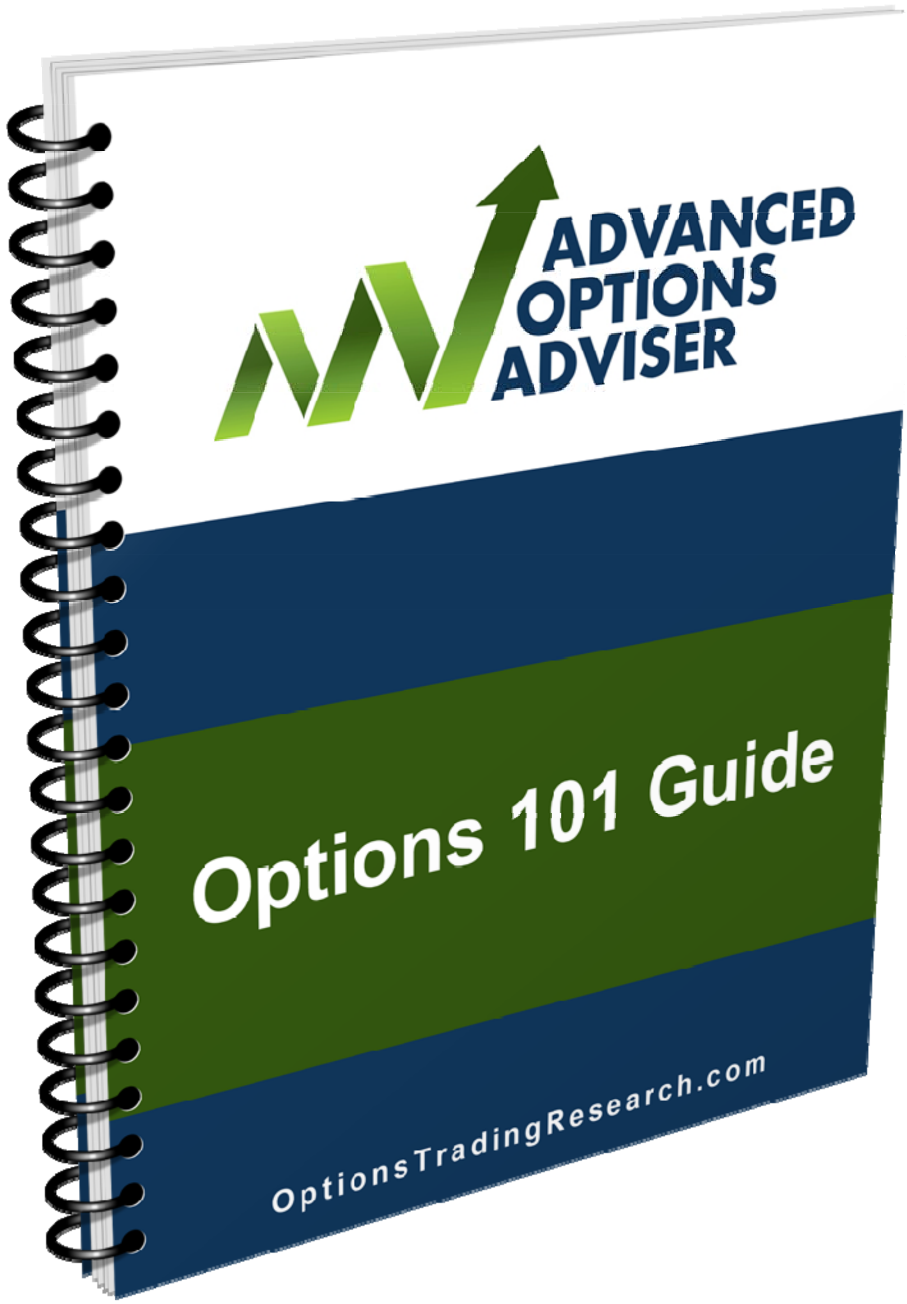
ADVANCED OPTIONS ADVISER
Options 101 Guide
OptionsTradingResearch.com

This Report Is For You!

