

Tom Gentile's  
**Power Profit Trades**

THE ULTIMATE GUIDE TO  
**MAKING  
MONEY**  
WITH OPTIONS



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## Introduction:

# You're on Your Way to Financial Independence

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Dear Reader,

You've just taken a huge step toward living a wealthy life.

Until now, you've been settling for mediocre returns. You've been watching your portfolio grow 5%, 8%, maybe 10% a year if you're lucky. But that's not *nearly* what you could be making.

And this is on top of giving away more money than you should to taxes, broker charges, banking costs. It's death by a thousand fees. But it doesn't have to be that way.

When you know how to trade options, you open up the door to the simplest, fastest way to grow your money. You don't have to put a lot at risk. You don't have to spend weeks learning how it all works. And you don't have to wait long to see real returns on your money.

The best part: **You are in control.**

I'm Tom Gentile. I'll be walking you through this options guide. I've been teaching people how to trade options for 30 years. I regularly share moneymaking tips with my readers at *Power Profit Trades*, my twice-weekly publication that helps people build wealth with options.

Now I'm going to give you the steps you need to be successful. I'll show you how to set yourself up for bigger returns with just a few minutes a day, in the comfort of your own home, on your own time.

If you thought options weren't for you – that's just not true. Anyone can trade options.

I was a Home Depot clerk, without a college degree, when I started trading options in my folks' basement. Now I have the financial freedom to live the life I want. I own houses around the world, from sunny Florida to beautiful New Zealand.

By the time you finish this book, you'll be able to set yourself up to double your money, time and time again. You'll have the power to build *real* wealth.

So let's get started.

To profitable investing,



Tom Gentile



## Chapter 1:

# The Moneymaking Power of Options

Welcome to the powerful world of options! This book will show you exactly how options work and how to use them to turn stocks' small price moves into fast, money-doubling windfalls.

I'm Tom Gentile, your guide through the options world for the next 38 pages. The strategies I'll show you here are what helped me amass an "options fortune," and get the financial freedom I'd been looking for. I've been sharing these tips with my readers for 30 years, and am excited to share them with you now. Let's get started.

## What Options Are

Options are an unconventional form of trading that allow you to collect faster, larger profits at a fraction of the cost of buying stocks.

**An option is a contract that gives you the right to buy or sell a stock at a specific price.** It lets you control 100 shares of a stock, but it costs significantly less than 100 actual shares.

Options contract prices can move a lot - and quickly. It's very common for the price of an option to move 50%, 100%, or much more in just days or weeks. That's what makes them so profitable.

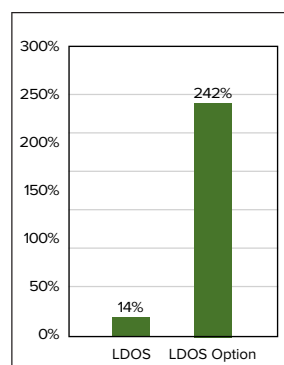
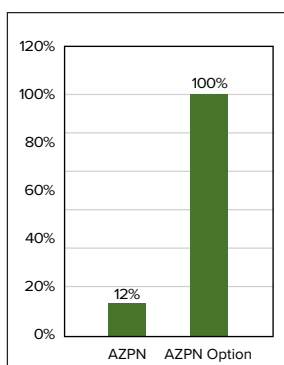
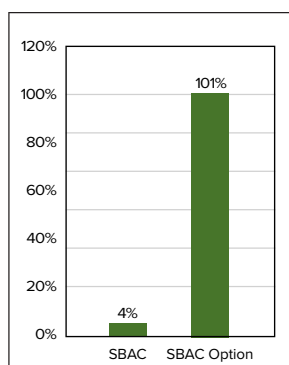
Options can be used to hedge or protect the gains you have from stocks you already own. You can also think of them as individual trading instruments that you can buy and sell for profit.

## Why We Love Options

One of my favorite benefits to buying or selling options is how their prices tend to move more dramatically – and more quickly – than the price of the underlying stock.

Look at these three examples from 2019:

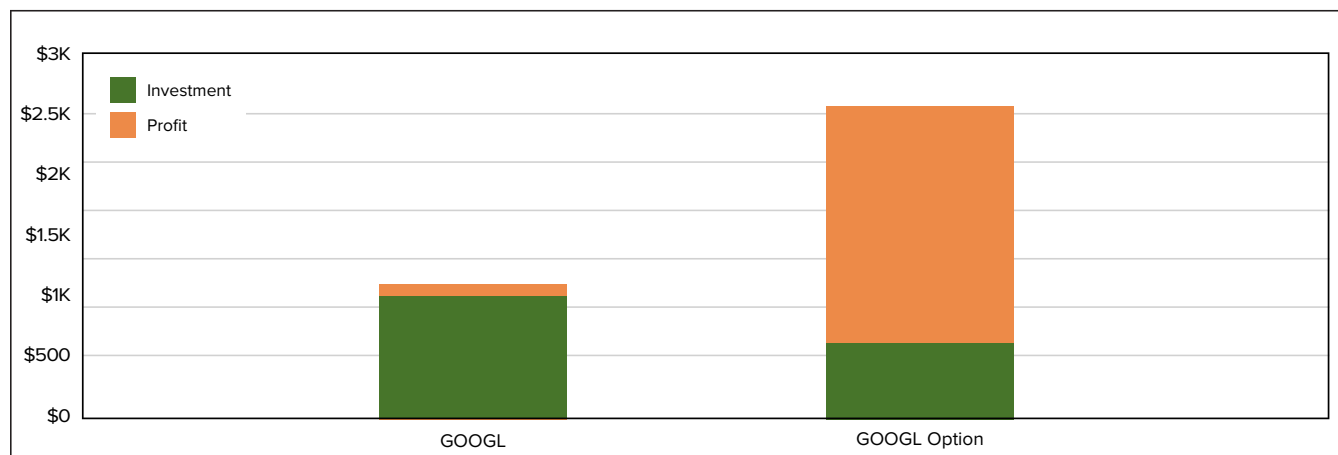
- From March 4 to March 15, SBAC Communications Corp. (NASDAQ: SBAC) stock rose 4%. An option on SBAC turned a profit of over *101%* in that same period.
- From Jan. 16 to Jan. 24, Aspen Technology Inc. (NASDAQ: AZPN) shares jumped over 12%. An AZPN option *doubled* in value in the same time.
- Between Feb. 27 and May 1, Leidos Holdings Inc. (NYSE: LDOS) stock climbed 14%, while an option on it moved over *242%*.



Another benefit is that you can spend less on an options contract than on stock and collect a much bigger payout.

On April 26, 2018, Google's parent company, Alphabet Inc. (NASDAQ: GOOGL) closed at \$1,043. Two weeks later, it closed at \$1,105.

Locking up over \$1,000 for a \$62 profit is completely unreasonable. But an options play on GOOGL cost \$620 on April 26 and ballooned to \$1,936 by May 10. That's *more than 20 times the profit* at nearly half the cost.



## How to Use Options to Make Money

When I'm first introducing people to options, I tell them that buying an option is like renting a stock. You don't actually own the stock, but because you own the *right* to buy or sell 100 shares of it, you can profit from it as if you own it (except, usually your option profits are bigger than those you would get from owning the stock).

I often call options a "stock substitute" for this reason. They're a very successful way to make money from how much stocks move.

As I said earlier, there are two ways to use options. One is as a hedge to protect your portfolio.

### Options as Portfolio Insurance

As an example, let's say you already own 100 shares of Advanced Micro Devices Inc. (NYSE: AMD) stock, which you bought for \$3,000 (\$30 per share). You still believe in the strength of the company, but you worry there's a small chance a market crash could drag the stock down in the next year.

You don't want to be stuck holding 100 shares worth less than what you paid for them. You want some "insurance" that would let you sell your stock for what you paid for it, just in case something drastic happens in the market and you need to sell the stock.

In this case, you could buy the option to sell AMD stock for \$30, which costs around \$4.80 per share, or \$480 for 100 shares.

If AMD stock does indeed drop 33% to \$20, your \$3,000 investment would be worth \$2,000.

But with options, you can exercise your right to sell AMD for \$30 a share. You could then collect \$3,000 for shares that would only sell for \$2,000 at market price. Your only loss would be the cost of the premium for your "insurance," \$480, compared to the \$1,000 drop in the value of your shares.

In other words, your options contract allowed you to cut your losses in half.

This is how options can be used as "portfolio insurance."

But you don't *have* to exercise the options contract for it to be "portfolio insurance."

Instead, you can buy and sell options contracts in the same way you buy and sell stocks – and this is the most powerful way to use options to grow your wealth.

### **Buying and Selling Options**

It's much more profitable – and more realistic – to trade an option as if it were a stock than to hold it for safety. This is how people can double their money again and again.

I like to trade options like stocks as part of an overall, balanced profit strategy.

**Here's how it works:** Let's say you do not own AMD stock. But you buy the option to sell AMD for \$30 a share. You've now only spent \$480.

Remember, as the owner of this options contract, you own the right to sell AMD for \$30 a share.

So if AMD stock plummets *below* \$30, the right to sell it for \$30 becomes more valuable. The price of the option you're holding will go up.

In fact, if AMD drops to \$20, the option that gives someone the right to sell it for \$30 will become extremely valuable. The premium of your option could potentially double to \$1,000.

Instead of exercising your option, you simply sell it for the premium it's trading for. At \$1,000, that would be a 108% gain on \$480.

Imagine executing a trade like that every month - or every week. That's the kind of money-multiplying power options can give you.

In Chapter 2, let's get you set up to actually buy and sell these contracts.

## Chapter 2:

# Setting Up Your Options Account

You've seen what options can do for you – so if you're anything like me, you're eager to start trading. It's now easier than ever to get a brokerage account that lets you trade options.

## Getting A Broker

A broker is the platform on which you trade options.

To set up an account, just follow these three easy steps:

**Step 1 – Select your broker:** You could look them up online, or simply use the list provided below.

**Step 2 – Set up your account:** You can do this over the phone using the number below or the contact info found on the broker's site, or just do it all online.

**Step 3 – Fund your account:** With a bank account and routing number, you can transfer money directly into your trading account.

To help you with broker selections, we've identified firms with the lowest account minimums and commission fees, that don't compromise on quality customer service. Listed below are some top discount brokers.

**TradeStation** has top-notch customer service and an easy website to navigate. The seamless experience is especially useful for beginning options investors.

