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TRADE WITH INSIGHT

Trading With Insight - Options 101

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Introduction

At some point in every trader's journey, they are tempted with the notion that they need to "figure out" the market in order to be successful. They will add countless indicators on their charts, go on an "expert" following spree on Twitter, or try to figure out a magic formula to success. Oftentimes they'll learn one tactic that works for a while and then it ultimately fails and they find themselves back at square one.

This was the main inspiration to start Trade with Insight. I knew, through more than 11 years of experience, that trading is so much more than technical analysis or one strategy alone. To successfully master the markets, you need to learn how to **master your mind**. Discipline and patience are highly underrated in trading and most don't realize the difference a proper mindset will make. However, your mind is the single biggest edge you can have in the market. With a simple strategy and proper risk management tactics, you can create **long-term** consistency and success as a trader.

The desire to create financial independence has fueled the growth and popularity of day-trading. Today, anyone with a cell phone and a few hundred dollars can participate in the stock market. **So why options?** Options are a way to leverage less capital and make larger returns than traditional stock. This does, however, come with elevated risk that requires effective risk and account management strategies in order to survive. Otherwise, the freedom that trading options can create will be short lived. This eBook aims to help save you time and shorten the learning curve and will prepare you for the challenges ahead. We'll teach you how options work, common pitfalls to avoid, and ultimately help you kickstart your options trading journey.

Let's get started.

What are Options?

Overview

Options are financial instruments that provide traders the ability to leverage capital to generate higher returns in comparison to trading stock. They are a derivative that give the trader the right, but not the obligation, to buy or sell a stock at an agreed-upon price and date. When people refer to options trading, they are typically referring to strategies that involve the buying and selling of two types of options: calls and puts. Simply stated, if you believe a stock will rise in value, you would purchase calls, and if you believe a stock will fall in value, you would purchase puts. Though options trading is slightly more complex than trading stock, the potential for higher returns with lower amounts of capital can make learning how to trade these instruments very worthwhile.

What's an Options Contract?

An options contract is an **agreement** that gives a trader a right to purchase shares of a stock at a pre-negotiated price (**strike price**) on or before a specific date (**expiration date**).

There are two types of options: **calls**, which is a bet that a stock will **rise** in value, or **puts**, which is a bet that a stock price will **fall** in value.

One options contract is equivalent to 100 shares of a stock.

In order to purchase an options contract, you must pay a "**premium**" which you will lose if you let the contract expire.

Similar to buying or shorting common stock, if a stock moves in the direction of the bet you placed, your options premium will **rise** in value giving you the choice to sell the option to another trader for profit.

How to read an Options Contract

AAPL 13 AUG 21 150 C

[**SYMBOL**] [**EXPIRATION**] [**STRIKE**] [**CALL/PUT**]

Translation: Apple 150 Call Expiring August 13, 2021

General Terminology

Before diving in further, there is basic terminology that is important to learn so you can better understand the content in this eBook.

Expiration date
An expiration date enables the trader to choose a specific date that they expect the stock to rise or fall by. The expiration date is an important factor in determining the value of an option. As an option approaches an expiration date, the value of the option will decrease due to time decay.

Strike price
The strike price is the price a trader expects the stock to be above or below by the expiration date.

In the money
A call is "in the money" if the strike price is below the current stock price
A put is "in the money" if the strike price is above the current stock price

At the money
A call/put is at the money if the strike price is equal to the current common stock price

Out of the money
A call is "out the money" if the strike price is above the current stock price
A put is "out the money" if the strike price is below the current stock price

Premium
The price you pay for an options contract

Example: A trader buys one AAPL 105 call for a premium of $2.50, the trader would spend $250 dollars ($2.50 x 100)

The total premium is determined by taking the price of a call or put and multiplying it by 100 (contract size)

Advantages of Options

Faster way to grow capital

- $XYZ's stock is currently trading at $100
- You believe $XYZ stock is going to **rise 5%** in a month and want to take advantage of that move.
- To make **$500 dollars** trading stock, you would need to buy **100 shares of $XYZ** and sell each share for $105.

- **Or** you could buy an option for $500 dollars and make a **100% return** without buying **$10,000 worth** of $XYZ stock (100 shares).

Any account size can trade options

- The price to purchase options can range from $1 to $10K allowing anyone to participate in options trading.
- The options that you trade can vary depending on your account size, due to the price of premiums being relative to the stock price.
- A $3,000 stock like $AMZN can have premiums that can range from **$2K-10K** depending on the strike/expiration date. Whereas, a $100 stock like $AMD has options priced near **$50-$100** per contract.

The Risks of Trading Options

Options can expire worthless. If your trade idea doesn't move in the direction of your favor, your initial investment could be worth **0 dollars.**

While options allow you to grow capital quickly, you can also lose your account value just as fast. Therefore you must be patient, disciplined, and follow proper account management rules to assure survival in the world of options.

Trading out of the money contracts (OTM) - The price of options contracts decrease in value the further away you get from the current stock price. While these contracts may be more enticing to smaller account holders, it's not recommended to trade them due to the risks associated. There are reasons they are cheap. They are inherently riskier and will lose their premium much faster than contracts closer to the underlying stock value. A general rule of thumb is to always trade options contracts close to the underlying stock so you avoid this risk.

Options Trade Example

To understand options further, let's review some possible scenarios and outcomes you may experience in an options trade.

- AAPL's stock price is currently priced at $100
- A trader believes that AAPL will reach $110 by next month
- You buy a $105 AAPL call for $2.50 ($2.50 X 100 = $250 Dollars)
- In order to make a profit at expiration, the stock would need to rise above the strike price and cost of the calls, or $107.50 ($105 + $2.50)

Outcome: $110 Target reached (positive)

$AAPL's stock price is $110.00 at expiration. The contract would be worth $5.00 from $2.50 and the trader would profit **+$250 or 100%** on their initial investment.

Common stock value - **Strike Price** = **Premium collected**
$110 - **$105** = **$5** = $5x100 = $500

Outcome: Break-even (neutral)

$AAPL's stock price is $107.50 at expiration, the trader would break even as the contract would be worth $2.50

$**107.50** - **$105** = **$2.50** = $2.5x100 = $250

Outcome: $110 Target not reached (negative)

$AAPL is worth less than 105 at expiration, the options will expire worthless and the trader would lose the entire/majority premium (**-$250**)

Key Takeaways

- Any account size can trade stock options.
- Options provide a way to grow capital in a shorter period of time compared to traditional stock.
- An option is a contract that gives a trader the right, but not the obligation to buy or sell a stock prior at an agreed-upon price prior to or on a specified date.
- There are two types of options: **calls**, which is a bet that a stock will **rise** in value, or **puts**, which is a bet that a stock price will **fall** in value.
- In order to purchase an options contract, you must pay a "**premium**" which you will lose if you let the contract expire.
- Similar to buying or shorting common stock, if a stock moves in the direction of the bet you placed, your options contract will rise in value. At that point, you can sell the contract to another investor for a higher premium or even exercise it if you want to own the specific shares.
- Avoid far out of the money option strikes.
- Focus on buying and selling calls/puts before moving on to more advanced strategies.
- How to read an options contract.
    - **AAPL 13 AUG 21 150 C**
    - [**STOCK**] [**EXPIRATION**] [**STRIKE**] [**CALL/PUT**]

Technical Analysis

Overview

Becoming a consistently profitable trader starts with being able to identify high probability trade setups. The main method traders use to do this is called Technical Analysis. What is Technical Analysis (TA)? TA is a tool that can help you predict the direction a stock may move by analyzing its past price movement. There are many strategies, however, I've found a **simple approach** utilizing support/resistance levels and basic chart patterns to be the most effective way to identify and execute higher probability trades. While learning TA is an important aspect of trading, it's equally important to **not overcomplicate** it because there are other important aspects of trading**.** In later sections, you'll learn how effective risk management strategies and mastering psychology play an even larger role in becoming a successful trader.

