Trading Around the Fed

Understanding Probabilities and Expected Moves

TRADING TERMINAL.com

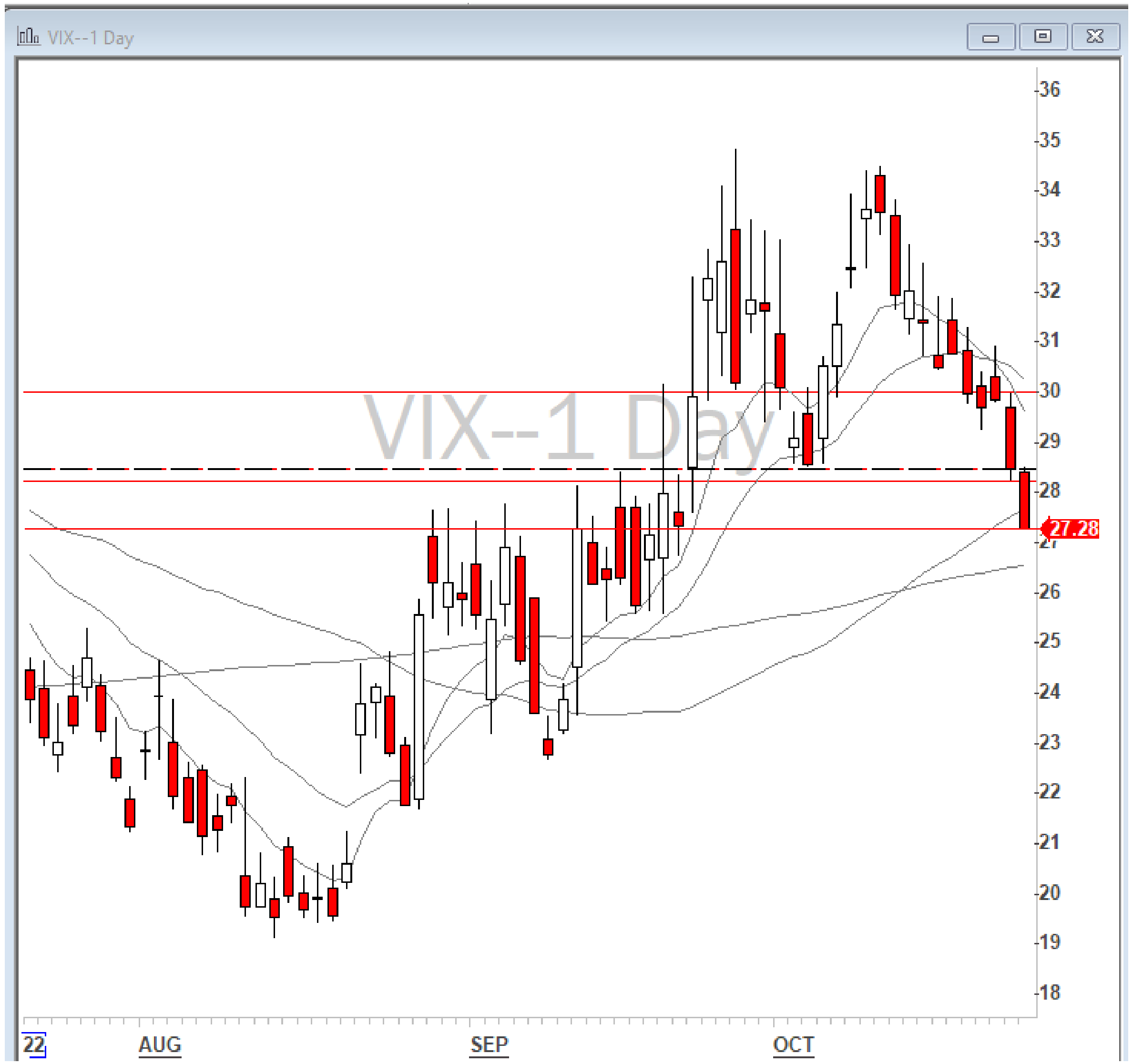
Presented by: Ardi Aaziznia

"As an option trader, your job is to trade the probability distribution and not the realized outcome!"

