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Abstract
With the fast growth of the financial derivatives market in Taiwan, more and more investors are involved in futures and option trading. There are much higher trading risks in derivatives than spot market; therefore, this study focus on how to construct an effective trading strategy to raise the probability of positive return, and to reduce the trading risk. This study focuses on the specific feature of options, time value. An index futures and an index option are used to construct the trading strategies. Two strategies are mainly concerned. Strategy 1: long a futures and short a call. Strategy 2: short a futures and short a put. Taiwan Stock Index Futures and Index Option are used to analysis them. The period was from 2003 to 2005. Use description statistic and t-test to treat of return with hold-to-maturity and rolling, and compare with the different exercise price of option and to construct a basic model. The empirical result shows that using Strategy 1 mostly makes significant profit, and use the rolling strategy is better than the hold-to-maturity strategy. When considering the exercise price of the options, it is suggested to choose those second in the money because those have low trading risk. Use Strategy 1 and rolling the options, the probability of positive return of Strategy 1 is about 74%, and the average annul return is about 64.7% without transaction cost.
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