



PhaseTrader®
Indicators

Net_Premium Indicator

Homepage: <https://phasetraderindicator.com>

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Net_Premium calculates the difference between the option premium spent on call and put contracts for selected strikes. In-the-money amounts are automatically subtracted when the underlying stock, index, or ETF trades above a call strike or below a put strike, allowing the indicator to accurately reflect the amount of money being spent to purchase time and volatility for each option.

Histogram bars displayed on the chart below measure the amount of excess net premium (call minus put) in 30 second intervals for S&P index options. Although the market rallied slightly, the indicator remained neutral until the market became unstable at 15:18. The sharp decline in excess net premium – more than \$1 million/minute – occurred just ahead of the steep part of the market drawdown (vertical dashed line).



The continuous charting feature sums the underlying histogram results, simplifying complex situations where the histogram chart displays a mix of up and down bars. This approach to charting the overall flow of excess premium into key strikes is used to track developing market sentiment across the entire timeframe of the chart. In the example below, excess put premium reaches -\$51.3 million near the right side of the chart. Continuous charting is especially helpful across timeframes spanning several days in charts built around longer bars (example on next chart).



This chart uses 5-minute bars to span an entire trading week (4/16/2018 – 4/23/2018). Stocks were unusually active during this timeframe, which followed a sharp correction in early February and conflicting messages from Fed officials as one chairman left and another took office. Net_Premium fell, even as SPY jumped 5 points (a 50 point jump in the S&P). Accelerated spending on put premium during the stock rally revealed that investors were exploiting the opportunity to buy discounted puts – a distinctly negative leading signal.



This chart created around the time of the Dec. 2016 Fed meeting uses 1-minute bars and a 5-minute moving average for smoothing. Note the steady indicator decline that occurred even when the market rallied. Insiders knew that the market would react negatively to a slightly more "hawkish" than expected FOMC rate decision. The large downward spike at 13:45 on Monday (Dec. 12) was driven by the purchase of approximately 3,000 contracts of at-the-money 220 puts across several separate trades. This information, available in the "time and sales" window, is often used to complement Net_Premium indicator data.





It is often helpful to display discreet and continuous views on the same chart.

This example includes a sharp spike equal to \$800,000/min of excess net premium flowing into the put side of the SPY ETF between 14:10 and 14:15 EST on 5/7/2018. The market began falling 22 minutes later.

It is also important to note that the opening rally on 5/7 was met with aggressive put buying (left side of chart).

The continuous charting feature allows us to evaluate overall market sentiment across several individual events like the opening and 14:10 sell signals shown here.

In this example, sentiment remained negative during the final 30 minutes of trading, even though the market rallied slightly. This negative view ultimately played out in after hours trading when S&P futures fell back 7 points.

End