

# The SPY Short-Term Power Play

## Trade



**The Optionomics Group, LLC**

With the advent of short term expirations for the SPY Index in March 2017, I developed a “Wise Guy” specialty trade that I call The SPY Short-Term Power Play Trade. This trade combines the Market Edge Opinion for the SPY with a proven option strategy that gives you a solid trading approach that produces quick, consistent results.

Here is how it works. The trade is initiated on any day there is an expiring serial in the next couple of days. The trade should be initiated as near to the close of trading as practical. The trade is an **Off Strike Horizontal Spread** that takes advantage of the time decay in the expiring option segment of the trade. 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 (put/call).

The trade is predicated on rapid **time decay** (Theta) which accelerates as the options nears expiration. As expiration approaches, all of the air (premium) will come out of the balloon (option price) and that is what provides us with this wonderful 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 or index but unfortunately, they will still lose money. The SPY Short-Term Power Play is designed to take advantage of this phenomenon. To see how this works, check out the option chains for the SPY (S&P 500) located below.

	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	
<b>▼ Option Chain</b> Filter: Off Spread: Single Layout: Last X, Net Change										
<b>▼ CALLS</b> Strikes: 10										
<b>▼ PUTS</b>										
	Last X	Net Chng	Bid X	Ask X	Exp	Strike	Bid X	Ask X	Last X	Net Chng
<b>▼ 9 FEB 18 (1) 100 (Weeklys)</b> 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
<b>▼ 16 FEB 18 (8) 100</b> 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, SPY was trading at \$266.91, down \$5.30 on the day. One thing that should become immediately apparent

is that even though the index is **down** over \$5.00, 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 index, 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 SPY Short-Term Power Play

The SPY Short-Term Power Play involves the use of horizontal spreads. As noted above, a horizontal spread is the **purchase** of a further term (deferred) put or call and the **selling** of an equal number of near-term (expiring) options of the same type (put/call).

### Off-Strike Horizontal Bullish - Bearish Spreads

The SPY 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 index, SPY. If the Market Edge Opinion for SPY is Bullish, the Off-Strike Horizontal Bullish Spread would be your choice. In this scenario, you would **buy the first deferred ITM** (In The Money) -1 to -4 call and **sell the expiring ATM** (At The Money) +1 to +4 call. If the Market Edge Opinion for SPY is Bearish, the Off-Strike Horizontal Bearish Spread is your baby. You would **buy the first deferred ITM** +1 to +4 put and **sell the expiring ATM** -1 to -4 put.

SPY		SPDR S&P500 ETF TRUST TR UNIT ETF		282.78	+ .64	B: 282.96	A: 282.99	ETB		
Underlying		Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	28
		282.78 P	+ .64	282.96 P	282.99 P	0 x 0	55,268,095	283.74	284.20	28
<b>Option Chain</b> Filter: Off Spread: Single Layout: Last X, Net Change										
CALLS				Strikes: 8			PUTS			
Last X	Net Chng	Bid X	Ask X	Exp	Strike	Bid X	Ask X	Last X	Net Chng	
<b>▼ 29 MAY 19 (2) 100 (Weeklys)</b>										17.49% (±3.7)
3.06 C	+ .13	3.08 N	3.12 P	29 MAY 19	281	.85 P	.87 D	.90 C	- .82	
2.51 Q	+ .06	2.72 N	2.76 P	29 MAY 19	281.5	1.00 Q	1.01 P	1.06 C	- .70	
2.35 Q	+ .11	2.38 D	2.41 P	29 MAY 19	282	1.14 P	1.17 D	1.18 Z	- .96	
2.03 A	+ .08	2.06 D	2.09 P	29 MAY 19	282.5	1.32 P	1.35 P	1.32 M	- .83	
1.74 C	+ .07	1.75 W	1.78 P	29 MAY 19	283	1.51 I	1.55 P	1.55 N	- 1.04	
1.48 A	- .02	1.47 P	1.50 P	29 MAY 19	283.5	1.73 Z	1.76 P	1.76 C	- 1.01	
1.23 C	+ .05	1.22 D	1.23 N	29 MAY 19	284	1.97 P	2.01 P	2.00 P	- 1.06	
.99 Z	- .03	.99 P	1.01 P	29 MAY 19	284.5	2.24 P	2.28 P	2.31 C	- 1.03	
<b>▼ 31 MAY 19 (4) 100 (Weeklys)</b>										18.64% (±4.7)
3.28 M	+ .13	3.42 D	3.45 P	31 MAY 19	281.5	1.60 W	1.63 P	1.68 Q	- .79	
3.01 P	+ .26	3.09 P	3.10 C	31 MAY 19	282	1.78 P	1.80 P	1.79 C	- .91	
2.77 N	+ .22	2.77 D	2.80 P	31 MAY 19	282.5	1.95 I	1.98 N	2.03 C	- .87	
2.46 Q	+ .18	2.47 P	2.49 N	31 MAY 19	283	2.15 P	2.18 P	2.20 N	- .88	
2.18 P	+ .10	2.18 D	2.20 Z	31 MAY 19	283.5	2.36 P	2.39 P	2.45 C	- .94	
1.90 N	+ .13	1.91 D	1.94 P	31 MAY 19	284	2.59 P	2.63 P	2.67 P	- .98	
1.59 A	- .04	1.66 W	1.69 W	31 MAY 19	284.5	2.84 P	2.88 P	2.89 Q	- 1.04	