Support and Resistance Levels

Support levels

A level at which buyers (bulls) take control over the prices and prevent them from falling lower, **acting as a floor**. A support level can coincide with a buying opportunity because this is generally the area where buyers see an opportunity and push prices higher.

When a support level is broken, it turns into resistance.

While support can be a buying opportunity, it can also be an opportunity to buy puts if the support fails to hold. This is because when support fails, it creates momentum to the downside, creating an opportunity to profit. The same is true for calls when resistance is taken out.

Resistance levels

A level at which sellers (bears) take control of prices and prevent them from rising higher, **acting as a ceiling**. A resistance level can coincide with a selling opportunity, because areas of resistance may indicate an area where sellers may step in as well as individuals who may be taking profit.

When a resistance level is broken, it turns into support

Identifying support and resistance levels

It's best to align the same support and resistance levels on multiple timeframes (intraday (5/15/60 minute), daily, weekly, and monthly candles). The more time frames you can align a certain level of support/resistance, the stronger the level.

Determining the strength of a specific level

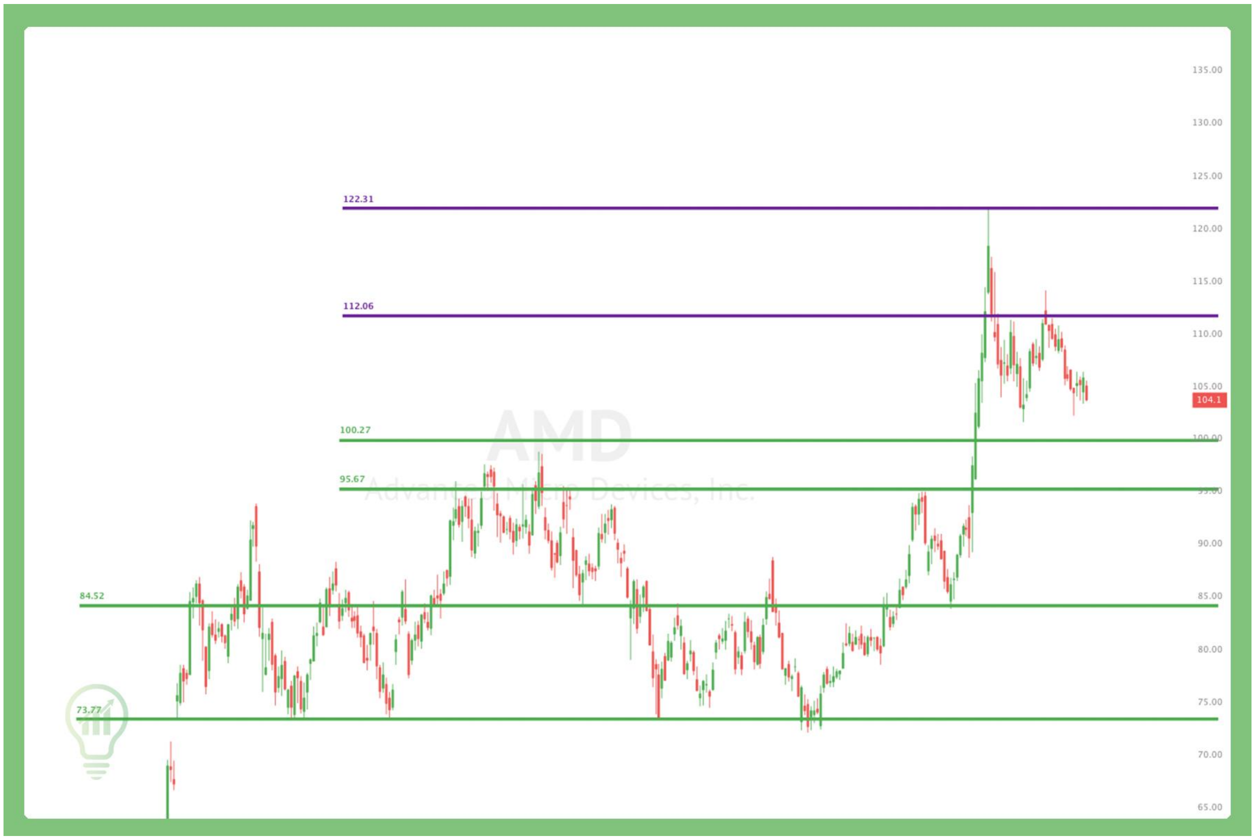
If a stock holds or bounces at a certain price and holds multiple times, the stronger the support level.

The more times a stock pulls back or is resisted at a particular level, the stronger the resistance level.

The more times a support/resistance level is tested, the stronger it becomes due to the volume of shares traded.

Round numbers

Round numbers are psychological support and resistance levels that can be used to your advantage even if a stock has not reached a particular level before.
Examples: 100, 250, 500, 1000, 1250, 1500, 2000, 10,000 etc



