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Zero Days to Expiration Options:

What Are They and How They Work?

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Zero Days to Expiration (0DTE) options are option contracts that expire on the same trading day they are entered. In the case of S&P 500 Index (SPX) options, expiration occurs at the end of the trading session (2:00 p.m. Mountain Time). Over the past several years, 0DTE options have grown significantly in popularity and now represent a substantial portion of overall SPX options volume, with millions of contracts traded daily. This elevated level of activity has resulted in deep liquidity and efficient pricing in these markets, characteristics that may support certain option-based strategies when used appropriately.

Understanding Option Value and Time Decay (Theta)

Unlike shares of stock, which do not expire, options have a defined lifespan. A stock's value changes only when its price moves. Options, however, are influenced by multiple factors, including price movement, volatility, interest rates, and time remaining until expiration.

An option's value is composed of two components:

- **Intrinsic value**, which exists when an option is "in the money," meaning the underlying stock or index price has exceeded (for calls) or fallen below (for puts) the option's strike price.
- **Extrinsic value**, often referred to as *time value*, which reflects the potential for an option to move from out of the money to in the money before expiration.

As time passes, extrinsic value generally declines, all else being equal. This phenomenon is known as theta, or time decay. Importantly, time decay does not occur evenly. It accelerates as expiration approaches, meaning options with very short durations—such as 0DTE contracts—can experience rapid declines in time value over the course of a single trading day.

If a 0DTE option expires out of the money, it has no intrinsic value at expiration and therefore expires worthless. At that point, the contract ceases to exist and is removed from the portfolio. This rapid loss of time value is a defining characteristic of 0DTE options and is central to how certain strategies are constructed. When markets remain within a defined range and do not move beyond selected strike prices, time decay can work in favor of option sellers. As a result, market movement is not always required for such strategies to generate returns, although outcomes can vary based on market conditions.

“An unchanged day in the market can still be a profitable day.”



Tony Hozian
Sr. Derivatives
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Options as a Portfolio Tool

Options can introduce diversification in how portfolios seek to generate returns. Traditional long-only portfolios rely primarily on asset appreciation to produce gains. Option strategies, by contrast, may be structured to express views not only on market direction, but also on volatility, range-bound behavior, or the likelihood that markets remain within certain thresholds. This flexibility allows options to serve as a complementary tool within a broader investment framework, rather than a replacement for traditional holdings.

Potential Characteristics of 0DTE Trading

Trading 0DTE options may offer certain structural characteristics that differentiate them from longer-dated options. Because these contracts expire the same day, exposure is typically limited to intraday market movements, and price changes that occur after market close generally do not affect positions that have already expired. That said, not all option strategies are confined to same-day expirations, and firms may utilize a range of option durations depending on market conditions, strategy design, and risk considerations.

Additionally, the high trading volume in major index 0DTE options often contributes to tight bid-ask spreads and efficient execution under normal market conditions. However, liquidity and pricing can change rapidly, particularly during periods of heightened volatility.

It is also important to note that 0DTE options carry unique risks. Their short lifespan makes them highly sensitive to intraday price movements, volatility spikes, and sudden market events. Losses can occur quickly if markets move beyond anticipated ranges, and these strategies may not be appropriate for all investors or market environments.

Summary

Zero Days to Expiration (0DTE) options are contracts that expire on the same day they are traded. Their short duration, high liquidity, and pronounced time decay make them a distinctive segment of the options market. When used within a disciplined, risk-aware framework, 0DTE options can provide an additional way to express market views and manage exposure.

At Summit Global, 0DTE strategies represent one of several tools employed within a broader investment and risk-management approach. While these strategies may offer potential benefits under certain conditions, they also involve material risks and are used selectively alongside other investment techniques. As with all investment strategies, outcomes depend on market behavior, execution, and ongoing risk oversight, and no approach can eliminate risk or guarantee results.

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