



## Special Statement for Uncovered Option Writers

There are special risks associated with uncovered option writing which expose the investor to potentially significant loss. Therefore, this type of strategy may not be suitable for all customers approved for options transactions.

- The potential loss of uncovered call writing is unlimited. The writer of an uncovered call is in an extremely risky position, and may incur large losses if the value of the underlying instrument increases above the exercise price. Such loss could be substantial if there is a significant increase in the value of the underlying instrument.
- As with writing uncovered calls, the risk of writing uncovered put options is substantial. The writer of an uncovered put option bears a risk of loss if the value of the underlying instrument declines below the exercise price. Such loss could be substantial if there is a significant decline in the value of the underlying instrument.
- Uncovered option writing is thus suitable only for the knowledgeable investor who understands the risks, has the financial capacity and willingness to incur potentially *substantial* losses, and has sufficient liquid assets to meet applicable margin requirements. In this regard, if the value of the underlying instrument moves against an uncovered writer's options position, the investor's broker may request significant additional margin payments. If an investor does not make such margin payments, the broker may liquidate stock or options positions in the investor's account, without prior notice in accordance with the investor's margin agreement. The price of the liquidation may be an unfavorable price.
- For combination writing, where the investor writes both a put and a call on the same underlying instrument, the potential risk is unlimited.
- If the market in options were to become unavailable, investors could not engage in closing transactions, and an option writer would remain obligated until expiration or assignment.
- The writer of an American-style option is subject to being assigned an exercise at any time after he has written the option until the option expires. By contrast, the writer of a European-style option is subject to exercise assignment only during the exercise period, which is a limited period of time.

**Uncovered option writing is not suitable for investors with options privileges in their account whose investment objectives contradict the principal characteristics of the strategy. It is expected that you will read the booklet entitled "Characteristics and Risk of Standardized Options" given to you at the time you opened your account and available to you upon request from your broker. In particular, your attention need be directed to the chapter entitled "Principal Risks of Options Positions." This statement is not intended to enumerate all of the risks entailed in writing uncovered options.**