

Options Trading SIG

Saturday, August 20, 2022 @ 9:00am PT

Spread Trading with Options

A defined risk option strategy for weekly or monthly income

- Informal presentations to help you enhance your portfolio using stock options
- Open discussion with Q & A
- Previous presentations: www.aaiisandiego.com/sub-groups/options-trading/
- Questions and comments: Bruce Ennis, vicepresident@aaiisandiego.com



Flexible Meeting Fees
Make a Contribution Here

Flexible Meeting Fees

- New payment system: Flexible Meeting Fees instead of the Pay-As-You-Go.
- Motivated by the many of you who made generous, voluntary contributions online toward our expenses during COVID, Thank You.
- Can we make this work after COVID for in-person meetings?
- We need contributions to meet our expenses.
- Ways to make voluntary contributions
 - Cash or check
 - Use this QR code



Presentation Outline

Basic Concepts and Market Activity

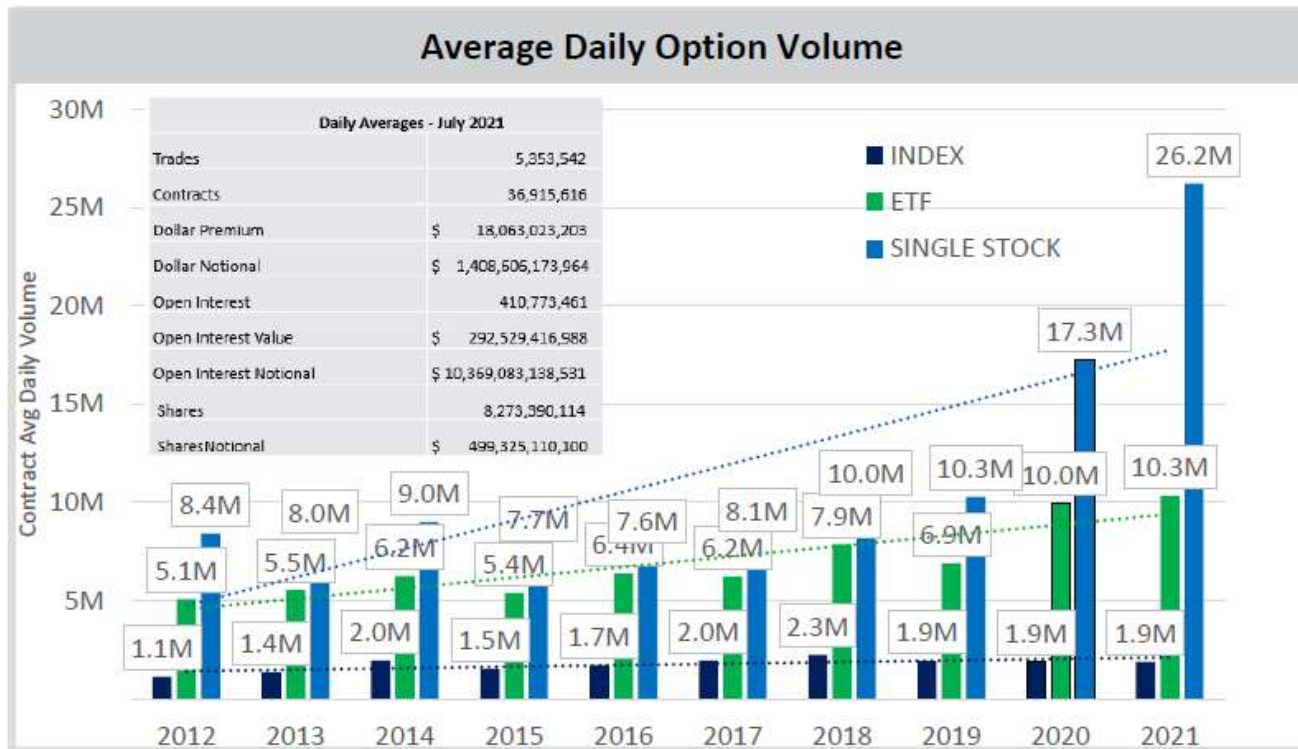
Spread Basics

Spread Detail: Vertical Spreads

More Detail: Put Credit Spreads

- Option traders are sophisticated and well capitalized
- Markets are fragmented, anonymous and 90% electronic
- Every trade has both buyer and a seller, but one initiator
- 30% of volume trades in complex orders
- 40% of volume is swept across exchanges
- There is information in every quote and every trade
- Proper tools are crucial for success

