

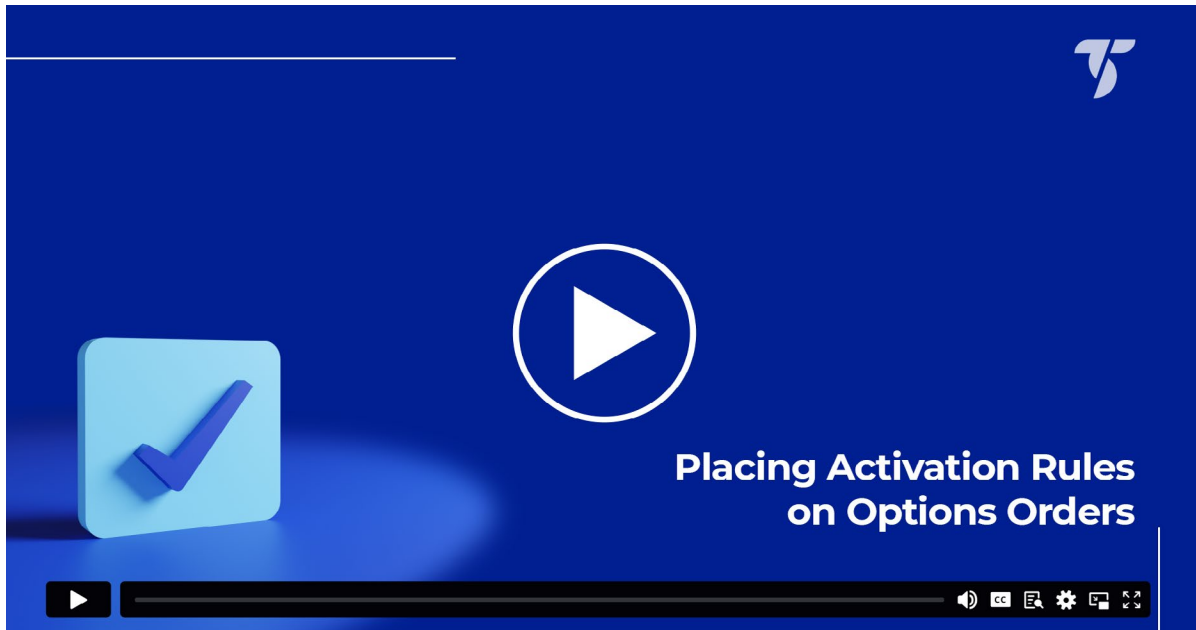


Placing Activation Rules on Options Orders



Options
Strategies

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TradeStation's Activation Rule is an order feature that allows you to determine when an order will be sent to the market. This activation can be based on a specified time or price action of one or more symbols. Activation rules for a given order are defined using the Activation Rule dialog.

The Activation Rule dialog allows you to add a time trigger, price trigger, or both to your order. Up to four equity, option, or index symbols can be added to the activation rule logic. This feature can be used for order entry, profit taking, and stop-loss orders in options.

Features of activation rules

- 1 Timing of orders** – Time-based activation rules can trigger orders at designated times without you being in front of the computer.
- 2 Bracketing positions** – Multiple price activation rules can be set to deploy a closing transaction when a profit target or a protective stop loss level is reached.
- 3 Emotionless trading** – Activation rules will send orders based on your predefined conditions and will not hesitate or overthink.

Concerns when using activation rules



Regular session limitation

Activation rules are only active during the regular session. After creating the order, a time-based activation rule will only be triggered during the first active session, even if the order is placed with a GTC duration.



Same day for time-based

The time-based activation rule will only be used during the current active session after creating the order. It will not carry over to the next trading day.



No guarantees

There is no guarantee that this feature will prevent scenarios such as a late trade print triggering a stop order or price slippage in the stop order fill price.

When to use an activation rule

Entry orders:

- Strategic timing:** The activation rule can delay the placement of an entry order until after an announcement or economic data release.
- Support/resistance levels:** Place the entry order once the price has reached a support or resistance level.

Stop loss orders:

- Price-based trigger:** The activation rule can be set to place a stop loss if the underlying reaches a certain price level.
- Option premium conditions:** The activation rule can be set to activate the stop if the option premium rises or drops to a specific price.
- Market close exit:** Traders who do not want to hold a position overnight can send a market order to exit their position before the market closes.

