The Secret to Instant Option Trading Success

By Wendy Kirkland
X-Factor Advantage
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by

Wendy Kirkland
# Table of Contents

The X-Factor – An Unfair Advantage ................................................. 4  
Option Trading ................................................................................. 4  
Option Basics .................................................................................. 9  
Trader’s Mindset and the Art of Garnering Info ................................. 10  
The Journey Begins .......................................................................... 10  
The Market- A Living Entity? .............................................................. 11  
Bullish or Bearish ............................................................................. 13  
Leverage – The Wealth Building Aspect of Option Trading ............... 13  
Calls & Puts – The Two Types of Options ......................................... 14  
Trade the Trend ................................................................................ 14  
Story Illustration of How an Option Works ...................................... 15  
Option Premium ............................................................................... 17  
Which Companies Do You Buy Options On? ..................................... 18  
I Told You That You Can Do This! ...................................................... 21  
An Option – Is an Agreement Between You and Another Trader.... 24  
Which Option Should I Buy? ............................................................... 28  
Volume and Open Interest ................................................................. 30  
Weekly, Monthly and LEAPS Expirations ........................................ 31  
How Much of the Premium is Time Value Versus True Value? ......... 33  
Sounds Like Greek to Me................................................................ 35  
Opening a Trade Account .................................................................. 40  
Paper or Virtual Trade .................................................................... 40  
Placing a Trade ................................................................................ 44  
Order Status ..................................................................................... 48  
All In One Ticket ............................................................................. 49  
Open Positions ................................................................................ 50  
How Do You Close a Trade? ............................................................... 51  
Trade Analysis .................................................................................. 53  
Are We There Yet? .......................................................................... 53  
Long & Short Trading Strategies ....................................................... 55  
So Why the Heck Isn’t Every One Trading Options? ......................... 56  
Increase Your Success Level ............................................................. 58  
Right Place, Right Time ................................................................... 68  
Life-Changing Opportunities ............................................................ 69
The X-Factor – An Unfair Advantage

People always ask, "Wendy, what's the ONE thing that will help me the MOST in reaching the next level, to breakthrough to Financial Independence?"

And my reply is not what they expect. It's not, "Watch more of my webinars or read my books." That's a cop out.

I truly believe option trading is the perfect vehicle to bring you the financial independence you desire. But it isn't the sole answer.

It's one thing to learn a winning methodology. It’s something else to sustain the level of commitment you need to achieve the success you desire.

If you’re like most people, sometimes you’ll find it hard to maintain the necessary enthusiasm and discipline sitting at home alone... in a wealth-building vacuum.

That’s why I established a free Option Trading Chatroom... where traders can get their questions answered and find friendly support from other traders of all levels.

Many chatroom regulars are already very successful and need no technical help. But they come anyway. They come for the comradery. They come to share ideas. And they come for the gratification of helping beginners achieve the success they deserve.

Please won’t you join us? https://chatroll.com/option-trading

Personal trade support and accountability through a trade community made all the difference for me. I hope you'll give it a shot... it might just surprise you... and change your life forever.

This is the X-Factor Advantage: https://chatroll.com/option-trading

Option Trading

Stock options and trading them isn't a common everyday term. People don't wake up one morning and say, "I want to learn to trade options." Most often we are introduced to option trading by someone who is involved in trading. This may happen through our employment, education, a family member or perhaps we are brought to it by financial need.
Financial hardship and stress is how I came to learn about options.

Let me quickly share my story.

The flood waters receded and my husband, Jack began hosing the mud out of our retail gift store for a second time in ten days. Contractors cut and removed the drywall 5 feet up from the floor to expose the beams to help the drying process. Mold became our next enemy. The mountains of Western Northern Carolina are not thought of as flood prone so we had no flood insurance when Tropical Storm Frances and two weeks later Ivan hit.

In a state of shock, Jack and I went through our days trying to salvage what we could, like artisan glass pieces that could be washed and cleaned. We tossed into the dumpster nestled into a corner of the parking lot boxes of stationary, aprons and quilts and other absorbent items that were ruined from oil and sewage tinged water. As the reality of the situation settled in, it became evident that after 20 years we needed a new source of income. Recovery wasn’t going to happen overnight. Retirement wasn’t an option and probably never would be.

A friend, sensing my need for a break, a change of atmosphere and an excuse to celebrate my overlooked birthday, invited me to lunch.

She leaned across the table at the restaurant where we’d met to eat and patted my hand sympathetically as I expressed my grief, concern and fear about my financial future. Then she glanced around the room, as if making sure no one could hear her. “I think I have an idea that will help you. I’m involved in something new—and very exciting,” she whispered.

“Is it illegal?” I teased, but from the way she was acting, I thought she must be talking about a “change your life” seminar that offered the keys to lasting happiness or something equally momentous. And I was in no mood for a dose of pie-in-the-sky philosophy.

She shook her head. “No, not at all, but sometimes people don’t believe it is really possible.” She stopped talking long enough to take a deep breath. “Okay, here goes. In seven days, I made a 55% profit trading options on eBay stock.”

“You did what?” I had to slowly think back over her words —55% profit, options, eBay stock. I had no idea how one could—legally!—make a 55% profit on anything in a week. But that day my friend explained the process to me in brief terms, and by the time I went back to the store, I told Jack I was going to take a class and explore the world of options trading. I felt as if I’d been given a chance to jump on board a train with a destination that might keep a roof over our heads while the store dried out and we sorted out how to refill our gift business with merchandise.

Over these past 20 years in our particular business, which is dependent on a steady flow of tourists in our locale, Jack and I have kept the doors open seven days a
week, and in that time, we’ve raised three kids, paid our mortgage and contributed to their college fees and other “launching” expenses. We’ve loved being our own bosses, and that’s the key to what kept us going during some difficult times. (That same deep desire for independence also piqued my interest in trading options).

We’ve always considered ourselves fortunate in most ways, but the downside of our life hit home with the flood. I realized that we’d been so busy working, plodding along the path of our well-grooved life, and being the kind of supportive parents and grandparents we thought we should be, we’d left ourselves out of the equation. We invested in our business, but we’d failed to invest in ourselves and our future.

Like many millions of Americans, we had “opened” a retirement account to which we were supposed to make regular deposits or at least contribute a lump sum at the end of the year. Somehow, though, things always got in the way. One year it was a wedding and the next year one of our grandchildren needed the help only a specific private school could provide. The next year, we had a major car repair and we ordered extra inventory for the business at a great price, but we had to wait during the leaner months for the investment to pay off.

It was always something! Every new challenge that came up loomed with greater immediacy than that meager and languishing retirement fund. Besides, until a few years ago, retirement seemed light-years away.

The flood water that flowed into the store that September drove home our desperate situation. Our source of income and sweat equity had been tied up in our business and now that amounted to nothing but additional expenses.

Overnight I became acutely aware that no one cared more about my future than I did, that no one cared more about my money than I did, and I needed a path where I was in control.

Frustration and anxiety mounted, not to mention my blood pressure, until that day my friend talked about the “exciting” venture that had captured her attention and, in a short time, brought her rich rewards. Needless to say, I was primed and ready to hear more. She explained that a class on options trading was being offered locally at a cost of $400, which some quick research told me was very inexpensive compared to the cost of internet courses on option trading—and the weekend seminar prices can really soar.

My friend also explained that after a course meeting one day a week for five weeks and some time spent practicing, she’d quickly recouped her expenses and was well on her way to supplementing her income. Ah, the magic words I needed to hear!

I robbed Peter to pay Paul as the saying goes and managed to secure the fee for the course (it was money set aside for the electric bill, but the flood wiped out service in the entire area, so now it wasn’t needed- I teased Jack, saying that was my logic). I took the first class, and walked away knowing in my gut, my heart, and my head that trading
options would be a good fit for me. I had nothing to lose but the time it would take to learn more.

As excited as I was to embark on this new venture, fear, doubt and worry raised their voices.

“You are too old to start something new.”

“What makes you think you can do this? You are an artist, not the trader-type.”

“You don’t have a financial degree. Gez, you didn’t even do well in math.”

“You need money to really make money.”

“Stick to what you know.”

I wobbled with doubt but over the following weeks, I realized that I had at long last found a way to make additional money without working more hours and without the need to invest in special equipment, search for a new location, hire employees, or buy inventory. I didn’t need to build in costs like advertising or utilities, and I wasn’t asking anyone else to buy or sell something. I could actually do the research and trade options at the gift store if and when it reopened, in my kitchen, while visiting our kids, or virtually any other location that had a computer and internet connection.

Once I completed the course, fear screamed so loud I literally cried with self-doubt, but I scraped together $800 and opened a trading account which as you probably know is a relatively small amount of money with which to begin investing.

Without question, taking the course, devoting some time practicing the skill, and completing a few profitable trades worked together to firmly set my feet on a new path.

Admittedly, I also found I had learned just enough to get into trouble, but I could also see that options offered the means for Jack and me to one day retire. I focused on learning everything I could about option trading, targeting the areas the course only touched upon: option pricing, the Greeks, the role of Delta, volatility. (These terms might sound like Greek to you at the moment, but I will explain them in terms you will understand. Hang in there!)

My trading funds have multiplied exponentially, and with my profits I’ve regularly funded our retirement account. But the trading path has led me to unexpected endeavors. It is hard to fathom when one is going through a crisis that anything good can ever come of it, but when a big change occurs in our lives, it forces us to change directions. Sometimes the new path may not be easy, but you can be absolutely certain that there is a magnificence on the new path.

You can also be absolutely certain that the new path contains opportunities that you cannot experience otherwise.
When I look back at the negative events that occurred, I see how in fact it transformed my life. I realize how the flood event directed me toward a life I would not change for anything.

The flood and having no flood insurance was the big push that allowed me to consider a new way to supplement our income and goal of retirement. The flood brought me into a life of option trading and I will be forever grateful.

That gratitude refined my personal goals. I have something good to share, something that can change a person’s financial life and I’m dedicated to teaching people how to trade options. I have also built a supportive trade community that will bolster people in their trade endeavors to achieve their financial goals.

Those events also promoted me to learn how to manage and control fear, doubt and worry so that they have become signs or signals that I am moving into new, exciting areas that offer opportunities of expansion and growth.

I’ve found that option and investment books are written in what seems to be a financial code, like trigonometry that only an elite few can understand much less implement. The everyday trader attempting to grasp this information is considered a crazed gambler or fool whose faith in winning is as unlikely as hitting the mega-lottery.

In contrast, I ask myself how many women would like to stay home with their young children and still earn extra money? How many couples are looking ahead to retirement (like Jack and me), but can’t hope to have the money to travel to places like those on the TV travel shows? How many families are without health insurance because it’s priced so high that it’s out of reach? How many parents are sending their kids to start college because out-of-state tuition is an amount equal to the price of an expensive new car? I imagine some people simply want to earn enough extra money to pay for a vacation—and they’d rather not hope they can buy a couple lottery tickets to scrape together the money!

More and more, I’ve realized that the beauty of option trading is like virtually all businesses, it has the ability to expand and contract. It is possible for a person to trade options because he wants to buy new furniture or a whole new house. For me, this has come down to the fact that trading options has expanded the financial possibilities for me and my family. This is what motivates me to pass on what I know and support people who are looking for a stress-free way to build their wealth. And what better way to do this than through a book that whittles down the complicated jargon down to the important nuggets of needed information?

No one cares more about your future than you do.

No one cares more about your money than you do.
You’ve taken the first steps toward changing your financial future, putting you in control.