Market Activity



Growth Index	
10yr	5.3%
5yr	-0.6%
1yr	-0.3%

ETF	
10yr	7.4%
5yr	10.7%
1yr	3.6%

Stock	
10yr	12.0%
5yr	26.4%
1yr	51.8%

Total	
10yr	10.2%
5yr	18.7%
1yr	31.9%

Option Volume and Open Interest 8-15-22

Options Only

	VOLUME			OVERALL COMBINED TOTAL		
	GLOBEX	OPEN OUTCRY	CLEARPORT/PNT	VOLUME	OPEN INTEREST	CHANGE
Agriculture	188,322	0	7,370	195,692	4,119,499	19,059
Energy	149,396	0	43,529	192,925	7,017,076	37,251
Equities	844,601	0	98,235	942,836	5,474,142	106,458
FX	15,074	0	300	15,374	897,290	6,323
Interest Rate	627,713	404,391	314,744	1,346,848	42,997,845	98,537
Metals	43,056	0	5,750	48,806	1,141,313	10,723

Daily Exchange Volume and Open Interest 8-15-22

Exchange

	VOLUME			OVERALL COMBINED TOTAL		
	GLOBEX	OPEN OUTCRY	CLEARPORT/PNT	VOLUME	OPEN INTEREST	CHANGE
Exchange	13,747,946	416,107	857,279	15,021,332	111,903,485	375,984
Exchange Futures	11,879,784	11,716	387,351	12,278,851	50,256,320	97,633
Exchange Options	1,868,162	404,391	469,928	2,742,481	61,647,165	278,351

Different Types of Spreads

Vertical Spreads

Calendar (Horizontal)
Spread

Diagonal Spread

Apple Option Chain

AAPL	APPLE INC COM	173.9401	-0.35%	B: 173.94	A: 173.95	ETB	NASDAQ	±1.239
Underlying								
Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low
173.9401 D	-.6099	173.94 N	173.95 Q	3 x 7	31,029,014	173.75	174.72	173.12
Last Size	Yield	PE	Div	Div.Freq	Ex Div.Date	52High	52Low	Shares
100	0.53%	28.75	.23	Q	8/5/22	182.94	129.04	16,070,752,000

Option Chain	Filter: Off	Spread: Single	Layout: Delta, Open Interest, Volume, Extrinsic...
> 19 AUG 22	(1)	100	31.21% (±2.432)
> 26 AUG 22	(8)	100 (Weeklys)	27.51% (±5.709)
> 2 SEP 22	(15)	100 (Weeklys)	27.39% (±7.753)
> 9 SEP 22	(22)	100 (Weeklys)	27.34% (±9.362)
> 16 SEP 22	(29)	100	28.19% (±11.08)
> 23 SEP 22	(36)	100 (Weeklys)	28.70% (±12.57)
> 30 SEP 22	(43)	100 (Weeklys) POS	28.55% (±13.668)
> 21 OCT 22	(64)	100	30.18% (±17.654)
> 18 NOV 22	(92)	100	32.69% (±23.009)
> 16 DEC 22	(120)	100	32.82% (±26.451)
> 20 JAN 23	(155)	100	32.98% (±30.312)
> 17 FEB 23	(183)	100	33.46% (±33.523)
> 17 MAR 23	(211)	100	33.44% (±36.072)
> 21 APR 23	(246)	100	32.97% (±38.51)
> 16 JUN 23	(302)	100	33.71% (±43.929)
> 21 JUL 23	(337)	100	33.34% (±46.027)
> 15 SEP 23	(393)	100	33.25% (±49.842)