Options Implied Volatility

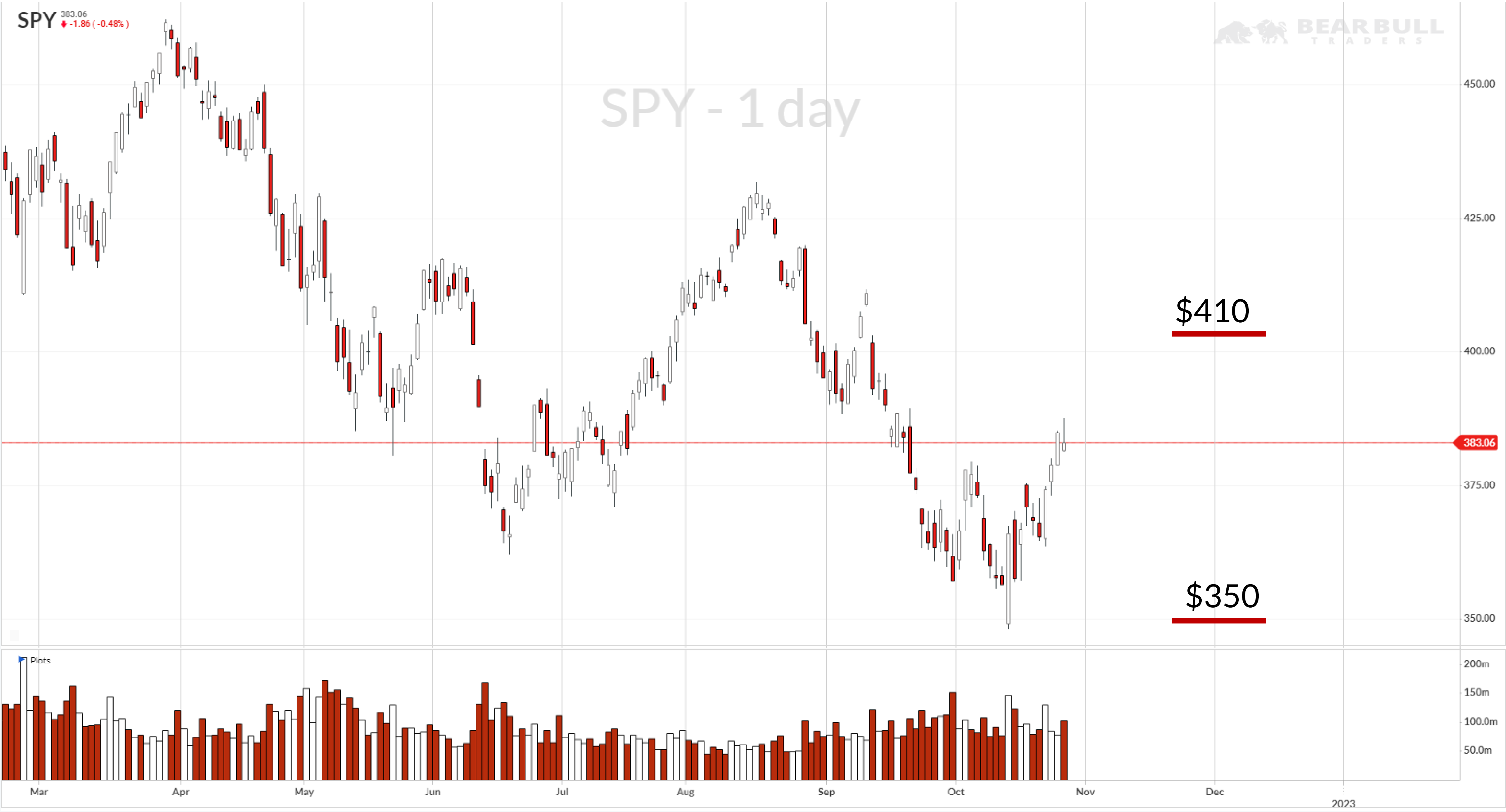
Expected Volatility	Formula
Monthly	$\frac{Annual\ volatility}{\sqrt{12}}$
Weekly	$\frac{Annual\ volatility}{\sqrt{52}}$
Daily	$\frac{Annual\ volatility}{\sqrt{252}}$

VIX: 30 Day Implied Volatility of SPX



$(0.27/\sqrt{12})$ x $\$383 = \pm\ \$30$

SPY: Where Would You “Land”?




