TOM GENTILE'S

OPTIONS 101:

The Easiest Options Guide You'll Ever Read

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INTRODUCTION

You have in your hands the best guide to making money in the markets you can get.

And that's no accident. You see, my mission in life is simple: share everything I've learned over the past 30 years of trading so that you can achieve everything you've ever wanted and set yourself up for a comfortable financial future – the easy way.

Now I grew up in a steel-mining town outside of Pittsburgh. I didn't come from much and found myself busting my butt working 40, 50, even 60 hours a week just to get ahead. But eventually, I realized I didn't want to live my life on someone else's terms for someone else's bank account – and on someone else's watch. That's when I decided to take control of both my finances and my future.

So, while working as an Information Technology (IT) Manager at a large hardware chain, I taught myself how to trade options in my spare time. And I guess that IT stuff paid off because it turns out I had a knack for it – so much so that I was eventually able to co-found and build (along with three of my business partners and friends) the successful options education company, Optionetics.

To emphasize the importance of the success of our students, our mantra was "Empowering Investors with Knowledge." We were the largest and most respected options education company in the world, teaching students in North America, Europe, and Asia, with offices in the U.S., Australia, and Singapore.

Optionetics became so successful and highly reputable that a large brokerage firm acquired us. At that point, I could have packed my bags and walked off into a very comfortable retirement. But I made it my mission to give back by teaching others how to trade their way to a lifetime of peace and success – using options.

And let's face it, the time's never been better…

We're dealing with an ever-changing market and political landscape that can cause a lot of doubt when it comes to investing and trading. It may even feel like stuffing your money under a mattress is the safest thing to when the market is in turmoil.

But while you certainly won't *lose* any money this way, you definitely won't *make* any either. In fact, sitting on the sidelines during times of market uncertainty can cost you in trading opportunities, which won't help your bank account.

Here's why…

Despite that old-school, traditional investment "advice," you can make a killing in the market whether it soars to new all-time highs, plummets to historical lows, or does nothing at all with options.

Therein lies the reason behind this book: to arm you with the tools you need to build a lifetime of wealth.

My goal here is to show you the basics of options, but that's not all.

This manual is chock-full of hard-hitting trading tactics and techniques – including some of the secrets I've used to make millions.

In no time at all, you'll be learning how to do this on your own.

First, we'll talk about why options are the fastest-growing moneymakers in the world, how to predict any stock's next move (yes, you can predict where a stock's price will go), and why 98% of stocks and exchange-traded funds (ETFs) are junk.

Then, we'll go over the basics of options, how to trade through volatility, and exactly how to get started, including how to choose your broker.

Finally, we'll talk about the dos and don'ts of trading options.

So let's get to work!

Part 1: Getting Rid of the Junk

To kick things off, I'm going to share a tightly-guarded piece of intel the suits on Wall Street don't want you to know.

It's something they've been hiding because it levels the playing field and gives you a real shot at making some serious cash…

The kind of cash that can pay off all your debts, send your kid to a nice four-year college, or cover that dream vacation you've been wanting to go on.

Here it is…

Most stocks and ETFs are trash.

That's right − pure junk.

Now I realize this probably goes against everything you've ever been told. In fact, I'm sure that at some point in your life, you've probably been told to dump your cash into a bunch of different stocks, mutual funds, and annuities to make the most of your portfolio.

But here's the problem…

Currently, there are over 4,000 public companies listed on U.S. exchanges and over 25,000 different stocks to trade worldwide. And the big banks and brokerage firms want you to gamble your money on *all* of them. The worst part is… they don't actually care which ones you buy and sell, and they definitely aren't trying to help you minimize your costs (and broker fees) or maximize your profits.

Whether you're buying stocks, mutual funds, annuities, or anything else – the Wall Streeters want you to spend your savings on investments that'll take 10, 15, even 25 years to give you a mere 10%. Keep in mind that's 10% in a good year – if you're lucky. Most of the time, the returns are far less than that.

It doesn't matter if your trade is a winner or a loser, either − your broker gets paid in fees and commissions. And say your investments actually make you some money... they will take the thousands of dollars you've worked for your entire life and recklessly spend it on the most speculative investments – just to enrich themselves.

That's how they rig the game against you.

They're not looking out for your financial interests or your financial future − which is exactly why it's time for you to take back control. But with 25,000 stocks… where the heck do you begin?

It starts with getting rid of the junk – you know, the 98% of stocks and ETFs out there that simply aren't worth a single penny.

And I'll be blunt...

Even that latest initial public offering (IPO) that's getting everyone's attention, that hot stock tip from your friend, and that company you've spent hours researching and are convinced is a sure bet *most likely* belong in the junk pile.

So let me show you how to filter out the only stocks worth trading…

How to Find the Top 10 "Movers" to Trade

With so many "junk" stocks and ETFs out there, the last thing I'd ever recommend is trying to sort through all the optionable stocks (stocks that offer options) one by one – that will eventually drive you crazy. Fortunately, I've developed a great method to whittle it down to the 10 best stocks at any given time.

I do it through my proprietary tools to run a scan that searches for what I call my "Top Movers." First, I look for only the stocks with options that trade in penny increments, typically within a $0.05 bid/ask spread, which narrows the list down to around 300 stocks in total.

My scans were designed to make life easier for you and to find stocks and ETF's that are more efficient for you to trade.

Next, as we move into Part 2, I'll debunk another one of the biggest financial myths out there today: You can't predict a stock's next move.

You can – and I'm going to show you exactly how.

Part 2: Predicting ANY Stock's Next Move

At some point in your life, I'm sure you've heard the following "conventional wisdom" from the financial pundits on TV, your spouse, a friend – heck even your broker:

You can't predict the stock market.

Now, it may be true that markets themselves are typically driven more by human emotion than by sheer logic and reason. And the same goes for stocks. That's why you'll often hear traders and analysts speak of "sentiment," or how the markets "feel" about a particular stock.

But while it's true that there's no (literal) crystal ball out there to tell you exactly what will happen next in the stock market, you ***can*** predict where a stock or ETF is moving.

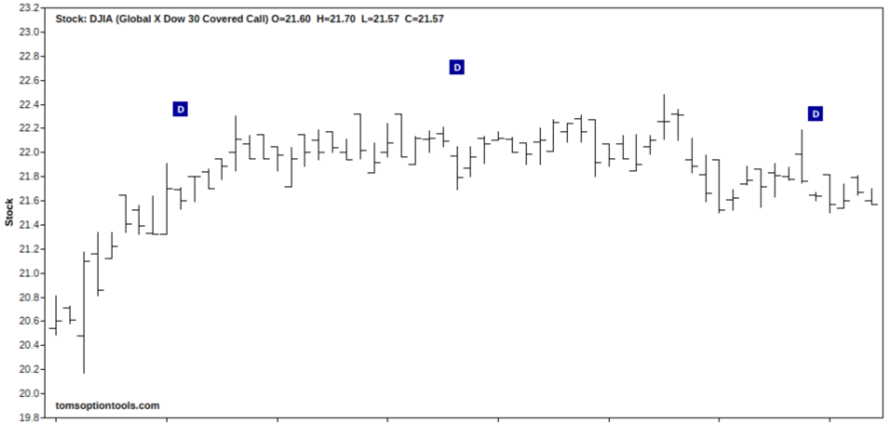
With the right tools, you can determine what a stock's price will look like tomorrow, next week, next month, and beyond.

And it all boils down to these two little charts…

1. Open, High, Low, Close (OHLC)

Charts include price bars or "candlesticks" that show you the stock's or ETF's open, high, low, and closing price of each trading day. This is important because it reveals patterns that identify trends, such as reversals and inversions.

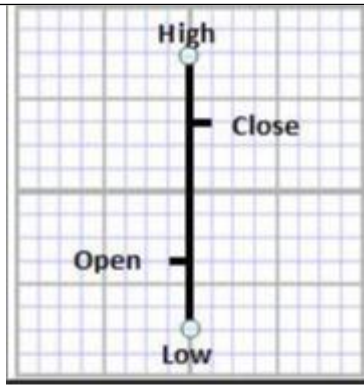
The chart below is from the original index, Dow Jones Industrial Average, and illustrates the trend of price bars over time.



What you're looking at above is an example of an OHLC chart that I pulled using my proprietary tools. The bars can represent different time increments (one minute, one month, one year, etc.); however, the standard time frame for this type of chart is one day. Regardless of the time increment the bar reflects, each bar will represent the open, high, low, and closing price of that time frame.