Vertical Spreads

Sell

- Sell the more expensive strike
- Buy the less expensive strike

Buy

- Buy the more expensive strike
- Sell the less expensive strike

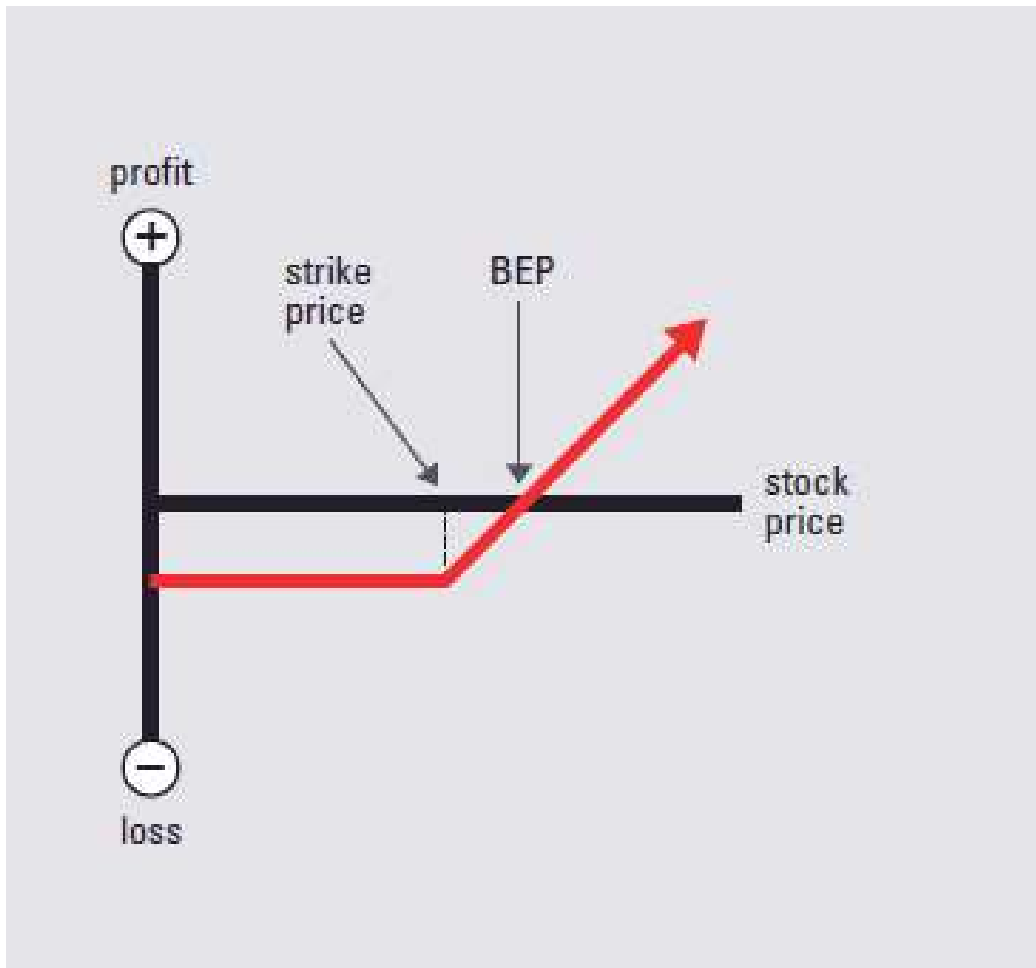
Vertical Spreads

Credit Spreads

- Put Credit (bullish)
- Call Credit (bearish)

