

IBKRWEBINARS.COM



May 24, 2023

Nasdaq

Structured Strategies for Options Traders in Today's Market

Kevin Davitt

Head of Index Options

Content

Nasdaq

Exchange and Industry Sponsored Webinars are presented by unaffiliated third parties. Interactive Brokers LLC is not responsible for the content of these presentations. You should review the contents of each presentation and make your own judgment as to whether the content is appropriate for you.

Interactive Brokers LLC does not provide recommendations or advice. This presentation is not an advertisement or solicitation for new customers. It is intended only as an educational presentation.



Disclosure:

Options involve risk and are not suitable for all investors. For information on the uses and risks of options, you can obtain a copy of the Options Clearing Corporation risk disclosure document titled [Characteristics and Risks of Standardized Options](#) by calling (312) 542-6901.

Multiple leg strategies, including spreads, will incur multiple transaction costs.

Futures are not suitable for all investors. The amount you may lose may be greater than your initial investment. Before trading futures, please read the [CFTC Risk Disclosure](#). For a copy visit interactivebrokers.com.

There is a substantial risk of loss in foreign exchange trading. The settlement date of foreign exchange trades can vary due to time zone differences and bank holidays. When trading across foreign exchange markets, this may necessitate borrowing funds to settle foreign exchange trades. The interest rate on borrowed funds must be considered when computing the cost of trades across multiple markets.

The Order types available through Interactive Brokers LLC's Trader Workstation are designed to help you limit your loss and/or lock in a profit. Market conditions and other factors may affect execution. In general, orders guarantee a fill or guarantee a price, but not both. In extreme market conditions, an order may either be executed at a different price than anticipated or may not be filled in the marketplace.

There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations.

- IRS Circular 230 Notice: These statements are provided for information purposes only, are not intended to constitute tax advice which may be relied upon to avoid penalties under any federal, state, local or other tax statutes or regulations, and do not resolve any tax issues in your favor.
- Interactive Brokers LLC is a member of [NYSE FINRA SIPC](#)



Structured Options Strategies

-Implied & Realized Vols Declined – So
What Now?

Interactive Brokers

May 24, 2023

Kevin Davitt

Head of Index Options Content

DISCLAIMER

Index

Nasdaq® is a registered trademark of Nasdaq, Inc. The information contained above is provided for informational and educational purposes only, and nothing contained herein should be construed as investment advice, either on behalf of a particular security or an overall investment strategy. Neither Nasdaq, Inc. nor any of its affiliates makes any recommendation to buy or sell any security or any representation about the financial condition of any company. Statements regarding Nasdaq-listed companies or Nasdaq proprietary indexes are not guarantees of future performance. Actual results may differ materially from those expressed or implied. Past performance is not indicative of future results. Investors should undertake their own due diligence and carefully evaluate companies before investing. **ADVICE FROM A SECURITIES PROFESSIONAL IS STRONGLY ADVISED.**

Options

For the sake of simplicity, the examples included do not take into consideration commissions and other transaction fees, tax considerations, or margin requirements, which are factors that may significantly affect the economic consequences of a given strategy. An investor should review transaction costs, margin requirements and tax considerations with a broker and tax advisor before entering into any options strategy.

Options involve risk and are not suitable for everyone. Prior to buying or selling an option, a person must receive a copy of *Characteristics and Risks of Standardized Options*. Copies may be obtained from your broker, one of the exchanges or The Options Clearing Corporation, One North Wacker Drive, Suite 500, Chicago, IL 60606 or call 1-888-OPTIONS or visit www.888options.com.

Any strategies discussed, including examples using actual securities and price data, are strictly for illustrative and education purposes and are not to be construed as an endorsement, recommendation or solicitation to buy or sell securities.

Nasdaq-100® Volatility Index

The Nasdaq-100® Volatility Index (Ticker Symbol: VOLQ) is calculated and administered by The Nasdaq Stock Market LLC. The Nasdaq-100 Volatility Index is a financial benchmark designed to measure changes in 30-day implied volatility of the Nasdaq-100 Index as further described in the methodology, rules and other information. VOLQ options, which are traded on Nasdaq Phlx LLC, are complicated financial products only suitable for sophisticated market participants. Market participants should put at risk only funds that they can afford to lose without affecting their lifestyles. Transacting in VOLQ options involves the risk of loss, which can be substantial and can exceed the amount of money deposited for a Nasdaq-100 Volatility Index position (except when buying options on VOLQ, in which case the potential loss is limited to the purchase price of the options).

Before transacting in VOLQ options, market participants should fully inform themselves about the Nasdaq-100 Volatility Index and the characteristics and risks of VOLQ Options. Market participants also should make sure they understand the product specifications for VOLQ Options and the methodologies for calculating and settling the Nasdaq-100 Volatility Index.