The high is marked by the extreme top part of the vertical bar. The low is marked by the extreme low of the vertical bar. A small horizontal line connected to the left part of the vertical bar represents the opening price. A small horizontal lined connected to the right part of the vertical bar represents the closing price:

Here's an example of a single period price bar:



Now let's look at the other common price bar you'll see, candlesticks.

2. Candlestick

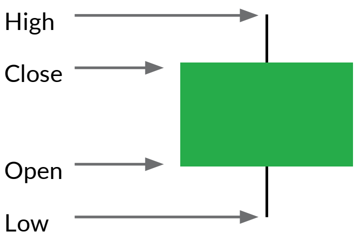
This chart not only tracks a stock's or ETF's opening, high, low, and closing prices – it also shows the range between the opening and closing prices as well as the highs and lows of the day. This is my favorite type of chart because it gives you an even better picture of trends that are forming or reversing in the markets.

Here's an example of a candlestick chart that I pulled using my proprietary tools:

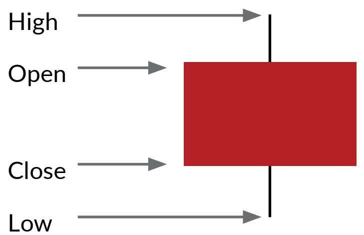
The distance between the opening and closing price is called the candle's "real body." The wick is the high above and the low below the opening and closing prices. If the opening price is higher than the closing price, then the real body of the candle is drawn in red or black. On the other hand, if the closing price is higher, as we like to see in an up trending (bullish) market, then the real body is usually clear or white. Keep in mind that these colors can vary from chart to chart.

You'll also see that, in addition to the real body, most candles have upper and lower shadows, which are drawn in as a single thin line from the top or bottom of the candle. These lines reflect a stock's or ETF's highs and lows. The upper shadows reveal the highest price achieved during the trading period while the lower shadows reveal the lowest price achieved during the trading period:

Bullish Candlestick



Bearish Candlestick



The last hour of the trading day is the most important one because it gives you clear clues as to where a stock or ETF (and the overall market) is heading next.

Now there's a wide variety of patterns you can spot using candlestick charts, but these are the only two you need to know right now:

1. **Reversal Pattern**: This signals that a price reversal is coming and gives you the chance to get in and out of your trades at the best price with minimal risk and maximum profit potential to the upside.

2. **Continuation Pattern**: This signals a pause in a trending market. You'll often hear analysts refer to this as "sideways," "trendless," or "non-directional." You can expect these breaks in action to resolve themselves in the same direction the market was heading before the pause.

The most important thing to remember is to trade what you see – not what you feel. You probably know or have heard of plenty of people who trade on emotion and the fear of missing out (FOMO) instead of facts and numbers. These are the ones who put their entire life savings into Enron back in 2001 before the scandal broke because it "felt right."

But I know from over 30 years of trading experience that it's not the only mistake traders make…

In fact, there's one HUGE mistake investors and traders alike make every single day in the stock market.

And in Part 3, I'll tell you exactly what it is…

Part 3: Flipping Stocks (Instead of Buying Them)

When I asked some of my readers to share what they thought was the number one mistake people make in the stock market each and every day, these were a handful of the answers I received:

- *"Dollar cost averaging money they don't have"*
- *"Putting all of their eggs into one basket"*
- *"Buying expensive stocks one share at a time with no backup plan in case it moves in the wrong direction"*

And I agree! These are some pretty bad mistakes…

But if you've fallen victim to any of these, too – it's not your fault. You're simply trying your best to follow the "advice" you're getting from Wall Street and the pundits on the news networks.

Here's the *real* problem…

The people giving that advice don't care about your bottom dollar at the end of the day – they care about lining their pockets with your hard-earned cash. And in the cases above, these investors put themselves at risk of losing a lot of money that could take a long time to get back through any traditional form of investing (if at all).

So it's time we talk about trading options – or what I like to call "flipping" stocks **INSTEAD** of buying and holding them.

What most of the billionaires and hedge fund managers on Wall Street want you to believe is that options are too risky, too complicated, and simply not worth your time. They'd rather have you dump hundreds of thousands of dollars on the most expensive stocks out there – so they can take the profits. And they're counting on the misinformation they've put out there about options to keep it that way.

Here's the truth…

The entire reason listed, exchange-traded options first launched in 1973 was to mitigate risk in the stock market and give you leverage. When you buy a stock, you're at the mercy of the markets, which could cost you big time. In fact, U.S. stocks are more expensive now than ever before.

For example, if you want to buy one share of higher-priced stocks, you may easily end up paying hundreds and even thousands of dollars… for a single share. And more often than not, people want to own more than a single share of stock in their portfolios.

But with options, you can actually control 100 shares of expensive stocks for less than $500. So while Wall Street wants you to shell out thousands of dollars for 100 shares of a stock, you don't have to. You could pay less than $100 in some cases to essentially "rent" 100 shares of the stock instead. And since you can control shares of a specific stock, you can also increase your leverage without tying up a large amount of capital in your trading account. In fact, some brokerages have significantly dropped their new account deposit amounts to help you get started.

The Wall Street guys don't want you to know this − or these other eight reasons you should be trading options right now:

1. Options Can Easily Double – or Triple – Your Money

Options offer an amazing versatility that you can use in a variety of ways to profit from a rise or fall in the underlying market. Call options let you profit from rising stocks, whereas put options let you profit from falling ones – all without risking any more money than you put in at the beginning. And in times of high market volatility, options are a welcome relief from the uncertainties of traditional investing methods.

2. Options Safely Provide You with Leverage

With the current price tag on U.S. stocks, most investors have to dump exorbitant amounts of money buying a single share of stock at a time – and hoping that those shares soar.

But with options, you can actually control *100 shares* of an expensive stocks for $500 or less. Just imagine the kind of money you could make controlling 100 shares of stock at $500 compared to trading just one share of stock at over $700.

3. Options Reduce Your Risk

I'm willing to bet that you have insurance on your car or house because it's the responsible – and safe – thing to do. Think of options in the same way. They can provide you with a "safety net" for your investments and trades.

4. Options Allow You to Trade All Markets

With options, you're not limited by market direction. Whether the market moves up, down, or sideways, there's always a way for you to profit using options.

5. Options Aren't Just Tools for the Elite Anymore

Options used to be reserved for the elite few. Not anymore. Now options are accessible to all people, and virtually any discount broker provides access to them. That's why you're seeing more and more commercials about them on TV compared to even a few years ago.

6. Options Let You Start with Very Little Money

One of the best benefits of trading options is that you don't need much money to start. While the minimum amounts to start trading vary from broker to broker, most brokerages only require a deposit of $2,000 or less.

7. Options Have Never Been Easier to Trade

When people first started trading options, they mainly had to rely on newspapers and brokers to find, place, and track their trades. Nowadays, you can search for and place your trades online.

8. Options Let You Create a Constant Stream of Income

And maybe best of all, simply by adding options to your portfolio, you can quickly – and easily – create a potentially unlimited stream of income.

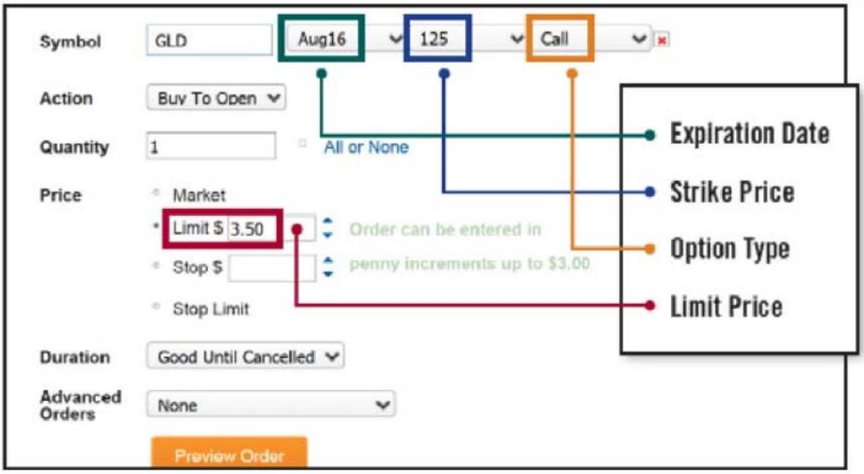
With all these benefits in mind, let's look at what exactly options are...