If fear, doubt and worry awake and whisper in your ear, recognize them for what they are, road signs that you are embarking into new and exciting territory. Remind yourself that amazing vistas lie ahead.

Along the way I’ve learned that people often aim for nothing and hit it with amazing accuracy. When you are ready to change that by taking control and tackle something new, it takes guts and time. You have to be patient with yourself as you learn the particular ways to gather information and analyze what options to buy and sell. Just like the cliché about the journey starting with a single step, option trading is learned by studying the principles and learning some basic facts about the stock market and individual stocks. It requires a commitment to learning the language of trading and for some, overcoming the fear of the stock market and investing in general. It also requires that you understand the modern world of online transactions and become familiar with online trading services and accounts.

This book presents all this information step-by-step, with all the concepts building on each other. (You’ll soon notice that I repeat concepts, layering the information until you have a solid foundation). Once you have the basics, you’ll be ready to apply what you’ve learned and practice trading options. Virtual trading is a method of investing that can be practiced online without spending a penny until you are ready. This practice is what builds confidence in what you have learned.

From there you can focus on a specific trading strategy that fits the time you have to spend and your trading personality.

So, that said, let’s get started. Welcome to the fascinating world of option trading!

Option Basics

Jumping right in, every trader’s education begins with language, the terminology of option trading. Once you understand the terms, the door swings open to an appreciation of the ways option trading works. Most business and financial sectors have government rules and regulations, and as a place to begin, you need a basic understanding of the way option trading is regulated and overseen.

As I proceed, I will italicize terms the first time I use them to draw your attention to them so you begin to learn the vocabulary.

Financial markets seem confusing, often to the point that many people believe only experts can understand and work with them. However, I’ve found these issues
easier to comprehend and absorb if the cloak of mystery is removed that keeps financial markets at arm’s length. I’ve found a different truth—learning the basics of option trading isn’t so different from following a pattern or plan for a project like building a birdhouse. When you follow the steps, you gather the facts you need to understand the needed tools, materials, measurements, rules, and timing, and you pick up the essentials of option trading the same way.

So, I’ll start with the notion that the following information will flow easily from one concept to another and by adding all the project materials, you will come to a full understanding and create your own “Plan” for successful option trading. Be patient with me, too, because I will define some terms that may be a bit too basic for some readers. I’m well aware that I’m addressing people in varying stages of familiarity with investing in general and options trading in particular.

I like to say that option trading is a blend of:

- **mathematics** (the calculations and specifics about the markets and individual stocks),
- **art** (the visual dimension that allows you to see the big picture),
- **history** (how the market and individual companies perform over varying intervals of time), and
- **psychology** (the emotional-science that helps you understand market trends and your own investing style).

Now listen, you don’t have to be an expert in these fields. Rather, you’ll use a technical analysis along with a system—a plan—to make sound trading decisions.

The visual aspect of charts allows you to absorb a great deal of information, which you’ll quickly understand and learn to analyze. The data may be gathered on the computer, including the mathematical information and the charts, but the success comes from what you bring to it—your ability to use what you learn to make trading choices. You’ll grow to trust yourself.

**Trader’s Mindset and the Art of Garnering Information:**

I’m sure you all have experienced this. Imagine walking into a friend’s living room and spotting a painting on the wall over the sofa. The visual center of your brain first processes the painting by taking in the image as a whole, before other parts of the brain get involved in evaluating and analyzing it. Your brain is trained to gather and blend the
images, and your gaze lingers in one place only if one area has an element that you find particularly interesting and draws your attention.

This visual process of observation (chart reading) is where you’ll start when you begin to trade. Then, through experience you’ll program your brain to sift the information and let go of what isn’t important in order to leave behind only the meaty nuggets. This information is what you’ll use to make creative, informed trading decisions, as you move from just being curious to discover the art of trading and trusting your instincts.

The Journey Begins:

I know firsthand that the easiest way to begin the journey into option trading is to approach it as you would a world of its own that gives up its secrets one at a time. Many people, even those who trade stocks regularly, consider the stock market itself a big mystery, an enigma, which is why I think it’s the best place to begin. What’s actually behind the symbols and numbers you see on the crawls at the bottom of the TV screen or in the columns of fine print you see in the newspaper?

To reduce the stock market to its simplest terms, the best image I can come up with is my own gift store, a place where buyers and sellers (Jack & me) come together to make exchanges. So, a shopping exchange—or transaction—where goods are offered at prices people are willing to pay, and the stock exchange as a whole, have much in common. The difference is that exchanges or transactions on the stock market are less tangible, and in addition, the perceived value of a stock often has little to do with actual worth. No matter, the concept of an exchange remains the same. As you incorporate the aspects involved in the stock market one at a time, it starts to feel as familiar and comfortable as retail gift store. But, you don’t have to leave the house to conduct your business. Your trading experiences take place conveniently on the internet.

The Market- A Living Entity?

As a woman who once thought of the stock market as an abstract and baffling concept, I found it helpful to think of the market as a living being. Instead of thinking of it as being comprised of mathematical equations, it’s made up of companies (including their stock and its products or services, employees and associates) that move around in groups. As a living entity, the market: inhales, or expands, and exhales, or contracts, and at times it holds its breath. Said another way:

- During times of expansion the market increases in value, or “puts on weight.”
- During times of contraction its value (weight) goes down, as if “losing weight.”
When the market holds its breath it maintains its value, or weight, and moves sideways.

You might wonder, what brings on fluctuations in the markets? Simply said, while buyers and sellers come to an agreement on price, they do not always agree on value. When it comes to stocks, a trade takes place when one buyer is eager to sell stock at the same time another buyer wants to make a purchase. Quite often, when or after a stock drops in price, a trader is anxious to get rid of the equity, while another trader sees the drop in price as an opportunity to purchase an undervalued stock at a bargain price.

Value versus price is subjective. One company’s stock price may trade at fourteen times its earnings and will be considered undervalued with room to grow. Another company’s stock may trade at six times its earning and will be considered overpriced and at its peak. There are other influences that illustrate this difference in evaluation. An analyst group (Oppenheimer & Co., for example) may upgrade a stock based on their expectation of future earnings for that company and the next day the stock’s price will soar. Nothing has actually changed to bring about this increase in value, except an expectation, a belief that good things are apt to happen. If this hope is not realized, the stock will drop back to its actual worth or even below that level for a time, until the next event. A company’s reported earnings may disappoint analysts and traders, but if the company’s outlook for the coming quarter is encouraging, the stock may still rally into the next quarter. Value and price are separate concepts.

Stocks:

Today’s exchanges offer any number of investment choices—specific methods or vehicles through which you put money to use to make profits, earn interest, preserve value, create portfolio growth, and so forth. From certificates of deposit (CDs), interest bearing checking and money market accounts to Treasury bills (T-bills) to municipal bonds, you have many investment choices.

Wall Street and the stock market is where individual investors (people and companies) own a share of the action and own a share of the risk, too. Ownership is measured in increments or units called stocks. When companies sell shares of stock, they are selling a small portion of ownership in that business or conglomerate of businesses.

When you buy 100 shares of stock of one of the major U.S. corporations, such as Apple (AAPL) or Taco Bell (YUM) or General Electric (GE), you are a shareholder. For as long as you hold the stock, the value of your portfolio, defined as your investments, regardless of type, gains value or loses value as the price of that stock or equity goes up and down. If you paid $25 per share and a year later, your stock traded at $35 per share, your portfolio value has increased by $1,000. If the stock is trading at $20 a share, then your portfolio is $500 lighter.
Many well established stocks pay their investors dividends, which is the way they distribute the profits. If your 100 shares of stock (which for discussion sake I’ll say is priced at $50) pay a $2 dividend per share, then every quarter, you will receive $200, which you can reinvest or take as income.

Please understand these are basic definitions and provide the structure and function of stocks. The way stocks work in the everyday world of the stock exchange is a more complex issue. For example, if I’m limited to studying and choosing among, let’s say, 50 companies, then I could keep track of what companies are profitable and which are going out of business, and who is merging with whom, and so forth. But, in the U.S. alone, thousands of companies sell shares of their stock, and the profitability of these companies is influenced by factors that no one individual or event can control. That’s why financial services companies, including brokerage firms, hire analysts whose job involves watching trends and using complex formulas to determine short-term and long-term profitability.

Before long you will have the resources at your disposal to be able to determine these trends and evaluate the potential movement of specific stocks or other equities.

Bullish or Bearish:

If Google or some other major industry comes to your town and brings new jobs and adds money to the economy, then chances are the other businesses in your area will experience an increase in business. If your town loses a major employer, the other local businesses may report a decrease in business because less money is circulating.

So, too, economic trends influence Wall Street and stocks have a herd effect, so to speak. When economic trends are on the rise and equities are increasing in value because investors are confident in the economic future of the market, then we’re said to be in a bull market or traders are said to be bullish. On the other hand, in times of great economic distress or uncertainty, or a dramatic event makes the market “jittery,” then stocks may decline in value and analysts say we’re in a bear market or traders are bearish.

Stocks rise and fall on a daily basis, and you don’t assign the terms “bull” or “bear” based on one day or a week’s performance. And the terms are relative, as well. The market can be “bearish” for a period of time when other economic forecasts seem uncertain. On the other hand, the market can turn “bullish” when certain indicators point to economic expansion. (These indicators and trends are a study in themselves, but for now, the general definitions will do).
A great many other terms are part of the language of the broad and specialized world of option trading and investing as a whole, but for now, these basic definitions are enough “material” to begin understanding where option trading fits into the big picture.

**Leverage- The Wealth Building Aspect of Option Trading:**

First, *options* are vehicles you buy and sell to take part in the exchange of equities. An option is defined as the right, but not the obligation, to buy or sell an “equity” at a certain price before a certain expiration date. (For our purpose, stocks are the equities).

There are options in many different arenas where option trading is carried out, including exchange-traded funds (ETFs), stocks, indexes, future-contracts, commodities, securities, and so forth. However, you don’t need to concern yourself with all the possible areas in which you can trade options. I’ll keep the discussion to these three areas: stocks, ETFs (Exchange Traded Funds), and indexes. In general, I refer to them as equities.

**Calls and Puts- The Two Types of Options:**

Simply stated, there are two types of options, *Call Options* and *Put Options*, or just a *Call* and a *Put*.

**Call Options** are contracts that give the owner the right, but not the obligation, to buy a specified number of shares of an equity at a specified price, called the *strike price*, on or before a specified date, called the *expiration date*. Call options are purchased when the price of the underlying stock is expected to go up.

**Put Options** are contracts that give the owner the right, but not the obligation, to sell a specified number of shares of an equity at a specified price, the *strike price*, on or before a specified date, the *expiration date*. Put options are purchased when the price of the underlying stock is expected to go down.

**Trade the Trend:**

The “bulls” and “bears” concept becomes relevant here. In a bull market, when the overall market is going up, successful option traders buy and sell their Call Options. It is counterproductive to go against the flow of the market, or, to express this concept another way, it doesn’t make sense to ignore the upward bias of the market.
Likewise, in a bear market, when the overall market is trending to lower stock prices, then successful option traders consider purchasing and selling their Put Options.

I’ll confine our discussion to Call Options and, other than general information, will save an in-depth look at Put Options for the *Stress-Free Wealth Building* book. Remember this is a fast-track crash course. Your understanding will grow like applying layers of white paint on a black way. Each layer will make your trading environment brighter.

