Third Party Research May 21, 2017

SPY Put Options Price In Another Shocker

***e*Research Corporation** is pleased to provide an article, authored by Bernie Schaeffer, for Schaeffer's Investment Research. Today's article looks at SPY options.

The article begins on the next page and is entitled: "**SPY Put Options Price In Another Shocker**".

Schaeffer's Investment Research Inc. offers real-time option trading services to investors, as well as a full array of print and multi-media educational offerings, including daily, weekly and monthly newsletters. The SchaeffersResearch.com website provides financial news and commentary, as it happens, throughout the market day, plus stock screeners, filters, and many other option tools to give investors an edge.

Schaeffer's monthly *Option Advisor*, the nation's leading options newsletter and the company's flagship publication, has been published since 1981. Every month, Bernie Schaeffer and his team of analysts provide subscribers with 10 new suggested option trades, with commentary accompanying each trade. *Option Advisor* also includes a monthly column by Mr. Schaeffer, in which he comments on the news and discusses longer-term market trends.

You can learn about Schaeffer's Investment Research at: http://www.schaeffersresearch.com.

---

*e*Research was established in 2000 as Canada's first equity issuer-sponsored research organization. As a primary source for professional investment research, our Subscribers (subscription is free!!!) benefit by having written research on a variety of small- and mid-cap, under-covered companies. We also provide unsponsored research reports on middle and larger-sized companies, using a combination of fundamental and technical analysis. We complement our corporate research coverage with a diversified selection of informative, insightful, and thought-provoking research publications from a wide variety of investment professionals. We provide our professional investment research and analysis directly to our extensive subscriber network of discerning investors, and electronically through our website: www.eresearch.ca.

Bob Weir, CFA: Director of Research

Note: All of the comments, views, opinions, suggestions, recommendations, etc., contained in this Article, and which is distributed by *e*Research Corporation, are strictly those of the Author and do not necessarily reflect those of *e*Research Corporation.

May 21, 2017

SPY Put Options Price In Another Shocker

Options volume exploded last Wednesday as stocks sold off in response to the ever-spiraling series of crises from Capitol Hill, with the Options Clearing Corporation (OCC) recording the highest single-day volume since November 10 -- and the most active day for put options, in particular, since June 24.

Not surprisingly, the broad-based SPDR S&P 500 ETF Trust (SPY) attracted quite a bit of attention; Trade-Alert data shows SPY generating more than 80% of the day's ETF option volume. That includes some 3.59 million SPY puts, which marked the fund's highest put volume day since the post-election peak of 3.91 million back on November 9.

Simultaneous with this spike in SPY put volume was a jump in the exchange-traded fund's 30-day at-the-money implied volatility (IV) skew, which reflects the difference in IV levels between put options and their call counterparts. In percentage-point terms, SPY's IV skew popped to 6.00 on Wednesday, and kept climbing to 6.10 by Thursday -- this metric's highest point since the November 8 *pre*-election peak of 7.63.

Notably, in the midst of this SPY put volume frenzy, 30-day IV on the fund rose only as high as 12.29% as of Wednesday, in territory explored as recently as mid-April. Likewise, the CBOE Volatility Index (VIX) briefly set a marginal new year-to-date high on Thursday, but eventually cooled to end the session lower (and settled the week not too far above its calendar-year midpoint). So while short-term puts on SPY are now considerably more expensive than their corresponding call strikes, it would seem that short-term volatility expectations are still well within what's recently been the norm.

From a purely practical standpoint, this bottom-lines to a less-than-ideal time for investors to hedge long stock positions via the purchase of short-term, at-the-money SPY put options, which have rarely carried a steeper IV premium in the last year relative to their call counterparts – and, as such, it is an effective reminder that the best opportunity to acquire portfolio hedges is *before* you need them.

From a sentiment analysis standpoint, it is interesting that SPY put volume last week attained heights previously reached on just two other occasions in the past year -- both of which coincided with election results (first in the U.K., and then here in the U.S.A.) that were generally considered to be the unlikeliest possible outcome. Adding another layer to this analysis, the number of bulls in the latest American Association of Individual Investors (AAII) survey tumbled, as of the week ended May 17, to the lowest level since the U.S. election, as the so-called "despondency ratio" of neutral and bearish respondents hit its loftiest point since November 2.

With the appointment of a special counsel creating a considerable overhang of uncertainty in Washington, D.C., and cable news pundits floating "the 'i-word'" in their nightly broadcasts, it may be of some comfort to investors to consider the degree to which a "Brexit"-level -- or "Trump victory"-level -- shocker appears to have been already priced into the SPY options market.

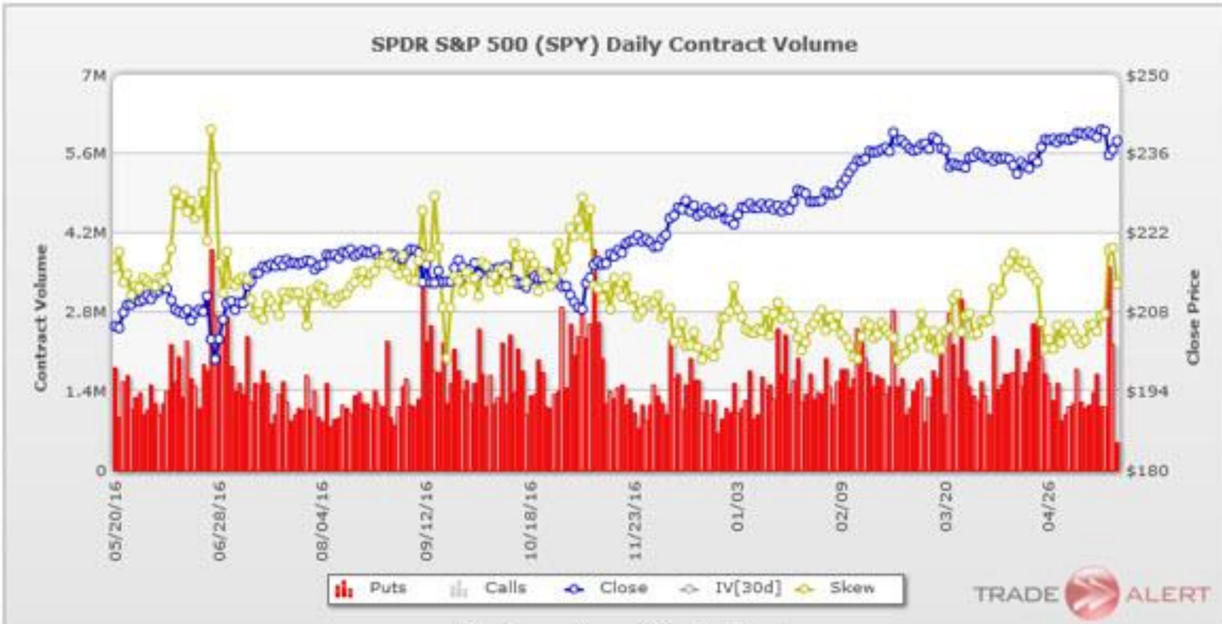

Chart courtesy of Trade-Alert

###