

## Let's Get Started

The truth is, consistently, making money in the market can be extremely difficult. As you learn options and develop your trading plan, you will discover that you are putting the odds of winning in your favor by trading weekly because you are not giving the market time to trade against you. Trading stocks or options utilizing a "buy and hold" mentality means your positions are going to have to weather the push and pull of every gust of global news, market moving earnings reports, economic numbers, Fed meeting minutes, and unemployment and employment numbers every couple weeks with the hope that your position remains standing on the right side of the profit line.

There's that word hope again. In this strategy we are going to move from hope to likelihood to achievement

Investment gurus will tell you that you have to be invested in the stock market to truly strike it rich, but that doesn't protect you from the daily market swings. Options provide the trading vehicles for both uptrends and downtrends, but the volatility, the swings back and forth as the market settles on its direction, can quickly wipe out a trading account based on long term trade strategies. The market is jittery and fickle. So why not put that volatility to work for you; enlist its help to make consistent profitable trades.

Successful trading boils down to just one simple rule: Buy low and sell high. It doesn't matter whether you're trading stocks, mutual funds, real estate, collectables or options. It's just that simple. Therefore, as I unfold this strategy, one of our major objectives will be to determine when a stock is high and when it is low based on patterns that most often have predictable outcomes, leading to consistent profit.

Even though the Low/High concept is simple, the implementation has confounded novice investors, brokers and professional traders since the beginning of organized markets. That's because no one has been able to accurately figure out how high is high, and how low is low?

To accurately nail the bottom of a market trend or call the top is like throwing a dart at a wind swept balloon. It illusively keeps going or darts in another direction without notice.

Sure you can either hear about or look at a chart of a stock that has fallen on hard times, perhaps they've reported poor earnings, or the FDA has turned down a patent request for a new drug, but is their stock at a low or is it just beginning a downward spiral? If finding highs and lows is such a dilemma that only 20-30% of professional money managers actually earn their management fees, then how can anyone expect to master any aspect of trading options from this simple book?

The key is that trends or market tops and bottoms don't matter to us. We are going to base our trades on what we can actually see has already taken place and what is likely to happen from here because we aren't going to give the market much time to change its mind or direction.

This booklet will introduce you to a way to consistently make money using weekly options as an equity's chart draws a picture of what is likely to happen to the stock's price. You'll learn what tools are needed to create this picture, how to recognize and interpret its visual message. You'll learn how this simple strategy puts the odds of winning in your favor every time you trade, whether the equity is moving up or down.

You'll also learn how to invest just a little to earn a tremendous amount of money if you are right, but lose just a little if the stock doesn't move soon enough or as expected.

The goal of this booklet is to introduce you to these tools, and to show you how you can use them to make money far more consistently than you ever thought possible... Profits earned weekly and even daily like a personal bank ATM (automatic teller machine).

# Weekly Options

Options are a unique type of investment. They've been around for about 30 years, and most of those years, only Wall Street types knew enough to trade them and they were not anxious to share the information. Whether that reservation was to keep the high profits to themselves or that they could charge big fees to invest your money for you, who can say? Nonetheless, it remained an exclusive club until recently. Now in spite of the benefits inherent in option trading, many traders are just beginning to use them.

As option popularity increases, so, too, does the number of available variations. Until a few years equity option contracts only expired monthly on the third Friday of the expiration month. (April option expiration closed on the third Friday in April).

So in stepped weekly options.

No one wants to wait for monthly expiration dates. With weeklys, you don't have to. Weeklys are options that expire at the ends of weeks. This flexibility can provide investors with more targeted trading opportunities and can help investors take advantage of tradeable patterns, market events, such as earnings, government reports and Fed. announcements.

Weekly options are currently listed on Thursdays and expire on the second Friday or seven (7) trading days after their listing or birth date. New weeklys are listed each week except that no new weeklys are listed that would expire during the expiration week for regular options (the third Friday of each month). In a sense, the regular option has become a weekly.

