

Compass Overview

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Compass Description

Compass is SpotGamma's proprietary scanner that enables you to **discover new trade ideas** and **analyze the best ways to trade your favorite names**. With Compass, you can plot multiple stocks across a 2-dimensional grid to assess both the volatility expectations and directional positioning for those names. Compass resides at the top of the Scanners page in the SpotGamma dashboard. Let's now detail the features provided within Compass:



- Guided View:** The **Guided View** within Compass empowers you to see if the stocks you follow have relatively high or low implied volatility, with a bullish or bearish setup. This helps you set up optimized trades by showing you how the options market prices in the magnitude and direction of stock movement.
- Explorer View:** The **Explorer View** toggle gives you full control over which metrics you can apply to the grid to evaluate a specific name.

- C. Axes: The axes are fixed within the Guided View. Within the Explorer View, you can select your preferred x- and y-axis values from the dropdowns at the top, along with an additional z-axis overlay (impact reflected by the size of the circle).
- D. Tooltips: Hover over a name on the Compass grid for detailed metrics including SpotGamma nearby support and resistance levels, descriptions of volatility, and potential conservative trade setups.
- E. Name selection: There are three ways to add names to the Compass grid. You can (1) Select names from your watchlist by clicking on the dropdown, (2) Choose from the VRP or Squeeze Scanner by clicking on the scanner dropdown on the right, or (3) Type in the ticker name in the search box to populate on the grid.

Guided View

Description of Guided View

In **Guided View**, traders can see where any US stock sits across a 2-dimensional chart that conveys market expectations for (1) the stock's volatility, and (2) the stock's directional outlook, based on the options market. Customizable color coding makes it clear where your names resides on Compass Guided View.

(1) Volatility (y-axis): The Compass **Guided View** uses **IV Rank** as a measurement of current volatility. **IV Rank** indicates where current implied volatility sits compared to the prior year's values.

A high IV Rank indicates that volatility is relatively high and that options may be expensive for the stock, while a low IV Rank signifies that implied volatility is low compared to the prior year with relatively cheap options.

(2) Directional Outlook (x-axis): Compass applies **Risk Reversal Rank** to show you how to use calls and puts to best optimize your position. **Risk Reversal** indicates how expensive calls are relative to puts, measuring the difference in implied volatility for same expiration options.

$$\text{Risk Reversal} = [30\text{dte } 25 \text{ delta call IV}] - [30\text{dte } 25 \text{ delta put IV}]$$

The **Risk Reversal Rank** indicates where a stock's current Risk Reversal value resides compared to the prior year.

- When **Risk Reversal Rank** is high, that indicates calls are expensive relative to puts, and traders might consider selling call spreads or buying puts.
- If **Risk Reversal Rank** is low, that indicates puts are expensive relative to calls, and traders might consider selling put spreads or buying calls.

Example of Using Guided View: Look for the lower right quadrant reflecting **low IV Rank** and a **high Risk Reversal Rank** to find names with relatively low IV (indicating cheaper options) and relatively high call skew. In this type of environment, traders might consider buying puts.

Guided View Statistics

The Guided View within Compass is supported by backtesting across one full year of data, analyzing both the (a) forward returns and (b) volatility profile of 3,500+ US stocks.

Forward Returns: Because Risk Reversal Rank shows where skew is most elevated (towards calls or puts), it can signal the direction of short-term returns.

- Forward returns are highest when Risk Reversal Rank is low (below 0.2)
- Forward returns are lowest when Risk Reversal Rank is relatively high (above 0.6), particularly when IV Rank is relatively high (above 0.6)

Mean 10-day Return

<i>IV Rank</i>	0.8 - 1.0	11%	1%	2%	-1%	-1%
	0.6 - 0.8	1%	4%	2%	-2%	2%
	0.4 - 0.6	10%	6%	3%	1%	0%
	0.2 - 0.4	7%	3%	2%	2%	1%
	0.0 - 0.2	3%	3%	2%	1%	2%
		0.0 - 0.2	0.2 - 0.4	0.4 - 0.6	0.6 - 0.8	0.8 - 1.0
		<i>Risk Reversal Rank</i>				

Volatility: IV Rank shows where IV sits for a stock relative to its prior year, which can be used to measure the market's expectation for a stock's price movement.

Volatility is estimated based on the standard deviation of daily returns over a 10-day time horizon.

