

A professional portrait of a man with a beard and short hair, wearing a dark suit jacket over a light-colored shirt. He is smiling at the camera against a dark, textured background.

# Option Profit Accelerator

Learn how you could **DOUBLE** or  
**TRIPLE** your account in One Week!

| JEFF BISHOP |

**TOTALALPHATRADING.COM**

# Welcome to the Option Profit Accelerator!

## Jeff's Favorite Trading Techniques

As we begin this course I want to introduce you to several of my favorite “tricks” I use on a daily basis when trading. If you are a member of my WeeklyMoneyMultiplier service, you will see me put these principles to work each day in live trading. I am going to outline 6 key principles you need to think about when trading. After this, we will get into the nuts and bolts of how to actually apply these to trading options.

The 6 key principles we will start with are:

- Use stop losses.
- Time entries and scale into positions.
- Know the current market conditions.
- Know when to get aggressive.
- Risk manage your positions.
- Go against the herd.

## The Argument for Stop Losses

There's a dichotomy between active and passive traders. Some argue for stop-loss orders, while others think the trading algorithms (algos) are

front-running your orders. Now, that may be the case in some situations, where there are algorithms known as “stop hunting algos.” They use computer science and math to force traders and investors out of their positions by driving the stock or exchange-trade product’s price to a level where many individuals have chosen to set their stop-loss orders.

Now with options, if you don’t currently use a strategy to stop out of your options position, listen up.

Remember, options derive their value from factors such as implied volatility, interest rates, strike price, time to expiration, and the underlying stock price.

You see, when you’re trading options and **looking to multiply your money with directional bets**, it makes more sense to use the stock’s price as the stop loss, not the option itself. Since the factors that go into options pricing are dynamic, the option’s price could move even if the stock price doesn’t.

That in mind, charts help with setting stop losses. For example, here’s a look at a real trade in which I used the stock price to give me an out.

Jeff Bishop via sendgrid.net  
to me

Mon, Dec 3, 2:27 PM

**Weekly Money Multiplier**  
with Jeff Bishop

I just started a new position on ROKU with the ROKU DEC 21 2018 41.0 Call @ \$2.22.

I really like this company and think they have a unique spot in the streaming world. The price at this level is too irresistible to me, so as long as the chart holds up I want to onboard with the growth story here.

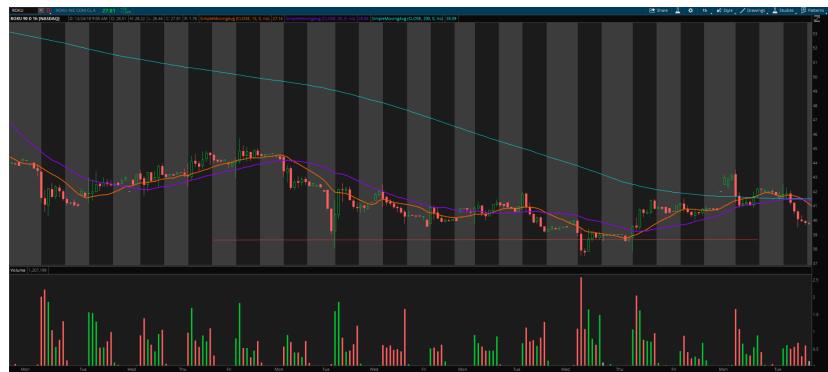
My plan is to add to this around \$1.50, but stop out if ROKU closes below \$39. I think the market has legs for the immediate future and buying good names like ROKU on dips makes sense to me.

I haven't sold any VFC yet, though I certainly plan to take some off the table into the close today or tomorrow. After adding a couple of times last week I am sitting on about a 100% profit on that trade.

GS is down for me, but I plan to add to that as well. I am thinking around the \$2.50 range on those calls so we will see if it gets there.

Jeff Bishop

Here's a look at the hourly chart of Roku Inc. (**(ROKU)**).



Notice the red horizontal line. If ROKU broke below \$39 while I was in the trade, I would stop out of my position and cut the loss. This was a clear support area, and if it broke below, chances were the stock could fall further.

Now, it's fine to take small losses, it's nearly impossible to have all winning trades. You need to understand how to risk manage your trades if they look like they're going to turn sour.

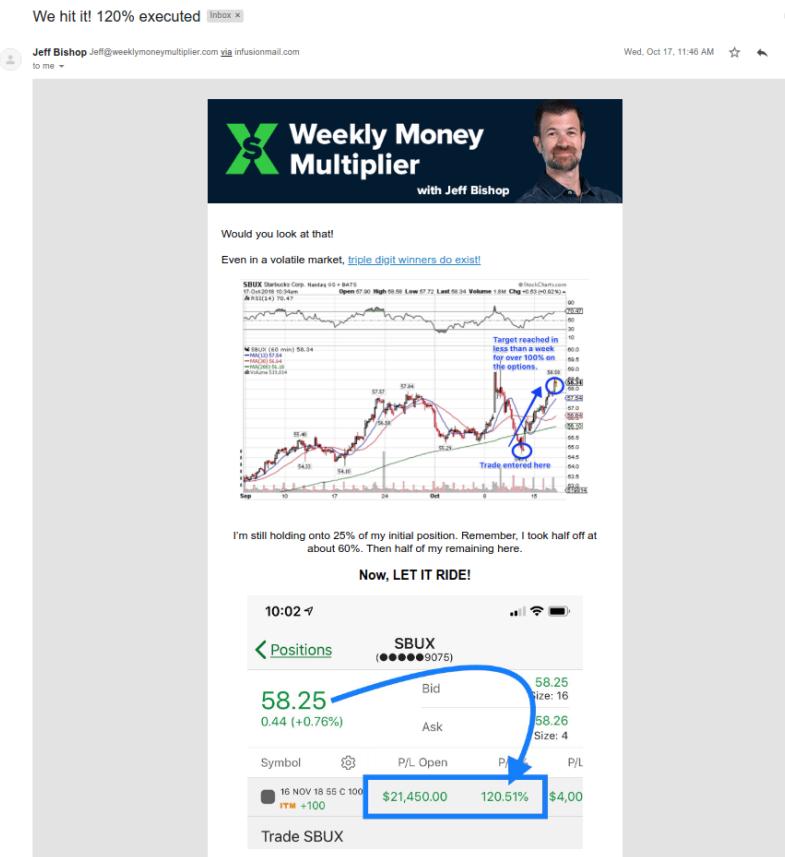
Stop losses help if a stock is going against your options trade.

But what about the other side of the trade? What if the stock is working to your favor and your options are in the money?

Well, you can place trailing stops on your positions when you're sitting in profits. For example, if your goal is to generate 100%+ on your options trades, sell or cover half of your position, and let the rest ride – placing a stop loss around an area you're comfortable with.

I let the stock charts tell me when the trend is over and when to lock in profits.

For example, here's a sample trade in which I took half off the table when I was sitting in profits.



Keep in mind, you would need to set alerts for the stock price – letting you know when to get out of a position. For example, if you're long at-the-money

calls in the SPDR S&P 500 ETF (SPY) and it's currently trading at \$245.



If you notice on the daily chart of SPY, the red horizontal line (\$240 area) was previously a support area. If SPY breaks below that area, you can set an alert on your brokerage platform...thereafter, if the alert is triggered, you can sell those options.

It takes a bit of experience to determine where to place your stop losses; you'll need to evaluate the charts, current market conditions, as well as any potential catalysts that might affect your position.

That said, successful options traders understand timing, whether it be for stop losses or entries.

## Timing Entries

You're probably thinking, "Okay, I understand stop-loss orders and why they're useful, but how do I select the right option to buy?"

Well, you could use trendlines or other technical indicators you feel comfortable with...if a signal is generated, you would make a move on the options.

For instance, here's a look at a trade example.

Now, I was keeping an eye on AeroVironment Inc. (**AVAV**) here.



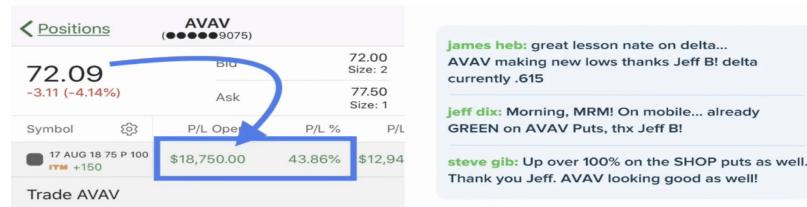
The stock had multiple tops and a clear resistance area.



