



Options Trading Strategy

*Lesson 5
presented by Arsh*

What is my Options Trading Strategy?

Executing directional momentum trades on stocks using calls and puts

What is my Options Trading Strategy?

Market timing strategy focused on predicting the NEXT move in the stock price

What is my Options Trading Strategy?

The goal is to properly time entries that will lead to immediately profitable positions

What is my Options Trading Strategy?

Hold on to winning trades to let them realize their full potential, while exiting quickly out of losing positions to keep losses at a minimum

What is my Options Trading Strategy?

I am trading the option premium so I will not hold the contract until expiration

Planning Your Option Trade

Before you can execute an options day trade, you must consider the following:

Planning Your Option Trade

Option strike

Option expiration

Risk/reward parameters

Position size

Option Strike

My strategy involves buying slightly out-of-the-money options that have no intrinsic value

Option Strike

Slightly out-of-the-money and deeply out-of-the-money options that make it into-the-money offer the greatest risk/reward profile

Option Strike

You can also trade in-the-money options, but they will be more expensive and the risk/reward potential will be smaller



\$59 Call: \$0.90 to \$2, +122%

\$57 Call: \$2 to \$3.35, +67.5%

12:45 21 06:45 07:00 07:15 07:30 07:45 08:00 08:15 08:30 08:45 09:00 09:15 09:30 09:45 10:00 10:15



Option Expiration

When you want to take a day trade with options, it is best to use same week expiration options

Option Expiration

The nearest expiration options are going to be the least expensive since they don't have very much time value, and offer the highest risk/reward potential



⊕ Indicators ⊕ Comparison | Date Range 1D 5D 1M 3M 6M YTD 1Y 2Y 5Y Max | Interval 1Min ▾ Line ▾ Draw Events

TSLA180907C00260000 1.990

Open	1.990
High	1.990
Low	1.990
Close	1.990
Volume	397
% Change	-56.26%

+322%



⊕ Indicators ⊕ Comparison | Date Range 1D 5D 1M 3M 6M YTD 1Y 2Y 5Y Max | Interval 1Min ▾ Line ▾ Draw Events

TSLA180914C00260000 8.250

Open	8.250
High	8.250
Low	8.250
Close	8.250
Volume	135
% Change	-25.47%

+68%

AM 9:35 9/7 9:40 AM AM 9:47 AM 9:49 AM 9:53 AM 9:56 AM 9:59 AM 10:07 AM 10:15 AM 10:26 AM 10:38 AM 10:47 AM 10:55 AM 11:07 AM 11:18 AM 11:26 AM

>>
8.250
8.000
2



ISHARES RUSSELL 2000 ETF, 5, AMEX □ 0170.84 H170.89 L170.72 C170.73

• Post Market



ISHARES RUSSELL 2000 ETF, 1D, AMEX □ 0169.14 H171.36 L169.12 C170.76

• Post Market



Option Expiration

When executing a short term swing trading strategy, aim to trade options that have a maximum of 1 month until expiration





Option Expiration

Most actively traded large cap stocks will have options that expire every Friday

Option Expiration

Less actively traded large cap stocks will have options that expire every month

Risk/Reward Parameters

Depending on the expiration and strike price of the option, stop losses will range from 10-50% of the option premium

Risk/Reward Parameters

Depending on the expiration and strike price of the option, profit targets will range from 30-150% of the option premium to achieve 3:1 profit loss ratios

Risk/Reward Parameters

The closer an option gets to expiration, the more volatile the prices will be

Risk/Reward Parameters

Options that have more than 3 days until expiration will be less volatile so the stop losses should not exceed 10-20%, and profit targets should land in the 30-60% range to help you achieve a 3:1 profit/loss ratio

Risk/Reward Parameters

Options that have less than 3 days until expiration will be more volatile so the stop losses should not exceed 25-50%, and profit targets should land in the 75-150% range to help you achieve a 3:1 profit/loss ratio

Risk/Reward Parameters

Day trades will be less risky because there is no possibility of a gap against you, where as swing trades will be more risky because there is a chance of an overnight gap against you

Risk/Reward Parameters

Use “delta” to help determine how much the option will move in relation to a \$1 move in the stock

Risk/Reward Parameters

Use “theta” to help determine how much time decay the option will suffer

Risk/Reward Parameters

Use “vega” to help determine the impact of changes in implied volatility

Position Size

Position size must be determined based on max loss per trade and expected stop loss on the trade

Max Loss

Max loss should be kept consistent across all of your trades, and depending on your skill level, you should risk no more than 1-5% of your account on any given trade

Stop Loss

Your trade stop loss should not exceed 10-50%, depending on the expiration and strike of your option

Position Size

Example: If you are willing to risk \$100 per trade, then a 30% stop loss means you can purchase \$300 of options

Position Size

Example: If you willing to risk \$250 per trade, then a 50% stop loss means you can purchase \$500 of options

Position Size

Example: If you willing to risk \$1000 per trade, then a 25% stop loss means you can purchase \$4000 of options

Position Size

Example: If you willing to risk \$1000 per trade, then a 100% stop loss means you can purchase \$1000 of options

Practice, Practice, Practice!

Trade on the paper trading simulator for 1-3 months to develop the best understanding of how option premiums will react to price changes in the stock

Chapter 5 Recap

My option trading strategy
Planning your option trade
Practicing on a simulator