You have in your hands a powerful report on options and the option market. We've written this report for two types of investors… those new to options trading, and for any experienced option trader who wants a good refresher on the basics.

If you already know what you're doing with options, then you might want to go right to the ***Advanced Options Adviser Quick Start Guide***. It highlights the important keys every subscriber should know, as well as how the *Advanced Options Adviser* strategy works.

Keep in mind, this options basics report will give you everything you need to start trading the options recommended by ***Advanced Options Adviser***. This will be all you need to take advantage of the powerful recommendations in the service. However, if you're looking for a more in-depth explanation of options we've included a list of resources to help you do just that, look for the list at the end of this report.

Ok, let's jump right in…

Options Basics

Let's start at square one…

An option is basically a right to buy or sell one hundred shares of an individual stock, before a specific date, at an agreed upon price. It's a bit complicated, but once you read the report and actually start trading options, it will get much easier.

So, a stock option is a security based on an individual stock. The value of the option is based primarily on the underlying price of the stock.

For example, take a look at the following Facebook option:

FB December $50 Call Option Trading for $1.40

This option gives you the right to buy 100 shares of Facebook, anytime before the 3rd Friday of December, at $50 per share. Now to get this right to buy the stock, you have to pay a premium.

In this example, the premium is $1.40. That's the price you need to pay to buy the option. Now, remember, the option is for 100 shares. So you take the $1.40 and multiply it by 100 to get the actual cost of the option, in this case $140 dollars.

So, for $140 you can buy the right to own 100 shares of Facebook stock at $50 per share anytime before the option expires (the third Friday in December).

To keep it simple, in the ***Advanced Options Adviser*** we're just going to buy and sell options. We are not actually buying or selling any shares of these companies at any time.

How Stocks and Options Are Similar

As far as the buying and selling of options goes, stocks and options are very similar. Options trade on their own just as stocks do. **That's an important thing to remember.**

Options trade on their own exchange. They have their own bid and ask price, they have their own ticker symbol, and they can move up and down in value each trading day. So, even though option values are based on the prices of individual stocks, they are their own entity.

Because of this:

It is just as easy to buy or sell an option as it is to buy or sell a stock.

The Types Of Options You Need To Know

In order to use ***Advanced Options Adviser***, you'll only need to be familiar with two types of options:

The first is a call option. A call option gives you the right to BUY a stock. Thus, when we buy call options, WE WANT THE UNDERLYING STOCK TO GO UP.

The second is a put option. A put option gives you the right to SELL a stock. Thus, when we buy put options, WE WANT THE UNDERLYING STOCK TO GO DOWN.

You can mix and match buying and selling all different types of options, and sometimes it can get complicated. But to be successful trading options, that's basically all you need to know about the different types of options.

Remember, if you want to learn more about the technical aspects of options check out the resources listed in the back of this report.

For our purposes just remember:

- Buy Call Option= Want Stock To Go Up

- Buy Put Option= Want Stock To Go Down

How Option Prices Are Determined

Option prices are determined using a number of factors. You don't need to know all this, but in a nutshell, the price of an option is based on a formula taking into account:

- The price of the stock it's based on
- The strike price of the option (the price you can buy or sell the stock at)
- The volatility (how much the stock moves around in price)
- Time left until the option expires
- Interest rates and dividends

Then, you take all of these variables and put them into what's called the Black-Scholes option pricing model and it spits out a price.

Now, since options trade on an exchange, the market makers will set prices that generally correlate with this data. Note here I said "generally". There are times when prices for options get out of whack. We often find over and undervalued options trading in the market every day.

What You Need To know About An Options Quote

We touched on this earlier, but I want to go over an option quote in more detail. Once you become familiar with how option prices are quoted, reading them will become second-nature.

