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**Seasonal Option Cycles**

Understanding the seasonality of volatility adds to an option traders' ability to anticipate the rite strategy, for expected price movements, at various times during the calendar year. Americans have certain holidays when interests shifts to family, the stock market becomes background noise, business tends to slow, so does the amount of price movement in stocks and volatility wanes. March and October have a history of being the season for volatile price movements. Smart traders plan ahead and recognize which monthly options cycles have 5 weeks and which only have 4 weeks. Option prices will be skewed because of the number of days in an option cycle. Keeping track of option seasons and cycles is the traders' edge that can put your option trading in the black.
Do you know when the exchange holidays for 2009 fall? Yes January 1st New Years day was on a Thursday. Yes the exchange members declared a holiday for themselves too and took the day off. Americans group religious holidays, or national holiday's, together to take long weekends often to visit family and business slows down. You know yourself how much easier it is to plan a day off around a holiday when a weekend is the next day. Check your calendar you'll be surprised how many holidays are clumped rite next to a weekend. The other exchange holidays for 2009 are:
Martian Luther King Day: January 19th
Presidents Day: February 16th
Good Friday: April 10th
Memorial Day: May 25th
Independence Day: July 4th

Labor Day; September 7th
Thanksgiving Day: November 26th
Christmas Day: December 25th
Do you have a plan that anticipates the different holidays of the trading year? Savvy traders also look where these holidays fall during the week. Intelligent trading is anticipating upcoming events and holiday dates, and anticipate when they fall in the earnings cycle, where they fall in relation to a week end, and then plan what trades fit that season.
Bob Pisani from CNBC likes to use the line "Sell in May and go away". It's an old line referring to New York area traders who head to the Hamptons for the summer after a busy start to the trading year. If you're a stock trader and bought near the lows in the beginning of March, it time to "sell in May….." take profits"….and go away" for the summer; you've earned it.
Memorial Day coming up May 25th usually starts the "summer doldrums' " trading season. For a lot of traders it's the time they take an extra day off, get the boat out, make it a four day week end, and begin to enjoy the summer. Perhaps it's time to go pick up the go pick the kids from college for the summer and you'll need an extra day for the round trip.
Smart, hungry option traders looking ahead now, and gather economic clues to recognize the variety of "foot prints" that create edge going forward. They look ahead to gain perspective and objectivity on their trading positions. Planning ahead is a means of "stepping back" from the daily grind of "tape reading" to plan a summer trade and perhaps a summer vacation. Looking ahead an anticipating is the traders' edge that combined with strategy breeds profitability. By the time the June cycle rolls around this year a lot of economic uncertainty will have played out. The auto companies will either be in bankruptcy or they won't. The

details of the Federal governments' bank "stress test" will be known. The alphabet soup that is the Federal bailout will be buying up troubled assets to try and "stem the tide" of bank failures and home foreclosures. Most economists will have adjusted lower their growth (or lack of growth) and output estimates more in line with the reality of the current economy. By or around Memorial Day nine tenths of all U.S. companies will have reported their earnings for the second quarter and guided earnings forecasts for the rest of 2009. A lot of the current systemic uncertainty going forward will be known now by Memorial Day.

It just so happens that the June cycle this year is a 5 week option cycle (measured by the 5 Fridays' in the cycle). How many option cycles this year are 5 weeks? Which months?

4 cycles February, June, August and November

These option cycle anomalies can be a traders edge if you plan ahead and put them together with the other "nuggets' of gold" mentioned.

Memorial Day happens to be the second Monday of the June cycle so seasonally we can say option volatility may have a hard time "holding its' mud". A lot of Americans right now are planning a day or two off work to begin the celebration of summer.

Now is the time to plan your option trading strategy for the seasonally slow period around Memorial Day and the 5 week June cycle by picking strategies that fit that trading environment.

## What could Work

You too can trade like an East Coast big shot, use an option trade and "sell in May and go away" seasonal strategy. You could put your profitable stock trades into a buy write and reduce the immediate downside risk. You could sell your stock and replace your long position with a less risky vertical call spread. You could sell your stock and sell a put to re-enter your position at a better price. Let's breakdown these examples and examine some of the alternatives.

Suppose you deftly bought some Foster Wheeler (FWLT) back when it was a teenager say 18 back on St. Patrick's Day March 17th. The June option implied volatility for FWLT is "beefy" in mid 70's. You still like the trade but want to reduce your risk and potentially lock in some profits.

The first scenario a buy write involves selling a June21 Call at $2.50 versus the stock position. On the downside you've at least lowered your entry point of your stock purchase to $15.50.

18 original purchase price - 2.50 call premium received= $15.50

You could also consider the $2.50 call premium a dividend you've personally declared for yourself. If the stock finished the June cycle and the stock gets called away the third Friday in June at 23.50, and you gained 30% on an annualized basis, is that bad?

You could also sell your stock now and buy a vertical call spread as a stock replacement. If you bought a June 21 call, then sold a 24 call you'd have purchased the 21 /24 call spread for 1.30. Stock replacement is not a new idea. You can look at it as turning over your current inventory to lock in profits. The vertical spread strategy provides a means to get buy FWLT stock again at a future date without missing any further price appreciation right now.

You could also sell your stock in May and sell a June 20 put with several potential outcomes. If you sell a June 20 Put at 1.50$ thinking you'll reestablish your long stock position at a later date, at a better price, you may or may not "get your wish". If the stock "tanks" and closes the third Friday in June less than 20 you'll purchase the FWLT again at the reduced to current price of 18.50.

Sell June 20 put at 1.50$

20 strike price -1.50$ option the premium=18.50 assignment
If FWLT closes above the 20$ you simple pocket the put premium.

Intelligent traders plan their strategies in advance using all the clues they can gather.  The seasons, calendar and the option cycle, ought to be considered before you point, click and trade.