I figured once I saw the money pattern flash a sell signal in the name, it was time for me to buy puts.



Here's how the trade turned out, and members were able to rake in some profits.



If you recall, options are like fresh produce...there's an expiration date. That in mind, it makes sense to buy yourself a little more time.

When you're selecting expiration dates, try to figure out within what time frame you think the stock will make the move. Thereafter, buy options about two to three times as long as that – this gives you an added layer of protection against time decay. For example, if you think a stock will make a move in the next week (which I usually do, or else I won't make the purchase), then you would buy options that expire at least 3 weeks from today.

What about position sizing?

You never want your position to be too big in relation to your account size.

Many novice traders know how many contracts they want to be in, but make the mistake of buying

all at once. You see, when you're trading, it's essential that you learn how to scale in.

For example, if the options go against you a little, you might want to purchase some more to bring your average cost down. However, you should not keep averaging down, especially if the stock goes above or below your stop price.

That said, if you want to trade 10 call option contracts in a stock, scale into your position.

Maybe, you purchase 5 options contracts and buy more if the stock pulls back to an area of support.

## **Don't Follow the Herd**

Understanding market conditions helps with options trading. The market environment lets you know what options strategies you should be using, or whether you should sit this one out and watch from the sidelines.

You see, markets overshoot on the upside, and when markets fall, they typically correct too far and fast on the downside as well. Traders and investors pile in stocks for far too long during a bull market, thinking it will continue for another decade. In turn, they may be buying overvalued assets, driving stocks to unseen levels.

On the other hand, when the market is correcting... panic consumes traders. They tend to sell stocks too far below where the true value may be.

This is what is known as the "herd mentality."

You can't make outsized profits if you're always following what the "herd" is doing. Instead, you will

make money with them and lose money with them. Moreover, you'll always be one step behind because you're waiting on their every move. That in mind, it makes sense to learn when to go against the herd.

For example, one of the greatest options traders of our time, Nassim Nicholas Taleb, knew when to go against the herd. Rather than following the trend and buying "overpriced" options, he used a strategy that was contrary to what everyone was saying and trading. Heck, just a few years ago, a fund he serves as the scientific advisor for was rumored to profit \$1B during the August 24, 2015 flash crash.

That said, being contrarian pays off sometimes.

Next time you trade options, take note of the market conditions. Is the market choppy and can't find a direction, or is it trading in a clear uptrend or downtrend?

Ultimately, this will let you know when to be aggressive and when to stay on the sidelines.

# Understanding Trends

When market leaders are in a bull market, the market tends to run higher and stick with that trend. However, when they reverse course, even the best stocks will fall.

For example, here's a look at the daily chart of Apple Inc. (AAPL).



Notice how it took AAPL nearly 1 year to get from the \$140s to \$230s. However, when the stock started selling off, it took just over 2 months to fall from its highs down to the \$145 area.

You see, traders and investors typically consider stocks to be in bear market territory when they're down over 20% in a two month trading period. Now, at the time, AAPL broke all key support areas, as shown in the chart above (the first line of defense was the blue, second was the purple, and third was the red horizontal line).

Once a stock breaks key support areas and the overall trend, it could be time to call it quits in the name.

The same thing happened with Amazon.com Inc. (**AMZN**).



The stock broke its uptrend line, which took one year to develop. In just around two months, AMZN dropped by more than 30% – placing it in bear market territory during the last quarter of 2018.

Baron Rothschild once said, “*Buy when there is blood in the streets.*”

Warren Buffett has been famously quoted saying, “*Be fearful when others are greedy. Be greedy when others are fearful.*”

Remember what we said about the herd mentality? Well, the world's best investors and traders typically follow the contrarian mentality. That said, when the market is in bear market territory and there's extreme pessimism, it may be time to look for selective buys.

Now, this means you need to conduct your due diligence and look at technicals.

*But how would you know when to buy?*

Well, of course, I like to use my money pattern.

Here's a look at the AAPL chart when it was in bear market territory.



Most people will say, “*It’s Apple, it’s a great company... I’m getting it for a discount!*”

However, that’s not the mentality to have. Of course, the idea of being contrarian works...but you need indicators to time your entries.

You see, at the time, I wouldn’t even consider buying AAPL call options until the red line crossed above the blue line. In other words, I want to see the 13-period simple moving average (SMA) cross above the 30-period SMA.

This pattern has worked well for me, and once the indicator flashes a buy, I’ll be aggressive.

The money pattern is great if you have no position and are looking to buy options on a stock or ETF.

But what if you’re already long and want to stay long, but are afraid of a market correction?

Well, **you can hedge your position.**

As a trader, you need to be flexible and it helps to not always be 100% on one side of a trade. Hedging can help with that. For example, if you’re long shares of AAPL, you can hedge by purchasing put options. If AAPL does go against you, the puts will gain, but your stock position would suffer. That said, the puts would help minimize your losses.

Great traders either move to cash during volatile times, or they hedge their positions.

You know what great options traders also do?

*They're willing to sell, or write options, in addition to going long calls and puts.*

I know I mentioned this earlier, and I'll reiterate again because it's really important: beginners should not naked sell options because there's a lot of risk involved.

However, there is a time and place to sell options.

If you want to be successful in options trading, you need to learn to be dynamic and willing to sell options...

This all sounds contradictory at first, but listen up.

## Sometimes It Makes Sense to Sell Volatility

You see, volatility is not stagnant. By now, you should have a good grasp of implied volatility. If you don't, go back and refresh your memory. Before we get into why it makes sense to sell

options at times, we'll need to go over a bit of mathematics. Don't worry, it'll be short and quick.

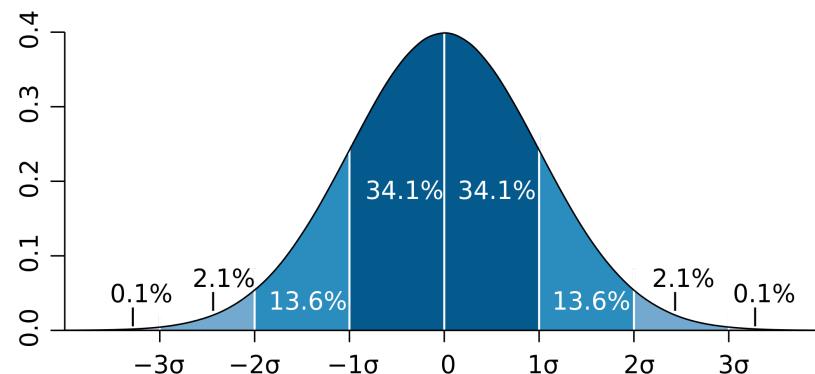
First, you'll need to understand the basics of probability distributions. Now, a probability distribution is simply a function providing probabilities of occurrences of different outcomes.

In the markets, the empirical probability distribution takes returns and plots a histogram of those returns. In other words, daily percentage returns are calculated and placed into buckets.

For example, the buckets could be in 0.5% increments. If the S&P 500 Index falls by 0.25%, it would be placed in the 0% to -0.50% bucket, and so on. Thereafter, you would find the average of the returns and its standard deviation.

Now, the normal distribution is split up into standard deviations (known as volatility in the options trading world). The standard deviation lets you know how dispersed the daily percentage returns are from the mean.

Ultimately, you would have thousands of returns, and you would see something that looks like the bell curve (something you may have seen in a high school math or statistics class).



Source: *Corporate Finance Institute*

Don't worry about the Greek letter next to the numbers, it's just called sigma (also known as the standard deviation).

Let's put this into perspective.

The market tends to have more small percentage moves than ones greater than 4%. Just by watching the market, you would know that the market normally doesn't have abnormally high or low daily percentage returns all the time. However, that's not to say that the market actually follows this distribution.

In theory, it makes sense, but in practice, we see moves greater than 3 standard deviations more times than you would expect. In the trading world, the distribution is actually known as a Levy distribution or fat-tailed distribution.

You see, during times of panic, you'll notice markets have crazy moves. For example, the average annual standard deviation of the S&P 500 Index over the past 15 years is around 13%. Over that period, you would expect the S&P 500 to move around 0.82% on a daily basis (13% divided by 15.87, or the square root of 252).