Structured Option Strategies Market Update

RELATIVE 52 WEEK PERFORMANCE

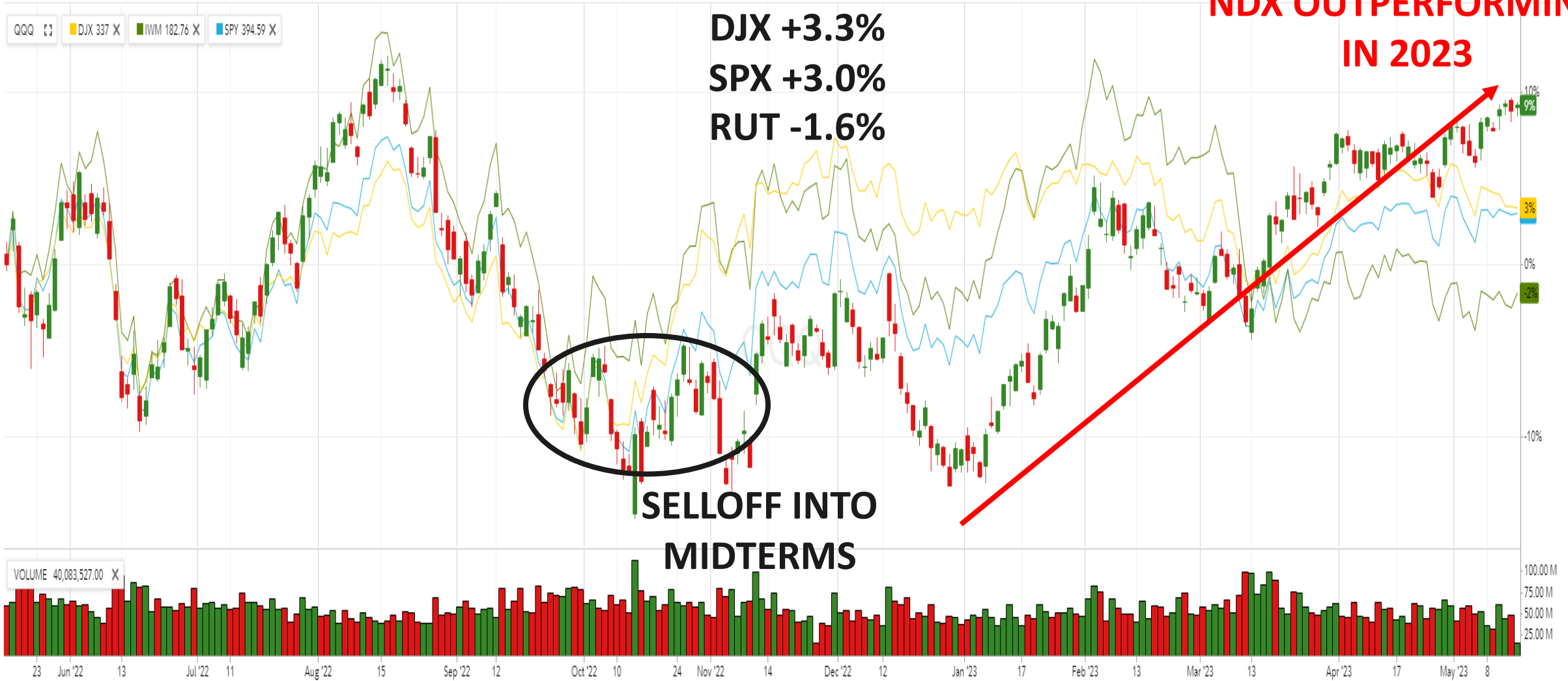
NDX +9.3%

DJX +3.3%

SPX +3.0%

RUT -1.6%

**NDX OUTPERFORMING
IN 2023**



**SELLOFF INTO
MIDTERMS**

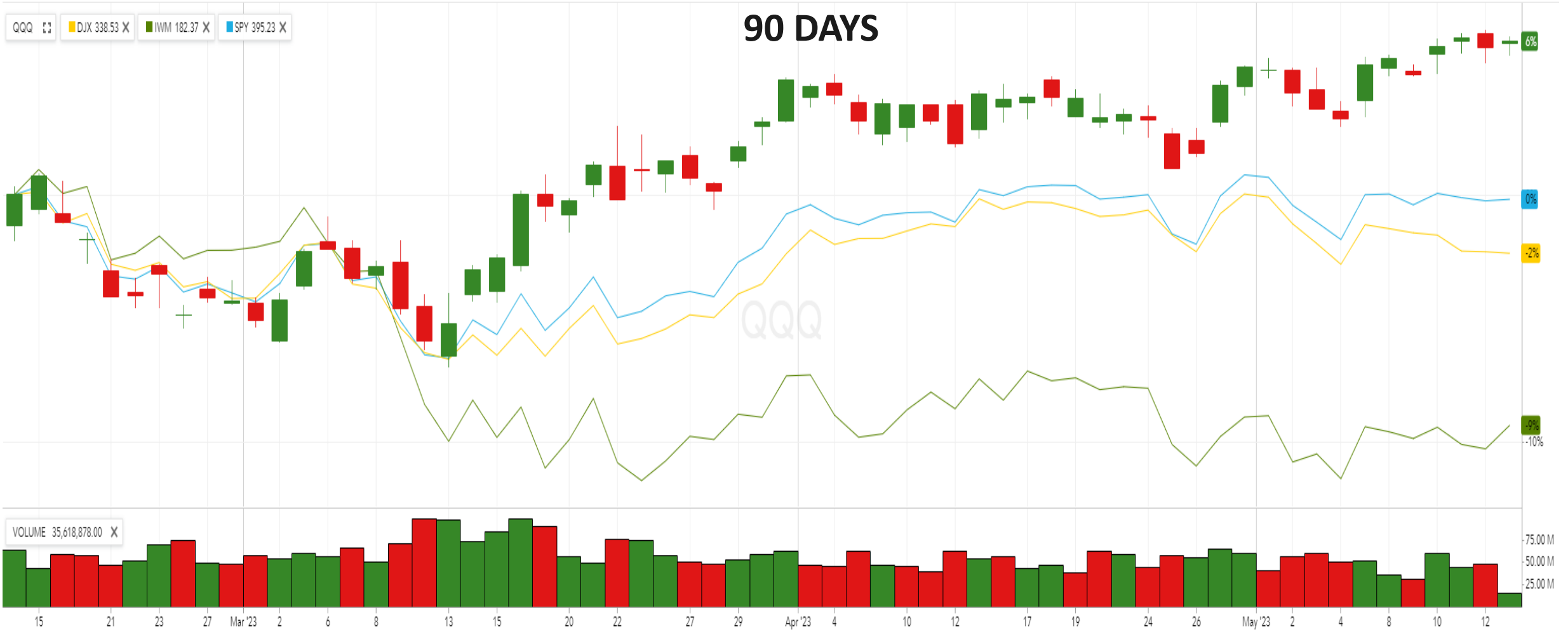


Structured Option Strategies

Market Update

VERY RANGEBOUND MARKETS OVER LAST

90 DAYS

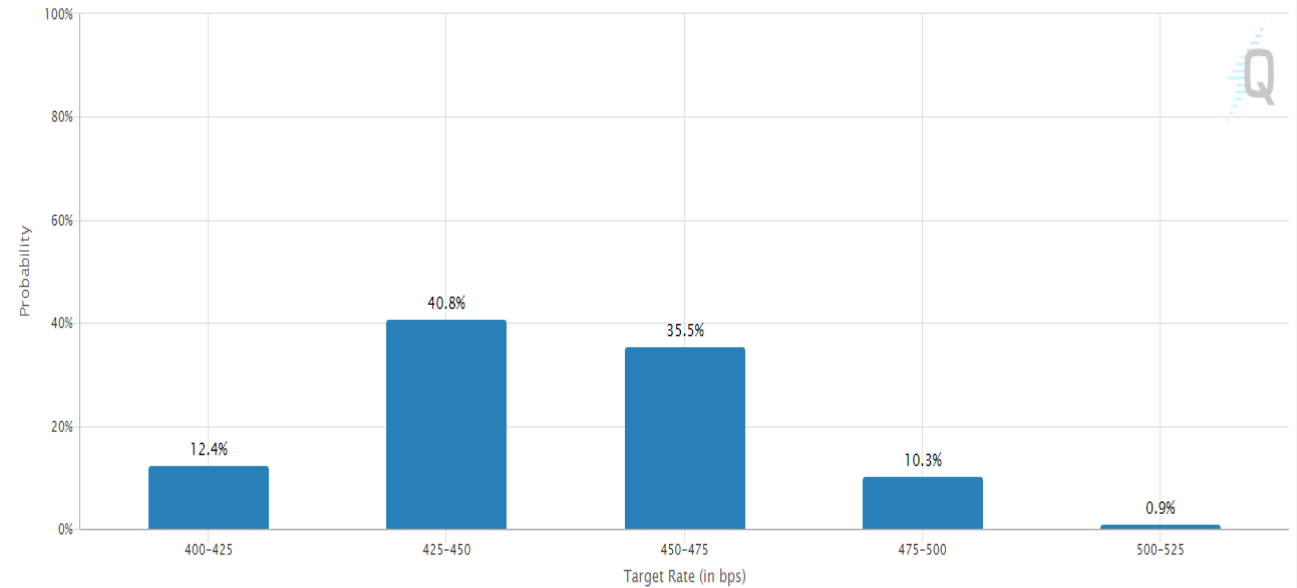


Structured Option Strategies

Have Rates Peaked?

TARGET RATE PROBABILITIES FOR 13 DEC 2023 FED MEETING

Current target rate is 500-525



TARGET RATE (BPS)	PROBABILITY(%)			
	NOW *	1 DAY 12 MAY 2023	1 WEEK 8 MAY 2023	1 MONTH 14 APR 2023
375-400	0.0%	0.0%	0.0%	1.8%
400-425	12.4%	15.4%	13.9%	12.6%
425-450	40.8%	44.1%	41.8%	30.8%
450-475	35.5%	32.4%	34.0%	33.3%
475-500	10.3%	7.5%	9.3%	17.1%
500-525 (Current)	0.9%	0.6%	1.0%	4.0%
525-550	0.0%	0.0%	0.0%	0.3%