Profit target orders:

- Price-based exit:** The activation rule can place an exit order if the underlying reaches a certain price level.
- Option premium conditions:** The activation rule can place an exit order if the option premium reaches a particular price.
- Time-triggered activation:** The order activation will be triggered based on the computer's local time and can be set for occurrences such as just before the market closes. However, it can only be triggered during the stock market hours, 9:30 am EST to 4:00 pm EST.

An activation rule to an order

The activation rule feature is found on the Trade Bar. To attach it to an order, click the box to the left of the words “Activation Rule.” The ellipsis button to the right opens the menu to enter the criteria.



How to place time-based activation rules

In the activation rule menu, place a checkmark in Time. Enter the time the order is to become active and click ok to save the time rule. **Note the time used is your local time and not the exchange time.** The time-based activation rule will only trigger during the current active session after creating the order. Only price-based conditions will continue to work on successive sessions for GTC orders.

How to place price-based activation rules

In the activation rule menu:

- 1 Place a checkmark in Price.
- 2 In the box below, enter the security symbol to trigger the activation. If you do not know the symbol, you can look it up. Symbols can be looked up by the company name or a portion of the complete symbol. The specific option symbol can also be searched.
- 3 The symbol will appear below. Select the conditional operator (>, >=, <, <=) and the value, which is the target price.
- 4 You can add up to four price conditions for the activation rule. Click “Add” to create new condition lines, and use the X on the right to remove them.
- 5 Use the ‘and’ and ‘or’ expressions on the right of each line to change how multiple price conditions are combined.
 - a. Using ‘and’ will make every condition necessary to activate the price rule.
 - b. Using ‘or’ will trigger the price rule if any conditions are met.
- 6 Click OK to save the price activation rule.

Trigger types

Triggers specify the price pattern that will trigger a stop order, an if-touched order, or an activation rule. This feature is designed to help the trader mitigate the risk of a late trade print inadvertently triggering a stop order.

While this feature aims to reduce such risks, there is no guarantee that it will prevent all instances of a late trade print triggering a stop order or prevent a price slippage in the stop order fill price.

Keep in mind that there are no trade ticks when working with multi-leg option orders, so natural pricing based on bid and ask is used.

Triggers can activate orders when a bid or ask occurs at a specific price (Single Bid/Ask) or requires two bids and asks at that level (Double Bid/Ask). Please access Help from within the TradeStation platform for more details on trigger types.

Practical applications

Activation rule for entry:

Let's explore the activation rule features with a hypothetical, simulated options trade. Imagine our TradeStation client, Alex, believes that Weyerhaeuser Company (WY) stock is bullish. She opts for a bull call spread to control her risk and lower costs. However, the price is not currently optimal for entering the spread.



Alex believes WY is bullish, but the current price is not optimal for entry.



If Alex were to place the bull call spread at the current underlying price, there is a risk that the stock could drop to the demand level near \$31.00. By analyzing the spread in OptionStation Pro, we can use the price slice to theorize the potential drawdown if Alex enters early and WY drops to the demand level.

The screenshot shows the 'Price Slices' section of the OptionStation Pro interface. The 'Price' field is set to 31.03, and the 'Theo P/L' is -166.66. The order is a bull call spread with a buy order for WY 19 Apr 24 at a strike of 31 and a sell order for WY 19 Apr 24 at a strike of 35. The order type is 'Limit' with a limit price of 1.62. The 'Activation Rule' checkbox is checked, and the ellipsis button next to it is highlighted with a blue box.

Price Slices	Add	Price	Pinned	Plot	Theo P/L	Value	Delta	Theta	Gamma	Vega	Rho	x
		31.03		1. Now [DTE ...	-166.66 *	-4.66	92.46	0.28	-6.09	-1.88	-0.41	x

Spread				Delta	Theta	Max Profit	Max Loss
Vertical				75.27	0.26	238.00	-162.00

Side	Open / Close	Quantity	Symbol	Expiration	Strike	Type
Buy	Open	1	WY	19 Apr 24	31	Call
Sell	Open	-1	WY	19 Apr 24	35	Call

Order Type	Limit Price	Stop Price	Route	Duration	Account Number
Limit	1.62	1.62	Intelligent	Day	SIM1097305M

Natural Mid: 2.25 1.62

Activation Rule ... Analyze Place Order

The position would reach maximum loss before the price continues its bullish trend. To avoid this, Alex can delay placing the order to enter the spread until the underlying price bounces from the buying pressure near \$31.00. She will use the activation rule to do it.