However, we all know the market moves farther than 0.82% at times. In 2018, we saw multiple days in which the S&P 500 Index fell more than 3 standard deviations, or 2.46%, in a day.

Although the normal distribution is useful, you should take it with a grain of salt and know that the market could have moves greater than 3 standard deviations at times.

Now, that's great for long volatility traders betting the market will do something crazy, in either direction. Remember, when you're trading volatility, it's just like the stock market...

You want to buy when volatility is low and sell when volatility is high.

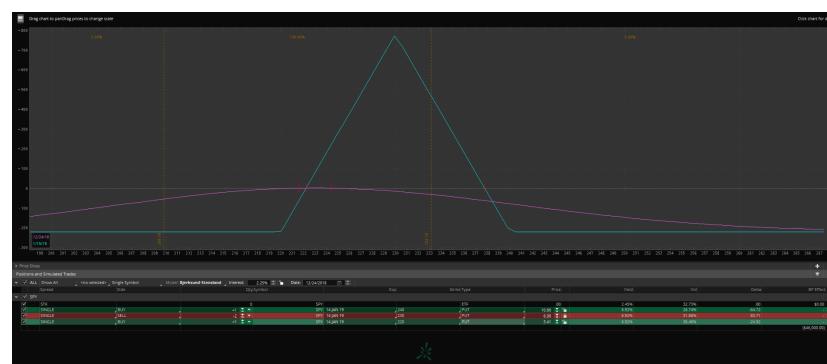
How do you know when volatility is high or low? Well, you can compare current volatility levels to historical ones.

For example, let's assume the SPDR S&P 500 ETF (SPY) has an average annual volatility of 13%, and currently, its implied volatility is 50%. It may make sense to sell volatility.

Well, since naked options selling is out of the question for some, we'll look at how you can sell volatility with spread trades.

For example, let's assume that you think SPY will trade in range and volatility will die down...well, if that's the case, you can use the butterfly strategy.

Here's the risk profile of a butterfly trade.



Take note, if SPY stays around where it's trading and volatility subsides, you would be near your maximum profit point. However, what happens if

you're wrong and the volatile environment is here to stay?

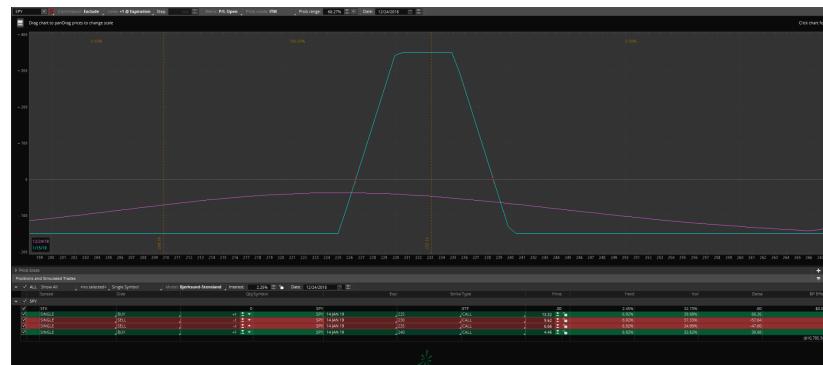
Well, since it's a spread trade, you cap your downside here.

Now, a typical butterfly strategy involves buying 1 OTM option, 1 ITM, and selling 2 ATM options. Keep in mind, you can be flexible with this strategy and do not necessarily need to follow the traditional guidelines.

You can also use the condor as a short volatility trade.

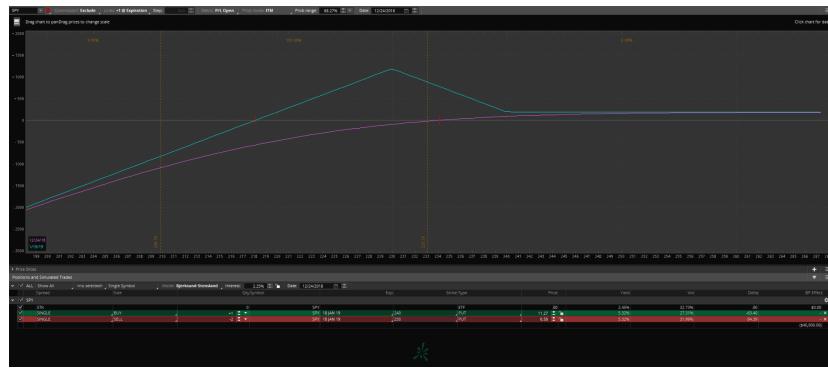
With the condor strategy, you can use calls or puts. For example, with calls, you would sell 1 ITM, buy 1 ITM with a lower strike price, sell 1 OTM call, and buy 1 OTM call with a higher strike price.

Here's how the risk profile of the iron condor strategy would look.



Keep in mind, at the time, SPY was trading around \$234.

You could also use ratio spreads. For example, here's how you could sell volatility if you think the market could bounce around the \$230 level.



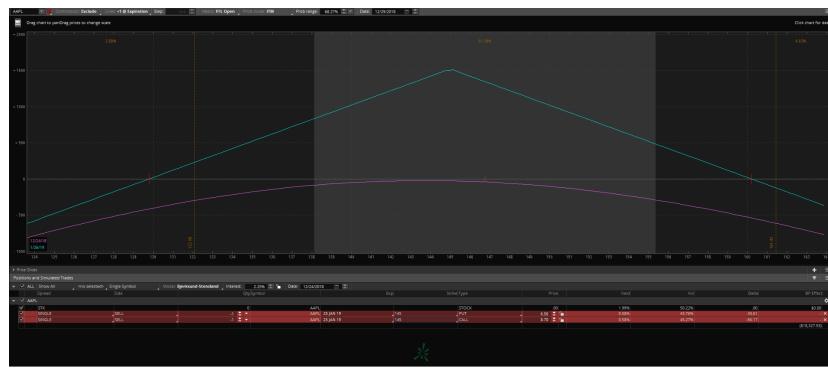
With this trade, you would sell 2 OTM puts and buy 1 ATM put.

What happens if the trade moves against you?

Well, you can hedge your position and turn it into a butterfly trade to limit your downside.

Now, you've probably heard of the straddle strategy before. With a long straddle, you would want to buy it when volatility is low, but when it's high...you would short a straddle.

Here's how a short ATM straddle on AAPL would look.



Notice how your risk is substantial if AAPL moves a lot in either direction. This is one strategy that you would only want to use if you're an advanced options trader.

But what happens if you decided to short a straddle, and feel that volatility would actually increase? You can hedge that straddle.

How?

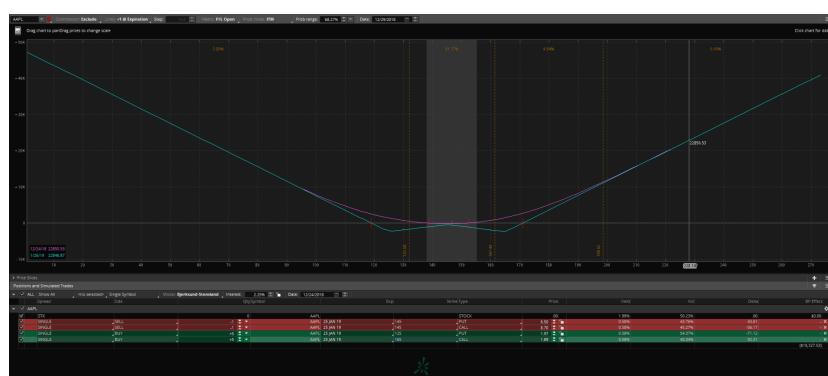
Well, you would buy the wings. Remember the normal distribution and how the market actually has more abnormal moves than expected?

The way distributions work is the fact that when there are extreme events, the days of low volatility are over, and you would see stocks have 2 or even 3+ standard deviation moves.

Now, I won't bore you with all the mathematical details...however, if you find yourself in a short straddle situation, and volatility is actually going up, either get out or buy a ratio of deep OTM options.

For example, let's assume you shorted 1 ATM straddle in AAPL, but think there will be an increase in volatility next week due to some catalyst events.

Well, here's how you could hedge that straddle.



Now, if there is a large move in either direction, you would make money.

# The Bottom Line

Remember, no one else's account matters except your own. Keep your eyes on the road ahead. You should never compare your trading to me, your brother-in-law or any fools you see on Twitter. Stay in your own lane and focus on building your own account and setups that suit your personality.

