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# Market Structure EDGE

## Why Monthly Options Expirations Are Land Mines For Traders

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**Tim Quast**

Founder & CEO  
Market Structure EDGE

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As with all investments, your capital is at risk

# **Why Monthly Options Expirations *are Land Mines for Investors***

**Tim Quast, founder and CEO of  
Market Structure EDGE  
Feb 14, 2024**

- **Tim Quast – founder of two market structure analytics firms**
- **Market Structure EDGE – Only quantitative Supply and Demand data for traders**
- *My market education will necessarily emphasize what I know.*



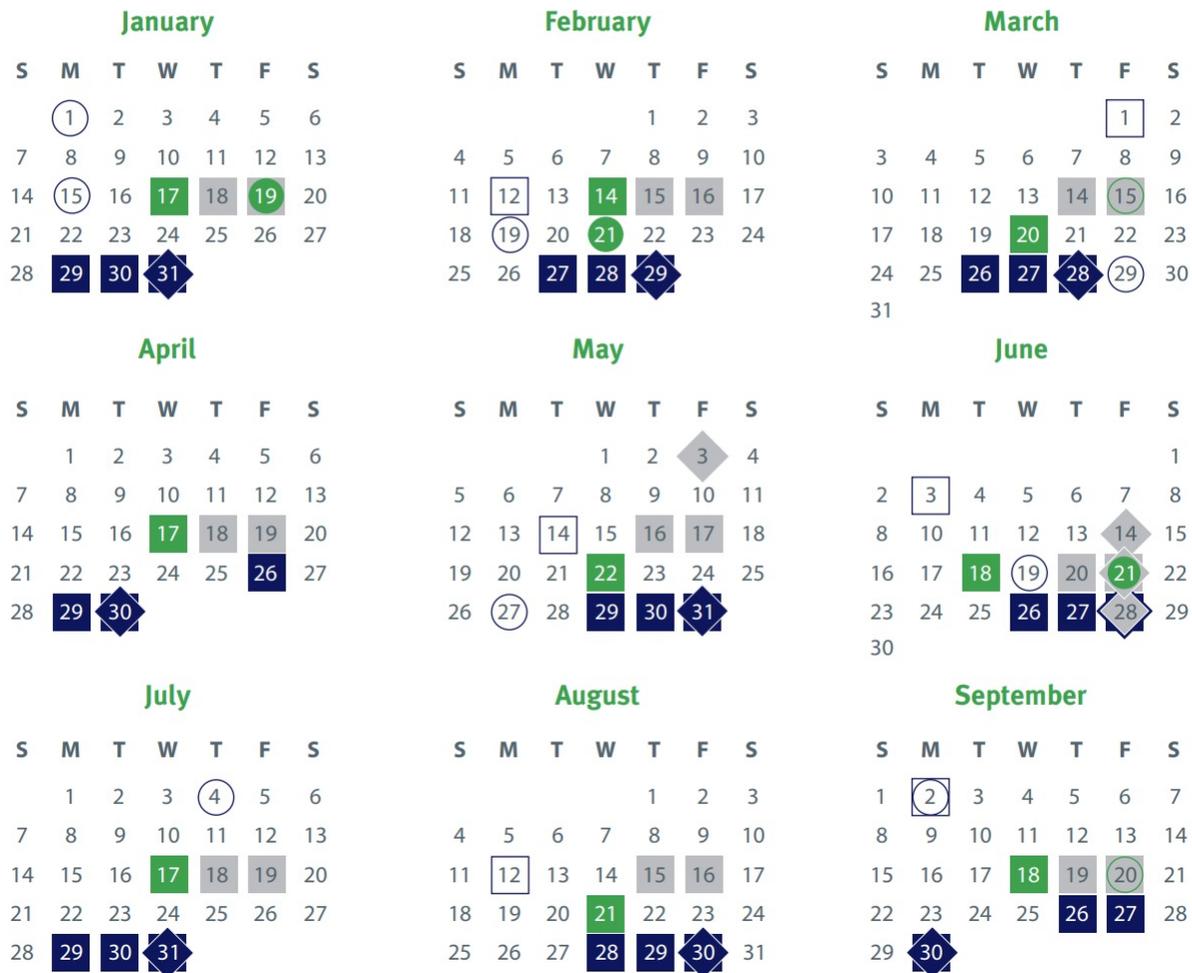
If you relied on pundits, you'd conclude the stock market is the infinite game and every day is the same as the day before.

