Momentum, Reversal, and Seasonality in Option Returns

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Summary

Overall: Strong results, comprehensive analysis with a lot of robustness checks

Main takeaways:

1. (Zero-delta straddle) Option returns exhibit momentum over 6-36 month periods

2. Option momentum returns are not exposed to crash risks

3. Option returns display 1-month reversals

4. Option returns exhibit seasonality at multiples of 3 and 12 lags

5. Reversals due to overreaction

6. Momentum due to underreaction to past (stock return) volatility

7. Seasonality due to unpriced seasonal variation in stock return volatility

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Suggestion: Establish that stock and option returns are **indeed different**, by plotting the distribution of the stock return and (delta-neutral) option return correlations

Comments on the momentum strategy

To form the momentum strategy:

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2. This differs from equity momentum strategies, which sort based on their **past cumulative returns**

3. Paper argues that straddle returns are very volatile, thus cumulative returns of all straddles would be highly negative and close to each other (-100%)

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Question: Is trading the option momentum strategy profitable over a period of time?

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Suggestion: Plot the cumulative returns of option momentum strategies

Discussion on Microstructure biases

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Suggestion: Present momentum returns using the **value-weighting** scheme

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Question: Could you justify analytically that option momentum is a zero-net strategy?

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Channel for momentum returns

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Question: However, given the recent surge in factor models and IPCA (Kelly et al), wouldn't you want tackle this question using a richer framework?

Comment: Why not just document option momentum in this paper and identify its possible channel using a separate paper using a richer framework?

1. Very nice paper and strong results

2. I have personally learned a lot from reading the paper

3. The paper already is in good hands

4. I look forward to reading the published version!