0
27
10
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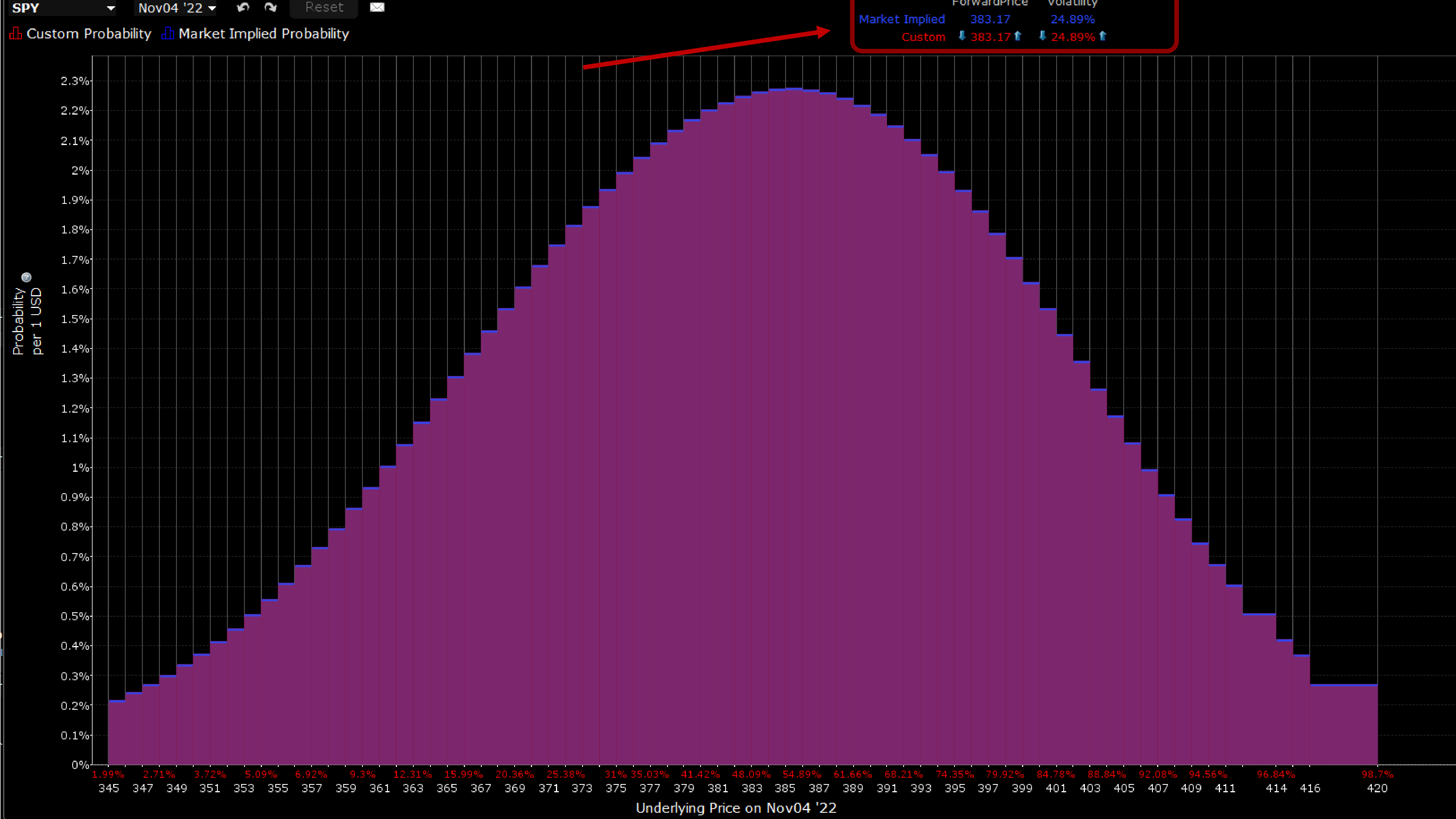