Nope.



Photo [25964904](#) | [Walking Highway](#) © [Joe Sohm](#) | [Dreamstime.com](#)

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**VIX volatility instruments expire today – Feb 14.**

**Feb 15-16, index and stock options. LEAPS, with a market holiday Feb 19.**

**Money isn't in an infinite game. It's hedging exposure, wagering, leveraging.**

- Exchange holiday: markets closed
- Options expirations: stocks, indexes, currencies, interest rates, treasuries
- VIX (Volatility Index) options expirations
- S&P quarterly rebalances: quarterly share updates to S&P 500, Mid-cap 400, Small-cap 600, Total Market
- MSCI Barra Rebalances: announcement and effective date of quarterly changes to Morgan Stanley/Barra quantitative theme and strategy indexes
- ◆ Russell Rebalances: annual reconstitution of Russell indexes; rankings May, estimates early June, final late June
- Month-end portfolio balancing: poor time for good news/good time for bad news
- LEAPS expirations: S&P futures for long term portfolio hedges
- ◆ S&P 500 End of Month (EOM) options expire

Calendar: <https://marketstructureedge.com/wp-content/uploads/2023/09/MIR-Calendar-2024.pdf>

Data compiled by ModernIR.com and sourced from the options clearing corp and other outlets.

## Stock Picking is 10% of Volume



### S&P 500 VOLUME

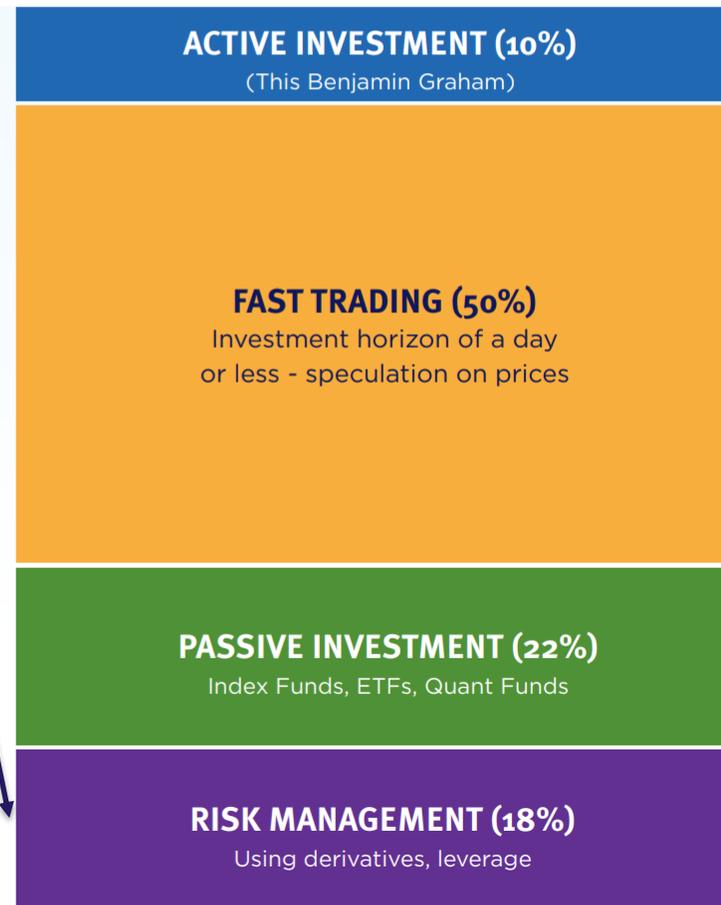
**Circa 2000:** Winning Stocks:  
The ones the best stock-pickers buy

**This is 2023:** The ones the best  
stock-pickers buy have a 1-10  
chance of winning.

**Sources:** 200D averages, Jan 2024 ModernIR models.

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**And 18%** – or more – is tied to derivatives, generally ones resetting every month.



