

3 New & Easy Rules for Options Trading Success



OptionsTrading
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Introduction...

Welcome to our free report, "3 New & Easy Rules For Options Trading Success".

Options have changed the way both professionals and casual market participants trade and invest. It's no longer just about stocks and bonds. These days, options trading is just as popular – if not even more so.

Quite simply, option trading is huge. And the market continues to grow everyday by leaps and bounds.

For instance...

During 2013, the OCC (the options clearing organization for the US) cleared over 4.1 billion options contracts. Moreover, the average daily volume in 2013 for equity and index options was 16,314,586 contracts. To say options trading is popular is a huge understatement!

With all these options trading hands, you know someone is making money...

But quite often it's not the little guy trading for his own account. The people making money are the big hedge funds, institutional investors, and family offices.

Why are they making all the money?

It's because they know how the options market works, they trade every day, and they know the secrets to trading options. Secrets that most individual traders know nothing about.

Until now...

You see, I've been on the inside of the options world. I used to be a market maker. I understand how the big guys think. And I know some of their secrets, secrets that I'm going to share with you right here.

This is truly a situation where knowledge is POWER!

Let me give you the power to successfully trade options. Without further delay here are three key secrets...

Why Professional Investors (And Others) Use Options

It's no secret that options have exploded in popularity over the years. The reason is simple. No other investment offers the broad range of benefits to investors that options do.

Here are the 5 most important...

For starters, options can increase your profits substantially. It's not unusual for options to rocket up hundreds of percentage points in a very short amount of time.

You see, for the cost of an option premium, you control 100 shares of stock. That means for a small investment, you have the ability to make a lot more on a stock's move (than if you had just bought the stock outright).

Second, the amount of money you need upfront with options is SUBSTANTIALLY less than just about any other investment out there.

You can control huge amounts of assets with a relatively small amount of money. And for many options strategies, you can actually generate income with no money out of pocket.

Try that with stocks!

Third, options give investors amazing flexibility.

There are literally hundreds of strategies you can use with options. From straddles to strangles, from call buying to put selling, the variations are endless!

You can use options to create strategies to profit from just about any scenario you can envision...

Fourth, when used correctly, options are one of the best risk management tools known to man.

This is the main reason why options are used so heavily by big-time investors and Wall Street insiders. No matter what investment you're using, or what investment strategy you're following, options can always be used to reduce risk.

Last, but not least, options make it very easy to generate income on a regular basis.

Whether it's collecting option premiums on stocks you already own, or generating credits by selling options to eager buyers, generating income is a very popular way to use options.

In a nutshell, when selling calls or puts, you can make money not just on the direction of the stock, but even if the stock doesn't move at all. Plus, selling options gives you a ton of flexibility on how you design strategies.

With so many benefits, it's no wonder the pros trade options so heavily. You've likely heard the term "smart money" when referring to professional traders. Well, the smart money is often in options.

Despite these benefits, many people are scared away from options...

Options are not too risky for most investors

This crazy idea has kept the amazing money-making power of options out of the hands of the people who need it the most...

People like you who are tired of the low returns and extreme volatility of stocks, bonds and mutual funds. And that's a shame.

Yes, options do involve some special nuances that you must be aware of. And yes, options trading can be risky if you go about it in the wrong way. But doesn't that apply to just about ANY investment?

Used correctly, options can be one of the most profitable investment vehicles in your arsenal.

They can make you a lot of money in a very short amount of time.

And because of the leverage involved, you don't need to be a millionaire to generate HUGE profits.

In fact, as you'll see in a minute, most of the options you should buy cost less than \$300 a piece.

For all these reasons and more, you'd think virtually every investor in the world would use options in one way or another.

But unfortunately, most 'amateur' investors do not.

The reason?

Because the financial media says that options are too risky and too complicated for the individual investor.

Well guess what?

It's time to change all of that. And we're going to do that right now.

New Rule #1: Don't Buy Any Option That's Priced Over \$3.00!

Look, it's no secret that the way to make big money -- whether you're investing in stocks, bonds, real estate, or options -- is to buy low and sell high.

That's just common sense...

Buying undervalued assets is the quickest way to wealth that I can think of, besides winning the lottery!

And the best way to find an undervalued option, is to look at those trading at \$3 or less.

Inexpensive options give you the chance to get the triple- and quadruple-digit returns that every investor craves. Those kind of returns can still happen with more expensive options, but it's a lot less likely.

I don't have time to go into all the math and formulas that prove this, but just think what would be a more realistic outcome:

An option moving from \$1 to \$5... or one moving from \$5 to \$25.

Believe me when I tell you, options move from \$1 to \$5 all the time!