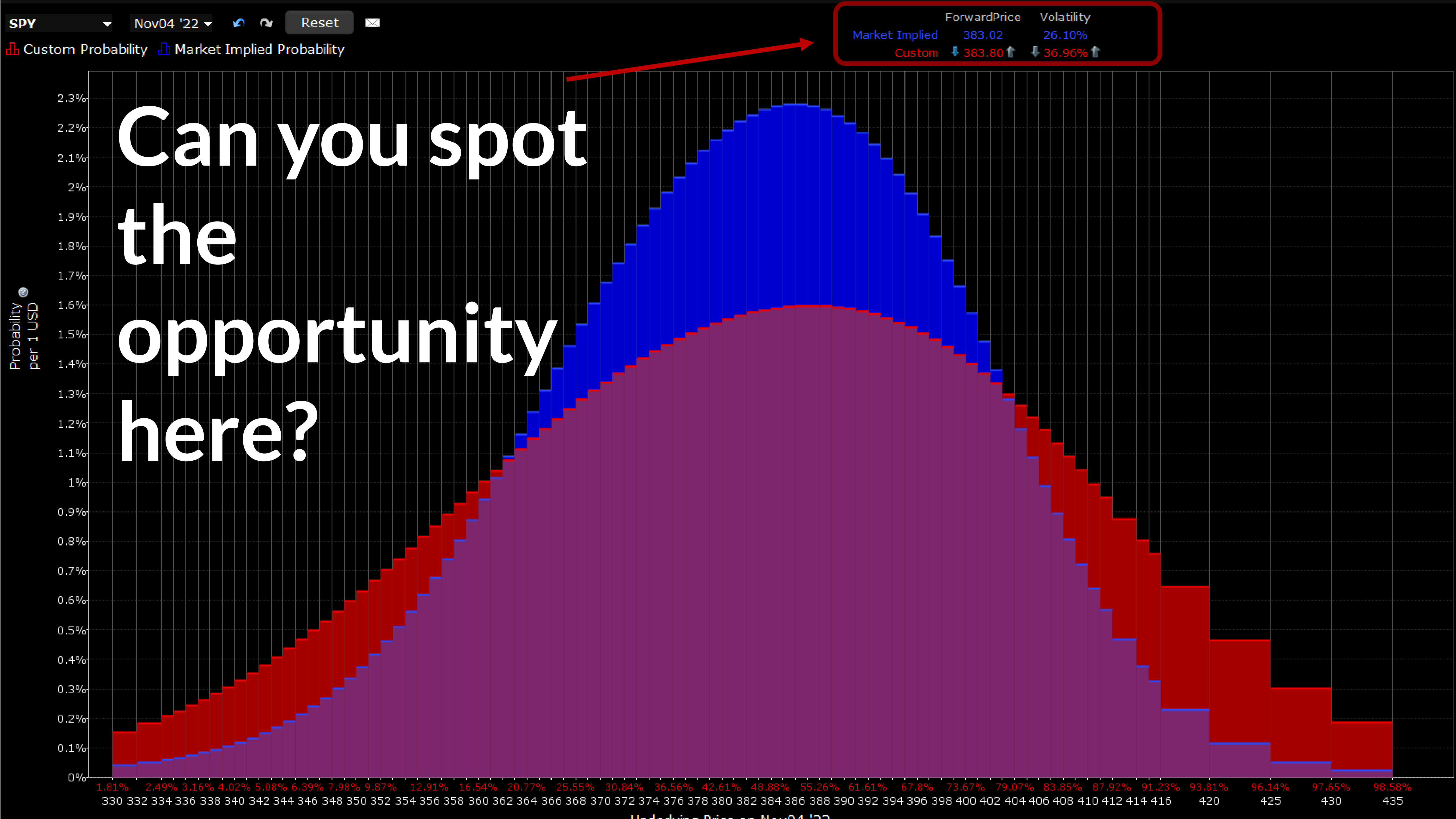
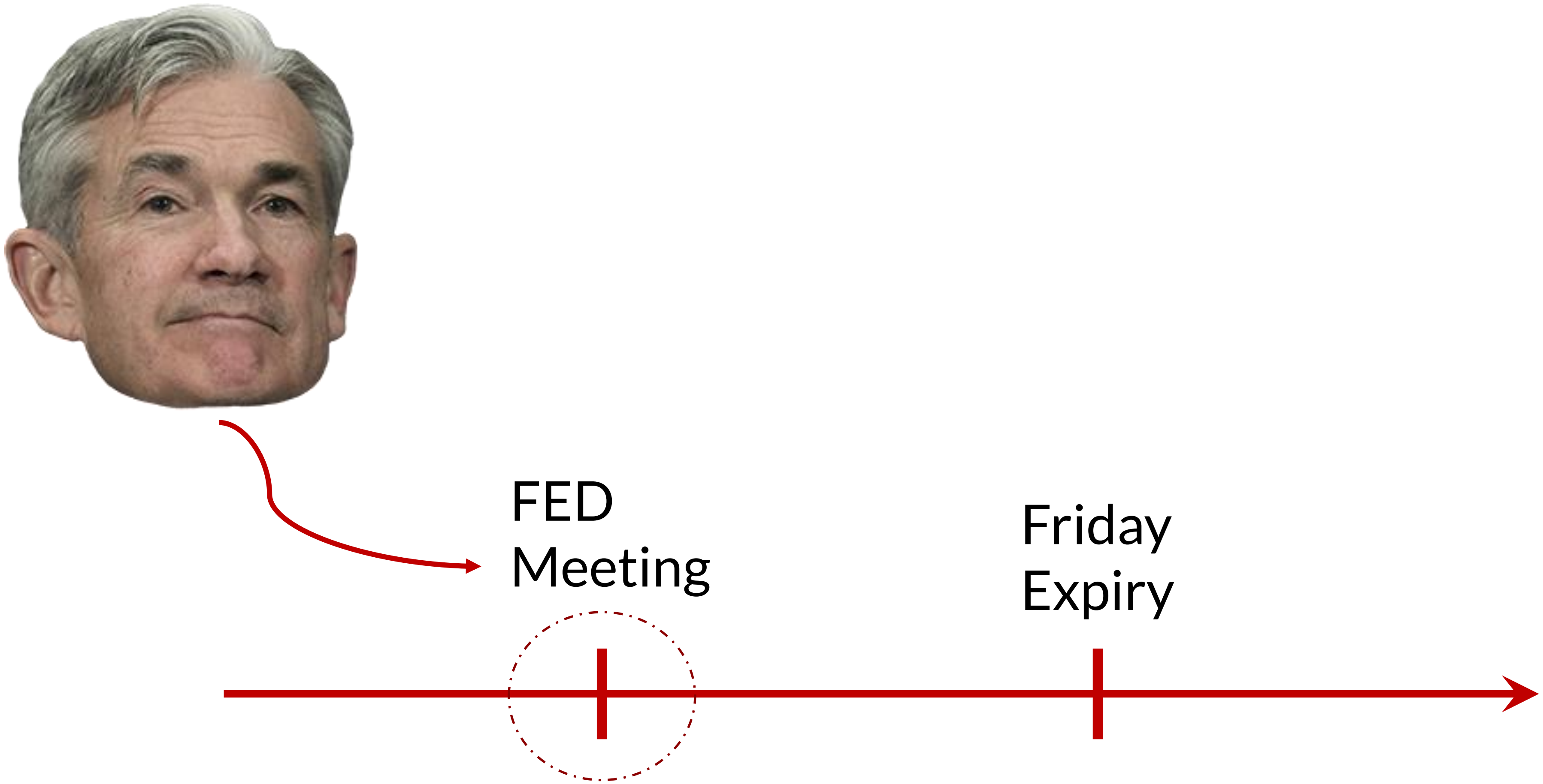

