

24 Views | 11 CrossRef citations to date | 0 Altmetric

Research Articles

# Program Trading and Expiration-Day Effects

Hans R. Stoll & Robert E. Whaley

Pages 16-28 | Published online: 31 Dec 2018

🗨️ Cite this article   🔗 <https://doi.org/10.2469/faj.v43.n2.16>

🌿 CFA Institute members: [sign in to access the Financial Analysts Journal.](#)

Sample our  
Mathematics & Statistics  
Journals

>> [Sign in here](#) to start your access  
to the latest two volumes for 14 days

🗨️ Citations

📊 Metrics

📄 Reprints & Permissions

Read this article

## We Care About Your Privacy

We and our 842 partners store and/or access information on a device, such as unique IDs in cookies to process personal data. You may accept or manage your choices by clicking below, including your right to object where legitimate interest is used, or at any time in the privacy policy page. These choices will be signaled to our partners and will not affect browsing data. [Privacy Policy](#)

We and our partners process data to provide:

Use precise geolocation data. Actively scan device characteristics for identification. Store and/or access information on a device. Personalised advertising and content, advertising and content measurement, audience research and services development.

List of Partners (vendors)

I Accept

Essential Only

Show Purpose



## Program Trading and Expiration-Day Effects

The arbitrage between index futures and the underlying cash index and the cash settlement feature of index futures contracts, which requires arbitrageurs to unwind positions in the stock market, are thought to be at the heart of the abnormal stock price movements during the "triple-witching" hour—the last hour of trading on days on which index futures, index options and options on index futures expire simultaneously. During 1984 and 1985, volume was substantially higher than normal in the last hour of trading on those quarterly Fridays. Open interest in the expiring futures contracts on the expiration day amounted to about 40 per cent of the average month-end open interest. The incremental stock market volume, however, was approximately one-third the volume that would be implied if the entire expiration-day open interest were traded in the stock market.

Analysis of stock market price changes in the last hour of expiration days and the first half-hour of the following day indicates that the volatility of price changes was significantly higher on expiration days, with the stock market tending to fall. Stocks not in the S&P 500, however, exhibited no price effects. Price effects seemed also to be associated only with the S&P 500 futures contract expirations; index option expirations themselves did not lead to abnormal market movements. When the magnitude of price effects was measured by the degree of reversal in prices on the morning after the expiration day, the average magnitude of the price effect in the 10 most recent quarterly futures contract expirations examined was about 0.4 per cent of the closing index value at expiration.

The average expiration-day price effect of 0.4 per cent is not large, considering that a price impact of approximately 0.25 per cent of the value of the transaction can be expected on the basis of the bid-ask spread. Once this market impact cost is drawn out, the average expiration day price impact falls to about 0.15 per cent of the value of the transaction, an amount representing the additional cost of liquidity. Furthermore, price impacts in excess of those found on expiration days are frequently encountered in large block transactions, where the cost of providing liquidity also increases. On expiration days, however, transactions in many stocks occur simultaneously, so the market as a whole is affected.

Hans Stoll is the Anne Marie and Thomas B. Walker Professor of Finance at the Owen Graduate School of Management, Vanderbilt University. Robert Whaley is Associate Professor of Finance at The Fuqua School of Business, Duke University.

This article is based on a larger study, *Expiration Day Effects of Index Options and Futures*, Monograph Series in Finance and Economics, Monograph No. 1986-3 (New York: New York University, March 1987). The study was carried out at the request of the major option exchanges.

The authors thank the Chicago Board Options Exchange, the Chicago Board of Trade and the Chicago Mercantile Exchange for providing the data used in the study, and Paul Laux for his capable research assistance. The authors are grateful for useful comments by and discussions with David Emanuel, Richard J. Rendleman, Jr., and their colleagues at Vanderbilt and Duke Universities. Professor Whaley acknowledges the support of the Futures and Options Research Center at Duke University.



Log in

> Account

Log out

> Logout

Restore

> Restore content access for purchases made as guest


## Purchase options \*

Save for later

### PDF download + Online access

- 48 hours access to article PDF & online version
- Article PDF can be downloaded
- Article PDF can be printed


USD 53.00

 Add to cart

### Issue Purchase

- 30 days online access to complete issue
- Article PDFs can be downloaded
- Article PDFs can be printed

USD 162.00

 Add to cart

\* Local tax will be added as applicable

## Related Research

People also read

Recommended articles

Cited by  
11



Information for

- Authors
- R&D professionals
- Editors
- Librarians
- Societies

Opportunities

- Reprints and e-prints
- Advertising solutions
- Accelerated publication
- Corporate access solutions

Open access

- Overview
- Open journals
- Open Select
- Dove Medical Press
- F1000Research

Help and information

- Help and contact
- Newsroom
- All journals
- Books

Keep up to date

Register to receive personalised research and resources by email

 Sign me up



✕