Debit Spreads

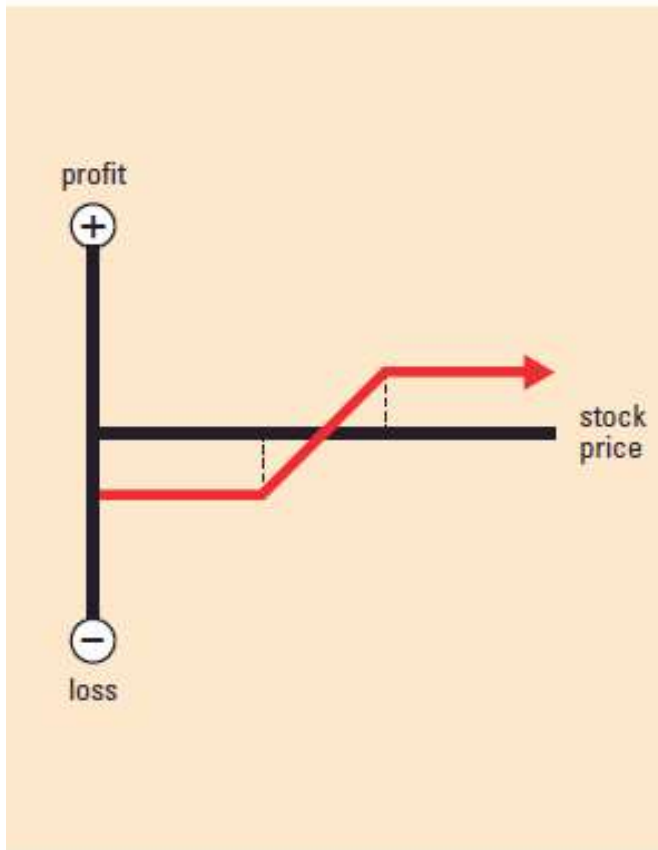
- Put Debit (bearish)
- Call Debit (bullish)

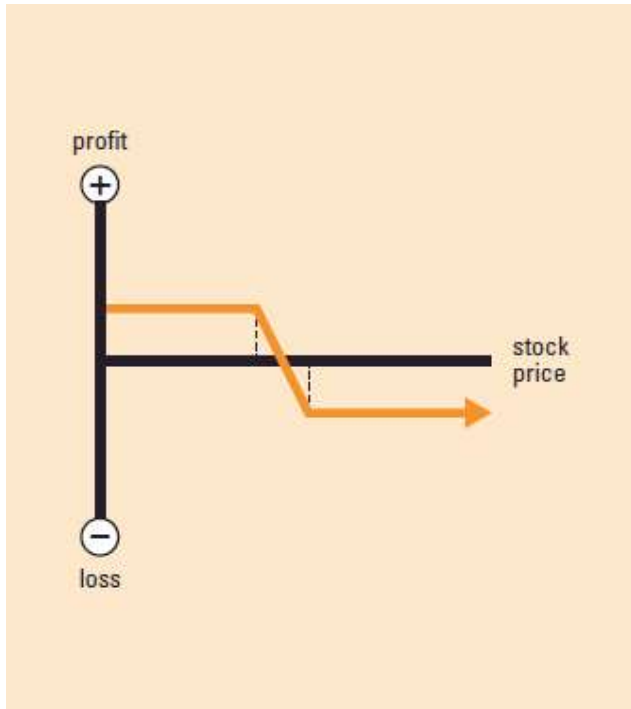


Option PnL at Expiration

Put Credit Spread

- Sell put and buy another put at lower strike with same expiration
- Market sentiment: neutral to bullish
- Limited risk and limited reward
- Time decay helps position





