

# 2015

## Introduction to Options Trading



Is stock options day trading for you?

Many are pleasantly surprised to see how exciting and lucrative it can be!

Knowledge is power, but only if applied.  
We give you the tools to make it happen.

Head Trader/Trainer Hugh

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## The Perfect Business

Stock trading is not for everyone. Rest assured, I am not trying to steer anyone in this direction against their will. I do, however, wish for you to consider trading as a viable alternative to current employment and career trends. If it is for you, great. If not, that is fine too. We never coerce anyone into our program.

It is no secret; society is changing at an alarming rate. What was a secure job is no longer the case. Common thought now is that people will have several careers in their lives. Job security is a thing of the past as is company loyalty. Not very promising nor am I telling you anything new. Those entering university now will likely be working jobs that haven't even been invented yet. In fact, schools are behind job trends and will likely never catch up to the market, never mind anticipate the future.

You need to ask yourself if having a job is really what you want. Even if positions are somewhat secure today, there are no guarantees for the future. Imagine being thrown to the wolves later in life, having to start over. Will your résumé support you in today's market? Will it in years to come? The world is now your market, not just your immediate locale. Consider that to mean that the world is also your competition. Even the word 'job' is an acronym for '**J**ust **O**ver **B**roke'.

I gave all this a lot of thought when I was forced to start over again late in life. I could have pounded the pavement with papers in hand... oh, I had it all... degrees, cv's, connections, referrals, experience, etc. But even if I did find a 'job', how would I feel working for someone possibly half my age? Not very comforting to say the least. Of course too, who would hire someone in their '50's anyway? I sure would not.

Most of us come from a background that facilitates taking orders and respecting a hierarchal chain of command. We listen to our superiors, people in authority. We went to school, listened to our parents and educators. After college/university, we sought jobs – well paying, mind you but still beholden to an authority. We still listened and obeyed, even if it was in a corporate world: when to punch in, punch out, production goals, annual reviews, office politics... it was all there. We worked, got paid and many of us gave our hard earned money to a financial advisor in hopes that we'll have more at retirement.

Trouble was, a few short years ago brought havoc to the financial markets and many of us lost much of our nest eggs. Suddenly, the bottom fell out and many of our dreams simply vanished. Retirement was not to be what we envisioned.

Was I to be part of this herd? Not this cowboy.

After my financial guru lost much of my retirement, I demanded he cut me a check and I took what little was left, determined to learn how to handle my own investments. That was the best thing I ever did, career-wise. I learned what I needed and never looked back. I took to the many courses and self learned strategies that worked well for me.

In fact, what I learned was downright gruesome. I actually thought my advisors were on my side! How naïve. Their pay was a commission from products they had promoted, regardless of what was to benefit me. I was used, and felt as such.

I eventually did learn this material and became quite successful. Determined, I wanted to share my knowledge with others. I accepted this as a mission of sorts: to share my newly gained knowledge so others can take control of their own financial futures.

So why tell you all this? Simply to paint the background. My degree is not in Finance but in Business Administration, having worked as an internal auditor for a Fortune 500 company. I vividly recall disliking the lessons on stocks, bonds and investments. Nothing could be so dry; I wanted to make my money in the operation of business, not financing it.

Now that I was in charge of my own investing, suddenly it became very interesting. With the internet, we retail traders have every bit of information at our fingertips as do the institutional traders. We also have other advantages. We can change our tack on a dime. We can slip in 'under the radar' with our trades and ride the waves, unlike the big boys who are faced with different challenges in placing orders for millions of dollars at a time. In fact, we can make insane amounts of money without capturing the slightest attention or affecting market prices.

I have now divested my other interests and do only two things: trade and teach others how to trade. My primary income is derived from trading; but training is my inspiration in watching others do well.

Is this the perfect business? You decide.

**Trade when you want:** nobody knows or cares if you show up or not.

**Trade as much or as little as you want:** I love to 'work' only an hour or less a day.

**Trade wherever you want:** ...ski chalet, coffee shop, on the beach, at sea or even at home.

**Start with little capital:** fund your account with next to nothing.

**Earn unlimited income:** the sky is the limit to your earning potential.

**No inventory:** nothing to ever buy, process, store or sell, especially to friends and family.

**Never any 'selling' to family and friends:** save the embarrassment to your loved ones.

**No bosses, franchisors, bankers, suppliers to deal with:** how cool is that?

**No staff, government agencies or customers:** freedom, yes!

**No commuting to work:** unless you count the 10 steps to your home office.

**No real estate to encumber:** keep your hard earned assets.

**Get paid immediately:** never any unpaid receivables or having to wait for your money.

**Earn according to your intelligence:** learn to control your emotions; the rest is easy.

**Respectable career:** enjoy a coveted occupation.

**Favorable tax situations:** many jurisdictions tax earnings at the lesser capital gains rate.

**It's exciting and fun!**

Like anything else, what you put into this venture is what you get out. Treat trading as the business that it is and it will pay you as such. Treat it as a hobby and your rewards will be reflected as such.

