Options Volume Breaks Record Again in 2005

By David EnrichDow Jones Newswires
Dec. 31, 2005 12:01 am ET

With many investors and traders on vacation, it has been a quiet week for the options market.

Not so for the year as a whole.

The number of options that were bought and sold in 2005 easily eclipsed last year's record-breaking volume. As of Thursday, more than 1.5 billion contracts had been traded in 2005, representing average daily volume of nearly 6 million options, according to the Options Clearing Corp. That is about 27% more than in 2004, when an average of about 4.7 million options changed hands daily -- a figure that was 30% higher than 2003's record-setting levels.

Industry officials and outside experts predict the trend will continue, although they acknowledge the current growth rate might be tough to sustain.

"The business has become mainstream," said William J. Brodsky, chairman and chief executive of the Chicago Board Options Exchange. The CBOE, the world's largest options exchange, estimates that its average 2005 trading volume was 1.87 million contracts a day, nearly 30% higher than in 2004.

Other exchanges boasted similar 2005 growth rates. The Philadelphia Stock Exchange says its average daily volume jumped about 22%, to 645,614 contracts a day compared with 529,384 last year.

Experts point to a number of trends to explain the surging popularity of options trading -- and suggest that volumes will continue to expand.

While a large number of hedge funds and other institutional investors are comfortable trading options, other "investors are getting more sophisticated and they're willing to experiment with alternate investments," said Robert E. Whaley, a professor at Duke University's business school who is an expert on options. "Stock options fit the bill."

Another factor is the Internet's democratization of data. A decade ago, Mr. Whaley said, retail investors had to pay for access to real-time quotes and other information that was necessary for options trading. Today, many brokerages offer their retail clients free online tools that facilitate trading.

Mr. Brodsky, the head of CBOE, is hoping that new types of options, including those tied to market indexes and exchange-traded funds, will keep pushing trading volumes higher in 2006 and beyond.

Write to David Enrich at david.enrich@dowjones.com