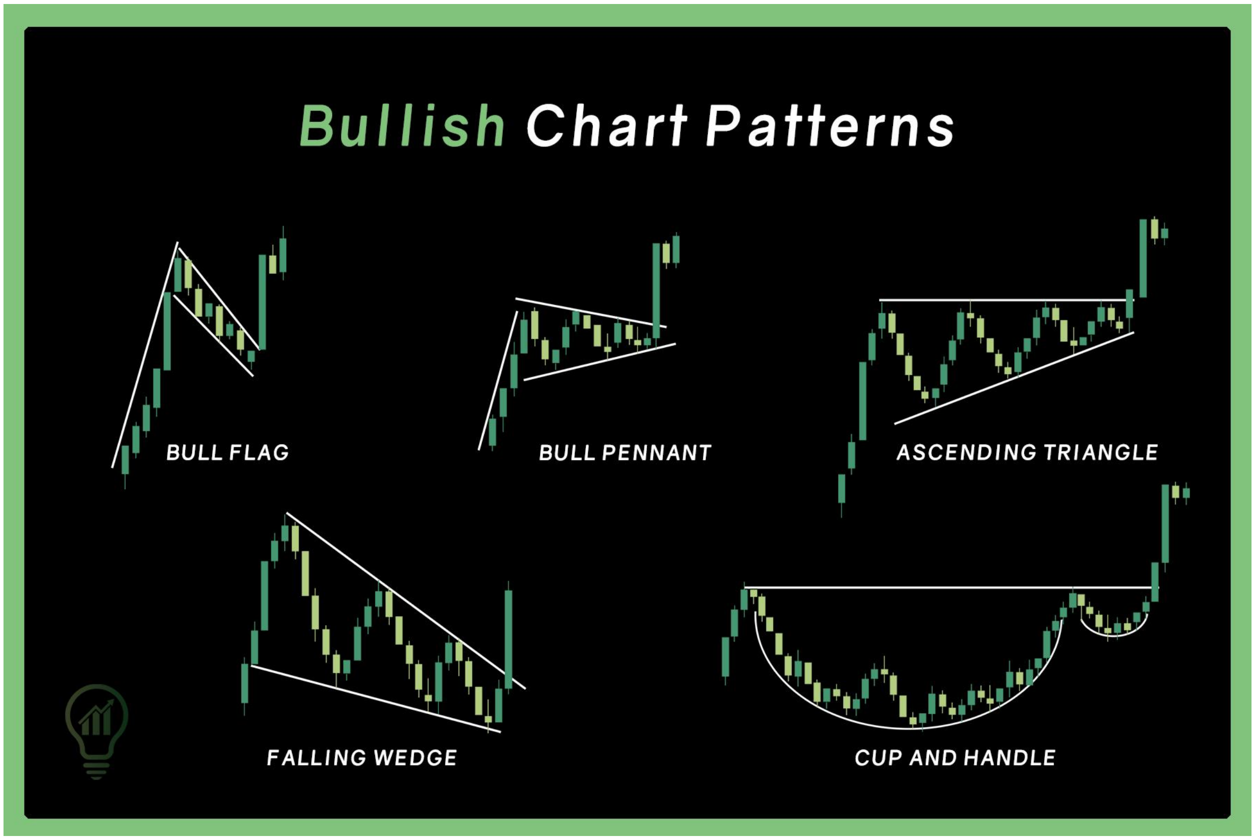
Example Chart with Levels: $AMD

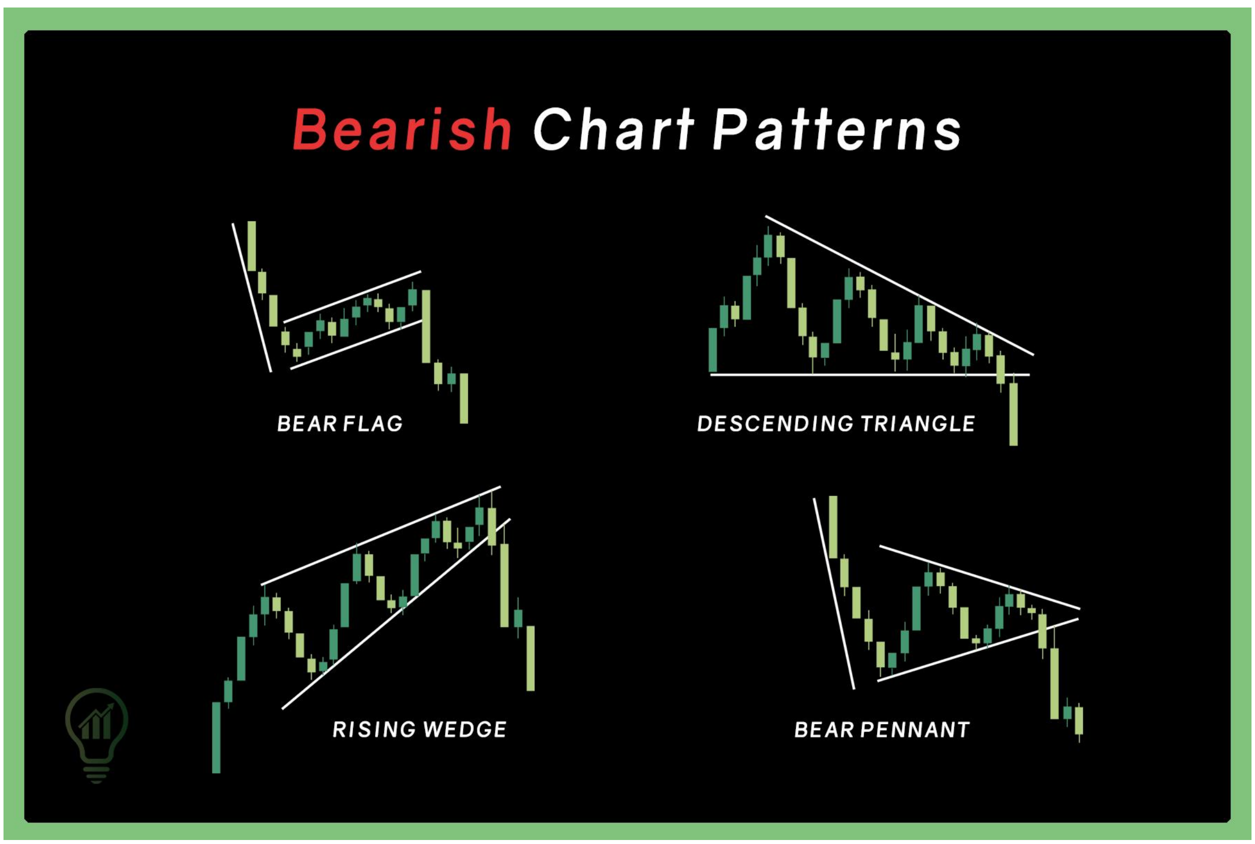
Key levels: 73.50, 84.50, 95.50, 100, 112

- **73.50** - Every time the stock hit this level over the last year it held and moved higher
- **84.50 -** Acted as resistance and support level multiple times over the past year
- **95.50 -** Failed around this area 10 times. When it finally broke, it made a move towards 100
- **100** - AMD's prior all time high (99.23) was just short of the psychological barrier of 100. After it broke through, AMD accelerated and went on a multi-day run to 122.49
- **122.49** - Current all-time high. This could act as resistance in the future and become a potential buying opportunity once it breaks through

Chart Patterns

Chart patterns are used to predict market movements by using a series of trendlines and curves. If you are able to identify these patterns, they may be able to give you an edge or additional confirmation with your trading. Chart patterns consist of bullish (long) and bearish (short) setups. Below are examples of some of the most common patterns you may see occur in the market.


Bullish Chart Patterns
BULL FLAG
BULL PENNANT
ASCENDING TRIANGLE
FALLING WEDGE
CUP AND HANDLE