This screenshot is similar to the previous one, but the 'Activation Rule' checkbox is checked, and the ellipsis button next to it is highlighted with a blue box, indicating that Alex is about to specify the activation conditions.

Alex creates the spread order as usual and then checks the box next to the activation rule. To specify the conditions, she clicks the ellipsis button to open the menu.

Within the menu, Alex creates the condition that the entry order will only be sent once the price of WY has become equal to or less than the demand level.

Once finished with the conditions, she clicks OK to add the activation rule to the entry order. To complete the process, Alex needs to click “Place Order” to route it. Before submission, she can confirm the activation rule in the order confirmation to ensure accuracy before sending it.

The order is now ready to be sent to the exchange once the price of WY has dropped into the demand level Alex identified. This is an example of using an activation rule to trigger an entry order when conditions have been met.

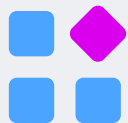
Bracketing positions

Activation rules can also be used to bracket an option position where an order is submitted to exit the position if the target or a stop loss has been reached. Consider Julio, another TradeStation client, who wants to place a bracket on his open bull call spread in ON Semiconductor Corp (ON).

Julio wants to limit his loss from the position if ON's price breaks below the support at \$70.00. He would also close the position for a profit if the price rallied to or above the resistance at \$85.00.



“Exit at \$70 for a loss, or exit at \$85 for a profit.”



Watch Webinar – *Using Activation Rules for Strategic Order Execution in Multi-Leg Options Spreads. Discover the flexibility of activation rules and how to use them strategically to trigger orders in complex multi-leg options spreads.*

To begin the process, Julio goes to the Positions window on the Manage tab of OptionStation Pro. Right-clicking on the open position reveals a menu where Close this Position is available.

Underly...	Spread	Days	Underlyin...	Account	Delta	Open P/L	Trade Cost
▸ METC			18.30		54.40	-25.00	205.00
▸ ON			79.14		43.54	230.50	545.00
▣ ON	Vertical 1 @ 19 Apr, 70/85 Call	65		011097305M	43.54	+230.50	545.00
▸ TSLA					43.91	-565.00	1,275.00
Subtotals:					157.48	-417.00	2,575.00

This will create an order to exit the existing options position. To increase the likelihood that the order is filled, Julio changes the order type to market and the duration to GTC. Now, he can set the activation rules by checking the activation rule box and clicking the ellipsis to open the menu.

Trade				Delta	Theta	Max Profit	Max Loss
Spread				-43.54	-0.65	231.00	-0.00
Vertical							
Side	Open / Close	Quantity	Symbol	Expiration	Strike	Type	
Sell	Close	-1	ON	19 Apr 24	70	Call	
Buy	Close	1	ON	19 Apr 24	85	Call	
Order Type	Limit Price	Stop Price	Route	Duration	Account Number		
Market	7.76 (CR)	7.76 (CR)	Intelligent	GTC			
Natural	Mid	<input checked="" type="checkbox"/> Activation Rule ...		Analyze	Place Order		
7.25 (CR)	7.76 (CR)						

In the menu, Julio must add the stock symbol twice since there are both a stop loss and a profit target trigger. The rule is configured so that if the price of the underlying moves below the support at \$70.00, the market order will be sent to exit the bull call spread at the current market price. But if the price of ON rises to or above \$85.00, the same market order to exit the spread would be sent.

Activation Rule

Activate order based on:

Start Time

Time >= 5:57:34 PM Local Time

Price

ON Add Lookup...

Symbol		Value	Trigger Type	
ON	<	70.00	Single Trade Tick (STT)	or
ON	>=	85.00	Single Trade Tick (STT)	

OK Cancel Help

Julio remembered to use the connector “or” between the conditions so that either condition would send the order. Had he mistakenly used “and,” the order would never have triggered as it is impossible for the stock price to be above 85 and below 70 simultaneously!