Put Debit Spread

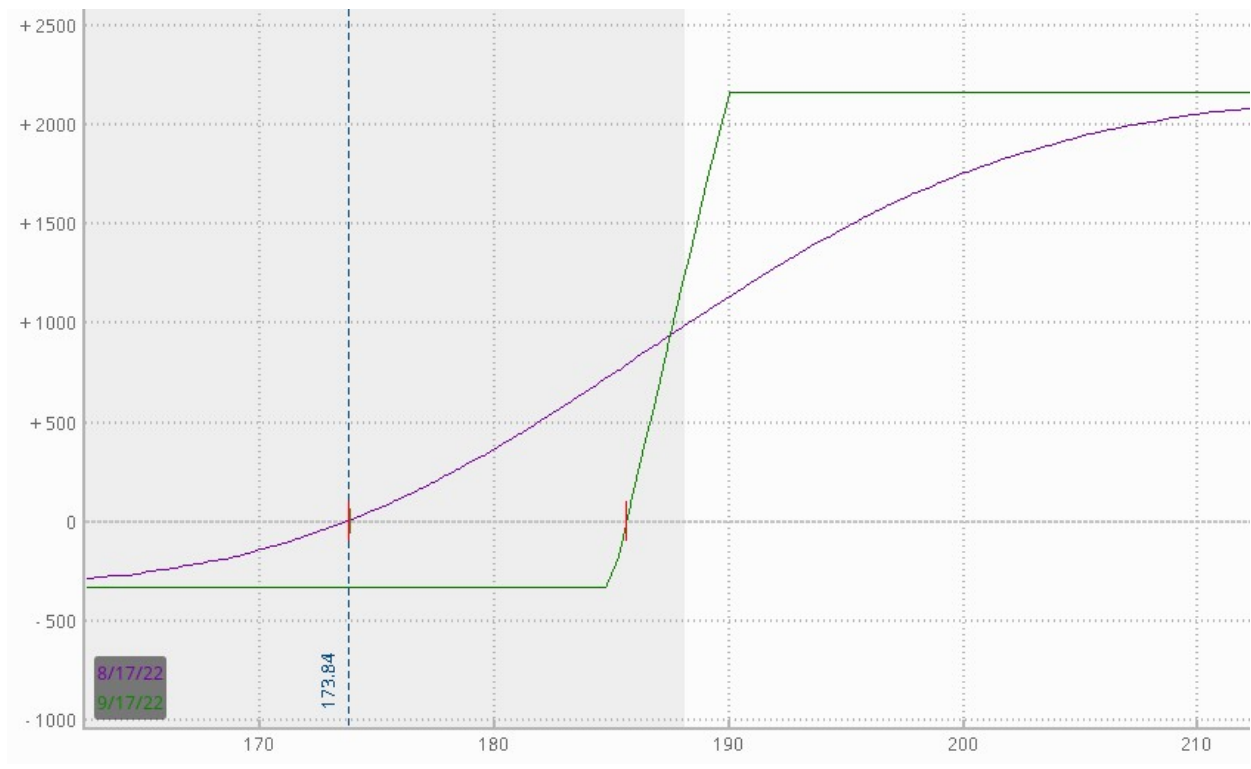
- Sell put and buy another put at higher strike with same expiration
- Market sentiment: bearish
- Limited risk and limited reward
- Time decay hurts

Apple on 8-17-22

Today's Options Statistics								
52 week IV High:	0.534							
52 week IV Low:	0.243							
Current IV Percentile:	12%							
52 week HV High:	0.53							
52 week HV Low:	0.155							
Current HV Percentile:	24%							
Implied Volatility:	27.72%							
VWAP:	174.322							
		Trade Analysis	Calls	Puts	Total			
		Total Volume:	999,385	1,020,548	2,019,933			
		Traded at BID or below:	384,841	471,517	856,356			
		...% of total:	38%	46%	42%			
		Traded at ASK or above:	471,825	410,902	882,726			
		...% of total:	47%	40%	43%			
		Between the Market:	142,719	138,129	280,851			
		...% of total:	14%	13%	13%			
		Delta Between *						
		0 ... 20	324,952	32%	432,792	42%	757,744	37%
		21 ... 40	287,363	28%	359,876	35%	647,239	32%
		41 ... 60	245,895	24%	170,013	16%	415,908	20%
		61 ... 80	96,170	9%	33,619	3%	129,789	6%
		81 ... 100	45,005	4%	24,248	2%	69,253	3%