In simple terms, we look to buy financial instruments for a certain price and sell them when they increase in value. I've traded equities, forex and dabbled in futures and looked at commodities but nothing compares to trading options.

### **Options:**

Stock options - a privilege that gives the buyer the right but not the obligation to buy a stock at an agreed upon price by a certain date. Options are derivatives based on an underlying stock.

Imagine that you have a house that sits on the edge of town for sale for \$200,000. I happen to know something that you don't: Monday night, your town council will pass approval for a developer to build a golf course in that field behind your house. Suddenly, your house will be worth \$300,000. So I offer to buy your house for the full price, set to close in 2 months' time. But I don't know if I really want your house so I offer you another \$10,000 'option' on your house. In other words, if I buy your house, I pay you the full asking price. If not, you keep your house and the \$10,000 for your troubles.

Sounds good to you... full asking price plus \$10,000 and a closing in 2 months? Offer accepted.

So I take that 'option' the next day and sell it to Fred for \$15,000, who now has the ability to buy what will soon become a \$300,000 house for \$200,000. It cost him \$15,000 but he's making  $(\$300,000 - \$200,000)$  \$100,000 on the deal so he ends up with \$85,000 net (commissions excluded for clarity). Fred's happy. You're still happy. But likely the happiest is me, just having made 50% on my \$10,000 option investment in one day  $(\$15,000 - \$10,000)$ . Fred can continue to trade that option down the line.

Eventually, that option will lose its time value as we get closer to the closing date of the house deal. So it effectively melts away. As a result, options are not ‘buy and hold’ instruments. You’ll need to find an underlying stock (in our example, it would be the house) that has some movement in it.

Not to get too technical at this stage, all you need to know is that options provide outstanding potential to make huge returns quickly. They are affordable as the leverage is about 10:1 to the underlying stock. They can be traded as easily and as liquid as stock, using the same on line platforms and brokers.

Before we continue, please disregard the dates on any examples in this and other e-books you may purchase. Prices and charts are every bit as relevant today as ever. Also know that any such examples set up many times, often in the same day. You are never far from the next trade.

**Chart Reading:** the price is listed on the right scale and the date/time along the bottom.

Below is a typical example using SPY. On June 26, 2015, the price of SPY dropped on open from about 210.30 to 209.65, then rose to 210.57. That's a swing of .3% to the down side, then back up .4%, all in just over the first half hour. In reality, these movements occur all the time. Stock traders would have to invest heavily to realize serious money from such small moves in this short period of time.



## *Puts*

However, options traders can make money going in either direction. In anticipation of a price drop, we trade 'put' options, those that secure our stock at a lower price. By that, I mean we have the option to sell the underlying stock first, then buy it back at a lower price.

The chart below shows the put option as rising from .26 to .67. That's an increase of over 157%, all in the first 11 minutes of trading. You read that correctly... one hundred fifty seven percent profit!



**Chart Reading:** green candlesticks or bars mean the prices are rising; red is falling.

## Calls

As prices rise, we trade 'call' options, those that allow us to take advantage of rising prices in the underlying stock, which is SPY.

In this example, SPY rose from 9:41 to 10:01. The call option traded from a low of .33 to a high of .75. That's a profit of 127%, all in 22 minutes!

The chart of the call options is below.



Now, it is unrealistic to expect profits of 157% and 127% in about a half hour of trading. But, having a good understanding of the likely direction and market strength, is it not unreasonable to take a mere 5-10% per trade out of each of those movements?

We believe it is not only possible but very probable that you can make serious money trading our *'Bread and Butter'* system.



Each option controls 100 shares of the underlying stock. If you own a call option, you have the right but not the obligation to convert your option into 100 underlying shares at the current price; hence the reason for options. You would buy a call if you believe the price of SPY will rise. Therefore, as the value of the stock rises, so does the value of the option.

But, there is a catch; options expire. Their value decreases with time. The closer to expiration, the faster they melt. So not only do you have to believe the price of your call option will rise, it must do so within a defined time period, lest it becomes worthless.

Options traders rarely, if ever, want to convert into the stock. We just want the money, so we trade the options themselves, and do so before they expire.

Options used to be the domain of the institutions at one time, an instrument to hedge their investments against losses. Options are now the fastest growing instrument and is now mainstream with retail traders. Many stocks have options with a variety of configurations.

Don't get too wrapped up in the technical aspects of the above. Just note the incredible opportunities that abound in the world of trading stock options.