**Remember:** You are buying and selling options to buy and sell stock, but you don’t have to exercise that option. In other words, you will not own shares of the stocks on which you purchase options unless that is what you chose. Most option traders buy and sell their option contracts without the intention of ever owning the stock itself. It is the option itself that has the most value. I’ll explain this leverage more fully over the next few pages.

The *strike price* is the agreed upon price that the underlying equity will be sold or bought for if the option is exercised. (Keep reading, because the chart that appears soon will start to clarify this). As I said, you’re purchasing options on what is called the *underlying instrument*, referred to as the *underlying*. In the context of this book, the underlying is a stock, an ETF, or an index. I refer to this group as equities.

The underlying is identified by its symbol. On the financial news crawls on the TV stations, such as CNBC, you see the symbols “crawling” past. Financial newspapers such as the Wall Street Journal or Investor’s Business Daily also identify equities by their symbols. For example, Visa’s symbol is V, Amazon symbol is AMZN, Johnson & Johnson = JNJ, Walgreens = WAG, Proctor & Gamble = PG, Google = GOOG, US Steel = X, Exxon = XOM and so on.

The number of letters in the symbol tells you which exchange the equity trades on:

- One, two, or three letters means it is a DOW Jones stock, listed on either the New York Stock Exchange (NYSE) or the American Stock Exchange (AMEX).
- Four or five letters in its symbols usually means it is a NASDAQ stock. One exception to this rule is the QQQ (ETF for Nasdaq 100) which changed from 4-Q’s in March of 2011. I think they made the change just to confuse traders. What is a rule without an exception?

By putting all the parts together, you complete the definition of an option.

So, let’s look at **AMZN January 16 650 Call:**
This is a Call option to buy Amazon (the underlying stock) at a price of $650 (the strike price) at any time through the Jan expiration date (the expiration date is always the third Friday of the expiration month). 16 is stands for the year, 2016. (Remember even though you have the right to exercise your option to buy the stock, you don’t have to).

**Story Illustration of How an Option Works:**

Imagine you have a friend who wants to sell his house for $200,000. You are familiar with the subdivision and you like the nearby golf course that makes the area desirable, but you don’t have the $200,000 to purchase the house as an investment, so you offer another proposal. “If you’ll give me a piece of paper saying I can purchase your house for $200,000 anytime over the next twelve months,” you say to your friend, “I will give you an extra $10,000.”

Your friend accepts your proposal, because it’s not important that he sell today. In essence, you have bought an option.

Eight months later, a new elementary school is under construction a half-mile away, making the properties in the area in hot demand. Now the house has gone up in price to $230,000. You hold up your paper—the option—and wave it in front of interested buyers. “I'll sell you this paper for $15,000. It states that you can purchase this $230,000 house for only $200,000.”

Someone takes you up on your offer, and the trade is made. Here’s what happened:

1. Your friend receives the $200,000 he wanted for his house, in addition to the $10,000 you paid for the option to purchase his property.

2. The new buyer purchases a house valued at $230,000 for $200,000 plus the $15,000 he paid you for the paper option. He pays a total of $215,000, a savings to him of $15,000.

3. And, you receive $15,000 for the option (paper) you paid $10,000 for eight months ago, so you made a $5,000 profit on your $10,000 investment.

4. That means that you realized an astounding 50% return within eight months.

My story illustrates in a simple way the crux of the secret world of trading options. In the story, you see the house, the owner, and the buyer. They are all tangible to you. In the world of Wall Street, it's all like “invisible pieces of paper,” so to speak, especially
when the transactions take place online. However, the principle is the same. You control enough of a great stock to make a great deal of money with essentially only a down payment.

Most of us can’t go out and simply plunk down $200,000 to invest in an “underlying instrument,” like a second house or a block of stocks. But you can benefit from the leverage of controlling the “underlying” with a fraction of the house or stock cost by using options. The leverage of options allows you to profit by an exaggerated amount, in the same way a pulley leverages weight so you can lift more than physically possible. Options give you profit leverage that builds wealth.

Trading Expectations:

You can achieve significant short-term profits on the money you invest in option contracts. You profit by purchasing option contracts, Calls and Puts, with the express intention of selling the contract after the equity (the stock, ETF, or index,) has moved in price, either up, as with Calls, or down, as with Puts, and you sell well before the option’s expiration date. When you purchase an unripe banana on the produce aisle of the grocery store, you know the banana still has a long time before it has to be eaten. In terms of options, the idea is to sell the banana before it becomes yellow with brown spots, soft and ready to expire.

By using this strategy, you never exercise your option to buy the underlying equity. Your goal is to hold the option long enough for the price of the equity to increase in the case of a Call Option or decrease in price in the case of a Put Option. You don’t intend to exercise the option (you never eat the banana), but someone else will want to make banana nut bread, and that’s its value.

Option Premium:

The option premium is the amount you pay to control the underlying equity. This option premium increases in a magnified way when compared with the underlying equity price: As the equity’s price goes up so, too, your option increases in value, and then you sell your option to someone else, well before the expiration date. In that way, you trade the options, but never actually buy or sell the underlying stock.

Try to remember these two crucial points:

1. As an option trader, you make money by purchasing the “right” to buy or sell a “thing,” and that right in itself has value and gives you, the trader, leveraging power.
2. You never need to worry about finding an interested buyer; through the option contract itself, the sale is guaranteed the moment that you decide to sell, providing you have purchased an option with a level of open interest. (This will be explained and covered in greater detail).

Most of us are accustomed to thinking of the stock market as an exchange, a “shopping mall,” in which you buy and own actual shares of stock, and then decide to sell for various reasons. Therefore, it sometimes requires a new mindset to fully appreciate the value of an “option.” The deal you managed on the house—your $5000 profit in eight months—probably sounds pretty good. Let’s see what it would look like with a stock option.

If you buy an option on a stock, you can think of the option as a down payment on that stock. Imagine purchasing an option on 100 shares of American Express stock to control the financial power of those 100 shares.

To make this even more clear, let’s compare a stock purchase to an option purchase:

- If American Expresses (AXP) stock price is $70 per share, 100 shares of stock would cost $7,000. If next month, the stock price goes up $2 and you sell the stock, you have a profit of $200 on your 100 shares. Your profit is 2.8%.

- But, if you buy a Call Option on those same 100 shares of AXP stock, you will pay approximately $3.10. (This is a good estimate, but the actual option prices vary greatly). This $310 controls all 100 shares of AXP stock.

- If American Express’s stock price goes up $2, your option may also go up $2 or a large percentage of the $2. (This, too, varies according to the underlying option).

- This $2 increase or $200 profit is 65% of the initial price you paid for the option. Using the leverage of options, you’ve made 65% profit on the same underlying equity (stock) that only realized (gained) a 2.8% profit when the actual stock was sold.

100 shares @ $70 = $7,000
$2 increase x 100 shares = $200
New Value = $7,200
Gain 2.8%
Or
1 Option contract on 100 shares @ $3.10 per share = $310
$2 increase in option price x 100 shares = $200
New Value = $510
Gain 65%

It is evident that options provide traders with two benefits:

1. You can begin trading with a small amount of money
2. You can turn a high percentage of profit.

As you begin to practice trading, your confidence increases and you can earn even greater profits. With careful, precise trading, a $200 profit can become $400, $400 can become $800 and before long a trading account will increase, showing exponential or “compounded” profit.

**Which Companies Do You Buy Options On?**

This is one of the first questions new option traders ask. Everyone wants to know how to decide what stock options to buy. The obvious answer is to only purchase options that are expected to achieve a substantial return on your investment. And how do you know that? Once you understand the principles of option trading, then it’s time to learn how to carefully consider the underlying equity upon which the option is based. We’ll take a brief look at this a little later (I promise). In this Fast-track e-book, let’s take a quick peek at charts and forms to give you an idea of what the trading process will look like.

There is more to learn and understand and I provide a complete discussion about a method to select great underlying equities and discuss other selection strategies in *Stress-Free Wealth Building*. But for now, this is a crash-course on the basics and a quick overview of the process and forms once you open a brokerage account.

The forms to virtual trading (play money) and to trade with real funds are the same.

The first step is to decide on a stock where you think its price is ready to go up or down.

The chart below is for Johnson & Johnson, the baby shampoo company, among other everyday products.
The red and white-hollow marks on the chart are called candlesticks and they represent the price movement that took place each day. Red candles are days where price went down and the hollow candles are days when the price went up. The lines at the tops and bottoms are called wicks, like candlewicks, and they show the high and low of the day. Since this a daily chart, each candle represents a day’s worth of price activity.

The Moving Average (Exponential Moving Averages or EMAs) lines have been placed on the chart. The Blue line is the 9 day moving average and the Red line is the 15 day moving average. The candlesticks most closely follow the shortest moving average or the 9-day moving average. (In Grandma’s Simple Secret to Extra Income, I used the 5 EMA and 20 EMA. In this e-book, we are using the 9 EMA instead of the 5 EMA and the 15 EMA instead of the 20 EMA. The way the chart is read is the same).

The most recent price action is on the far right.

Now I want to draw your attention to the times when the Blue line crosses above or below the Red line. What happens to the price?

Price follows the direction of the cross, right? Each time the Blue line crossed over the Red line, price went up. Each time the Blue crossed down over the Red line, price went down.

As an added point, notice how often the 9 EMA touched and used the 15 EMA as a bounce off point. This is called support and resistance, you could think of it as ceilings...
and floors. The floor doesn't let price drop any further and supplies "support". The ceiling provides "resistance" and doesn't let price go any higher for the moment.

In this brief explanation, you have already learned enough to be able to determine the future direction of an equity's price movement and learned two technical concepts of not only relating to price movement, but of chart reading as a whole (support and resistance). Now admittedly, there are other aspects of support and resistance, but none are any more difficult to understand and apply than what you have already learned.

You already know more than 98% of the population when it comes to the stock market, chart reading and option trading. And it only took a few pages.

So let's say on October 1st you notice the 9 EMA had crossed up and over the 15 EMA on JNJ's chart, what type of option would you buy? A Call (up) or a Put (down)? A Call, right?

Each day you could look at the most current daily chart for JNJ and determine if you should remain in the trade or if you think its price direction is changing. Options are available for various lengths of time and more on this be covered as you read along, but for now, notice that you could have held this up-trending stock until January 2, 2016 when the 9-EMA crossed down and over the 15-EMA. At that time, if you were holding Call options, you would sell-to-close the trade and perhaps, you would decide to open a new Put option to reap the benefit of the new downward move.

I Told You That You Can Do This! You Have What It Takes!

You have begun to learn the terminology and looked at a chart example. Let's add one more moving average line, the 50-EMA. This will give you another reference
point to determine the strength of the price move.

The chart above is for Monsanto, the seed company. There are now 3 lines on the chart. On the charting website, they are blue, red and green. These lines are moving averages. (9, 15 and 50 exponential moving averages or EMAs).

As mentioned, the candlesticks most closely follow the shortest moving average which is the 9-day moving average. If the candlesticks are below the moving average, it is bearish and shows that the stock’s price has been dropping. If the candlesticks are above the 9-day moving average, it is bullish and shows that prices have been rising.

When price rises enough so that it brings the 9 and 15 EMAs above the 50 EMA (the one furthest away), it adds to the bullishness of the move or overall sentiment of the chart. When price drops enough so that it brings the 9 and 15 EMAs below the 50 EMA (the one furthest away), it adds to the bearishness of the move or overall sentiment of the chart.

Again, if you knew no more than you know right now, you could decide when to open a Call or Put option trade on Monsanto.