Broker	Contact	Types of Trades	Minimums to Open	Pricing
Robinhood	<a href="http://robinhood.com">robinhood.com</a> <i>Online Only</i>	Stocks, ETFs, options, cryptocurrencies	None	None
TradeStation	<a href="http://tradestation.com">tradestation.com</a> 1.800.328.1982	Stocks, ETFs, options, futures, mutual funds, bonds	\$500.00	Stocks & ETFs: \$5 Options: \$5 + \$0.50 per contract.
Charles Schwab	<a href="http://schwab.com">schwab.com</a> 1.800.435.4000	Mutual funds, ETFs, CDs/money market, domestic and international stocks, bonds, options, futures	\$1,000.00	Stocks & ETFs: \$0 for online trades Options: \$0.65 per contract for online trades.
Fidelity	<a href="http://fidelity.com">fidelity.com</a> 1.800.343.3548	Mutual funds, IRAs, stocks, bonds, ETFs, and options	\$0, or \$4.95 for options	All online U.S. equity trades: \$0 Options: \$0.65 per contract.
TD Ameritrade	<a href="http://tdameritrade.com">tdameritrade.com</a> 1.800.454.9272	Stocks, options, mutual funds, and futures	\$0, or \$2,000.00 for Margin or option privileges	Stocks and ETFs: \$0 Options: \$0.65/contract.

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legal, or other professional advice as an agent of Money Map Press. Money Map Press does not receive any compensation for these services. Additionally, any individual services rendered to Money Map Press by the companies listed are considered completely separate from and outside the scope of services offered by Money Map Press. Any contact and resulting relationship is strictly between you and the company.

## Discount vs. Full-Service Brokers

The brokers we've chosen here are called "discount brokers" because they are less expensive than the full-service firms.

Full-service brokers can sometimes charge hundreds of dollars for their services. They can also charge you an annual percentage of your portfolio – so the more you make, the more you pay.

You should use whichever brokerage platform is right for you. The discount brokers listed above might meet your investment needs for a fraction of the full-service cost. If you prefer full service, go that route.

## Setting Up Your Account

Most brokers allow you to set up an account over the phone or on their webpage, whichever you're more comfortable with.

You'll be asked to provide personal information - typically your contact information, employment status, annual income, and approximate net worth.

You'll also be asked to select between several account types, as well as what you'd like to trade. You might see a screen like this:

While we can't advise you on what account to open, individual cash accounts are the most common.

Once your account is open and funded, you will immediately have the ability to buy and sell stocks.

## Options Clearance

Before you can begin to trade options, you need to make sure you have the right account and the highest level of options trading clearance possible.

The screenshot shows a web form titled "Configure Your Accounts". It is divided into three main sections:

- Account Type:** Three radio button options: "INDIVIDUAL" (selected), "JOINT", and "IRA".
- What would you like to trade?:** A sub-note says "A separate account is required to trade each asset class below." There are three checkbox options: "EQUITIES & OPTIONS" (checked), "FUTURES", and "FUTURES OPTIONS". Below these is the text "Total accounts to open: 1".
- Equities Account Settings:** Two toggle switches: "Margin Trading" (turned on) and "Options Trading" (turned on). A green question mark icon is next to the Margin Trading toggle.

Picture taken from [TradeStation.com](https://www.tradestation.com)



You will need to answer a few questions so that your broker can be sure you are well prepared to buy and sell options contracts. All of the questions you answer will help determine what level of options trading you'll get clearance for.

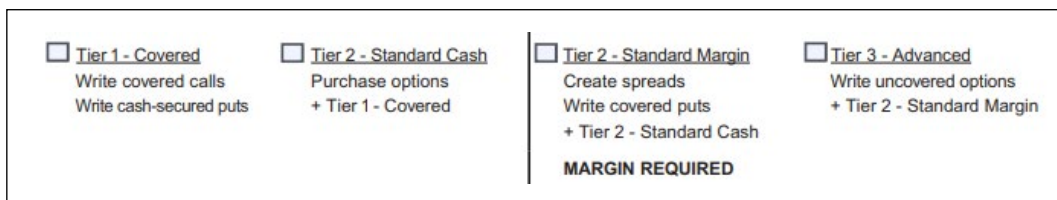
Don't worry. These are not trick questions, and I'll walk you through what to expect.

The goal is to get the highest level of options trading clearance possible. You may not want to do some of the more advanced techniques right away, but it helps to have the clearance to do so when you're ready.

- **Personal Finances:** These will be basic questions about yourself - your employment, yearly income, net worth, or your liquid net worth. While it may be tempting to fudge these answers a little bit to make your portfolio seem larger, don't. This is all easy to verify.
- **Investment Objectives:** Here you will be prompted to clarify your larger goal for investing - whether you are on the conservative side and aiming for income, or on the aggressive side and more speculative. If you want to qualify for something more than covered calls – which you'll likely want to do at some point – then select the speculative option.
- **Options Strategies:** Not all brokers will request that you select options strategies – certain strategies may already be included in whatever clearance level you are approved for. But if you are asked to select particular strategies rather than select an inclusive clearance level, by the end of this guide, you will be prepared to do so. These strategies start simple – with buying options contracts – then get more sophisticated, which includes buying credit and debit spreads, writing naked calls and puts, strangles, and straddles (we'll go over all of these later). In general, the more strategies you select, the higher your trading clearance will be.
- **Trading Experience:** You will likely be asked about your experience trading stocks and options. If you don't have much experience, it's OK. This is more of a formality. If you select a moderate degree of experience, this will likely help you get a higher clearance level.

The levels of trading and the terms used to describe different kinds of options can vary between brokerages.

For instance, **TD Ameritrade** features four levels of options clearance:



Images from TD Ameritrade Options Upgrade Form

**TradeStation** employs five levels:



Images from TradeStation.com

Now you're ready for Chapter 3: understanding the important parts of the option contract itself.

## Chapter 3:

# How to Trade Options

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Alright, your account is set up, and you're ready to go. Now let's look at an options contract.

There are three key terms important to understanding the value of an options contract. These are the **option type**, **strike price**, and **premium**.

## Option Type

There are two types of options: **calls** and **puts**.

A **call** gives the owner the right, but not the obligation, to *buy* 100 shares of a particular stock at a predetermined strike price. You buy a call when you think the price of the underlying stock will rise.

A **put** gives the owner the right, but not the obligation, to *sell* 100 shares of a particular stock at a predetermined strike price. You buy a put when you think the price of the underlying stock will fall.

## Strike Price

The **strike price** is the price at which you can buy the stock with a call option or sell it with a put option.

If a stock's actual value is \$100 a share, a call option with a strike price of \$90 per share is valuable because it allows you to buy the stock for \$10 cheaper than its market price.

A put option with a strike price of \$110 per share would also be valuable because it would allow you to sell the stock for \$10 more than the market price.

This is why strike price is a significant factor in determining the value of an option.

## Premium

The **premium** is the amount you pay if you buy an option, or the credit you receive if you sell an option.

Make sure you don't confuse an option's premium with the **strike price**. The premium is the actual cost you pay for every options contract you would like to trade – it is the value of your option. There are three main components that determine the premium:

1. The main factor of the premium is the distance between the strike price and the current price of the underlying stock. If the underlying stock's price is higher than the strike price of your call option, or lower than the strike price of your put option, then the option can make you money. The premium will rise when the option can deliver more profit.
2. Second, the amount of time until expiration is factored into the price. An option's value will deteriorate over time because the underlying stock has less time to move in the desired direction. There's less time to make a profit on the option. So if you are sitting on an option trade for a number of months, your gains could be offset by **time decay**.

3. Lastly, the amount of volatility, or uncertainty, about the underlying security is factored into an option's premium. The higher the volatility, the higher the risk, and the higher the premium.

There are a few more key contract components to know. I'll go over them now as I walk you through each piece of an options contract.

## Breaking Down an Options Contract

I'll use American Micro Devices (AMD) stock as an example. An options contract could look like this:

**AMD<sup>1</sup> May 31, 2019<sup>2</sup> \$31<sup>3</sup> Call<sup>4</sup> (AMD190531C00031000)<sup>6</sup>  
(\$1.81 Premium)<sup>5</sup>**

1. **Underlying Security:** Sometimes referred to as the underlying symbol, this is the stock, ETF, or security you are obtaining the right to buy or sell.
2. **Expiration Date:** This is the last day the option contract can be exercised. You can usually exercise the option until 5:30 p.m. on that day, but you will not be able to trade the option after market close that day.
3. **Strike Price:** This is the price at which you have the right to buy or sell the underlying security. A \$31 call option means you have the right to buy the stock at \$31.
4. **Option Type:** An option can be either a call (the right to buy the stock at the strike price) or a put (the right to sell the stock at the strike price).
5. **Premium:** This is the per-share price you are paying for your options contract. You multiply this by 100 to get your per-contract price.
6. **Option Chain:** This is simply another way to refer to the contract on the market, reiterating the above information.

When you put all of this information together, what the buyer of the above contract is predicting is that the price of Advanced Micro Devices (AMD) stock will move upwards (call), toward or above \$31 (strike price), by Sept. 27th (expiration date). The overall amount you would pay per contract is \$181 (premium).

## Short and Long Positions

You'll hear "short" and "long" over and over again when trading options. These are just fancy words for "sell" and "buy."

A short put is a put you sell. A short call is a call you sell. A long put is a put you buy. A long call is a call you buy.

Here's a quick chart on what these four possibilities actually mean:

Position Type	You're Betting the Stock Will...
Long Call	Rise
Long Put	Fall
Short Call	Fall
Short Put	Rise

I've already covered long calls and puts. When you buy a call, your options contract becomes more valuable when the underlying stock price *rises*. You have the *right* to potentially buy the underlying stock at a lower value than the market price.

But instead of exercising that right, the easiest way to profit is to sell the options contract for a profit.

When you buy a put, your option gains value when the stock *falls*. It means you have the right to sell the underlying stock at a potentially greater value than the market price, which makes the options contract valuable.

Again, you can just sell the option contract for a profit, rather than exercising that right.

Short calls and puts are very different.

When you *write*, or sell, a put contract, you are giving someone else the *right to sell you* 100 shares of the underlying security at the strike price on the contract.

In other words, you have the *obligation* to buy 100 shares at the strike price if the buyer chooses to execute the contract.

You make money in this trade when the underlying stock *rises*, so that the buyer has no reason to sell it at the lower strike price. Then you can keep the premium you got from writing the option.

When you write a call contract, you are giving someone else the *right to buy* 100 shares of the underlying security *from you* at the contract's strike price. In other words, you have the *obligation* to go out and buy 100 shares at market price and then sell them to the buyer at the strike price – if the buyer so chooses.