- Forward volatility is highest when IV rank is high (above 0.8) and Risk Reversal Rank is low (below 0.2)
- Forward volatility is lowest when IV rank is low (below 0.20)

Standard Deviation of Daily Returns (10-day Horizon)

<i>IV Rank</i>	0.8 - 1.0	1.25	0.66	0.59	0.60	0.65
	0.6 - 0.8	1.23	0.61	0.48	0.68	0.59
	0.4 - 0.6	0.75	0.68	0.57	0.58	0.57
	0.2 - 0.4	0.74	0.56	0.56	0.61	0.57
	0.0 - 0.2	0.49	0.61	0.60	0.50	0.44
		0.0 - 0.2	0.2 - 0.4	0.4 - 0.6	0.6 - 0.8	0.8 - 1.0
		<i>Risk Reversal Rank</i>				

Trade Examples Using Compass Guided View

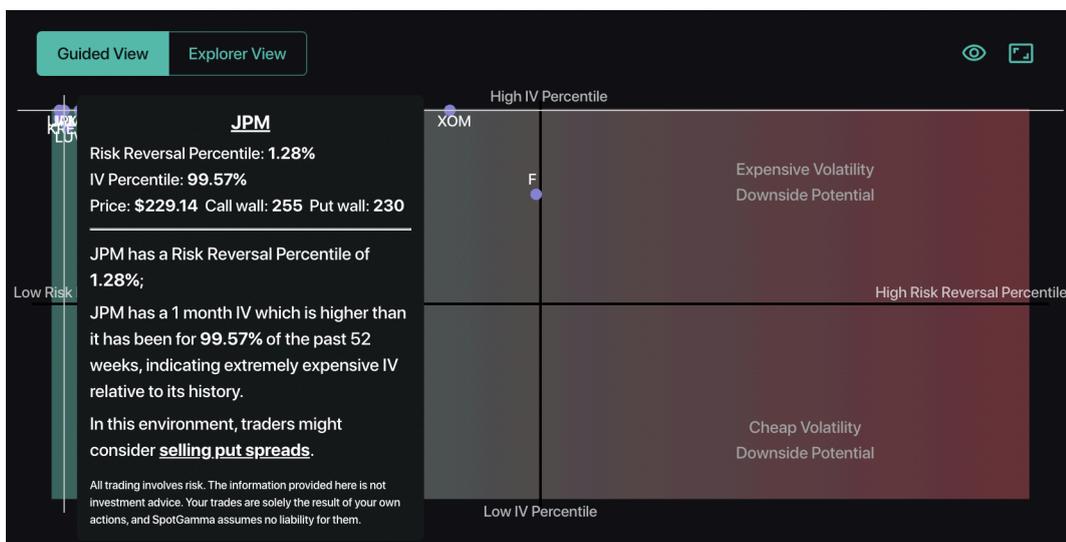
Below are two genuine trades made by SpotGamma contributors using Compass to discover a new trade idea, enter a new trade, or exit a position.

JP Morgan (ticker: JPM)

<u>Ticker:</u>	JPM
<u>Trade Type:</u>	Bullish
<u>Profit Profile:</u>	OTM Near-term Call Front Ratio with ATM longer-term call
<u>Timing:</u>	Medium-term (1-3 months)
<u>SG Tools Used:</u>	Compass, Equity Hub
<u>Entry Trade:</u>	Calendarized Ratio / butterfly (100d/23d) 225/245/265 +1 Jun 20 (100d) 225C -2 Apr 4 (23d) 245C +1 Apr 4 (23d) 265C
<u>Exiting Trade:</u>	Closed position Mar 20, JPM at \$239 (23% return in 10 days)
<u>Profit Target:</u>	\$1,200 Max Profit, 30-40% profit target (\$360-\$480)

Trade Hypothesis & Description:

- Compass revealed that IV was very high for JPM, with a very low Risk Reversal Rank – suggesting bullish sentiment for JPM.
- Equity Hub revealed meaningful support for JPM near the price of \$229.
- As earnings were within the next 45 days, the trade was structured with the 23dte and 100dte legs to roll into earnings-related volatility if necessary.

