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Foreword

With all the different forms of investment available today, it is often not easy for investors to choose ones that are best suited to them and their needs. However for the savvy investor, the options trading platform is fast becoming an attractive choice to make. Get all the info you need here.



Optimum Options

How To Come Out A Winner In Options Trading

Chapter 1:

Options Trading Basics

Synopsis

The power of such an options trading style of investment lies in the versatility it presents. Being able to make the adjustments in real time that would allow the investor to capitalize or limit the losses, is advantages, as the dictatorial element works in the favor of the investor.

The options can be speculative or conservative in style and this would ideally mean that everything is covered for the investor from protecting the position from sudden decline to speculating on the movement of the market or index.



The Basics

However it should also be noted that such versatility does come with some costs tagged to it. Options trading platform can present a rather complex style of securities which contributes to its high risk factors.

There is always a cautionary note in the form of a disclaimer, which informs everyone intending to dabble in this style of investment, that it may not be a suitable choice to make, due to the risks involved.

The options trading are mainly for those who have the cash available to take such risks. If these transactions are successfully completed, the investor stands to gain a lot when compared to other types of investments.

If the investor decided upon the maturing of the agreed time frame, that the intended commitment is not worth the risk after all, the investor can walk away from the transaction without obligation to complete the deal. The only losses incurred would be the initial option trading fee that was paid to lock in the transaction in the first place.

Chapter 2:

Points To Note Through The Valuation Of Options

Synopsis

Through the popularity of the options trading there is now a multitude of potential interested investor available at any given time. The trading volume in the options platform is also opened avenues that are now even available through electronic trading and data dissemination.



Some Points

Some of the transactions are done in a speculative nature where the price direction is manipulated to the investor's advantage while other transactions are done as hedge against the existing or perhaps even anticipated positions.

There is also the possibility of offering positioning factors that are not usually available based on the underlying stock, index or futures. This will then cause the valuation on the options to remain relatively unchanged thus creating the ideal security intended until the transaction is completed.

Being able to make valuations that allow the right options or combination of options to be picked, will facilitate the risk against the reward tradeoff.

The investor should have some basic knowledge of the intrinsic value and time value of the options trading style. The intrinsic value is reflected in the amount whereby the option is in the money scenario also termed as ITM, and the time value style is the amount of money paid for the length of time until the agreed date of the options expiry.

The time value option presents a very viable measurement for the concept trader. The money paid would ensure the extra time given for the lock in period of the option facilitates the decision to either

eventually pick up the option or not to. The value of the call option increases with the upward movement of the stock corresponding movement but this is also true when the stock goes down. Volatility also plays a significant role in the valuation position of the stock.



Chapter 3:

Exploring The Different Model Implementations

Synopsis

Options trading implementations are all about learning and matching the analyses tools to the advantage of the investor. In doing so the investor is able to limit the losses and capitalize on any possible gains.



The Models

Besides free trial implementations there are also trial programs on the sites offering options trading experience up for hire. Data is automatically calculated base on the sock prove, strike proven number of options bought the option price the margin interest rate and any other data that may contribute to the model implementation choice.

The simple probability calculator helps to process and provide information on options and pricing and all related material that will assist the investor to make informed decisions.

There are also programs for making graphs and tables with subsequent printing, exporting results to Excel and then savings done on files I the HDD.

The databases with various kinds of information constantly being updated would include volatility reports, broker recommendations, market comments, numerous quotes, statements and newsletter all of this provide the investor with rich information.

The strategy implementation is where the call is made for the options to be bought at strike price, and if the market is bullish the strike price will be comparatively higher.

This applies for the buy call style. As for the sell put style the strategy implementations would include the put options are the sold at strike price and if the scenario is bullish then the “in the money puts” could then be sold.

The bull spread strategy implementation is where the call options bought with a strike price and another call option sold with a strike bull producing a net debit.

The diagonal spread is a near dated call option that is sold and longer dated in the further out of the money call option that has been bought..