You make money in this trade when the underlying stock falls. The buyer then has no reason to buy it from you at the higher strike price when they can buy it at market price for less. You get to keep the premium from selling the option.

You may have noticed that the stakes of getting it wrong in short puts and calls are *incredibly* high. In both cases, you have to go out and buy *100 shares* of a security to fulfill your obligation to the buyer.

The risk is greater, so these options tools are reserved for advanced traders in specific situations.

**Take the following scenario, for example:** You think XYZ stock will rise, so you sell a put contract on it at a strike price of \$100. Initially, you make a \$300 premium for the contract.

So far, so good! You're up \$300.

But let's say XYZ stock drops to \$1 a share, and the buyer of the contract decides to exercise their right to sell it to you – at the strike price of \$100. You now have to spend \$10,000 (\$100 x 100 shares) to buy 100 shares of XYZ stock from the buyer.

Sure, you can turn around and sell those shares at market price, but that's only \$1 per share. You're still out \$9,900. Suddenly, that \$300 premium is peanuts compared to your losses.

The risk of a short call is even higher because there's no limit to how high a stock can go.

**Let's see another example:** Maybe you think ABC stock will fall, so you sell a call contract on it at a strike price of \$100. Like with the put contract, you make a \$300 premium for the contract.

But let's say ABC stock jumps to \$1,000 a share, and the buyer of the contract decides to exercise their option to buy it from you – at the strike price of \$100.

You now have to spend \$100,000 ( $\$1,000 \times 100$  shares) to buy 100 shares of ABC at the market price... just to turn around and sell them to the contract buyer for \$10,000 ( $\$100 \times 100$  shares). You've now lost *\$90,000*. The \$300 you made on the initial doesn't even dent that loss.

These kinds of options are called “naked” because of how vulnerable they leave you.

If you stick strictly to long options, you'll avoid ever having the *obligation* to buy 100 shares of a security.

Later in this guide, I'll show you how to buy and sell contracts simultaneously to lower your premium – what I call a “loophole” trade. These options are much safer because the obligation of the contract you write is covered by the rights of the contract you buy, so you're never actually on the hook for 100 shares.

There are specific circumstances for using “loophole” trades, which I will cover later on.

## A Quick Work on “Moneyness”

When you would make money if you exercised your options contract, we say this option is “in the money” (ITM).

Call options are in the money when the strike price is lower than the market price of the underlying stock. You have the right to buy the stock below where it's trading and then sell it for the higher market price, turning a profit (as long as the price difference is bigger than what you paid for the options contract).

Put options are the opposite. They are ITM when the strike is higher than the underlying stock, so you can sell shares for more than what you would buy them for at market.

Your option could also be out of the money (OTM), meaning it would not yet be profitable to exercise your contract. For a call option, this is when the strike price is higher than the underlying stock price. For a put, when the strike is lower.

Finally, options can be at the money (ATM), meaning that exercising the contract would be the same as buying or selling the stock at market price.

Now that you have a sense of our low-risk approach to options trading, you can learn how to find the best opportunities that are most likely to hand you your first double.

## Chapter 4:

# How to Pick the Best Option for You, Every Time

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Over the years I've shown more than 300,000 traders the specific secrets of spotting low-risk trade opportunities with a high probability of success. There's one piece of advice I'm sure to give right away.

### **Trade with logic, not emotion.**

Logic will make you more money. Emotions can make you exit a trade out of fear, or stay in because of greed, and can be very costly. And all you need to trade with logic is a strategy.

When you have a strategy – a predetermined set of rules to follow – you'll increase your chances of profiting on as many trades as possible. It'll keep you disciplined when entering and exiting the market.

So, how do come up with a trading strategy? Let me show you...

## Define Your Trading Style

The first step to creating an options trading strategy is to find out what type of trader you are. There are a few investor characteristics that can help you decide what style of trading best suits your needs:

- **Low-Risk vs. Speculative**

**Low-risk traders** typically stick with in-the-money trades because they are less likely to expire worthless. More **speculative traders** might venture into OTM trades, which offer potentially higher payouts but carry higher risk of losing your entire investment when they expire.

- **Directional vs. Non-Directional**

**Directional traders** tend to generally identify with a particular market disposition: bullish or bearish. Bullish investors favor securities they believe will rise in value. Bearish investors focus on securities they believe will fall. As you are now aware, you can buy options to profit from either outlook. Other investors see securities as being able to move in either direction in an instant. These investors are **non-directional**. Non-directional investors hold more of a subjective standpoint, looking for any market indicators they can profit from.

- **Short Term vs. Long Term**

The last factor in determining what type of trader you are is deciding how long you are comfortable staying in trades. **Short-term traders** are in and out of trades in less than a month, while long-term traders hold onto positions for a month or longer. Short-term trades tend to be riskier because they have less time to move in your desired direction. But if you are sitting on a position for too long, you could be missing other opportunities. It's OK as a new trader to favor lower-risk alternatives as you get used to trading, i.e., trades with an expiration date about 30 to 60 days out.

Knowing what type of trader you are will help you easily and quickly select which opportunities are for you.

## Selecting an Underlying

Before you can begin setting up your go-to strategy, you will need to pick a security to trade on (or against). Here are three ways I like to find stocks about to move:

### **Take 5 Minutes to Read the Day's Financial News**

Seems like a no-brainer right? With the number of financial media resources available, it's easy to find the latest current events driving the markets. Take, for instance, the trade disputes between the United States and China that dominated news cycles in 2019. You might have looked at bearish opportunities in U.S. manufacturers (which often use Chinese raw materials). You may have even considered buying puts on the whole S&P 500 index (NYSEArca: SPY).

On the other hand, Walt Disney Co. (NYSE: DIS) announced plans to roll out a new streaming service in November 2019. This generated a large price jump for the stock, which many traders profited from with call options.

### **Look for Share Buybacks**

When a company launches a share buyback program, its executives begin to purchase shares of their own company from the market. This is likely happening because they believe their stock to be undervalued. Or, perhaps they are privy to news yet to be released that could positively affect their stock. That's a pretty good indication that the share price will be on the rise - and with it, the value of your option.

Here's an example from May 2018: fiber-optic company Amphenol Corp. (NYSE: APH). The company was coming off a great earnings report and had just started a \$2 billion stock buyback program to boot.

I recommended the Oct. 19, 2018, call with a strike price of \$85. That's pretty close to the \$88.28 share price at the time. By September 2018, more than a month before the expiration date, those contracts nearly *doubled* in value.

### **Watch for Earnings Release Dates**

Earnings season can be the most profitable time of year to trade options. That's because when earnings come out, stocks move. They move on the anticipation of what the earnings report could tell us, they move on increased trading activity, they move because other stocks in their sector are moving.

I am always looking at earnings-related news to drive opportunities for my subscribers. I like to find stocks that typically rise before their earnings report is released, and that have higher options volatility during that time, too.

Like in April 2018, when Q1 earnings were coming out. Looking at historical data for those two factors, I saw a potential profit opportunity with Yelp Inc. (NYSE: YELP). It looked like the stock was going to go up before the company released earnings, and I expected the call option premiums to do the same. I chose the May 18, 2018 \$43 call options that were trading near \$3.00, targeting a 50% gain for this one. And by May 9 – the day before Yelp's earnings came out – the option was up 54%.

Here's the secret with trading options around earnings season – you want to get out before the company releases earnings. That's because it means you'll be exiting when the frenzy is at a high, so you'll be selling into interest and can get a better price for your sale. Think of it like selling tickets to a big concert – the closer you get

to the concert date, the more the tickets will go up in value. But as soon as the concert starts, they drop. As soon as the company reports earnings, those option prices could fall.

## Selecting an Option

Each stock comes with *countless* option choices with different expiration dates and strike prices, so you will want to begin by selecting an option that best suits what sort of trader you are.

**Let's run through the following example:** *Bloomberg* has just published an article stating that the popular photo-sharing site Pinterest Inc. (NYSE: PINS) is growing quickly. The stock is already up 4% today. You want to get in on the action, but you don't want to be tied up in a stock position for too long, so you decide to make an options play instead.

If you're a bearish, speculative, short-term investor, you might develop the following strategy:

*I believe this is a fluke - Pinterest is nothing new, and this stock will probably take a nosedive once the "Bloomberg boost" dies down, so I'm going to buy a put option. I also like to free up my capital quickly so I can move on to the next trade, so I'll pick an option with an expiration date no more than 30 days from now.*

*Being more speculative, I don't mind picking an option that's a little bit out of the money. It's riskier, but I'll make more money from a smaller move in the stock price.*

*The \$24.50 put is inexpensive at \$58 a contract, and it will only take a 2.4% drop in the stock price for my trade to become in the money, so that's what I'll buy.*

\$26	\$24.62	-1.91%	-42.23%	-\$1.01	\$1.38	+
\$25.5	\$24.45	-2.59%	-46.97%	-\$0.93	\$1.05	+
<b>Share Price: \$25.10</b>						
\$25	\$24.22	-3.51%	-50.95%	-\$0.81	\$0.78	+
\$24.5	\$23.92	-4.70%	-53.25%	-\$0.66	\$0.58	+

On the other hand, if you're more bullish and have a lower risk tolerance and a longer-term outlook, you might adopt the following strategy:

*The Bloomberg article made a lot of sense to me, so I think this stock will rise in price even further.*

*To reduce my risk, I'll look for a call option with an expiration date at least 30 to 60 days away. I'll also choose an in-the-money option to reduce the risk of losing my entire investment.*

*The \$24.50 calls are safer than the out-of-the-money options while still giving me a chance to double my money in the next two months, so those are what I'll buy.*



\$26.5	\$27.38	8.99%	65.09%	+\$0.35	\$0.88 +
\$26	\$27.05	7.67%	61.54%	+\$0.40	\$1.05 +
\$25.5	\$26.75	6.48%	60.26%	+\$0.47	\$1.25 +
Share Price: \$25.12					
\$25	\$26.48	5.40%	55.26%	+\$0.53	\$1.48 +
\$24.5	\$26.25	4.49%	52.17%	+\$0.60	\$1.75 +

This is a good example of how you can put your investor characteristics to use. Basically, with options, there's something for anyone who's looking to make money.

#### ADVANCED:

##### Percent to Double and “the Greeks”

I frequently talk about searching for options with the lowest “**percent to double.**” This is the percent that the underlying stock needs to move in order for you to double your money on the options trade, otherwise known as a 100% return.

