool has exposed traders to a variety of investment opportunities that are simple and generally require less time and trading experience than traditional derivative products.

In this guide, we will discuss options in general and introduce a new kind of option, known as the Binary Option.

- In this guide, you'll learn:**
- What are traditional options?
 - Where are options traded?
 - What are the different types of options?
 - What are the types of options trades?
 - What is a Binary Option?
 - Where are Binary Options traded?
 - What is HedgeStreet?

What are traditional Options? Back to the Basics

If you are familiar with the basics of trading options, it will be easy to apply and understand how to leverage your options trading knowledge when it comes to trading Binary Options.

Traditional options are financial instruments that give one party, the buyer, the "right" to either buy or sell the option. The option itself allows for the purchase of the underlying asset.

Two types of options are important to keep in mind: Call options and Put options. Buying a Call option gives the buyer the right, but not the obligation, to **buy** the underlying asset at the strike price at some point on or before the expiration date. Buying a Put option gives the buyer the right, but not the obligation, to **sell** the underlying asset at the strike price at some point on or before the expiration date.

Where are Options traded?

1. Public exchanges, also known as Options Exchanges, allow members of an Exchange or a broker to trade options directly on the Exchange. In the United States, Chicago Board Options Exchange (CBOE), Chicago Board of Trade (CBOT), New York Stock Exchange (NYSE), American Stock Exchange (AMEX), The Philadelphia Stock Exchange (PHLX) and International Securities Exchange (ISE) are examples of public options exchanges.
2. Private parties and institutional investors can trade over-the-counter (OTC) options via a broker, for example, E*TRADE.
3. One unique exchange in the United States, the HedgeStreet Exchange, allows traders to trade directly against other traders on the Exchange without a broker.

What are the different types of Options?

One distinguishing factor between various types of options is the underlying asset. These underlying assets are also known as markets. Some popular markets for options are:

Options on foreign currency pairs (Forex Options)

Options on precious metal futures (Gold and Silver Options)

Options on energy futures (Crude Oil and Natural Gas Options)

Options on interest rates (Interest Rate Options)

Options on equities (Equity Options)

What are BINARY OPTIONS?

Types of Option Trades – A Quick Review

Long Call - An investor who believes that the underlying asset will increase buys the right to purchase that asset at a fixed price known as the market price and is based on the designated strike price.

Short Call - An investor who believes that the underlying asset will decrease in value can short a call; in other words, sell a call (at the market price) based on the designated strike price.

Long Put - An investor who believes that the underlying asset will decrease can buy the right to sell the asset at a fixed price known as the market price and is based on the designated strike price.

Short Put - An investor who believes that the underlying asset will increase in value can short a put; in other words, sell a put (at the market price) based on the designated strike price.

Binary Options – A Simple All or Nothing Position

As the name suggests, a Binary Option is a type of option where the payoff is all or nothing. Because of this characteristic, Binary Options can be easier to understand and trade than traditional options.

Binary Options are cash-settled, European-style options. If, at expiration, the option settles in-the-money, the buyer or seller of an option receives a pre-specified dollar amount. Similarly, if the option settles out-of-the-money, the buyer or seller of the option receives nothing. This provides a known upside (gain) or downside (loss) risk assessment, and unlike traditional options, Binary Options provide full payout with even a single pip of movement.

Things to know about trading Binary Options

Binary Options Have Two Outcomes

A trader of Binary Options needs to anticipate the expected direction of the price movement of the underlying asset. Unlike traditional options, knowing the direction of the price movement, as well as magnitude of the movement, is not required. If the investor has an opinion about an underlying asset and wants to place a trade, s/he can trade Binary Options.

There Are Two Ways to Take a Position – Buy or Sell.

Buy, if you believe the market price will rise or the economic event will occur. Sell, if you think the opposite. If your insight is correct, on the expiration date, your payoff is the settlement value of your contract.

Understanding Probability and Opportunity

Binaries trade at the probability of their outcome

The price of a Binary Option contract is equal to the probability of the event happening. For example, if the contract value has a value of \$100 and the last trade of the contract is \$96.00, it is an indicator that 96% of the market believes that the event is going to happen and the contract will end up in-the-money.

Advantages of trading Binary Options over Traditional Options:

1. Binary Options are generally simpler to trade because they require only a sense of direction of the price movement of the underlying asset, whereas traditional options require a sense of direction and the magnitude of the price movement.
2. Binary Options have controlled risk to reward ratio, meaning the risk and reward are pre-determined at the time the contract is acquired. Traditional options have no defined boundaries of risk and reward and therefore the gains and losses can be limitless.
3. Binary Options provide nearly all the trading and hedging strategies that are possible while trading traditional options. Binary Options maintain a level of trading sophistication and functionality.
4. Unlike a traditional option, the payout amount is not proportional to the amount by which the option ends up in-the-money. As long as a Binary Option settles in-the-money by even one tick (regardless of how much in-the-money it is), the winner receives the entire fixed payoff amount.
5. Binary Options offer contracts with short-term durations. In some markets, Binary Options contracts close multiple times throughout the trading day, while others may last as long as a quarter. This provides the trader with several investment opportunities and flexibility as markets change over time.



Where are Binary Options traded?

Binary Options have been enormously popular in Europe and are extensively traded on major European exchanges, like USFE.

In the United States, there are a few places where Binary Options can be traded. The Chicago Board of Trade (CBOT) offers Binary Options trading on the Target Fed Funds Rate. To trade these contracts, traders must be members of the exchange or investors are required to trade through such members to execute a trade – the value of each contract is \$1000.

The other exchange that offers trading on Binary Options is the HedgeStreet Exchange. Similar to the CBOT and NYMEX, HedgeStreet is a government regulated, financial trading exchange. Accounts on HedgeStreet can be opened and funded online for \$100. HedgeStreet is a non-intermediated exchange, i.e., you do not need a broker to trade Binary Options on HedgeStreet.

Who trades Binaries?

Binary Options are traded by the following investors:

1. Tech savvy speculators who are willing to potentially make a profit in the market.
2. An investor following financial movements in the market, wishing to potentially earn a profit by taking a position on the direction of a market price.
3. Investors who wish to hedge their risk on other investments like crude oil, gold, silver, earnings per share, currencies, and even real estate prices.
4. A bank or an institution wishing to hedge its interest rate or currency risk.

Binary Options can be traded online at HedgeStreet.

Online: www.hedgestreet.com/registration

Call: 1-877-864-3343

Email: customerservice@hedgestreet.com

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