Great traders use stop losses, time entries and scale into positions, know the current market conditions and when to get aggressive, risk manage their positions, and go against the herd.

Also, when you're trading options, there is a fine balance of technical and fundamental trading – I believe every trader needs to learn that. You can't make money simply by using one of these styles, you need to learn how to use both if you want to develop into a seven-figure trader.

Focus on the options trading process, and who knows...maybe you'll be hitting 100%+ winners soon.

Now that we've wrapped up some of my favorite trading tips... Let's get into how to apply these to trading with options!

In the sections that follow, I am going to outline the basics of trading options from the very beginning. I'll assume you have never traded before and we will start from ground zero.

Even if you are comfortable trading options already, I think it is always good to review a lot of the finer points to reinforce what you already know.

Let's get to it!

## Option Basics

In a letter to shareholders in 2002, Warren Buffett infamously said, *"In our view, however, derivatives are financial weapons of mass destruction, carrying dangers that, while now latent, are potentially lethal."* Derivatives often have a negative connotation and many think they are just tools for speculation with a high degree of leverage invented by mathematicians. However, I don't think that's the case if you know how to use them properly.

Heck, derivatives have been around before all this fancy math and technology. The first reference to a derivative-like security dates back to Genesis 29. That's right, derivatives have actually been around for thousands of years, whether traders like it or not.

In this guide, we will be discussing options and how to use them to your advantage while leveraging your capital.

First things first, we need to define options.

## Options Explained

An option contract in the finance world is ultimately just an option to buy or sell an underlying asset, which could be a stock, index, futures or commodities. Here, we will be sticking with stock options because it's our community's bread and butter. Quite simply, an option contract is just a choice about whether you want to do something or not, it's not different than any other options we have in life.

A **call option** gives you the right to purchase the **underlying** stock at the **specified strike price**, on or before the expiration date. On the other hand, a **put option** gives you the right to sell the underlying stock at the strike price on or before the **expiration date**. When trading call or put options on the long side, you pay a premium to receive the right to buy or sell 100 shares of the underlying asset, and you're not obligated to do so. That said, the amount of premium you paid is the maximum amount you could lose.

- The underlying stock is simply the product to which the option
- The strike price is the price at which you would buy or sell the
- The expiration date is the date that the option would stop trading. American options could be exercised at any date before or up to the expiration American options have nothing to do with the geographic location because they could be traded all across the world.

On the other hand, if you short options, you would receive a premium for taking on the risk. If you sell short, or write, a call option, you are obligated to sell shares of the underlying stock if the call option holder exercises the option, or if the option expires in the money. If you write a put option, you are obligated to purchase shares of the underlying stock, if the put option expires in the money or the holder exercises the option.

Here are some examples of options:

### **AAPL Feb 16 2018 170 Call**

- If you owned the call option, you would have the right to buy 100 shares of AAPL at \$170 per share, on or before the expiration

### **SBUX Feb 16 2018 58 Put**

- If you owned these SBUX put options, you would have the right to sell 100 shares at \$58 per share, on or before the expiration

Moving on, let's see how options are priced.

## **Options Pricing**

There are a plethora of option pricing models out there, and we won't go over them at all since we're sticking to the basics. Options pricing models involve heavy math, and I don't think it's necessary to overwhelm you with all that information when you're just starting out.

However, you do need to understand what factors affect option premium.

There are three major factors affecting option prices:

- The underlying stock's price
- Time to expiration date
- Volatility

The two "less" important factors affecting options prices:

- Short-term interest rates
- Dividends

Keep in mind that interest rates would matter in a rising rate environment.

## **Underlying Stock's Price**

Again the underlying stock's price movements affect option premiums.

For call options, when the underlying price rises, the premium should follow suit. Conversely, as the underlying price rises, put option premiums fall.

When the underlying price falls, call option premiums would fall, while put option premiums would rise.

## **Time Value and Expiration**

Typically, when there is a lot of time remaining until the option's expiration date, the premium would be higher. In other words, an option with two months until expiration would have a higher premium than one with one week until expiration.

## Volatility

Volatility is the underlying stock's tendency to fluctuate in price. In other words, volatility reflects the price change's magnitude and does not have a bias toward price movement in one direction or another.

The higher the volatility, the higher the option premium. The lower the volatility, the lower the premium.

## Interest Rates

Generally, interest rates do not affect premiums as much as the time value, the underlying stock price and volatility. However, in a highly volatile interest rate environment, rates matter. An increase in interest rates typically increases call prices and decreases put prices, based on the famous Black-Scholes pricing model (we won't get into the details of the options pricing model).

## Dividends

Options are often priced assuming they would only be exercised on the expiration date. That means if a stock issues a dividend, the call options could be discounted by as much as the dividend amount. However, put options would be more expensive since the stock price should drop by the dividend amount after the ex-dividend date.

Now that we understand the basics of the factors affecting option premiums, let's move onto intrinsic and extrinsic value.

## Intrinsic and Extrinsic Value

An option's value is comprised of two components: intrinsic and extrinsic value.

The intrinsic value simply tells us the amount an option should be worth, when comparing the underlying stock's price and strike price. Let's assume Apple (AAPL) is trading at \$170, and you own \$160 call options. The options give you the right to buy the stock at \$160, and therefore, the calls should be worth at least \$10 a piece, or \$1K per contract.

If the call options were trading under \$10, it would be possible for traders to buy the call, immediately exercise the call to buy the stock for a net price below the current trading price. This is known as a risk-free arbitrage profit, which cannot exist in the market, at least for a long time.

Arbitrageurs tend to eat those profits before you even get a chance to do any of that.

Now, if an option has not expired yet, it also has extrinsic value. The extrinsic value is an option value's component, reflecting the fact the option has optionality. For example, let's continue with our AAPL option example. If AAPL is trading at \$170, the \$160 put options do not have any intrinsic value.

You definitely do not want to exercise the option to sell AAPL shares at \$160 when they're trading at \$170, that's an instant loss. However, if the puts have enough time until its expiration date, it could still have some value. This is because there is some probability that AAPL could trade down to \$150,

and the puts would become in-the-money (ITM) and have intrinsic value of \$10.

- In-the-money, out-of-the-money and at-the-money just reflect an option's moneyness in relation to its strike price. For example, if a stock is trading at \$50, the \$40 strike price Options Profit Accelerator 7 call options would be considered in-the-money, while the \$40 strike price call options would be considered out-of-the-money. Moreover, the \$50 call and put options would be considered at-the-money.

In short, extrinsic value reflects the value of owning the option because its intrinsic value could rise in the future.

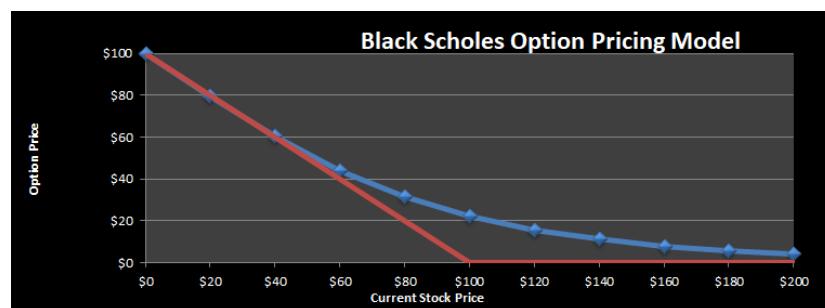
This brings us to the put-call parity.

## Put-Call Parity

Put-call parity is a highly important relationship between puts and calls. Fundamentally, puts and calls are the same thing. Put-call parity applies to only put and call options with the same strike price and expiration date.

Let's take a look at call and put option payoff diagrams to understand this important detail.

Here is an example of a put option payoff diagram:



The red is the option payoff, or profit-and-loss, diagram at the expiration date, while the blue line is the current option price given different scenarios where the underlying is trading.

Similarly, here's an example of a call option diagram:



Everything is exactly the same here. Same underlying, expiration date, volatility and interest rates.

Take a look at the symmetry of the option payoff diagrams above. If the underlying stock is trading at \$120, the calls have \$20 of intrinsic value, while the puts will have no intrinsic value. Conversely, if the underlying stock is trading at \$80, the put options would have \$20 of intrinsic value, while the call options would be “worthless”.

