



Stocks, Stock Options & Index Options

The Added Benefits of Index Options



> Stocks

With stocks, you buy shares of companies. The profit or loss depends on how the company and its stock perform. Generally, the more profitable a company is, or, the more optimistic investors are about its future, the higher its price may be on any given day. If a stock's price increases or decreases, the value of the trader's investment moves accordingly. The trader can own the stock as long as they want and buy or sell it whenever they would like.



> Stock options

As derivatives, rather than giving you ownership in a company at the start, **trading options gives you the right to buy or sell a stock by a specific future date.** Any profit or loss depends on the stock's future price relative to your option. The greater the difference between the stock's price and the option's strike price, the more (or less) the option is worth. Options expire at the specified date.



> Index options

Like stock options, **index options are derivatives whose value stems from movements in the price of the underlying assets.** Index options also have expiration dates. However, unlike stock options, index options are attached to broader stock market moves, instead of the stock of a single company. There are also more potential benefits to trading index options. The unique benefits of index options make them worth exploring.

Comparing differences	Stocks	Stock options	Index options
	Partial ownership of individual companies	Right to buy or sell shares of stock by a specific date	Value of underlying index at an expiration date
Diversification	Ownership share in an individual company	Options on individual companies	Options on broad stock market
Exiting the Position	Buy or sell at any time	Exercise at any time before expiration	Exercise only at expiration
Risk & Volatility	Exposed to company-specific risks e.g., management changes, weak earnings	Exposed to company-specific risks	Exposure to an entire index may help lower the impact of one company's performance

Why Trade Index Options?



Cash Settlement

A trade's profits and losses typically settle as a debit or credit directly into the trader's trading account.



Options Strategies

A trader accustomed to stock options can similarly use index options to speculate on the direction of a market, generate income and hedge against stock portfolio losses.



Risk Mitigation

Market volatility may be offset by other stocks held in an index.



More Flexibility

Cboe® contracts with smaller values may align with the objectives and account sizes of **retail traders** and include different notional sizes and expirations.

Extending Trading*

Index options can be traded in global markets, 24 hours a day, five days a week.



Protection Against Early Assignment

Index options eliminate early assignment surprises because they are European-style, which means they are exercised only at expiration, unlike American-style stock options that can be exercised at any time before expiration.



Tax Advantages**

Index options profits may qualify for 60/40 tax treatment, no matter how long the option is held. This means 60% of profits are taxed as long-term capital gains and 40% are taxed as short-term capital gains. This can result in tax savings for investors.



GET STARTED WITH INDEX OPTIONS

[Find a Broker →](#)

Want to learn how to place an index options trade?

[Learn Now →](#)

Already know how to trade single stock options?

[Read More →](#)

*Global Trading Hours (GTH). The trading hours for options on the SPX, SPXW (SPX Weeklys and SPX End-of-Month), and XSP (Mini-SPX) begin at 8:15 p.m. Eastern time and end at 9:25 a.m. Eastern time. Please visit the [Hours & Holidays](#) page for more details.

**Under section 1256 of the IRS tax code, profit and loss on transactions in certain exchange-traded options, including SPX options, are entitled to be taxed at a rate equal to 60% long-term and 40% short-term capital gain or loss, provided that the investor involved and the strategy employed satisfy the criteria of the tax code. Investors should consult with their tax advisors to determine how the profit and loss on any particular option strategy will be taxed. Tax laws and regulations change from time to time and may be subject to varying interpretations.

Options involve risks and are not suitable for all investors. Before trading options, you should discuss with your broker whether trading options is right for you and review the Characteristics and Risks of Standardized Options (or Options Disclosure Document) regarding risks associated with trading options.

There are important risks associated with transacting in any of the Cboe Company products or any of the digital assets discussed here. Before engaging in any transactions in those products or digital assets, it is important for market participants to carefully review the disclosures and disclaimers detailed at https://www.cboe.com/us_disclaimers/.

These products and digital assets are complex and are suitable only for sophisticated market participants. These products involve the risk of loss, which can be substantial and, depending on the type of product, can exceed the amount of money deposited in establishing the position. Market participants should put at risk only funds that they can afford to lose without affecting their lifestyle.