# Annex

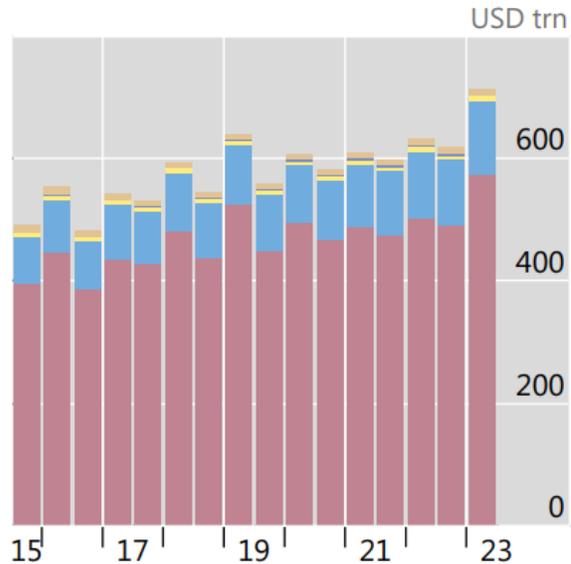
An investment in an OTC security is speculative and involves a high degree of risk. Many OTC securities are relatively illiquid, or "thinly traded," which tends to increase price volatility. Illiquid securities are often difficult for investors to buy or sell without dramatically affecting the quoted price. In some cases, the liquidation of a position in an OTC security may not be possible within a reasonable period of time.

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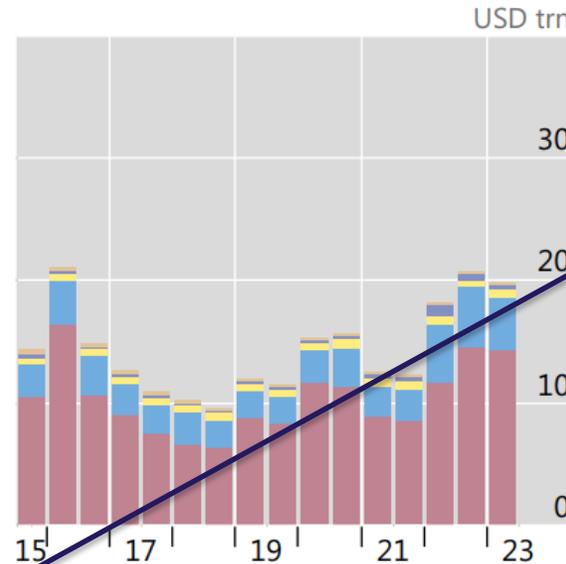
## Global OTC derivatives markets<sup>1</sup>

Graph A.1

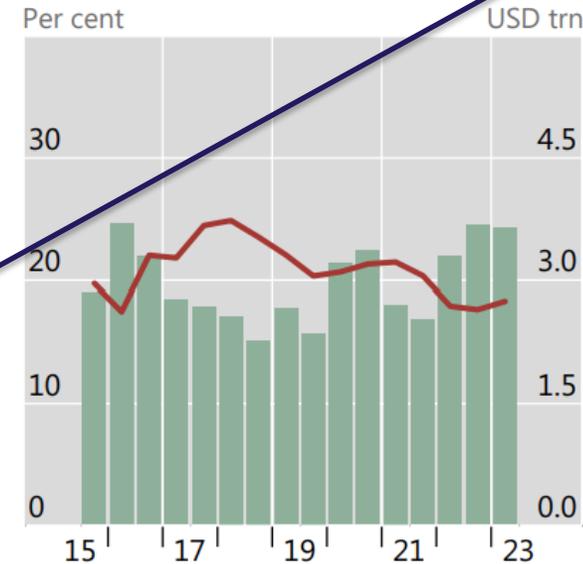
### Notional principal



### Gross market value



### Gross credit exposure



Interest rate  
FX  
Equity  
Commodities  
CDS

# Know one thing:

**Yellow** is EQUITY derivatives.

Riding bucking bronco of immense currency, interest-rate, derivatives.