The beauty about options is you could synthetically create various strategies with different call and put options. Now, it's possible to synthetically create a similar payoff profile of the \$100 call options, using the \$100 puts and the underlying stock. All you need to do is simply hedge the \$100 strike price puts with the underlying stock, and let's assume the stock is at \$100. Here, we would create a synthetic \$100 call option. The same could be done to create put options with calls and the underlying stock.

Again, this is a very important detail for option traders. Quite simply, the only difference in a call's value and a put's value with the same strike price and expiration date is the intrinsic value. If you recall, intrinsic value is the value that an in-the-money option must have by being ITM. That means an option must be worth as much as the difference between the strike price and the underlying stock price. For call options, its the maximum of 0 and the underlying stock price minus the strike price. For put options, its the maximum of 0 and the strike price minus the underlying stock price.

Remember when we said an option's value has two components? Well, the extrinsic value is the remainder of the option's value once you've figured out the intrinsic value. Due to the put-call parity, put and call options with the same strike, expiration and volatility should be worth the same, in terms of extrinsic value.

## What's Next

Now that we've got the basics of options down, you're well on your way to learn how to use options and some basic strategies. I know, this is a lot at first, but once you've got the basics down, it'll be a lot easier. You might need to go back a few times to review this before you move onto the next section of the guide.

# Ways to Trade Options

If you recall from our first section, options allow you to be creative with trading. Options are one of the most flexible asset classes in the market because you could accurately reflect your view on the market.

For example, if you are bullish on a stock that is optionable, or has options, you could place a directional bet. The same is true when you're bearish or neutral. Moreover, if you expect a stock to move a lot, you could place a volatility strategy. You could also use options to hedge your stock. The possibilities are pretty much "endless".

Now, let's take a look at ways to use options.

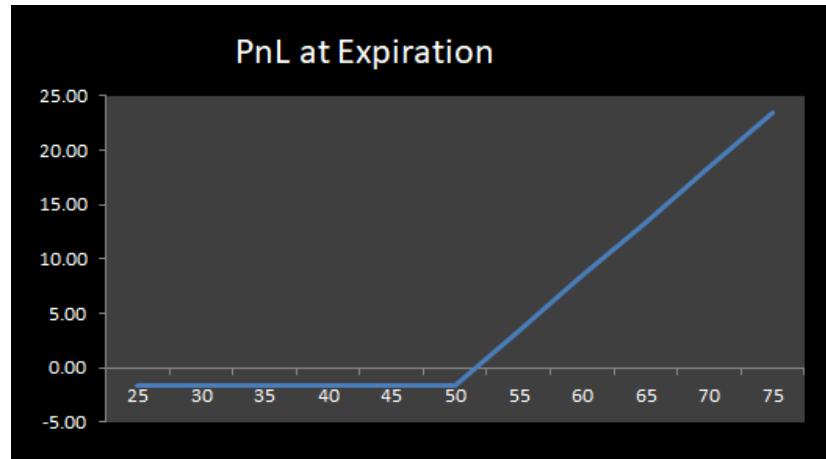
## Using Options for Directional Trading

Options could be used to gain exposure to the price movements of the underlying stock. This is known as directionally trading options and it's what we're all about. For example, if you are bullish on a stock and think it could rise by \$10, you could buy some call options to profit from a move up in the underlying stock.

For example, let's assume you think a stock could rise by \$10 in one month, and the underlying stock is trading at \$50. You go out and purchase one \$50 strike price call option expiring next month for

\$1.59. Since stock options have a multiplier of \$100, your risk would just be \$1.59.

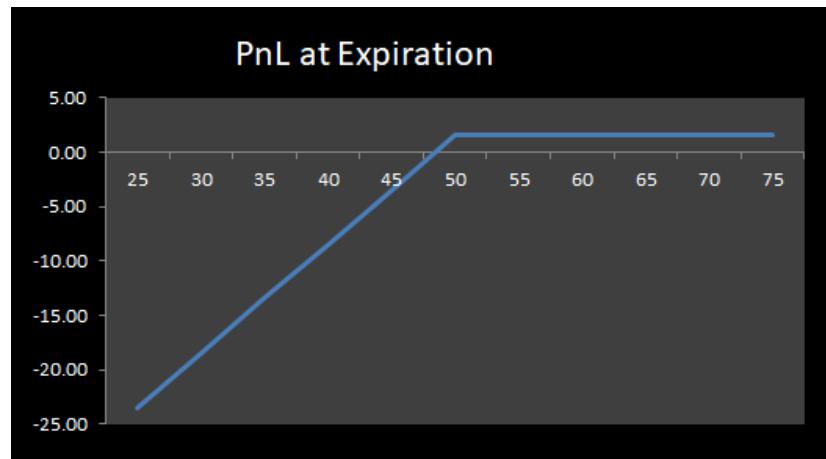
Well, here's how your PnL would look at expiration:



Well, if you look at the chart above, if your option rises to \$60 before the expiration date, it would be worth at least \$10 (or \$60 minus the strike price, here it's \$50). If it stays above \$60 and the options expire, you would automatically be exercised since the options expired in-the-money and you would be long 100 shares of the underlying stock at \$50 and essentially, you could sell them at \$60 (assuming the stock doesn't gap up or down hard overnight).

Another way you could express your bullish opinion on the stock would be to write put options. Now, this is highly dangerous and I don't suggest beginners go out and do this even if they think the stock is going to the moon. When you naked write, or short options, you have a high degree of risk. What happens if the company goes bankrupt? Well, those put options would be really expensive and you'll have to give that money to your broker.

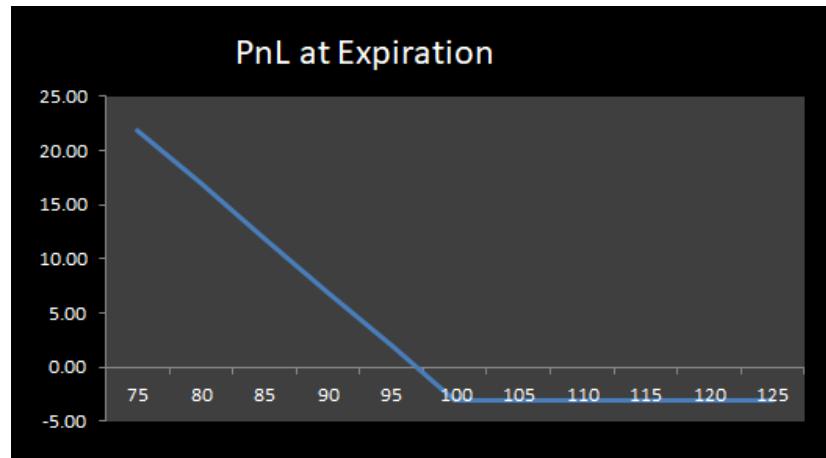
Let's assume you short one \$50 strike price put option with the same expiration date and collect \$159 in premium. Here's a look at the short put option profit and loss (PnL) at expiration:



Just look at that, the risk-reward isn't there. It does not make sense to collect \$159 to potentially lose \$5K, or ( $\$50 * 100$ ), in the worst case.

Now, you could also express your bearish opinion on a stock with put options. Let's say you notice a negative press release in a stock and think it could fall 10% in 1 week. Assume the stock is trading at \$100 when this press release came out, and you were able to buy the \$100 put options expiring next week for \$1.65, or \$165 per contract.

