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**What Is Dividend Risk? How Can Option Traders Prepare for It?: Video Script**

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| **Voiceover** | **Visual** |
| Dividend risk is triggered by upcoming dividends, which sets in motion an option’s early assignment. What options are at risk of early assignment? ***Short, in-the-money call options***. These can be naked short calls, or short calls that are part of a spread, like a vertical spread or an iron condor. | * What options are at risk of early assignment?
* Short, in-the-money call options
* Naked short calls
* Short calls that are part of a spread
 |
| Short call options can be forced into early assignment when stocks or ETFs go ex-dividend—that’s the time period between when a dividend is anno­unced and when it’s paid. If you own the call and want to be able to receive a dividend, you can exercise your right to buy the stock prior to the ex-dividend date **and** before the option’s expiration.  But as a result, you might be assigned on your short call, resulting in a short-stock or short-ETF position—that means you’re now required to pay the dividend!  | * Short call options can be forced into early assignment when stocks or ETFs go ex-dividend
* The time period between when a dividend is anno­unced and when it’s paid
 |
| How can you plan for dividend risk and prepare for it? * Learn when the ex-dividend date will occur.
* Using thinkorswim, navigate to the MarketWatch tab, and click the calendar sub-tab.
* Checkmark the boxes next to Dividend and ETF Dividend.
* This will filter the calendar and display the probable ex-dividend date for various underlying symbols.
* Oh—and always double-check the company’s investor relations page for official information.
 | How can you plan for dividend risk and prepare for it? * Learn when the ex-dividend date will occur
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| Now that you know when the ex-dividend date is, you can also determine the likelihood of getting assigned early. * Start by comparing the corresponding put’s value to the dividend, or the estimated dividend amount.
* The corresponding put option is the same strike as the short call option.
 | To determine the likelihood of getting assigned early:* Start by comparing the corresponding put’s value to the dividend, or the estimated dividend amount
* The corresponding put option is the same strike as the short call option
 |
| Let’s say you’re short a $95 call in ABC. By checking the bid price of the $95 put in ABC in the same series, you can gauge the likelihood of being assigned. If the corresponding put value is *less* *than* the dividend amount, there is a good chance of early assignment, and you may want to take action prior to the ex-dividend date.  | * Check the bid price of the $95 put in ABC in the same series
* Gauge the likelihood of being assigned
 |
| For example:* ABC is trading at $100 per share.
* ABC stock is going ex-dividend tomorrow.
* The dividend amount is $1.20.
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* ABC stock is going ex-dividend tomorrow
* The dividend amount is $1.20
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| If the bid price of the $95 put is less than $1.20, or the amount of the dividend, then you’re at high risk of assignment. You can only guarantee no assignment by closing the short call position prior to the ex-dividend date.  | The only guarantee no assignment—close the short call position prior to the ex-dividend date |
| Now let’s look at an ETF whose dividend amount hasn’t been published yet. * Determine the front month or weekly, deep, in-the-money puts.
* Then calculate the extrinsic put value to get an idea of what the marketplace is expecting as the dividend amount.
 | Let’s look at an ETF whose dividend amount hasn’t been published yet. * Determine the front month or weekly, deep, in-the-money puts
* Then calculate the extrinsic put value to get an idea of what the marketplace is expecting as the dividend amount
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| Imagine an ETF called XYZ is trading at $200 per share and is going ex-dividend tomorrow. The dividend amount is actually a dividend distribution, and it won‘t be known until the morning of ex-dividend, which is too late!1. Go to the front month or weekly expiration.
2. Identify the first out-of-the money call with a zero bid.
3. Using put/call parity, the bid price of the call will indicate the amount of extrinsic value in the corresponding put option.
4. Since the CALL price is a zero bid, this indicates the put’s price is comprised 100% of intrinsic value (Put Strike – Underlying Price = Intrinsic Value).
 | * Go to the front month or weekly expiration
* Identify the first out-of-the money call with a zero bid
* Using put/call parity, the bid price of the call will indicate the amount of extrinsic value in the corresponding put option
* Since the CALL price is a zero bid, this indicates the put’s price is comprised 100% of intrinsic value (Put Strike – Underlying Price = Intrinsic Value)
 |
| Let’s imagine the first out-of-the-money call priced at zero bid is the 208 call. * The current market of the corresponding put is an $8.60 bid, offered at $9.60. This makes the mid-price of this put $9.10, since ($8.60 + $9.60)/2 = $9.10.
* Since the intrinsic value (Put Strike – Underlying Price = Intrinsic Value) of the put being $8 and the mid-price of that pit is $9.10, the put is priced at $1.10 over its intrinsic value.
* Your conclusion: the market is pricing in a $1.10 estimated dividend distribution.
 | Let’s imagine the first out-of-the-money call priced at zero bid is the 208 call* The current market of the corresponding put is an $8.60 bid, offered at $9.60. This makes the mid-price of this put $9.10, since ($8.60 + $9.60)/2 = $9.10
* Since the intrinsic value (Put Strike – Underlying Price = Intrinsic Value) of the put being $8 and the mid-price of that pit is $9.10, the put is priced at $1.10 over its intrinsic value
* Your conclusion: the market is pricing in a $1.10 estimated dividend distribution
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| This is because on the ex-dividend distribution date, XYZ should theoretically drop by the amount of the dividend, not taking into account tomorrow’s supply and demand. If you have short in-the-money calls, where the corresponding put is bid less than the dividend estimate, consider closing or rolling the position to a strike with an extrinsic value greater than your dividend estimate. | * If you have short in-the-money calls, where the corresponding put is bid less than the dividend estimate:
* consider closing or rolling the position to a strike with an extrinsic value greater than your dividend estimate
 |
| Other reasons may assign you a short call option.If you have questions, please contact the trade desk at 1-866-839-1100. | * Other reasons may assign you a short call option
* If you have questions, please contact the trade desk at 1-866-839-1100
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