PART 4: Breaking Down Options

In its most basic form, an option is a contract between a buyer and seller. There are two types of options: calls and puts.

A call option gives you the right to buy a stock at a particular price (strike) until a particular date (expiration). Buying a call is bullish. If the underlying stock (the stock that an option gives you control over) goes up, calls increase in price. That means, if you buy a call, you gain the right to buy 100 shares of the underlying security at a predetermined price.

Below is an example of what a call trade looks like on an options order form using **SPDR Gold Shares** (NYSE: GLD). Depending on the broker you use, your order form could look slightly different – but the information is essentially the same:

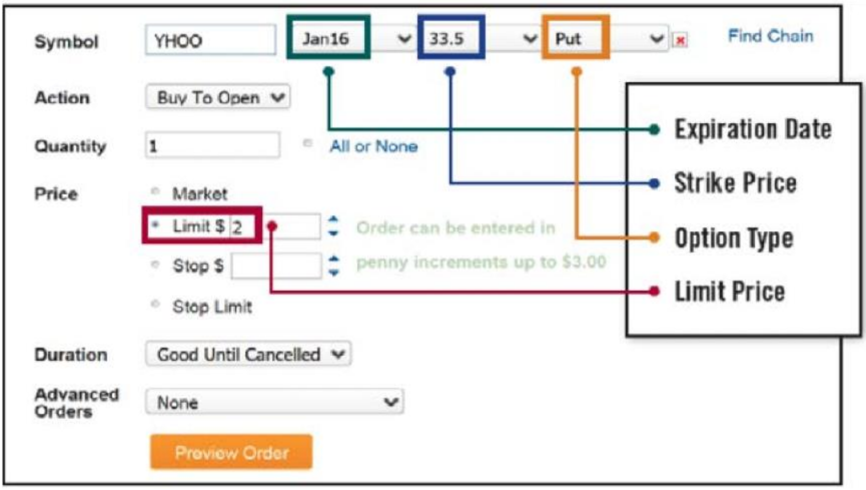


Now let's look at a put…

A put option gives you the right to sell a stock at a particular price (strike) until a particular date (expiration). Buying a put is bearish. If the underlying stock drops, puts increase in price.

That means, if you buy a put, you gain the right to sell 100 shares of the underlying security at a predetermined price.

Here's an example of what a put trade looks like on an options order form:



Let's talk about what all of this means…

Strike Price:

The predetermined price (agreed upon by both the buyer and the seller of the option) at which the call buyer can buy his shares, and the put buyer can sell his shares, is also called the strike price.

Let's go back to the chart above on **GLD**…

In this case, the strike price is $125 per share. The words "strike price" are usually omitted when describing an option – for example, this "$50 Strike Price call" option on **GLD** shares would be called a "$125 GLD call." Similarly, buying a "$125 put" on **GLD** shares gives you the right (but not the obligation) to sell 100 **GLD** shares at $125 per share. This is true regardless of how high or low the underlying security goes prior to the expiration of the option.

For example, if you bought the "$125 call" on a stock that rises to $250 per share, you can exercise your option to buy the shares for half their going rate – just $125 a share. If you sell them straight away after exercising, your profit will be $125 per share (minus the cost of the call itself).

On the other hand, the person who sold you the call has to sell you those shares for $125 per share, even if this means they have to first go out to the market and buy them for twice that – $250 per share.

Call options with strike prices below the underlying stock's current price will be more expensive because they are worth more, while call options with strikes above the underlying stock's current price will be cheaper because they are only valuable if the stock rises in price.

Think of it this way: Everyone wants to have the right to buy shares below their current price (which is what a call with a strike price below the stock price gives you the right to do), and few want to pay for the right to buy the same shares at a premium.

Expiration Date:

Every option has a set date in which it expires, called the "expiration date." The third Friday of each month was the most common expiration, but options are so popular now that many have expirations Monday through Friday. Using our same **GLD** example, an "August $125 call" would expire on the third Friday of August 20XX.

However, there are many other kinds of options to choose from:

- LEAPS or Leaps – an acronym for Long-term Equity

AnticiPation Securities – have nine or more months to expiration.

- 30-, 60-, 90-, or 120-day options have expirations dependent on the cycle in which they trade. This is determined by the Chicago Board Options Exchange (CBOE).
- "Quarterly" options expire on the last trading day of the designated quarter.
- Weeklies are short-term options that expire in one week or less. These options are quickly growing in popularity among options traders and now represent over 20% of total option volume.

So once you determine where you believe a stock will go – up or down – the first thing you need to do is pick an expiration date and a strike price.

Let's look at another example…

In the option table below on **Example Inc.** (**NASDAQ: EXMPL**), the expiration date shown is November 15, with **EXMPL** trading at $240.

CALLS		15-Nov	PUTS	
Bid	Ask	Strike	Bid	Ask
11.65	11.80	**232.50**	3.90	4.05
9.90	10.10	**235.00**	4.70	4.80
6.75	6.95	**237.50**	5.65	5.75
6.85	7.05	**240.00**	6.70	6.85
5.05	5.25	**242.50**	7.95	8.10
4.40	4.55	**245.00**	9.30	9.70
3.40	3.55	**247.50**	9.45	9.60

You can see that the table has calls on the left and puts on the right. Strike prices are down the middle. For **EXMPL**, the strike prices are in $2.50 increments. These increments vary by stock.

The bid is the sales price of the option, and the ask is the purchase price of the option. So, for example, the November 15 AAPL $240 Call would cost you $7.05 – the ask price. If you were to immediately sell the same option, you would get $6.85 – the bid price. The difference between the bid and the ask is called **slippage**, the amount you essentially need to make back in order to break even on the trade. It's important that you don't put yourself into too big of a hole, so be sure to keep your **slippage <= 10%**.

You can calculate slippage by using the following formula:

Slippage = (Ask – Bid) / Ask

In the case above, slippage = ($7.05 – $6.85) / $7.05 = 2.8%, which is well below 10%! Remember – a successful trader is a *rules-based* trader. Avoid any options that don't satisfy this rule.

Now, there are a few other terms to know when navigating the option table that will lead to another important rule.

Take a look at this chart...

	Calls	**Puts**
At-The-Money (ATM)	Strike = Stock	Strike = Stock
In-The-Money (ITM)	Strike < Stock	Strike > Stock

Out-of-The-Money (OTM)	Strike > Stock	Strike < Stock

In the option table above, the ATM options are shown with **blue** text. That's an easy one! With **EXMPL** trading at $240, the ATM strikes for both calls and puts are $240.

The ITM options are shaded in **grey**. The OTM options are un-shaded. Notice that ITM options cost more than OTM options and get costlier as you go deeper ITM. The inverse is true for OTM options.

Now that we've established some terminology, I can reveal a secret only known by the pros…

OTM options double faster than ATM or ITM options.

Furthermore, the money-doubling "sweet spot" is generally just a few strike prices OTM, which leads me to an important rule for maximizing your profits when selecting options:

Fastest Double Rule: Buy Options 1-2 Strikes OTM

Now that you know how to spike the best strike price in an option table, you need to know which expiration date to pick.

This one's simple:

Expiration Date Rule: Buy 30- to 90-Day Options

The reason for this has to do with time decay – but we'll save that for later. First, let's talk about something called "exercise" and "assignment…"

To put it simply, expiration is the last day an option can be trading. Exercise: the point at which the buyer or seller activates (or "exercises") his or her right to buy or sell the underlying stock. Assignment is the point at which the seller of the option is obligated to (or "assigned") the terms of the contract. For example, if a put option is assigned, then the seller will be obligated to buy shares of the underlying stock at the agreed upon strike price.

Understanding how options are valued is a crucial part of harnessing their power. But in order to trade like the pros, you need to know the breakdown of option pricing…

Using Option Valuation to Churn Out Bigger and Safer Profits

Unlike a stock, options are *derivatives*. That means their value is derived from an underlying stock, amongst other things.

Now we've already talked about some of the moving parts used to calculate an option's value, like strike price and expiration. And now, we're going to focus on two more key ingredients…

1. Time Value

You'd probably never think of options and milk as having anything in common. But the first thing to understand about an option is that it has a shelf life. Like milk, options have an expiration date. And the amount of time left *before* this date hits has a value.

