

CBS Warrant Products

They provide;

- a) Long/Bull Warrants, which profits when the underlying market rises. See below for an example of a Long Warrant trade,
- b) Short/Bear Warrants which are plain vanilla warrants in that they give simple directional trades. See below for an example of a Long Warrant trade,
- c) CBS may, depending on the client, provide more exotic warrants which are a combination of derivatives including collars, spreads, caps, floors, digitals, tunnels, knock-ins, turbos and other complex structures. These will only be offered on demand to clients who can convince CBS that they confidently understand the risks and processes involved in such complicated structures.

Long/Bull Warrants

Long/Bull Warrants are for those clients who are bullish, and wish for the underlying market to “go up”. This warrant increases in value when the underlying market rises and is determined by a multitude of factors that are explained elsewhere, but are expressly affected by the value of the underlying market price and the amount of time remaining in the warrant’s life.

Each Warrant has a Strike Price. When the underlying market price rises above this level the warrant has an absolute dollar value. The exact dollar value depends on the size of the warrant and its relationship to the underlying market’s price. Accordingly, the higher the underlying market’s price is above the warrant’s Strike Price, the greater the worth of the warrant.

An example would be a Long Gold CBS Warrant that is based on 100 ounces of Gold with a Strike Price of 1000 (which relates to US\$1000 per ounce). At expiry if the Gold price (the underlying market) is US\$1010 then the warrant would be valued at \$1,000. Whilst a CBS Warrant based on 400 ounces with the same Strike Price of 1000 would be worth \$4,000.

The following table exhibits the performance of a Long CBS Warrant given different price levels of the underlying market, in this case Gold. These prices would be only at or after expiry and show the “absolute value”.

Underlying Market Price	Warrant Value 100 Ounces	Warrant Value 400 Ounces
1040	\$4,000	\$16,000
1030	\$3,000	\$12,000
1020	\$2,000	\$8,000
1010	\$1,000	\$4,000
1000	0	0
990	0	0
980	0	0
970	0	0
960	0	0

The value of the warrant before expiry has added value to the “absolute value”. This extra value is calculated using advanced options theory formulas. The two main and most basic components are “Theta” and market volatility. Theta is the term used by pricing/structuring gurus, however it is more commonly known as “Time Decay”. This simply means that a warrant will decay in value over time, thus losing price value the closer it gets to its Expiry Date. This rate of decay is always present in any warrant (as it is an offshoot of the advantage that is leverage) however it is least aggressive early in the life of a warrant. Unfortunately, “Time Decay” becomes rather aggressive in the later stages of the life of a warrant with the last month especially vicious. This means that a warrant loses value at an alarmingly great rate the closer it is to expiry, whether it is in or out of the money. CBS will almost always suggest to its clients to close out a warrant trade before the “Time Decay” starts to erode too much of the value of the warrant thus maximising potential profits for the clients.

Short/Bear Warrants

Short Warrants are for those clients who are bearish, and wish for the underlying market to “go down”. This warrant increases in value when the underlying market falls and is determined by a multitude of factors that are explained elsewhere, but are expressly affected by the value of the underlying market price and the amount of time remaining in the warrant’s life.

Each Short Warrant has a Strike Price. When the underlying market price falls below this level the warrant has an absolute dollar value. The exact dollar value depends on the size of the warrant and its relationship to the underlying market’s price. Accordingly, the lower the underlying market’s price is below the warrant’s Strike Price, the greater the worth of the warrant.

An example would be a Short/Bear Gold CBS Warrant that is based on 100 ounces of Gold with a Strike Price of 1000 (which relates to US\$1000 per ounce). At expiry if the Gold price (the underlying market) is US\$990 then the warrant would be valued at \$1,000. Whilst a CBS Warrant based on 400 ounces with the same Strike Price of 1000 would be worth \$4,000.

The following table exhibits the performance of a Short CBS Warrant given different price levels of the underlying market, in this case Gold. These prices would be only at or after expiry and show the “absolute value”.

Underlying Market Price	Warrant Value 100 Ounces	Warrant Value 400 Ounces
1040	0	0
1030	0	0
1020	0	0
1010	0	0
1000	0	0
990	\$1,000	\$4,000
980	\$2,000	\$8,000
970	\$3,000	\$12,000
960	\$4,000	\$16,000

The value of the warrant before expiry has added value to the “absolute value”. This extra value is calculated using advanced options theory formulas. The two main and most basic components are “Theta” and market volatility. Theta is the term used by pricing/structuring gurus, however it is more commonly known as “Time Decay”. This simply means that a warrant will decay in value over time, thus losing price value the closer it gets to its Expiry Date. This rate of decay is always present in any warrant (as it is an offshoot of the advantage that is leverage) however it is least aggressive early in the life of a warrant. Unfortunately, “Time Decay” becomes rather aggressive in the later stages of the life of a warrant with the last month especially vicious. This means that a warrant loses value at an alarmingly great rate the closer it is to expiry, whether it is in or out of the money. CBS will almost always suggest to its clients to close out a warrant trade before the “Time Decay” starts to erode too much of the value of the warrant thus maximising potential profits for the clients.