Here's how your PnL would look at expiration:



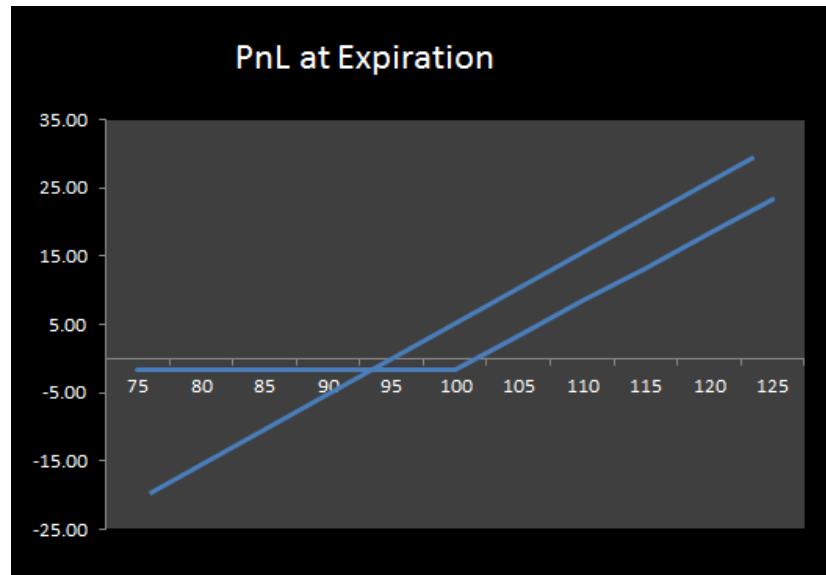
Well, if the stock does fall to \$90 before expiration, the put option contract would be worth at least \$10. You would pocket \$8.65, or \$10 less \$1.35 (what you paid for the options), if you're able to sell them before expiration for just the intrinsic value. This is assuming there's no extrinsic value left at all.

## Hedging Your Stocks

You could also use options to hedge your stock position. For example, if you are long stock, but are afraid of a short-term fall, you could hedge your stock position by purchasing put options. If you think the stock will rise over the long term, but sell out of your position, you'll probably end up kicking yourself if the stock drops 2% then rises 10% in a month. Think of this as insurance. You could protect your stock position over the short term but still take part if the stock rises over the long term.

If the underlying stock price rises, you would profit by owning the stock, but you would lose the premium paid for the put. That said, could be used to alter your risk profile of a stock or portfolio to fit your needs.

Remember the call option PnL diagram at expiration? Well, here's how your position would look if you're long 1 put option with a strike price of \$100 and 100 shares of the underlying:



Keep in mind you would multiply the scale by 100. Now, if the stock falls significantly, you would be protected. The blue straight line is your stock position, and the other plot is your long stock and put position at expiration. This is known as a married put, and it looks pretty similar to the call option payoff diagram right? Well, in essence, it is. You're long the stock and if it rises you'll profit, but if the stock price falls, you're hedged and could exercise your option and your maximum loss is premium paid.

## Writing Options to Generate Income

Remember, you could also short options to collect premium, or generate income. Again, I don't think this is useful for beginning option traders because it's extremely risky, if you're not hedged, but it's worth going over.

This strategy hinges on the fact some options have extrinsic value, which will be gone by the time the options expire. So, the idea here is that by selling options, the fall in value, also known as

time decay, could be captured for a profit. Even though the extrinsic value will fall as the option gets closer to its expiration, or maturity, date, the intrinsic value could still rise.

Let's take a look at an example. We'll go over the covered call strategy here. A covered call strategy is comprised of a long stock position and a short call position.

Now, if you own a stock, you could enhance your returns by selling out-of-the-money call options on the underlying stock. If the stock price falls, you would lose money, but the calls will expire worthless and you would minimize your losses because you collected that premium.

On the flip side, if the stock rallies and continues to make highs, you would profit from the rise in the stock's value. However, you would lose money on the short call position. Theoretically, a call option has unlimited upside potential because we simply don't know where the stock could go. Since you are hedged with the position, if you are exercised on those options, you would still profit, which would be equivalent to the strike price of the call option less the purchase price of the stock. There's a tradeoff here. What if the stock is in buyout talks and it rises 40%, well your upside is limited. Your maximum loss would be limited to the price you paid for the stock less the premium you received, if the stock starts to drop below the strike. That said, I think you should stick to directional trading and we'll discuss this in **How to Capture 100% Profits on Small Moves in Stocks.**

## Trading Volatility with Options

One of the primary reasons to trade options is to gain exposure to or protect your position against volatility. If you recall from the section on **Basic Option Strategies**, one of the three essential components of an option's price is the underlying stock's volatility. Now, you might be wondering why would anyone want to "trade" volatility?

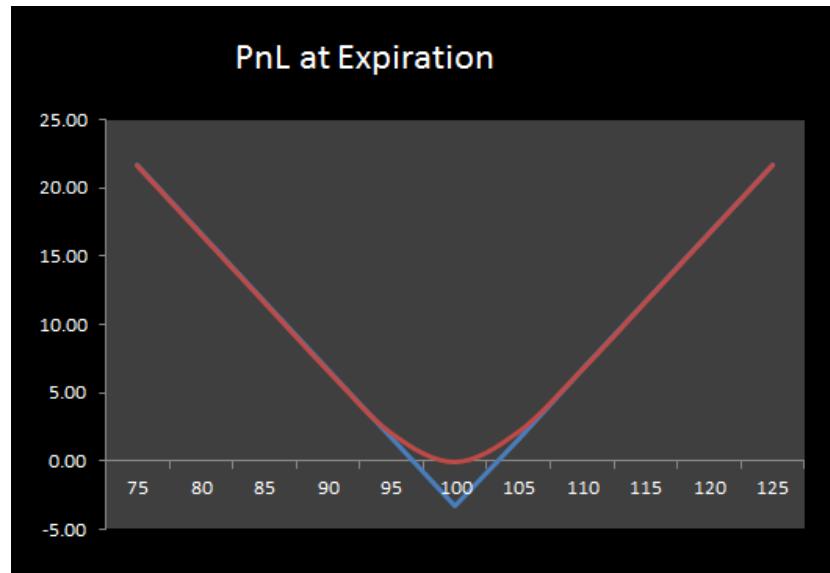
Well, volatility is often viewed as an asset class. There are various derivatives allowing traders to gain exposure to volatility, such as variance and volatility swaps. Since volatility impacts nearly all trading strategies, it's become important to traders to manage that risk or capitalize on changes in the level of volatility.

Volatility is one of the most important factors of an option's value, and we'll leave you with a simple strategy.

Let's assume you think a stock is going to move significantly after its earnings announcement, but you don't know in which direction. Well, you could put a straddle on, which is a play on volatility.

For example, if the underlying stock is trading at \$100 and it's reporting its quarterly earnings this week, you could put on a straddle. You could do this by simply purchasing at-the-money call and put options.

Here's how your PnL would look at expiration:



Take note that the red line is just what the strategy would currently be worth, while the blue line is the option's value on the expiration date.

It's pretty clear that you could make money if the stock moves a lot in either direction.

There are various ways to use options, but when you're first starting out, I think you should only place directional bets. When you start getting the hang of things and profiting, then you could move onto hedging your stock or placing volatility trades. Now, in the next section, **Understanding Implied Volatility**, we're going to go over implied volatility, which is one factor beginning option traders have a tough time grasping. Again, options may seem tedious at first, so you'll need to continue studying this guide to understand the way options really work, and this could help you with your trading success.

# Implied Volatility Explained

Implied volatility originates from the options market. Typically, with stocks, you just have realized, or historical volatility. In other words, how much a stock has moved historically, in percentage terms.

Recall that there are several factors affecting an option's price including: the underlying stock's current price in relation to the strike price and time to maturity. The others (dividends and interest rates) are not as important. Another important factor is the expected volatility of the underlying stock over the option's life.

Now, for an out-of-the-money option to be worth anything, there has to be some probability that it could expire in-the-money. Otherwise, there's no point to trade options minus the fact that they help to leverage your capital. That said, the underlying stock needs to have some price volatility. That means, the stock's price needs to move in order for the option to become valuable.

Now, the more volatile the stock, the more valuable the option will be. No matter what type of option, whether it be a call or a put option. Think of tech or healthcare stocks. If you have seen these stocks in action, you'll know that they move a lot. Therefore, options on those types of stocks would be more expensive because there is a higher probability they could expire in the money.

This is a bit tedious to understand at first, but it'll make sense once you read it a few times. Since you can uniquely identify an option's value with one level of expected, or implied, volatility, the option value inherently implies the expected volatility level. Now, we won't get into the mathematics of options pricing model because it involves working knowledge of stochastic differential equations, probability and partial differential equations. We'll leave that to the math geniuses at the NYU Courant School of Mathematics or Columbia's Financial Engineering Department.

Getting back on track, in order to calculate an option's value, the factors affecting an option's price is plugged into the model. You would need to work in reverse and start with the option value and all the other factors except the expected volatility. All you would need to do is rearrange the formula and make the expected volatility level the point. Good thing we have trading platforms that do all that for you. Again, you don't need to do any maths to find the implied volatility.

That said, let's skip over how implied volatility is actually calculated and look at how to interpret implied volatility figures.