If and when the 9-day EMA crosses down below the 15-EMA, it is a signal to buy a Put option where you feel price will continue to drop in the equity. This happened on the chart above in July and price continued to drop until the 9-EMA crossed up on October 12th when you could have sold your Put if you still owned it and entered a Call option.

During the drop from July to October, price went from 107.50 to 85.00, a $22.50 decline in price. That would have been an awesome trade.
The rise in price from October 12th to the 12th of December has been $6.13, going from 87.50 to 93.63 on the most current trading day. Already this would have been a nice Call trade.

If you look at the left corner of the chart where it lists the EMAs being used and their prices, you will see that the 9 EMA is at 95.97 and the 15 EMA is 95.87, still .10 apart or away from crossing down. So it isn’t time to sell your Call trade or buy a Put option unless it is close to your option expiration date. As it has done in the past, the lines could come close to each other and bounce.

Notice, too, that it wasn’t so very long ago that the 9 and 15-EMA crossed above the 50 EMA. Often when price crosses a major threshold like the 50 EMA, it will pull back a little to rest and reassure itself that it is indeed strong enough to continue on.

The chart and candlesticks have a lot that they can tell you, like a story, but as I said, if you understand no more about chart reading than you know right now, you can tell when a stock’s price is apt to drop or rise from its present position.

We briefly discussed Support and Resistance. Sometimes support and resistance stops price dead in its tracks and other times it just postpones its further move and price will eventually break through.

Scroll back and look at the chart above and notice how many times the 9 EMA rose or fell to touch or come close to the 15 EMA, yet it wasn’t able to breakthrough to go higher. From July to October, the 9 EMA and the candlesticks rose up toward the 15 EMA at least two times but didn’t have the strength to move through the 15 EMA. It acted as a ceiling.

These areas of resistance or ceilings can serve two purposes. If you missed an original entry at the EMA cross down, you could use the touch or breakthrough failure as a second entry signal or it can add reassurance that your trade still has further movement to go.

It is the same with floors or support. From October 12th to December 12th, the 9 EMA and the candlesticks fell at least twice, in addition, to the most current drop to touch or come close to the 15 EMA, yet the 9 EMA wasn’t able to breakthrough to go lower. Now the most recent drop has yet to tell you whether it will pop up from where it is like a bounce on a trampoline floor or whether it will drop through to test its recent breakthrough of the 50 EMA. If price drops further, perhaps the 9 and 15 EMA will test and bounce off the 50 EMA.

To prove you are beginning to develop the chart reading skills needed to begin making option trading decisions, I would like to show you one more chart so that you see that the Monsanto trade wasn’t a fluke.
This is a chart for Goldman Sachs, the financial investment company.

As you look at the chart, notice the areas where the EMAs (9 and 15-EMA) cross each other and perhaps, cross the 50 EMA. When to 9 EMA crosses the 15 EMA, it is time to consider a trade position.

You could also take note of the times that the 9 EMA tested the resistance (ceiling) and support (floors) of the 15 EMA. Remember, it is the lines themselves that need to cross, not the price candlesticks.

Another point of interest are the bars along the bottom of the chart. On this charting website, they are red and gray.

The candlesticks themselves tell you if it was a buying or selling day, and the volume bars tell you how heavy or strong the buying or selling pressure was as compared to the days before or after.

When you spend a little time studying a number of charts, the easier it will be for your eyes to zero in on the important information. As mentioned at the start of this chapter, stock brokers, money-managers and financial experts have created an exclusive club and they have done their best to keep the public mystified by the complexity of the stock market and analyzing companies and their stock. In this very brief and basic description we have broken down a few of those doors and walked boldly into their domain.
Again, there isn’t anything that you will not be able to grasp just as easily, if you are willing to delve into new territory and spend a little time reading and applying what you learn.

Let’s discuss options in a little more detail and then we will look at an option chain, which is where you decide on which option to buy and how much it will cost.

An Option Is An Agreement Between You and Another Trader

First, options are vehicles you buy and sell to take part in the exchange of equities. An option is defined as the right, but not the obligation, to buy or sell an “equity” at a certain price before a certain expiration date. (For our purpose, stocks are the equities).

There are options in many different arenas where option trading is carried out, including exchange-traded funds (ETFs), stocks, indexes, future-contracts, commodities, securities, and so forth. However, you don’t need to concern yourself with all the possible areas in which you can trade options. I’ll keep the discussion to stocks in this e-book. In general, I refer to them as equities.

Two Types of Options- Calls & Puts

Calls and Puts- The Two Types of Options:

Simply stated, there are two types of options, Call Options and Put Options, or just a Call and a Put.

Call Options are contracts that give the owner (in this case, you) the right, but not the obligation, to buy a specified number of shares of an equity at a specified price, called the strike price, on or before a specified date, called the expiration date. Call options are purchased when the price of the underlying stock is expected to go up.

Put Options are contracts that give the owner (in this case, you) the right, but not the obligation, to sell a specified number of shares of an equity at a specified price, the strike price, on or before a specified date, the expiration date. Put options are purchased when the price of the underlying stock is expected to go down.

Let’s put this in very basic terms so you can see how this works. You think Home Depot's stock is going to go up in price. It is close to the holidays and many men will be getting tools as a gift so it seems like a no-brainer. On Home Depot's chart you notice that the 9 EMA has just crossed up and over the 15 EMA after a minor drop in price.
Buying low and selling high is the goal of a Call option and the right signs seem to be there to support a Home Depot trade.

Now you could purchase Home Depot's stock for $115 per share. Option contracts cover 100 shares so let's compare apples to apples. If you purchased 100 shares of Home Depot's stock, they would cost $11,500. If on the other hand, on October 2nd, when you noticed the 9 EMA cross the 15 EMA, you purchased 120 strike (above or more than the current stock price but not too far above) option that expires in December, it would cost $3.30 (asking price or "ask" premium) per share or $330 for the contract of 100 shares.

This means you are controlling 100 shares of Home Depot's stock, worth $11,500 for a total investment of $330.

You chose to purchase the 120 strike. Price has not yet reached $120, it is only at 115 at the moment, so all of the premium you are paying (the $3.30 per share) is all time value (Expiring in December, giving price time to move up and past $120). As December nears, the time value will dissipate (drip away). An easy way to think of this is like the "Use By" date on a gallon of milk. When the use-by-date is 2 weeks away, its value is greater than when it is 2 days away from the date.

By buying an expiration date out to December, you feel that Home Depot's price will have plenty of time to go up to $120 and beyond. You will check the chart each day to see that the EMA lines continue to head in the right direction.

On December 9th, you notice there have been 3 little red candles in a row. Your expiration date is December 21st and Home Depot's price has done an awesome job of going up just as you predicted with the EMA cross. You decide to sell and close your Call option. Home Depot's price at the time that you close is $132. It moved beyond your 120 strike price by $12.

The "bid" premium is $11.90 per share when you sell your option to close the trade. This trade process happens behind the scenes at the Exchange, the market-maker or trader who entered the option agreement lets you buy the 100 shares for $120 (the strike price) and you are then able to sell them for $132 (current stock price) and keep the difference which is placed in your trade account.

You purchased the option contract for $330 and watched each day as it climbed up in price, then sold for $11.90, which means you made $8.60 per share. This is a gain of 261%.

Wow! That was a great trade and is a good example of the leverage of options. Leverage is like lifting-power. The option was able to lift or produce a much higher profit that the stock itself. The $17 increase in Home Depot's stock price ($132-115 = $17) is a gain of 15%. That is a nice increase, but is quite small when compared to a 261% gain in the option premium. You were able to lift a greater weight with a smaller investment.
Would you like to see what Home Depot’s chart looked like to see if you could have recognized the signs that it was going up?

Here it is.

![Chart of Home Depot's Stock](https://via.placeholder.com/150)

You may have been shaken out of the trade on November 13th when the EMA lines touched and the 9-EMA slipped slightly below the 15-EMA. The 13th was a Friday and when the lines cross you want to see some white space between the lines to make sure the brakes weren't applied quite hard enough on what should have been a touch. Even then, price had reached the 120 strike, but you decide to give it one more day since the holidays are just weeks ahead. The "bid" premium on November 13th was $4.10 or a $.80 or $80 profit.

Waiting paid off, but had it dropped further on Monday, you would have sold to preserve the value left in the contract.

As a general rule, when the EMA lines cross, you want them to cross with some conviction, like they mean it. You want some white space between the lines or wait for a second candle to close below for confirmation or use another indicator to confirm the decision.

This said, you can take profit anywhere along the line and be happy. The money earned on the trade (no matter how much) is money you didn't have yesterday. Celebrate.

Before we move on to look at an option chain, let's look at a Put trade to see how it works. Many people have trouble wrapping their brain around Puts because it is the
opposite of the way we think value works. How can some increase in value when the underlying equity losses value?

You notice that Disney's 9 EMA crossed down and over the 15 EMA on December 2nd. The weather has been cold and lots of rain and it seems logical that revenues at the theme park might go down during the Winter.

Disney's stock is priced at $113.27 at the close of the 12th when the EMAs crossed. You are going to wait for another down candle to make sure it is a legit cross, but at this point, 100 shares of Disney stock will cost $11,327.

The next morning, you purchase the 110 strike Put option that expires in March. This gives price plenty of time to drop. The 110 strike has an "ask" premium of $5.05. Therefore, one contract will cost $505.

The 110 strike is out-of-the-money, meaning that price hasn't yet dropped to reach the strike price. Price will have to drop $3 to reach the strike.

You were right, Disney's stock dropped in price during December and into January. Disney's price on January 14th had dropped from $113.27 to 93.90. This is a decrease of $19.37 or a drop of 17%.

Price is still dropping and you have lots of time left on your March option contract. The "bid" premium on the 14th is $11.10. This means with two months left until expiration (expires the 3rd Friday in March), you have more than doubled your money ($11.10 - 5.05 = $6.05) or $605 profit for the contract of 100 shares or a gain of 120%.

Again, you can compare the leverage of options, a gain of 120% as compared to a 17% move in the stock's price.

Now let's look what happened behind the scene at the Exchange. On your behalf, the Exchange purchases the stock for the current price of 93.90 and sells it to the market-maker, who you entered an agreement with and who promised to pay 110 per share (strike price) for the 100 share contract. You keep the difference.

Another great trade.

Now that you are beginning to understand the process, let's take a look at the chart.
Which Option Should I Buy?

As I begin this introduction to Options and their expiration dates, I feel inclined to share with you the most important lesson I have learned in life before we start.

I have discovered if I am living in my comfort-zone, in a sense, existing in what I would call “my normal” life-routine, then fear, doubt and worry are silent and content. I move along without those insistent, irritating jabs of concern that raise their combined voices when I veer off course or step over the safe-line.

When I try something new, stretch and push at the boundaries of my comfort-zone, it is then that fear, doubt and worry’s voices become so loud I am tempted to back away from the “new” that could offer personal growth and exciting potential.

Noticing those voices when they happen now gives me the opportunity to recognize them as signs that I am moving into unfamiliar territory. Identifying the voices of fear, doubt and worry no longer sends me back to the sidelines, but spurs me on as I control them and I stretch for new and greater possibilities.

As I type this, I am aware and filled with gratitude for all the dreams and desires that have been achieved over the last few years that were foreshadowed by these nagging voices. I now think of this interrupting, self-talk as boisterous, cheerleaders chanting me on, rather than hollering warning-cries for caution.
This lesson was hard earned and came when I was in my mid-fifties. You read about the flood that destroyed my family's business and I won't go into the details again, but I am awestruck now by all the opportunities I would have missed if I had turned back all the times “fear” suggested I never attempt something because it said it would be too hard to learn, that I didn’t have what it would take to accomplish it, I was too old or too poor or too busy or uneducated.