But it's fairly unusual to get that big of a move, percentage-wise, with higher priced options.

The lower priced options give you the leverage you need to make options trading work.

Let me give you a real-life example from our options trading expert... Not too long ago, giant retailer Target (TGT) reported an earnings number that wasn't great. Because the analysts didn't like the number, the stock fell to about \$49.02.

At that point he sensed an opportunity.

Target's stock had fallen way too much based on the news of this earnings report-- and he told me he knew it would only be a matter of time before it rebounded.

So he scanned the options tables and found a cheap call option trading for \$1.52 a contract.

As expected, Target's stock recovered over the next 7 weeks to about \$56 a share.

Now that's a 15.4% move in the stock, which is nothing to sneeze at.

But remember those cheap options our trader bought?

Well those moved up 466% over the same time period... from \$1.52 to \$8.60. Now that's more like it!

We'll take over 5 1/2 times our money any day over a measly 15.4%.

TGT (Target Corp.) NYSE

© StockCharts.com



And remember, this happened in just 7 weeks.

Now, would an investor have made money if he purchased the more expensive call options on Target?

Of course.

But it wouldn't have been anywhere near the amount we made by buying the less expensive option.

And if you do the math, that's always going to be the case when buying options. Cheaper ones simply move more on a percentage basis.

So don't let any of the 'so-called' experts fool you-- when given a choice, always try to buy options trading for \$3.00 or less per contract.

New Rule #2: Only Buy Options That Expire In 6 Months Or Less-- You'll Get More Bang For Your Buck!

Look, I know a lot of you think it's safer to buy options that are many months and even years away from expiration. But the truth of the matter is, you'll be a lot better off keeping your expiration month just a few months out.

Similar to the first rule, shorter expiration options will move much more quickly than long term options, all things being equal.

To prove my point, let's take a look at a trade our options trader just did on Clean Energy Fuels (CLNE).

A few months back, this stock looked extremely overpriced.

And to take advantage of it, our man decided to buy some put options against the stock (for those who don't know, you buy put options on a stock when you think it's going to fall).

Anyway, when looking at the option tables, there were some puts that were just 2 months until expiration and were trading at \$1.15 a piece.

Now, an investor could've selected one that expired a year from now.

But the wise options trader knows better.

So our man pulled the trigger.

And a few weeks later, Clean Energy did indeed fall, and the put options increased in value by 196%.

That's enough to nearly triple your money!

If the longer expiration options had been selected, only a fraction of the profits would've been made.

Put These Rules to Work Today!

Looking for a trade you can put into action? Well, let's look at the market right now.

It doesn't take a brain surgeon to realize the housing market is in all out recovery. New homes are going up left and right.

And as the spring and summer comes around, this "peak" selling season will only drive the builders value higher.

And some of these options on the homebuilders are cheap.

For example:

Toll Brothers (TOL) June 2014 \$38 call options can be scooped up for less than \$2.30

Here's another!

DR Horton (DHI) August 2014 \$25 call options can be had for less than \$1.78!

Move quick, these deals won't always be there.

This phenomenon is based on the delta of an option, which is a little complicated for our discussion here...

But the key takeaway is this: always buy shorter term options if you're looking to maximize your gains while trading options.

New Rule #3: Always Sell Covered Calls Six to Nine Months Out

While buying options is a nice way to get leverage for cheap, there's even more opportunity when it comes to selling options... which brings us to Rule #3. Selling covered calls allows you to generate income on stocks you already own.

Let's say there's a stock in your portfolio you really like (or a stock you want to buy and hold for the long-term).

For example, say you own (or buy) 100 shares of **Exxon Mobil** (XOM).

XOM is a solid long-term addition to any portfolio. It's the largest oil company in the world... and oil isn't going to be cheap anytime soon (if ever).

The oil giant pulls in an insane \$400 billion a year in revenue, and generates \$36 billion in profits. Plus, it's a fairly recession-proof stock.

Hey, people still buy gasoline during a recession!

Okay, so once you have XOM in your portfolio, here's how you can continuously generate additional income from it.

The strategy I'm referring to is selling covered calls.

It's simple...

First, pick an out-of-the-money call. If XOM is trading at \$87, we'll use next April's 95 strike as an example. For this example, we'll say the 95 call is trading for a premium of \$1.25.

Now, when selling covered calls, you'll want to sell options at least six months out. I personally like to go out nine months to a year.

Here's how it works...

You own XOM at \$87. The stock typically doesn't move that much - it's what we call a low volatility stock. It's unlikely XOM will climb above \$95 (the all-time high) in six to nine months. As such, we'll sell the 95 call for \$1.25.