To recap, an option quote looks like this:

FB December $50 Call for $1.40

The first part of the quote is the stock that the option is based on. In this case, Facebook.

The second part is the expiration month. Expiration occurs on the 3rd Friday of the expiration month of the option. Thus in this example, the call option expires on the 3rd Friday of December.

The third part is called the strike price. This is the price where you can buy this particular stock. So, we have the right to buy 100 shares of FB at $50 per share.

The fourth part is whether the stock is a call or put. Obviously in this case, it is a call. And, because it is a call, we want FB shares to go up... that way the value of our option goes up too!

The last part is the actual price of the option. In this case, $1.40. Remember, each option represents 100 shares, so the total cost of this option is $140.

When taken as a whole, this option quote means we have the right to buy 100 shares of Facebook at $50 anytime before the 3rd Friday in December for $140.

Now this is important. The $140 only gives you the RIGHT but not the obligation to buy Facebook shares at $50. If you exercise the option, you'd have to come up with an additional $5,000 to actually buy the shares.

With ***Advanced Options Adviser***, we will suggest selling the option back on the market *long before* the expiration date (that way you don't have to actually have to buy or sell any stock).

Ticker Symbols

Just like individual stocks, options can be identified by their ticker symbol. Options tickers follow a simple format:

Root + Expiration + Strike + Type.

- Root = the ticker symbol of the underlying stock.
- Expiration = the expiration date of the option.
- Strike = the strike price of the option.
- Type = call or put.

The good news is we will give you all of this information in our trade alerts. The bad news is the new ticker is a lot longer than a basic stock symbol. And to top it off, individual brokerage firms can use their own tickers for use on their platform.

So be sure check with your broker about how they handle options ticker symbols.

A Quick Note About Option Spreads

Before going on to the next section, I want to quickly go over a characteristic of option and stock trading that you should be aware of.

When you look at the price of an option, it will be quoted with a bid price and an ask price.

The bid price is the price at which you can sell an option.

The ask price is the price you will pay if you want to buy that same option.

The difference in these two prices is called the spread. The ask price is always higher than the bid price.

Unfortunately, this spread works against us as we are immediately out the difference as soon as we make a trade. This is how the market makers make their money (and they're the ones setting the prices). This system of bid and ask prices has been used in US markets for over a hundred years! So, it's just something we have to accept and work with.

Why We Use Options

As you'll see there are a lot of great reasons to use options in your investment portfolio. The two biggest, and best, reasons to utilize options to potentially supercharge your returns are 1) the limited risk, unlimited gain potential and 2) leverage. In this section you'll discover why these two characteristics make options such a great investment.

Limited Risk, Unlimited Gain

You read that right. With options your risk is strictly limited to how much you paid for the option (plus any commissions). So, if you buy an option (call or put) for $140, that's the maximum you can lose on that trade.

There is absolutely nothing that can occur in the market, with your option, or the stock it is based on to change that.

Conversely, the potential gain on any call option is theoretically unlimited. If the underlying stock of a particular option keeps going up and up, the value of the option will keep going up and up.

This is why you see option trades that go up, 100%, 200%, 500% and more!

With a put option, your gain is limited by how far the underlying stock can go down, which is zero. But remember, if the underlying stock you bought a put option on goes to zero, you will have made a great deal of money (often in the hundreds or thousands of percent)!

I want to state that first part again here because there are a lot of misconceptions about options out there.

When BUYING call and put options, your risk is NEVER, EVER more than the price you paid for the option (plus any commissions or brokerage fees).

Ok, not that that's clear. Let's go on to another huge benefit of options...

Leverage

When many people hear the word leverage, they automatically associate it with enormous risk. That's not so with buying options. In fact, in order to buy options, you'll never need more in your account than the price of the option you buy (plus commission).

You'll never get a margin call, have to deposit additional funds, and you won't be borrowing anything from your broker.

When I talk about leverage with options, I'm talking about controlling large amounts of stock, with very little capital.

