g. Warrants

Definition

Warrants are securities without interest and dividends that grant the holder the right to purchase (call warrants) or sell (put warrants) a specific underlying asset (e.g. shares) at a specific time or during a specific period at a price fixed in advance (exercise price).

Income

By purchasing the warrant, the holder of the call warrants has fixed the purchase price of his underlying asset. The income can result from the market price of the underlying asset becoming higher than the exercise price to be paid by him, whereby the purchase price of the warrant is deducted. The holder then has the option to purchase the underlying asset at the exercise price and immediately resell it at the market price. The price increase of the underlying asset is usually reflected in a relatively larger increase of the price of the warrant (leverage effect), so that most investors generate their profit by selling the warrant. The same applies accordingly to put warrants, which usually increase in price if the price of the underlying asset declines. The income from warrant investments cannot be determined in advance. The maximum loss is limited to the amount of the invested capital

Price risk

The risk of warrant investments is that the underlying asset does not perform in the manner until the expiry of the warrant that you have taken as a basis in your purchase decision. In extreme cases, this may cause the total loss of the invested capital. Furthermore, the price of your warrant depends on other factors. The most important ones are:

- **Volatility of the underlying asset** (measured value for the fluctuation margin of the underlying asset expected at the time of purchase and at the same time the most important parameter for the affordability of the warrant). High value generally means a higher price for the warrant.
- **Term of the warrant** (the longer the term of a warrant, the higher the price).

A declining volatility or a declining residual term may effect that - although your expectations with regard to the price development of the underlying asset have been met - the price of the warrant remains the same or declines. We generally do not recommend to purchase a warrant shortly before the end of its term.

A purchase at a time of high volatility makes your investment more expensive and is therefore highly speculative.

Liquidity risk

Warrants are usually issued in smaller quantities only. This leads to an increased liquidity risk, which may cause particularly high price fluctuations with individual warrants.

Trading in warrants

Warrants are traded over the counter to a large extent. There is usually a difference between purchase price and selling price. Such difference is at your expense. When trading at the stock exchange, particular attention must be paid to the often very little liquidity.

Warrants terms and conditions

Warrants are not standardised. It is thus of particular importance to obtain information on the exact details, particularly on:

- **Type of exercise**: Can the option right be exercised permanently (American option) or only at the exercise date (European option)?
- **Subscription ratio**: How many warrants are required to maintain the value of the underlying asset?
- **Exercise**: Supply of the underlying asset or cash compensation?
- **Maturity**: When does the right expire? Please note that the investment company or the Bank will not exercise your option rights without your express order.
- **Last trading day**: This often occurs some time before the maturity date so that it cannot be readily assumed that the warrant can actually be sold until the maturity date.