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Activations on single option premiums:

The activation rule can also be configured to trigger if an option's premium reaches a specific price. Instead of entering the stock symbol into the activation rule menu, you enter the option's symbol. The lookup button on the menu may be used to find the specific option's symbol.

Clicking Lookup will open another menu where you can select stocks, options, or indexes. Selecting the options tab and entering the underlying symbol will list the option symbols you may use for the activation rule.

As an example, we have looked up near-expiration options for Tesla stock.

Symbol Lookup

Stocks **Options** Index

For Underlying and Index, type the underlying symbol or option root (e.g. MSFT or MSQ) and select the country for the options you want to lookup. For Futures, type the option root (e.g. SP). If you are unsure of the symbol/root, click on the Underlying, Futures, or Index tab.

Category: Underlying Option

Underlying/Root: TSLA

Lookup

Filter Settings

- Return **3 Strikes** above/below the underlying price
- Return the next **3 Expiration dates**
- Return **Calls and Puts**
- Return **Composite**

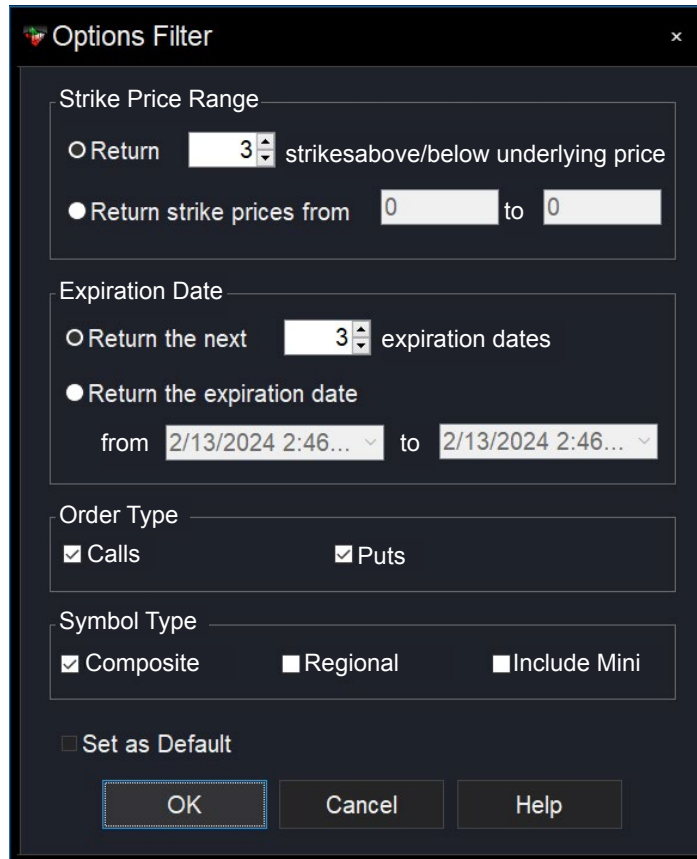
Modify Filter...

36 results found

Symbol	Type	Strike	Expiration	Exchange	Country
TSLA 240216C177.5	Call	177.5	2/16/2024	OPRA	U
TSLA 240216C180	Call	180	2/16/2024	OPRA	U
TSLA 240216C182.5	Call	182.5	2/16/2024	OPRA	U
TSLA 240216C185	Call	185	2/16/2024	OPRA	U
TSLA 240216C187.5	Call	187.5	2/16/2024	OPRA	U
TSLA 240216C190	Call	190	2/16/2024	OPRA	U
TSLA 240216P177.5	Put	177.5	2/16/2024	OPRA	U
TSLA 240216P180	Put	180	2/16/2024	OPRA	U
TSLA 240216P182.5	Put	182.5	2/16/2024	OPRA	U
TSLA 240216P185	Put	185	2/16/2024	OPRA	U
TSLA 240216P187.5	Put	187.5	2/16/2024	OPRA	U
TSLA 240216P190	Put	190	2/16/2024	OPRA	U
TSLA 240223C177.5	Call	177.5	2/23/2024	OPRA	U

OK Cancel Help

An additional option filter can filter by strike prices, expiration dates, option types, and underlying types.