The formula to calculate percent to double is below.

$$\frac{\text{Option Premium}}{\text{Option Delta} \times \text{Stock Price}} \times 100 = \text{Percent to Double}$$

You may have seen this formula before...or perhaps you saw math and felt a twinge of fear. Don't fret; these calculations are surprisingly easy. And once you put them into practice, they will make much more sense.

If you're not already familiar, **delta** is one of several values that measure how an option's premium changes due to varying external forces.

These values are known as “the Greeks,” as their names are derived from Greek letters. Delta measures how an option's premium changes when the price of its underlying stock changes.

There is a complex algorithm used to determine the value of delta for every option, but you will never have to do that math – the delta of every option will be represented on your broker's website.

Let's take a look at the following Microsoft Corp. (NYSE: MSFT) call options to better understand position delta:

For the following MSFT May 24, 2019 \$132 Call, we see the delta listed as 0.2027, or 20.27%. This means that for every one point (\$1) the underlying moves, the premium for this contract will change by 20.27% of that \$1 increment, or \$0.20.

<b>\$132</b>	<b>\$132.37</b>	<b>2.52%</b>	<b>4.29%</b>	<b>+\$0.02</b>	<b>\$0.37</b> <b>+</b>
<b>Bid</b> \$0.36 × 18	<b>Ask</b> \$0.37 × 31	<b>Mark</b> \$0.365	<b>Previous Close</b> \$0.35	<b>High</b> \$0.70	
<b>Low</b> \$0.21	<b>Volume</b> 1,631	<b>Open Interest</b> 1,485	<b>Implied Volatility</b> 18.44%		
<b>The Greeks</b>					
<b>Delta</b> 0.2027	<b>Gamma</b> 0.0856	<b>Theta</b> -0.0682	<b>Vega</b> 0.0505	<b>Rho</b> 0.0049	

Picture taken from Robinhood.com

Now that we know the delta, finding out how far the stock needs to move for us to double our money is as easy as plugging numbers into our percent-to-double formula.

$$\frac{\text{Option Premium}}{\text{Option Delta} \times \text{Stock Price}} \times 100 = \text{Percent to Double}$$

The option premium is \$0.37, the option delta is 0.2027, and the current stock price is \$132.37.

You can plug those numbers into any calculator and get the following:

$$\frac{\$0.37}{0.2027 \times \$132.37} \times 100 = 1.38\%$$

So, according to our percent-to-double formula, MSFT stock would only need to increase by 1.4% by the expiration date in order to double your money.

You will find that the higher an option's delta is, the lower its percent to double will be. So, options with a reasonably high delta (.70 and above) will have a higher chance of doubling.

That being said, options with higher deltas also tend to have higher premiums, increasing your risk.

There are a few variables you will want to keep in mind when making decisions based on the percent to double:

- Neither an option's delta nor its percent to double is constant; both will fluctuate slightly with the market.
- Delta cannot account for time decay on your option or unexpected volatility in the market. Near-expiration trades can represent a degree of uncertainty, posing a greater risk.

The percent to double is an excellent tool for selecting an option to trade on. But this is not a trading strategy in itself. Particularly for beginning investors, you will want to use a **low-risk trading strategy**.

As you now know, options can be low-risk because you're spending less than if you bought the stock directly. But you can further lower an option's risk by buying one with an expiration date that's further away. That allows more time for the stock to move the way you want it to.

You can also lower risk by picking a strike price that's in the money. The further ITM your strike price, the less likely it is that it will be out of the money on the expiration date.

Shorter-term, more out-of-the-money options come with potentially higher returns. But while you're still getting your feet wet, you're probably better off sticking with lower-risk options.

### **Position Sizing**

Once you know exactly which stock you are trading on and which option for said stock you would like to trade, it's just a matter of choosing the number of contracts you want to buy.

Before you place your order, you'll want to know your risk tolerance and decide a dollar amount you are willing to risk on any given trade. One way to do that is to spend the same amount on every trade. This allows you to make adjustments to your strategy according to market behaviors, rather than operating by guesswork on a trade-by-trade basis.

Seasoned traders know that they can only risk a small percentage of their capital on any one trade. That way, no matter what happens (including losing the entire value of the trade) your portfolio will survive to trade again tomorrow.

Although it's a personal decision between you and your financial advisor, I tell my readers to risk no more than **2% of their portfolio** on any one trade.

**Position size** and maximum risk level go hand in hand. If you decide that \$500 is your maximum risk for any trade, you can only trade \$500 divided by the price of the options contract. For a contract trading at \$1 per share (\$100 per contract), you can trade five contracts.

This is important to know when deciding what specific options to trade. Some may be priced above your limit, which is a sign you'll want to sit out the trade. Chasing big wins with bigger positions is a quick way to lose your money.

Instead, focus on opportunities within your predetermined position size until you've built up enough of a war chest to go after bigger targets. There are plenty of triple-digit profit opportunities at any contract price level.

### **Exit Strategy**

Once your order is set up, the next step is to know when to take your profits. At this point, you will want a clear target profit in mind. I typically tell my readers to always aim for 100% profit – or more in some cases – unless there's a special situation. But ultimately, your target profit should be decided by you and your financial advisor.

There are three benchmarks for taking profits:

**The first benchmark** is if you have purchased more than one contract and your trade doubles before your profit target, take half. This will let you ride out your trade on “the house’s money” without having any of your initial capital on the line. You can take the rest when you hit your target or before expiration.

**The second benchmark** for taking profits is when you hit your target, IF your target is greater than 100%. It’s tempting to keep your money in a trade that is performing well, but this isn’t a good idea. If you hit your target, take your money and move to the next trade so your winner doesn’t turn into a loser.

**The third benchmark** is when the option is about to expire. At this point, you are out of time, so take your money, win or lose. If you are in your last couple days of trading and you are seeing a substantial loss, it’s usually safe to assume this position won’t turn around for you. It may be time to cut your losses.

Speaking of loss, not all trades will be profitable. If you have lost 50%, cut your losses by closing your position, and move on to the next trade.

If you hit a trading slump where you are losing a few trades in a row, remember it will not last forever. Check your money-management rules to make sure they are sound. Make sure you are following your rules, and keep going.

Consistency is key to making money in the long term.

Next up, I’ll show you how to lower your risk with options. As you’ll see, trading options can be much safer than most people think!

## Chapter 5:

# How to Lower Your Risk When Option Trading

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There are a number of ways to decrease your risk with options.

With these strategies, you can lower the cost of the option, lower the amount the stock will need to move for the trade to be profitable, and even create a trade that profits no matter which way the stock moves.

## Profit in Either Direction: Straddles and Strangles

As you've seen, you can realize profits many times greater than your initial investment with options.

Plus, options let you profit from decreasing stock prices just as much as increasing ones.

Those two facts together mean that you can bet on *and* against a stock at the same time, and if the stock moves far enough in *either* direction, you can still pocket a handsome profit.

This strategy is perfect for times of high market volatility or earnings season, when stock prices can move dramatically in a matter of minutes.

Here's how it works...

### The Straddle

In a straddle, you buy one call and one put option on the same stock, both with the same strike price and same expiration date.

This increases your cost to open the trade, requiring a greater move in the stock price for you to realize a profit. But the benefit is that you profit if the stock moves up *or* down.

Let's see how this pays off with a real world example...

On Jul. 2, 2019, Exxon Mobil Corp. (NYSE: XOM) was a month away from its next earnings report release. At the time, XOM stock was trading for \$75 a share.

Now, nobody can know for sure what a stock will do after earnings. And even if you correctly predict if a company will beat or miss expectations, stocks often *fall* despite an earnings beat or *rise* despite an earnings miss. Exxon stock was likely to move, so there was an opportunity to set up for profits, but it meant playing both directions.

That profit strategy involved two purchases: buying one at-the-money call option *and* one at-the-money put option, both expiring Aug. 16, at roughly \$3.70 per share.

By Aug. 5, Exxon shares had dropped 7% to \$70 per share – despite beating earnings. So while the call had moved far out of the money, the put was now trading for \$5.79 – a 56% gain over the total original investment in just over a month.

For a more speculative play, you could also use a strangle...

## The Strangle

A strangle works the same way as a straddle, except both your calls and puts will be *out of the money*. That means the strike price of the call will be higher than the strike price of the put.

The cost of this trade is lower than a straddle, but it comes with greater risk.

Here's another example...

On Jul. 18, 2019, another opportunity arose for earnings-based profits in Ralph Lauren Corp. (NYSE: RL), which was trading at \$110 and would report earnings at the end of the month.

Another big move was predicted for RL stock. To play both directions again, for only \$530 you could buy RL calls with a strike price of \$113 and RL puts with a strike price of \$107.

When earnings came around, Ralph Lauren beat expectations, but not by enough to move the stock higher. Shares tumbled over 15% to \$95 by Aug. 5. While the call option expired worthless, the put option grew to \$1,007 in value, nearly doubling the initial investment.

## Lower Your Cost: Debit Spreads

As you now know, you should never risk more than 2% of your account on any one trade.

That means that for an account with, say, \$25,000, you should never risk more than \$500 on any one trade.

On occasion, though, you may spot a trade that you believe in your heart can make you big money.

The only problem is... it costs more than \$500 for a single contract.

So can you still make a profit without completely ignoring your risk management?

The answer is yes!

Here's how...

You can "sell to open" an option against the one you "buy to open" to reduce the cost of your trade. The number of contracts, the expiration date, and the type (call or put) of the option you're selling should be the same as the one you're buying. The only thing that changes is the strike price. If you buy to open a call option, the corresponding call option you sell to open should have a higher strike price. If you buy to open a put option, the put option you sell to open should have a lower strike price.

By selling to open this other option, you bring some money back to your account. Now, this is all part of the same trade... These two options are to be opened at the same time on the same order ticket. I recommend consulting your broker to find out if they charge an extra commission for this type of trade.

You generally want to close these two options at the same time. To do this, you simply reverse your orders: Sell to close the option you bought to open and buy to close the option you sold to open. Again, you'll want to enter these orders simultaneously on the same ticket.

We've nicknamed the two versions of this strategy – the debit call spread and the debit put spread – the "loophole" and "reverse loophole" trade, respectively. Loophole in this context means you offset your cost by looping some money back to your account through selling to open an option against the one you bought to open.

Now let's take a look at some examples...

## The Debit Call (or Bull Call) Spread

Here's an old example of a debit call spread (which I also call a "loophole trade") on LinkedIn Corp. (NYSE: LNKD) from 2016. We're going to use the LNKD June 17, 2016, \$125/130 calls. This \$500-wide spread (\$5-wide spread) trade example is below...

