MONTRÉAL EXCHANGE

Canadian Weekly Options

THE FUTURE IS YOURS TO SEE.

Weekly Options

Looking to profit from a short-term move in a security?

Want to take advantage of volatility around economic events / earnings release?

Seeking inexpensive insurance or short term protection to hedge your portfolio?

What is a weekly option and how do they differ from standard (monthly) options?

Weekly options are listed to provide expiration possibilities every week; thereby creating many more occasions to profit and compound returns!

These opportunities may include taking advantage of market events or providing portfolio protection by specific buying, selling and spreading strategies.

Weeklies have the same trading specifications as standardized monthly contracts except that new weekly contracts are listed on Thursdays and trade through to Friday's close of the following week. Standard options on equity and exchange-traded funds (ETFs) expire on the third Friday of the month; weekly options on equities and ETFs expire on the Friday of every week that is not a standard expiration week, because no weekly options will be listed for expiration on the third Friday of the month. Standard index options expire on the third Thursday of the month.

Other than the expiration date, weekly options are identical to standard options. This is what a standard and weekly option would look like at the Montréal Exchange on an equity class:

OPTION	Expiration Date
Standard[1]	XYZ **141018**60.00
Weekly	XYZ **141024**60.00

What is listed and how do they work?

Weekly options are listed on a limited number of individual stocks and ETFs, they are American style and physically settled.

The last trading and expiration day for equity and ETF weekly options corresponds to the Friday of the week following the listing.

1. With the recent migration from Saturday to Friday expiry on standard monthly options, some option codes still include a Saturday date within the symbol. These will ultimately be phased out as they expire in favour of a Friday date in the listing of the new expiry months.
2. Gamma measures how fast the price of an option will vary for a given change in the price of the underlying.
3. With a long straddle, you buy both a call and a put option on the same underlying stock, with the same strike price and expiration date. If the underlying stock makes a significant move in either direction before the expiration date, you can realize a profit.
4. A strangle consists of buying (or selling) an equal number of calls and puts with the same expiration date but two different strike prices (out-of-the-money put + out-of-the-money call).

What are the advantages to weekly options?

Flexibility

- One of the main benefits of trading weekly options is the flexibility of multiple expiration dates. This allows short-term traders to tweak their option choices by effectively harmonizing the expiry of the option with the time frame needed for the stock to move.
- Considering weekly options are identical contracts to standard options, except for the expiry day, they can be paired with standard options for diagonal and calendar spreads.

Cost-efficiency

- For the option buyer whose objectives are event-driven, lower priced, shorter term options may be selected rather than longer term options that carry a greater time value in their premium.

High gamma

- Their "punch" (due to a higher gamma[2]) allows weekly options to benefit more from small movements of the underlying than standard options. This is key for investors with a short-term directional bias.
- Buying a straddle[3] using weekly options is a good strategy to implement if an investor believes there will be a big move in the price of a stock, but is not sure in which direction. Short-term straddles and strangles[4] may also be created surrounding specific events such as earnings reports, pending economic news or Bank of Canada interest rate announcements. This is beneficial to the non-directional, volatility traders.

Weekly income

- A popular option strategy is to sell options and profit from the positive theta (time decay) of the trade. Option writers can take advantage of the rapidly accelerating time decay of the option's final days by either buying back the options at a cheaper price or simply letting them expire worthless. Using weekly options for this strategy can theoretically produce a consistent weekly income.

Portfolio protection

- When used as protection, weekly options offer portfolio insurance than standard options; time to expiry is much shorter and they experience significant time decay prior to expiration.
- Weekly put options can be used as short-term portfolio protection, in expectation of macroeconomic news (like employment, GDP). The cost of purchasing a protective put is added to the cost basis of the shares. An investor seeking to offset the risk of an unfavourable earnings report, may select a weekly contract for the week during which the earnings are set to be released. By using an option contract with less time value the investor is meeting their specific hedging objectives at a reduced cost.

Risk Management

- Covered call writing, whereby an investor sells calls offset by ownership of the underlying stock, allows investors to collect call premiums on a more regular basis rather than the previous monthly interval. This generates a more frequent cash credit that reduces the average cost of the stock and overall risk of the trade.
- Investors may choose to trade collars: buying a stock, buying protective puts a few months out and selling call options on a weekly basis to help finance the cost of the puts.

Conclusion

Weekly options provide multiple opportunities for investors to implement more specific buying, selling or spread strategies. With reduced time value and increased availability, investors may cost effectively trade event-driven opportunities every week of the year.

For more information

Please contact Montréal Exchange if you have any additional questions or require further clarification.

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