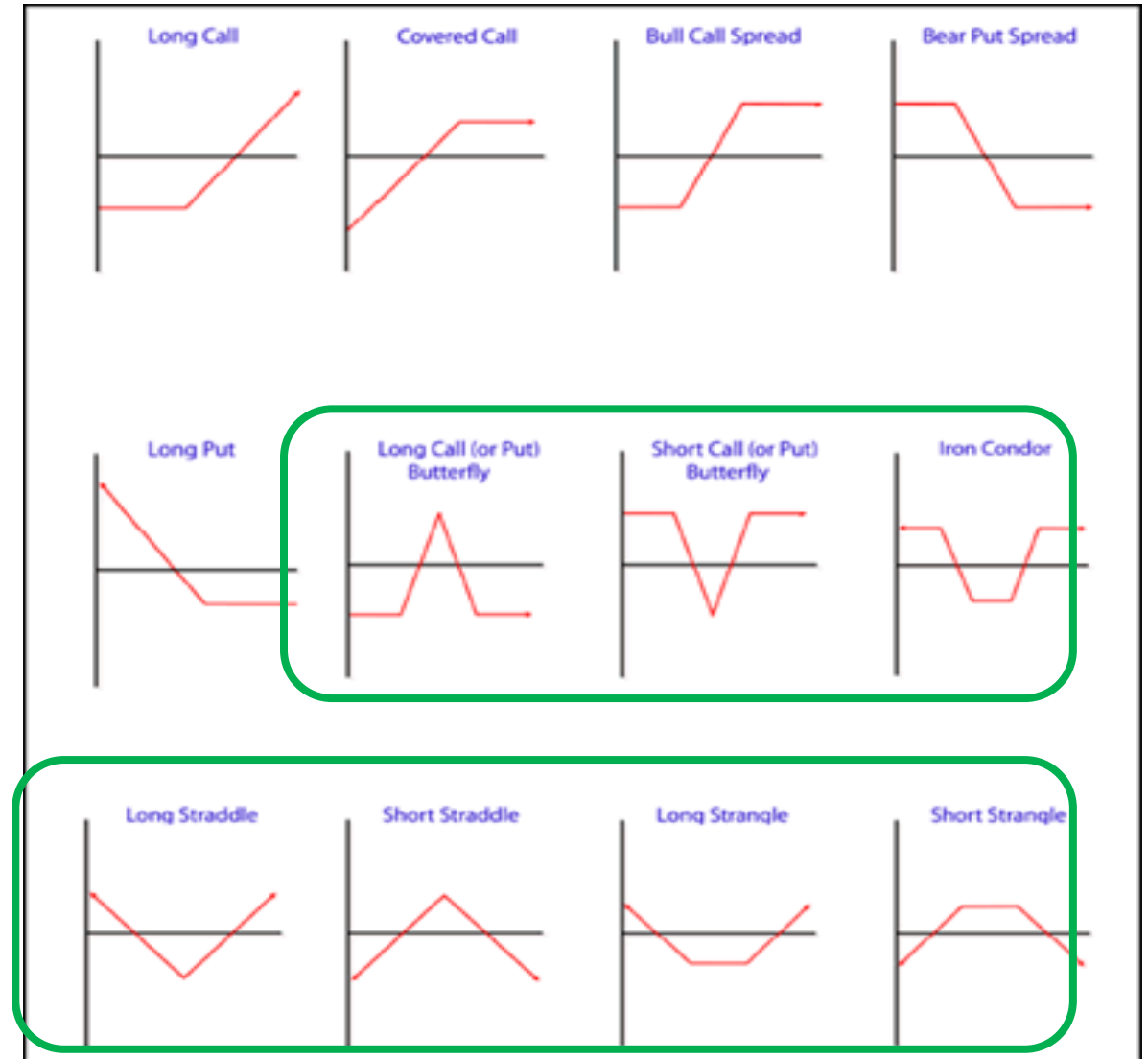
* Data as of 15 May 2023 11:47:15 CT

Source: St. Louis Fed



The Flexibility of Options

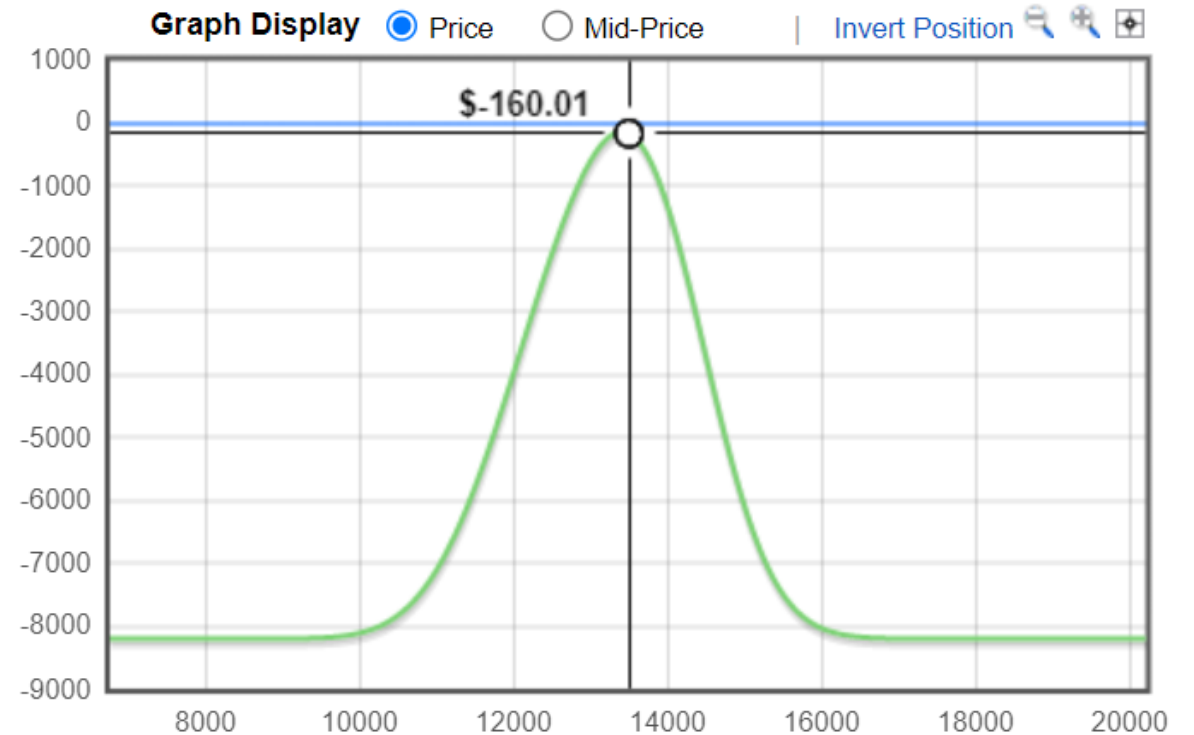
- Index Options
 - Offer more expiration cycles.
 - Assuming high probability structures – benefit from high “occurrences”.
 - May require less management (style/settle).
- Lessons Along the Way
 - “When ya buy something, sell something”. (Marty Kearney)
 - In my experience - Traders w/longevity & consistent performance tended to be spreaders.



Structured Option Strategies

NDX Iron Condor

- Short 7.5% OTM & 45 DTE
 - Index ~13,500.
 - Using 6/30 options (End of Quarter).
 - Short 12,500 puts & 14,500 calls.
 - Long 12,400 puts & 14,600 calls.
 - Collect \$17.80 or \$1,780/condor.
- Risks
 - Very small delta exposure @ execution.
 - Near terms – IV pops or big move in one direction
 - Position -235 vega/condor



Total Strategy

Bid	Mid	Ask	Delta	Gamma	Theta	Vega
15.30	18.90	22.50	-0.98	-0.01	40.57	-234.78

Buy/Sell	Quantity	Expiration/Strike	Bid	Ask	Theoretical Price	Evaluation Price
<input type="radio"/> Buy <input checked="" type="radio"/> Sell	<input type="text" value="1"/>	Jun 30 2023 12500 Put	94.40	96.60	95.50	<input type="text" value="95.00"/>
<input checked="" type="radio"/> Buy <input type="radio"/> Sell	<input type="text" value="1"/>	Jun 30 2023 12400 Put	83.60	85.70	84.65	<input type="text" value="85.20"/>
<input type="radio"/> Buy <input checked="" type="radio"/> Sell	<input type="text" value="1"/>	Jun 30 2023 14500 Call	27.10	28.60	27.85	<input type="text" value="27.50"/>
<input checked="" type="radio"/> Buy <input type="radio"/> Sell	<input type="text" value="1"/>	Jun 30 2023 14600 Call	19.10	20.50	19.80	<input type="text" value="20.00"/>