Bearish Chart Patterns
BEAR FLAG
DESCENDING TRIANGLE
RISING WEDGE
BEAR PENNANT

Determining the strength of a pattern

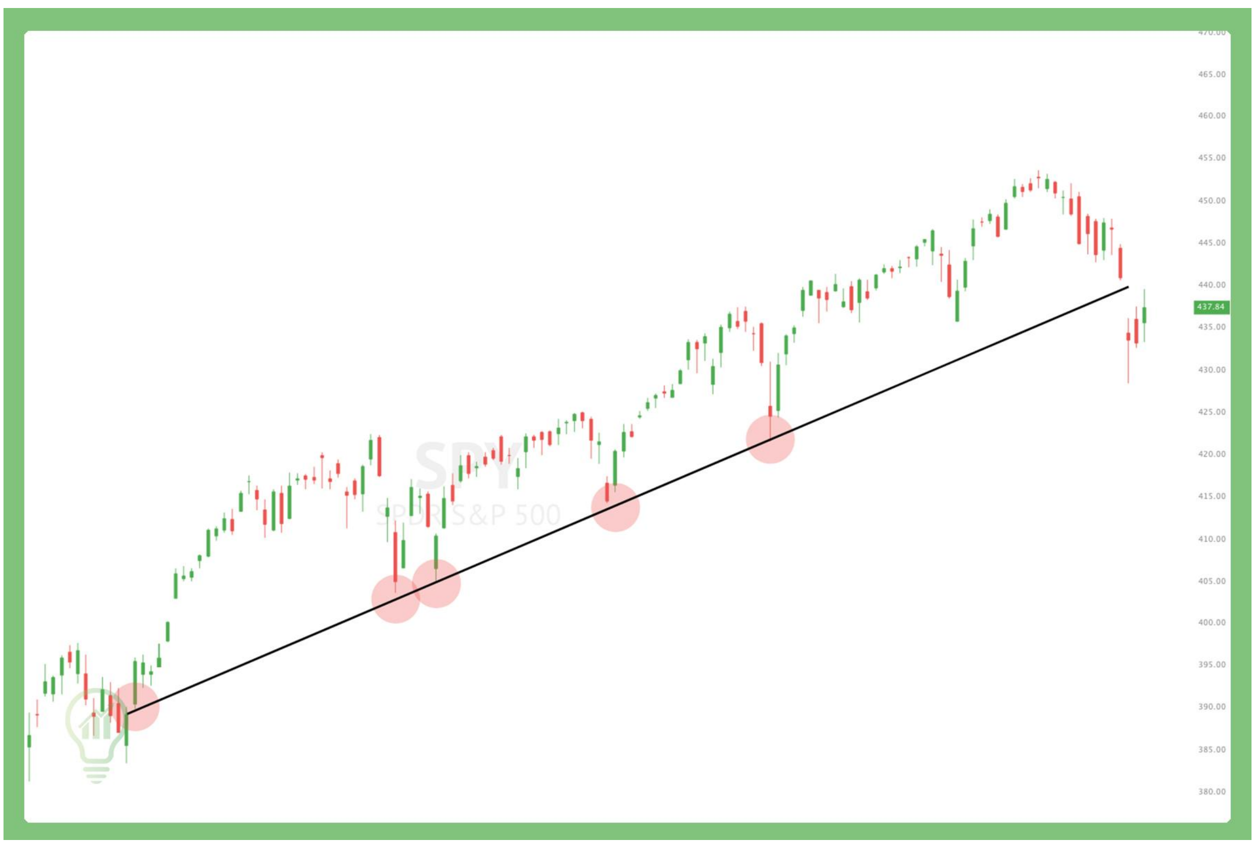
Similarly to support and resistance levels, aligning chart patterns on multiple timeframes (intraday timeframes/daily/weekly/monthly candles) can increase the strength of the pattern.

The strength of a pattern is also increased when aligned with support and resistance levels.

Trendlines

A trendline is a line drawn to help determine the overall direction of a stock within a specific timeframe.

The trendline below can be thought of as support when entering a position. If the price action of a stock breaches the trendline on the downside, a trader could use this as an indicator that the trend is changing and exit their position.



Trendline Example: $SPY Daily Chart

Summary

Becoming a consistently profitable trader starts with a simple approach to technical analysis. Learning how to identify support and resistance levels along with chart patterns is a simple yet effective way to put yourself in higher probability trades. While there are thousands of indicators and methods of technical analysis, it's **important** to keep your strategy **simple** and **not overcomplicate things** so you can focus on other important aspects of trading. If you take the time to find the setups you perform best in and patiently wait for them, you will have a higher probability of being a consistent trader.

Key takeaways

- **Support levels** are where buyers take control over the prices and prevent them from falling lower.
- **Resistance levels** are where sellers take control and prevent them from moving higher.
- It's best to align the same support and resistance levels on multiple timeframes (intraday (5/15/60 minute), daily, weekly, and monthly candles). The more time frames you can align a certain level of support/resistance, the stronger the level.
- Round numbers can act as psychological support/resistance levels.
- Chart patterns are a series of trendlines and curves from price history that can help predict the future movement of a stock.
- Chart patterns are stronger when they show up in multiple timeframes and align with support and resistance levels.
- Technical analysis can give you an edge in trading, but it's important to keep your approach simple and not overcomplicate it.
- A **simple approach** to technical analysis will allow you to spend time and energy focusing on other important aspects of trading.

Account Management

Overview

Proper account management is the foundation of a successful trader and will be what determines whether or not you survive long-term trading options. Without a proper risk/account management strategy in place, it's possible that one losing trade can wipe out months worth of profits, or even worse, your entire account. Therefore, it is critical to form good habits early on in your trading career so you can survive long-term and grow your account effectively.

Position Sizing

Anyone is capable of being a profitable trader, but most do not understand how to **properly size their positions.** You must understand that each day the market may present different levels of risk with opportunities to *1) size up* or 2) *size down* or *3) remain cash*. Your ability to recognize and adapt to market conditions will be key to the preservation and growth of your account.

Everyone's goals and risk tolerances are different and it's very important for you to determine what you are comfortable risking each trade. Depending on your account size and risk tolerance, a good rule of thumb is to **never risk more than 3% of your account**, however, smaller account holders may need to **risk up to 10%** to effectively grow their account. Whatever position sizing you choose, make sure that a few failed trades never have the ability to dramatically impact your account.

See below an example of how one could approach sizing their positions

Small Account ($5,000 account)

- If you are just starting out, have a small account, or lack confidence in your strategy it may be best to **keep your position size the same and focus only on high-quality trades** until you find consistency for multiple months.
- Position Sizing Example:
  - Up to $500 (10%)

Larger Account ($100,000 account)

- Once you gain consistency and have a larger account, you can have different position sizes based on the strength of a trade.
- Position Sizing Example:
  - Full Size = $3,000 (3%)
  - Medium = $2,000 (2%)
  - Small = $1,000 (1%)

Common signs that you may be risking too much on one trade 💡

- You instantly feel nervous after you click buy
- You get stopped out prematurely (20-25%)
- You get overly excited when a position goes green
- You get upset/depressed when a position goes red

Taking Profits & Losses

Developing a **systematic approach** to securing profit/losses is important in order to **survive** trading options long term. There are multiple strategies that can help you secure profit and properly protect your account. If you lack a plan before entering a trade, a **positive trade** could turn into a **loss,** or a **small loss** could turn into a much larger one that could **blow up** your account. **Knowing when to exit a position is just as important as knowing when to enter.**

Taking profits

- **Example: Systematically take profits at 25%, 50%, 75%, 100%**
  - If you have multiple contracts, you could consider selling fractions of your original position at a certain profit percentage to secure profit. This helps remove the emotional attachment to the trade which can give you the opportunity to see the trade play out to its full potential.

- **Example: Sell at or near important support/resistance levels**
  - This strategy can allow a trader to hold a position longer and potentially see larger % wins, however, may expose you to larger risk if the trade takes longer to play out than anticipated.

Taking losses

- **Example: Predetermined stop loss (30-50%)**
  - If you find yourself frequently getting stopped out too soon, you may have too tight of a stop loss. Consider reducing your position size in half and increasing your stop-loss percentage to give the trade an opportunity to play out.
  - For example: You typically trade a $1000 position size with a 20% stop loss. Try trading a $500 dollar position with a 40% stop loss

- **Example: Key support/resistance levels are broken**

- When key levels are broken, the probability of the trade working in your favor decreases significantly. Therefore, using this strategy can allow you to get out of a trade faster than using percentages. However, it may increase the likelihood of being shaken out of a position if the stock quickly reverses back above/below the key level.

How to Ride Winners

A profit-taking strategy paired with a roll up strategy can allow you to ride winning trades longer by securing profit and reducing risk at the same time.