This is called time value, and it is baked into an option's price.

Remember – time costs money. So if you buy an option that expires in a year, it'll cost you more than one that expires next month. It's like sand dropping through an hourglass. As time passes, the time value of an option decreases.

Let's say, for example, a $5.00 option has $2.50 of time value. The remaining $2.50 is called real value (also known as "intrinsic value").

The instant you buy an option, that "sand" in the hourglass of time starts flowing, and you're in a race against time. That means you have to see the stock move in the right direction much faster because time decay is biggest in the last 30 days.

Unknown to most novice option traders, the sand falls at a *faster rate* as the expiration date approaches. In other words, time value erodes faster and faster as the option approaches expiration, meaning you have to be more certain of the stock's direction. Time decay is biggest in the last 30 days.

That's why buying 60-day or longer options is a good way to avoid excessive time decay. Here's another rule: *Buy 60- to 90-day options and exit all options with 30 days to expiration.*

2. Real Value (Intrinsic)

Now, onto the second half of an option's value. Real value is the portion of an option's value that is intrinsic (or essential) to the option. This is why it's also called "Intrinsic Value." It's the amount that the option must be worth based on the rights it provides.

For example, if XYZ is trading at $50, an XYZ $45 call (which provides the right to buy XYZ at $45) must be worth at least $5.00.

That’s because if you were to exercise your right (to buy or sell the underlying stock), you would buy the stock for $5 less than it’s worth. So the option must be worth at least that.

An option that has real value is considered “In-The-Money (ITM).” Real value is easily calculated, as shown below:

ITM Calls (Strike < Stock)	**ITM Puts (Strike < Stock)**
Stock Price – Strike Price	Strike Price – Stock Price

So, in the example above, if the XYZ $45 Call is worth $7.00 with the stock trading at $50, then this option has $5.00 of real, or intrinsic value.

$50 – $45 = $5.00

The remaining $2.00 is time value.

If the stock stays flat, then the risk in this trade is $2.00 that will be realized upon expiration. You’ll also notice that ITM options (shaded gray) all have real value. ITM options will also have time value, provided there is still time before expiration.

Options that are “at-the-money” (ATM) or “out-of-the-money” (OTM) all have time value only.

	CALLS		15-Nov	PUTS		
	Bid	Ask	Strike	Bid	Ask	
	11.65	11.80	232.50	3.90	4.05	
RV + TV	9.90	10.10	235.00	4.70	4.80	TV
	6.75	6.95	237.50	5.65	5.75	
	6.85	7.05	240.00	6.70	6.85	
	5.05	5.25	242.50	7.95	8.10	
TV	4.40	4.55	245.00	9.30	9.70	RV + TV
	3.40	3.55	247.50	9.45	9.60	

Stock = $240

Time Value Trade-Off

You may be thinking that you should always buy ITM options to reduce the amount of time decay risk. And sure, it's a logical assumption. But the truth is that there's a trade-off. Options that are ITM have less time value and, therefore, less time risk. Options that are ATM or OTM have nothing but time value and are completely at the mercy of time decay.

That means OTM options with 100% time value also double your money *faster* than ATM or ITM options. So if you want to make more money faster, you'll want to deal with time decay full on. Be sure to have a strong directional opinion backed with a solid time target!

On the other side of the coin, if you want the option to behave more like a stock, you'll want to use ITM options to squeeze out as much time value as possible.

Here are some rules to help you decide what type of options to use:

"Slow Pitch" Less Time Decay Risk + Make Money Slower = **ITM** Options **"Fast Pitch"** More Time Decay Risk + Make Money Faster = **OTM** Options

And remember your at-the-money (ATM) options, too. When you're getting in and out of options trades every day, an ATM option could be your best bet. And that's it − congratulations! You are now equipped to navigate option tables like the pros.

So let's put everything together and take a look at a real trade I recommended to my premium subscribers in July 20XX on **Booking Holdings Inc.** (NASDAQ: BKNG)…

At the time, things were looking real good for the company – and the stock. Knowing that, you could've easily followed Wall Street's playbook and taken the traditional, conservative route: *buy shares*.

But at this particular time, **BKNG** was trading at $1,898.42 per share. That means you'd need to fork out over $1,000 to add one measly share of stock to your portfolio. And let's be honest… owning one single share of **BKNG** won't be enough to supplement your income – or cover that dream vacation you've been wanting to go on.

Plus… since you're buying stock shares outright, you could theoretically lose every single one of those dollars you put in if the stock plummets to zero. That's over $1,000 in the hole – or worse if you bought more than one share.

Now in my book, that's not worth the risk – not even a little. And that's exactly why we trade options.

In fact, members of my premium trading service got the opportunity to "rent" 100 shares of **BKNG** – for only $450. That's over a 76% discount on the stock – plus 99 additional shares.

Imagine buying 100 shares of **BKNG** the way Wall Street wants you to – that'd cost you no less than $18,984.20. Just think about the other kinds of expenses you could pay off using that money instead of buying one single share of stock.

This is the kind of cash Wall Street wants you to spend – knowing you'll need to keep dumping this kind of money for years before you even see any kind of significant return.

But my members, using the same strategies I'm going to show you, had the chance to pocket 148.11% total gains.

And you know how much the stock itself moved during that 16-day time frame? Only 2.24% - peanuts to the gains my readers locked in.

Here's how we did it…

My proprietary software showed me that **BKNG** made an upward move 100% of the time between July and August for the previous 10 years.

This told me that there was a pretty darn good chance that it would move in this direction again over the trading date range and that we only needed a slight movement in the stock to hit our double.

And in only a little more than two weeks,
we made ***over 66 times more*** than the stock itself.

Look at how one of my subscribers did:

"I made 101.4% gains, $1,299.00. I'm retired and it is helping us live in the lifestyle we were accustomed to prior to retirement!"

Remember, it's not just the stocks that are climbing higher… you can make money whether the market's up, down, or sideways. Here's how my readers cashed in on a falling stock in July 20XX…

Schlumberger Limited (NASDAQ: SLB)

At the time I was interested in trading **SLB**, the stock was only trading at $37.79 per share. And if you wanted to buy 100 shares, you'd have paid $3,779.

Now "conventional wisdom" tells you that you simply can't make money when the market's falling – which is why a lot of everyday investors often stay away from anything that's not going up.

But I know the profit potential exists on even your worst-performing stocks when you're trading options. So here's what we did…

My software showed me that **SLB** made a downward move in nine of the past 10 years between the end of July and end of August…

That means there was a strong likelihood of **SLB** making that same exact move again. And for only $160, my subscribers were able to "rent" 100 shares of the stock – a nearly 96% discount from buying 100 shares outright.

Here's the best part…

before this pattern even concluded, we had already more than doubled our money – closing the trade out for a combined *169.69% gain*.

This is what one of my subscribers had to say…

"I made 100% - *or $2,250 – and am trying to find a path to $1M for retirement."*

This is just one of hundreds of reasons I love trading options – and I think you will, too.

Now in Part 5, I'll show you just how easy it is to get started…

PART 5: Choosing Your Broker

If you've got a retirement account, such as an IRA or a 401(k), you are allowed to trade options in it. In fact, all you need to do is contact your broker to get it converted for options trading. Then, you're ready to move on to the next step: *getting your options clearance.*

If you don't have an existing account or would prefer using a separate account for options trading, you'll need to choose a broker first.

The most important thing to have here is a broker that actually specializes in options trading, not a stock broker with a small options platform on the side. There are only a small handful of them that do it right. This is how most brokers are broken down:

Full-Service Firms

These are brokerage firms that have advisory services, and typically move their clients into managed accounts. They may or may not have an active trading group, and if they do, it may be just for their full-service clients as a way of keeping them happy. Commissions are typically on the high side of the range, as they provide full service, including your own individual investment advisor.

No-Service Firms

These brokers typically offer a downloadable platform for executing trades, but do not offer any client services beyond this. Execution and commissions may be great, but don't hold your breath if you have a question for this group, because chances are, they don't have a big support team to offer phone support. I personally like this group, but it's only for the most experienced traders who won't need much, if any, support.

Discount Option Brokers

This is the sweet spot for most traders. Most brokers of this type offer web-based platforms, with some downloadable platforms, great execution, middle-range commissions, and offer phone support if needed.

