

Slippage on thin chains

OPTIONS SLIPPAGE

The gap between the intended and received price on options, worst on thin chains: illiquid cells fill far from the quote, market orders walk a shallow book, and the spread itself widens exactly when the underlying moves and the trader most needs to act. Options slippage compounds the spread of lesson 2 - the same illiquidity that widened the spread makes the fill uncertain - and it is worst in the corners retail favours and at the moments that matter.

Slippage on the platform is the gap between intended and received price; on options it lives in the thin chains, and it compounds the spread that already dominates options costs.

Where options slippage lives

Thin chains: an illiquid option's book is shallow, so a market order walks it - filling worse than the quote, sometimes far worse; the illiquidity of module 2 producing slippage on top of its wide spread. The underlying-move moment: when the underlying moves sharply, options spreads widen and books thin as market-makers step back - so the fill is worst exactly when the trader most needs to enter or exit, the options version of the scheduled-thinness lesson. The multi-leg leg-risk: entering a multi-leg structure leg by leg risks the underlying moving between fills, so the structure fills at a worse net than intended - a slippage specific to complex positions.

The stop hazard, options-flavoured

A stop on an option is doubly exposed: the option's own thin book means the stop fills far from its level, and the option's price moves faster than the underlying (leverage), so a modest underlying move triggers and slips the option stop hard. Worse, the moment that triggers the stop - a sharp underlying move - is exactly when the option's spread is widest and its book thinnest, so the option stop fills at its worst precisely when it fires. The platform's stop-and-slippage discipline, on the option's leveraged, thin-chained price.

The budget and the control

Budget slippage at the specific cell's real liquidity, worse around the underlying's volatility, and worst for stops and multi-leg entries - the platform's standing rule, on options' amplifiers. And the control is module 2's again: the liquid near-the-money cells of major underlyings slip little; the thin corners slip badly, and trading there accepts it. Options slippage compounds the spread, concentrates in the illiquid corners and the volatile moments, and is worst on the leveraged, thin-chained instruments retail is drawn to - so confining to liquid cells and pricing the fill honestly is most of managing it. The cheap far option is cheap partly because filling it, both ways, costs more than its quote admits.

Check your understanding

1. Why is an options stop doubly exposed to slippage?

- a. Stops are not allowed on options
- b. The option's thin book fills the stop far from its level, and the option's price moves faster than the underlying - so a modest underlying move triggers and slips the stop hard, worst exactly when it fires
- c. Stops cost extra commission

Answer: b. Thin book plus leverage plus the widest spread arriving with the triggering move. The stop-and-slip-page discipline on the option's leveraged, thin-chained price.

2. Where does options slippage concentrate?

- a. In liquid at-the-money options
- b. In the thin corners retail favours and at the volatile moments that matter - the same illiquidity that widened the spread makes the fill uncertain too
- c. Only at expiry

Answer: b. Slippage compounds the spread in the illiquid cells and the underlying-move moments. Confining to liquid cells and pricing the fill honestly is most of managing it.