Let me show you what I mean.

Let's say you want to buy 100 shares of IBM stock. The current price per share is \$199.03. So to get your 100 shares, you'll need \$19,903.00. I got that number by multiplying 100 by \$199.03.

Now, let's say you want to benefit from the shares of IBM going up, but you don't want to invest \$19,903.00. You could buy a call option.

So, let's say you decide to buy a January \$220 call option on IBM for \$2.23. We know from previous examples that this option will cost you \$223 (\$2.23 times 100).

So, now you have the right to buy 100 shares of IBM at \$220 per share anytime before January... and it only cost you \$223 to buy that right.

Fair enough, now let's look at what happens to these two investments if IBM goes up before January.

Let's say IBM soars to \$230 per share by January. If you had bought the 100 shares your \$19,903.00 investment would be worth \$23,000. Not bad, that's a 15% return on your money.

Now, let's say IBM went to \$230 and you owned the option. Your \$223 investment would be worth \$1,000. Now we're talking**- that's a 348% return on your initial investment**!

And, the most you could have lost if IBM went to zero was \$223, the original cost of the option. If IBM went to zero and you actually owned the 100 shares, you'd be out the full \$19,903!

<u>That is the real power of options.</u>

And remember, it works the same way when buying put options. The only difference is the direction you want the underlying stock to move.

Knowing how options work gives you a powerful strategy that can make you big bucks in both good and bad markets.

What You Need To Do To Get Started

Now that you understand a little more about how options work, we'll go over how to get started with options trading. Specifically, we'll discuss how to open an options account and how to place and monitor your positions.

Not Quite Ready For Real Money?
Paper or Virtual Trading May Be For You

Before we get into the specifics of getting an options account set-up, I want to discuss a way for you to "test the waters" without actually having any of your own money at stake. If you're still a little confused or intimidated by options, that's ok… you can do what's called paper trading until you feel comfortable.

With paper trading, you log each trade recommendation from ***Advanced Options Adviser*** onto a piece of paper. You write down the ticker symbol for the option, how much you "paid" for it, how many contracts you bought, and the date you bought it.

You don't actually execute the trade—but you write it down like you did.

Then, when it's time to sell, you write down the price you "sold" it at and the date. You can then calculate the profit or loss you made on each trade. Doing this for a while will get you comfortable with options trading and how ***Advanced Options Adviser*** works. It gives you a no-risk way to try out our service and get better acquainted with option trading at the same time!

To take paper trading one step further, many online option brokerages offer what's called virtual trading. With this, you maintain a "virtual" account and decide how much "fake" money you'd like to start with. You then proceed to enter option trades just like you would with a real account. Everything is handled by the brokerage.

The various screens will tell you what you bought, how much you paid, how much gain or loss you have, etc. It's just like having a real account—the only difference is there is no real money at stake. And the best part is, it generally costs you nothing to set-up.

For example, OptionsXpress offers this service for free. I want to reiterate that this is a great way to familiarize yourself with options trading, before risking real money.

Once you are ready to trade options with real money, you'll need to open up a brokerage account…

How To Open An Options Account

In order to open an options account, you'll first need to decide what options broker you want to use.

Listed below are some of the larger online options firms, but remember that most of the 'brick and mortar' brokerages, both full-service and discount, also offer options trading.

While we do not rate the brokerages, you can get updated rankings from reputable sources such as Smart Money and Barron's. As for whether you should use an online broker or a 'live' broker; that really depends on several things.

If you're comfortable online and with options trading, you'll probably want to use an online broker. It's easier, quicker, and more importantly, cheaper. Brokerage commissions are a very important part of total return, so anytime you can reduce costs it really benefits your account.

Keep in mind also that many online brokers offer 'live' representatives who can help you place trades and answer questions about your account.

Commissions at online brokers tend to be substantially less than those at full service firms. But, if you're not comfortable online and don't mind paying more in commissions, you may want to use a full-service broker.