If XOM stays below \$95 before the option expires, you earn \$1.25 on your covered call, or \$125 (for every 100 shares you own)... all for doing absolutely nothing.

Basically, if the stock drops, you've given yourself an extra \$1.25 cushion on the downside. But, if XOM stays around the current level, you'll make money on your call without losing a dime on your stock position.

If XOM goes up but stays below \$95, you'll make money on the stock increase up to \$95 and from the premium you collected on the covered call. That's the best of both worlds!

Finally, if XOM blows through \$95, your option will get exercised. Since you're already long 100 shares, all that means is that your broker will remove the shares from your account. In other words, you'll be cashed out of your position for profit.

If that happens you've just made \$8 on your stock appreciation and another \$1.25 from selling the option.

Plus, you can always buy more shares and do the same thing over and over again.

(If Exxon does not reach \$95, your options expire, you keep the premium, and then you can do it all over again!)

Look, it's basically a no-lose strategy. You're somewhat protected on the downside, and every other scenario is profitable for you.

Remember, you planned on holding these shares long-term anyway, even if the price falls over the next year.

So tell me again, why wouldn't you sell covered calls every chance you get?

The Most Important Thing You Need To Trade Options Successfully

So there you have it.

If you do nothing else but apply these 3 'New Rules' to your options trading, you'll supercharge your results.

Our options trader sends options accounts skyrocketing 100%, 200%... even 863% and more.

And guess what?

He follows these 3 rules religiously in his super-profitable options trading strategy.

And because he does, he hits winner after winner like these actual trades:

- CAT February \$95 calls gained 524% in 34 days!
- SPY August \$135 calls gained 238% in 1 day!
- REV August \$10 calls gained 377% in 110 days!
- CLNE June \$19 puts gained 196% in 37 days!
- TGT April \$50 calls gained 466% in 54 days!
- GLD March \$166 calls gained 172% in 27 days!
- BHI April \$47 puts gained 125% in 65 days!
- ABV January \$35 puts gained 277% in 28 days!
- WMT September \$57.5 calls gained 217% in 37 days!

Can you imagine what your account would look like if you regularly banked homeruns like these?

I bet it would be a lot larger than it is now!

These 3 rules can do wonders for your options trading, however they're not the end of the story if you want to be a successful options trader.

Two Trades To Avoid For 2014

Okay, so we've looked at three excellent rules to improve your options trades, and even suggested a few trades on the homebuilder stocks.

Now, let's take a quick look at two trades to avoid completely.

- Puts can be used speculatively just like calls – they don't have to just be for protection. **One speculative put trade I'd avoid is buying puts on gold.** You see, there is a significant political risk ahead with what's going on in Syria and the Middle East, plus the looming debt ceiling and budget crisis. There's enough uncertainty that I believe gold has the potential to soar at any time. I wouldn't risk buying puts on the safe-haven, precious metal at this stage.
- Buying options (both calls and puts) is popular on biotech stocks developing new products. That's because there's almost always a big move coming at some point in the future. But, it's basically gambling. No one knows for sure if a drug is

going to have successful trials and then get approved by the FDA. What's more, biotech options are almost always extremely expensive. Even if you guess right on the direction, the move has to be enormous to pay off. In my opinion – **stay away from biotech options altogether.**

A Final Word

By now you can see just how powerful options are.

The benefits are plentiful... and plain to see. Not only can options boost your profits, they can also lower your risk and increase flexibility. That's why the pros use options!

Done correctly, option trading can provide huge upside potential. Even better, they can do it without increasing your risk. In fact, they'll even lower your risk in many cases.

Speaking of that, there are hundreds of situations you can use options and options strategies. They can be ideal trading instruments for just about any scenario.

You just need to remember to use the three strategies I've described above.

These popular strategies can make you loads of money and reduce risk. That's why so many expert investors use them on a regular basis.

And there's so much more to discover about options. We just scratched the surface of all the possibilities...

Where To Get More Options Trading Ideas On These Strategies And Many More...

One of the additional benefits you'll receive along with this report is a free subscription to our *Options Trading Research* newsletter (delivered straight to the email address you provided).

Published several times a week, *Options Trading Research* will give you professional options trading ideas, market commentary and analysis all designed to make you a better options trader!

Authored by my expert team and me, we'll show you what's working in the options market and what you need to know to generate the biggest returns.

To make it as useful as possible, we've also tailored it so both beginners and advanced traders can profit immediately from what they read...

So if you're serious about making money and securing your retirement using options--welcome aboard!

I promise that you won't find a better source of proven, useful options trading ideas anywhere on the web!

Sincerely,

Gordon Lewis,
Chief Options Strategist
Options Trading Research

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