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Option Trade Analytics: Aggregating Trades to Analyze Order Flow

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Option Trade Analytics: Aggregating Trades to Analyze Order Flow

What This Webinar Covers

How option trades appear in the tape

Why single trades don't tell the full story

Grouping & aggregating trades

Identifying institutional vs retail activity

Using aggregated data to build trading narratives

The Problem with Raw Trade Data

Trade tape = fragmented execution

Large orders often split into many smaller trades

Noise vs signal

Difficult to interpret intent from isolated prints

How Large Orders Are Executed

Large option orders can be executed in different ways:

- As a **single block trade**
- Or **broken into smaller pieces**
  - Executed against resting limit orders on the book
  - Filled across multiple price levels
  - Interacting with multiple counterparties
  - Routed across one or more exchanges

Why break orders into smaller pieces?

- Access available liquidity on the book
- Reduce market impact
- Avoid signaling full order size
- Improve overall execution quality

👉 **Key idea:**

Even when executed quickly, large orders often appear as **multiple smaller trades clustered in close proximity**

What is Trade Aggregation?

Grouping related trades into a single “event”

Based on:

- Time proximity
- Price similarity
- Same strike/expiration
- Execution patterns

Why Aggregation Matters

Reveals true trade size

Improves classification accuracy

Highlights institutional activity

Enables better analytics & insights

Before vs After Aggregation

Before:

- Multiple small trades
- Scattered across time

After:

- One large grouped trade
- Helps infer intent and size

Trade Classification

Once aggregated, trades can be categorized:

- Retail (small, isolated trades)
- Professional (mid-size, strategic execution)
- Institutional (large, fragmented orders)

Identifying Institutional Order Flow

Look for:

- Repeated executions at similar prices
- Large cumulative size
- Consistent direction (buy/sell)
- Execution near bid/ask or within spread

Order Flow Relative to Market

Analyze aggregated trades relative to:

- Bid/Ask
- Midpoint
- Implied Volatility (IV)

Questions:

- Was buyer aggressive?
- Did they pay up for IV?
- Was liquidity demanded or provided?

Implied Volatility Context

- IV helps interpret trade intent
- High IV trades → urgency or hedging
- Low IV trades → value or selling premium

👉 Aggregated trades give **true IV footprint**

Spotting Repeat Activity

Aggregation helps identify:

- Repeated execution patterns
- Same strategy over time
- Rolling positions
- Scaling in/out

👉 Signals conviction and strategy

Cross-Flow Analysis

Compare:

- Institutional vs retail flow
- Large vs small trades
- Directional differences

👉 Example:

- Retail buying calls
- Institutional selling into it

Building a Narrative

Aggregated data allows you to answer:

- Who is trading?
- What are they doing?
- How aggressively?
- Over what timeframe?

👉 Turns data → **story**

Practical Use Cases

Identify institutional positioning

Confirm or challenge market sentiment

Spot unusual activity

Improve trade analysis

Enhance strategy selection

Limitations to Keep in Mind

Aggregation is probabilistic

Not all trades can be perfectly grouped

Hidden liquidity still exists

Context (news, macro) still matters

Key Takeaways

Raw trade data is incomplete

Aggregation reveals true order flow

Institutional activity often hides in fragments

Context (price, IV, execution) is critical

Aggregated data enables better decisions