<b>Stock:</b> LNKD <a href="#">Stock News</a> <b>Name:</b> LINKEDIN <b>Sector:</b> Computer Programming, Data Processing <b>Dividend:</b> 0 % <b>100 Day SV:</b> 99.05% <b>Trade:</b> LNKD Jun16 125-130 Call		<table border="1"> <thead> <tr> <th>Quote Type</th> <th>Entry</th> <th>Debit</th> <th>Profit</th> <th>Rate of Return</th> <th>Max Profit</th> <th>Max Risk</th> <th>Delta (Shares)</th> <th>Gamma</th> <th>Vega</th> <th>Theta</th> </tr> </thead> <tbody> <tr> <td>Natural</td> <td>\$275.00</td> <td>\$-20.00</td> <td>-7.3%</td> <td>\$225.00</td> <td>\$-275.00</td> <td>14.68</td> <td>-0.143</td> <td>\$-0.95</td> <td>\$0.45</td> <td></td> </tr> <tr> <td>Mid Quote</td> <td>\$275.00</td> <td>\$0.00</td> <td>0.0%</td> <td>\$225.00</td> <td>\$-275.00</td> <td>14.52</td> <td>-0.246</td> <td>\$-0.91</td> <td>\$0.16</td> <td></td> </tr> <tr> <td>Optimistic</td> <td>\$275.00</td> <td>\$20.00</td> <td>7.3%</td> <td>\$225.00</td> <td>\$-275.00</td> <td>14.40</td> <td>-0.348</td> <td>\$-0.89</td> <td>\$-0.12</td> <td></td> </tr> <tr> <td colspan="2">Downside Breakeven</td> <td colspan="2">Upside Breakeven</td> <td colspan="2">Max Profit/Max Risk</td> <td colspan="2">Max Profit/Cost</td> <td colspan="3"></td> </tr> <tr> <td colspan="2">127.75</td> <td colspan="2">127.75</td> <td colspan="2">81.82%</td> <td colspan="2">81.82%</td> <td colspan="3"></td> </tr> </tbody> </table>										Quote Type	Entry	Debit	Profit	Rate of Return	Max Profit	Max Risk	Delta (Shares)	Gamma	Vega	Theta	Natural	\$275.00	\$-20.00	-7.3%	\$225.00	\$-275.00	14.68	-0.143	\$-0.95	\$0.45		Mid Quote	\$275.00	\$0.00	0.0%	\$225.00	\$-275.00	14.52	-0.246	\$-0.91	\$0.16		Optimistic	\$275.00	\$20.00	7.3%	\$225.00	\$-275.00	14.40	-0.348	\$-0.89	\$-0.12		Downside Breakeven		Upside Breakeven		Max Profit/Max Risk		Max Profit/Cost					127.75		127.75		81.82%		81.82%				
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2016-05-11	Sold	1	LNKD160617C130	JUN16	130 Call	4.83	4.75 4.90	\$0.00	32.67	291	998	37	-48.81	-2.98	-16.3	7.4																																																													
2016-05-11	Bought	1	LNKD160617C125	JUN16	125 Call	7.58	7.45 7.70	\$0.00	33.61	369	879	37	63.33	2.73	15.4	-7.2																																																													

On this order, you buy to open the \$125 calls while simultaneously selling to open the \$130 calls. This creates a vertical spread with a limit price of \$2.75 (or \$275), which results in a debit to your account of \$275.

**Here's how it works:** If LNKD moves above \$130, the market has the right to buy LNKD away from you for \$130, because that's the option you sold. But you have the right to buy an equal number of shares of LNKD for \$125, because that's the option you bought. Your broker should know this to make sure it actually happens.

The difference in the strike prices of \$130 and \$125 (\$5) is your profit, offset by the cost of the trade (\$2.75) shares, giving you a maximum profit of \$2.25 (\$225 per contract).

If LNKD falls below \$125, however, both options expire worthless, and your risk is capped at the cost of the trade, or \$275.

## The Debit Put (or Bear Put) Spread

Now let's look at an old example of put debit spread – or reverse loophole trade – on Tesla Inc. (NASDAQ: TSLA).

I'm going to use the June 17, 2016 \$205/215 puts. This \$1000-wide spread (\$10-wide spread) trade example is below:

<b>Stock:</b> TSLA <a href="#">Stock News</a> <b>Name:</b> TESLA MOTORS INC. <b>Sector:</b> Motor Vehicles And Motor Vehicle Equipment <b>Dividend:</b> 0 % <b>100 Day SV:</b> 46.85% <b>Trade:</b> TSLA Jun16 205-215 Put		<table border="1"> <thead> <tr> <th>Quote Type</th> <th>Entry</th> <th>Debit</th> <th>Profit</th> <th>Rate of Return</th> <th>Max Profit</th> <th>Max Risk</th> <th>Delta (Shares)</th> <th>Gamma</th> <th>Vega</th> <th>Theta</th> </tr> </thead> <tbody> <tr> <td>Natural</td> <td>\$517.00</td> <td>\$-27.00</td> <td>-5.2%</td> <td>\$483.00</td> <td>\$-517.00</td> <td>-13.87</td> <td>0.076</td> <td>\$0.35</td> <td>\$0.54</td> <td></td> </tr> <tr> <td>Mid Quote</td> <td>\$517.00</td> <td>\$0.00</td> <td>0.0%</td> <td>\$483.00</td> <td>\$-517.00</td> <td>-13.76</td> <td>0.045</td> <td>\$0.37</td> <td>\$0.16</td> <td></td> </tr> <tr> <td>Optimistic</td> <td>\$517.00</td> <td>\$28.00</td> <td>5.4%</td> <td>\$483.00</td> <td>\$-517.00</td> <td>-13.65</td> <td>0.012</td> <td>\$0.39</td> <td>\$-0.23</td> <td></td> </tr> <tr> <td colspan="2">Downside Breakeven</td> <td colspan="2">Upside Breakeven</td> <td colspan="2">Max Profit/Max Risk</td> <td colspan="2">Max Profit/Cost</td> <td colspan="3"></td> </tr> <tr> <td colspan="2">209.83</td> <td colspan="2">209.83</td> <td colspan="2">93.42%</td> <td colspan="2">93.42%</td> <td colspan="3"></td> </tr> </tbody> </table>										Quote Type	Entry	Debit	Profit	Rate of Return	Max Profit	Max Risk	Delta (Shares)	Gamma	Vega	Theta	Natural	\$517.00	\$-27.00	-5.2%	\$483.00	\$-517.00	-13.87	0.076	\$0.35	\$0.54		Mid Quote	\$517.00	\$0.00	0.0%	\$483.00	\$-517.00	-13.76	0.045	\$0.37	\$0.16		Optimistic	\$517.00	\$28.00	5.4%	\$483.00	\$-517.00	-13.65	0.012	\$0.39	\$-0.23		Downside Breakeven		Upside Breakeven		Max Profit/Max Risk		Max Profit/Cost					209.83		209.83		93.42%		93.42%				
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2016-05-11	Bought	1	TSLA160617P215	JUN16	215 Put	14.70	14.55 14.85	\$0.00	42.97	165	1466	37	-55.27	1.38	26.3	-14.9																																																													
2016-05-11	Sold	1	TSLA160617P205	JUN16	205 Put	9.53	9.40 9.65	\$0.00	43.28	360	2599	37	41.52	-1.34	-25.9	15.1																																																													

On this order, you buy to open the \$215 puts while simultaneously selling to open the \$205 puts. This creates a vertical put spread with a limit price of \$5.17 (or \$517), which results in a debit to your account of \$517.

As mentioned, this is a \$10-wide spread. I tend to look for a wider spread of 10 points on stocks that are in the upper \$100 to \$200 price range – usually closer to \$200 is more likely.

The reason I recommend looking for this type of spread is that stocks in the \$200 price range easily move five points or more – so you're able to find trades with an increased probability of making you money.

The stock has to be at least \$0.01 below the strike price of the option you sold in order for you to realize your maximum profit. The market has the right to put the stock to you (or sell you the stock) at \$205, whereas you have the right to sell the stock for \$215 (and your broker should know this and make sure it actually happens). This \$10 difference in strike prices is offset by the \$5.17 cost, leaving you with a maximum profit of \$4.83 (\$483 per contract).

Your maximum risk, on the other hand, is the total cost of the trade, which is \$517. No matter how much higher TSLA goes in price above \$215, you can't lose more than the original \$517 you spent to get in the trade.

## Profit From Smaller Market Moves: Credit Spreads

You can also offset the costs of your options trades with a credit spread. Credit spreads work precisely the same way as debit spreads, except that the option you buy has a lower value than the one you sell, resulting in a net credit to your account.

Now, that credit isn't yours until the trade has been completely closed, and this trade doesn't completely absolve you from risk, but it's a perfect strategy to hedge your risk when you expect a stock to make a more moderate move.

Let's take a look at how it works...

### The Credit Put (or Bull Put) Spread

A bull put spread is a "credit put spread" where you set the trade up for a credit to your account. And if all goes well, you keep the credit upon expiration when the options expire worthless.

In a bull put spread, you would typically buy a put option and then sell the next higher strike price option.

Below is an example of buying a \$40 put option and selling a \$45 put option at the same month's expiration.

To highlight what we're looking at in the images below, we've numbered them as follows:

1. The purchase at the lower strike price and the sale at the higher strike price at the same time and as one order.
2. The resulting credit amount on a per-contract basis as a result.
3. The maximum profit and risk potential on the trade.

<b>Stock:</b> C <a href="#">Stock News</a> <b>Name:</b> CITIGROUP <b>Sector:</b> Commercial Banks <b>Dividend:</b> 0.51 % (2016-01-28) <b>100 Day SV:</b> 30.64% <b>Trade:</b> C Feb16 40-45 Put		<table border="1"> <tr> <th>Quote Type</th> <th>Entry Credit</th> <th>Profit</th> <th>Rate of Return</th> <th>Max Profit</th> <th>Max Risk</th> <th>Delta (Shares)</th> <th>Gamma</th> <th>Vega</th> <th>Theta</th> </tr> <tr> <td>Natural</td> <td>\$250.00</td> <td>\$-16.00</td> <td>-6.4%</td> <td>\$250.00</td> <td>\$-250.00</td> <td>56.40</td> <td>0.088</td> <td>\$0.11</td> <td>\$-0.23</td> </tr> <tr> <td></td> <td><b>Downside Breakeven</b></td> <td><b>Upside Breakeven</b></td> <td></td> <td><b>Max Profit/Max Risk</b></td> <td><b>Max Profit/Cost</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>42.50</td> <td>42.50</td> <td></td> <td>100.00%</td> <td>100.00%</td> <td></td> <td></td> <td></td> <td></td> </tr> </table>										Quote Type	Entry Credit	Profit	Rate of Return	Max Profit	Max Risk	Delta (Shares)	Gamma	Vega	Theta	Natural	\$250.00	\$-16.00	-6.4%	\$250.00	\$-250.00	56.40	0.088	\$0.11	\$-0.23		<b>Downside Breakeven</b>	<b>Upside Breakeven</b>		<b>Max Profit/Max Risk</b>	<b>Max Profit/Cost</b>						42.50	42.50		100.00%	100.00%														
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There is much more profit potential on a long call, but that would incur a cost whereas the bull put spread generates a credit to the account. As long as the stock gets above (and stays above) \$45, maximum profitability would be achieved.