Anyway, here is a list of some of the larger, and better-known online brokers:

Online Options Broker	Website	Phone Number
OptionsXpress	www.optionsxpress.com	888-280-8020
Charles Schwab	www.schwab.com	866-855-9102
Trade King	www.tradeking.com	877-495-5464
Scottrade	www.scottrade.com	800-619-7283
Fidelity	www.fidelity.com	800-343-3548
E Trade	www.etrade.com	800-387-2331
TD Ameritrade	www.tdameritrade.com	800-454-9272
Firstrade	www.firstrade.com	800-869-8800

You have many choices when opening an account. You can open one:

1. Online
2. At a branch office near you
3. Through the mail

The easiest way to get started is to open an account online through one of the many reputable firms doing business there. But, if you're more comfortable sitting down and talking with a live person, just about every brokerage office in your city will offer options trading (and that includes both discount and full-service brokers).

Regardless of which broker and method you choose, there are several steps that will need to be completed.

First, you'll need to fill out an application. This will include information such as what type of account you want to open, your personal information (such as name and address), your trading experience, and so forth. They'll also need to verify your identity at some point.

Once you've filled out the application you'll need to sign the application. Then, once you're approved, you'll need to fund your account. This can be done in a myriad of ways. You could send or give them a check, transfer directly from your checking account, wire the money and so on.

The top brokerage firms will make the process very easy and very quick! The online companies have a lot of help available in the form of account reps and online resources should you require assistance.

If you happen to be dealing with a "branch", your account rep or broker will be more than happy to answer any questions and help you get things set-up.

Once you've got your account set-up, you're ready to make your first options trade!

How To Place Your Option Trades

Now I'm going to go over the basics of entering an options trade. I'll discuss both entering these trades online and speaking with a live broker.

To enter an options trade online (either buying or selling), you'll need 5 pieces of information about the option.

First, you'll need the details about the option itself. This includes the ticker symbol of the underlying stock, the expiration date of the option, the strike price of the option, and the type of option… is it a call or put. Remember, we'll give you these details in our trade alerts.

Second, you'll need to specify if this is an opening or closing transaction. If you're buying a new option, select 'buy to open'. If you're selling an option you already own, select 'sell to close'. With ***Advanced Options Adviser***, those are the only two selections you'll ever make.

Third, you'll need to enter the quantity or the number of contracts you'd like to buy (or sell).

Fourth, you'll need to enter the price you're willing to pay or get for the option. Again, ***Advanced Options Adviser*** will give you an idea of what you should pay. This can be entered as a market order or limit order.

A market order will get your trade executed at the price currently being asked (if buying) or bid (if selling). A market order is generally the quickest way to get a trade executed.

A limit order will only execute if your specified price is reached or better. Thus, limit orders are not always executed right away as sometimes you must wait for the market to move. And sometimes you may not get filled at all (if the option price keeps moving up).

Fifth, and the last thing you'll need to enter, is the duration or time frame of the order. The two most popular selections here are 'day' and 'GTC'.

A day order is only valid for that trading day on which you placed the order. If it is not executed that trading day, the order goes away. A GTC or Good-Till-Cancel order stays on the books until it is executed (if ever).

Now, if you're entering an order through a live person or broker, the steps you take are very similar. The only difference is you read this information instead of entering it in your computer.

Let's go over a brief example and show how you would get a trade done if you were entering it online or over the phone.

Advanced Options Adviser will show recommended trades like this:

Buy the XOM January $90 Calls at $2.55 or better

If you wanted to get this trade done over the phone, you could just open the email and read that to your broker. The only other things he or she would ask you are the duration, which would be a 'day' order, and how many contracts you wanted.

To enter the above trade online, you'd put 'XOM' as the ticker symbol, select the expiration month 'January' select the strike price '$90' and the type of option a 'Call'.

You then select 'buy to open' as the transaction type, the number of contracts you want, '$2.55' limit as the type of order, and 'day' as the duration.

