

**How I Turned  
\$11,694 into \$254,000  
in Less Than a Month**

# **Trading Options**



(Updated July, 2013)

## **A Strategy that Continues to Deliver, Year After Year**

Thanks for your interest in making serious money in the stock market.

Not knowing how much or little you know about stock options, I will explain some rudimentary key things you need to know.

Options are contracts with other options holders. If you purchase an option, you have the right but not the obligation to buy a certain stock for a certain price by a certain date. A 'call' option is a contract that anticipates the equity price to rise. A 'put' option expects the equity price to drop. The expiration date, which is the end of the trading day on the third Friday of the expiration month, is when all such contracts vanish. If you're holding an option at that point in time, you have the ability to purchase the stock for the agreed upon price or let it go. However, even if you're 'in the money' even a few cents, you will be assigned; hence you need to sell prior to that.

Options are much less expensive than the underlying stock, usually providing a leverage of about 10 to 1. The value of an option comprises of intrinsic (real value based on equity) plus extrinsic, which is essentially the time value.

An option is like an ice cube... it melts over time, so you need to actively manage it. Options trade like stock using the same on line platform. Most options die worthless so you want to make sure you're not holding them at expiration, unless of course, you really do want the stock. Most people don't care what name is on the share certificate, if they even get one; they just want the money.

Options have several 'greeks' associated with them, which contribute to their value. They include 'delta', which is the value of the option in relation to the stock. A .40 delta, for example, means that the option value moves 40% of the stock. If the stock rises \$1, the option will rise \$ .40. The greater the delta, the more the option moves with the equity price. The more 'in the money' an option is, the higher the delta.

'Theta' is the time value of options. The closer to the expiration date, the greater the theta will be eaten up. Near expiration options require diligent management of them. Unlike stock, there is no underlying value to an option, especially one that is 'out of the money'.

'Vega' is volatility that is dependent and market maker driven that affects the price and is usually in cohort with the market. The greater the volatility, the greater will be the movement of the option, usually downward. You can research all this on your own if you need to.... or you can simply ask me, should you need clarification. I actually teach this material so you can be a better trader. It's all on my website, which I divulge at the end of this ebook.

So, what you want to know is how I scored big in such a short time.

A brief background first.... and perhaps you could identify.

I was trading in and out, making money but losing as well. My trading was, in hindsight, more akin to gambling than well thought out strategies. Everything was 'what I thought', and frankly, the market doesn't give a rat's behind what I think. In fact, I felt at times that I moved the market. I'd buy long and instantly, the price would collapse. As a trader, I'm sure you can relate. What I wanted to know was how they knew it was *me* trading? I was actually getting paranoid!

At the time, I was playing - and losing - on a stock called NVEC... I think it was a computer hardware manufacturer. I knew I had to change something on this final trade. I met my Waterloo.

Then I discovered a consistent move on Hershey that occurred for at least the last 10 years. More importantly, I knew I had to develop sound trading principles. I had to promise to develop a plan and stick with it. I made this solid commitment to a friend who would press me if I veered away.

Hershey (HSY) was a stock that had risen at approximately the same time every year for at least the last 10 years. This was in 2005.

The plan called for the following:

1) I now know that Hershey (HSY) rises for 2 weeks starting around February 6<sup>th</sup> every year. In '09, the move was more volatile with the economy being what it was but it was still there, had you waited for the ideal entry point. This occurs every year, likely due to perhaps some management equity distribution. Why is really irrelevant. However, HSY's move is fairly reliable. It even occurred in 2007 shortly after Hershey announced the closure of some plants.

2) Armed with this knowledge, I purchased the slightly 'out of the money' (OTM) \$60 call options due to expire in March. I paid \$ .60 for 200 contracts. My cost, with commissions, was about \$11,694. Actually, I got in a bit too early... January 31<sup>st</sup>. Had I waited to about Feb. 6, I would have been able to purchase them at a lesser cost. Regardless, the calls rose nicely along with the equity and on February 9<sup>th</sup>, I sold them for \$1.75, for a net profit after commissions of \$21,259.