Keep in mind that your broker may not be familiar or comfortable with the idea of flipping stocks and trading options. In fact, they may not even understand it. I get it. Many brokers don't.

You see, most financial advisors have never spent the time learning how options actually work. It makes up only a tiny portion of the licensing exams advisors have to pass.

So it's no wonder they don't feel comfortable advising you on how to trade options – and might even try to scare you away.

But they are dead wrong.

After decades of trading and teaching options, I can tell you from first-hand experience that when used correctly:

Options can *decrease* risk and *boost* profits.

If your broker advises against trading options, please show them what you've learned so far and how you can use options to boost your gains 10-fold.

And if your broker is still reluctant, consider changing to a different one.

On the next page there's a list of some of the best, current online brokers, as rated by *Barron's*. Any one of them would be glad to help you.

The choice, of course, is yours. Remember, unless you're with a full-service firm that charges you $50 in commissions on each trade (which for daily options trades can end up being very expensive), then you should factor in your needs and experience as a trader, as well as commissions, slippage, and execution as the total expenditure in trading.

Once you've chosen your broker, you'll need to get your account ready to trade. And in Part 6, I'll show you how to do just that…

Barron's Best Online Brokers		
Broker	**Web Address**	**Phone Number**
Robinhood	robinhood.com	(650) 940-2700

Fidelity	fidelity.com	(800) 343-3548
Interactive Brokers	interactivebrokers.com	(877) 442-2757
TD Ameritrade	tdameritrade.com	(800) 454-9272
OptionsHouse	optionshouse.com	(877) 598-3190
Charles Schwab	schwab.com	(866) 855-9102
Merrill Edge	merrilledge.com	(888) 637-3343
TradeStation	tradestation.com	(800) 328-1982
E*Trade	etrade.com	(800) 387-2331
Tradier	tradier.com	(980) 272-3880
Lightspeed Trading	lightspeed.com	(888) 577-3123
SogoTrade	sogotrade.com	(888) 709-7646
eOption	eoption.com	(888) 793-5333
Firstrade	firstrade.com	(800) 869-8800
Just2Trade	just2trade.com	(855) 274-4934
Tastyworks	Tastyworks.com	(888) 247-1963
Trading Block	tradingblock.com	(800) 494-0451
Planner Securities	plannersecurities.com	(646) 381-7000

Please note: We don't receive any compensation from any of these brokers in any form.

PART 6: Getting Clearance

Now that you know how to choose your broker and what the process of opening your options account entails, that means you're almost ready to trade. So naturally, the next step is trading, right?

Not quite… trading options is simple, and the benefits speak for themselves: lower cost, lower risk, greater potential gains…

But before you can actually place your first trade, you've got to get your "options clearance."

Now this won't get you access to any classified information… it will, however, get you approved to start trading options. Options clearance is basically when your broker asks you a series of questions to determine the types of options you'll be able to trade in your account.

And I've broken down the process of opening your options account into five very easy steps. Keep in mind that while you'll see all of these questions, the specific order and phrasing will vary from broker to broker. In this guide, I've given you examples of the questions you may be asked based on Charles Schwab's application process.

Let's jump in…

STEP 1

The first thing you need to do is get whatever clearance lets you buy "calls" and "puts." Typically, that's Level 2, but clearance levels can vary from broker to broker (some include four levels while others include five levels).

The other thing your broker will ask you is whether or not you want "Margin Trading" or "Margin" added to your account. A margin account offers the opportunity to be given a "loan" in your account. Just remember that it's the opportunity, not a requirement.

This allows you to enter certain trades that could potentially end up costing you more money than you initially put in them. You don't have to worry about this when it comes to either of my services, though. Since you only need, at minimum, Level 1 clearance, some brokers won't require you to open a margin account.

And keep in mind that you can always apply (or re-apply) for a higher options clearance level. All you need to do is call your broker.

STEP 2

After you've chosen the clearance level you want, your broker will then collect your personal information (such as your income, employment, and trading experience). Like the clearance levels, these questions could vary depending on your broker, but the purpose is the same: verify your identity and determine your suitability for options trading.

STEP 3

When you get to questions about your annual income and net worth, remember that this is only used to determine the types of options you can trade and to verify your identity. It's similar to the information you'd provide when filing your annual tax return, too:

Many brokers ask for both "Total Net Worth" and "Liquid Net Worth." As the definition in the margin explains, "Liquid Net

Worth" includes all investments that can easily be turned into cash, including funds, stocks, and so on.

However, "Liquid Net Worth" does not include any real estate investments. So don't include the value of your house here.

Your "Total Net Worth" will include all of your "Liquid Net Worth," as well as any illiquid assets you may own (such as real estate).

And don't worry if this seems too complicated to figure out on your own… Charles Schwab, for example, has the Personal Net Worth Worksheet you can use. There are also plenty of calculators and other helpful tools online you can use, such as the "What Is My Net Worth?" Calculator.

STEP 4

The second-to-last step in getting your options trading clearance is providing some information about your trading experience and knowledge.

Now this isn't a trick question… you'll want to check the box under
"Knowledge Level" based on how much you know about options trading.

- If you've never heard of options (until now, of course), you'll want to check the box next to "None" under "Knowledge Level."
- If you've heard of options before, then you'll want to check the box next to "Limited" under "Knowledge Level."
- If you're pretty familiar with options, you'll want to check the box next to "Good" under "Knowledge Level."

- And if you know options like the back of your hand, then go ahead and check the box next to "Extensive" under "Knowledge Level."

The same thing applies to "Options Trading" below…

- If you've never traded options before, you'll want to check the box next to "None."
- If you've placed an options trade before but are still pretty new to them, you'll want to check the box next to "Limited."
- If you trade them pretty regularly, you'll want to check the box next to "Good."
- And if you're trading options like a pro, then go ahead and check that box next to "Extensive."

STEP 5

At this point, all you need to do is sign and mail, fax, or upload (depending on your broker) your application. That's it!

And remember, if at any point during the application process you have any questions, don't hesitate to call your broker and ask. It's your broker's job to help you, and they'll able to clear anything up in no time.

NEXT STEPS

The next thing to do while you wait to receive your options clearance is to take some time to get familiar with how to place an options trade using your broker's "virtual trading" or "paper trading" system. These allow you to enter, follow along, and exit a trade as per usual but without using any money.

Of course, that also means you can't make any money. But it's a great way to get acquainted with options in general, and your broker's platform in particular.

I recommend all my readers use paper trading until they get comfortable – in fact, I wish I'd used it back when I first got started with options.

And remember, if at any point you're not sure what to do, never hesitate to contact your broker. As a customer, you're entitled to time on the phone to make sure you're placing your trades correctly.

Having covered the basics of options, let's look at the dos and don'ts of trading options in Part 7…

PART 7: Options-Trading Dos and Don'ts

DO #1: Have a Trading Vision

Knowing why you want to trade is one of the most important steps toward achievement. That "why" is what will light you up, giving you the motivation you need to succeed.

In fact, this is the most critical step in creating *anything* in life. You should be able to feel that vision driving you in each present moment. That's when the magic really starts and when your vision is most likely to come true.

So, do this for your trading. Build a vision of what you want in your abundant life, and don't hold back. Trading will be your cash machine. Then, take action!

The first thing to do is build a series of steps to begin trading. Give yourself a trading plan with the steps you'll need to take and the time frame to reach your goals.

DO #2: Only Trade Liquid Options

Liquidity is the gauge of how much trading activity there is on an option, which helps assess how quick you can open or close a position in that option. There are three numbers that can tell you how liquid an option is:

1. Some traders prefer the "open interest" value of the option to be above some number before they think of the option as liquid enough to be safely tradable. "Open interest" is simply the total number of option contracts that are not closed; that is, the total number of options contracts that have yet to be closed and haven't expired yet.

2. Other traders will talk of some number of contracts or a certain "volume" being required before an option is deemed liquid enough. "Volume" is just the number of contracts traded for that day.

3. While both of the factors above do speak to the liquidity of an option, the truest measure of high liquidity is how close the bid and ask prices of the option are – or, as it's often called, how tight the bid/ask spread for the option is.

As you'll recall, an option's bid price is the highest current offer to buy the option. An option's ask price is the lowest current offer to sell the option. These are usually quoted next to the actual premium of an option (which is at the level where one trader's ask price matched another trader's bid price).