Source: Fidelity



Structured Option Strategies

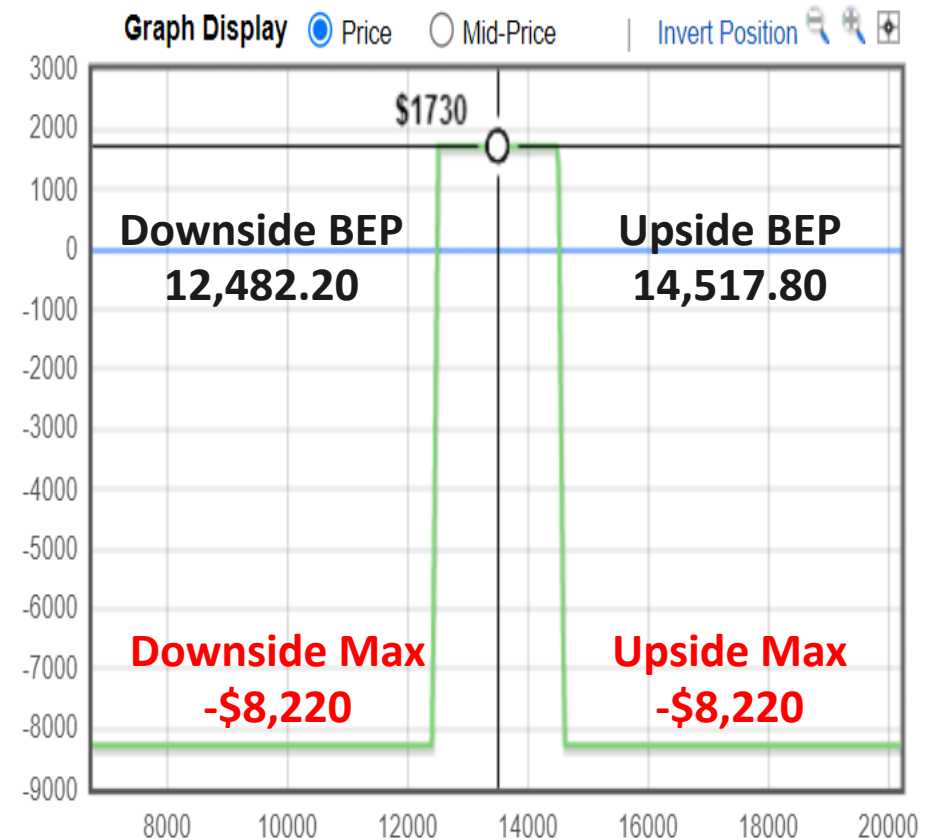
Index Iron Condor

- What's ATM Vol Telling Us?
 - VOLQ Index ~17.50.
 - Options imply expectations of +/-5.1% over the next month.
 - Options imply expectations of +/-6.0% over the next 45 days.
 - Explain calculation-
 - ATM vol (percentage term)/ Sq. Root of relevant time frame.
- Have an Exit Plan
 - If X amount of time passes and position decays to Y – Will you cover?
 - Leg out potential + risks!

.NDX - .NDX

Last: 13489.60 | Change:
76.10

Price Points	P/L
7500.00	-\$8,270.00
12483.52	\$0.00
12502.89	\$1,730.00
14517.30	\$0.00
14611.48	-\$8,270.00
--	--
--	--
--	--
--	--
--	--



Source: Fidelity



Structured Option Strategies

Targeting Higher into End Q2?

- What's about a Call Butterfly?
 - Index ~13,500.
 - Target a 7.5% rally into EOQ (Debt Ceiling negotiations finalized).
 - Profitable between +5.7% & +9.1%.
 - Mid-point execution ~20.00.
 - Risk \$2,000 on settle <14,250.
 - Ideally (unlikely): 6/30 close @ 14,500.
 - Worth: \$25k Profit = \$23k

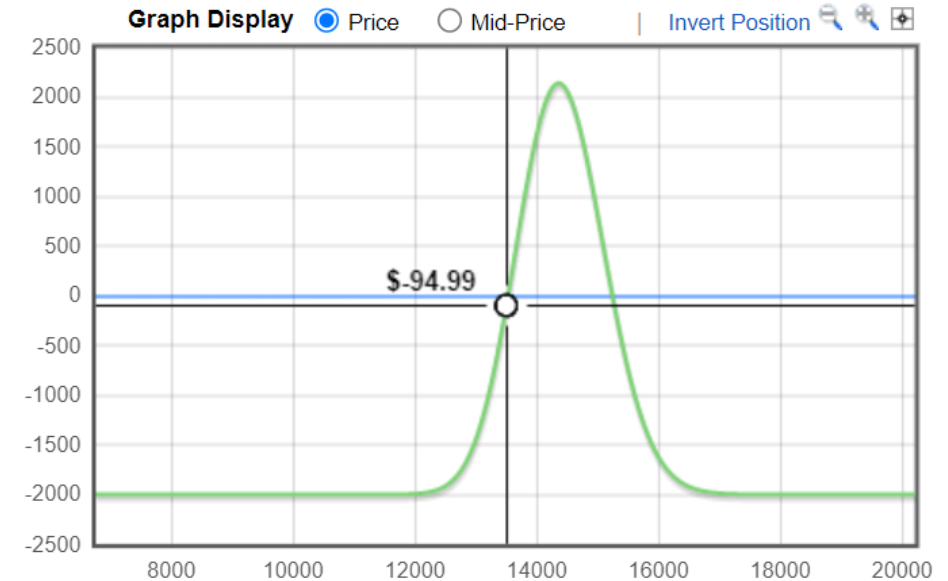
Considerations

- OTM call (or put) flies typically asymmetric risk v. reward.
- Need to wait until ~expiration to monetize.

.NDX - .NDX

Last: 13489.60 | Change: 76.10

Price Points	P/L
7500.00	-\$2,000.00
12000.00	-\$1,993.33
13500.00	-\$58.07
13516.22	\$0.00
14341.15	\$2,145.55
15000.00	\$788.20
15236.90	\$0.00
16500.00	-\$1,922.32
18000.00	-\$1,999.90
18342.07	-\$2,000.11



Total Strategy

Bid	Mid	Ask	Delta	Gamma	Theta	Vega
16.10	19.05	22.00	3.68	0.00	-28.19	88.55

Buy/Sell	Quantity	Expiration/Strike	Bid	Ask	Theoretical Price	Evaluation Price
<input checked="" type="radio"/> Buy <input type="radio"/> Sell	1	Jun 30 2023 14250 Call	62.00	63.60	62.80	63.00
<input type="radio"/> Buy <input checked="" type="radio"/> Sell	2	Jun 30 2023 14500 Call	27.10	28.60	27.85	27.50
<input checked="" type="radio"/> Buy <input type="radio"/> Sell	1	Jun 30 2023 14750 Call	11.30	12.60	11.95	12.00

