

# Impact of Time on Expiration

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## 1 The Impact of Time & How to Profit From It

- As we already know, Options have a "time premium". The longer dated the Option, the bigger this premium will be, and therefore, the more expensive the Option.
- The "Greek" that shows you the option's sensibility to time is theta ( $\theta$ ).
- Remember that Options lose all of their time premium upon expiration.
- Time, along with volatility, make up the "extrinsic value" of the Option.
- Time premium is more important the further OTM the Option is, and vice-versa.
- Also remember that Options are a Wasting Asset, implying that  $\theta$  is always negative for the Option buyer.
- Time decays increase as the date of expiration approaches, ie logarithmic distribution. Avoid buying very short-dated Options!!!
- Buying an Option is a race against time.

### 1.1 So should I buy Options?

- Unlike other traders, we firmly believe you should increase your probabilities of winning, not decrease them, so the short answer to the question posed in the title is No, you should not buy Options.
- Of course everything in moderation, including moderation, ie there are situations where buying Options is profitable with a possibility of great returns. But as the line above indicates, these situations are few and far between, very uncommon, and building a strategy strictly based on taking advantage of these types of opportunities will almost certainly not be profitable in the mid-to-long term.
- Always know that when buying options, the odds are stacked against you.
- However, if the promise of great returns is too tempting always make sure you take steps to protect yourself from time decay. A good way to achieve this is to combine buying Options and selling Options in one same strategy (verticals and risk reversals). By buying and selling Options at the same time you balance the time decay risks of buying Options by selling another Option at the same time as you are now on the right side of the time decay factor with respect to the Option you sold.
- Stick to what works. A strategy that is based on selling Options will generate returns from time decay every day that passes.
- Most of the strategies we cover are based on this principle. Learn them and you will be sailing with the wind instead of against it.