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February 8, 2022

Market Chameleon

How to Trade Options IV Skew

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Implied Volatility Skew

What is IV skew?
What is vertical skew?
What is horizontal skew?
How can I tell if the skew is high or low?

What is IV Skew?

IV skew is the difference in implied volatility between different option contracts.

The implied volatility of an individual option is determined by market forces or supply and demand.

Options with higher demand from buyers have higher IV levels. (Ex protective puts)

Options that have selling pressure will have lower IV levels. (Ex Covered Calls)

What is a vertical skew?

A vertical skew is an option skew between different strikes within the same expiration.

Examples of strategies with vertical skews are

Risk/Reversal

Vertical spreads

Butterfly

Horizontal Skew

Horizontal skew is the implied volatility difference between options in different expiration months. Sometimes referred to as the term structure.

Examples of strategies with horizontal skew

Calendar Spreads

Diagonal Spreads

How can I tell if the skew is high or low

One way to measure the skew is similar to IV rank.

You can compare the current implied volatility of each leg of a strategy to historical levels.

This will give you an indication if the skew is high or low relative to historical measures.

Where can I find historical IV skew

Marketchameleon shows benchmarks (using historical data) for skew strategies such as risk/reversal, vertical spreads and calendar spreads.

You can also set up a strategy from the option chain and run a historical skew analysis on your own unique options legs strategy.