

ReadySetCrypto Income Through Options Masterclass



READYSETCRYPTO



Module Seven_B: The LedgerX Exchange

Module Seven_B

The LedgerX Exchange

By Doc Severson

© Copyright 2021 by Doc Severson & ReadySetCrypto, LLC

All Rights Reserved

- **We Are Not Financial Advisors or a Broker/Dealer:** Neither ReadySetCrypto® nor any of its officers, employees, representatives, agents, or independent contractors are, in such capacities, licensed financial advisors, registered investment advisers, or registered broker-dealers. ReadySetCrypto ® does not provide investment or financial advice or make investment recommendations, nor is it in the business of transacting trades, nor does it direct client commodity accounts or give commodity trading advice tailored to any particular client's situation. Nothing contained in this communication constitutes a solicitation, recommendation, promotion, endorsement, or offer by ReadySetCrypto ® of any particular security, transaction, or investment.
- **Securities Used as Examples:** The security used in this example is used for illustrative purposes only. ReadySetCrypto ® is not recommending that you buy or sell this security. Past performance shown in examples may not be indicative of future performance.
- **All information provided are for educational purposes only and does not imply, express, or guarantee future returns.** Past performance shown in examples may not be indicative of future performance.
- **Investing Risk:** Trading securities can involve high risk and the loss of any funds invested. Investment information provided may not be appropriate for all investors and is provided without respect to individual investor financial sophistication, financial situation, investing time horizon, or risk tolerance.
- **Cryptocurrency Trading Risk:** crypto trading is generally more complex than stock trading and may not be suitable for some investors. Margin strategies can result in the loss of more than the original amount invested.
- **No part of these materials presentation may be copied, recorded, or rebroadcast in any form without the prior written consent of ReadySetCrypto ®.**

Table of Contents

Introduction to the LedgerX Exchange	4
LedgerX Options Settlement	5
Listed Options	6
Trade Entry	7
Position Size, Leverage, and Margin	8
Summary - LedgerX	9

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 in 2019 they offered 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 not tremendously liquid at this time, just because few investors are aware of their offering, and fewer still understand options...but in the three years that I’ve been watching them, liquidity has improved dramatically.

At this time LedgerX is only servicing the USA.

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 hundred contracts of puts sold, and will be assigned to sell one BTC per hundred contracts 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, you will need to have the capital required to accept that assignment, but with the advent of their mini-contracts, even small investors can benefit.

Listed Options

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

Figure 1

POS.	OI	BID	ASK	STRIKE	BID	ASK	OI	POS.
2021 FEBRUARY 19								
-	711	1,500.00	1,850.00	50,000	3,000.00	6,130.00	74	-
-	333	900.00	999.00	52,000	2,000.00	4,470.00	16	-
-	509	300.00	650.00	54,000	5,520.00	6,040.00	1	-
-	2.9k	150.00	200.00	60,000	11,000.00	11,600.00	12	-
2021 FEBRUARY 26								
-	1.3k	43,700.00	48,700.00	5,000	1.00	45.00	7	-
-	525	38,500.00	40,000.00	10,000	10.00	45.00	1.6k	-
-	182	36,500.00	38,000.00	12,000	11.00	80.00	1.6k	-
-	809	33,500.00	35,000.00	15,000	37.00	90.00	1.8k	-
-	710	28,600.00	33,700.00	20,000	61.00	150.00	9.2k	-
-	3.6k	21,000.00	24,989.00	25,000	100.00	150.00	4.7k	-1
-	937	17,800.00	19,750.00	30,000	255.00	380.00	1.8k	-
-	5.3k	13,000.00	13,950.00	35,000	350.00	659.00	1.8k	-
-	6.5k	8,615.00	10,000.00	40,000	605.00	800.00	1.4k	-
-	3.4k	5,302.00	6,100.00	45,000	1,500.00	2,030.00	362	-

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

At the time of this writing, (2021) LedgerX offers a lot of options series going far out into the future, creating some interesting possibilities to either speculate or write premium.

In Figure 2 below, the options are about 20 months out, and the left-most column shows the open interest willing to speculate on call options:

Figure 2

2022 DECEMBER 30							
91	44,000.00	59,300.00	5,000	340.00	1,979.00	274	
1.4k	30,650.00	34,485.00	25,000	1,800.00	19,888.00	10	
5.2k	21,025.00	23,399.00	50,000	11,400.00	38,300.00	1	
1.2k	16,260.00	21,499.00	75,000	30,300.00	57,400.00	3	
2.4k	13,000.00	14,000.00	100,000	51,000.00	78,200.00	1	
3.6k	8,110.00	8,660.00	200,000	30,400.00	-	1	

Trade Entry

LedgerX has a VERY simplistic order entry interface. 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 3

OPTIONS ORDER ENTRY

BTC Mini 2021-03-26 Put \$40,000

Your Position:

No Trades

Contracts ⓘ

eg. 100

Price ⓘ

\$2,200

Underlying:

--

Premium:

--

Buy

Sell

Implied Volatility

113.36%

Delta

-0.24

Order Book

SIZE	BID	ASK	SIZE
67	2,200.00	3,200.00	1
15	2,010.00	3,320.00	1
4	2,000.00	3,810.00	10
1	1,090.00	3,820.00	2
5	800.00	6,500.00	1
1	465.00	7,500.00	1
93	1.00	8,000.00	10
		10,000.00	1

You can either select to buy or sell that option, and specify the position size by the number of contracts.

One contract represents 1/100 of a Bitcoin.

In this example, if I am selling the \$40,000 put option with one contract, I will need at least \$400 in cash in the account to accept assignment should the price be at or below the \$40,000 mark by the 26th of March.

LedgerX will allow you to negotiate the price of the bid when selling, or the ask price when buying. While the spreads are currently very wide, certainly wider than with Deribit..I can usually get a pretty good fill in between the bid and ask prices.

I will start at the midpoint and work down towards the bid price when selling puts.

Position Size, Leverage, and Margin

As discussed above, each contract of LedgerX options are worth 1/100 of a Bitcoin. If you want to trade with the weight of one Bitcoin, then you'd use a 100 contract trade size.

You must maintain at least the level of cash necessary to be assigned a position. For example, if BTC/USD is currently priced at \$50,000, then you will need \$500 in your account to be able to trade one contract of cash-secured puts at the \$50,000 strike price. Going further out of the money allows you to leverage less cash at smaller prices.

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.

I think of LedgerX as a machine that turns dollars into Bitcoin.

Summary - LedgerX

As I write this in early 2021, LedgerX might be the only legal option for US residents, however other crypto option brokers have more volume and activity. With other larger US firms threatening to enter the space, it 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 but this has improved significantly of late.
- You can negotiate the bid-ask spread even though the bid-ask spreads are wide.
- Closing the position manually is accomplished by submitting an opposite order against the same option.
- Minimum position size is 1/100 BTC and is a one-contract position.
- 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, LastX, volume, etc.