The tighter the bid/ask spread, the higher the liquidity. The difference between the bid and ask prices is sometimes called "slippage." My rule of thumb is to never trade options that have a slippage greater than 2% of the price of the underlying stock.

Another way to think of slippage is as the difference between a theoretical entry and exit price. The bid/ask on options is usually quoted like this: 2.00 x 2.20.

This means the option could (typically) be bought at $2.20 (the ask price) and could be sold right away for $2.00 (the bid price). The $0.20 difference is the slippage.

Suppose that the option's underlying stock is trading at $25 and the option's slippage is $0.20. Then the slippage ($0.20) is less than 2% of the underlying stock price ($25 x 0.02 = $0.50), and it meets my rule of thumb of keeping slippage under 2% of the underlying stock price.

This gives me confidence in being able to liquidate my option without having to wait for a bigger move in the price of the underlying stock and means that the option should be able to cover the slippage quicker.

In other words, I make sure that the slippage is no more than 2% of the underlying stock price, because that way there's a higher chance
for the option to become profitable, and I'll have an easier time of getting rid of the option in a timely fashion once it is profitable.

DO #3: Keep Your Risk Equal Among All Trades

One money management rule of thumb in trading is to keep your risk the same on each one of your trades.

Options traders run the risk of seeing two or three trades in a row end up profitable, and growing over-confident.

Here's what I mean: Let's say you develop a new strategy and spend $500 per trade on each of your first three trades, and you double your money, ending up with an extra $1,500.

When the time comes to set up the next trade, you may be so confident from your first three trades that you decide to trade, say, four times as many contracts as before, risking $2,000 on the fourth trade. As fate would have it, that is the one trade that turns out to be a loser – and not only wipes out the money you put on that trade, but the gains from your previous three trades as well.

If you set a profit limit of, say, 100% to the upside, then money management rules dictate that your trading method or strategy needs to deliver winning trades more than 50% of the time.

In other words, if you spend (or, which in this case is the same, risk) $500 on every trade and your goal is to make another $500, then every successful trade (every trade that gets you your $500 back and an additional $500 profit) only makes up for one losing trade (a trade where you lost all $500): You need at least one more winning trade than losing trade to maintain the overall profitability of your trading strategy.

If you feel that a greater-than-50% winning percentage is going to be tough for your strategy, consider leaving your upside open, instead of limiting it to 100%. Or, when you get to a 100% gain on your option trade, consider closing half your position if you can, and moving your stop or closing order to break even.

That way, you've recouped your initial investment cost (selling half of a position that has doubled in value is in effect the same as selling the whole position at its original value) and the remaining half of your position is still open for you to take advantage of any additional price gains.

What you do to manage your upside is the one thing I feel an option trade can be flexible about, but I would strongly suggest you set in stone a rule of thumb as to your risk level per trade.

DO #4: Assess and Feel Good About the Price Move Needed

Now, when thinking about the upside or profit goal of your trade (100% return on investment? 50% per trade?), the best thing you can do as an options trader is use a set of option analysis tools that can help you calculate the price move in the underlying stock required to make the option premium rise to the level you're looking for.

Of course, there are also a number of "Don'ts" you should stick to in order to increase your success with trading options.

DO #5: Take a Loss

This may surprise you, but I believe one of the best things that can happen to a brand-new trader is to take a loss.

Don't get me wrong. It's great to win, like we have, and be profitable on your first trade, first five trades, or even your first 10 trades. But an immediate winning streak like that may be setting you up for disappointment later. Why?

Too much success can give new traders an overinflated amount of confidence. You start to think that trading is easy and there isn't much to it. That whatever you used to choose the winning trades is ALL you will ever have to use; that you found the magic bullet to trading success. You start taking more and more risks… and then disaster.

Look, I can speak to personal history that all I have mentioned is possible… because it happened to me when I started out.

I look back and think if I had suffered a loss or two or more to start, I would have had to learn earlier what it takes to manage a trade when it goes against you.

DO #6: Practice, Practice, Practice

In any business, you need a high level of expertise in order to succeed. This is particularly true in trading – but getting that expertise is easy. All you need is education and practice!

I have been teaching people to trade for decades now, and have seen thousands of people gain trading expertise.

Mathias Jefferson is one of them. In fact, he made $3,500 off of a single trade! He said, *"Tom, I have made a ton of money from your services. They are truly changing my life for the better. Thank you!"*

Mathias isn't the only one, either. Terry Talbot made $1,750 in one day – all while the market fell 600 points! She said, *"I have made much more money than I have lost. I am now positive for the year – something I haven't been for the past 20!"*

My life goal is to help you trade your way to a life-changing amount of money. Mathias and Terry are just two among many people that I have helped – and you could be next.

Whichever way you decide to educate yourself, just do it! As long as you have the correct trading knowledge, you'll be on your way to success in no time.

DON'T #1: Place Market Orders

When placing your open order on an option, it's best to go with a limit order rather than placing a market order. A market order is an order to buy or sell at whatever price the market offers, whereas a limit order is an order to buy at any price up to a price pre-determined by you (the "limit price"), or sell at any price down to your limit. There may be times when you need to get out of a trade swiftly and you'll use --

As you can imagine, a market order is very risky, and it's an easy way to be taken advantage of. You are allowing the markets to stick you with a price that may be higher than you want to pay. The only way to not pay more than you want for an option is to place a limit order.

While the fact that I am looking for options with a low slippage percentage keeps me (and anyone else adopting the same rule of thumb) from getting in too much trouble with a market order, it's still best to stay in the habit of using a limit order when opening options.

There are two main kinds of limit orders you can use. First is the day limit order, which, when possible, fills at your specified limit price, and if it can't will expire at the end of the trading day.

Second, there's the GTC (Good-Till-Cancelled) limit order, which, when possible, fills at your specified limit price, and if not will expire in 30−90 days (or when you cancel it yourself).

And remember to be patient. I've seen students cancel their order within an hour after making it if it doesn't fill, only to find out that if they'd just let it play out, they would have gotten the fill they wanted.

Be patient and if your day limit order doesn't get filled one day, consider placing another one for the next day if the trade still looks viable, or simply look for another opportunity on another stock, or the next week.

When determining your limit orders, your main concern should be not getting stuck having paid too much for any trade. If you want to go about $0.05 or $0.10 over the current price to have some wiggle room and have a higher chance to fill your trade, I won't stand in your way. But don't be so afraid of missing out on a trade that you overpay – that just decreases your potential gain, and increases your chance of a loss.

Which brings me to my next "Don't..."

DON'T #2: Chase the Trade

Do not chase the price.

Sometimes in the first hour of trading, the markets will show option pricing adjusting up and down without any rhyme or reason until all the orders settle and the market makers get a grasp on where the pricing should be.

This can cause option traders to go crazy watching the prices of their options bounce all over, their orders not filling, only to see option prices start going higher than their limit price. That's when the fear of not getting in the trade at all sets in.

If the markets are fast, and there is more demand than usual and the option pricing starts spiking higher, be diligent with your limit order. Do not chase the price higher. If you do, you could end up buying at the high or near the high of the day only to see the markets calm down and the option prices start coming down.

There's nothing more painful (in option trading, at least) than seeing the price of an option come down just after you bought that option at the high of the day.

Here's an example.

Suppose you set a limit buy order for a weekly option at $1.00 and your goal is to get a double. When the price moves up to $1.50 or even $2.00 without your order filling, it's best to leave your $1.00 limit order intact and see if prices settle back, or to call it a day and try again tomorrow or try to find another opportunity.

If you find yourself trying to get a fill at 50%−100% higher than your initial limit order, that may be a sign that the option is moving too fast and you should wait. In fact, sometimes it may be better to not get your order filled than end up getting the option at a price you didn't want.

DON'T #3: Overtrade

My third "Don't" comes back to the rules of money management. As you saw previously, one of my "Dos" for successful trading of options is to equalize the risk of every one of your trades.

As I mentioned then, that means you need to know your risk per trade, as a percentage of your overall portfolio.

You should also know what the maximum amount of money you can trade with is.

Remember, never trade with money you can't afford to lose.

Discuss this with your financial advisor, broker, CFP, or all the above, and when you have that established, do not exceed that limit no matter how well your trades are going until you revisit your situation with your financial professionals.

