The spread is the dominant cost

THE SPREAD AS DOMINANT COST

For most options positions the bid-ask spread, not the commission, is the largest cost - and unlike the commission it is invisible on the ticket, buried in the gap between what you pay and what you could immediately sell for. Wide on the illiquid options retail favours, paid on both legs and every leg, the spread is the options cost that most often exceeds the position's edge, and the one the reader most often ignores.

Module 2 read the bid-ask; this lesson names it as the dominant cost - because for most options positions the spread dwarfs the commission, and unlike the commission it hides, buried in the price rather than printed on the ticket.

Why the spread dominates

It is often larger than the commission: a wide options spread, times the multiplier, on both legs, routinely exceeds the per-contract commission - especially on the illiquid options where the spread is widest (module 2).It is invisible: the commission is printed; the spread is the gap between the bid and the ask, paid silently by buying at the ask and selling at the bid - a cost the reader must compute, because no line item shows it.It compounds with legs and illiquidity: multi-leg positions pay it per leg (lesson 3), and the illiquid corners pay it widest - so the spread's total on a complex position in thin options can be a large fraction of the premium.

The hidden-cost trap

Because the spread is invisible, it is the options cost most often ignored - a reader focused on the printed commission misses that the spread quietly took more. Buying an illiquid option at the ask and later selling at the bid can lose a large fraction of the premium to the spread alone, before the underlying does anything - the same hidden erosion crypto's funding meter caused, in options' spread. The honest position cost prices the spread at its real width, times the multiplier, on both legs, and treats the mid-price as a fiction the trade does not fill at.

The controllable part

Like every spread on the platform, this one is partly a choice: the liquid near-the-money options of major underlyings carry tight spreads, and confining to them keeps the spread manageable; the illiquid far corners carry wide ones, and trading there pays the penalty. The spread is the dominant options cost and the one most within the reader's control through where on the chain they trade - so reading the spread of the exact cell, and preferring the liquid cells, is most of controlling options costs. The commission is visible and smaller; the spread is hidden and larger; and honest options costing starts by making the hidden one visible.

Check your understanding

1. Why is the spread the dominant options cost?

a. It is charged twice

b. It routinely exceeds the commission - wide on illiquid options, times the multiplier, on both legs - and it is invisible, buried in the gap between bid and ask rather than printed

c. It is a regulatory fee

Answer: b. For most positions the spread dwarfs the commission and hides in the price. It is the options cost that most often exceeds the edge and the one most often ignored.

2. How is the spread partly controllable?

a. By negotiating with the broker

b. Through where on the chain you trade: liquid near-the-money options of major underlyings carry tight spreads; the illiquid far corners carry wide ones

c. By trading larger size

Answer: b. The liquid cells keep the spread manageable; the illiquid corners pay the penalty. Reading the exact cell's spread and preferring liquid cells is most of controlling options costs.