SPY
Nov04 '22
Reset
Custom Probability
Market Implied Probability
Market Implied 383.17 24.89%
Custom 383.17 24.89%
Probability per 1 USD
2.3%
2.2%
2.1%
2%
1.9%
1.8%
1.7%
1.6%
1.5%
1.4%
1.3%
1.2%
1.1%
1%
0.9%
0.8%
0.7%
0.6%
0.5%
0.4%
0.3%
0.2%
0.1%
0%
1.99% 2.71% 3.72% 5.09% 6.92% 9.3% 12.31% 15.99% 20.36% 25.38% 31% 35.03% 41.42% 48.09% 54.89% 61.66% 68.21% 74.35% 79.92% 84.78% 88.84% 92.08% 94.56% 96.84% 98.7%
345 347 349 351 353 355 357 359 361 363 365 367 369 371 373 375 377 379 381 383 385 387 389 391 393 395 397 399 401 403 405 407 409 411 414 416 420
Underlying Price on Nov04 '22


SPY
Nov04 '22
Reset
Custom Probability
Market Implied Probability
ForwardPrice
Volatility
Market Implied
383.02
26.10%
Custom
383.80
36.96%
Can you spot the opportunity here?
Probability per 1 USD
2.3%
2.2%
2.1%
2%
1.9%
1.8%
1.7%
1.6%
1.5%
1.4%
1.3%
1.2%
1.1%
1%
0.9%
0.8%
0.7%
0.6%
0.5%
0.4%
0.3%
0.2%
0.1%
0%
1.81% 2.49% 3.16% 4.02% 5.08% 6.39% 7.98% 9.87% 12.91% 16.54% 20.77% 25.55% 30.84% 36.56% 42.61% 48.88% 55.26% 61.61% 67.8% 73.67% 79.07% 83.85% 87.92% 91.23% 93.81% 96.14% 97.65% 98.58%
330 332 334 336 338 340 342 344 346 348 350 352 354 356 358 360 362 364 366 368 370 372 374 376 378 380 382 384 386 388 390 392 394 396 398 400 402 404 406 408 410 412 414 416 420 425 430 435