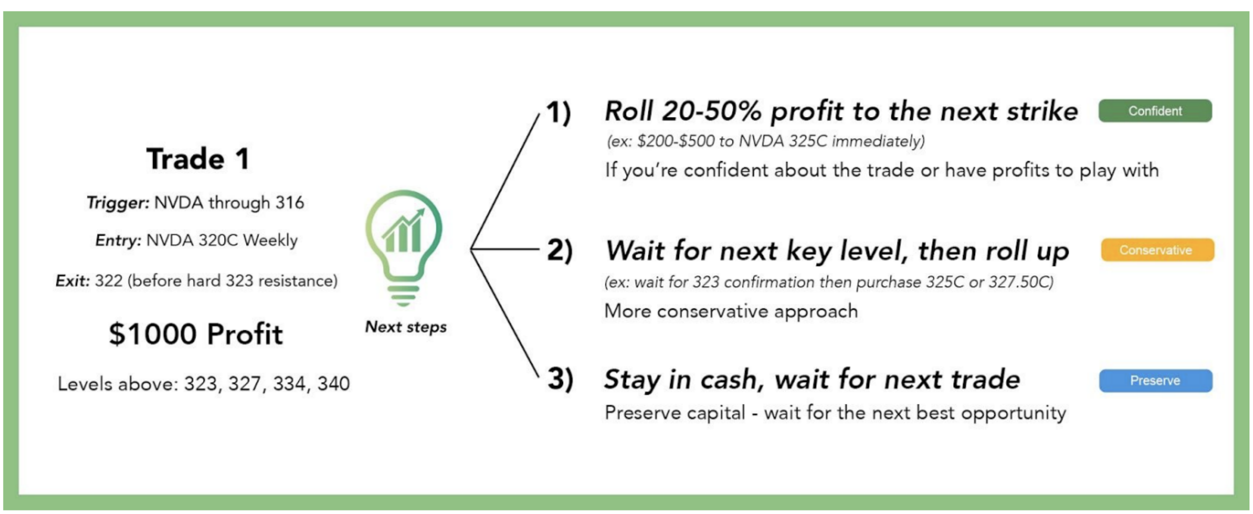
What is a roll up? A roll up is a new position you buy using a percentage of profits from a prior winning trade (10-20%). This rollup position is typically a strike further out of the money which allows you to continue capturing the most profit from a stock while also reducing overall risk. Trading without a proper roll up strategy can cause **irrational decision-making** due to seeing a stock continue in their favor when they already took profits.

Some of these decisions can include forcing lower probability trades or breaking account management rules to make up for *missed* profits. If you're not comfortable with rolling up, there is nothing wrong with securing profit and waiting for the next best opportunity.

Common roll up mistakes

- Utilizing more capital on the rollup than the initial trade
- Using a substantial portion of profits to buy the next strike (50% or more)
- Blindly rolling up without assessing the current market conditions and giving back profits

Example of rolling up



Cashing Out Profits

- **Cashing out profits to your bank account** is a great account management strategy that can help you prevent yourself from depleting the capital you have available for options trading. This strategy can also help reduce the temptation to size up your position size when it may not be warranted.

Reinvesting Profits

- There are many different strategies traders use to reallocate their profits. Some traders **reinvest their gains** into longer-term/safer investment vehicles or simply deposit profits to their checking/savings account. Whatever the decision, remember to **treat trading like a business** and never forget to pay yourself.

Avoiding Unnecessary Risk

- **Binary events**
  - If you are just starting out or have no profits to play with, it may be best to avoid trading around binary events. Events such as earnings reports, FED meetings, FDA approvals, known speeches, etc may cause a large reaction to the stock market or particular stock. Trading around these events is inherently higher risk and less predictable.

- **Holding overnight/weekend**
  - Due to options being time-sensitive, if a stock does not make a significant move overnight or weekend, your option will naturally depreciate due to time decay.
  - Unexpected news or announcements made after active trading hours can significantly impact a stock's price.

Summary

Executing a proper account management strategy will ultimately determine if you fail or succeed at trading long term. Inexperienced traders often have a tendency to be in a rush to make money and abandon their account management strategies. This often leads to throwing away days, months, or even years of progress down the drain in one or two bad trades. While there are many components of an effective risk management strategy it is important to create a plan that aligns with your account size and risk tolerance. Be sure to have this in place and study these principles well before you start taking your first trades.

Key Takeaways

- It is critical to form good habits early on in your trading career so you can survive long term and grow your account effectively.
- Your ability to recognize and adapt to market conditions will be key to the preservation and growth of your account.

- **Do not** be in a rush to make money. Small wins over time will compound into a much greater amount.
- Never risk more than **3% of your account on one trade** (small account holders may need to risk up to 10%).
- One or two trades should never have the ability to blow your account, so properly managing your positions and managing your risk is extremely important to assure survival.
- **Before sizing up,** make sure you are confident in your strategy and have successfully traded your position size for several consecutive months.
- Avoid trading around binary events as they are inherently riskier.
- Do not hold positions overnight/over the weekend if you are not confident in the setup or can afford a position to drastically reduce in value.
- If you lack a plan before entering a trade, a **positive trade** could turn into a **loss,** or a **small loss** could turn into a much larger one that could **blow up** your account.
- Knowing when to exit a position is just as important as knowing when to enter.
- A profit taking strategy paired with a rollup strategy can allow you to ride winning trades longer by securing profit and reducing risk at the same time.
- A rollup is a new position you buy using a percentage of profits from a prior winning trade (10-20%).
- Treat trading like a business and never forget to pay yourself.

Strength of a Trade

Overview

There are many factors to be considered when determining the strength or quality of a trade. The more factors that are aligned, the higher the probability the trade will work in your favor. You don't need a million indicators to identify high probability setups. **Combining price action, technical analysis, and news** can prove to be a highly effective way to differentiate stronger trades from weaker ones. While finding high probability trades improves with experience, it is a skill that will position you to maximize profits by indicating when to allocate more capital to the right trades.

Criteria to Determine the Strength of a Trade

Price action: How well is a stock performing around particular key support/resistance levels? Is the stock performing better or worse than respective indices (SPY, SPX)?

- **Positive**
  - Dips being bought above key support levels
  - Resistance levels above are broken easily to the upside
  - The individual stock is performing stronger than it's respective index (SPX, NQ, RUT, DJI, etc)

- **Negative**
  - The stock prints lower highs on the daily/weekly chart
  - Key support levels are broken
  - Sell off after earnings

News: Is there positive or negative news that may be a catalyst to help push the stock through a key resistance/support level?

- **Positive examples**
  - Upgrades from Analysts
  - Positive Earnings
  - New Product
  - Stock Split
  - Macroeconomic news - FOMC/Law

- **Negative examples**
  - Downgrades from Analysts

- High ranking executive leaves/quits
- New restriction that stops product from being sold
- Higher corporate taxes
- Government intervention
- Insiders selling shares

Technical Analysis: Is there a strong chart pattern that you are comfortable with, or key support/resistance level about to break that may indicate a bigger breakout or breakdown?

- **Positive examples**
  - All-time high breakout paired with a bull flag pattern
  - Multi-week support bounce paired with falling wedge pattern
  - V-Bottom at multi-week support

- **Negative examples**
  - Yearly low support break paired with a bear flag pattern
  - Neckline support break paired with head and shoulders pattern

Risk to Reward Ratio: Is the trade worth the risk?

Support and resistance levels can be used to determine how strong an opportunity is and if the risk-reward ratio is in your favor

For example: Let's say $XYZ is at 97 and it's close to breaking out over an important resistance at 100. If it gets over that resistance the next level is 109. So if you enter on the break of 100 and use a stop loss of 97 you are giving up 3 pts to see 9 pts. In this example, the risk/reward is in your favor (3X). On the contrary, if there was resistance at 103 then you would be giving up 3 pts to make 3 pts (1X) which might make the trade not worthwhile.

Focus on trades with at least 2-3X opportunities.