DON'T #4: Wait Until the Last Minute of the Day to Exit Your Trade

This one is simple: Never wait until the last possible moment to exit your trade, because chances are that the price you get will be worse, because of low liquidity and the time decay of your options. In addition, the longer you wait, the higher the risk that your exit order
won't be able to be filled at all, leaving you with either worthless options or having you exercise them as the only way to make a profit.

One way to avoid this, and also increase your chances of hitting your profit target, is to use day limit orders (see Don't #1). Suppose your profit target is a double. If so, then once your order is filled
and you've entered your position, create a new limit order to exit your position once the value of your option has reached your profit target – in this example, double what you paid to enter.

DON'T #5: Trade without Rhyme or Reason

Too many people jump into the stock market as a way to "get rich quick." Now, I'm all for getting rich quickly, but you just can't do it without some sort of plan. And the best one to use (and my personal favorite) is rules-based trading.

This is basically planning your trade and sticking to your plan, no matter what the headlines are saying or the markets are doing. You're not trading on emotion (which is the fastest way to lose all of your money). You're not just guessing and hoping for your trades to work out – you've got a clear set of rules. That method isn't something you can quantify or back test. It's really not a method at all.

Think about it… you'd never buy a house or a car without knowing exactly what you want, how much you're willing to pay, and when
you want to pay it off.

So why would you ever put your hard-earned money into the markets without knowing exactly what you want, how much you're willing to pay, and when you want your profits?

DON'T #6: "Bet the Farm"

You can think of these "all-or-none" investors like the guys who spend all day and night in casinos. They start out with the smaller bets at first but then believe they've found the secret and put all their chips on the table for that one big win. But 10 seconds later, they're sulking away from the table with their tails between their legs because they just lost everything they had.

Investors do this too.

They suffer a few small losses and then feel as though the markets "owe them" for those losses. So they put all of their money on that one trade they think will give it all back to them.

This is trading on emotion and without a plan (which we talked about earlier). And unless it's your lucky day, you're looking at losing all of your money – on one single trade.

So don't bet the farm on one trade. Instead, consider risking no more than between 2% and 5% of your account per trade.

By following these three rules, you won't have to worry about losing money. Instead, you can focus on making it.

And during times of high market volatility, here are the three things you want to do:

1. Don't Panic

The worst thing you can do to your portfolio is to make any kind of trading or investing decision in a knee-jerk reaction to whatever's triggered uncertainty in the markets. So never deviate from your long-term strategy.

Short-term drawdowns are just that – short term.

2. Tighten Your Trades

Less right equals less loss – and over a volatile period in the markets, you may want this kind of protection.

For example, let's say you have $1,000,000. Do you keep 40% cash and put the remaining 60% to work in other investments and trading? And that's just one of the many questions you should ask yourself.

And once you have those numbers, you should have a risk profile for each and a target expectation of what you want to accomplish profits-wise.

By adhering to this plan, you'll know if you're reaching your goals.

Now, I typically don't have more than 20% risk across everything – but this is what works for me. Risk assessment is different for everyone. This would be a great thing to discuss with your broker or financial advisor.

3. Create Portfolio Protection

In a falling market – always consider using put spreads of market averages such as the **SPDR S&P 500 ETF** (SPY). Spreads offer us protection and less risk when the markets turn sideways.

Talk to your broker about spread trades and see if they fit your portfolio and trading style.

One final thought…

BE PERSISTENT

Persistence is crucial to your trading – and your financial – success.

The most important thing you can do as a trader is to be persistent and make your money work for you. Step outside of the traditional forms of investing, and be confident in knowing that everyone takes a loss from time to time, including me. It's okay… it's about the overall number of winning trades versus losing trades. So don't let one bad trade get you down.

My goal in this book has been to show you how and why I trade options, what strategies I use, and the time frames I look for, so that you can do the same. I hope reading it will help boost your options-trading confidence and profits.

To your continued trading success!

Tom Gentile

Continue for the glossary.

GLOSSARY

American-style Option
An option contract that can be exercised at any time between the date of purchase and the expiration date. Most exchange-traded options are American-style. (See also: European-style Option.)

Ask
The lowest current offer to sell a security.

Assign
To make an option seller perform his obligation to assume a short futures position (as a seller of a call option) or a long futures position (as a seller of a put option).

Assignment
The receipt of an exercise notice by an options writer that requires him to sell (in the case of a call) or purchase (in the case of a put) the underlying security at the specified strike price.

At-the-Money (ATM) Option
An option with a strike price that is equal, or almost equal, to the current market price of the underlying security. ATM options have a Delta of +0.50 or -0.50.

At Market
This tells you that you need to exit your Green Loophole Trade immediately. That means that you need to get out of the trade no matter what price it's trading at.

Auction Market
A market in which buyers enter competitive bids and sellers enter competitive offers simultaneously. Most stock and bond markets function as an auction market. This means that there is a bid and an

ask price for each security. You as an investor can choose to buy or sell at the given bid or ask, or you can establish your own bid or ask price. Think of the stock market as a giant garage sale. If you don't like the price that you see, you can make your own bid for the
item. The NYSE is an auction market.

Automatic Exercise

An exercise by the clearing firm in which the firm automatically exercises an In-the-Money option at expiration.

Back Testing

Testing or optimizing a strategy on historical data and then applying it to new data to see if the results are consistent.

Bear

An investor who acts on the belief that a security or the market is falling or is expected to fall. (See also: Bull.)

Bear Market

A declining stock market over a prolonged period, usually lasting at least six months and normally not more than 18 months. Usually caused by a strong conviction that a weak economy will produce depressed corporate profits. Also a market in which prices of a certain group of securities are falling or are expected to fall.

Bear Put Spread

A strategy in which a trader sells a lower-strike put and buys a higher- strike put to create a trade with limited profit and limited risk.

Bid

The highest current offer to buy a security.

Bid/Ask Spread
The difference between bid and offer prices. The term asked is usually used in over-the-counter trading. The term offered is used in exchange trading. The bid and asked, or offered, prices together comprise a quotation, or quote.

Breakeven
The point at which gains equal losses. The market price that a stock must reach for an option buyer to avoid a loss if he exercises. For a call, it is the strike price plus the premium paid. For a put, it is the strike price minus the premium paid.

Bull
An investor who acts on the belief that a security or the market is rising or is expected to rise. (See also: Bear.)

Bull Call Spread
A strategy in which a trader sells a higher-strike call and buys a lower-strike call to create a trade with limited profit and limited risk.

Bull Market
A rising stock market over a prolonged period, usually lasting at least six months and normally not more than 18 months. Usually caused by a sound conviction that a strong economy will produce increased corporate profits. Also a market in which prices of a certain group of securities are rising or expected to rise.

Butterfly Spread
A series of vertical spreads layered on top of each other (creating the "butterfly") but with a directional twist. This trade setup is designed to cost nearly half the price of a loophole trade while creating the potential for high triple-digit returns. So it sets you up

for the same explosive profits while taking it easy on your wallet.

Bull Spread

Any spread in which a rise in the price of the underlying will increase the value of the spread.

Buy on Close

To buy at the end of a trading session at a price within the closing range.

Buy on Opening

To buy at the beginning of a trading session at a price within the opening range.

Buy Stop Order

An order to buy a security that is entered at a price above the current offering price and that is triggered when the market price touches or goes through the buy stop price.

Call Option

An option contract giving the owner the right, but not the obligation, to buy 100 units of an underlying security at a specified price (see also: Strike Price) within a specified time (see also: Expiration Date).

Capital Gain

The profit realized when a capital asset is sold for a higher price than the purchase price. Your costs (when you buy) include the commission you paid your broker and are deducted from the proceeds when you sell.

Capital Loss

The loss incurred when a capital asset is sold for a lower price than the purchase price.

Chicago Board of Trade (CBOT)
The oldest commodity exchange in the United States established in 1886. The exchange lists agricultural commodity futures such as corn, oats, and soybeans, in addition to more recent innovations as GNMA mortgages and the NASDAQ 100 Index.

Chicago Board Options Exchange (CBOE)
The largest options exchange in the United States.

Close
The price of the last transaction for a particular security on a particular day. The mid-price of a closing trading range.

Contract
A unit of trading for a financial asset or commodity future. One options contract, for example, gives you the right to buy or sell 100 shares of a stock or exchange traded fund (ETF) without actually owning the stock or ETF. A contract can also be a bilateral agreement between the buyer and seller of a futures trading or options futures trading transaction.

