



**Inside The Mind of a
Professional Market Maker**

OptionsTradingResearch.com

Becoming A Market Maker

I consider myself quite lucky. After all, compared to the rest of the finance world, there are only a handful of market makers out there. It was a big deal for me to become an options market maker – one of my primary career goals

I got my start trading options at the very center of the options trading world, the CBOE. I learned how to trade options and understand options pricing from long-time market makers before I became a member of the exchange.

Learning from the best gave me the opportunity to be a first class options trader. It's an experience that's almost impossible to replicate for the average trader. One of my option coaches was even in the S&P 500 options pit during the crash of 1987! (That's when he made his first fortune.)

I've since moved on... preferring the peaceful Arizona desert life to the hectic options floor in Chicago.

However, one thing I can still do from Arizona is pass on the knowledge I learned in my time as a professional options market maker. The thing is, being a successful options trader isn't about knowing fancy math equations or having unlimited resources at your disposal.

Instead, it's all about discipline and keeping emotions in check.

Here's how you too can trade like a market maker...

Think Like A Professional

First off, from day one you need to start thinking of yourself as a professional. That means you need to stop thinking of what you're doing as investing in options. Instead, think of what you're doing as **running an options investment business**.

What's the difference?

A casual options investor tends to put too much focus on each individual trade. You get caught up in the trades and become emotionally attached. That's a big mistake. *You can't let emotions get in the way of sound judgment making.*

When you run an option investing business, winning trades are your profits and losers are simply expenses. That's how you normally run a business, right? It should be no different for trading options. Simply focus on the profits and losses.

The key to running option investing like a business – just like professional market makers do – *is to stay calm and make rational investment decisions*. Yes, it sounds easier than it is. But, you can't let emotions dictate your investment decisions. That's a recipe for disaster.

Look, it's okay to be happy when a trade works out or irritated if a trade goes against you. That's normal human emotion. I don't expect you to be a robot.

But you have to move on as quickly as possible. Certainly don't make any trades when you're feeling euphoric, or worse, upset. Make sure when you make a trade, you are as calm and rational as possible. Remember why you're making the trade and what you expect to get out of it.

So how do you take emotions out of the equation?

Well, as I said, it's not possible to be completely devoid of emotion. However, if you focus on controlling two key emotions, you can go a long way towards remaining as rational as possible.

Of course, I'm talking about fear and greed.

It's no secret really, fear and greed are the banes of all traders and investors. The vast majority of bad trading decisions are made due to either fear or greed.

Controlling Fear And Greed

What is an investor's biggest fear?

Easy... losing money.

Nobody likes to lose money. You never want to see a trade not work out. That's obvious. And it's true whether you have \$1,000 to lose or \$1,000,000.

It's perfectly natural to be afraid of losing your investment capital. However, you can't let it paralyze you. And, it certainly can't drive your investment/trading decisions.

An easy way to reduce this kind of fear is one of the oldest but most important tenants of trading.

Don't trade with money you can't afford to lose.

It's extremely important to know before you make a trade what your risk tolerance is. It's not just how much you spend initially - it's also how far you're willing to let the trade move before you cash out. That means how much you're willing to lose on the trade, and also how much profit you want to make.

It's never a good idea - on any trade - to go into a position without an exit strategy.

That's not the only kind of fear however. There's also the fear of not having enough success. Are you doing as well as you buddy who's also likes to dabble in options? Did you make enough on that trade you just cashed out on?

Let me tell you something I learned early and have to remind myself of often: no one ever lost money from taking a profit.

Speaking of taking profit... that leads us into the other emotion that can ruin a trader... greed.

Greed, in many ways, is the same as fear. Essentially, the only difference between fear and greed is fear is generally based on losses while greed is based on winnings (or lack thereof).

The first greed-related mistake made by many traders is wanting every trade to be a huge winner. What's wrong with hitting several smaller winners? *That's how the pros do it.* Sure, a huge win is nice. But making money consistently is even nicer.

Being a professional market maker is all about cashing in on many, small, guaranteed winners over and over again. If the pros do it, then you know there must be something to it.

What's more, don't get caught in the game of just trying to squeeze a little more out of each trade. Pick a realistic exit point and get out when your trade hits that point. **Who cares what happens afterwards as long as you reach your goals.**

Remember, successful trading is all about discipline. The more disciplined you are, the better chance of success.

Finally, one the most important things to remember is this is business, not gambling. If you want to hit a jackpot, go to Vegas. If you want to make money day in and day out, trade options like the pros. Be happy with small, consistent profits. Don't try to score the big win on every trade. And don't be afraid to put on some risk. The best traders and market makers know how to balance risk and return.

Conclusion

Look, there are no guarantees when trading options. If there wasn't any risk there wouldn't be any payout. But running your option trading like a business is easy.

All it takes is discipline.

The pros know how much risk they're willing to take. They don't trade money that they can't afford to lose. They don't try to hit homeruns every time they make a trade - they're happy with lots of singles and the occasional double. And, they know more than anything, this is a business, not gambling.

There's no reason you can't trade the same way as the pros.

I've been there. I've done it. Whether you're on the trading floor like I was or sitting in your home office - it doesn't matter. **The difference between the pros and the rookies is all in your state of mind.**

Even the pros show emotion now and then, but it doesn't have to influence your trading. Eliminating fear and greed from the equation can go a long way towards making you a successful, long-term options trader.

Remember, it's a business. Use sound judgment and you can trade options just like the professional market makers do.

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