Chapter 4:

The Basic Trades Of Traded Stock Options

Synopsis

Trading stock options if done in an informed fashion can bring an extra dimension to the investing arm for the investor or trader. Basically the trade can exercise the option to buy or sell the underlying security or the trader can use the options as a hedge against loss..



The Trades

If the choice made is to exercise the option, then the buy and sell action can be done anytime on or before the expiration date of the agreement. In this scenario the trader can take possession or sell the stock at the fixed price of the option regardless of the market prices on the stock at the time of the conclusion of the transaction.

Alternatively the trader can hold on to the stock with a built in gain or chose to sell it and keep the profits minus the cost of the option, commissions and taxes. Such a move can also be applied to work, when a put option or the right to sell at a fixed price should the fall in price be forthcoming.

In most cases traders never intend to actually take possession of the underlying security. The price of the underlying stock directly affects the price of the option as it moves in a upward or downward fashion and the amount of time remaining on the option also has some effects on the price. Although the supply and demand factors play a part in the bearing on its price structure the above mentioned two elements are the primary conditions considered.

Traders can opt to make use of the hedge as an option to limit the losses if there is no surety that the price will not fluctuate to the negative platform.

This will provide the trader the right to sell the stock at an agreed stipulated price. Another effective way the trader can minimize the loss is to put in a stop- loss order where the sale of the stock would be exercised should it fall below an agreed point.



Chapter 5:

Risks Of Option Trading

Synopsis

Being a comparatively popular financial instrument in current times the option trading choice is not done based on the lesser possibility of losses. It is however a safer form of investing by comparison.

The following are some of the risks an investor would have to be aware of in order to be able to make informed decision:



The Risks

The most common and basic element that often causes the negativity in the options trading scenario is the presence of greed. As there are no tools in place to combat the very non technical possibility the investor should be weary of bring this into the equation of option trading. The higher profits potential, often blinds the investor to the high risk possibilities which snap decision, gambles and abandoning of logical trading plans constitutes.

In the event of unwise choices made the loss of capital is not only a probability but also a definite result. This is because options trading usually result in a 100% loss when there is market movement in a downward trend.

Trading on the margin is also another risk to be aware of an preferably not indulged in. here the selling of options would involve the process or providing a margin hedging against the possibility of the trade turning into a losing position, and when this happens the debt incurred can be significant.

Not being technically sound enough to be able to manipulate the tools available is also another way to risk all the option trading investment made. There are tools that can be used to assist the investor in providing information and alerts to minimize the losses or capitalize on the gains, thus failing to stay informed with these assisting tools could prove to be costly.

Not being able to monitor the investment in real time is also another risk that needs to be weighted in for its disadvantage.

Chapter 6:

The Basics About Option Strategies

Synopsis

The following are some of the option strategies often used by investors:



Great Info

The long iron butterfly and the iron condor are both using a combination of two credit spreads facing opposing directions, one using calls and the other puts. The only difference would be the range of option strike prices used where the iron condor has four strike prices and uses out of the money sold options and the long iron butterfly uses the same but for at the money strike prices. Therefore the iron butterfly can garner a greater credit option due to the higher priced options being sold, however this also means higher risks.

Butterfly spread and long iron butterfly is another form of strategic maneuvers that can generate the right results if well executed. The butterfly spread uses calls or all put options and is basically a corresponding credit spread and debit spread all in one. This would give the investor a net debit into the account. As for the iron butterfly there are two credit spreads used a bear call and a bull put spread. These create the iron clad strategies as the double premium and net credit knowledge unfolds will result in only one credit spread losing if expiry is reached.

Using these different strategies will help the investor better handle the options trading exercise with the intention of minimizing the losses. Therefore it is imperative for the investor to fully understand what it entails to successfully dabble in options trading.

Wrapping Up

Option trading strategies are basically designed to minimize risks and maximize profits which taking advantage of the underlying financial instruments. In anticipation of future price movements in any platforms such as stock, commodity futures, index and currency pairings so directional and range trading influence should ideally be exercised, thus the need for strategies.

Hopefully this book has given you your starting point.

