

ReadySetCrypto Income Through Options Masterclass



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Module Seven_B: The LedgerX Exchange

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The LedgerX Exchange

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Introduction to the LedgerX Exchange

The LedgerX exchange is the first US-based Crypto Options exchange to market, first coming to the market with options listed for qualified investors in 2018, and as of 2019 they are now offering listed options to the “regular” retail space. This is somewhat unusual in that they were approved by the CFTC well ahead of any other entities, so I would expect to see more vendors right behind LedgerX. But they are the first and only US-based provider, so we’ll cover them here.

LedgerX options are somewhat illiquid at this time, just because few investors are aware of their offering, and fewer still understand Options. This might cause some challenges in the near term, as liquidity is paramount in any financial transaction.

At this time LedgerX is only servicing the US and Singapore.

LedgerX offers 2FA, or two-factor authentication which is recommended.

As you’ll see, there is one particular application for LedgerX that might be attractive, and it might be the only legal option for US residents.

LedgerX Options Settlement

LedgerX uses “European-style” options which are “physically-settled” at expiration.

European-Style Options

An Option defined as “European-style” means that the Option cannot be exercised early against your will, and will only be “settled up” at expiration.

This is opposed to “American-style” Options which CAN be exercised against your will prior to expiration, and is a cause of great confusion to newer Options traders of the American Equities markets who awake to a new day to find that their short Option position has been exercised, and in its place is their obligation of short or long underlying stock. For most retail investors, this is not necessarily a disaster, however it means that you quickly need to come up with a plan “B” and is unsettling for most.

Not so with European-style Options. The price can go deeply “in the money” on a short Option, and the position will not get exercised early. For nearly all cases, this is a very good thing for the Retail trader and this is the case with LedgerX.

Physical-Settlement

Recall that when you “sold to open” that Option you entered into an Obligation...either an obligation to buy or to sell depending on whether you sold a put or a call Option.

If an Option offers “physical settlement” as most American-style Options do, then after your Option “settles” at expiration, if warranted, your obligation results in you being “awarded” with the amount of the asset that you were obligated to buy. For the US Equities market selling American-style Put Options, you are obligating yourself to buy 100 shares of the underlying stock per contract. If your short put is in the money at expiration, you will be “put the stock” to the tune of 100 shares for every short contract of puts that you sold.

With LedgerX, physical settlement means that you will be assigned to buy one BTC per contract of puts sold, and will be assigned to sell one BTC per contract of calls sold. This might be a viable alternative since you can wire USD into your account.

Per LedgerX, “expiration” occurs at 1600 ET on the day of expiration.

As we will see, this will require quite a bit more capital in your account as there is no margin relief. You will need to have the capital required to accept that assignment.

Listed Options

At the current time, LedgerX only lists Options on Bitcoin.

Figure 1

BITCOIN		OPTIONS		FUTURES
Calls		Puts		
Bid	Ask	Strike	Bid	Ask
August 16, 2019				
\$675.00	\$806.00	\$11,000	\$217.00	\$348.00
\$416.00	\$550.00	\$11,500	\$452.00	\$586.00
\$231.00	\$362.00	\$12,000	\$775.00	\$905.00
\$110.00	\$234.00	\$12,500	\$1,170.00	\$1,290.00
\$36.75	\$152.00	\$13,000	\$1,610.00	\$1,730.00
August 30, 2019				
\$6,280.00	\$6,490.00	\$5,000	-	\$60.25
\$5,280.00	\$5,490.00	\$6,000	-	\$41.50
\$4,290.00	\$4,510.00	\$7,000	-	\$51.25
\$3,800.00	\$4,020.00	\$7,500	\$11.50	\$74.50
\$3,330.00	\$3,560.00	\$8,000	\$36.75	\$108.00
\$2,930.00	\$3,040.00	\$8,500	\$85.00	\$163.00
\$2,500.00	\$2,620.00	\$9,000	\$149.00	\$253.00
\$2,100.00	\$2,230.00	\$9,500	\$217.00	\$331.00
\$1,740.00	\$1,870.00	\$10,000	\$314.25	\$417.00
\$1,410.00	\$1,530.00	\$10,500	\$350.00	\$484.00

You can also get a sense of the elementary nature of the chain, with only bid and ask prices listed. No other metrics are listed for the Options.

