First experience options trading

So here it goes. My first experience as a day trader trading Options. To begin with, let me tell you all, this was a big mistake for me, day trading options. And it’s very difficult to keep your emotions in check while doing so. Though even before starting to trade I had made up my mind to not fall in the lust trap, I eventually found myself in the same hole that 90% day traders end up sooner or later. So without further ado let me explain what went wrong.

A little bit background about myself, I was a licensed options trader in a major bank in Canada. I completed some mandatory certifications like Canadian Securities Course, Derivative Fundamentals and Options Licensing, and few others to obtain my registration as an Investment Representative. So as you know by now, I had a pretty good base and understanding about options trading. I was placing options trade for clients of the bank but had never did it myself in my account. Little did I know that it makes a major difference to place a trade for someone else and for yourself as emotions play a major part when it comes down to your hard earned money.

Fast forward, I was out of job for some health reasons and while sitting at home I decided I will give it a try and day trade options. So I revise my knowledge, view some youtube videos, jot down the Dos and Donts and opened a practice trading account with WeBull. I started placing simple trades of buying Calls and Puts on some volatile stocks like AMD and Amazon. I had set up my trading platform with some youtube recommended indicators like MACD, RSI and Volume. The practice trades went great, I remember I placed around 12 trades in total of which 8 were profitable and remaining 4 I managed to keep my losses to minimum. I was not overtrading and was feeling confident with every passing day.

Everything was set and now it was time to start the real game. I had a TFSA account and thought that’s a nice way to make tax free gains instantly. So I put in $500 in my TFSA.

Day 1

Trade 1. Buy 2 Put AMD 54, total $520.40. Contracts expiry was in 2 days.

Trade 2. Sell 2 Put AMD 54, total $840.65. Net profit $320 in 1 trade.

I put some more trades, 6 in total, and my account went from $ 500 to $ 997 in one day.

WOW! I almost doubled my account in a day.

Day 2

Trade 1. Buy 7 Put AMD 52 for $ 508.70

Trade 2. Sell 7 Put AMD 52 for $ 471.28. Loss of $37.42.

But wait, that’s not it. As you may or may not know, Canadians pay some of the most exorbitant commissions for trading. So for this trade, I payed $18.70 for the buy transaction and another $18.70 for sell, total of $37.40. So my total loss for the previous trade was $ 74.82. my loss got doubled. By the end of next day my account was down to $772.

And by fourth day, I managed to get my account from $997 to $53 and had placed more than 20 trades so far.

Frustrated but still optimistic, I transferred another $500 to my TFSA. This time I was determined to recover my losses and keep emotions in check. So I start trading again and my account went up to $664. In another 5 days, I again lost everything and came down to $67. I lost around $900 in total. And with no income coming in at that time, I had to stop with my trading activities. Now I feel how great that decision was or else I could have lost much more.

So what went wrong exactly?

Believe it or not, one of the major reasons for my loss was commission on the trades. I calculated how much in total I paid to the bank for the 43 trades I placed in mere 10 days. I was shocked to know that I paid around $600 in commission. My actual loss due to trading was only $300. How ridiculous was that. As my trades were of small amount, commissions played a major part in my losses which used to get amplified. For example, If my trade value was $200, the buy and sell commissions would total up to $25. So in order for my trade to break even, I should make atleast $225, that’s minimum 12.5% movement in option price. If the trade value goes down to $190, my loss was $10 + $25, that’s $35. Now you can see how commission amplifies losses in smaller trades.

Another mistake I did was I relied heavily on indicators. MACD is a lagging indicator and it does not necessarily predict the momentum of the stock market. I used 12 days and 26 days moving average compared with 9 day moving average. The RSI indicator was good but the stock market was so volatile during the Covid 19 pandemic that it could not predict trend reversal accurately. A stock could remain oversold or overbought for prolonged period.

One more drawback for me was, since I worked as a licensed investment representative before, by law it was required that my bank provides me with delayed quotes by atleast 15 mins. And in such volatile periods, 15 mins meant a make or break situation for me. Those delayed quotes costed me a lot.

My options selection was also to be blamed. I was buying options that would expire in a week or less. That’s why, the value of the options would degrade at a faster rate even if the stock was at a stable price or moving upwards.

And last but not the least, I could not keep my emotions in control while trading. As I mentioned earlier, I made 43 trades in less than 10 days, which is a whole lot than I wanted to. But that’s how it works, the dollars shining in your eyes that doesn’t let you realize what you are getting into. I spent $600 in trade commissions.

Overall, I would say it was a good experience for me as I learnt from my mistakes instead of just reading about what to do and what not. I am looking to start trading soon by utilizing my past experience, which has made me realize that day trading is no a good idea, perhaps not for anyone. I don’t plan to go back to day trading again ever, this time I will pick my trades diligently. Or will I? Only one way to find out. Will write soon bout my next experience when I start trading again.