

The One-Day Wonder Trade



The Optionomics Group, LLC

Weekly credit spreads make possible a “Wise Guy” specialty trade that I call The One-Day Wonder Trade. This trade combines the Market Edge Opinions with a proven option strategy that I developed several years ago that gives you a solid trading approach that produces quick, consistent results.

Here is how this trade works. As always, it is designed around weekly options and the Market Edge Opinions which provides the probable direction of the underlying stock used in the transaction. The trade is initiated on Thursday as near to the close of the market as practical. If it is a short holiday week you should use Wednesday as our trade day. The trade is an *Off Strike Horizontal Spread* that takes advantage of the time decay in the expiring, weekly options. A horizontal spread involves the purchase of a farther-term put or call and the selling of an equal number of nearer-term options of the same type.

The trade is predicated on rapid **time decay** (Theta) which accelerates as the options reach their expiration. As Friday’s expiration approaches, all of the air (premium) will come out of the balloon (option price) and that is what provides us with this wonderful trading opportunity.

It is the certainty of time decay that makes it difficult for many retail traders to make money. They think that buying out of the money calls and puts is a cheap way to trade options. The problem is that they don’t consider how quickly the premium collapses in the out of the money options as expiration approaches. They can be correct on the price direction for the underlying stock but unfortunately they still lose money. The One-Day Wonder Trade is designed to take advantage of this phenomenon. To see how this works, check out the option chains located below. They are both for Chipotle Grill (CMG).

	Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low	
>	266.91 T	-5.30	266.89 T	267.02 P	1 x 2	1,406,428	270.17	271.11	265.00	
v Option Chain Filter: Off Spread: Single Layout: Last X, Net Change  										
CALLS					Strikes:	10 	PUTS			
	Last X	Net Chng	Bid X	Ask X	Exp	Strike	Bid X	Ask X	Last X	Net Chng
v 9 FEB 18 (1) 100 (Weeklys) 40.64% (±6.066)										
	18.53 E	-1.58	16.60 Z	18.40 Z	9 FEB 18	250	.05 N	.15 N	.05 C	-.15
	10.50 N	-9.90	11.80 Z	13.40 Z	9 FEB 18	255	.15 X	.30 M	.20 Z	-.15
	8.50 Z	-4.55	7.00 X	8.50 X	9 FEB 18	260	.55 X	.70 P	.70 Z	-.05
	5.10 Q	-5.20	5.40 Z	5.90 Z	9 FEB 18	262.5	1.00 Z	1.20 Q	.82 E	-.38
	4.60 P	-4.25	3.70 Z	4.10 Z	9 FEB 18	265	1.70 X	2.00 Q	1.45 M	-.20
	2.50 I	-2.90	2.35 Z	2.70 M	9 FEB 18	267.5	2.80 Z	3.10 M	2.00 W	-.25
	1.70 C	-3.40	1.35 N	1.65 Z	9 FEB 18	270	4.30 Z	4.70 Z	4.50 C	+1.30
	1.01 C	-3.09	.70 X	1.00 X	9 FEB 18	272.5	6.00 Z	6.60 Z	4.50 Z	-.05
	.45 I	-2.40	.35 X	.55 W	9 FEB 18	275	8.20 Z	8.70 Z	8.00 Z	+1.99
	.35 X	-1.40	.20 M	.35 J	9 FEB 18	277.5	9.70 X	11.70 X	8.80 N	+1.15
v 16 FEB 18 (8) 100 41.49% (±13.732)										
	19.10 Z	-33.20	14.10 Z	14.60 Z	16 FEB 18	255	2.10 Z	2.20 Z	2.10 Z	+68
	0	0	12.20 Z	12.80 Z	16 FEB 18	257.5	2.65 Z	2.90 E	2.96 I	N/A
	10.00 P	-3.90	10.40 Z	11.00 Z	16 FEB 18	260	3.30 Z	3.70 Z	3.16 M	+56
	8.60 N	N/A	8.80 Z	9.30 Z	16 FEB 18	262.5	4.20 Z	4.60 X	3.45 I	N/A
	7.50 N	-3.20	7.30 Z	7.80 X	16 FEB 18	265	5.10 Z	5.60 X	4.30 N	+40
	6.50 Z	-3.40	5.90 E	6.50 X	16 FEB 18	267.5	6.30 Z	6.60 P	5.25 I	+55
	5.00 M	-2.75	4.80 J	5.30 N	16 FEB 18	270	7.60 W	8.00 H	7.09 X	+1.29
	4.50 N	-1.95	3.80 X	4.30 X	16 FEB 18	272.5	9.10 N	9.70 N	8.60 N	+1.60
	3.40 N	-2.20	3.00 M	3.40 E	16 FEB 18	275	10.70 Z	11.40 Z	9.40 I	+1.10
	2.82 Z	-1.60	2.40 Z	2.65 Q	16 FEB 18	277.5	12.50 Z	13.10 Z	13.40 Q	+3.40

The first chain is for the Feb 9, 2018 expiration while the second is for the Feb 16, 2018 expiration. On this day, CMG is trading at \$266.91, down \$5.30 on the day. One thing that should become immediately apparent is that even though the stock is **down** over \$5.00 for the day, the out of the money puts in the expiring weekly serial are also **down** on the day. How can this be? As I said earlier, this is what drives many retail traders crazy and eventually leads them to bag option trading altogether. Even when they were 100% correct on the price direction of the underlying stock, they still lost money. On the other hand, you will notice that in the Feb 16, 2018 option chain all the puts, both in and out of the money are **up** on the day.