And even though you might miss out on the possibility of unlimited reward for a long call, the probability of the stock reaching that maximum profitability point is higher in a bull put spread option.

In this scenario, the stock only needs to get above \$45 for this option trade to pay the maximum reward of \$2.50. The reason being... if the stock is greater than \$45 at expiration, would anyone in the markets sell it to you for LESS than the current market price of over \$45?



The answer is likely no.

And in that case, would you have the necessity to force someone to buy the stock at \$40?

Again, no.

In this case, both options expire worthless, and no transaction takes place. So there are no transaction costs or fees, and you get to keep the full credit of \$2.50, or \$250 per contract.

Your risk is also capped at \$250 for this trade.

If the stock falls below \$40, the market has the right to put the stock to you at the \$45 strike price, which you cover by putting the stock to the market at the \$40 strike price.

The \$5 difference in strike price is offset by the \$2.50 credit you got when you opened the trade, resulting in a maximum loss of \$2.50 (\$250 per contract).

### The Credit Call (or Bear Call) Spread

A bear call spread is a “credit call spread” where you sell a call at a certain strike price and buy another call at a higher strike price. The number of contracts for each and the expiration month should be the same for this type of spread.

Rather than using a bearish loophole strategy, the bear call spread will pay out its maximum reward at expiration without a transaction cost – as long as the stock ends up where it should.

Below is an example of selling a \$97 call and buying a \$100 call, creating a \$3 credit call spread.

To highlight what we are looking at in the images below, I’ve numbered them as follows:

1. The sale of the lower strike call and the purchase of the next higher strike call at the same time and as one order.
2. The credit amount on a per-contract basis as a result.
3. The maximum profit and risk potential on the trade.

Stock:	JNJ	Stock News	Quote Type:	Natural	Entry Credit:	\$209.00	Profit:	\$42.00	Rate of Return:	-46.2%	Max Profit:	\$209.00	Max Risk:	\$-91.00	Delta (Shares):	-22.68	Gamma:	6.008	Vega:	\$1.53	Theta:	\$0.57
Name:	JOHNSON JOHNSON		Downside Breakeven:	99.09		Upside Breakeven:	99.09		Max Profit/Max Risk:	229.67%		Max Profit/Cost:	100.00%									
Sector:	Drugs																					
Dividends:	2.93 % (2015-11-20)																					
100 Day SVI:	19.29%																					
Trade:	JNJ Jan16 97-100 Call																					

Leg Date	Position	Num	Option Symbol	Expire	Type	Entry	Bid/Ask	Leg Profit	IV %	Vol	OI	Days	Delta %	Gamma %	Vega %IV	Theta \$/day
2016-01-06	Bought	1	JNJ160115C100	JAN16	100 Call	1.51	1.44 1.51	\$-7.00	21.2	194	26374	9	54.89	12.48	6.2	-6.7
2016-01-06	Sold	1	JNJ160115C97	JAN16	97 Call	3.6	3.60 3.95	\$-35.00	21.0	0	0	9	-77.57	-6.47	-4.7	7.2

A long put option may pay out more because the stock has the opportunity to drop all the way down to zero. *But*, by minimizing the risk of buying options and creating a spread, you still – as you can see in this case – have the chance for a healthy return on investment percentage.

You face your maximum risk if the transaction gets executed when the stock is anywhere above \$100 at expiration.

If the stock gets called from you at the strike price of \$97 and you have to exercise your option to buy it at \$100, the difference in the strike prices – \$3 – is your loss. You offset that \$3 loss with the credit of \$2.09 that’s generated to open the position. Therefore, your maximum risk amount is \$91 (on a per-contract basis).

Anywhere below \$97 at expiration gives you the maximum reward of \$209 because if the stock is below \$97, who would want to exercise the right to buy it from you at the higher price of \$97?

Likely no one.

Therefore, you do not have to exercise your right to buy the stock at \$100 in order to replace it at \$97. Both options expire, and you keep the premium you sold to open the trade.

There are many similarities between the bull put spread and its mirror image, the bear call spread. In either strategy, you need the stock to be trading out of the money at expiration to maximize your reward potential.

But while the bull put spread needs prices to move slightly higher, the bear call spread only needs prices to slightly drop.

### **One Final Note on the Probability of Spread Trades**

As you know, stocks can move in three directions only: up, down, or sideways. With a long call or long put, the stock HAS to move in the anticipated direction (up for calls and down for puts) for you to make money. This gives you basically a one-in-three chance for profitability.

But when it comes to a call or put spread, the stock can move in the direction you need it to *or* stay right where it is... and profitability can be achieved.

Remember, the more risk, the more reward... just as the less risk, the less reward. A call or put spread is a way to minimize your risk, which decreases your profit potential.

However... a higher probability of success might be worth this trade-off to you – especially on an expensive option.

## **Summary**

### **The Straddle**

- What it is: buying an at-the-money call and put with the same strike prices and expiration dates.
- When to use it: during high market volatility and earnings season.
- Maximum risk: the premiums of both the call and put options.
- Maximum reward: unlimited.

### **The Strangle**

- What it is: buying an out-of-the-money call and put with the same expiration dates (the strike price of the put will be lower than that of the call).
- When to use it: during high market volatility and earnings season.
- Maximum risk: the premiums of both the call and put options (lower than a straddle).
- Maximum reward: unlimited.

### **Debit Spread (Loophole and Reverse Loophole)**

- What it is: simultaneously buying and selling two calls or two puts with the same expiration date but different strike prices. The call or put you're buying is more expensive than the one you're selling.
- When to use it: for options with premiums outside your risk tolerance.
- Maximum risk: the premium of the option you bought minus the premium of the option you sold.
- Maximum reward: the difference in strike prices of the two options, minus the cost to open the trade.

## **Credit Spread**

- What it is: simultaneously buying and selling two calls or two puts with the same expiration date but different strike prices. The call or put you're buying is less expensive than the one you're selling.
- When to use it: when you expect a small move in the stock.
- Maximum risk: the difference in strike prices of the two options, minus the credit you received when you opened the trade.
- Maximum reward: the premium of the option you sold minus the premium of the option you bought.

## Chapter 6:

# Options Trading Tips You Can't Get Anywhere Else

There's no easier way to get started trading – and no better source of knowledge – than following along with real experts who have been trading on Wall Street for decades.

At **Money Map Press**, I'm joined by ten internationally recognized masters of the game to share our advice – and experience – with you.

You may already recognize some of us from our appearances on *FOX Business Network*, *CNBC World*, or *TD Ameritrade Network*.



In this chapter, a few of us are giving you the insider secrets from our years on Wall Street – the kind of information you won't get anywhere else.

## Four Easy Ways to Get Your Options Trade Filled Better, Faster, and More Profitably

Imagine this scenario: You're all ready to place your first options trade.

All the technical signals are pointing in one direction. You've found an option play that requires a minimal stock move for a massive windfall. The premium just hit your entry price.

You go to open the trade and... it doesn't get filled.

This frustrating scenario can get the best of individual traders, but there are ways to keep it from happening.

**Money Map Press** Chief Investment Strategist, Keith Fitz-Gerald, has over 37 years of experience as a professional trader. As a result, he knows the insider secrets to making sure your orders are filled.

**Here's Keith with four quick changes to help your trades get filled better, faster, and more profitably:**

### 1. Wait for Donuts... or Lunch

One of the very first things I learned about the financial markets nearly four decades ago was that the first hour of trading is critical. Liquidity is often higher in the morning than it is for the rest of the day because anxious traders want to put money to work and floor traders want to clear out pending orders that have built up overnight from individual investors.



Pre-market news or headlines can often accelerate this process, which is one reason you want to pay attention when you hear about which way the “futures” are moving ahead of the bell. It’s not uncommon for millions of shares to trade hands shortly after the bell rings, which means you can make or lose money in seconds.

But here’s something very few people know.

There’s often a distinct lull an hour after the opening that – believe it or not – used to correlate to the bathroom break many coffee-fueled traders would take, as well as the arrival of freshly baked donuts.

Lunch was much the same way. There was a definite drop in activity when floor traders went out the door, having placed their trades for the day. Sometimes you can still see that if you’re tracking intraday volume, which is why I’ve always wanted to develop a “hot dog” indicator, but that’s a conversation for another time.

Admittedly, computerization has changed this somewhat today - but not as much as you’d think. So try placing your orders when there’s a lull in *human* activity at either of these points... the midmorning break or lunchtime.

I think you’ll be surprised at how often you’re “filled.”

## 2. Resubmit

Today’s computerization can be a strength and a weakness.

I like the fact, for example, that I can place very specific orders ahead of time that will trigger precisely at price limits I dictate. What’s more, I think it’s great that I can define both profit potential *and* risk to the penny.

The flip side, not so much.

Computerization can actually work against individual traders by allowing big firms and the high frequency boys to pick up smaller orders at will, leaving individual traders seeking their fortune high and dry. It can take them much longer to get a fill... if they get one at all. Even I’m not immune!

Just recently, for example, I had a plain vanilla order to buy a put spread on one of the indexes, and it sat on my desktop as a pending order for over an hour, despite the fact that my order was well within the quoted price range at the time I placed it.

So, I took matters into my own hands by resubmitting the order at the same price.

Technically, this is called “cancel and replace” because that’s what happens in the order book. Your previous order gets canceled and replaced with the current one, which, of course, goes right to the top of the pile and makes it more visible.

*Voila...* I had my fill in seconds and was off to the races.

## 3. Change the Quantity

Individual investors like round numbers... 100 shares, 500 shares, 1,000 shares, and so on.

That’s why it’s not uncommon, for example, for folks to trade 1, 5, 10, 20, or 50 options contracts at a time. Because those are easy numbers to think about and to manage.

However, that can work against you because bigger traders cannot “pair” your order with others, which means they won’t get routed into the system.