Result: VOLATILITY, surprises.

<sup>1</sup> At half-year end (end-June and end-December). Amounts denominated in currencies other than the US dollar are converted to US dollars at the exchange rate prevailing on the reference date.

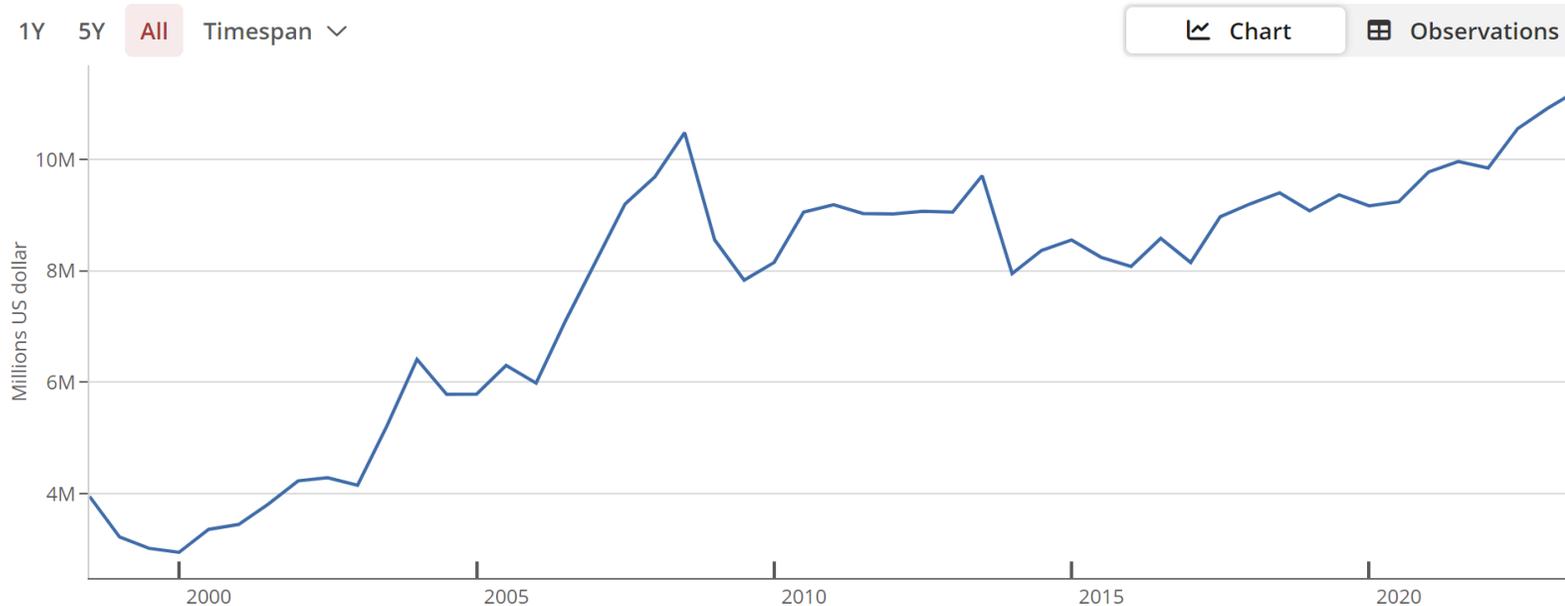
Source: BIS OTC derivatives statistics (available at [www.bis.org/statistics/derstats.htm](http://www.bis.org/statistics/derstats.htm)).

Nov 2023 data from the Bank for Int'l Settlements for the period ended June 30, 2023:

[https://www.bis.org/publ/otc\\_hy2311.pdf](https://www.bis.org/publ/otc_hy2311.pdf)

Global foreign exchange (net - net), for total (all instruments), total (all currencies), us dollar, total (all maturities), non-financial customers, All countries (total), All countries (total), total (all ratings), total (all sectors), total (all methods), outstanding - notional amounts

[Show less](#)



Graph of the middle chart in the preceding slide. NET value of OTC derivatives is highest ever now, over \$11.2T.

