

Ophir Gottlieb (00:00):

This is a quick video demonstration that discusses the importance of execution fills. That is the prices that a trade are executed at. We'll just use a simple example. Shopify selling put spreads and avoiding earnings over the last two years, trading every 30 days. When we go to settings, we can see that our execution fill type has three choices. We'll start with mid-market. We can see that this short put spread returned 77%. Now we will see how powerful the type of execution you get matters. If we take our execution fill type from mid-market to halfway between mid and the market, which we'll explain in one moment, and we hit save, the 77% return goes down to a 20% return. Even more astonishing, if we go back to our settings and then go to market prices that's buying on the offer and selling on the bid, the 70% winner that turned into a 20% winner is now a 13% loser.

(00:56):

So we're looking at something that went from a 77% winner to a 13% loser. It was the exact same trade. The only difference is how our trades got executed. That is the prices we paid. Now let's discuss the three versions. As you can see here, we're looking at an option that has a market bid of a dollar and a market ask, also called an offer at \$2. That would be market pricing. That was the last back test we did where we saw our great gain turn into a loss. Now, mid-market would simply be the middle, and in this case, the mid-market would be a dollar 50. We saw when we did mid-market trading. The trade returned 72%. Halfway in between market and mid-market would give us the third choice, which in this case is a dollar 25 and a dollar 75. In general, the most realistic prices to backtest that is the ones that you can probably execute are somewhere in between halfway in between the market and mid-market. Don't ever trade market orders in options, always put in limit orders for the prices you want to buy below or the prices you want to sell above. This is the impact of executions on your option trading, and it literally makes a difference between being a profitable option trader and a losing option trader. Thanks for watching.