## **Interpreting Implied Volatility Figures**

Take out all the math, and implied volatility numbers are intuitive. Let's make this easy to understand.

One way to interpret implied volatility is by looking at expected standard deviation in the

underlying stock price for the upcoming year.

Now, standard deviation is simply the dispersion of a set of data points, here it's just the stock prices.

For example, assume an at-the-money option expiring in one year on a stock has an implied volatility of 40%. You could interpret this as: *Over the next year, the option market expects the stock to move 40% in either direction.*

There are a lot of assumptions behind the implied volatility. In the example, we use an option expiring in one year. Well, you might be wondering, Could I use the implied volatility for one month? You can't really do this in practice. Sticking with the same example, the implied volatility used to price the option, even though it's an annualized figure, it really only relates to the expected volatility over the option's life. That in mind, it would not make sense for you to use the implied volatility for one month, if the option is expiring in one year. The one month implied volatility does not really tell you anything about an option expiring in one year's time.

Now, you must be careful if you're converting an implied volatility into a stock's expected range one year from now. It's possible to compare implied volatilities across different stocks and stock indices because implied volatility is quoted in percentage terms, and therefore, it's independent of the underlying stock price or index level.

If it's difficult to figure out how much a stock should move per day, given the annualized implied volatility. You could easily convert the

annualized implied volatility figure into a daily standard deviation, or implied volatility. This is fairly common practice and I do this often too. Generally, option traders have a good feel for how much a stock should move day-to-day, but it's harder to have a feel for price movements in a week, month or year. I know, I know, this doesn't really make sense. There's a disconnect here.

Implied volatility is shown in annual terms, but the historical volatility experienced in the stock is matters on a daily basis. You care about what your PnL and the volatility level is today, not in a year.

Let's take a look at how you could convert the annual volatility level. This is quite simple to do.

Converting the annualized implied volatility into a daily number is simple. All you would need to do is divide the implied volatility by the square root of a time frame. For instance, if you want to figure out what the options market is implying about the stock's price movement in one month, you would divide the annualized figure by the square root of 12, since there are 12 months in a year. For example, let's assume the annual implied volatility of a specific call option contract on Facebook (FB) is 70%.

Here's how you would calculate the monthly volatility:

$$\begin{aligned} F B \text{ Monthly Implied Volatility} &= 0.70 \div \\ (\sqrt{12}) &= 20.23\% \end{aligned}$$

Now, a more common conversion is from annualized to daily. We would use 252 trading days because that's the convention. The square root of 252 is 15.87. So dividing the annualized by 15.87 would give you a rough estimate of the daily implied vol.

Here's the calculation, continuing with the FB example:

$$\begin{aligned}FB \text{ Daily Implied Volatility} &= 0.70 \div \\(\sqrt{252}) &= 4.41\%\end{aligned}$$

That means the options market is expecting a 4.41% move for that specific strike price and expiration date.

Now, if you multiply this by FB's current stock price, it gives you a rough estimate of FB's daily move in terms of dollars and cents. This gives you an idea of theoretical prices changes in the underlying stock that the options are currently pricing in.

**You could also use implied volatility as the “price” of options.** In addition to interpreting implied volatility as the underlying stock's standard deviation, implied volatility could be viewed as the option's price.

Now, the implied volatility is uniquely mapped to the option value. Remember, higher implied volatility means higher option prices, and you could use these interchangeably. Options traders like to use implied volatility to quote an option's

value because there's an edge over an option's dollar value.

Remember, there are three main components of an option's value, and the underlying stock price is one of them. In dollar terms, an option's value is highly sensitive to the underlying stock price. This is known as an option's delta. Now, this is out of the scope for what we're trying to do. But the delta is simply an option's sensitivity to the underlying stock price. For example, if a call option has a delta of \$0.50, for every \$1 move up the option would gain 50 cents. However, if the underlying moves down \$1, then the call would lose 50 cents.

To volatility traders, the intrinsic value is just noise, which is driven by the underlying stock price. It really doesn't tell them about the option's value that is due to the extrinsic value.

Just know that the dollar value of an option is sensitive to the price change in the underlying. In other words, if you're long a call option and the option value increased, but the implied volatility remained the same, this is only because the intrinsic value increased.

In implied volatility terms, the option value is the same. This is one interesting and important factor to grasp. Now, if you did not know what the underlying stock price was, you would not know if the call option price increased due to an increase in implied volatility or if the stock price moved up. However, if you're at implied volatility changes, you could pinpoint exactly why the option price

changed. Keep in mind we're assuming rates are the same and the stock does not pay a dividend.

Since we've got a good idea of what implied volatility is, we're going to look at what affects implied volatility.

## Factors Affecting Implied Volatility

Let's take a look at three important factors that affect implied volatility. These factors are not all independent and there could be a ripple effect if one changes significantly.

- **The supply and demand for options.**

Supply and demand affect the market and is one of the key factors affecting prices, whether it be stocks or options. Remember, implied volatility is one of the primary factors affecting option prices. Moreover, implied volatility could be used to quote options prices. That said, supply and demand will cause changes to an option's price, and therefore implied volatility.

If the traders want to buy options, the option would be bid up, causing a rise in prices and implied volatility will follow suit.

Now, what drives supply and demand? Well, it's hard to say. Supply and demand for options could depend on trader sentiment. It could also depend on the implied vol level.

For example, let's assume a stock's volatility is below the implied vol in the options market. Assume the company is expected to make a big announcement soon. The demand for options would be high due to the uncertainty

of what the company might say, regardless of the current actual vol level. What if the company has a press release and the stock price runs up after. Now, what typically happens is the implied vol will fall sharply. We see this with earnings releases all the time. Implied vol runs up into earnings, then wham. The vol gets sucked out after because there's no more uncertainty. The demand for options falls, and there's an oversupply of those contracts because traders may be looking to liquidate their options.

Remember in the **Ways to Trade Options** section, one way to use options would be to hedge your stock position. Now, the higher the degree of uncertainty over the future stock price volatility, the greater the demand for options as hedges. This leads to higher prices and implied vol.

For example, if a stock is near all-time highs, you might see a greater demand for puts because longs might be worried of a pull back and bid up the put option prices.

- **Recent Historical Implied Volatility.**

Keep in mind, implied vol is forward looking. However, this does not mean we're memoryless and forget about the historical volatility. Volatility is known to cluster around certain levels. Consequently, you could have a reasonable estimate of tomorrow's volatility by looking at the recent realized volatility. So it should not be surprising to you that that implied volatility often relates to historical vol.

For example, if a stock's price has an annual historical volatility of 25%, and it's done that every year, more or less, over the last decade. Then it's probably a good estimate that the

implied vol this year would be 25%, all else being equal.

However, what happens if implied vol for a specific options contract, say the call options, is 60%. Well, something is up. If this is the case, clearly someone knows something or has high expectations the stock could run up.

Over the longer run, there's a low probability that implied vol and historical vol will significantly diverge in one direction. Now, quick and large changes in actual vol levels should impact implied volatility. Again, since realized vol tends to cluster, implied vol does too. That said, implied vol is likely to resemble historic volatility. Now, if you notice large discrepancies between the two different volatilities, there could be a trading opportunity or reflect some new information that could affect the underlying stock price that you might not have seen before.

- **Changes in the market's expectation of the underlying stock.**

I know, I sound like a broken record, but Implied volatility reflects the current expectation of future realized vol of the underlying stock price. Now, these changes could be due to a number of factors. Maybe there's a potential press release or the market might have clues about earnings. The greater the stock's price sensitivity to potential news and earnings, the higher the implied vol due to the increased uncertainty.

Take note that the traders could be wrong about implied volatility. Everyone has an opinion, but the market doesn't care about opinions, sometimes.

Now, some ways to trade implied vol would be:

- Trading against technical levels in implied vol or moving averages
- Trading implied vol ahead of corporate announcements like earnings

Implied volatility is one factor you need to understand if you're looking to trade options. It's what drives the extrinsic value of option prices.

Now that we've gone over most of the basics of options, you're ready for what most of you have probably been waiting for: **How to Capture 100% Profits on Small Moves in Stocks.** Now, make sure you understand the concepts in this section and the previous two before moving on because it'll be a lot easier for you to understand how you could capture 100% profits on small moves in stocks.