Source: Fidelity



Structured Option Strategies

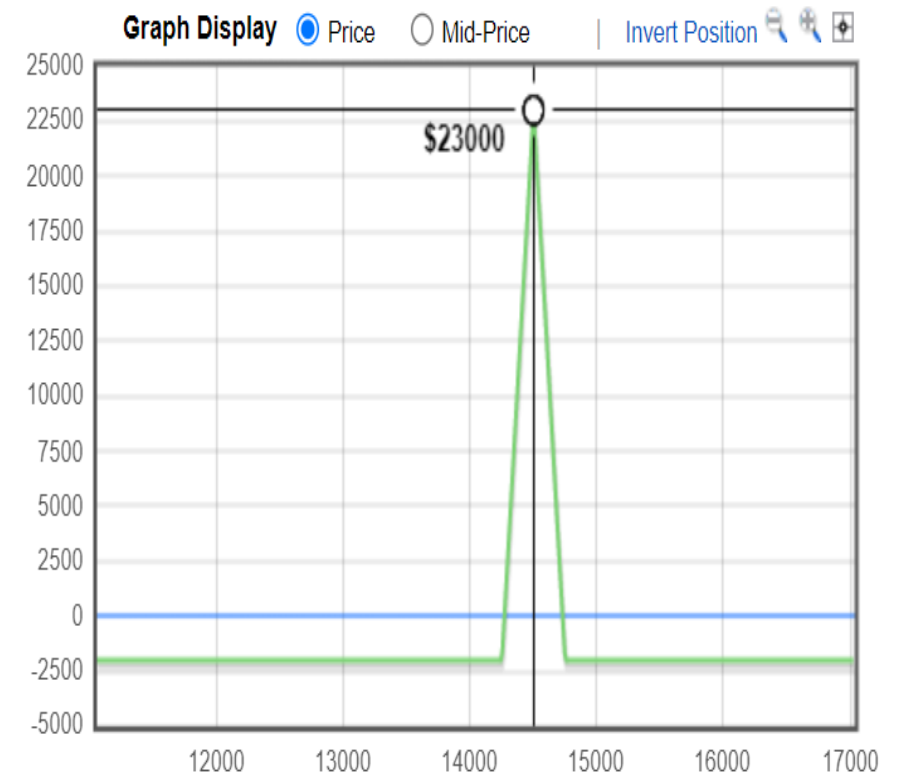
Index Call Butterfly P&L

- Call (& put) Butterflies typically “set it & forget it” until ~expiration.
 - Generally small daily P&L fluctuations on Index flies.
 - Target = SHORT OPTION STRIKE!
 - Little flexibility w/respect to adjustments.
- Why Index Strategy?
 - Cash settlement = Not necessary to manage position @ expiration.
 - Same strategy can be employed using puts with a clearly defined downside target.

.NDX - .NDX

Last: 13489.60 | Change:
76.10

Price Points	P/L
11500.00	-\$2,000.00
14270.00	\$0.00
14500.00	\$23,000.00
14730.00	\$0.00
14758.37	-\$2,000.00
--	--
--	--
--	--
--	--
--	--



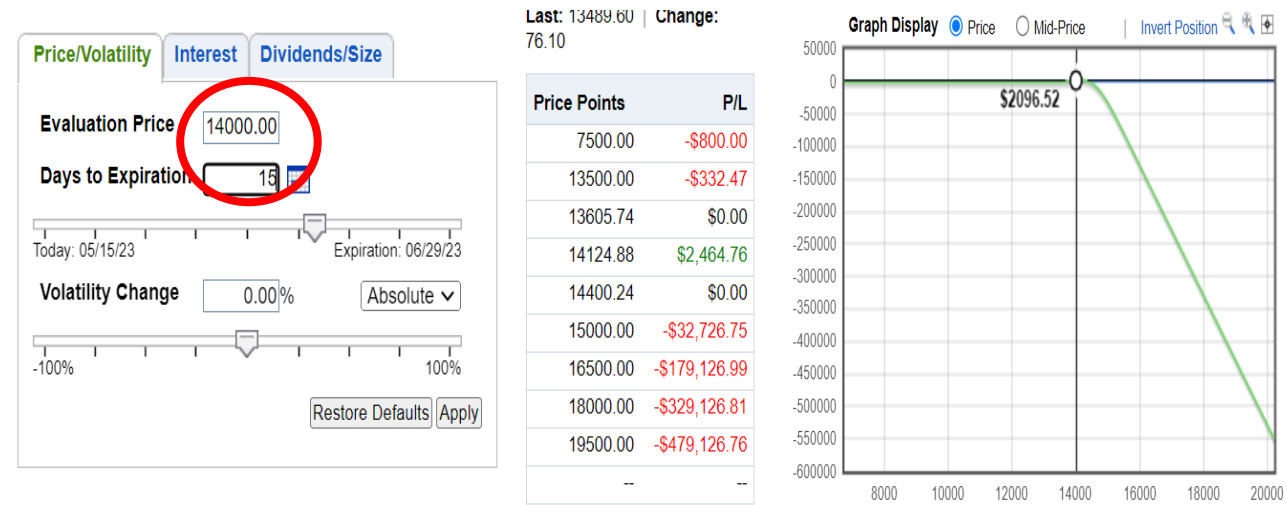
Source: Fidelity



Structured Option Strategies

Index Ratio Call Spread

- Alternative to Call Butterfly
 - Way to express a directional bias with a lower premium than a standard call spread (Paid 8.00 for ratio v. 35.50 for call spread).
 - Affords greater flexibility for exit.
 - Will require more capital.
 - Vega risk substantially higher.



- Considerations
 - Higher margin requirements.
 - Undefined risk in one direction.
 - Can be turned into (defined risk) butterfly by purchasing (1) 14,750 call to limit upside exposure.
 - Same structure can be applied using put ratio.

Total Strategy

Bid	Mid	Ask	Delta	Gamma	Theta	Vega
4.80	7.10	9.40	-1.79	-0.01	49.27	-434.16

Buy/Sell	Quantity	Expiration/Strike	Bid	Ask	Theoretical Price	Evaluation Price
<input checked="" type="radio"/> Buy <input type="radio"/> Sell	1	Jun 30 2023 14250 Call	62.00	63.60	64.644	63.00
<input type="radio"/> Buy <input checked="" type="radio"/> Sell	2	Jun 30 2023 14500 Call	27.10	28.60	28.827	27.50