Set Up For The One-Day Wonder Trade

The One-Day Wonder Trade involves the use of horizontal spreads. As noted above, a horizontal spread is the purchase of a farther-term (deferred) put or call and the selling (writing) of an equal number of nearer-term (expiring) options of the same type (put or call).

Off-Strike - One-Day Wonder Bullish - Bearish Trades

This trade relies on the price divergence that occurs on the last day of trading which sees the front expiring options lose all of their air. The trade is simple to implement. Once again, it is keyed off the Market Edge Opinion for the underlying stock. If the Market Edge Opinion is Bullish, The *Off-Strike Bullish Horizontal Spread* would be your choice. In this scenario, you would buy the deferred ATM -1 to -2 **call** (267.5 strike) and sell the expiring ATM +1 to +2 **call**. If the Market Edge Opinion is Bearish, The *Off-Strike Bearish Horizontal Spread* is your baby. You would buy the deferred ATM +1 to +2 **put** (267.5 strike) and sell the expiring ATM-1 to -2 **put**. In the example below, I have used the ATM +2 call (272.5 strike) for the Bullish scenario and the ATM -2 put (262.5 strike) for the bearish setup. While these trades have limited risk, they could have unlimited reward if the market cooperates. Referring once again to the CMG option chain, these trades would look like the following:

Bullish - One-Day Wonder Horizontal Trade

		Market	Open	Short Call	Long Call	Open			%
	Open	Edge	Stock	02/09/18	02/16/18	Debit	100%	Max	Risk Capital
Stock	Date	Opinion	Price	Exp. Call	Def. Call	Spread	Target	Risk	Max Risk
CMG	02/08/18	Bullish	\$266.91	272.5	267.5	\$5.49	\$10.98	\$5.49	2.7%

Bearish - One-Day Wonder Horizontal Trade

		Market	Open	Short Put	Long Put	Open			%
	Open	Edge	Stock	02/09/18	02/16/18	Debit	100%	Max	Risk Capital
Stock	Date	Opinion	Price	Exp. Call	Def. Call	Spread	Target	Risk	Max Risk
CMG	02/08/18	Bearish	\$266.91	262.5	267.5	\$4.43	\$8.86	\$4.43	2.2%

As you can see, it is all about draining the premium out of the front month (expiring) option. As always – this trade has limited risk but much more potential reward.

Managing Your Spreads

Off Strike – One-Day Wonder - Bullish Trade

If the stock closes at or near the short, ***expiring ATM +2 call's strike price***, you should buy back the option or you will be short the stock come Monday AM. You may or may not have a loss in that trade. For a loss to occur, the stock would have to close *above the strike price plus the premium*. Otherwise you would have a small gain even though the stock closes above the short option's strike price. Also, since you would be long the deferred ATM option, if the short option moves higher, the ATM will also move higher. While you can hold the deferred leg and let it run over the next few days, I recommend that you close both sides of the trade on the expiring option's expiration day which is what we do for reporting purposes.

Off Strike – One-Day Wonder - Bearish Trade

If the stock closes at or near the short ***expiring ATM -2 put's strike price***, you should buy back the option or you will be long the stock come Monday AM. You may or may not have a loss in that trade. For a loss to occur, the stock would have to close *below the strike price plus the premium*. Otherwise you would have a small gain even though the stock closes below the short option's strike price. Also, since you would be long the deferred ATM option, if the short option moves lower, the ATM will also move lower. While you can hold the deferred leg and let it run over the next few days, I recommend that you close both sides of the trade on the expiring option's expiration day which is what we do for reporting purposes.

From time to time, the underlying stock will have a big move in your favor right out of the gate resulting in a ***doubling of the debit***. When this happens, I recommend that you close the position before expiration Friday.

What You Can Expect

Frequency Of Play:	Weekly
Investment Option Time Horizon:	One Day
Maximum # Of New Plays Per Week:	Two
Maximum # Of Open Positions:	Two
Risk Tolerance:	Medium
Option Experience:	Low
Suggested Risk Capital. Fully Invested (One Spread Per Play):	\$5,000

Summary

The One-Day Wonder Trade is ideal for those who like a lot of short-term action. The trades described above are a couple of the simplest expiration transactions that can be made on a weekly basis. All trades have limited risk and either a substantial or unlimited reward over a short-term time frame. When you are wrong, your risk is limited and you should go on to the next trade. As with all trades, you should limit your exposure to no more than 3-4% of your available risk capital. Using this allotment will assure you that over the long run, you should have positive results in any type of market environment.

