

What are Warrants?

A Warrant is termed “a derivative”, which is a financial instrument whose value, or price, is derived from an underlying market. Examples of underlying assets are; gold, silver, crude oil, live cattle, although they may be commodities, financials, securities, Indices etc. Basically, any instrument that is ‘tradeable’. This underlying asset may also be a derivative itself e.g. a futures contract. Therefore a warrant is derived from a derivative of the original asset class, meaning a warrant is derived from a futures contract or an option on a futures contract. It is in effect a synthetic instrument completely constructed to obtain value from a financial market.

Warrants give the Holder the right to profit from moves in the underlying market. A Long Warrant enables the Holder to profit from an underlying market that is going up. Conversely, a Short Warrant enables the Holder to profit from a move downward of the Underlying Market.

Warrants may be many styles CBS trade in only the American style whereby the warrants may be exercised on any Business Day on or before the Expiry Date. This allows clients to trade warrants on a very short time frame, if so desired, to capture profitable positions that are common in derivative trading, eg. Purchasing a four month Long Gold Warrant and selling it after only two weeks as the price of that warrant has doubled in value due to an extraordinary rise in the Gold price.