Source: Fidelity



Structured Option Strategies

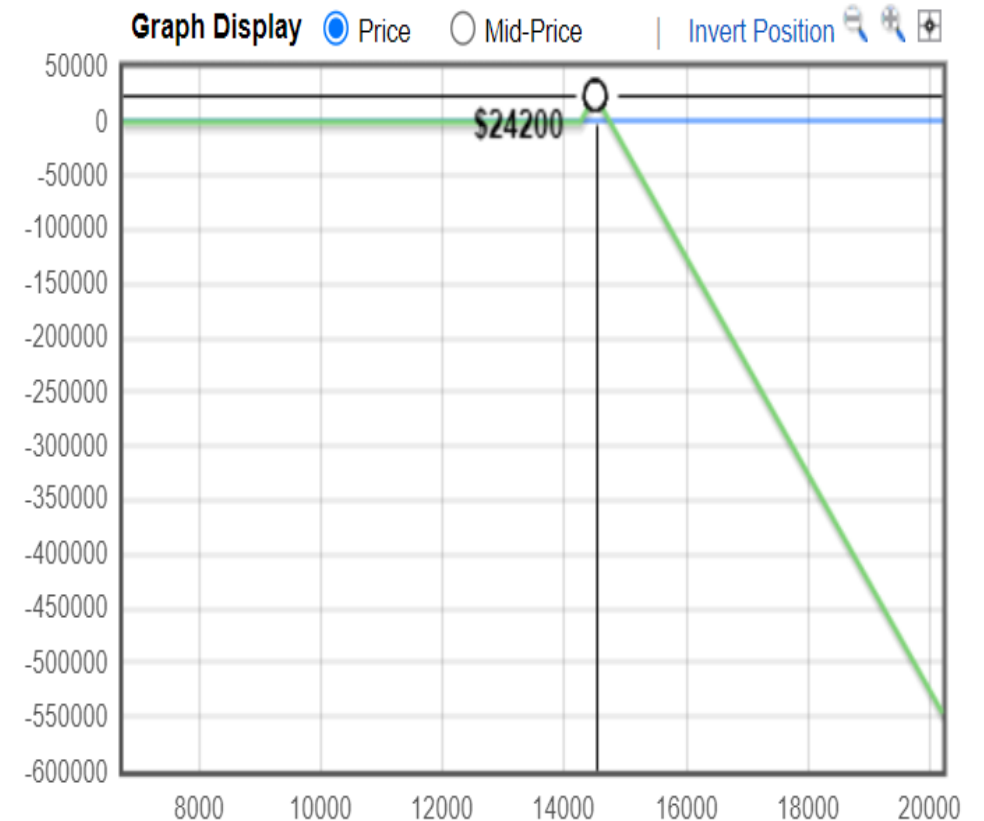
Index Ratio Call Spread

- Positives
 - Cost of entry – lower & in some situations zero cost/credit.
 - Risk management flexibility – easier to exit ahead of expiration or turned into butterfly.
- Negatives
 - If IV moves quickly higher or...
 - Index moves quickly in the direction of the short strike.
 - Move too early = Negative

.NDX - .NDX

Last: 13489.60 | Change:
76.10

Price Points	P/L
7500.00	-\$800.00
14254.54	\$0.00
14500.00	\$24,200.00
14742.00	\$0.00
15000.00	-\$25,800.00
16500.00	-\$175,800.00
18000.00	-\$325,800.00
19500.00	-\$475,800.00
--	--
--	--



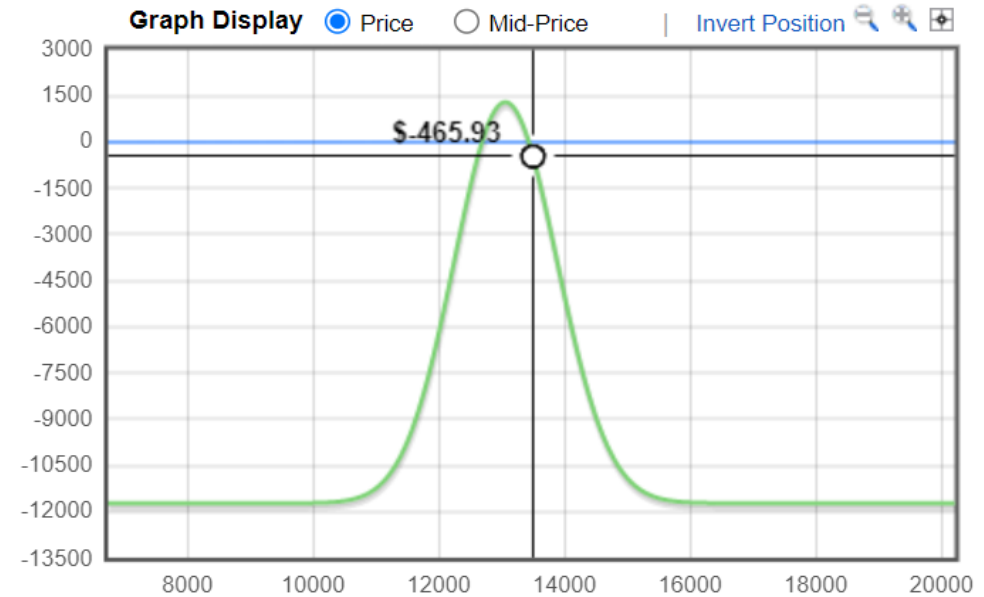
Structured Option Strategies

Index Ironfly

- Similar to Iron Condor
 - Short put spread & short call spread.
 - or Short ATM straddle v. Long OTM strangle.
- Except – targets a single point @ expiration as opposed to a range
 - Typically collect more in premium vis-à-vis similar condor.
- Example:
 - Collect 379.50 (\$37,950) in premium for Ironfly w/ 45 DTE.
 - Risk: Spread width (500) – Premium collected (379.50) = 120.50
 - Max risk \$12,050
 - Max gain \$37,950

.NDX - .NDX
 Last: 13489.60 | Change: 76.10

Price Points	P/L
7500.00	-\$11,727.12
9000.00	-\$11,726.99
10500.00	-\$11,653.23
12000.00	-\$6,212.29
12687.98	\$0.00
13070.58	\$1,297.22
13433.95	\$0.00
13500.00	-\$461.66
15000.00	-\$10,914.61
16500.00	-\$11,724.55



Total Strategy

Bid	Mid	Ask	Delta	Gamma	Theta	Vega
374.40	383.35	392.30	-8.13	-0.01	116.25	-538.75

Buy/Sell	Quantity	Expiration/Strike	Bid	Ask	Theoretical Price	Evaluation Price
<input type="radio"/> Buy <input checked="" type="radio"/> Sell	<input type="text" value="1"/>	Jun 30 2023 13500 Call	372.10	378.10	375.10	<input type="text" value="374.00"/>
<input type="radio"/> Buy <input checked="" type="radio"/> Sell	<input type="text" value="1"/>	Jun 30 2023 13500 Put	307.80	312.90	310.35	<input type="text" value="309.00"/>
<input checked="" type="radio"/> Buy <input type="radio"/> Sell	<input type="text" value="1"/>	Jun 30 2023 13000 Put	170.90	174.60	172.75	<input type="text" value="173.50"/>
<input checked="" type="radio"/> Buy <input type="radio"/> Sell	<input type="text" value="1"/>	Jun 30 2023 14000 Call	127.80	130.90	129.35	<input type="text" value="130.00"/>

Source: Fidelity



Structured Option Strategies Scenario...

- Three Weeks Pass – Index ~ Unchanged
 - Assumes IV remained stable relative to execution.
 - Start to see meaningful decay (theta).
- 30Y Mortgage Rates < 3.00% mid-2020 + Fiscal Stimulus + WFH
 - Premium placed on square footage as opposed to proximity to office.
 - Huge moves (Y/Y) in home values.
- 15-20% of U.S. GDP is Housing Related
 - What's future path?