					Traders Worksheets							
Week Start:					Market Posture:							
Bullish Blow Off Bottom - Put Spread - Long Deferred Call - (Short Put Above Long Put)												
		Open	Short-Exp	Long-Exp	Open	Long-Deferred	Open	Open		Close	Close	Total
Open	Stock	Stock	ATM Put	ATM -2 Put	Spread	ITM - Call	Call	Combo	Close	Stock	Combo	Profit
<u>Date</u>	<u>Symbol</u>	<u>Price</u>	<u>Strike</u>	<u>Strike</u>	<u>Credit</u>	<u>Strike</u>	<u>Debit</u>	<u>Debit</u>	<u>Date</u>	<u>Price</u>	<u>Credit</u>	<u>Loss</u>
			/	/		/						
			/	/		/						
			/	/		/						
Bearish Blow Off Top - Call Spread - Long Deferred Put - (Short Call Below Long Call)												
		Open	Short-Exp	Long-Exp	Open	Long-Deferred	Open	Open		Close	Close	Total
Open	Stock	Stock	ATM Call	ATM +2 Call	Spread	ITM - Put	Put	Combo	Close	Stock	Combo	Profit
<u>Date</u>	<u>Symbol</u>	<u>Price</u>	<u>Strike</u>	<u>Strike</u>	<u>Credit</u>	<u>Strike</u>	<u>Debit</u>	<u>Debit</u>	<u>Date</u>	<u>Price</u>	<u>Credit</u>	<u>Loss</u>
			/	/		/						
			/	/		/						
			/	/		/						
Totals---->			\$ P/L		# Wins		# Loss		Win %		# Trades	
Bullish Put Verticle Spread - (Short Put Above Long Put)												
Open	Stock	Open	Short-Exp	Long-Exp		Open			Close	Close	Stock	Total
<u>Date</u>	<u>Symbol</u>	<u>Price</u>	<u>ATM Put</u>	<u>ATM -1 Put</u>		<u>Credit</u>			<u>Date</u>	<u>Spread</u>	<u>Price</u>	<u>Profit</u>
			/	/								
			/	/								
Bearish Call Verticle Spread - (Short Call Below Long Call)												
Open	Stock	Open	Short-Exp	Long-Exp		Open			Close	Close	Stock	Total
<u>Date</u>	<u>Symbol</u>	<u>Price</u>	<u>ATM Call</u>	<u>ATM +1 Call</u>		<u>Credit</u>			<u>Date</u>	<u>Spread</u>	<u>Price</u>	<u>Profit</u>
			/	/								
			/	/								
Totals---->			\$ P/L		# Wins		# Loss		Win %		# Trades	
Bullish One-Day Wonder Trade - (Short Exp Call Above Long Def Call)												
						Open			Close			Total
Open		Open	Short-Exp	Long-Def		Debit	100%	Close	Stock	Close		Profit
<u>Date</u>	<u>Symbol</u>	<u>Price</u>	<u>+1, +2 Call</u>	<u>-1, -2 Call</u>		<u>Spread</u>	<u>Target</u>	<u>Date</u>	<u>Price</u>	<u>Spread</u>		<u>Loss</u>
			/	/								
			/	/								
Bearish One-Day Wonder Trade - (Short Exp Put Below Long Def Put)												
Long Deferred Put Above Short Expiring Put						Open			Close			Total
Open		Open	Short-Exp	Long-Def		Debit	100%	Close	Stock	Close		Profit
<u>Date</u>	<u>Symbol</u>	<u>Price</u>	<u>-1, -2 Put</u>	<u>+1, +2 Put</u>		<u>Spread</u>	<u>Target</u>	<u>Date</u>	<u>Price</u>	<u>Spread</u>		<u>Loss</u>
			/	/								
			/	/								
Totals---->			\$ P/L		# Wins		# Loss		Win %		# Trades	
						4						
Weekly Total:		\$ P/L		% P/L		# Wins	# Loss		Win %		# Trades	

The information contained herein has been carefully compiled from sources believed to be reliable, but its accuracy is not guaranteed. Use it at your own risk. There is risk of loss in all trading. Past performance is not necessarily indicative of future results. Traders should read The Option Disclosure Statement before trading options and should understand the risks in option trading, including the fact that any time an option is sold there is an unlimited risk of loss. When an option is purchased, the entire premium is at risk. In addition, any time an option is purchased or sold, transaction costs including brokerage and exchange fees are at risk. No representation is made that any account is likely to achieve profits or losses similar to those shown or in any amount. An account may experience different results depending on factors such as timing of trades and account size. Before trading, one should be aware that with the potential for profits, there is also potential for losses, which may be very large. All opinions expressed are current opinions and are subject to change.