Strong Trade Examples

Overview
$TSLA received stock split news after consolidating in a wide range from 274-330. Before the news was announced, $TSLA closed right near support near the bottom of this range at 273.

Criteria
Large multi week range (bullish consolidation) + positive news catalyst

Result
TSLA moved 83% in only 3 weeks providing an opportunity to profit 500-1000% on calls.

Overview

$PTON had a negative news article released on 5/22/21. The stock was trading near the 100 level at the time of the news, a **key support**. The next major support level was 92. A few days later, the 92 support was tested and ended up failing. This was a high probability entry for puts due to the news and strong support failing.

Criteria

Strong level break + negative news catalyst

Result

Buying the 90 put on the break of 92 yielded 400-450% on the move down to 81.

Weak Trade Example

Overview
AAPL moving higher into resistance while the overall market is weaker. Once APPL breaks over resistance, this would normally be good for calls, however, with the overall market weak, it's a lower probability trade and is more likely to reject resistance at 150.

Criteria
APPL near 150 resistance + overall market weak

Results
AAPL fails to break through 150 resistance and creates little opportunity for profit.

Key Takeaways

- **Combining price action, technical analysis, and news** can prove to be a highly effective way to differentiate stronger trades from weaker ones.
- Focusing on high probability trades will position you to maximize profits by indicating when to allocate more capital to the right trades.
- **Focus** on trades with at least **2-3X** opportunities.

- Support and resistance levels can be used to determine how strong an opportunity is and if the risk-reward ratio is in your favor.

Psychology

Overview

As a trader, every day is a battle against yourself. You can either be your own worst enemy or your strongest asset. You can be a master of technical analysis and have strong account management strategies, but if you fail to execute on a daily basis you will never succeed in the long term. A daily routine, trading rules, and being aware of common emotions traders face will help you create an unbreakable mindset that will create true consistency in your trading journey. If you can master yourself you can master the markets.

Benefits of a Daily Routine

In order to achieve long-term success as a trader, you have to be able to make consistent decisions on a daily basis. This starts with having a structured daily routine. If you can follow a consistent routine in your daily life, it will translate the same consistency in your trading journey. Trading requires a high level of focus and mental effort, therefore, it is important to create a routine that promotes mental and physical health. While there isn't a one-size-fits-all routine, see my routine below that has helped me stay on top of my game.

Example routine

- Morning meditation (30 minutes)
- Market Preparation
  - Read the news
  - Narrow down the top 3-5 plays
- Healthy meal
- Work out (90 minutes)
- Spend time with family and friends
- Study and review past trades
- Review charts/news
  - Prepare charts/levels/trade plans for the next day
- Evening meditation (30 minutes)

Trading Rules that will Help you Avoid Common Mistakes

The freedom and benefits that can come with trading can be short-lived if you don't have rules and a system in place.Trading rules are vital to ensuring a trader stays on the right path toward success and to help avoid common mistakes. Listed below are trading rules I abide by on a daily basis to help maximize my ability to execute winning trades and generate more profits. These rules are not meant to be unique or cause a massive shift in your trading style. I am sharing this list to help reinforce how the simplicity of trading rules coupled with a proper psychological mindset can produce consistent results.

Treat trading like you would with any other business venture

Respect your cash and your account size. Like most businesses, you can't expect to be profitable during the first month of opening if you are new to the industry. Some businesses take years before they become profitable. Remember to **PAY** yourself at the end of each week. Some traders try to continuously grow their accounts but it can backfire if you incur a big loss on any given day. If you look at trading as a means to get rich quickly, you are more likely to fail because of your poor mentality. The more time you invest in learning to improve and learn, the higher chance you have of becoming successful with options trading.

Never average down a losing position

This common habit may work 70-80% of the time, but if you continue this flawed strategy, one day you will average down too much and blow your account. Many amateur traders average down and end up sweating the trade and destroying their mental capital and account. If a position is going to be a winner, it should work with minimal effort.

Trade without a bias

Do you find yourself holding onto a directional bias when entering a trade? This is a common mindset of many traders and causes them to miss out on massive runs. Always remember to follow price action and not fight it. Having a bias will blind you from seeing what's in front of you. Don't try to be "right" all the time. I'd rather be wrong and make 100k by following price action than try to be right and completely miss a trade.

Always take profit on the way up

Are you greedy and try to wait for 100, 200, 300%+ gains? I've survived this long with options trading because I systematically take profits (Ex: 30, 50, 75, 100%+) which allows me to let a portion of my original position ride with a minimal amount of emotion. When you have less emotion and are trading with profits you will be able to think clearer. This is also why it is important to properly size your positions and not enter trades where you can only afford one option. Remember that small wins add up quickly if you can last longer than 6 months trading options. One of the reasons why most traders fail within one year is because they lack a systematic way to secure profits.

Protect your capital/Manage risk

How much risk are you willing to take per trade? Most traders are not honest with themselves and buy larger positions than they can afford to lose. Allocate less than 5% of your account per trade to allow yourself a chance to take more trades in the future. If you have a higher risk tolerance and can accept that risk, it is ok to increase this number, however, it would be wise to never let this exceed 10% of your account in a full position. One, two, three, or four trades should never have the ability to wipe out your account. I see many traders put in 30, 40, 50% of their account in a trade because they feel FOMO and want to see action. If you feel you have to make the absolute maximum profit in one particular trade, and put in a large percent of your account, then you are entering the trade for the wrong reasons and will likely never see the gains you desire. It's much easier to let a $500 trade go 1000% than putting in $20k and watching it go to $200k. Learn to trade smaller size and you will see how much easier it will be to manage your positions.

Always stay grounded

Every trader needs to learn how to respect their profits. It doesn't matter if you make $100 or $100,000 in a day. You need to learn to appreciate money regardless of the amount made in a day. I see some traders unhappy after they made 6k when they could've made 10k. This is the wrong mentality and can cause you to make irrational and high-risk decisions to make more money. If you make 10K on a trade and rolled 4K of profits into another trade that did not pan out, do you believe that you lost 4K or made 6K? If you believe you **lost** 4K you have the wrong mentality. Also, try not to compare your profits to another trader's profits. Everyone is on a singular journey toward improving themselves. You don't know what other traders have gone through to get to the level they're at currently, so there's no reason to ever compare yourself to another trader.

Cash is a position

Many traders are trigger happy every time the market opens and continuously want to enter trades to see action. This type of trader will burn out quickly and end up bleeding their account to zero. Remember that cash is your most important position and if you combine this with patience it can allow you the opportunity to maximize your profits once the market shifts in your favor.

Cutting losses - Abide by your stop loss

If a trade doesn't feel right, why should you hold onto the position? It's important to have a stop loss in place to ensure you don't lose more than you can afford to. Most traders are unable to cut a loss and allow the trade to control them and their emotions without realizing it. You must be fluid in your approach to each trade. If one doesn't work, simply move on and reset. Don't immediately jump into another trade unless you have a clear understanding as to why that trade didn't work out and have a well-constructed plan for the next. This will allow you to see the next opportunity more clearly without lingering on the previous loss. Losses are a part of trading. **It's important** to never let one loss affect your mental and capital ability to take the next trade.

Formulate a plan and follow it

It's important to have a plan **BEFORE** you enter a trade. Some traders tend to react rather than prepare for possible outcomes. You **must** follow the plan that you have created. If you can anticipate and visualize the possible outcomes for a trade, this will help prepare you to take the right action. If you see a consistent pattern of having trades go green to red, then you need to reevaluate your strategy. There's no reason why you should have a larger percentage of your trades that were profitable end up being bigger losers. Create a plan, execute your trade, secure the profit, and move on.