## **Why SPY?**

We trade SPY as it is based on the S&P500, the top 500 stocks on the market. All sectors are covered, so you are essentially trading the basket of the best. SPY is extremely liquid with over 100 million shares trading daily. SPY options also trade until 4:15 pm ET daily. With highly predictable behavior, it is our opinion that SPY simply has the best tradable options.

## **Money in Any Market**

As options traders, we make money if the market rises or falls, it doesn't matter. There is no preference. In fact, money can also be made if the markets are flat.

Given this however, depending on how you wish to trade also depends on your own goals and temperament. Your own emotional control will ultimately dictate your level of success or failure in options trading.

## **What next?**

Know one thing. There are no guarantees to anything in the stock market except for one: you WILL lose your money if you do not know what you are doing with options.

Options are not the same as stock or any other financial instrument for that matter. When you own a stock, you can keep it, burn it, will it to your children, tear it up, whatever. It has a value that changes over time with the corporate equity.

Options, on the other hand, are commitments. If you own some options and fail to deal with them in some form in the future, you could lose your money. If you mistakenly purchase or sell the wrong options, you could be unwittingly held liable for the purchase of a stock to cover your trades. Knowing what you are doing is vital for survival in this business.

Most new traders leave the business within a year. They simply run out of money. As they fall to the wayside, another crop of traders come up behind them, all destined to make it big in the markets, eventually making the same mistakes as their predecessors. These are usually young, energetic and enthused grads with lofty goals. Most traders start out trading, lose their money, then realize they need training. In the end, lessons learned 'on the fly' can be very costly.

Instead, consider breaking that expensive trend and invest in yourself first, then the market. You will quickly recoup your training costs if you determine your goals, find a competent trainer who can work well with you and use a fitting strategy that meets your temperament and lifestyle.

I can assist with your goals to financial freedom. My name is Hugh. I am a trader but my passion is training. Whether you're a beginner or a seasoned trader, I can help you become consistently profitable day trading SPY options.

## **Who we are:**

**NoFearInvestor.com** started out as a hobby to assist friends and family in their trading. This web site has developed into a viable venue for other traders to become more proficient at this exciting venture.

Our focus is on creating a lifestyle conducive to successful trading. Be it enjoying an early retirement, travel, funding your kids' education or whatever drives you, our system eases your financial burden. In fact, it's downright fun!

We now provide the following methods of training:

**One on One** personal mentoring can quickly take the absolute beginner through to making money consistently. The idea behind this system is that one needs not know everything there is about the market; that would be impossible, regardless. You do not need to take endless courses or watch stacks of videos to research thousands of stocks to make money.

My strategy is simple: find one methodology and perfect it until you know it well. Get in the trade early in the morning, make your money and get out, leaving you the rest of the day free.

**Group Training** is something we do every several months. We record our live sessions for distribution later. This crash course is excellent training as you can fast forward or rewind as required. The only thing needed on your part is the discipline to study these 2 hour sessions, packed with top notch information. From absolute beginners to seasoned pros, we have you covered in these fast moving, interactive sessions.

**Inner Circle** is a subscription service that you can access to see what exactly I am looking to trade every morning. There is also a follow up report with what I actually did. As a subscriber, you will also be invited to our weekly Thursday Night webinars.

**Thursday Night Cocktail Hour Webinars**, this interactive session is where we assemble for an hour to discuss the various issues of the day. We provide timely information in an informal and entertaining format. These sessions are recorded and archived to view later.

**E-books**, for the written word, these provide concise, fluff-free information in an easy to read format to guide you quickly to making money consistently and confidently.

**Live Trading** is the best training tool anywhere. Three different traders, three different styles brought together Tuesday and Thursday mornings 9:20 to 11 am, E, where we discuss the market and the setups for our own trades. Our participants make money; you should too.

**Our secret weapon** is our proprietary software in the *Launch Pad* and the *Batter's Box*. While we teach you to earn 5-10% per day using our signature '*Bread and Butter*' strategy, our software provides for substantially greater daily profits.

The Launch Pad provides for a 'one trade a day' indication of trades of particular interest to us. The Batter's Box provides for up to three swing trades of interest.

**Full Training Course** is all your training together in a cost effective, systematic approach to learning only what you need to know to fast track you to success. It combines the recorded webinars, e-books and 'one on one' training, along with full email support. This is a ***must*** if you are serious about making money day trading SPY.

All training is done through the comfort and convenience of your home/office through Citrix GoToMeeting® .

The recommended course of action is to book a chat with Hugh, Head Trader/Trainer. This chat will be a brief, complimentary session to further discuss your future as an options trader. Your only regret may be not having done it sooner.

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Charts courtesy of TD Ameritrade Think or Swim®

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