How You Can Supersize Your Weekly Options Trading Profits

Weekly Options

Win the battle between trend and time by finding the best weekly trading opportunities.
Weekly Options –
How they can supersize your trading profits.

One of the biggest innovations in the option trading field for some time has been the recent growth and acceptance of Weekly Options. Most of these are provided by the Chicago Board Options Exchange (CBOE), which is the world’s busiest options exchange.

What are Weekly Options and how do they differ from normal Monthly Expiration options? Well, as you may be aware, normal monthly options are issued on a quarterly basis for each stock/ETF/index. There are different cycles of expiration so some, but not all, options are on a January/April/July/October expiration (also known as “JAJO” options). The other 2 main cycles are February, May, August, and November as well as March, June, September, and December.

But these aren’t the only monthly options available as you may have noticed in your trading. There is always a “front month” expiration option and a “second month” expiration option. In addition, many of the more liquid securities have Long-Term Equity Anticipation Securities (known as LEAPS) that extend out to January of the following year or multiple years into the future.

So while there generally will always be a front month and second month option available to trade on any particular security, sometimes the closest expiration will be 20 or more days away. For a shorter-term option trader, this means that there is a great deal of time premium in those options. Time premium is made up basically of time decay (theta) and implied volatility.
For an option buyer of Calls or Puts, this time premium can often act like a “ticking clock” against the profit potential of their position. Each day that elapses, time decay erodes from the option’s value. In addition, there is risk in implied volatility going up or down and changing the option’s value.

Therefore, one could look at Weekly Options as an alternative to get more “bang for the buck” in your options trading. These options, which are rapidly growing in popularity, are generally issued/listed on a Thursday morning and expire the following Friday. The shorter life cycle of these options means that the time premium in their pricing (and their time decay) is less than a normal monthly option.

<table>
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<th>Weekly Classes by type</th>
<th>New Weekly series listed</th>
<th>Last Trading Day</th>
<th>Expires On</th>
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<td>Indexes such as:</td>
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<td>S&amp;P 500 Index SPX</td>
<td>Thursday A.M.</td>
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<td>European (cash settled)</td>
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<td>Dow Jones Industrial Average DJX</td>
<td>Thursday A.M.</td>
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<td>European (cash settled)</td>
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<td>S&amp;P 100 Index (American) OEX</td>
<td>Thursday A.M.</td>
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<td>American (cash settled)</td>
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<td>S&amp;P 100 European-style XEO</td>
<td>Thursday A.M.</td>
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<td>Exchange Traded Funds such as:</td>
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<td>SPY, IWM, QQQ, USO, GLD and others*</td>
<td>Thursday A.M.</td>
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<td>Equities such as: APL, BAC, BP, F, GOOG and others*</td>
<td>Thursday A.M.</td>
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<td>American (Physically settled)</td>
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The growth and ever-increasing availability of Weekly Options can act as a “game changer” for Weekly Options Accelerator traders. At BigTrends.com, we focus on short-term, active, technical analysis-based trading. This is a great innovation that can boost our clients’ profits across more trading cycles.
For option buyers of calls and puts, this represents a great way to get the leverage of options without paying as much in time premium. The Delta on these Weekly Options will in many cases be higher than a corresponding Monthly Option, giving us super-charged profit potential on our trade recommendations.

One of the meanings of the Greek “Delta” in terms of options is that it indicates how much an option will move on a $1.00 move in the underlying security. So, if we are trading a Weekly Option with a Delta of 0.60 and the corresponding Monthly Option has a Delta of 0.50, the Weekly Option will gain value quicker when the stock moves in our direction. Also, the Weekly Option will often have a much lower actual dollar cost of the option so in this theoretical example a $2 move in the underlying stock means a 1.20 move on a 3.00 Weekly Option gives us a quick 40% gain. Let’s say the Monthly Option was 4.50, with a 1.00 move in the option, our gain is only 22%. Of course, this enhanced leverage can work against us too, which is why BigTrends’ timing methods are so valuable to active traders.

With this big decrease in theta and time premium on the Weekly Option, the leverage of these short-term vehicles becomes even more significant when compared to outright stock buying. This means less cash out of pocket to you as an option trader while still providing the potential for big gains.

We love how Weekly Options can capture quick fire profits in this volatile market. With our state-of-the-art technical analysis indicators, we can catch big in-and-out moves in a very short time frame. And that’s not to mention the volatility around earnings reports, news announcements, Fed meetings, takeovers and other market-moving events!
Weekly Options also offer is a premium-selling, income-generation element that many traders find attractive. Out-of-the-money options have a very rapid time decay, which many traders prefer for option-selling strategies such as spreads and other options combinations.

Click here to view the current Weekly Option offerings from the CBOE; new ones are added all the time and even event-specific options can be added. You can see that many of the biggest, most popular names are already actively trading and more are added all the time.

What about liquidity? Well, often prefer trading these Weekly Options and with their growing popularity, we expect them to become more and more widespread. Take a look at the CBOE’s table of Weekly Option Volume on the S&P 500 Index (SPX):
This is an upward trajectory that is similar to the growth of options trading volume itself over a longer time frame.

And the availability of quotes and trading on the Weekly Options is simple and quick. The option brokerage specialists that we often deal with for our auto-trading clients have easy access to trade these options. Check the Baidu (BIDU) option matrix below from ThinkOrSwim, which combines the Weekly and Monthly Options on one easy to read screen. Note the big volume and the narrow bid/ask spreads on the Weekly Options – the spread on the bid/ask is already the same as the Monthlys, so we don’t give any unnecessary edge to the market makers!
The bottom line is that incorporating Weekly Options into your option trading arsenal gives another useful tool for active investors to take profits out of this volatile market.

Please visit www.BigTrends.com for up-to-date market information, trader education and trade advisory services to suit every active trader. Please address any questions to ClientCare@BigTrends.com or call 800-BIG-TRENDS. We’re here to assist you in reaching your trading goals.

Trade well!
Price Headley and the BigTrends Staff