Let's look at an example. We currently hold a long call option on TSLA. With the activation rule, we can set a stop loss and profit target order based on the option premium. Let's initiate a closing transaction by right-clicking on the open position and selecting Close Position.

Positions		Underlying	Spread	Days	Underlying Last	Delta
TSLA		TSLA	Single 1 @ 15 Mar, 190 Call	30	184.20	43.91
Subtotals:						157.48

Trade						
Spread	Delta	Theta	Max Profit	Max Loss		
Single	-43.91	15.97	0.00	-565.00		
Side	Open / Close	Quantity	Symbol	Expiration	Strike	Type
Sell	Close	-1	TSLA	15 Mar 24	190	Call

Order Type	Limit Price	Stop Price	Route	Duration	Account Number
Market	7.10	7.10	Intelligent	GTC	
Natural	7.05	7.10	<input checked="" type="checkbox"/> Activation Rule		

CREDIT
Analyze Place Order

To avoid searching through many option symbols on TSLA, we modified the filter to include the specific call option for which we set the conditions. You must use different strike prices in the “from” and “to” sections and different expiration dates in the “from” and “to” area.

Options Filter

Strike Price Range

Return 3 strikes above/below underlying price

Return strike prices from 190 to 195

Expiration Date

Return the next 4 expiration dates

Return the expiration date

from 3/14/2024 12:00:00 to 3/15/2024 12:00:00

Order Type

Calls Puts

Symbol Type

Composite Regional Include Mini

Set as Default

OK Cancel Help



Review Options Level – Ready to take your options trading to the next level? Learn about your option level and make sure it’s right for you. Boost your trading potential!

Click Ok and then Lookup to get the filtered results.

Symbol Lookup

Stocks Options Index

For Underlying and Index, type the underlying symbol or option root (e.g. MSFT or MSQ) and select the country for the options you want to lookup. For Futures, type the option root (e.g. SP). If you are unsure of the symbol/root, click on the Underlying, Futures, or Index tab.

Category: Underlying Option

Underlying/Root: TSLA

Lookup

Filter Settings

Return strike prices from 190 to 195

Return expiration dates between 03/14/24 and 03/15/24

Return Calls

Return Composite

Modify Filter...

3 results found

Symbol	Type	Strike	Expiration	Exchange	Country
TSLA 240315C190	Call	190	3/15/2024	OPRA	U
TSLA 240315C191.67	Call	191.67	3/15/2024	OPRA	U
TSLA 240315C195	Call	195	3/15/2024	OPRA	U

OK Cancel Help

Selecting the correct option symbol and clicking Ok loads the options symbol.

Activation Rule

Activate order based on:

Start Time

Time >= 7:45:44 PM Local Time

Price

TSLA 240315C190 Add Lookup...

Symbol	Value	Trigger Type

We can now add the symbol to the activation rule and set the trigger prices based on the premium. It is set the same way as a stock. Use “or” as a connector so either condition would trigger the exit order.

Activate order based on:

Start Time

Time >= 1:04:52 PM Local Time

Price

TSLA 240315C190 Add Lookup...

Symbol		Value	Trigger Type		
TSLA 240315C190	<=	3.00	Single Trade Tick (STT)	or	✕
TSLA 240315C190	>=	19.00	Single Trade Tick (STT)		✕

OK Cancel Help

In this example, the trader aims to exit the long call if the premium drops to \$3.00 or less for a stop loss. However, if the call premium rises to \$21.00 or greater, the exit order is triggered for the profit target.

Practice

You can log onto the TradeStation platform in Simulated Trading mode. Here, you can practice placing activation rules on options orders without risking real money until you are comfortable. This will familiarize you with the order entry process.

Conclusion

TradeStation’s Activation Rule is an order feature that allows you to determine the time or price at which an order will be sent to the market. Using the activation rule on options orders automates part of the trading process and may help reduce the effect of emotions that can hurt a trader’s profitability. This automation can also assist traders by handling order routing, relieving them from constantly sitting in front of their computers monitoring market prices and time. Learning to understand how these rules work may help you trade smarter not harder.

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