## THE POINT?

Small changes can ROCK the stock market on INFLATION, INTEREST-RATE, DEBT news.

An investment in an OTC security is speculative and involves a high degree of risk. Many OTC securities are relatively illiquid, or "thinly traded," which tends to increase price volatility. Illiquid securities are often difficult for investors to buy or sell without dramatically affecting the quoted price. In some cases, the liquidation of a position in an OTC security may not be possible within a reasonable period of time.

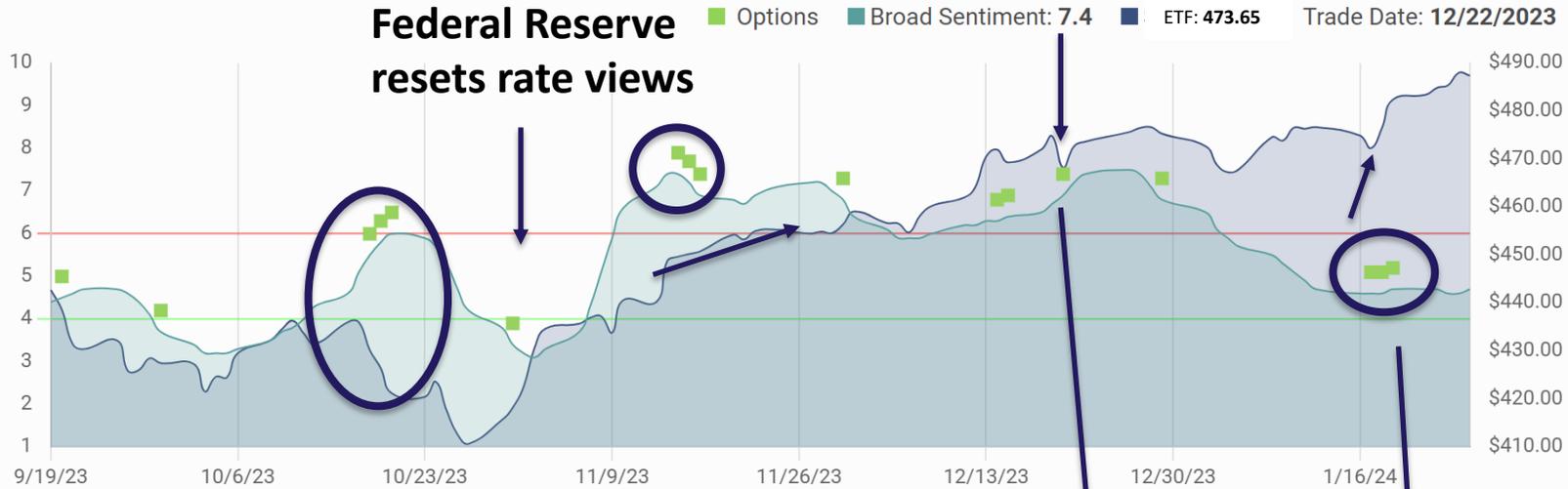
Source: Bank for International Settlements data portal.

[https://data.bis.org/topics/OTC\\_DER/BIS\\_WS\\_OTC\\_DERIV2,1.0/H.A.A.B.5J.U.5J.A.TO1.USD.A.A.3.C?](https://data.bis.org/topics/OTC_DER/BIS_WS_OTC_DERIV2,1.0/H.A.A.B.5J.U.5J.A.TO1.USD.A.A.3.C?)

# US Stocks: Demand vs Supply

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September 19, 2023 - January 26, 2024



Top graph: Demand vs Stocks  
Bottom graph: Supply

*When Demand, Supply, converge, stocks fall. When they DIVERGE, stocks rise.*

*At a rate far exceeding coincidence, **stocks gyrate with monthly options expirations.***

**Investors Beware!**

Short Volume (Supply) is the average percentage of daily volume in S&P 500 stocks that's short (borrowed, created by market-makers).