What about Single Event?



Let’s See!

Fed Day

PUT/CALLs (Side by Side)

OCT 31 '22 5 DAYS | **NOV 02 '22 7 DAYS** | NOV 04 '22 9 DAYS | MORE | TABBED

CALLS

OPTN ...	VOLUME	BID SIZE	BID	ASK	ASK SI...	IV CLOSE	STRIKE
1.56K	79	277	9.90	10.09	504	28.165%	376
1.35K	360	362	9.13	9.40	277	27.931%	377
2.24K	211	245	8.57	8.74	406	27.206%	378
2.50K	338	397	7.90	8.11	470	28.340%	379
3.54K	2.26K	323	7.36	7.44	36	27.096%	380
1.85K	1.74K	69	6.82	6.86	250	27.811%	381
1.89K	2.72K	73	6.27	6.30	36	27.137%	382
1.98K	4.22K	517	5.74	5.78	151	27.053%	383
1.45K	3.71K	264	5.25	5.28	76	27.328%	384
2.37K	5.57K	357	4.78	4.81	76	26.783%	385
1.60K	3.08K	97	4.34	4.37	264	26.861%	386
881	2.92K	482	3.92	3.95	105	26.558%	387
752	3.27K	613	3.53	3.56	283	26.344%	388
1.82K	2.50K	276	3.17	3.20	489	26.437%	389

OFF Strategy Builder

Friday

OCT 31 '22 5 DAYS | NOV 02 '22 7 DAYS | **NOV 04 '22 9 DAYS** | MORE | TABBED

CALLS

OPTN ...	VOLUME	BID SIZE	BID	ASK	ASK SI...	IV CLOSE	STRIKE
1.19K	69	75	11.04	11.22	504	33.884%	376
1.25K	83	81	10.39	10.55	445	30.929%	377
1.93K	264	252	9.61	9.91	496	31.375%	378
1.39K	353	395	9.14	9.23	72	29.746%	379
6.65K	1.73K	396	8.55	8.63	70	28.673%	380
1.61K	1.55K	91	8.01	8.05	253	28.667%	381
3.59K	3.48K	532	7.45	7.49	112	28.146%	382
1.50K	4.15K	36	6.93	6.96	112	28.409%	383
2.77K	6.33K	167	6.42	6.45	76	28.318%	384
5.95K	17.2K	482	5.93	5.97	258	28.410%	385
3.30K	4.61K	487	5.47	5.50	41	28.108%	386
2.59K	7.10K	509	5.03	5.06	87	28.013%	387
3.10K	3.96K	731	4.61	4.65	590	27.839%	388
2.01K	3.85K	496	4.22	4.25	416	28.096%	389

