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The Top 3 Options Trades for 2015

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Introduction…

Welcome to our free report, "The Top 3 Options Trades For 2015".

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...

From 2011-2013, the OCC (the options clearing organization for the US) cleared over 4 billion options contracts each year. Moreover, the average daily volume in 2013 for equity and index options was over 16 million contracts (and looks to be even higher in 2014). To say options trading is popular is a huge understatement!

So what makes options so special? Why is the market so astronomically big - and growing?

I'll get back to that in a second…

First off, after reading this report, be sure to check your email inbox each day for our free e-letter, *Options Trading Research*. This newsletter is one of the best ways to not only learn more about options, but also how to use them effectively.

Now, let's take a look at what makes options so beneficial to traders…

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.

And when you take a look at the three powerful strategies I'm about to explain, you'll see how you can become the smart money... just like the pros.

Top Three Option Trades For 2015

Ok, we've discussed some of the key benefits of using options.

Now we're going to go over 3 actual option trades you can make that take advantage of the benefits options provide.

In addition, the 3 strategies you're about to discover can be used in a variety of ways to increase your profits, protect your portfolio, and generate income on a regular basis.

Finally, we'll take a quick look at two options trades to avoid for the remainder of the year.

Option Trade #1: Don't Pay Full Price For This Hot Stock

One of the hottest stocks on the planet this year is **Tesla Motors** (TSLA). The electric car company was trading for around $40 as late as April 2013. The stock has since been as high as over $290 per share.

Basically, investors are looking at TSLA as a model for how car companies may function in the future. Not to mention, the company's all-electric sedan is turning out to be one of the best cars ever built.

There's no telling what the future may hold for this exciting company.

Here's the thing…

Tesla's stock has become very expensive. The average investor can only afford a few shares at a time.

What if there was a way to control many more shares of TSLA (and participate in its upside) without needing nearly as much money upfront to buy the shares?

That's where options come in.

Using a special option strategy, you'll be able to buy shares of TSLA at a fraction of the price that the actual shares cost!

Only through options can you get this sort of opportunity.

Let me show you what I mean…

Let's say TSLA is trading at $250 per share.

Clearly, the current price is extremely high and most investors would only be able to afford a handful of shares at most. In fact, 100 shares of TSLA would cost you a cool $25,000.

Instead, you can use long-term in the money (ITM) calls on TSLA.

By long-term, I mean as far out as you can go. We'll use January of 2016 as an example.

If you were to buy one long-term ITM call, let's say the 225 strike, it would cost roughly $60. Remember, one option equals 100 shares, so we need to multiply the premium by 100 to get the actual cost.

In this case, that's $6,000 to own the call.

While, that's still a decent chunk of change, it's only about a quarter as much as buying the shares outright. And, you control the shares through January 2016.

Why wouldn't you want to invest a quarter as much for the same thing?

By buying long-term ITM calls you can "control" any stock for typically less than half what it would cost to buy the stock outright.

And if Tesla starts moving higher as many people anticipate, you'll profit just as you would if you owned the stock!

By the way, if Tesla stock drops all the way to zero (fat chance!), your risk is limited to the amount of money you invested in the call options ($6,000) in this case.

Compare that to the $25,000 you would have lost in the stock had you bought it directly.

That's the power of options.

Full participation on the upside, limited risk on the downside.

Not a bad combination, eh?

Option Trade #2: Generate Income On A Stock You Already Own

While buying options is a nice way to get leverage for cheap, there's even more opportunity when it comes to selling options.

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 $420 billion a year in revenue, and generates $34 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 $95, we'll use next April's 105 strike as an example. For this example, we'll say the 105 call is trading for a premium of $1.00.

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 $95. The stock typically doesn't move that much - it's what we call a low volatility stock. It's unlikely XOM will climb above $105 (the all-time high) in six to nine months. As such, we'll sell the 105 call for $1.00.

If XOM stays below $105 before the option expires, you earn $1.00 on your covered call, or $100 (for every 100 shares you own)... all for doing absolutely nothing.

Basically, if the stock drops, you've given yourself an extra $1.00 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 $105, you'll make money on the stock increase up to $105 and from the premium you collected on the covered call. That's the best of both worlds!

Finally, if XOM blows through $105, 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 $10 on your stock appreciation and another $1.00 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 $105, 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?

Option Trade #3 – Protect Your Portfolio With Ease

Are you worried about the market? Does it seem like things have been unusually calm lately? Could it possibly be the calm before the storm?

If you're worried about what could happen to your portfolio in the event of a market meltdown, then you've come to the right place. Options are one of the best ways out there to reduce portfolio risk.

Here's the deal...

It's very easy to lower your risk and protect your portfolio by simply buying index puts.

First off, there's no reason to buy puts on all your holdings. That could get cumbersome. Instead, buying puts on an index tracking ETF will save you a lot of time and money.

For our trade will use the **SPDR S&P 500 ETF** (SPY). It's the most popular and active market tracking index out there.

Let's say the SPY is trading at $200 (with the S&P 500 at roughly 2,000). If you want to hedge your portfolio, it's just as easy as purchasing out of the money (OTM) SPY puts.

I like to go about six months out for my puts. And, I typically pick a strike approximately 10% below the current price. In this case, that would be the 180 strike. By going 10% out, you're lowering the cost of the puts and making your hedge more affordable.

At this point, you can decide how big of a hedge you want to put on. As a general rule of thumb, in the event of a market meltdown (say 15-20% down in a relatively short-period of time), you'd like to be able to recover at least 25% of your portfolio value.

(You can do some quick math to figure out the number of contracts you need. Assume a 20% down move in the S&P 500 and figure out how much your options will be worth – it's easy because they'll be deep in the money at that point. Then figure out what 25% (or 50% or whatever) of your portfolio value is and buy enough options to cover that amount.)

And then all you have to do buy your SPY 180 puts.

At the current levels, they're trading for around $3.25. So for $325 per option, you're getting excellent protection in the event of a significant market downturn over the next six months.

That's all there is to it!

With as inexpensive and easy as the strategy is, why not give yourself peace of mind and hedge your risk?

Two Trades To Avoid For The Rest Of The Year

Okay, so we've looked at three excellent trades for the next six months or so. One trade is speculative with big upside, one trade is about earning income, and the third trade provides protection for your portfolio.

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, Iraq, and Ukraine, plus the end of the Fed's quantitative easing program. 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've seen just how easy it is to own your favorite stock for cheap using options, generate income on a stock you already own, and protect your portfolio with ease.

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