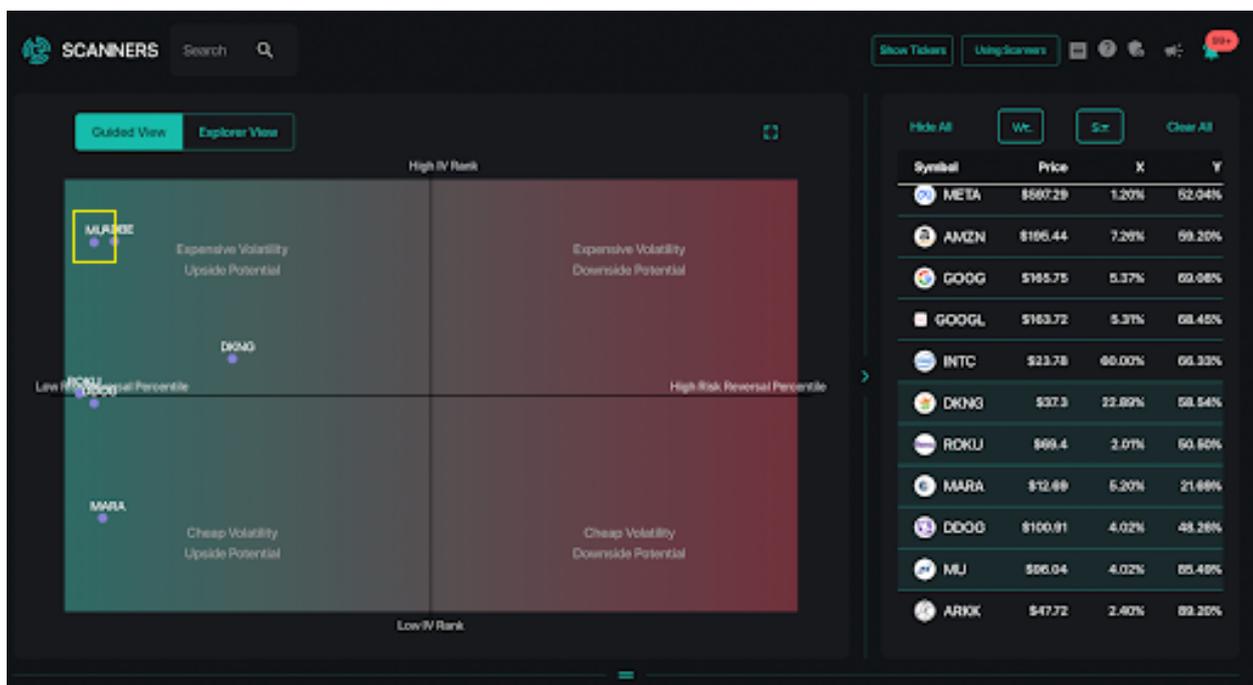


Micron (ticker: MU)

Ticker: MU
Trade Type: Bullish
Profit Profile: OTM (20d short put @ put wall)
Timing: Medium to Long
SG Tools Used: Compass, [Equity Hub](#), [Tape](#)
Entry Trade: Short Put (35d) 80
 -1 Apr 17 (35d) 80 @ \$2.01
Exiting Trade: +1 Apr 17 (35d) 80 @ \$1.38 (**31% return overnight**)
Profit Target: \$100 Max Profit (50%), 30-40% profit target typical (\$0.63+)

Trade Hypothesis & Description:

- Compass showed MU with high IV rank indicating that volatility was rich, and very low skew (Risk Reversal), meaning that puts were expensive relative to calls.
- Equity Hub showed the Put Wall at 180 for MU, creating a supportive floor near the current price.
- Tape revealed flows were turning bullish with calls being bought in later expiries (~1 month to expiration).



Explorer View

Explorer View allows users to select from a wide range of variables to discover relationships between different data points. In addition to customizable x- and y-axes, a **new z-axis** is introduced that changes the dot size for each name on the chart.

When using **Explorer View**, users can choose to plot variables from the Scanners table, along with four additional fields:

- **Call Skew Percentile:** This measures how high IV is for calls versus the stock's recent history, with a larger percentile reflecting relatively high call IV.
- **Put Skew Percentile:** This measures how high IV is for puts compared to the stock's recent history, with a larger percentile reflecting relatively high put IV.
- **IV Percentile:** IV Percentile measures the percentage of days over the prior year when the underlying asset's IV was lower than its current IV. Larger IV Percentiles suggest volatility is relatively high for the stock with expensive options, while a smaller IV Percentile suggests that volatility is low and options are cheap.
- **Risk Reversal Percentile:** Risk Reversal Percentile measures the percentage of days with a lower Risk Reversal metric than the current level. Lower values suggest more bullishness in the stock, while higher values indicate bearishness.
- **Proximity to Call Wall:** This measures the distance between current price and the stock's call wall. A lower percentage indicates the stock is closer to its call wall, while a larger percentage indicates it is further away. Once the call wall is broken, the stock will show up on the border of the grid.
- **Proximity to Put Wall:** This measures the distance between current price and the stock's put wall. A lower percentage indicates the stock is closer to its put wall, while a larger percentage indicates it is further away. Once the put wall is broken, the stock will show up on the border of the grid.
- **RSI:** RSI (Relative Strength Index) measures the momentum of a stock based on the speed and magnitude of recent price movement. A low RSI often indicates buying conditions, and a high RSI often indicates selling conditions.

- **High Bollinger Band %:** Bollinger bands measure stock price in relation to recent history. A high Bollinger Band % indicates price may revert lower (bearish), while a low Bollinger Band % can signal a reversion upwards (bullish).

Saved Views: Within Explorer View, users can select *Save Current Configuration* at the top of the chart so they can reference that same x, y, and z-axes in the future. Saved views can be accessed using the *View Saved Configurations* icon at the top of the Explorer View chart.

Example of Using Explorer View: Compare 1-month IV to 1-month Realized Volatility to see which names have experienced more recent volatility than anticipated. In these conditions, traders may consider strategies involving buying options vs. selling options.