With a little study, none of it was any harder than what you have already learned. Little by little, knowledge came like applying layers of white paint over a black wall. With each layer, the room became brighter and brighter and eventually, the areas of darkness were completely covered.

Okay, let's get back to work.

All of the details and comments made throughout this brief intro to option trading are based on purchasing either straight Calls or Puts, the two types of options. There are all kinds of ways to trade options. In this e-book, we are discussing the basics: Buy-to-open the trade by purchasing Calls or Puts and then sell-to-close to exit the trade.

Option Chains are found online at the Exchanges and at brokerage websites.

Not long ago a person interested in buying stock or placing an option trade would call their broker on the phone and discuss the details of the trade and the broker would make the purchase or place the trade for them. Now, there are online brokers where traders can make purchases or place the trade themselves in the comfort of their own home, using their desktop computer, laptop or notebook.

There are many online brokers to choose from. Each offers a variety of tools (bells and whistles) and charges fees accordingly. It takes a little research and comparison once you know what tools are important to you to decide which will best serve you. I am restricted from recommending any one particular online broker to my readers, but I will use optionsXpress.com's option chain and order forms within this book because of their ease in understanding and interpreting the information.

Let me also mention that many of the online brokers offer virtual trading. This means that before you ever fund an account or risk real money, you can practice trading on their virtual platform. This gives you the opportunity to look at the charts, select the option expiration, fill in the order forms, watch the trade develop and close the trade without risking a penny.

What is the old saying? Practice makes perfect? Well, I don't know about that but I can confirm, Practice builds confidence.

The image below is an Option Chain.
Take your time as you start at the top of the image and scroll down. The first information you'll see is that this is an option chain for McDonald's. The highlighted expiration is March 2016. Both Calls and Puts are listed on this form.

Calls are listed on the left side of the list of strike prices (gray) that run through the middle of the chart. The puts are on the right side of the strike prices (gray) that run through the middle.

Rather than clutter the chart, the chart below is the same image but with other information highlighted.

**Volume & Open Interest**

Volume (VOL) and Open Interest (Opint) is valuable information. Volume is the number of contracts opened today and open interest is the accumulated number of open contracts since the option was created or born.
You want there to be a number of contracts listed under volume and open interest because you want to know that other traders are interested in this company and are participating in trading its options.

**Weekly, Monthly and LEAPS Expirations**

New options are created every week. Note on the list of available option expirations that the ones listed furthest to the left include the letters WK.

This stands for week. These are weekly options that expire on the Friday of the week listed. Jan Wk 4 expires on the Friday of the 4th week of January or January 22nd. Jan Wk 5 expires on the Friday of the 5th week of January or January 29th. This continues through February. Exchanges are allowed to list weekly expirations 5 weeks in advance.

The next option expirations in the list are monthly expirations: January 16, February 16, March 16 and June 16. The last two on the list are called LEAPS options, they expire far out in the future, January 2017 and January 2018.

Ask premiums are what you can expect to pay to open a trade, it is what the market-makers are asking to participate in a trade. The Bid is what you would expect to
receive when you sell-to-close an option trade. The difference between the Ask and Bid is the cost of participating in the trade. Think of it as a commission.

The Ask premium for the 110 strike Call would be 7.65 a share or $765 for the contract. The 110 strike is said to be in-the-money because price is already higher than the strike. It is in-the-money by $5.18. (115.18 - 110 = 5.18) Strikes that are in or at-the-money are in the highlighted areas.

The cost of the 115 strike is less because the price has just been barely reached and is said to be at-the-money by .18. (115.18 - 115 = .18)

The Ask premium for the 120 strike would be 2.27 and it is said to be out-of-the-money because price has not yet reached 120. Price must go up by another $4.82 before it will be considered to be at-the-money. (115.18 - 120 = -4.82)

Let's look at the Put side of the chain.

The 125 strike is in-the-money by 9.82 because the strike is 9.82 above the current price. (115.18 - 125 = -9.82)
The 120 strike is also in-the-money because the strike is above the price by 4.82.  
(115.18 - 120 = -4.82)

The 115 strike is out-of-the-money by .18, but is consider to be at-the-money because price is very close to the strike.  
(115.18 - 115 = .18)

The 110 strike is out-of-the-money by 5.18 because price must drop 5.18 before it reaches the strike.  
(115.18 - 110 = 5.18)

How Much of the Premium is Time Value Versus True Money Value?

An option’s complete price or premium is comprised of two things which are then shadowed by another aspect: intrinsic value, time value, shadowed by volatility.

Intrinsic value is the in-the-money value. (Price of Equity less Strike Price)

Out-of-the-money options’ intrinsic value is zero.

The time value of an option’s price decreases as time passes. Out-of-the-money options are comprised entirely of time value, while a deeply in-the-money option is comprised almost entirely of intrinsic value. Another name for time value is extrinsic value.

Example: In easy to understand terms, let’s think again of a quart of milk purchased from the grocery store:

☐ The milk itself has intrinsic value, and the longer the time left before it reaches its sell date, the more time value it has. The combination of these two factors make up an option’s full value (intrinsic and extrinsic value).

☐ As the milk closes in on its sell-by-date, its time value decreases, until at expiration it has zero-time value and maintains only the intrinsic value of the milk itself.

No need for a calculator or doing the math, if you hover your cursor over the intrinsic and extrinsic value of the premium is figured for you. On the left is the Call premium and on the right is the Put premium.

One the chart below, the intrinsic value of the 115 Call strike is .18 and the time value is 4.19 for a total of $4.37 which is an amount midway between the Bid and the Ask.
The intrinsic value of the 115 strike Put premium is zero because it is out-of-the-money. The extrinsic or time value is 4.85 which is an amount midway between the Bid and the Ask premium.

Let's look at another strike, a deeper in-the-money strike Call and further out-of-the-money Put.

The 110 strike Call has 5.18 intrinsic or money value and 2.37 in time value for a total of 7.55, midway between the Bid and Ask. The 110 has zero intrinsic value and its premium consists of only time value of 2.94.
Sounds Like Greek to Me

In the calculation of option premiums, there are number of elements used in the calculations. Most are not aspects that traders need to be too concerned about, but I would like to quickly discuss one that is important.

The elements involved in the calculations are called Greeks because they are named for letters in the Greek alphabet.

The aspect I want to discuss is called Delta. Delta is how much you can expect your option premium to increase for each $1 move in the equity's price.

Delta runs from .00 to 1. A Delta of 1. means that for each dollar move in the equity's price, the option is also going to move a dollar. Dollar for dollar is nice, but you are going to pay dearly for that high percentage. Strikes that have a 1. Delta are going to be strikes that are deep in-the-money with high intrinsic value and lower time value.

Now logic tells you that you will want your strike's delta to be as high as possible within reason. I usually want a Delta of .50 or higher. A Delta of .50 means that for every dollar move in an equity's price the strike's premium will increase by .50.

You will see in the next charts that it can be tempting to purchase a strike with a cheap premium, thinking you can buy a whole lot of contracts and become rich quick when the equity's price goes up. And then you discover that for each dollar move in the
equity’s price your premium earns 0.13. The equity’s price would have to move perhaps $8 before your premium increased by a dollar.

On the option chain image below, you will see how to check a strike’s Delta.

When you hover your cursor over the “detail” label, a box will pop up with Greeks and Probability. Clicking on either one will bring up details on that particular strike.

On the image of the chain below for McDonald’s, the 115 strike shows a Delta of 0.53 which means the 115 strike premium will increase 0.53 for each $1.00 move in the equity’s price.

The chain is for a weekly option expiration and the ask premium for the 115 strike is 1.66 and will increase by 0.53 for each dollar move.

A second image of the same chain, highlighting a different strike will show a greater Delta for a strike that is deeper in-the-money.

A third image of a chain, highlighting details of a strike that is out-of-the-money will show a low Delta.

Selecting strikes with low Deltas should be avoided unless it is intentional and is part of a particular strategy.

![Delta for 115 Strike](chart-courtesy-of-optionsxpress.com)
The Delta for the 109 strike below is .93. The premium for the 109 strike will increase by .93 for every $1.00 move in the equity's price and the premium is $7.10 per share versus $1.66 for the 115 strike. That is a big difference.

It is a balancing act, you want the selected strike's premium to increase at a steady rate as the equity's price move up in the case of Calls and down with Puts, but at the same time you want to pay an affordable premium where you can purchase a couple contracts for each trade.

As the equity's price moves in the trade's direction, so too its Delta will increase as well as it moves deeper in-the-money.

The 115 strike highlighted above has a Delta of .53 now, as the equity's price goes up, perhaps increasing to $116, the 115 strike's Delta may increase to .59 and then .63 as price gets close to $117. As the price of the equity increases, it will push the 115 strike deeper and deeper in-the-money.
The Delta for the 119 strike in the image below is .16. The means that the 119’s premium will increase by .16 for every $1.00 increase in the equity’s price. Gradually, it will increase from .16 to .18 to maybe .20 and so on. The .36 premium for the 119 strike can be tempting. It sounds like a bargain, but at a gain of .16 per $1.00 gain, it will take a huge move and perhaps a long time for a trade’s gains to cover the spread (commission) between the bid and the ask premium and the broker’s trade costs (which we will discuss before too long).

When you decide to expand your option trading know-how beyond this brief intro, you will zero in on a strategy that fits the time you have to devote to trading and to the size of your trading account, this strategy will have rules that will give you specific guidelines about which strike price to select based on the Delta that suits the requirements of that strategy.

In general, you want to avoid Deltas that are much lower than .50.
In the drop-box for selecting the type of chain you want to view and the chain's details, you can select a chain that lists Delta on the chain itself rather than using the cursor to hover on the details. This is a good alternative, but it does eliminate the contract volume and open interest information and you do want to know that other traders are participating in trading the strike you are selecting.

It is no fun going to a party when you are the only one there.

Image courtesy of optionsXpress.com
You will note that the other column of information added when you select Delta is Implied Volatility. We will save the discussion on the for the Stress-Free Wealth Building Book. It isn’t overly complicated, but isn’t needed now to continue our discussion.

**Opening a Trade Account**

Now that you know that option trading is possible for you, you will want to open an account with an online broker so you can practice.

There are many online brokers: I will name a few, there are more and you will want to compare services and fees to see which will serve you best: TradeMonster.com, optionsXPress.com, ThinkorSwim.com, TradeKing.com, MoneyBlock.com, OptionMonster.com, OptionHouse.com.

**Paper or Virtual Trading**

Paper trading is a way to practice. You write down the details of the trade when you decide to enter a trade (Date of entry date, expiration, strike, ask premium at the time of entry) and again at the time that you close the trade.

You could print a copy of the chart and make notes for what prompted the entry and exit and note the trade details on this sheet. Keep these pages in a notebook to review.

You can also choose to Virtual Trade.

One of the most important aspects of choosing a broker is to be able to Virtual Trade. You can open an account without funding it and use the Virtual Trade platform while you are learning and practicing.

The images below are to show how to open and use optionXpress.com’s Virtual Trading platform, including filling out an option order form.

From the tabs across the top of the site, select Toolbox and from its drop-box select Virtual Trading.
Click Launch Virtual Trading.

A separate window will pop up for an account page. It will give you a trading account with play-money to use while you practice.

Explore all the tools, click on the tabs, open the windows so you know what is available to you.

There is an Analysis page that will show trade results once you start your practice trades. Locate the option chain.