At the time of this writing, LedgerX offers a lot of options series going far out into the future, creating some interesting possibilities to either speculate or write premium. Here are the current series available, just so that you get an idea of the number of series:

- August 15, 2019 (one week)
- August 30, 2019 (two weeks)
- September 27, 2019 (back month/current quarter)
- December 27, 2019 (back quarter)
- June 26, 2020 (one year)
- December 18, 2020 (one year plus)

Trade Entry

LedgerX has a VERY simplistic order entry interface for their OMNI service. If you click on the bid price, it assumes that you want to SELL TO OPEN the position, and immediately maps over the strike price and the bid price for that option:

Figure 2

The screenshot displays the LedgerX trade entry interface. On the left, the 'My Portfolio Value' is \$0.00. Below this, there are buttons for 'DEPOSIT' and 'WITHDRAW'. The 'Choose a trade' section shows 'BITCOIN' selected, with 'OPTIONS' and 'FUTURES' tabs. A table of Bitcoin options is shown, with columns for Bid, Ask, Strike, Bid, and Ask. The row for the \$10,000 strike price is highlighted, and the bid price of \$315.75 is circled in red. On the right, the 'Aug 30 Put \$10,000.00' trade entry form is shown. It has buttons for 'BUY PUT' and 'SELL PUT', with 'SELL PUT' circled in red. Below these buttons, there is a note '(5) contracts available at this price'. The 'Quantity' field is set to 'e.g. 1'. The 'Price' field is set to '\$315.75', which is also circled in red. The 'Total' field is empty. At the bottom of the form, there is a button labeled 'SELL PUT'.

Calls		Strike	Puts	
Bid	Ask		Bid	Ask
\$3,790.00	\$4,010.00	\$7,500	\$11.75	\$74.75
\$3,320.00	\$3,550.00	\$8,000	\$37.00	\$109.00
\$2,920.00	\$3,040.00	\$8,500	\$85.00	\$163.00
\$2,490.00	\$2,610.00	\$9,000	\$150.00	\$254.00
\$2,090.00	\$2,230.00	\$9,500	\$218.00	\$333.00
\$1,740.00	\$1,860.00	\$10,000	\$315.75	\$419.00
\$1,130.00	\$1,270.00	\$11,000	\$760.50	\$834.00
\$665.00	\$832.75	\$12,000	\$1,200.00	\$1,400.00
\$427.75	\$551.75	\$13,000	\$1,910.00	\$2,100.00

Here's the issue; you cannot change the bid price.

LedgerX will not allow you to negotiate the price of the bid when selling, nor the ask price when buying. And the spreads are currently very wide, certainly wider than with Deribit.

This is a very simple order entry interface, but certainly gives up a huge amount of edge to the Market Maker which might also be LedgerX themselves due to the no-fee structure.

Position Size, Leverage, and Margin

There is no margin relief with LedgerX.

You must maintain at least one BTC of capital to enter into a short position. You must have at least one BTC to sell a covered call.

This alone might scare off a lot of retail traders, as with today's prices of BTC you're talking about an equivalent account size in excess of \$20,000 just to give yourself some "room" to not trade your entire account's equity on each position.

There is no "margin relief" with LedgerX. Each contract requires the full amount of capital for that contract for it to be executed.

Here's one possible advantage; with physical settlement and the ability to fund the account with USD, you can sell puts against USD levels and eventually turn that into BTC through the short put assignment process.

Summary - LedgerX

As I write this in mid-2019, LedgerX might be the only legal Option for US residents, however it is not the best option in the space, and with other larger US firms threatening to enter the space, almost looks like a “built to sell” acquisition candidate.

Here are a few notes about LedgerX to wrap up this module:

- LedgerX does perform “KYC” on their customers.
- Options are relatively illiquid with wide spreads.
- You cannot negotiate the bid-ask spread. You may only enter short at the bid and long at the ask prices.
- Closing the position manually is accomplished by submitting an opposite order against the same Option.
- Minimum position size is one BTC and is going to require a larger account to risk-manage a position to 2% per trade
- European-style Options (good) and Physical Settlement. Physical settlement is fine in this space, especially if you fund your account with \$ and want to “stack sats” by selling puts with physical settlement/assignment into BTC.
- At the time of this writing, there are NO other metrics available to be tracked in the Option chain, like Delta, IV, Mark price, volume, OI, etc.