As a refresher course, I will briefly skim over the definition of an option and how it functions within the overall market. My plan in this booklet is to build on the aspects of option trading like applying layers of paint, until I have covered the basic concepts and details needed to trade this system. I will mention aspects several times adding another layer of information each time. You don't have to be an expert in financial fields to trade options, but it helps to demystify the terms used, so let's start with the option itself.

## **What is an option?**

In its simplest definition an option is a choice. In the financial world, options (either calls or puts) give the owner of the option the right to buy or the right to sell the underlying asset or equity at a pre-determined price (strike price), during a pre-set time period (expiration date). As the owner of the option, you have the choice of actually buying, or selling, or doing nothing! You pay someone for these rights or choices (premium).

Each option contract is based upon the price movement of 100 shares of the underlying equity. If you own 2 contracts, you then control 200 shares of the underlying equity.

As I have mentioned, there are two types of options: calls and puts. A call option is purchased when you expect the equity's price to go up in value. A put option is purchased when you expect the equity's price to go down in value. Let's look at this a little more closely.

## Trading Weekly Options: What to Expect

I will soon cover trade candidate selection, but let me generalize and say, with careful candidate consideration, you can achieve significant short-term profits on funds you invest in the options market. Your profits are made by purchasing option contracts (calls and puts) with the express intention of selling the contract after the underlying equity, (stock, ETF or index) has moved in price, either up as with calls, or down, as with puts, and you sell before the weekly option's expiration date (second Friday). When you purchase an unripe banana from the produce market, you know the banana still has a while before it has to be eaten. In terms of options, the idea is to sell the banana before it goes beyond being green and yellow to mostly brown, soft and ready to expire.

By incorporating this line of thought, you never exercise your option to buy the underlying equity (stock, ETF or index). Your goal is to hold the option long enough for the price of the underlying asset to increase in the case of a call option and decrease in price in the case of a put option. You don't intend to exercise the option, but someone will want to, *and that's its value*.

To make even clearer the principle of options, let's compare a call option trade with a stock transaction.

Option contracts control 100 shares of the underlying asset, so for this example let's use Newmont Mining Corp. (NEM). You'll buy 100 shares of stock and then you will buy one option contract and make a comparison.

Note: An option premium is the amount you pay to control the underlying stock when you purchase an option. This option premium increases in a magnified way in relation to the stock price. As the stock price goes up so, too, our option increases in value, and then you sell your option back, before the expiration date. In that way, you trade the options but never actually buy or sell the underlying stock or asset.

- If Newmont Mining's (NEM) stock price is \$48 per share, one hundred shares of stock would cost \$4,800. If two days later, the stock price goes up \$2 and you sell the stock, you have a profit of \$200 on your one hundred shares. Your profit is 4.1% over your original investment.
- But, if you buy a call option on those same one hundred shares of NEM stock, you will pay approximately \$.74 per share or \$74 for the 100 shares. (This is a good estimate, but the actual option premiums vary greatly). This \$74 controls all one hundred shares

of the stock for the duration (expiration date) of your option. If Newmont's price goes up \$2, your option may also go up \$2. (This, too, varies according to how far in or out-of-the money the underlying option is, which I promise I will discuss). This \$2 increase or \$200 profit is 270% of the initial price you paid for the option.

- Using the leverage of options, you've made 270% profit on the same underlying instrument (NEM stock) that only realized (gained) a 4.1% profit when the actual stock was sold.

100 shares @ \$48 each = \$4,800  
\$2 increase x 100 shares = \$200  
New Value = \$5000  
Gain 4.1%

Or  
1 Option Contract on 100 Shares @ \$.74 per share = \$74  
\$2 increase in option price x 100 shares = \$200  
New Value = \$274  
Gain = 270%

You can see, weekly options provide traders with certain leverage benefits. As seen in our example, you can begin trading with a small amount of money and can turn a high percentage of profit.

As your confidence increases, you can earn even greater profits. With careful, precise trading, a \$200 profit can become \$400, \$400 can become \$800, and before long a trading account will increase, showing compounded profit.