Source: Broad Sentiment from marketstructureedge.com

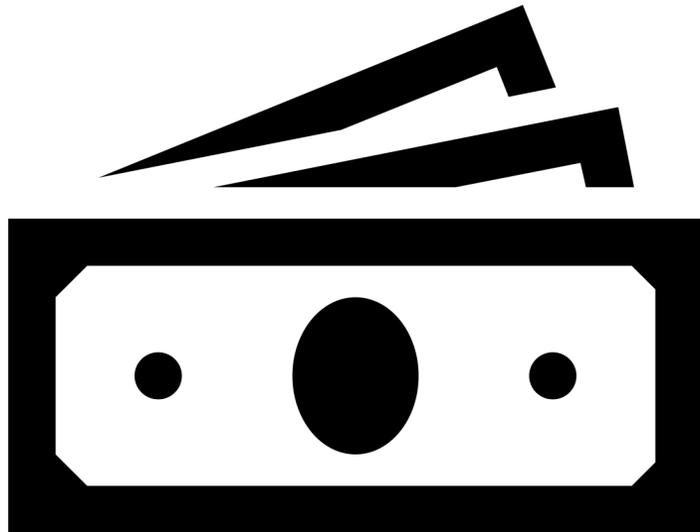
## Summary:

*The stock market is not random.* It bounces around on the effects of derivatives tied to currencies, interest rates.

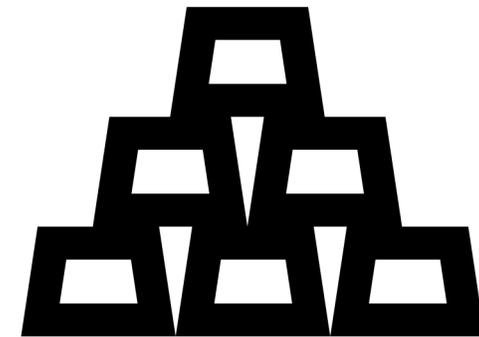


Photo [106343792](#) | [Interest Rates](#) © [Thodonal](#) | [Dreamstime.com](#)

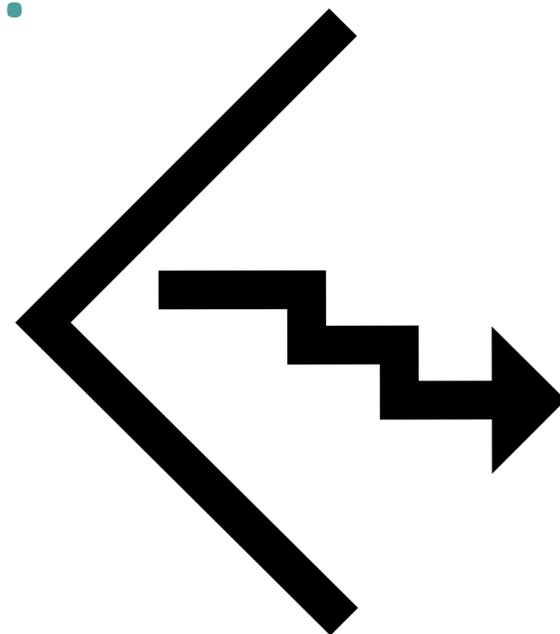
# Why monthly options expirations and not weekly, daily versions?



Derivatives with horizons of more than days are asset-backed, collateralized. They “settle up” every month. The collateral may be stocks.