Overview and positions will show you your open trades.

It is important to start off with a virtual account that would be similar to the one you will eventually be trading. It is unwise to give yourself $50,000 when in actuality you will be trading from a $5,000 account. You want to build confidence around your true trade conditions.

If during this learning process, you blow up your account with losses, so what! It is all part of learning. You are learning from the experience of trade selection and participation. Add another $5,000 to your account and try again.

In no time, you will find that your virtual account is growing in value and eventually you will have the confidence to fund an account and trade with real money because you have been doing it and winning!
Click on Option Chain from the drop-box under the Quotes tab.
The option chain below for Morgan Stanley will look identical to those we looked at earlier that were on the real trading platform.

The strike prices run down the middle of the chart. Call information is on the left and Put info is on the right. The strikes are in the yellow shaded areas are in-the-money. The first one either in the shared area or the first one outside of the shaded area is at-the-money and close to the current equity's price. The strike further into the white area of the chain list are out-of-the-money.

You can hover on detail label and it will present the Greeks with Delta listed.

Your cursor can hover over the strike price and it will give you the intrinsic and extrinsic values within the strike's premium.
Placing a Trade

Filling in a trade order form and preparing to place a trade can be as easy as clicking the "trade" label next to "detail" on the option chain.

Once you have located a potential trade on a chart, in this case, we will say that on Morgan Stanley you noticed a 9-EMA cross down and over the 15-EMA. In general, the market has been in a funk and doesn't seem ready to recover yet. You have every reason to feel that the market's oversold status will continue.

You decide to purchase the March 16 26 strike Put for 1.46 per share.
Open interest for this strike is 545, so there are a good many traders holding contracts with the 26 strike. There is no volume because this is a chain from after hours and the next day's orders won't appear until after the open.

If you push the trade label, the details for this strike will be filled into the trade order form.

Verify the details within the form.

Symbol, MS, March 2016 (MAR 16) 26 Put
You are Buying the Put contracts - Buy-to-open
You will note the only other area marked or checked at this point is "Market".

Market means that you are telling the broker that you are willing to purchase the Mar16 26 strike Puts for the current market price. If you sit and think about the trade for a few minutes, maybe recheck the chart before you push the Preview Order and Order button, the premium could be going up. By checking the Market button, you are saying I want to enter this trade now, no matter the price.

You have another choice.

You can select the limit button and insert the amount that you are willing to pay. Perhaps you feel 1.46 is a fair price and the price has been waffling up and down by a few cents, so you insert a limit price of 1.50.

You are now telling the broker that you will pay up to 1.50 but not a penny more. If the current ask premium is 1.42 when they receive the order, they will fill the order for 1.42. If the current premium when they receive the order is 1.48, they will fill the trade at 1.48. If it is 1.50, it will be filled at 1.50. If price has moved beyond your limit price, let's say it is now 1.65, the order will not be filled.

If you are still interested in participating in the trade, you will either have to change your limit amount or click market to fill the trade at the current market premium amount.

There are times that prices can move quickly, especially if you are right on the direction of a new trend direction. It is advisable to determine what you feel is a fair price, list it as a limit and don't change it. Don't chase it. The trade order is good for the day. You can leave it with the broker and should price drop back down to your limit amount it will be filled at that time.
On the order form, you must also fill in how many contracts you want to purchase.

Remember that contracts are for 100 shares. If the premium is 1.50 per share, the cost for each contract will be $150.

Good risk management suggests that you place no more than 10% of your account into each trade and that you only have 50% to 60% of your account invested at one time.

By following these guidelines, even if you have a losing trade, you will live to trade another day. To place a large amount of your account into one or two trades is a fool's game.

In our example, you decide to purchase four contracts for a total of $600.

Be sure to double check the details on the trade order.
Push the Preview Order button.

The red banner on the image below is telling you that you have placed an order after the market has closed and it will be filled when it again opens.

In a sense, you are protected because you listed a limit amount. If on the other hand, you had left the market box checked, the order would be filled at the current premium when the market opened and you could be in for a rude surprise. What if there was news during the night on the company and on open, the price jumped. Perhaps, it went up as much as $2, and the premium increased by a $1 to $2.50. Your order will be filled at $2.50 or total for the 4 contracts for $1,000. This is $400 more than you planned on spending for the trade and the $2 increase in the equity’s price could be a good portion of the amount that you expected the stock to move after the EMA cross.

The point is, it isn't wise to place trades after hours without setting a limit amount. Too often prices gap up or down at open and then drop back. A market order could very well be filled at the high of the day.

If possible, it is much better to place a trade during market hours when you are aware of the market's mood and know what is happening with the equity's price. No unwanted surprises.

Once you are satisfied with the trade order details, push the Place Order button.
Trade fees vary from broker to broker and they can be negotiable. To start optionsXpress.com charges $14.95 to enter an option trade up to 10 contracts. Then they charge $14.95 to close the trade. A total of $29.90 for both sides. After your account has been open for a few months, call your broker and ask if you are getting their best fee. They are likely to lower it, perhaps to $12.95 and then maybe to $9.95 the next time you call to keep your business. There will come a point when it is as low as it can go, but you don't need to continue to pay their highest fee.

This decrease in trading costs adds up to real savings once you begin to trade with regularity.

**Order Status**

The image below shows that the pending order will be filled when the market opens in the morning. Had the trade been placed during trading hours, it would appear as filled here and then on the Positions page.
The MS trade is listed as an "open" pending trade. Also, there's an order for Starbuck's that was canceled. They will remain listed until filled at market open.

**All-In-One Trade Ticket**

The All-In-One Trade Ticket is the perfect order form for a trader who is not able to watch their trades closely and adds layers of protection.

The order form below allows you to place the initial order to purchase the Mar 16 26 strike Puts. To this order, you add what is called and OCO or One Cancels Other. This means that the (BTO) but-to-open order when it is filled will trigger two sell-to-close (STC) orders.

One order is designed to close the trade if it goes against you and starts losing money. In this case, it is set with a limit price of 1.35. If the premium drops to 1.35, the trade will be closed. This would be a loss of .15 per share or $15 per contract or $60 for your 4 contracts.

The second STC order states that you want to close the trade when it reaches a set level premium of $2.50 or a profit of $1.00 per share or $100 per contract or $400 for the 4 contracts.

The All-In-One Order is a handy way to handle a trade when you want to apply various parameters to the trade order. If this happens do this or if that happens then do this, one order when it is triggered cancels the other order. One cancels other (OCO).

This order form offers several variations.
Open Positions

Under the Account tab is listed Positions that are currently open. It lists the number of contracts, the premium you paid, along with the current premium.

On the image below, it shows that the Morgan Stanley trade has gained $252 since the trade was opened this morning.

The EMA cross pointed to the downward direction and price followed.
How Do You Close a Trade?

To close the trade from the Open Position page, all you do is click the trade label on the right of the trade details.
Chart courtesy of optionsXpress.com

Click Place Order.

Note on the far right of the chart, you see "Cancelled" for the trade that was canceled before it was filled early this morning before the market opened.

The next trade is the Morgan Stanley trade and on the far left it says "Filled" at 9:30 AM and the next order to close the trade says "Filled" at 12:17 PM.

Both orders were filled by the broker (the buying and selling happened behind the scenes for you) and you reap the profit/loss of the trade.
Trade Analysis

Once a trade is closed, you can check to see how it worked out by going to the Analysis tab under Account.

![Virtual Account Analysis](chart.png)

On this particular trade, entry was first thing in the morning and it was closed the same day (even though it had until March 2016 when it expired) for a profit of .63 a share or $63 per contract or $252 less the trade fees. That is 43% gains in a 3-hour trade. Not bad!

You followed the order process every step of the way. This is option trading success made easy! You can do this!

Are we there yet?

I'll bet you are surprised to discover how easy it was to learn the basics of a new and exciting subject. The fear that might have kept you from taking this first step was needless.

There is more to learn but none of it is more complicated than what you have absorbed already, so hang in there.

All of my books are written in an easy to read and learn format. I've cut away all the unneeded, complicated jargon and only point out the need to know details.
There are other important principles that traders need to take into account before they enter a trade, such as how much time is needed for the trade to play out? What about time-decay as the option expiration nears its expiration date? What option expiration to choose? How much open interest and volume does the strike need to have to be safe to purchase? Do you purchase monthly or weekly options? What is a good spread between the ask and bid premium?

An remember you want to practice, practice, practice!

The answer to the questions above are important and they are all answered in my strategy books based on the needs of the particular strategy. Nothing is held back. Each book is complete with all the needed strategy details. Many of the strategies come with weekly newsletters that list stocks that are creating the patterns so all you have to do is to insert the symbol in your chart template and watch for the trade entry confirmation (like the EMA crosses that we have discussed.)

Remember this is a fast-track course, you have come a LONG way. I have covered a lot of information in a few pages, but I am sure you can now see it is doable.

Before I move on and share other tips with you, let’s look at a full trade so you can see the true, life-changing potential of trading options.

On Mastercard’s (MA) chart, below, you noticed the 9 EMA just crossed the 15 EMA and you also see that price has moved above the 50 EMA. You decide to purchase a call trade toward the end of the day.

The January 2016 95 strike which is just .83 out-of-the-money (95.00 - 94.17 = .83) ask premium is 4.05. For the 100 shares in 1 contract, the total investment would be $405.
Price continues to move in your trade direction.

Over the last three or four days, price has been trading flat in the same area within a few cents up and down. You begin to think that price may be getting tired after
the nice run up it has experienced. On November 11, price began to drop and mid-
morning you notice the decline and decide to take profit. (There is a tool called a trailing
stop that can be set at the broker’s online site so that if price drops to the amount you
set or a percentage, your trade will close automatically in case you are not watching.)

The bid when you close the trade is 7.50. You paid 4.05 per share, so you have
gained 3.45 per share or $345 on a trade that cost $405. This is a profit of 85% in just
over a month.

This illustrates the leverage of options. The price of the stock moved from 92.50
to 98.50, a $6 change or 6.4% and you earned 85%, capitalizing on that same move
utilizing options.

Option Trading- Wow, a Personal ATM Machine!

**Long and Short Trading Strategies**

Many traders focus on trading straight forward long-term (long) call and (short)
put option trades (like we have discussed), holding the contracts for several months to
as long as a year or more.

Other traders are expanding their horizons with a new and unique trading
opportunity available to traders willing to put in the time to learn about the trading
vehicle of “Weekly Options”.

Weekly options are relatively new. You can learn about them and then add
weeklys to the tools in your trading toolbox. You will then have the flexibility to trade the
patterns that present themselves and do so in the time you have to devote to trading.
Every trader is unique with different time demands and family obligations. Trading
weeklys can add the flexibility needed to blend into every lifestyle.

The special aspects of this opportunity offer huge … quick… gains… but the
trading strategies can be a bit more complex because you can use a variety of time
frames. Long-term LEAPS (that are held for months), monthly options (held for weeks)
and then weeklys, using shorter time frame charts and option contracts that are seldom
held longer than a day or two, often less than a day, gives you choices to fit what is
happening in your life at the moment.

With weekly options, you ask yourself where the price of the equity will be in a
week or so.
Once you begin to practice and virtual trade, you will determine the amount of
time you have to devote to looking at charts, trading and monitoring the trades and you
will be able to decide which time frame and expiration type is right for you. LEAPS that
expire every year or two, where you look at a chart every month or so? Monthly
expiration where you monitor a chart on a weekly basis? Or Weekly expiration where
you check the chart every day or a couple times during the day?