Summary

If you can align your work ethic, determination, and belief in yourself, anything is possible. You must learn to believe in yourself and the limitless potential the stock market and the world has to offer. When things are going well, it's easy to shift your mindset into this type of thinking. It's when times are difficult that you must maintain this way of thinking. This is what will separate you from 99% of traders. Learn to build an **unbreakable mindset** and you will elevate your trading career and life to new heights

Key Takeaways

- Daily routines that promote mental and physical health can help you achieve consistency in life and in trading.
- The freedoms that come with trading can be short-lived if you don't have a system in place to prevent you from making careless mistakes.
- Trading rules that will help you avoid common mistakes
    - Treat trading like a business
    - Never average down a losing position
    - Trade without a bias
    - Always take profit on the way up
    - Protect your capital and manage risk
    - Always stay grounded
    - Cash is a position
    - Abide by your stop loss
    - Formulate a plan and follow it
- Focusing on the process versus making quick money will help you create a trading system that is built to last.

Growing a Small Account

Overview

With options trading, you need to understand that it takes time and dedication to effectively grow an account. Regardless of what size account you have It is important to take a systematic approach that fits your risk tolerance and account size. This means focusing on high probability trades, planning entries/exits, and keeping a detailed record of every trade to help identify the trades you perform best in as well as identify any areas for improvement.

You don't need to hit home runs to grow an account. Small gains compounded over time will grow your account faster and also preserve your mental capital. It's possible for large wins to actually have a negative impact on your trading… they can lead to unrealistic expectations and oversizing on future plays when the risk/reward isn't there which can lead to larger losses and potentially blowing up your account.

There are roughly 250 trading days a year 💡

$100 a day = **$25K**
$200 a day = **$50K**
$400 a day = **$100K**
$500 a day = **$125K**
$1000 a day = **$250K**

Try to avoid having a money-making mindset. If you focus on identifying high-quality trades and follow your rules, the money will follow. Trading is a lifelong journey...choose the right path that will lead you to consistency and success.

How to Grow an Account

Growing a 5K account to 100K

With a smaller account, you need to be more selective with your plays. I would focus on taking 5-10 higher-quality trades total per week, with a 3x risk:reward ratio using $250-$350 per trade. If 6-7 of the trades work in your favor, you'll be able to grow your account by $750-$1k per week. If you can consistently do this for 2-3 months you'll be able to grow your account to about $15k.

Once you have built the profits up, you will also have a detailed record of the trades that work best for you and your trading style. if you can take 2-3 trades with setups that have worked 80% of the time using 2k position size (only profits) and 2 out of 3 work you can grow your account by an additional 2-4k+ per week

If you repeat this process and incrementally increase your size on the trades that have a high probability of success you can achieve a 100k account within 12 - 18 months.

Journaling Trades

Keeping a detailed record of your trades will give you the insights you need to determine what trade setups work best for you. This is important to grow an account so when you are increasing your position size, you have the data to support what trades work most often. Each trader needs to learn for themselves what type of risk and setups they prefer. Journaling will help you do this. It will also help you keep a sound mind by reviewing emotions or any bad habits that come up. Regardless of what level you are at, create a method of reviewing your trades so you can extract value objectively.

Elements of a trade journal

- [ ] Date/time
- [ ] Option/strike
- [ ] Trigger (why you entered)
- [ ] Exit (why did you exit)
- [ ] Notes (did you follow your rules)
- [ ] Screenshots (entry/exit/chart patterns)
- [ ] Outcome (what was the result)

There should only be 3 outcomes to a trade (**win, big win, small loss**). You can learn from your wins just as much as losses and break-even trades. Remember to journal, regardless of the outcome.

How to Day Trade with Less than 25K (avoid PDT) 💡

- Open a **Cash Account** with a reputable brokerage
  - (Ex: TD Ameritrade/Etrade/Webull
  - Note: Robinhood does not presently allow this

- Funds used from day trades will settle overnight / be available the next day avoiding PDT

Key Takeaways

- It takes time and dedication to effectively grow and account.
- Avoid having a money-making mindset and instead focus on the process.
- You don't need to trade every day or hit home runs to grow your account.
  - Small gains compound to a much greater amount and preserve mental capital.
- Focusing on large wins can build a false sense of confidence and negatively impact your trading.
- Journaling your trades is required no matter what level of experience you have.
- Growing a 5k account to 100k is possible with the right mindset and strategy.

Trading with a Full-Time Job

Overview

With the proper preparation and approach, you can achieve success while working a full-time job. Some people have the ability to view the markets for most of the day, whereas others may have limited screen time to manage their positions actively. Before starting, it's important to find a trading style and strategy that meshes well with your daily work schedule.

Styles of Trading

While there are many different trading strategies, there are two main categories most traders fall within; **day traders** and **swing traders**. Finding the style that fits you will depend on your schedule, availability to watch the markets and goals.

Day traders are typically taking advantage of same-day opportunities with trades lasting from a few minutes to a couple of days. Day trading may be best suited for individuals who have time to actively monitor charts/positions throughout the day or specific time periods (i.e. market open, market close, etc).

Characteristics

- Larger time commitment
- Higher volume of trades
- Can work well in any market condition
- Actively monitor charts and positions
- Requires quick decision making and a higher level of discipline

Swing traders are focused on entering positions they intend to hold longer than a day and sometimes weeks or months. Swing trading may be **better suited** for individuals who don't have time to actively monitor charts/positions throughout the day.

Characteristics

- Smaller time commitment
- Lower volume of trades
- Can work better in trending markets
- Passively monitor charts and positions
- Requires less decision making and uses less mental capital

Routine

Trading can demand a lot of time and focus, especially when you are just starting out. Therefore, when you are working a full-time job and trading you need to establish a routine that sets you up for success each day.

What your routine should consist of:

- [ ] Review the charts for names on your watchlist
- [ ] Identify the top 3-5 setups and create a trade plan for each
    - Determine triggers, targets, and stop losses
    - Place these 3-5 tickers on a separate watchlist with strikes of interest
- [ ] Review market news and take notes of any upcoming events or catalysts that may impact the market or stock you are interested in trading
- [ ] Set **alerts** for key levels of support and resistance so you can be notified when opportunities may be approaching
    - Charting software such as Trendspider and TradingView, or brokerages can provide this type of functionality

Pre-Trade Checklist

Questions to ask yourself before entering a trade.

- [ ] Does this trade fit within my style of trading?
- [ ] Do I have a planned entry, targets, and stop-loss?
- [ ] Do I have time to manage this trade?
- [ ] Is this a good risk to reward trade worth taking?
- [ ] Is my position size for this trade within my risk management strategy?

Common Pitfalls to Avoid

- Taking trades when you don't have time or access to monitor the position
- Not setting a stop loss and allowing a position to go to 0
- Making careless decisions due to fear of missing out on an opportunity
- Deviating from your strategy or style of trading due to FOMO
- Having too many open positions to manage
- Not trading with a size you are comfortable losing
- Taking trades for the sake of being active vs taking high-quality trades with a plan

Thinking about becoming a full-time trader? 💡

Many traders have an urge to trade full time and ditch their job. While this can be something to strive for, there are also many advantages of having a consistent income while learning how to trade.

What do you need before you should consider going full-time?

- [ ] 2 years consistent gains
- [ ] 250k trading account
- [ ] Limited liabilities (debt)
- [ ] 2 months of living expenses saved

Stay **focused** and **disciplined**.. You'll know when you're **ready**.