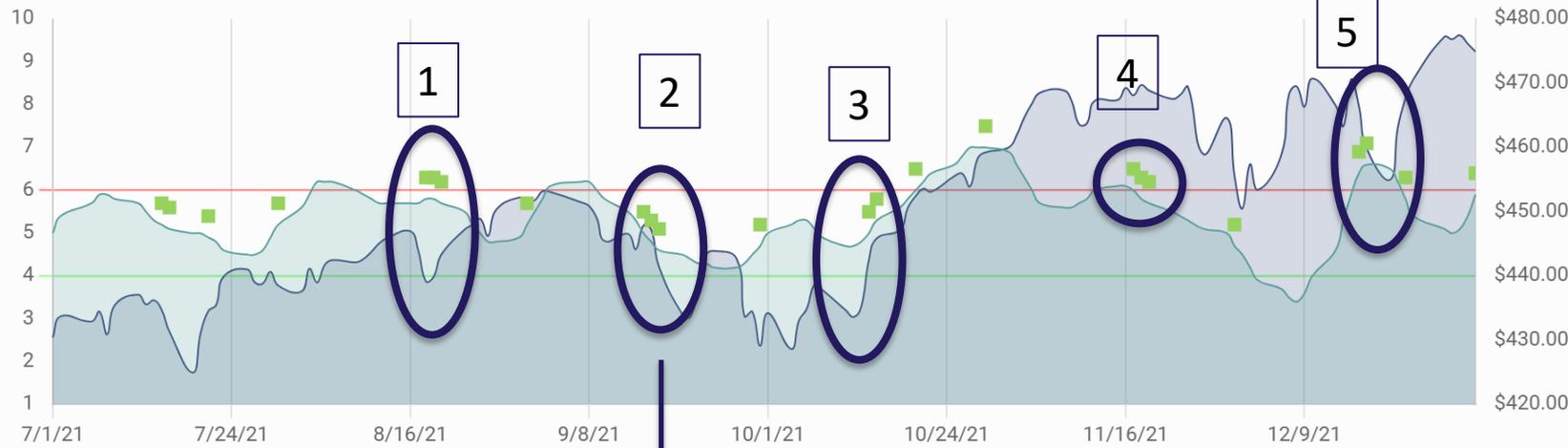
So how do we trade?



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July 1, 2021 - December 31, 2021

Options Broad Sentiment: 5.9 ETF: 474.96 Trade Date: 12/31/2021



Short Volume (Supply) is the average percentage of daily volume in S&P 500 stocks that's short (borrowed, created by market-makers).

Short Vol %: 44.1 Trade Date: 12/31/2021



## Jul 1-Dec 31, 2021: Anatomy of a market top:

1. **Aug opex:** sudden lurch and recovery.
2. **Sep opex:** market fell apart, plunging Demand, rising Supply. SPX: 4,300 before Oct opex.
3. **Oct opex:** Startling recovery on surging Demand, plunging Supply.
4. **Nov opex:** Demand weakened, Supply bottomed, SPX dropped back to 4,350.
5. **Dec opex:** sudden and even larger drop, jump, for stocks.

Source: Broad Sentiment from marketstructureedge.com

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January 3, 2022 - October 31, 2022

Options Broad Sentiment: 7.1 ETF: 386.21 Trade Date: 10/31/2022



Short Volume (Supply) is the average percentage of daily volume in S&P 500 stocks that's short (borrowed, created by market-makers).

Short Vol %: 48.1 Trade Date: 10/31/2022



## Jan-Oct 2022: Anatomy of a Bear Market:

1. **Jan month-end opex:** Stocks briefly halted a slide.
2. **Feb month-end opex:** Peak for stocks until Jul 2023.
3. **June opex:** Dramatic collapse.
4. **Aug opex:** Set off another steep slide interrupted briefly by Sep opex.
5. **Oct month-end opex:** The bottom. And Supply reversed its long uptrend.

Source: Broad Sentiment from marketstructureedge.com

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January 1, 2023 - January 26, 2024

Options Broad Sentiment: 7.2 ETF: 437.18 Trade Date: 6/20/2023



Short Volume (Supply) is the average percentage of daily volume in S&P 500 stocks that's short (borrowed, created by market-makers).

Short Vol %: 48.2 Trade Date: 6/20/2023



## Jan 2023-Jan 2024: Anatomy of a Bull Market:

1. **Feb opex:** Stocks faltered, Supply surged. Precursor to the BANK CRISIS.
2. **March opex:** Bank fear eased, Supply fell, Demand jumped.
3. **July opex:** Bull run interrupted by 10% pullback into October.
4. **Oct opex:** Supply reversed at opex, market surged at Oct month-end in step with new monetary policy.
5. **Jan 2024 opex:** Market jumped on weak Demand, high Supply. Hm.

Source: Broad Sentiment from marketstructureedge.com

**What's happening at Feb 2024 opex? Let's go to [marketstructureedge.com](https://marketstructureedge.com)...**