

Call/Put Options Ratio

A leading sentiment indicator is the call-put ratio. It is calculated by dividing the volume of call options by the volume of put options.

A call-put ratio of 1 indicates that a neutral view is currently prevalent in the market. A call-put ratio greater than 1 indicates a bullish market sentiment. The higher the ratio, the greater the degree of bullishness. A call-put ratio less than 1 indicates a bearish sentiment.

While the call-put ratio is a good indicator for the current investor sentiment, a look at how it trends over time is even more reliable. Even though call-put ratios may stay at levels greater than 1 for a (considerable) period of time, this may not really indicate bullishness if the indicator is falling over that time. Conversely, call-put ratios at levels below 1 need not necessarily indicate bearishness, as long as the ratio is rising. In other words, call/put ratios are a market sentiment indicator, not a trend confirmation indicator.

Call/Put Options Oscillator

This indicator is calculated by dividing the weekly volume of all call options by the weekly volume of all put options. This is an indicator based on the concept that the majority of options traders are frequently wrong near critical turning points. For example, we often find big call volumes near market tops and big put volumes near market bottoms. High readings of this oscillator are considered bearish; low readings are bullish.