## The SPY Short-Term Power Play

Above is the expiring option chain for SPY and the for the next deferred contract in late May 2019. SPY is trading 282.78 so the At The Money (ATM) straddle would be the 282.50. Let's look at how both the bullish and bearish SPY Short-Term Power Plays would set up.

If the Market Edge Opinion for SPY is Bullish, you would want to **buy the deferred, 31 May 2019** - ITM (In The Money) call and **sell the expiring, 29 May 2019** - OTM (Out Of The Money) call. In this example, you would **buy** the ITM, -3 call, which would be the 281.5 strike for around \$3.45. For the expiring serial, we would **sell** the OTM +3 call, which would be the 284 strike for a credit of \$1.22. The trade would be done for a **debit** of \$1.23 (\$3.45 - \$1.22). What we are hoping for is that Market Edge's bullish Opinion is correct and that the SPY would expire around the 284 strike. If that happens, the deferred 281.5 call would gain intrinsic value and the expiring 284 call would go out very close to zero. If the spread were to double in price to \$2.46 before expiration, you should take the trade off and book the 100% profit.

### Bullish - SPY Horizontal Trade

Symbol	Market		Open	Short	Long	Open	100%		% Risk Capital
	Open	Edge Opinion	SPY	05/29/20	05/31/20	Debit	Spread	Max Risk	
SPY	05/27/20	Bullish	Price	Exp. Call	Def. Call	Spread	Target	Max Risk	Max Risk
SPY	05/27/20	Bullish	\$282.78	284.0	281.5	\$1.23	\$2.46	\$1.23	0.6%

If the Market Edge Opinion for SPY is Bearish you would want to **buy the deferred, 31 May 2019** - ITM (In The Money) put and **sell the expiring 29 May 2019** - OTM (Out Of The Money) put. This trade is a mirror image of the call spread. For this example, you would **buy** the ITM +3 put, which would be the 284 strike for around \$2.60. For the expiring serial, we would **sell** the OTM -3 put, which would be the 281 strike for a credit of \$0.86. The trade would be done for a **debit** of \$1.74 (\$2.60 - \$0.86).

### Bearish - SPY Horizontal Trade

Symbol	Market		Open	Short	Long	Open	100%		% Risk Capital
	Open	Edge Opinion	SPY	05/29/20	05/31/20	Debit	Spread	Max Risk	
SPY	05/27/20	Bearish	Price	Exp. Put	Def. Put	Spread	Target	Max Risk	Max Risk
SPY	05/27/20	Bearish	\$282.78	247.0	252.0	\$1.74	\$3.48	\$1.74	0.9%

This time we are hoping for is that Market Edge's bearish Opinion is correct and that the SPY would expire around the 281 strike. If that happens, the deferred 284 put would gain intrinsic value and the expiring 281 put would go out very close to zero. If the spread were to double in price to \$3.48 before expiration, you should take the trade off and book the 100% profit. In both instances, you can use any strike in either serial that you desire. That's a traders choice. Just remember that the wider the spread, the greater chance for profit, but you are also taking on more risk.

## Managing Your Trades

Managing these trades is very simple since you only have two alternatives. The first is to close the trade if you get a big run and the value of the spread doubles. The second is to wait until expiration and close the trade.

## Bullish SPY Short-Term Power Play

If the SPY closes at or near the ***short, expiring OTM (+) call's strike price***, you should buy back the option or you will be short the index on the day after expiration. You may or may not have a loss in that trade. For a loss to occur, the SPY would have to close ***above the strike price plus the premium***. Otherwise you would have a small gain even though the SPY closes above the short option's strike price. Also, since you would be long the defered ITM option, if the short option moves higher, the ITM will also move higher. While you can hold the defered option 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. If the spread doubles which would be a 100% gain you should close the position and pocket the dough. That is what we do for reporting purposes. Another course of action would be to take the short leg off and let the long leg run. That is a traders choice.