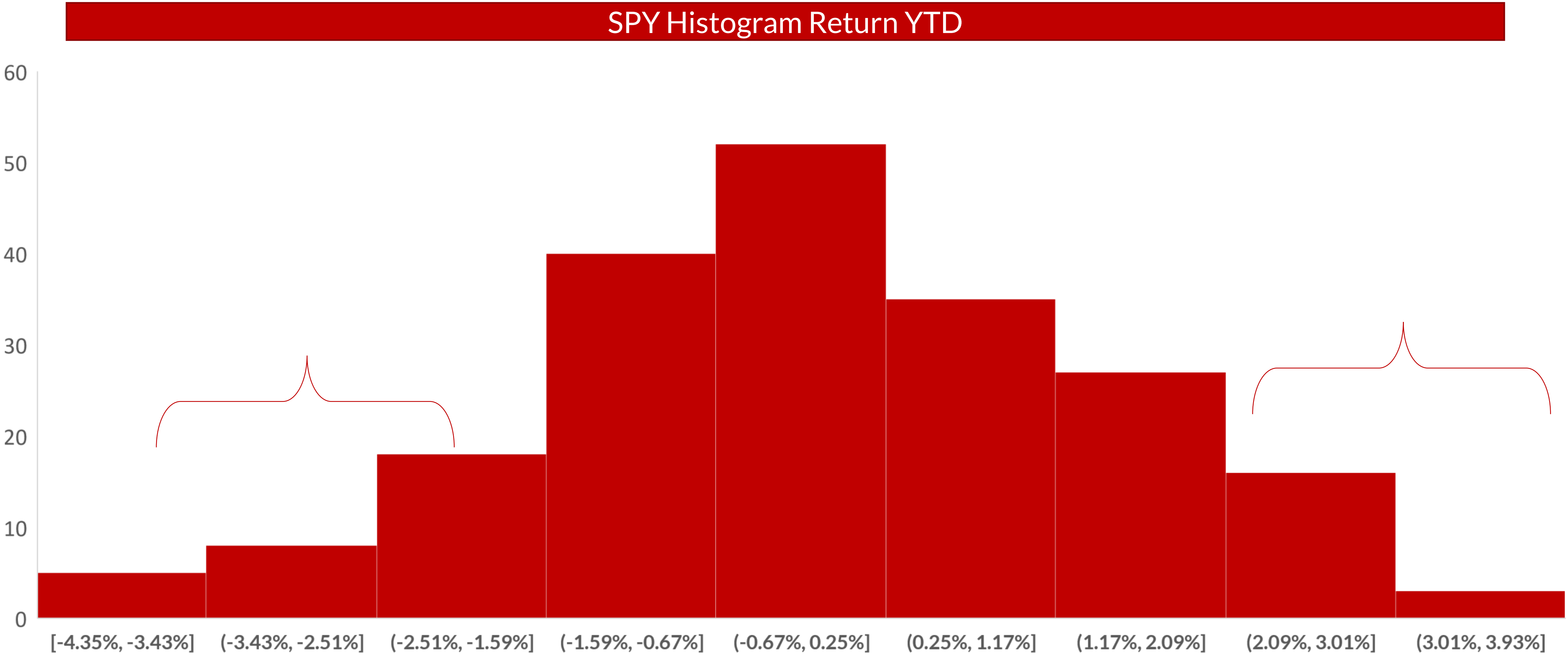
$$\sigma_{event} = \sqrt{T_2(\sigma_2^2 - \sigma_1^2)}$$

Implied move: $\sqrt{\frac{2}{\pi}}\sigma_{event}$ $\sqrt{\frac{3}{250} \times (0.28 - 0.27)}$ $\sqrt{\frac{2}{3.1}} \times 1.27\%$ 1.02%

How Big Was the Last Fed Days?

Date	The Move
March 16th	2.22%
May 4th	3.05%
June 15th	1.43%
July 27th	2.60%
September 21st	-1.74%
November 2nd	???