All this may seem a little daunting at first, but trust me, its gets very easy over time. And remember, you can always paper or virtual trade before you begin with real money.

Advanced Options Adviser

Once you are comfortable with options, how they work, how to open an account, and how to place trades; then you're ready for the opportunity to make some serious money with ***Advanced Options Adviser***.

Your next step is to read the *Quick Start Guide* we've prepared. This is very important because it explains all the details about the best way to use the ***Advanced Options Adviser*** for your chance at maximum gains.

If you know exactly how to use ***Advanced Options Adviser***, your chances of option trading success can be greatly increased.

In the ***Advanced Options Adviser*** service we give very specific recommendations, and I think following our service to the letter is a smart thing to do. However, I know there will be subscribers who take our ideas and adapt them to their own trading style.

There's nothing wrong with doing that, and in fact I encourage it. You can do very well modifying my strategy.

While I will give you specific ideas and trading strategies, remember that the ultimate responsibility for your account lies with you. You must decide what works best for you and your particular style and situation.

Remember, you are now a member of an elite group of investors who can potentially profit very quickly regardless of which way the market moves. I thank you for subscribing to ***Advanced Options Adviser*** and I look forward to many successful investments!

Further Reading

If you're interested in learning more about options, there are a number of books that will present a much more detailed explanation of options. Options have become such a large component of the investment world that there a quite a few resources available. Here are a few you may want to check out:

- ***Chararacteristics and Risks of Standardized Options***, The Options Clearing Corporation

- ***Getting Started In Options***, Michael Thomsett
- ***Options As A Strategic Investment***, *Lawrence McMillan*
- ***Options Made Easy***, Guy Cohen
- ***Understanding Options***, Michael Sincere
- ***Options and Options Trading***, Robert Ward
- ***The Options Doctor***, Jeanette Schwarz Young
- ***Options Trading 101***, *Bill Johnson*

Where To Get Option Quotes

If you're looking for prices on different options there are a number of sources online. Most of the major finance "news" sites offer them as well as the exchanges themselves. Some of the better "free" sites include:

- www.finance.yahoo.com

  Yahoo finance offers free and relatively detailed options quotes. Like nearly all free service, the quotes are delayed 10-20 minutes. To get the actual quote, enter the symbol followed by .X

- www.cboe.com

  The Chicago Board of Options Exchange offers a good quote system at their website. Here they are delayed 20 minutes.

- Your Online Brokerage Firm

  This is probably the best option for most once you've got your account established. Many of the online firms that specialize in options offer very advanced and real-time quotes.

Industry Contacts

For more information on the exchanges and organizations that deal with options, you can call, write, or visit the following:

- Chicago Board Options Exchange
  400 South LaSalle Street
  Chicago, IL 60606
  www.optionsclearing.com
  1-888-843-2263

- New York Stock Exchange
  Options Products
  11 Wall Street
  New York, NY 10005
  www.nyse.com
  1-212-656-3000

- American Stock Exchange
  Derivatives Department
  86 Trinity Place
  New York, NY 10006
  www.amex.com
  1-800-843-2639

- The Options Industry Council
  One North Wacker Drive, Suite 500
  Chicago, IL 60606
  www.optionscentral.com
  1-888-678-4667

- The Options Clearing Corporation
  One North Wacker Drive, Suite 500
  Chicago, IL 60606
  www.optionsclearing.com
  1-888-678-4667

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Past performance is no guarantee of future results. All information is issued solely for informational purposes and is not to be construed as an offer to sell or the solicitation of an offer to buy, nor is it to be construed as a recommendation to buy, hold or sell any security. All opinions, analyses and information contained herein are based on sources believed to be reliable and written in good faith, but no representation or warranty of any kind, expressed or implied, is made including but not limited to any representation or warranty concerning accuracy, completeness, correctness, timeliness or appropriateness. Investments recommended in this publication should only be made after consulting with your financial advisor.