Credit Loophole Trade
Also known as a Bull Put Spread (see Bull Spread). The Credit Loophole Trade (or Bull Put Spread) is an income-generating strategy you can use on stocks that are going up or sideways. It involves buying-to-open a put.

Day Order
An order to buy or sell a security that will expire if not filled at the end of the day, or unless the investor specifies otherwise.

Day Trading

Refers to establishing and liquidating the same position or positions within one day's trading, thus ending the day with no established
position in the market.

Debit Spread

The difference in value of two options, where the value of the long (bought) position exceeds the value of the short (sold) position.

Delta

The amount by which the price of an option changes for a one-dollar move in the underlying instrument.

Drawdown

The reduction in account equity as a result of a trade or series of trades.

European-style Option

An option contract that can only be exercised on its expiration date.
Few exchange-traded options are European-style options. (See also:
American-style Option).

Execution

The process of completing an order to buy or sell securities. Once a trade is executed, it is reported by a Confirmation Report; settlement payment and transfer of ownership occurs in the U.S. five days after an order is executed. Settlement times for exchange-listed stocks are in the process of being reduced to three days in the U.S.

Exercise

To implement the right of the holder of an option to buy (in the case of a call) or sell (in the case of a put) the underlying security. When you exercise an option, you carry out the terms of an option contract.

Expiration Date

The last day (in the case of American style) or the only day (in the case of European style) on which an option may be exercised. For stock options, this date is the Saturday immediately following the third Friday of the expiration month; however, brokerage firms may set an earlier deadline for notification of an option holder's intention to exercise. If Friday is a holiday, the last trading day will be the preceding Thursday.

Extrinsic Value

The price of an option less its intrinsic value. An Out-of-the-Money options worth consists of nothing but extrinsic or time value.

Fast Market

When a stock has so much volume that the order entry systems have difficulty processing all of the orders. This causes problems for brokers who want to give their clients current prices so that they can buy or sell securities, or;

A declaration that market conditions in the futures pit are so disorderly temporarily to the extent that floor brokers are not held responsible for the execution of orders. This usually happens when a company announces important information.

Implied Volatility

The volatility computed using the actual market prices of an option contract and one of a number of pricing models. For example, if the market price of an option rises without a change in the price of the underlying stock or future, implied volatility will have risen.

Index

An index is a group of stocks that make up a portfolio in which performance can be monitored based upon one calculation.

Index Options

Call options and put options on indexes of stocks designed to reflect and fluctuate with market conditions. Broad-based indexes cover a wide range of industries and companies and narrow-based indexes cover stocks in one industry or economic sector. Index options allow investors to trade in a specific industry group or market without having to buy all the stocks individually.

In-the-Money (ITM) Option

A call option is In-the-Money if its strike price is less than the current market price of the underlying security. A put option is In-the-Money if its strike price is greater than the current market price of the underlying security. Intrinsic Value

The amount by which a market is In-the-Money. Out-of-the-Money options have no intrinsic value. For calls, this is: current price of the underlying asset – strike price. For puts, this is: strike price – current price of underlying asset.

Liquidity

The ease with which an asset can be converted to cash in the marketplace. A large number of buyers and sellers and a high volume of trading activity provide liquidity. Liquidity is a concern for any moneys that may be required on short notice, whether for emergencies or for planned purchases.

Long Position (Options)
An options position where a person has executed one or more options trades where the net result is that they are an "owner" or holder of options (i.e., the number of contracts bought exceeds the number of contracts sold).

Market Sentiment
Crowd psychology, typically a measurement of bullish or bearish attitudes among investors and traders.

Moving Averages
The moving average is probably the best-known, and most versatile, indicator in the analyst's tool chest. It can be used with the price of your choice (highs, closes, or whatever) and can also be applied to other indicators, to help smooth out volatility. A mathematical procedure to smooth or eliminate the fluctuations in data

and to assist in determining when to buy and sell. Moving averages emphasize the direction of a trend, confirm trend reversals and smooth out price and volume fluctuations or "noise" that can confuse interpretation of the market; the sum of a value plus a selected number of previous values divided by the total number of values. As the name implies, the Moving Average is the average of a given amount of data. For example, a 14-day average of closing prices is calculated by adding the last 14 closes and dividing that number by 14. The result is noted on a chart. The next day the same calculations are performed with the new result being connected (using a solid or dotted line) to yesterdays, and so forth.

Open Order

An order to buy or sell a security at a specified price, valid until executed or canceled.

Option

A security that represents the right, but not the obligation, to buy or sell a specified amount of an underlying security (stock, bond, futures contract, etc.) at a specified price within a specified time. The purchaser acquires a right to exercise the specifics of the contract, and the seller assumes a legal obligation to fulfill the contract if the purchaser chooses to exercise his/her right. Options are a zero-sum game, meaning that if someone makes $10,000 on an option, the other person has lost out on that same amount.

Option Premium

This is the price of an option. It is the amount of money that the option holder pays for the rights and the option writer/seller receives for the obligations granted by the option.

Out-of-the-Money (OTM) Option

A call option is Out-of-the-Money if its strike price is above the current market price of the underlying security. A put option is Out-of-the-Money if its strike price is below the current market price of the underlying security.

Position

The total of a trader's open contracts. The amount of a security either owned (a long position) or owed (a short position) by an individual or by a dealer. Dealers take long positions in specific securities to maintain inventories and thereby facilitate trading.

Profit

That which is left over for an investor once all fees, costs, and commissions have been deducted from the investor's gains.

Put Option

An option contract giving the owner the right, but not the obligation, to sell 100 units of an underlying security at a specified price (See also: Strike Price) within a specified time (See also: Expiration Date).

Return on Investment (ROI)

For traders, ROI is calculated by dividing the profits for a given time period or trade by the investments made in that time period or trade.

Reward-Risk Ratio

The mathematical relationship between the maximum potential risk and maximum potential reward of a trade.

Risk

The potential financial loss inherent in an investment.

Risk Graph

A graphical representation of risk and reward on a trade as prices change.

Securities and Exchange Commission (SEC)

Commission created by Congress to regulate the securities markets and protect investors. It is composed of five commissioners appointed by the president of the United States and approved by the Senate. The SEC enforces, among other acts, the Securities Act of 1933, the Securities Exchange Act of 1934, the Trust Indenture Act of

1939, the Investment Company Act of 1940, and the Investment Advisers Act of 1940.

Slippage

The difference between estimated transaction costs and actual transaction costs. Another word for bid/ask spread.

Spread

In a quotation, the difference between the bid and the ask prices of a security. An options position established by purchasing one option and selling another option of the same class but of a different series. A trade in which two related contracts, stocks, bonds, or options are traded to exploit the relative differences in price change.

Strike Price

The predetermined price, agreed upon by both the buyer and the seller of an option, at which the option buyer can buy the underlying security (if the option is a call), or sell the underlying security (if the option is a put).

Stops

Buy stops are orders that are placed at a predetermined price over the current price of the market. The order becomes a "buy at the market" order if the market is at or above the price of the stop order. Sell stops are orders that are placed with a predetermined price below the current price. Sell-stop orders become "Sell at the market" orders if the market trades at or below the price of the stop.

Time Value (Extrinsic Value)

The amount that the current market price of a right, warrant, or option exceeds its intrinsic value. Intrinsic value is the amount by which the market price of a security exceeds the price at which the warrant, right, or option may be exercised. The intrinsic value of a put is calculated as the amount by which the market price of the underlying security (premium) is below the strike price.

Trade

A transaction involving one party buying a security from another party. Once a trade is consummated, it is considered "done" or final. Settlement occurs 1-5 business days later. Also used to mean the purchase or sale of a single stock and one or more derivatives at the same time, as part of a single strategy, and entered on the same day. A completed trade includes both an entry and an exit.

Trader

Employee of an investment dealer who executes buy and sell orders for the dealer and its clients either on a stock exchange or the over-the-counter market. The term is also used to describe a client who buys and sells frequently with the objective of short-term profit.

Underlying Security/Asset/Stock

Options: The security subject to being purchased or sold upon exercise of an option contract. For example, IBM stock is the underlying security to IBM options.

Vertical Spread

A spread in which one option is bought and one option is sold, where the options are of the same type, have the same underlying, and have the same expiration date, but have different strike prices. (See also: Bear Put Spread; Bull Call Spread).

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