So Why the Heck Isn’t Everyone Trading Options?

The reason is that most people are not willing to put in the time and effort to learn
something new. They are afraid to make a change. Something that is known and
familiar is easier to stick with (even if it isn’t working) than to try some new and
unfamiliar.

People in general are anxious to change their circumstances but they are much
less likely to put forth the effort to make a personal change and that includes learning
something new and taking the time to apply the new techniques and practice them until
they really understand the process.

If you have traded stocks, you’ve probably heard of options. Maybe you have
even dabbled a bit. Options have been traded on the exchanges for 30 years or so and
each year more investors discover the leverage of option trading. Not only that, but the
exchanges have come up with modifications to add variety to every trader’s preference
(like the weeklys expiration mentioned.)

Perhaps, you’ve heard stories of those who’ve traded options. Those stories
most likely run from extreme riches to others that send chills up your spine. That’s
because the leverage you can achieve from options is incredible. When we think of
leverage, we think of pulleys that allow us to lift more weight than is physically possible.
The leverage of options is similar. It is like controlling a multi-million-dollar project by
investing only a small down payment. Then, for each 20 cents this project generates,
your investment can increase by $2.00 or more - a tenfold increase.

The other side of the coin, however, is the fact that many people have lost large
sums of money trading options. In its design, option trading is referred to as a zero sum
game. What that means is, for every dollar someone wins, some other trader loses a
dollar. So when you hear about someone buying an option for $1.25 per share (options
consist of 100 shares) or $125 per contract and selling that contract for $375, you can
be assured another trader (most often a market-maker) sold the option for $125 to that
particular buyer. That option seller is also probably looking at a $250 loss.
Usually, as I mentioned, the opposite end of the trade is managed by market-makers whose business it is to see they are on the right side of the majority of trades. Therefore, the issue here is to not only learn to trade options, but to learn to put the winning probability on your side of the trade.

Success is not isolated to the professional investors or brokers. New traders can hit winning trades when they are working with reliable information, trusty tools, and learned skills that put the odds of winning in their favor.

Most option traders buy a “Call” option if they think the market is going to go up or buy a “Put” option if they think the market is going to go down, yet they don’t have a clue how to check that movement on a chart; they don’t know how to figure the value of their option; they have no idea how long they will be in the trade, nor have they determined a profit goal or acceptable loss. Some of those aspects we have covered here and the others and more details are covered in the strategy books available to you at WendyKirkland.net.

Increase Your Success Level -Trade Both Sides of the Market- Up and Down While Following 6 Profit-Increasing Guidelines

We have discussed option trading in a general sense. I have shown you charts, so that you can see it in entirely possible for you to read them and to interpret the story they are telling you as to price.

I’ve also shown you how you determine the premium of an option and how the strike prices are listed. We have covered the information quickly with just a passing glance.

There is more in depth information if you want to add to your understanding, but I stress again that it is no more difficult than anything you have learned so far.

You will also want to select a specific strategy or strategy book that lays out the details of a trade plan, including what to look for on a chart to know when to enter and exit a trade based on that particular strategy.

There are a number of books available at WendyKirkland.net. Descriptions will list what the strategy covers and most importantly the time frame. For the trader who only has an hour or two a day to devote to trading, then a strategy that concentrates on daily charts (a longer time frame) will perhaps be the best choice.
For a trader who wants more action and wants to be involved throughout the day, a strategy that focuses on 60 or 30-minute chart information may be a perfect fit. And then, for the trader who is looking for even more excitement and perhaps, who has a larger trade account, he may want to try day-trading.

It is often a wise choice to select a strategy and trade plan that trades both sides of the market... up and down.

Many of my books have newsletters associated with the specific strategy; therefore, on a weekly basis you are supplied with equity candidates that are creating patterns or entry signals where you apply the strategy details.

The following rules in general will help increase your trading success no matter what strategy you follow. Apply them when selecting either call or put options from an option chain.

To increase trading success and profits take into account the following criteria:

**First Guideline** - The first consideration will be open interest of at least 100. Open interest is the number of open contracts at the current moment, whether they are long or short positions. The reason for the 100 requirement is, if you purchase an option with open interest of less than 100, you may experience difficulty selling the option when you are ready “if” there aren’t enough interested traders wanting to buy it from you.

Also, don’t buy more than 10% of the open interest.

Therefore, if the open interest is 200, then don’t buy more than 20 contracts. On an option chain, look to see how the open interest is listed for each particular option.

To fine tune this even further, make sure there is at least “some” amount of volume. “Some” is a rather ambiguous term, but since there is not set number requirement for volume, “some” will have to do. The point is that you want to see daily activity.

Volume is the number of contracts bought and sold for the day, while open interest is an accumulated total for all the contracts on that particular strike option.

If there is no volume on the strike price you are interested in, I suggest you check the historical information for that option. It may be that you are looking at a call option chain when the market is heading down, so there might not be interested buyers and this may explain the lack of volume. But then again, you might think at least one or two other traders would be interested if you are.

This a general trading rule, no matter what stock you are trading, and it is almost a mute point with index ETFS like the QQQ, DIA and SPY because of the huge amount of open interest in most of the strike prices. But on occasion and especially with the new
weekly options there can be strikes where there is not enough open interest or volume, but it is because the weekly options were just created or released. It doesn’t take long for traders to move into the new option and volume and open interest will increase.

Low OI and volume also takes place on options that are deep out-of-the-money or very deep in-the-money, too deep for traders to be interested.

On Thursdays when new weekly options are created or born, there will be no open interest because it is the first day that they are being traded. The volume acquired during the first day of trade will become open interest tomorrow. So on that first trading day rather than looking for open interest of 100, you would want to see volume of 100 or more before taking a position at that strike.

Remember open interest is the accumulated number of open contacts and volume is the current open contracts thus far for the trading day.

**Second Guideline** - The second consideration is option expiration. LEAPS will be available for longer term trades, front-month and other monthlys for swing trades, and then there are the weekly options listed on the current week chain or next week’s expiration which are born or listed on Thursdays (so you have a few extra days beyond the current weekly).

The reason behind this expiration consideration is due to the fact that you will be holding your positions from months to a few hours to 2-7 days or so, giving your expected trade pattern time to develop. Any extra time is insurance. You don’t want your option to expire before your trade has had an opportunity to unfold.

The specific strategy that you are trading will have an appropriate time requirement to allow the pattern to develop and play out.

The point is that you will be selecting the appropriate option for the strategy that you are trading. It would not make sense to purchase a LEAPS option that expires in 9 months when your plan is to hold a trade for a few days. And it also would be counter-intuitive to purchase a weekly option that expires in 4 days when you expect the trade to unfold over the course of a few weeks.

Another aspect is time decay. There is less time value built into weekly options than on monthlys, and considerably less in monthlys than in LEAPS. But still, on weekly options, time erodes quickly and by comparison, monthlys erode much more quickly than LEAPS.

A new weekly option covers 7 trading days, as each trading day closes, the time value erodes on an escalating basis. There is less time loss on the first day of an option’s life, if I can call it that, and more loss on the day before and expiration day.
An easy way to think of time erosion is to liken it to a 7-day use-by-date on a gallon on milk. On the first day of the use-by time frame, you have 7 days to consume the milk. As each day passes, there is less time value; a shorter time to utilize the product. Until on the last couple days, you better drink quickly, before it is poured down the drain.

So, too, a monthly expiration erodes much more quickly during the last three weeks before expiration than it did the prior month or two coming up to its current/front month expiration.

When we purchase monthly expirations for a medium-term swing trade, I often suggest buying 2-3 months out, giving the trade time to develop and then to sell and close the position 30 days before expiration to avoid the time decay that takes place during those final weeks. It is as if a snowball is rolling down hill and picking up speed during those last weeks.

This holds true with LEAPS options as well. During the last four months, time decay escalates and peaks during the last month. Time decay is a consideration in deciding when to sell a position. If the trade is deep in-the-money, time decay is less of a worry since there is little time value to dissipate. Yet, if the trade is at-the-money (I will discuss this concept next), time decay needs to be taken into account. If a trade is gaining premium of an average of .10 cents a day, but time decay is .15 cents a day, it makes little sense to be giving money away with the hope that somehow the premium will overtake the decay.

Many strategies focus on both upward and downward equity movement. Quite often (but not always), a (short) put trade as opposed to a (long) call trade, has a more rapid descent. It often takes more time for an equity to paddle up stream and less for the stream to thrust the equity down. You will want to select option expiration time frames that are appropriate for each type of trade. That being said, you don’t want to cut the trade too close, you want extra expiration time to take full advantage of the move if there is a delay or if the move lasts longer than expected.

Each of the strategies covered in any of the books will give a recommendation as to expiration duration to be used with that strategy. It is strongly suggested that you follow the recommendation or error on the side of extra time.

Another over-shadowing consideration is the environment of the stock market as a whole. Think of this as the mood of the market. Is it turbulent? High volatility, low volatility? Is it in a solid uptrend? Is it going into a correction? Is there a sector rotation taking place? The answer to any of these questions could influence the amount of time that it could take your trade to develop. It would be a shame to only plan for a one-day call trade, while the indices are pulling back and selling off.

Depending on the strategy, you will be participating in a variety of trade lengths, so it pays to be aware of the trading-weather conditions.
As a gauge to estimate the duration of your trade, look back at its chart and count the days for a trade or two similar to the one you are considering. How long does it usually climb before turning back? How long does it usually take to drop and find a bottom? A few hours? 1 day? 2 days? Longer?

The overall objective of any strategy is to get into a trade at the beginning of the move and exit quickly at the end of the trade before giving back any profits. Intraday stocks follow an ebb and flow rhythm. You will find that many stocks often perform in a predictable manner and we will enter and exit trades on that particular time frame several times a day, week or longer on the weekly charts, riding the waves up and down like a surfer.

The specific strategy guidelines take into consideration the expiration period evaluation, meaning whether you enter a trade on the current weekly expiration, 2\textsuperscript{nd}-week, or current/front month, several months out or a LEAPS option.

You will want to sell your position before expiration and will want to exit at or before the point where time decay is greater than the premium’s daily gain.

\textbf{Third Guideline} – A third, yet, major consideration has to be available funds. Since extra time or expirations that are further out in time will be available at an increased premium, you can only work with the funds you have on hand to invest. Don’t be tempted to cut the expiration period short because of a shortage of funds! Find another strategy or trading time-frame to utilize, one that has a lower premium.

This is a very general guideline for the average everyday trader with a modest account-- weekly option trades, set an average total investment for each trade between $300 and $600. Decide on an amount that fits your trade account. This then is the total amount at risk for the trade. You can’t lose more than $300 to $600 and you know the full amount that is at risk before you ever enter the trade.

The main reason for setting a $300 to $600 limit is that trading fees or commissions need to be taken into account when trading multiple contracts that are inexpensive. One broker might charge $12.95 for 1 to 10 contracts and $1.25 for each contract thereafter. Other brokers may have slightly higher or lower commission fees.

Let’s use the $12.95 broker as an example. If you are considering purchasing weekly options with a cost of .05 per contract or $5 for the 100 shares, and perhaps allocating $600 for the trade, you would be purchasing 120 contracts. The commission or trade fees would be $150.45 to get into the trade and $150.45 to close the trade. A total of $300.90 in fees is quite likely to wipe out or put a big dent in the trade’s profits.

By limiting each trade to an average of $300 to $600, you are limiting the risk on each trade and, also, controlling the costs to place the trade.
This, too, brings up the importance of finding an online broker with reasonable fees. I will cover this again when I get into the section about opening a trading account.

