OptionProfessor.com Alert

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COVID FEARS

BY THE OPTION PROFESSOR

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OptionProfessor Alert:
COVID Fears--Is The Re-Opening Delayed or Derailed?
November 26th, 2021

We spoke of the number one risk to the stock market not being the Fed or Central Banks who are loathe to tighten money and credit BUT the Covid Variant potential as we go to lax mask wearing, change of weather and indoor close gatherings. Hey guys & gals...that's the trifecta & triple crown of virus spreading. We supposedly have pills now and other measures to combat the surge but Germany Italy Israel Singapore and others have imposed some travel adjustments and the South African strain may have more mutations and has been cited elsewhere like Hong Kong. So; the original question is this re-opening delayed or derailed? Who knows? More data needed but flight to safety saw a big drop in yield on the 10yr Treasury yield (we've told you that 1.75% top would be a hard nut to crack now we have a 1.50 handle).

One day does not make a trend but sometimes one day can break a trend and that is a bit of what's happening overnight in post-holiday trading. There is a lot of talking head bulls on TV looking for SPX 4800-5000 and BitCoin to soar to 100k by year end and with about 24 trading days left....that's a lot of action. No one is really looking for a sustained drop or party over.

Our OPINION....as we said...SPX has technical support at the 4600 area and the 4540-4580 area which was September's highs with longer term SMA's at 4350-4450. Small caps (Russell 2000) are getting hit badly from a technical view. QQQ support is at 392 and 383 and would benefit from a break down in the higher interest rate fever. TLT--the dark horse for us.
Overseas markets are melting down pretty good but we have said Emerging Markets are fighting headwinds from weaker currencies and higher interest rates and Europe & Pacific Rim have been languishing and now Covid has tipped the scales.

BOTTOM LINE--We can't get to those lofty levels on stocks that all these talking heads on TV talk about UNLESS we get thru Wednesday's Nov 23 highs of QQQ 399 & SPX 4700+ ...December has a lot on its plate now from holiday sales to bickering in the Senate to Fed meetings on tapering to more data on this Variant ect.....maybe this will blow over quickly and it's algos pressing thin markets which is what many hope BUT risk off until the air clears or we take out the highs makes sense.

- The Option Professor, 11/26/21

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The following is an excerpt from the eBook "7 Best Ways to Trade Options" by The Option Professor, [download the full PDF eBook HERE](#).

#3. How Does Implied Volatility Affect Options?

Implied Volatility is the market's forecast of a likely movement in a price of an underlying market. It is a metric used by investors to estimate future fluctuations (volatility) of a price based on certain predictive factors. Implied Volatility denoted by the symbol (sigma) can often be thought to be a proxy of market risk. It is commonly expressed using percentages as standard deviations over a specified time horizon. When use in the stock market; implied volatility generally (but not always) increases in bearish markets when investors believe prices will decline over time. Implied Volatility will generally (but not always) decrease when the market is bullish and investors believe the market will rise over time. Implied Volatility does not predict the direction that the price change will continue.

Implied Volatility is one of the deciding factors in the pricing of options. Buying options contracts lets the holder buy or sell an asset at a specific price for a specific period of time. Implied Volatility approximates the future value of the option and the current option value is also considered. It is important to note that implied volatility is based on probability. It is only an estimate of future prices rather than an indication of them. There is no guarantee that an option price will follow a predicted pattern. However; when considering an option, it may be worthwhile to consider the actions of others activity in the option so implied volatility is directly correlated with market opinion which of course affects option pricing

CONCLUSION-OPINION...Our opinion with Implied Volatility is that it tells us what has happened but not will happen. Just like the point spread in a football game is indicative of how teams have been playing to some degree. It is important you remember that options have intrinsic value (the amount it is in the money-higher than the strike price on calls & lower than the strike price on puts) AND time value/implied volatility which is a discounting mechanism to some degree of future price movements. EXAMPLE if the underlying market has been 40-45 (flat) for the last year; the Implied Volatility would be lower and the option price generally lower. Conversely; if a market has been 100-200 (volatile) for the last 2 months; the Implied Volatility will generally be high. In some respects option trading is volatility trading and if you enter calls after a volatile move to the upside where implied volatility is high; the market will have to keep that pace and then some to overcome the premium. The direct opposite with entering puts after a big decline. Of course; there are a variety of option trading tactics buying/selling/spreading and Implied Volatility measures are an important consideration. Our opinion is that generally low volatility can present an opportunity for buyers to use longer dated options and high implied volatility options can present an opportunity to use as a hedge in a number of strategies or a means to contract to buy the market at a discounted price.

-7 Best Ways to Trade Options" [download the full PDF HERE](#).