## Bearish SPY Short-Term Power Play

If the SPY closes at or near the ***short, expiring OTM (-) put's strike price***, you should buy back the option or you will be long the index come the day after expiration. You may or may not have a loss in that trade. For a loss to occur, the index would have to close ***above the strike price plus the premium***. Otherwise you would have a small gain even though the index closes above the short option's strike price. Also, since you would be long the defered ITM option, if the short option moves lower, the ITM will also move lower. As above, while you can hold the defered 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. While these trades have limited risk, they can have unlimited reward if the market cooperates. It is all about draining the premium out of the front month (expiring) option. As always, these trades have defined, limited risk. The table below is how the trade would look.

## What You Can Expect

Frequency Of Play:	Weekly
Investment Option Time Horizon:	Three Days
Maximum # Of New Plays Per Week:	Two
Maximum # Of Open Positions:	One
Risk Tolerance:	Medium
Option Experience:	Low
Suggested Amount Of Risk Capital To Trade All Of The Trader's Recommendations:	\$20,000

## Summary

The SPY Short-Term Power Play 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 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.

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## SPY Short-Term Power Plays

**Date:**

### **Bullish Trades: (Long Deferred Call Below Short Expiring Call)**

	Open			Open		Close	Close	Spread
Open	SPY	Short OTM +1 To +4	Long ITM -1 To -4	Spread	Close	SPY	Spread	Profit
Date	<u>Price</u>	<u>Expiring - Call</u>	<u>Deferred - Call</u>	<u>Debit</u>	<u>Date</u>	<u>Price</u>	<u>Credit</u>	<u>Loss</u>
		/	/					
		/	/					

### **Bearish Trades: (Long Deferred Put Above Short Expiring Put)**

	Open			Open		Close	Close	Spread
Open	SPY	Short OTM -1 To -4	Long ITM +1 To +4	Spread	Close	Stock	Spread	Profit
Date:	<u>Price</u>	<u>Expiring - Put</u>	<u>Deferred - Put</u>	<u>Debit</u>	<u>Date</u>	<u>Price</u>	<u>Credit</u>	<u>Loss</u>
		/	/					
		/	/					

**Totals:**      **\$ P/L**      **# Wins**      **# Loss**      **Win %**      **# Trades**

**Date:**

### **Bullish Trades: (Long Deferred Call Below Short Expiring Call)**

	Open			Open		Close	Close	Spread
Open	SPY	Short OTM +1 To +4	Long ITM -1 To -4	Spread	Close	SPY	Spread	Profit
Date	<u>Price</u>	<u>Expiring - Call</u>	<u>Deferred - Call</u>	<u>Debit</u>	<u>Date</u>	<u>Price</u>	<u>Credit</u>	<u>Loss</u>
		/	/					
		/	/					

### **Bearish Trades: (Long Deferred Put Above Short Expiring Put)**

	Open			Open		Close	Close	Spread
Open	SPY	Short OTM -1 To -4	Long ITM +1 To +4	Spread	Close	Stock	Spread	Profit
Date:	<u>Price</u>	<u>Expiring - Put</u>	<u>Deferred - Put</u>	<u>Debit</u>	<u>Date</u>	<u>Price</u>	<u>Credit</u>	<u>Loss</u>
		/	/					
		/	/					

**Totals:**      **\$ P/L**      **# Wins**      **# Loss**      **Win %**      **# Trades**

**Date:**

### **Bullish Trades: (Long Deferred Call Below Short Expiring Call)**

	Open			Open		Close	Close	Spread
Open	SPY	Short OTM +1 To +4	Long ITM -1 To -4	Spread	Close	SPY	Spread	Profit
Date	<u>Price</u>	<u>Expiring - Call</u>	<u>Deferred - Call</u>	<u>Debit</u>	<u>Date</u>	<u>Price</u>	<u>Credit</u>	<u>Loss</u>
		/	/					
		/	/					

### **Bearish Trades: (Long Deferred Put Above Short Expiring Put)**

	Open			Open		Close	Close	Spread
Open	SPY	Short OTM -1 To -4	Long ITM +1 To +4	Spread	Close	Stock	Spread	Profit
Date:	<u>Price</u>	<u>Expiring - Put</u>	<u>Deferred - Put</u>	<u>Debit</u>	<u>Date</u>	<u>Price</u>	<u>Credit</u>	<u>Loss</u>
		/	/					
		/	/					

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**Totals:**      **\$ P/L**      **# Wins**      **# Loss**      **Win %**      **# Trades**

