Option Spread Risk Disclosure

Before using our spread order entry screen, options spread traders must understand the additional risks associated with this type of trading.

While it is generally accepted that spread trading may reduce the risk of loss of trading of the outright purchase of a standardized option contract, an investor/trader MUST understand that the risk reduction can lead to other risks.

1. Early exercise and assignment can create risk and loss. Spreads are subject to early exercise or assignment that can remove the very protection that the investor/trader sought. This can lead to margin calls and greater losses than anticipated when the trade was entered. Webull Financial reserves the right to close an option position that may be subject to exercise or assignment (in- or out-of-the money), depending upon account equity, buying power, and market conditions.
2. Execution of spread orders is "not held" and discretionary. Spreads are not standardized contracts as are exchanged traded put and calls. Spreads are the combination of standardized put and call contracts. There is NO spread market in securities that are subject such benchmarks such as "time and sales" or "NBBO" (National Best Bid/Offer) and therefore the "market" cannot be "held" to a price.
3. Spreads are executed differently than "legged" orders. Spreads are used by strategists as examples of risk protection, profit enhancement and as a basis for results and return on investments. However, these strategies assume that the trade can actually be executed as a spread when market forces may and can make the actual execution impossible. Spreads are a bona-fide trades and not "legged" or "paired" of individual separate trades. For example: options prices on cross-markets are misleading for the spread trader. An option may be offered on one exchange and bid on another exchange that can lead the trader to believe that their spread trade should be filled, when, in fact, the bids and offers must be on the SAME exchange. As all bona-fide spreads are routed and executed on "one" exchange.
4. Spreads are entered on a single exchange and are acted upon by a market maker. Spreads are executed at the discretion of a market maker and when cancelled or filled require that the market maker take manual action and require manual reporting at times. Delays for reporting of fills and cancels may create additional risks in fast or changing markets. Spreads entered through Webull Financial’s spread order entry screen are ALWAYS entered as spreads and as such are subject to the market risk and conditions as explained above.