Apple (AAPL) 8-17-22

AAPL		APPLE INC COM	174.55	+1.52 +0.88%	B: 173.71 A: 173.78	ETB	NASDAQ	±1.05
Underlying								
	Last X	Net Chng	Bid X	Ask X	Size	Volume		
	174.55 Q	+1.52	173.71 Q	173.78 Q	1 x 1	79,116,738		
CALLS								
	Delta	Open.Int	Volume	Extrinsic	Intrinsic	Bid X	Ask X	Strikes: ALL
	Exp	Strike						
16 SEP 22	(30)	100						
	.95	21,426	29	.885	49.04	49.85 N	50.00 T	16 SEP 22 125
	.95	13,658	43	.96	44.04	44.90 N	45.10 N	16 SEP 22 130
	.94	7,628	96	.985	39.04	39.95 N	40.10 N	16 SEP 22 135
	.93	22,212	215	1.06	34.04	35.05 N	35.15 T	16 SEP 22 140
	.92	18,623	164	1.185	29.04	30.15 N	30.30 N	16 SEP 22 145
	.89	57,294	768	1.36	24.04	25.30 N	25.50 N	16 SEP 22 150
	.86	49,650	622	1.61	19.04	20.60 N	20.70 T	16 SEP 22 155
	.82	50,784	2,194	2.06	14.04	16.05 N	16.15 T	16 SEP 22 160
	.74	87,591	2,759	2.785	9.04	11.75 D	11.90 T	16 SEP 22 165
	.63	74,456	7,920	3.985	4.04	7.95 X	8.10 T	16 SEP 22 170
	.49	42,087	18,460	4.90	0	4.85 N	4.95 Z	16 SEP 22 175
	.33	54,161	23,469	2.595	0	2.57 T	2.62 P	16 SEP 22 180
	.19	28,486	14,433	1.20	0	1.19 T	1.21 N	16 SEP 22 185
	.10	21,628	10,346	.525	0	.52 X	.53 Z	16 SEP 22 190
	.05	6,488	3,306	.245	0	.24 T	.25 Z	16 SEP 22 195
	.03	18,367	3,475	.13	0	.12 T	.14 H	16 SEP 22 200
	.02	376	409	.08	0	.07 T	.09 N	16 SEP 22 205
	.01	8,292	389	.05	0	.04 D	.06 N	16 SEP 22 210
	.01	821	11	.035	0	.03 Q	.04 N	16 SEP 22 215
	.00	6,690	819	.02	0	.01 N	.03 N	16 SEP 22 220



Calendar Spread

1. Uses a long and short calls (or puts) with **different** expirations.
2. Sell the near-term option, buy the longer-term option.
3. Both options are the same type (call or put) and use the **same** strike.
4. Best used in a sideways market with low volatility.
5. Profit from time decay.

Diagonal Spread

1. Combines features of a calendar spread and a vertical spread.
2. Uses long and short calls (or puts) with **different** expirations.
3. Sell the near-term option, buy the longer-term option.
4. Both options are the same type (call or put) and use the **different** strike.

Trade Setup Parameters

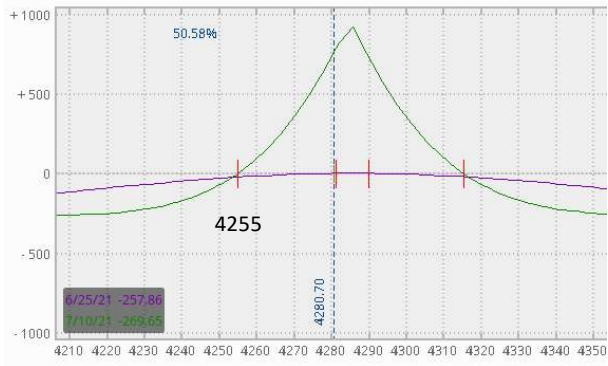
- Strike
- Front Month Expiration
- Calendar Width: time between expirations