Key Takeaways

- With the proper preparation and approach, you can achieve success trading while working a full-time job.
- While there are many different trading strategies, there are two main categories most traders fall within; day traders and swing traders.
- **Day traders** are typically taking advantage of same-day opportunities with trades lasting from a few minutes to a couple of days.
- **Swing traders** are focused on entering positions they intend to hold longer than a day and sometimes weeks or months.
- Choose a trading style and strategy that meshes well with your work schedule, personality, and availability.
- Avoid taking unnecessary risks or trades you can't appropriately manage.

About Trade With Insight

We chose to start this community to help educate motivated and goal driven traders to reach the next level in their trading careers. This service is designed to elevate your thought process while learning self-control and discipline. You'll not only gain valuable insight from an experienced trader's every move, but you'll also be joining a community of like-minded individuals committed to learning and bettering their trading acumen.

Meet The Founders

Brando, Trader
Brando is the head trader of Elite Options. He has 11 years experience trading stock options with the last 7 years focusing on the tech sector. He spends a great deal of time teaching trading psychology with an emphasis on developing the right mindset to become a successful trader. This mentality has translated to a subscription service that is dedicated to educating others on winning strategies and life enrichment.

John, Tech
John is the head software engineer at Trade With Insight and an avid stock options trader. John has been developing software for over 10 years, streamlining business processes through application and web development. On a daily basis, John manages subscribers while continuously innovating the platform to provide the best experience for users to improve and enhance their trading abilities.

Summary
Combining Brando's extensive stock knowledge and passion for teaching with John's vast technical background, John and Brando have teamed up to deliver an ever-evolving stock option learning platform.

Are you ready to Trade With Insight 💡

Join the TWI community and learn how to apply all the information in this eBook by watching an experienced trader navigate the market in real time

- **What's included**
  - Two-Day Risk-Free Trial
  - Real-time Alerts
  - Market Commentary
  - 24/7 Community Chatroom
  - Weekly Conference calls
  - Charts with Trade Ideas

Use: **ebook25** to get **$25 dollars off** your first month
Visit elite.tradewithinsight.com to learn more about us and get started!
We look forward to being apart of your journey

Trading Terminology

What are options

Options

- An option is a contract that gives a trader the right, but not the obligation to buy or sell a stock prior at an agreed-upon price prior to or on a specified date.

Calls

- Is a bet that a stock will rise in value.

Puts

- Is a bet that a stock will fall in value.

Expiration Date

- Specific date that they expect the stock to rise or fall by. The expiration date is an important factor in determining the value of an option. As an option approaches an expiration date, the value of the option will decrease due to time decay.

Strike Price

- The strike price is the price a trader expects the stock to be above or below by the expiration date.

In the money

- A call is “in the money” if the strike price is below the current stock price.
- A put is “in the money” if the strike price is above the current stock price.

At the money

- A call/put is at the money if the strike price is equal to the current common stock price.

Out of the money

- A call is “out the money” if the strike price is above the current stock price.
- A put is “out the money” if the strike price is below the current stock price.

Contracts

- One contract is equal to 100 shares of the underlying stock.

Premium

- The price that you pay or sell an options contract for.

Target

- The future price of a stock based on technical analysis.

Technical Analysis

Technical analysis (TA)

- A tool that can help you predict the direction a stock may move by analyzing its past price movement.

Setups

- An opportunity identified on a stock including calculated risk/reward, entry, target, and stop loss.

Support

- A level at which buyers (bulls) take control over the prices and prevent them from falling lower. These levels tend to act like a floor preventing the price to drop lower.

Resistance

- A level at which sellers (bears) take control of prices and prevent them from rising higher. These levels tend to act like a ceiling preventing the price to rise higher.

Key Levels

- Important support or resistant levels derived from technical analysis.

Patterns

- Used to predict particular market movements by using a series of trendlines and curves.

Bullish

- Adjective to describe something rising in value or the belief that it will.

Bearish

- Adjective to describe something falling in value or the belief that it will.

Trendlines

- A trendline is a line drawn over pivot highs or under pivot lows to show the prevailing direction of price.

Account Management

Position size

- Refers to the dollar amount used per trade.

Risk tolerance

- Amount of risk a trader is comfortable taking or level of uncertainty a trader is willing to accept.

Small account holder

- A trader with an account less than 25K.

Roll up

- A new position you buy using a percentage of profits from a prior winning trade (10-20%). This rollup position is typically a strike further out of the money which allows you to continue capturing the most profit from a stock while also reducing overall risk.

Binary event

- Events such as earnings reports, FED meetings, FDA approvals, known speeches, etc may cause a large reaction to the stock market or particular stock. Trading around these events is inherently higher risk and less predictable.

Strength of a trade

Price action

- The observation of a stock's movement and behavior.

High Probability

- How likely is something going to happen or occur based on a variety of factors (price action, technical analysis, news).

Upgrades

- An analyst has changed their rating from sell to hold, or from hold to buy, indicating that they are more optimistic about a company's prospects.

Downgrades

- An analyst has changed their rating from buy to hold, or from hold to sell, indicating that they are less optimistic about a company's prospects.

Macroeconomic

- Economics dealing with large-scale or general economic factors like interest rates or national productivity.

Earnings

- Financial reports released by a company on a quarterly basis.

Risk to Reward

- A way to measure the amount of risk associated with a trade in comparison to the amount of reward possible.

Consolidating

- When a stock pattern becomes stronger from time spent "resting" at or near certain key levels.

Stock Split

- When a company increases the numbers of shares available but the market cap remains the same. Typically reducing the price of the stock and increases the number of shares owned by shareholders.

Psychology

Average down

- Adding to a position that is already at a loss in an attempt to lower an entry position.

FOMO

- An acronym used to describe the "fear of missing out".

Growing a Small Account

Mental Capital

- A term used to refer to mental energy.

Journaling

- The act of recording trade data in an effort to learn from it.

Trigger

- A level at which a trader enters a new trade or exits an old one.

Pattern Day Trader (PDT)

- A regulatory designation for traders that execute four or more day trades over the span of five business days using a margin account.

Cash Account

- A type of brokerage account in which the investor must pay the full amount for the stock purchased. There is no margin (money borrowed) with a cash account. These accounts are not subject to the "PDT rule".

Trading with a Full-time Job

Day Trader

- Traders that take advantage of opportunities lasting from a day or a couple of days. Usually executing a larger volume of trades.

Swing Trader

- Traders that focus on entering positions they hold for longer than a day and sometimes weeks or months. Usually executing a lower volume of trades.

Alerts

- A notification set on a stocks price level or other characteristic that can be sent to you via phone, email, etc.

Catalysts

- Something that causes a stock to increase/decrease in value quickly (news, upgrades, downgrades, etc)

Trading Tools and Resources

- **Charting software**
  - TrendSpider
  - TradingView
- **Popular Brokerages**
  - TD Ameritrade (robust free charting software)
  - E*Trade (popular)
  - Interactive Brokers (good for international)
  - WeBull (commision free)
- Options Profit Calculator
  - Find out what an option will be worth at certain common stock levels
- **News Resources**
  - Benzinga (https://www.benzinga.com)
- **News**
  - **Benzinga** (https://www.benzinga.com)
  - **Twitter**
    - Walter Bloomberg https://twitter.com/Deltaone
    - First Squawk https://twitter.com/FirstSquawk
- Economic calendar
- Futures