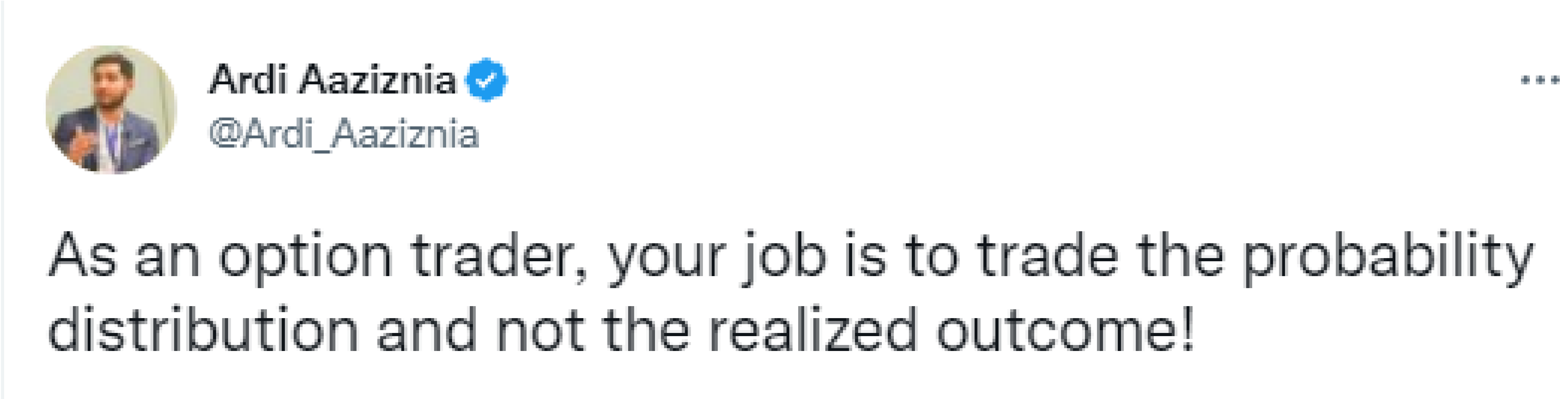
Tail Events!


SPY Histogram Return YTD
60
50
40
30
20
10
0
[-4.35%, -3.43%]
(-3.43%, -2.51%]
(-2.51%, -1.59%]
(-1.59%, -0.67%]
(-0.67%, 0.25%]
(0.25%, 1.17%]
(1.17%, 2.09%]
(2.09%, 3.01%]
(3.01%, 3.93%]

But Who Said It????

"As an option trader, your job is to trade the probability distribution and not the realized outcome!"

Yours Truly!!!!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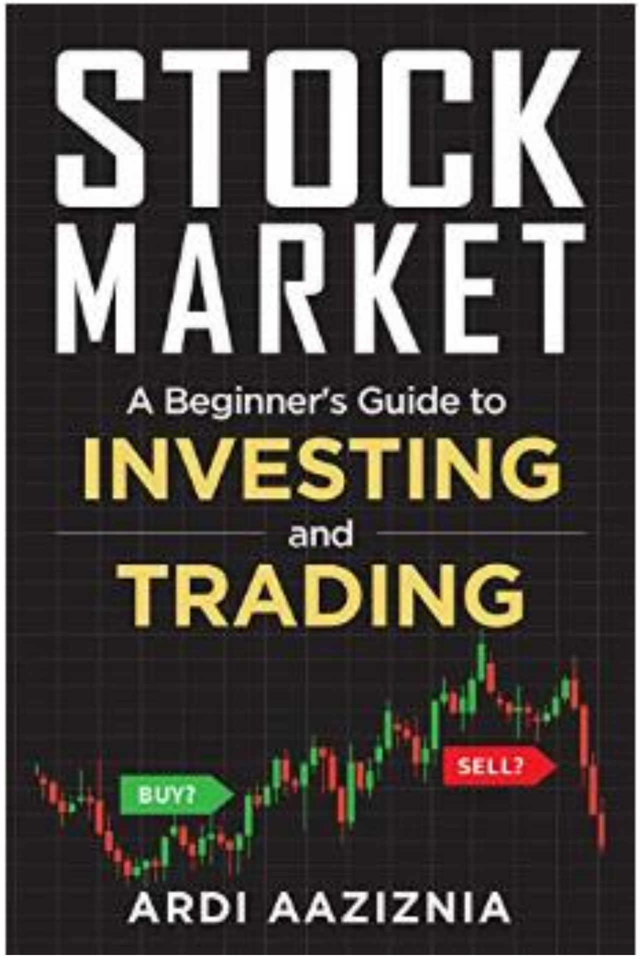

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Stock Market Explained