Change that up to 3, 7, 9, 11, 15, 19, and so on, and the game changes. That’s because computers often mix and match odd order sizes together to create evenly numbered bundles that help them – the big boys – trade faster and more efficiently in “blocks.”

So try making your options orders “one offs” and letting the bigger players aggregate them for you instead of them using that same order flow against you.

#### 4. Go for “Charm Pricing”

This is similar to what we’ve just discussed.

Many individual investors use round numbers because they’re simpler to understand, not realizing this works against them because of something called “psychological pricing” or, in some circles, “charm pricing.”

You come across this tactic everyday outside the stock market and probably don’t realize it.

That’s why, for example, you’ll almost never pay \$5 for something at your favorite shop. The “sale” price is always \$4.99 or \$99.99 – to make you think you’re getting a good deal. A 2003 study done by the University of Chicago and MIT showed that consumers will actually buy more expensive goods even when there are cheaper options if the price is perceived as “charming.”

You can use that to your advantage against bigger traders by simply changing up your “limits.” Instead of specifying “buy 100 shares of XYZ limit \$50,” for example, try changing your order to reflect a price limit of \$53, \$201, or even \$1,051.

## The 10 Commandments of Trading

Chris Johnson has 23 years of experience as a Wall Street quant (quants are like the “rocket scientists” of investing), so his trading expertise is unparalleled.

He’s developed 10 easy-to-follow, must-know “commandments” that could save you *years* of trial and error.

Here they are...

### Chris Johnson’s 10 Trading Commandments



#### 1. The trend is your friend.

Stocks are much more likely to continue a trend than break it, so you don’t want to bet against the trend without solid reasons to believe the stock will change direction.

#### 2. Don’t run with the crowd; avoid bandwagon stocks... unless you’re driving.

The latest stock making headlines is rarely a good target for an options play, because the odds of getting a good entry price diminish quickly when everyone’s piling it at once.

If you’re in the trade *before* the crowd, however, all of that extra attention can set you up for a huge windfall.

#### 3. Cheap can always be cheaper; expensive can always become more expensive.

Amazon’s sky-high price/earnings ratio hasn’t stopped it from beating the Dow nine times over for the past five years. Just because a stock is technically “overbought” or “oversold” doesn’t mean it will suddenly reverse.

#### 4. Don’t pick up pennies in front of a steamroller.

Listen to the overall market narrative. If an external force like trade, politics, or war is putting pressure on the markets, there’s no reason to try to get clever on a “contrarian” play. If you do, you’re likely to be “steamrolled” by the prevailing market action.

5. The “smart money” rarely tells you what it’s doing.

Trying to follow along with the big institutional investors is a losing game. They operate with different rules and on a different scale than average traders. If a big bank isn’t buying, that doesn’t necessarily mean you shouldn’t, and vice versa.

6. Short sellers are a bull’s best friend...

When a stock has a short interest ratio (or short ratio) greater than 6.0, it means there is a lot of money betting against the stock. If the stock starts to go up, the short investors will buy shares to cut their losses, driving the stock price even higher...

7. ... and so is volatility.

Market panic creates the big price swings that yield life-changing options profits. When the CBOE Volatility Index (the “VIX”) is under 25, markets are calm, and a trend reversal is unlikely. When the VIX spikes, however, opportunities soon follow.

8. Round numbers are natural support and resistance levels – the more zeros, the better.

Look out for multiples of 10, 100, or even 1,000 on stock price charts. Traders are human, too, so breaking above (or below) one of these levels can lead to more buying (or selling).

9. Stocks are driven higher by speculation, not fundamentals.

When investors and traders are willing to put money in riskier assets, the market rises. When investors get cautious and move to “safe” industries like healthcare and utilities, volatility declines, and the markets stagnate.

10. There’s an exception to every rule.

Technical indicators are powerful predictive tools, but if they were right every time, everyone would use them, and they’d become useless. Your safest bet is when multiple technical signs agree.

## The Do’s and Dont’s of Buying Calls and Puts

And now, I want to share with you my definitive list of do’s and don’ts when it comes to buying options.

### **DO No. 1: Only Trade Liquid Options**

Liquidity is the gauge of how much trading activity there is on an option, which helps assess how quick you can open or close a position in that option.

There are three numbers that can tell you how liquid an option is. Some traders prefer the “open interest” value of the option to be above some number before they think of the option as liquid enough to be safely tradable. “Open interest” is simply the total number of options contracts that are not closed; that is, the total number of options contracts that have yet to be closed and haven’t expired yet.

Other traders will talk of some number of contracts or a certain “volume” being required before an option is deemed liquid enough. “Volume” is just the number of contracts traded for that day.

Both of these factors do speak to the liquidity of an option, but the truest measure of high liquidity is how close the bid and ask prices of the option are – or, as it’s often called, how tight the bid/ask spread for the option is.

Now, an option’s bid price is the highest current offer to buy the option. An option’s ask price is the lowest current offer to sell the option. These are usually quoted next to the actual premium of an option (which is at the level where one trader’s ask price matched another trader’s bid price).

The tighter the bid/ask spread, the higher the liquidity. The difference between the bid and ask prices is sometimes called “slippage.” My rule of thumb is to never trade options that have a slippage greater than 2% of the price of the underlying stock.

Another way to think of slippage is as the difference between a theoretical entry and exit price. The bid/ask on options is usually quoted like this: 2 x 2.20. This means the option could (typically) be bought at \$2.20 (the ask price) and could be sold right away for \$2 (the bid price). The \$0.20 difference is the slippage.

Suppose that the option’s underlying stock is trading at \$25 and the option’s slippage is \$0.20. Then the slippage (\$0.20) is less than 2% of the underlying stock price ( $\$25 \times 0.02 = \$0.50$ ), and it meets my rule of thumb of keeping slippage under 2% of the underlying stock price. This gives me confidence in being able to liquidate my option without having to wait for a bigger move in the price of the underlying stock and means that the option should be able to cover the slippage quicker.

In other words, I make sure that the slippage is no more than 2% of the underlying stock price because that way there’s a higher chance for the option to become profitable, and I’ll have an easier time of getting rid of the option in a timely fashion once it is profitable.

### **DO No. 2: Keep Your Risk Equal Among All Trades**

One money management rule of thumb in trading is to keep your risk the same on each one of your trades. Options traders run the risk of seeing two or three trades in a row end up profitable and growing overconfident.

Here’s what I mean: Let’s say you develop a new strategy and spend \$500 per trade on each of your first three trades, and you double your money, ending up with an extra \$1,500. When the time comes to set up the next trade, you may be so confident from your first three trades that you decide to trade, say, four times as many contracts as before, risking \$2,000 on the fourth trade.

As fate would have it, that is the one trade that turns out to be a loser – and not only wipes out the money you put on that trade but the gains from your previous three trades as well.

If you set a profit limit of, say, 100% to the upside, then money management rules dictate that your trading method or strategy needs to deliver winning trades more than 50% of the time.

In other words, if you spend (risk) \$500 on every trade and your goal is to make another \$500, then every successful trade (every trade that gets you your \$500 back and an additional \$500 profit) only makes up for one losing trade (a trade where you lost all \$500): You need at least one more winning trade than losing trades to maintain the overall profitability of your trading strategy.

If you feel that a greater-than-50% winning percentage is going to be tough for your strategy, consider leaving your upside open instead of limiting it to 100%. Or, when you get to a 100% gain on your option trade, consider closing half your position if you can and moving your stop or closing order to break even.

That way, you’ve recouped your initial investment cost (selling half of a position that has doubled in value is in effect the same as selling the whole position at its original value) and the remaining half of your position is still open for you to take advantage of any additional price gains.

What you do to manage your upside is the one thing I feel an option trader can be flexible about, but I would strongly suggest you set in stone a rule as to your risk level per trade.

### **DO No. 3: Assess and Feel Good About the Price Move Needed**

Now, when thinking about the upside or profit goal of your trade (100% return on investment? 50% per trade?), the best thing you can do as an options trader is use a set of option analysis tools that can help you calculate the price move in the underlying stock required to make the option premium rise to the level you’re looking for.



Of course, there are also a number of “don’ts” you should stick to in order to increase your success with trading options.

### **DON’T No. 1: Place Market Orders**

When placing your open order on an option, it’s best to go with a limit order rather than placing a market order.

A market order is an order to buy or sell at whatever price the market offers, whereas a limit order is an order to buy at any price up to a price predetermined by you (the “limit price”), or sell at any price down to your limit.

As you can imagine, a market order is very risky. You are allowing the markets to stick you with a price that may be higher than you want to pay. The only way to not pay more than you want for an option is to place a limit order.

While the fact that I am looking for options with a low slippage percentage keeps me (and anyone else adopting the same rule of thumb) from getting in too much trouble with a market order, it’s still best to stay in the habit of using a limit order when opening options.

There are two main kinds of limit orders you can use.

First is the day limit order, which when possible fills at your specified limit price, and if it can’t, will expire at the end of the trading day.

Second, there’s the GTC (Good-Til-Canceled) limit order - which when possible, fills at your specified limit price, and if not, will expire in 30 to 90 days (or when you cancel it yourself).

Remember to be patient. I’ve seen students cancel their order within an hour after making it if it doesn’t fill, only to find out that if they’d just let it play out, they would have gotten the fill they wanted. Be patient, and if your day limit order doesn’t get filled one day, consider placing another one for the next day if the trade still looks viable, or simply look for another opportunity on another stock, or the next week.

When determining your limit orders, your main concern should be not getting stuck having paid too much for any trade.

If you want to go about \$0.05 or \$0.10 over the current price to have some wiggle room and have a higher chance to fill your trade, I won’t stand in your way. But don’t be so afraid of missing out on a trade that you overpay – that just decreases your potential gain and increases your chance of a loss.

Which brings me to my next “don’t”...

### **DON’T No. 2: Chase the Trade**

Do not chase the price.

Sometimes in the first hour of trading, the markets will show option pricing adjusting up and down without any rhyme or reason until all the orders settle and the market makers get a grasp on where the pricing should be.

This can cause option traders to go crazy watching the prices of their options bounce all over, their orders not filling, only to see option prices start going higher than their limit price. That’s when the fear of not getting in the trade at all sets in.

If the markets are fast and there is more demand than usual, and therefore the option pricing starts spiking higher, be diligent with your limit order. Do not chase the price higher. If you do, you could end up buying at the high or near the high of the day only to see the markets calm down and the option prices start coming down.

There’s nothing more painful (in option trading, at least) than seeing the price of an option come down just after you bought that option at the high of the day.