P/L CALCULATOR

Add Option Contract(s) [Find Symbol](#)

Price/Volatility Interest Dividends/Size

Evaluation Price

Days to Expiration

Today: 05/15/23 Expiration: 06/29/23

Volatility Change Absolute ▾

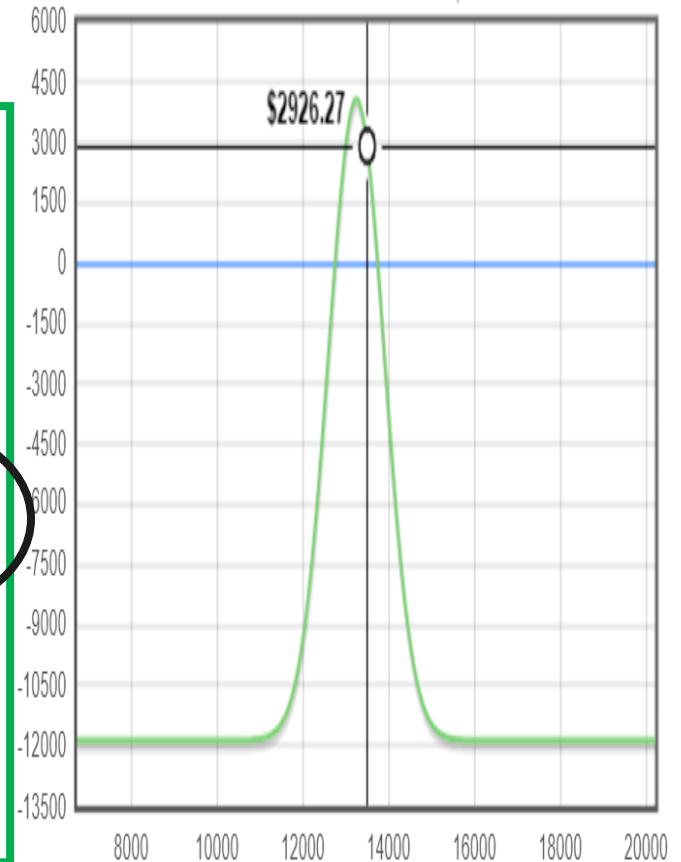
.NDX - .NDX

Last: 13489.60 | Change: 76.10

Price Points	P/L
7500.00	-\$11,866.98
10500.00	-\$11,865.38
12000.00	-\$9,361.04
12750.00	\$0.00
13259.82	\$4,086.98
13500.00	\$2,931.14
13746.27	\$0.00
15000.00	-\$11,461.77
16500.00	-\$11,866.95
16990.41	-\$11,866.99

[Refresh](#) | [How to Use the P/L Calculator \(PDF\)](#) | [View Demo](#)

Graph Display Price Mid-Price | [Invert Position](#)



Source: S&P Dow Jones Indices, CoreLogic



Structured Option Strategies

At Expiration...

- Wide Breakeven w/Narrow Target
 - Max profit **highly unlikely**.
- Typically, “better” risk/reward ratio (compared to Condor)
 - Index options – ITM options expire to cash, so no underlying to manage post expiration.

Reminder:

- Index options cash settle.
- Index options are Euro styled.
- Index options offer more granular expiries.
- May benefit from 1256 treatment

P/L CALCULATOR

Add Option Contract(s) Find Symbol

Price/Volatility Interest Dividends/Size

Evaluation Price 13500.60

Days to Expiration

Today: 05/15/23 Expiration: 06/29/23

Volatility Change 0.00% Absolute ▾

-100% 100%

Restore Defaults Apply

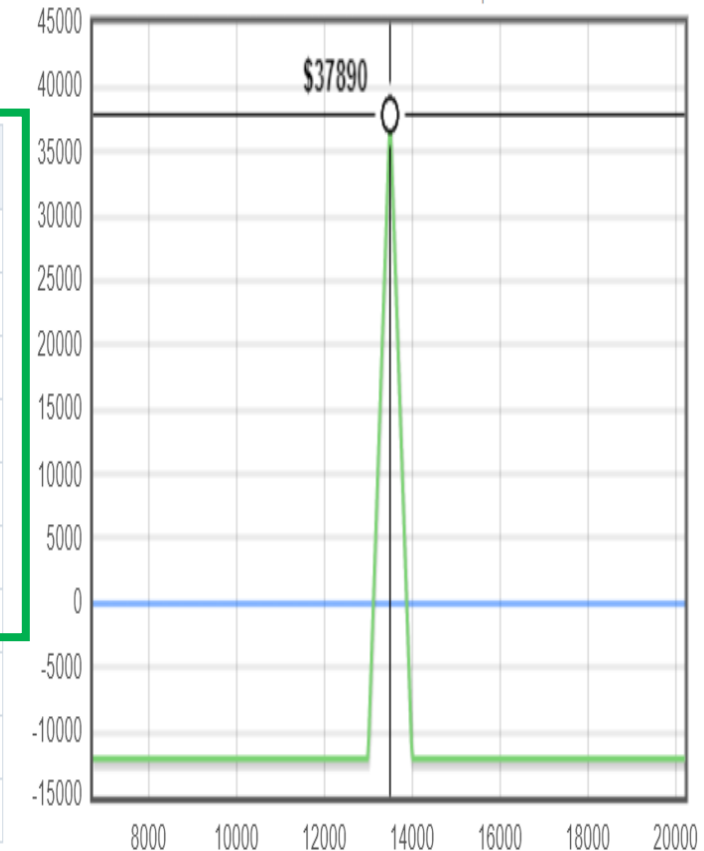
.NDX - .NDX

Last: 13489.60 | Change: 76.10

Price Points	P/L
7500.00	-\$12,050.00
13120.50	\$0.00
13500.00	\$37,831.40
13500.60	\$37,890.00
13879.50	\$0.00
14016.75	-\$12,050.00
--	--
--	--
--	--
--	--

Refresh | [How to Use the P/L Calculator \(PDF\)](#) | [View Demo](#)

Graph Display Price Mid-Price | Invert Position



Nasdaq-100[®]: The Index for the 21st Century?



Questions?

Contact Us:

indexoptions@nasdaq.com

Nasdaq-100[®] Ecosystem:

<https://www.nasdaq.com/nasdaq-100-options-xnd-nqx-ndx-volq/>

Foreign Currency Options:

<https://www.nasdaq.com/solutions/foreign-currency-options>