Now that we have established the $300 to $600 guideline, let’s fine tune this even further. Premiums vary depending on many influencing factors. For this weekly option general rule (based on other guidelines to follow), target equities offering .30 premiums or higher.

The reason for this requirement is that it limits the number of contracts to approximately 10 to 20. (.30 cents times 100 shares = $30, $30 divided into $300 = 10 contracts or divided into $600 is 20 contracts. Limiting the number of contracts to 10 to 20 helps control the brokerage fees. As explained earlier, if a trader is tempted to buy 100’s of contracts based on a cheap premium, he may be hit by HUGE brokerage costs that more than wipe out the profit earned.

It is also advisable that once you decide on a weekly option trade-limit-total, stick with that total. Don’t trade $300 on one trade and $450 on another and $600 when you feel flush. Come up with a trade amount that feels comfortable and maintain the trade range until you make a conscious choice to change to another amount as your trade limit.

So I have covered the suggested trade amounts for weekly options, for monthly options, I suggest setting a trade amount of approximately $1,250. If the premium is $2, you could purchase 6 contracts for a total of $1,200. A premium of $4.10 would allow you to purchase 3 contracts for $1,230.

For LEAPS options, I suggest a similar amount of $1,200 to 1,500. If the premium of the next year’s LEAPS was $6.25 you would be able to purchase 2 contracts.

Consistency is part of any plan and helps set in place certain expectations. You are re-thinking and sending out a message that you expect consistent returns on your trades as you follow your trade plan.

**Fourth Guideline –** The next option consideration is strike price. The strike price we select should be first strike out-of-the-money at or in-the-money and this will depend on the strategy you choose to trade

- **In-the-money (ITM)** is the amount by which the price of the underlying exceeds the strike price. For example, if QQQ’s stock price is $109.15. You decide on a strike price of $108. This option is $1.15 in-the-money, which is the difference between the stock price and the strike price.

- **At-the-money (ATM)** is the amount when the price of the underlying matches the strike price, or nearly so. For example, if QQQ’s stock price is
$109.15. You decide on a strike price of $109. This option is *at-the-money*, since the strike price nearly matches the stock price. (Actually it is .15 *in-the-money*, but the amount is so small, you’d say it is *at-the-money*).

- *Out-of-the-money* (OTM) is the amount by which the price of the underlying is below the strike price. For example, QQQ’s stock price is $109.15. You decide on a strike price of $112. This option is $2.85 *out-of-the-money*, since the stock price is below the strike price.

The agreed upon price at which the option can be exercised is the strike price; therefore, that price is a factor in strike selection for the following reasons.

Let’s say you want to purchase a call option to buy QQQ. Its current price is $108.25 a share. You can agree to buy shares of QQQ stock for $105 or you can agree to buy QQQ stock for $107. If both options cost the same which one would you choose to buy? The options with the 105 exercise or strike price. That’s a no-brainer.

Now let’s assume QQQ increases in value to $115. If you had the right to buy the stock for $105, you could “exercise” your right, purchase the stock for the strike price of $105, and then sell it for the stock price of $115, thus earning a profit of $10 per share or $1,000 for your 100 share option contract. Needless to say, you would not “exercise” your right to buy, if you owned the $105 strike option but the stock price was $95. You would choose to do nothing because there would be no profit in it.

(The example of actually buying and selling stock is used for illustration in our example. The process of buying and selling of the stock happens silently behind the scenes at the Exchange. You are not involved in this process and all you see is the end profit/loss result.)

The fact that there would be a $1,000 profit on the option with a $105 exercise or strike price and no profit on an option with an $95 exercise or strike price illustrates how an option’s value increases or decreases, depending upon the agreed upon price at which the stock can be purchased.

**Fifth Guideline** – Delta for each Strike Price.

Each strike price incorporates a delta percentage number that is used in the calculation of its option premium. The deeper in-the-money, the higher the delta. Delta is one of the Greeks that play a part in option pricing.

You want to avoid the lure of an inexpensive option that is too far out-of-the-money (OTM). At first you assume you have found a great bargain, perhaps only $.30
per share, a total of $30 per contract. You imagine getting 20 contracts for $600. But then, you check the deltas, and find it is .16. For every dollar of the underlying asset’s price move, you get $.16 cents. You can see at that rate, it will take a long time for an option to cover the spread cost between the bid and the ask and the brokerage fees, much less ever get to the point where you realize a profit.

Therefore, the 5th option requirement is to not only buy only one strike out-of-the-money (OTM) or at-the-money option (ATM), but the option should have a delta of .40 or better, preferably with a delta of .40 to .65 for a weekly option. With that percentage or higher, you’ll make $.40 to $.65 or more for every dollar move of the underlying asset. Higher deltas have higher premiums.

For Monthly and LEAPS, you want a delta of .50 or higher, which means that it will be in or at-the-money and the premium will increase $.50 or higher for each dollar move.

With weekly options, the increase in deltas happens quickly. The delta might be .40 one day and after a small move, it will be .55 the next day and .80 the following day.

I have found that the greatest leverage happens on the weekly option that is one strike out-of-the-money (OTM). Often this is the strike that would also be considered at-the-money (ATM). The delta is large enough to give you a nice increase as the equity price moves, but it also brings the delta up quickly, so that if your trade is working, the profits are compounded by delta and the larger number of contracts that you were able to purchase.

Monthly and LEAPS option’s deltas increase more slowly because of the extended time in the equation.

Sixth Guideline – The cost of purchasing an option is another consideration. The difference between the bid price and the ask price on an option chain listing is the amount that goes to the market-makers. You might think of it as a commission paid for handling the in and out transactions of the sale.

For example, if the bid is $.65 and the ask is $.68 at the time you purchase your option, you would most likely pay $.68 for the 100 share option or $68. If at the time you wanted to exercise the option, the bid was $1.45 and the ask was $1.52, you would receive $1.45 for each of your 100 share options or $145 per contract. The market-maker or the person on the other buying/selling end of the transaction receives the $.07 per share or $7 (the difference between the bid and the ask) for the 100 share contract as their commission for handling the transaction.

This explains why when you purchase an option contract your account starts off with a deficit. You are down the amount of the spread.
With this in mind, you don’t want to pay a fee that is too high. If the spread is greater than $.30 on LEAPS options, $.25 on monthly option and .20 for weekly options, don’t purchase that particular option or else place a limit purchase order for a price that is between the bid and the ask price, bringing the spread into the or less range. Market-makers will sometimes trim their commission if they are interested in taking part in the trade. Also, the various exchanges don’t always maintain the same bid and ask premiums, so what seems to be a low commission for market-makers at one exchange might be within range at another exchange. The broker will check the various exchanges in their effort to fill your limit order.

A trick that often works for bid/ask spreads that are too large and are divisible by 3, divide by 3 and subtract that amount from the ask premium, then insert that amount in your limit order. This trading secret then works even for the $.30 spread. Submit your limit order for $.20 instead of $.30. You do this by subtracting $.10 from the ask premium. Insert that amount into your limit order. The $.10 you save per share per contract is $10 and is apt to pay the broker’s trading fee for one side of the trade.

For a .20 weekly spread, divide by 3, result (.065) and subtract that amount from the ask premium and insert that amount in your limit order.

Weekly and monthly options for some stocks seldom have a spread that is larger than a few pennies. The times when this amount increases are, at the end of the day so market-makers can capture a little extra from those who are foolish enough to place trades overnight and the amount will also increase during times of market excitement or high volatility.

Premiums are also often calculated lower on Fridays and especially before a long 3-day weekend. Market-makers are trying to discourage traders from closing trades out before a weekend. The benefit of this is that premiums can be slightly lower if you decide you want to enter a trade before Monday or the next trading day.

A second cost is the brokerage fee. This is what the broker charges to hand the trade. Each brokerage has a fee structure and it is worth comparing these fees in relation to the bells and whistles you want from the broker. I seldom use the charts at my broker, so that is not an important feature for me, but I do want a quick, easy to use trading platform that is known for fast executions.

Speaking of brokerage costs. Every few months of trading, contact your broker (especially online brokers) and ask if you are getting their best deal? You can mention that you want to make sure you are paying a fee commensurate to other brokerage firms. Often you will find they will drop you from $14.95 per side of a trade to $12.95, then to $9.95 the next time you call, etc. Eventually, you will hit a limit, but it still doesn’t hurt to ask.

Following these six guidelines will increase your success and profit level no matter what strategy you are using.
Right Place, Right Time

There is perhaps no better place to master the "right" option trading plan than my proprietary strategies.

Why?

Because, quite simply, I combine five uniquely powerful elements to maximize a trader’s success.

These five elements are:

Education – Comprehensive, easy to read books and DVDs with lots of examples. I don’t skim through the details, leaving traders overwhelmed with questions. All the necessary details are covered and explained with numerous examples.

Proprietary Trading System - Discover my proprietary patterns and rules for option trading that help to minimize risk and maximize gains. Buy the right expiration for the strategy. Pay the right price for the right strike price and know the needed open interest and volume to have a safe fill.

Watch Lists – Weekly strategy newsletters that list trade candidates that meet strategy and pattern criteria. You place the symbol in your chart template and watch for the entry confirmation.

Accountability - Why do so many traders fail? Lack of accountability. That's why I connect like-minded option traders so they can hold each other accountable. (Many traders have found this aspect of the community to be priceless and it is free).

Weekly Q&A, Refreshers & Market Updates - Get answers to your questions answered via email, Q&A and chart reading sessions, as well as timely educational refreshers and weekly continued education in newsletters and outlooks.

Advisory Services

I have placed a lot of emphasis on self-trading and a positive mindset. That said, for some people entering and handling trades themselves just doesn't fit into their life at the moment. Perhaps, you have an established career and are working full time so finding extra time to trade doesn’t fit if you still want to have a personal life. Or you don’t have access to the internet and a computer during trading hours.
This complication doesn’t mean you can’t begin the learning process in your spare time and utilize an advisory service.

An advisory service is where I do the trade research, select the trade candidate and call the trades based on a specific strategy and time frame. This allows you to place the trade based on the trade alert details that are texted or emailed to you.

You, also, have access to auto-trading. In this service, you and the auto-trade broker receive the trade alert details at the same time. You are aware of the trade, but the auto-broker places the trade for you. Email alerts are sent to members and auto-brokers with specific instructions whenever a new trade recommendation is opened or when an existing trade is closed out.

A portfolio of the trade recommendations is maintained on a website and prices are updated so members can track the profit performance of every completed trade.

**Membership Benefits:**

- Full support to help you implement the trade recommendations
- Receive clear and concise ‘buy’, ‘sell’ or ‘hold’ signals that eliminate guesswork
- Receive a recap every afternoon of closed, opened and trades that are being held
- Frees up your time spent on research
- Access to actual closed trade profit results that give you an instant ‘picture’ of how a strategy is performing
- Earn while you learn. You’ve received your strategy book, DVDs and will have continued access to newsletters, outlooks and website while you follow recommended trade alerts.

For details on advisories, call 1-877-404-7177.

**Life-Changing Opportunities**

Whether you are self-trading, just beginning to learn about options or participating in an advisory, option trading offers a flexibility that can change your life. Traders with various levels of experience, time and account size are able to make use of the leverage of option trading to improve their financial situations and achieve financial independence.
I began this manual with the mention of the X-Factor, a trade community that will support you every step of the way. Access is free. The link is listed in every weekly strategy newsletter. Pick your strategy and come join the group!

There is a trade community to support your efforts, but the first step must be taken by you. You can do this!