Here's an example. Suppose you set a limit buy order for a weekly option at \$1, and your goal is to get a double. When the price moves up to \$1.50 or even \$2 without your order filling, it's best to leave your \$1 limit order intact and see if prices settle back - or to call it a day and try again tomorrow or try to find another opportunity.

If you find yourself trying to get a fill at 50% to 100% higher than your initial limit order, that may be a sign that the option is moving too fast and you should wait. In fact, sometimes it may be better not to get your order filled than to end up getting the option at a price you didn't want.

### **DON'T No. 3: Overtrade**

My third "don't" comes back to the rules of money management.

As you saw previously, one of my "do's" for successful trading of options is to equalize the risk of every one of your trades. As I mentioned then, that means you need to know your risk per trade as a percentage of your overall portfolio.

You should also know what the maximum amount of money you can trade with is.

Remember, never trade with money you can't afford to lose. Discuss this with your financial advisor, broker, CFP, or all the above, and when you have that established, do not exceed that limit - no matter how well your trades are going - until you revisit your situation with your financial professionals.

### **DON'T No. 4: Wait Until the Last Minute of the Day to Exit Your Trade**

This one is simple: Never wait until the last possible moment to exit your trade, because chances are that the price you get will be worse because of low liquidity and the time decay of your options.

In addition, the longer you wait, the higher the risk that your exit order won't be able to be filled at all, either leaving you with worthless options or having you exercise them as the only way to make a profit.

One way to avoid this and also increase your chances of hitting your profit target is to use day limit orders (see Don't No. 1).

Suppose your profit target is a double. If so, then after your order is filled and you've entered your position, create a new limit order to exit your position once the value of your option has reached your profit target - in this example, double what you paid to enter.

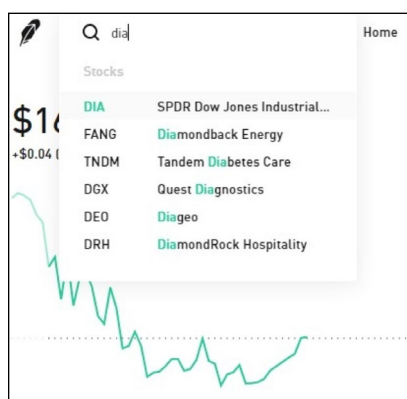
## Chapter 7:

# Placing Your First Trade

Here are the nuts and bolts of placing your first options trade. I'll be using Robinhood as an example, but you can use whichever options-appropriate broker you want.

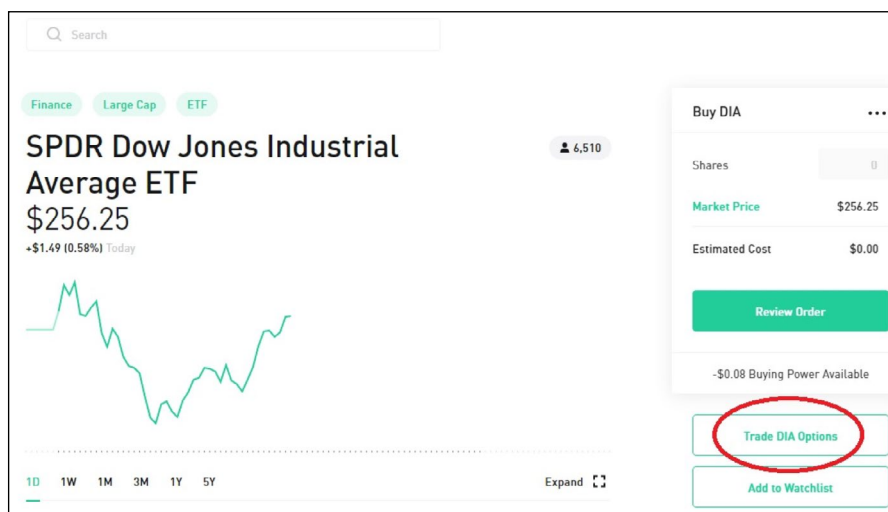
- I. First, choose which security you want to trade on.

In this example, I'll be using the SPDR Dow Jones Industrial Average ETF – the exchange-traded fund that tracks the Dow Jones.



- II. Once you're on that security's page, you should see a button for trading options on the right-hand side.

If you don't see this button, it usually means you don't yet have options clearance. On Robinhood, you can start that process by clicking the three dots next to "Buy DIA."



- III. Now you can choose the option you want to buy. I've numbered the various elements of the Robinhood options page with explanations below:

Strike Price	Break Even	To Break Even	% Change	Change	Price
\$259	\$259.76	1.48%	5.56%	+\$0.04	\$0.76 ✓
\$258	\$259.12	1.23%	8.74%	+\$0.09	\$1.12 +
\$257.5	\$258.83	1.12%	9.92%	+\$0.12	\$1.33 +
\$257	\$258.57	1.02%	10.21%	+\$0.15	\$1.57 +
\$256	\$258.10	0.83%	11.44%	+\$0.22	\$2.10 +
Share Price: \$255.97					
\$255	\$257.70	0.68%	11.57%	+\$0.28	\$2.70 +
\$254	\$257.38	0.55%	11.75%	+\$0.36	\$3.38 +

1. The ticker symbol of the security you're trading.
2. This is where you can choose what kind of option you're trading (call or put), what action you're taking (buying or selling), and the expiration date.

Remember, I do *NOT* recommend selling options unless you're also buying the same option at a different strike price at the same time.

3. Strike Price: the price at which you have the right to buy (or sell) the security.

Break Even: this is the price at which the stock needs to trade at expiration for you to break even on your investment.

To Break Even: the percentage the underlying security needs to move to reach the breakeven price.

% Change: the percentage that this option's price has moved that day.

Change: the dollar amount the option has moved that day.

4. The premium of the option. Remember, the actual price you pay will be 100 times this amount (for a contract controlling 100 shares).
5. This is like your "shopping cart." Always double check that the type of option, strike price, expiration date, and premium are all as you expect.
6. The current share price. Any call option below this line will be in the money and will have a higher premium, while any call option above this line will be out of the money and will have a lower premium.

Conversely, any put option below this line will be out of the money, while any put option above this line will be in the money.

IV. Now it's time to choose the number of contracts you want, the limit price, and the "time in force."

Remember that your risk on every trade should be the same, so choose the number of contracts that's right for your risk tolerance.

The limit price is the maximum price you're willing to pay for the option. Your order will not be filled unless you can get it for that price or better.

The time in force is how long the order stays open.

"Good for Day" means that if the order isn't filled by the end of that day, it will be canceled automatically. "Never Expires," or GTC, means that it will stay open indefinitely, until it's filled or the option expires.

The screenshot shows a mobile app interface for placing a "Long Call" order. At the top, there is a back arrow and the title "Long Call". Below this, there are four rows of input fields: "Contracts" with a value of "1" and "100 Shares Each" below it; "Limit Price" with a value of "\$0.77" and "\$0.77-\$0.80" below it; "Time in Force" with a dropdown menu set to "Good for Day"; and "Max Cost" with a value of "\$77.00". At the bottom of the form is a large green button labeled "Review Order".

Then, you simply review your order and submit it.

Congratulations! You've purchased your first option.

Selling your option is even easier:

- I. Head to the Robinhood homepage, where you will see your options on the right side of the screen:

The screenshot shows a mobile app interface for an "Options" list. At the top, there is a title "Options" and a three-dot menu icon. Below this, there is a single option listed: "DIA \$259 Call" with "5/31 Exp - 1 Buy" below it. To the right of the option, the price "\$0.71" is displayed in red.

- II. On the right side of this screen, you'll have the option to sell your contract(s). You can also set a limit price for your sale. This means that the option will sell if the market price for it reaches that price or better. If not, it won't be sold.

Buy DIA **Sell DIA**

Contracts 1  
100 Shares Each

Limit Price \$0.77  
\$0.70-\$0.74

Time in Force Good for Day ▾

Min Credit \$77.00

**Review Order**

1 Contract

### A Word on Saving Your Profits

Some brokers (though not all) will allow you to place a *stop-loss*, or a “safety net,” on your options position. This way, you can protect a portion of your trade in the event of unexpected volatility or loss.

A stop-loss allows you to select a specific point to automatically exit your trade, should the premium take an unfortunate dip.

Protective stops can be expressed in either fixed dollar amounts or percentages. There are also several types of stops you can select from.

One alternative to a stationary stop-loss is a *trailing stop*.

Trailing stops move with your trade, following your highest point of profit, allowing you to not only safeguard your investment, but a percentage of your profits as well. Unfortunately, positions with trailing stops can be particularly susceptible to being stopped out with only minor volatility.

For newer investors, a fixed stop-loss is preferred.

Finally, I suggest you “paper trade,” or practice your orders on paper before you do your first trade through your broker. This will let you get familiar with your broker’s website and all the details involved in placing a trade.

## A Lifetime of Wealth

Congratulations! You completed your introduction on how you can successfully make money with options. You’re ready to turn tiny stock moves into massive paydays – something most people have no idea how to do. I’m excited for what’s ahead of you...

Like with any valuable skill, you’ll continue to learn as you trade, discovering what works and what doesn’t for yourself.

You can follow along with my ***Power Profit Trades*** newsletter for regular updates on the best option trades on the market.

Happy trading!

## About Tom Gentile

Tom Gentile grew up in a small steel town outside of Pittsburgh. He didn't come from much, and found himself busting his butt at a 9-5 job for 40, 50, even 60 hours a week just to get by.

But eventually he realized he didn't want to live his life on someone else's terms for someone else's bank account – and on someone else's watch.

That's when he decided to take control of both of his finances and his future.

So, while working as a forklift driver at Home Depot, he taught himself how to trade in his parents' basement. It turns out trading was something he had a knack for, and eventually he used his early winnings to build a financial tech company.

That company grew quickly and a few years later, he had helped over 300,000 students learn the ins and outs of the stock market. He eventually went on to sell that company to one of the world's largest brokers for \$20 million.

And right then, Tom could have packed his bags and walked off into a very comfortable retirement.

But Tom's goal was *much* bigger...

Tom's #1 mission in life is to teach others the best ways to trade and help them set up a comfortable financial future. So, he spent the past few years carefully developing one of the most powerful suite of tools in the market and he hasn't looked back since.

And now, using his years of options experience and powerful trading tools – he can pull back the curtain and show you how exactly how you can score big in any market and take control of your financial freedom, starting today.

Outside of Tom's lucrative trading career, you can find him as a contributor on **CNBC**, spending time at his pineapple farm in Panama, or enjoying the scenic views of New Zealand with his family.



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