

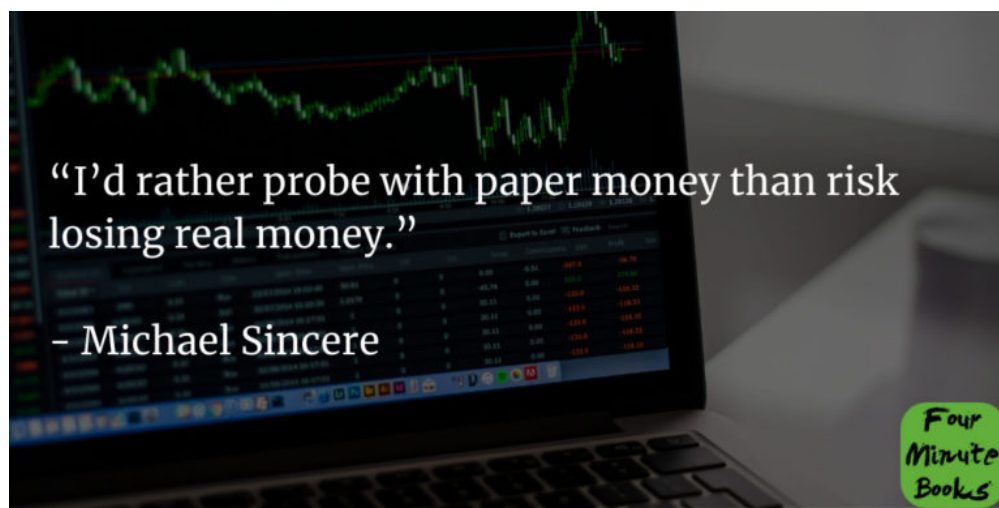
# Make Money Trading Options Summary

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**1-Sentence-Summary:** *Make Money Trading Options* teaches the art of trading stock options, including the pitfalls to watch out for and how to use simple tools like the Test Trading Strategy and virtual trading tools to find stocks that are most likely to be profitable, so you don't have to just guess where to invest.

**Read in:** 4 minutes

**Favorite quote from the author:**



Are you interested in trading stock options but are worried about losing hard-earned savings? Or maybe you've tried to learn about options trading on your own, but you were left scratching your head when you came across confusing strategies and complex charts.

If you are new in the game, trading options can quickly seem too risky or intimidating. But what if there was a way to do it that you could minimize your losses and actually learn how to understand the trends?

In *Make Money Trading Options: Short-Term Strategies for Beginners*, author and *MarketWatch* columnist Michael Sincere gives a comprehensive guide on trading stock options for newbies. He will help you navigate the common pitfalls in stocks. He will also share easy-to-use tools that can get you started. You might not become a millionaire overnight, but he can teach you a great way to add to your income consistently.

Here are the 3 of the most helpful lessons this book taught me:

1. Trading stock options can be a great way to make money, as long as you understand the risks.

2. You can pinpoint which stocks will be the most profitable by using the Test Trading Strategy.
3. Use the Five-Minute Rule to manage the risks that come with trading options.

Let's jump right into it!

## **Lesson 1: Stock option trading is a very lucrative business as long as you know how to keep the risk at a minimum.**

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Imagine that you've retired, and your contributions to your retirement accounts are at an admirable \$150,000. The only problem is that you have plans to do some pretty expensive things now that you're retired, like traveling the world and pay off the rest of your mortgage. You realize you're going to need to increase your income.

This is where options trading can come in handy. Stock options are a type of agreement known as an options contract. This contract gives you the right to buy or sell a stock at a predetermined price in the future, but you don't have to buy or sell if you choose not to.

**Whereas stocks represent an actual portion of ownership in a company, stock options are contracts with other investors that allow you to bet on where you think the price of a stock will go.** So instead of paying the price of the stock, you pay a premium. This means you don't need as much money to start because you can buy an option contract that controls 100 shares for as low as a few dollars.

For example, say you buy an option contract for Amazon at \$10 a share. If the price rises to \$15, you can now buy 100 shares of Amazon but for the earlier price. This means if you sell them, you can make a \$500 profit. On the flip side, if the price falls to \$1, you only lose your premium. Sounds pretty great, right?

However, a lot can go wrong if you don't know what you're doing, so make sure you know what you're getting into!

## **Lesson 2: Discover which stocks will be the most profitable by using the Test Trading Strategy.**

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The author says options trading can be compared to betting on horses. You wager on a horse you think will win, and if he does, you get money. If he doesn't, you lose your betting money. But there is one awesome difference: you can place a bet partway through when you have a better idea of where things are going.

You can do this with what the author calls the Test Trading Strategy. There are virtual trading tools that test theories of the directions that the stocks are going. Virtual trading is also known as paper trading. It uses fake money in order to practice selling and buying

options and stocks. **The Test Trading Strategy is using these virtual trading tools as a beneficial, risk-free way to practice trading.**

To start, you'll need to make a test trading account. If you have a broker, they probably have their own test trading platform. There are also many others you can access for free. Once it's running, build a Watch List. Your Watch List contains a list of stocks that you monitor on a day-to-day basis.

You should add SPY, QQQ, the Dow Jones Industrial Average, and the S&P 500 to your Watch List. Then you can add individual stocks. These should be at least \$50 per share and should be actively traded. A good Watch List contains successful companies like Mastercard, Tesla, or Netflix.

Once you have your Watch List, start trading. Your priority should be to identify the winning stocks in the group. Watch closely for stocks that don't keep up or reverse in direction. Soon you will start to notice the real winners among the group and get a really good feel for how everything works.

### **Lesson 3: You can keep risks at a minimum by employing techniques such as the Five-Minute Rule**

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Once you feel confident about your winning stock, it's time to buy call options in your real brokerage account. But before doing this, the author recommends doing one more check that he calls the Five-Minute Rule. Doing this before every trade will help you make sure that everything is ready.

If you're a beginner, it's best to limit yourself. Have one or two options at a time that hasn't been sold or used before. Next, look at the fine print that comes with the option. Look for the expiration date and strike price. These can be found in the options chain. You can see if you entered more contracts than you meant to.

Your next step is to examine the bid-ask price, or the highest price a buyer is willing to pay, and the lowest a seller is willing to accept. If you find that the bid-ask spread is too much, or in other words, the gap is large between the two, find a different stock. **It will be too hard to make a profit if bid and ask prices are spread too wide.**

Third, you need to ensure that you place a limit order and not a market order. Though you place market orders in test trading, doing so in the real world is much too risky. A limit order allows you to name your price, which should fall somewhere in between the bid and ask prices.

Your last step is to review the charts for a final time to make sure that you understand every part of the deal. The best part about this tip is that it only takes five minutes. It's not too long that you'll miss out on life-changing market fluctuations, and it could potentially save you

from getting into a lot of financial trouble.

## **Make Money Trading Options Review**

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As someone who doesn't understand a lot about stocks, *Make Money Trading Options* was really useful to me. I appreciate that the author made everything simple enough for a beginner to understand. It was also nice that they gave easily applicable tools that can help anybody start trading options in a less risky way.

## **Who would I recommend the Make Money Trading Options summary to?**

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The 58-year-old who loves stock investing and wants to try a new way of doing it, the 19-year-old economics student, and anybody looking to diversify their investment portfolio.