14 Day Calendar at 3, 5, 7 days wide

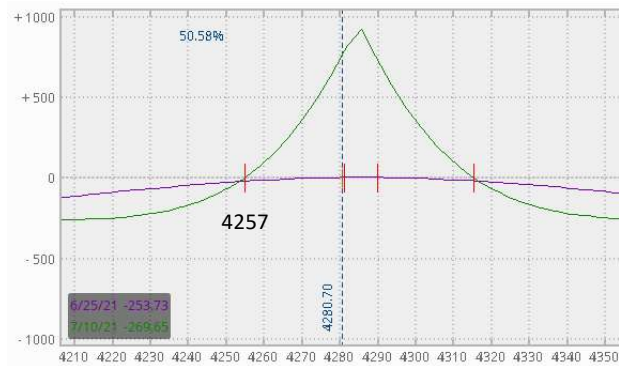
ALL		Show All	2 Series From 5	Single Symbol	All groups	Model: Bjersund-Stensland	Interest: 0.01%	Date: 06/25/2021		
Spread	Side	Qty	Symbol	Exp	Strike	Type	Price	Yield	Vol	Delta
<input checked="" type="checkbox"/>	CALENDAR	BUY	+1	SPX 12 JUL 21 (Weeklys)	4285	CALL	2.70	0.40%	8.05%	.26
	SELL	-1	SPX 9 JUL 21 (Weeklys)	4285	CALL	DEBIT	0.53%	8.05%		
<input checked="" type="checkbox"/>	CALENDAR	BUY	+1	SPX 14 JUL 21 (Weeklys)	4285	CALL	6.75	0.57%	8.71%	.57
	SELL	-1	SPX 9 JUL 21 (Weeklys)	4285	CALL	DEBIT	0.53%	8.05%		
<input checked="" type="checkbox"/>	CALENDAR	BUY	+1	SPX 16 JUL 21 (AM)	4285	CALL	9.75	0.50%	9.22%	.77
	SELL	-1	SPX 9 JUL 21 (Weeklys)	4285	CALL	DEBIT	0.53%	8.05%		

▼ Price Slices

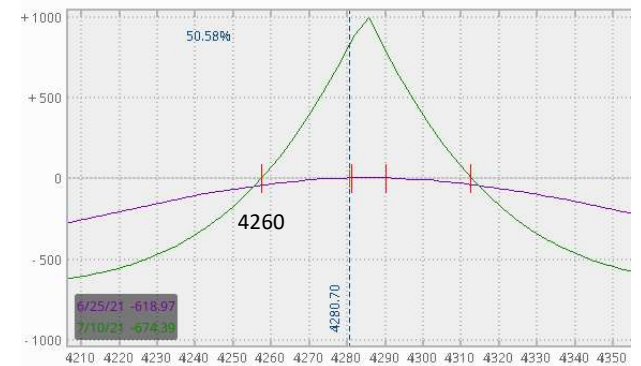
Stk Price	Offset	Delta	Gamma	Theta	Vega
4280.70	\$0	.26	-.05	8.07	33.11
4280.70	\$0	.57	-.11	6.38	53.73
4280.70	\$0	.77	-.15	3.30	63.67



3 days



5 days



7 days

Market Wizard Lessons*

- 1. There Is No Single True Path**
- 2. Find a Trading Method that is Compatible with Your Personality**
- 3. Keep a Trading Journal**
- 4. Learn from Your Mistakes**
- 5. Risk Management is Critical**
- 6. Trade Small, Often and Consistently**
- 7. If You Hope a Trade Will Work: Get Out (*hopium is bad*)**
- 8. Emotions Are Detrimental to Trading**
- 9. Aiming for Consistent Profitability Can Be Counterproductive**
- 10. Successful Traders Love What They Do**

*** From Jack D. Schwager, *Unknown Market Wizards***

Spread Basics

- Different Types
 - Vertical Spreads
 - Calendar (Horizontal) Spreads
 - Diagonal Spreads