3) In an unrelated trade, I also happen to know that energy is the strongest sector in the spring. In particular, Exxon (XOM) shows strong earnings for primarily two reasons: a) heating oil sales profits coming off the winter and b) low inventories pushing up the bottom line as refined summer gasoline has not been accumulated yet.

XOM's earnings were due to be released in March and as of early-mid February; the value of XOM had not yet risen to what its earnings would have indicated.

4) Hence, I reinvested about \$18,000 and bought 900 XOM March \$60 calls for \$ .20.

5) When I purchased XOM, the price of the equity was 'out of the money' at about \$56. Had I been more prudent, I could have captured the beginning of the move when it started a couple weeks prior at about \$52. Regardless, as the equity moved higher, so did the options. The delta became greater and greater until it hit 'at the money' and then 'in the money', where it moved almost 1 for 1. That's like buying a \$60 stock for \$.20.

6) When my XOM call options hit \$3.60, I cashed in some of my holdings, then the rest when it hit \$3.70. At the end of the day, February 25<sup>th</sup>, 2005, I had a net profit of \$254,000.



Now the good news....

This seems to happen every year.

Having said that, I need to tell you a several things:

First, by gauging better entry and exit points – you will substantially increase your odds of acquiring greater wealth and reduce your chances of losing. Despite making as much as I did, I know I left a lot of money on the table.

Second, this works with any amount of money... you don't need to invest \$11,694.

Third, it's important to realize that just as there is HUGE profit potential with options trades, there is also a greater risk of loss. This occupation is not for everyone and you should be prepared to lose your investment, should something unexpected occur. While the above stock activity has happened every year ever since I can go back, there is no guarantee it will continue in the future.

### UPDATE as of July, 2013

I day trade now but still keep an eye on HSY. In 2013, I pulled in a 50% profit in one week on HSY. Just for an easy stroll down memory lane, I still trade HSY for fun as it keeps on delivering, year after year.



	Low	High	Option Code	Theta	Delta	Ope...	Bid X	Ask X	Exp	Strike
MAR 11	(19)	100								
	0	0	HSY110319C45	-.02	.65	124	0.05 X	0.25 I	MAR 11	45
	2.12	2.37	HSY110319C50	-.02	.76	782	2.25 A	2.37 I	MAR 11	50
	.29	.43	HSY110319C55	-.02	.18	3,226	.29 I	.34 B	MAR 11	55



These charts are self explanatory. Make sure you note your calendar for next year.





My focus at the moment is training other traders and trading SPY exclusively for modest gains every day, resulting in an overall steady growth of my equity while living a relatively stress free lifestyle.

Good trading!

Hugh

P.S. Since 2005, I have discovered some key indicators to help in setting up the trades... both for short and long term. I have various strategies designed for different types of trading, be it daytrading or 'set and forget' trades that need no moment to moment monitoring. I can make money in markets that rise, decline or trend sideways.

If the only thing you've ever traded was baseball cards as a kid and would like to learn options trading, or would like to learn how to trade more effectively, feel free to subscribe to my service.

My 'Inner Circle' subscription is where I select my one trade of the day... earning usually 5-10%. This is a simple trade that does not need a lot of attention... usually just a few minutes a day. While that might not sound like much, do that math... a mere 5% a day x 20 trading days a month = double your money... and that's WITHOUT compounding!

As a subscriber, you also receive full email support and an invitation to our subscriber based Thursday night webinars, an incredibly valuable tool focusing on issues of the day. This interactive fun session brings members together from around the world to relate their successes and challenges as well. Please join us.

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One last mention: even though charts in this and other e-books I publish may be dated, the logic and lesson behind them remains every bit intact.

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Disclaimer:

The information hereby given is for educational purposes only. Past performance does not guarantee future results. Option trading is inherently risky. While trading can be profitable, you can lose it all too. Trade at your own risk. While I disclose my intentions, I may end up trading differently as conditions change.