



Theta decay, explained

The melting ice cube

Every option melts

Every option is a melting ice cube. Theta measures how fast. A theta of negative 0.05 means the option loses about five cents a day, all else equal. Time is always working.

Slow, then a cliff

Decay is gentle months out and brutal in the final 30 days. The last week is a cliff edge. This is why buying short-dated options is swimming upstream against the current.



The sellers

Every quiet day, the seller keeps the melt. Time is the seller's edge and the buyer's tax. One side of every option trade is getting paid by the calendar.

Which side of the cube

Buy options and the move must outrun the melt.
Sell them and you need nothing to happen.
Before every trade, know which side of the ice
cube you are on.



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