# How to Capture 100% Profits on Small Moves in Stocks

Now, we're going to focus on directional plays here because that's our bread-and-butter in our

community.

First things first, let's look at an option's chain for Netflix (NFLX):

**Calls for February 2, 2018**

Contract Name	Last Trade Date	Strike	Last Price	Bid	Ask	Change	% Change	Volume	Open Interest	Implied Volatility
NFLX180202C00140000	2018-01-26 11:45PM EST	140.00	127.25	133.55	135.50	0.00	-	10	10	256.25%
NFLX180202C00150000	2018-01-26 11:45PM EST	150.00	116.79	123.65	125.50	+39.79	+34.07%	10	15	231.25%
NFLX180202C00155000	2018-01-18 9:30AM EST	155.00	65.43	63.15	67.65	0.00	-	3	9	0.00%
NFLX180202C00160000	2018-01-29 12:06PM EST	160.00	121.43	114.55	117.85	0.00	-	15	9	320.51%
NFLX180202C00162500	2018-01-02 10:11AM EST	162.50	38.03	47.50	48.55	0.00	-	2	0	0.00%
NFLX180202C00167500	2018-01-29 2:15PM EST	167.50	116.28	107.10	110.30	0.00	-	14	10	296.88%
NFLX180202C00170000	2018-01-26 11:45PM EST	170.00	82.70	103.65	105.55	0.00	-	10	10	210.16%
NFLX180202C00172500	2018-01-26 10:06AM EST	172.50	97.28	101.10	103.05	+78.63	+421.61%	2	2	204.30%
NFLX180202C00175000	2018-01-22 3:55PM EST	175.00	52.66	98.60	100.55	0.00	-	2	5	198.44%
NFLX180202C00177500	2018-01-26 10:23AM EST	177.50	94.96	96.10	98.05	+15.66	+19.75%	9	9	192.97%

*Source: Yahoo Finance*

**Puts for February 2, 2018**

Contract Name	Last Trade Date	Strike	Last Price	Bid	Ask	Change	% Change	Volume	Open Interest	Implied Volatility
NFLX180202P00145000	2018-01-19 11:55PM EST	145.00	0.05	0.00	0.13	0.00	-	1	1	269.53%
NFLX180202P00150000	2018-01-30 2:34PM EST	150.00	0.02	0.00	0.03	0.00	-	15	55	221.88%
NFLX180202P00152500	2018-01-23 9:35AM EST	152.50	0.01	0.00	0.06	0.00	-	80	158	231.25%
NFLX180202P00155000	2018-01-23 9:34AM EST	155.00	0.01	0.00	0.06	0.00	-	75	78	225.00%
NFLX180202P00157500	2018-01-23 10:59AM EST	157.50	0.01	0.00	0.06	0.00	-	2	9	218.75%
NFLX180202P00160000	2018-01-24 3:55PM EST	160.00	0.01	0.00	0.06	0.00	-	10	160	214.06%
NFLX180202P00162500	2018-01-30 10:09AM EST	162.50	0.01	0.00	0.03	0.00	-	4	49	195.31%
NFLX180202P00165000	2018-01-24 2:07PM EST	165.00	0.01	0.00	0.06	0.00	-	20	70	201.56%
NFLX180202P00167500	2018-01-24 3:52PM EST	167.50	0.01	0.00	0.06	0.00	-	9	25	196.88%
NFLX180202P00170000	2018-01-24 2:16PM EST	170.00	0.04	0.00	0.02	0.00	-	10	189	171.88%
NFLX180202P00172500	2018-01-23 9:36AM EST	172.50	0.08	0.00	0.07	0.00	-	1	136	189.06%
NFLX180202P00175000	2018-01-23 3:09PM EST	175.00	0.02	0.00	0.07	0.00	-	36	79	183.59%
NFLX180202P00177500	2018-01-26 1:10PM EST	177.50	0.01	0.00	0.02	-0.06	-85.71%	3	209	159.38%

*Source: Yahoo Finance*

We wanted to make things simple for you to do, and you can access options chains from Yahoo Finance or Nasdaq before you start live trading options. Options chains are the same across all platforms and data providers. You have your strike price, the last price, the bid and ask price, the volume traded, the open interest (how many contracts are still held) and implied volatility.

Let's get right into things and highlight some trades that were good for 100%.

## Timing is Key, Weekly Money Multiplier Highlights

Timing is key when you're trading. Let's say you think gold miners will fall over the next few weeks, so you purchase put options in the VanEck Vectors Gold Miners ETF (GDX).

Well, if you're timing is off, you would lose your entire premium. This is where technicals and market experience come into play.

Here's a look at GDX on the hourly chart:



If you notice, there are two places I annotated the chart. One where the 13 SMA broke above the 30 SMA, which is a bullish signal. Now, I watched this rise over the entire time and missed the move. However, I figured this was topping out, so I purchased 200 GDX put options with a strike price of \$23.50 expiring on January 19, 2018 at 28 cents a piece (so \$5,600 in premium).

Now, I noticed my “money pattern” and believed this thing was going to pull in hard. So with the stock trading around \$23.50, I purchased at-the-money put options, thinking it would break lower. I was looking for a quick drop, and we got just that. The options more than doubled, and I was able to net \$5,800 on just a \$5,600 investment. Not a bad trade! This all happened within 3 days (that included weekends too). On just a small move (around 3% or 70 cents in GDX), the options gained some intrinsic value and went up 29 cents to 57 cents. That’s the power of options. Instead of making 70 cents and using a lot of capital, I was able to use just \$5,600 to generate 105% in profits, this isn’t really possible in the stock market. Although some stocks do double, it doesn’t happen as much as it does in the options market.

Let’s take a look at another example. Our community was watching the small caps index in early January 2018. Our thesis was the market was strong and small caps were going to outperform to kick off 2018.

Rather than going out and buying the iShares Russell 2000 ETF (IWM), which would be extremely expensive, we went out and bought calls.

Here’s the email we sent out to the community:

**Jason Bond Picks**

POWERED BY RagingBull

Swing & Long-Term Trading | Swing & Long-Term Trading

Winning Small Cap Swing Trades | Millionaire Roadmap

[Swing & Long-Term Trading](#) | [MR Millionaire Roadmap](#) | POWERED BY RagingBull

Jeff Bishop here,

1st Money Multiplier trade of the year! Bought 60 IWM Jan 12 2018 154 Call @ \$.85. I think this is a double within the next week.

Here's a look at IWM on the hourly chart:



Now, we bought \$154 IWM call options expiring on January 12, 2018 and were looking for a 100% gain on these options. Why the \$154 strike price? Well, these were at-the-money and relatively cheap, and we had a feeling this was going to spike higher. These calls were only 85 cents, so my risk was \$5,100 (and that's if IWM fell and I wasn't able to get out before the expiration date for a small loss).

Well, sure enough, these doubled to \$1.70 in just two days because the ETF moved up to \$155.

This wasn't the only trade we had in IWM.

At the time, I figured the market was going to run much higher even after we doubled up on previous options trade. There was some weakness after IWM failed to break about \$155.50. Well, I bought on that weakness.

Here's a look at my thought process:



Like I outlined in the watchlist today, I think there is a good chance the market goes much higher from here in the next week. I used today's weakness in IWM to pick up **60 contracts of IWM JAN 19 2018 155.0 Call @ \$.76**. I am looking for a rebound here, and a double if this works out. I will keep a stop of 50% as always, and I would leave room to add more to this trade tomorrow if IWM dips again.

  
**Jeff Bishop**

Well, we can't always go for 100%. On this trade our community settled for 60%.



Well, they can't all be 100%+ winners.

Sometimes, you just need to settle for 60% and that's what I am doing here.

After IWM tested \$155.50 a couple of times today and faltered, I think it is wise to cash in the chips here on the quick win and regroup for another run at it soon.

**I just sold the 60 IWM Jan 19 2018 155 Call that I bought yesterday @ \$1.23.**

That's over a 60% or **\$2800+ win overnight** on this trade.

I will be looking to get back into this trade again soon as IWM pulls in a little more.

Great job today, really hitting some nice winners!

A handwritten signature of the name "Jeff Bishop" in black ink.

**Jeff Bishop**

Now, the iShares 20+ Year Treasury Bond ETF (TLT) was also on our radar.

Here's what our thought process was:

I think that the recent bounce in bonds is running out of steam. I fully expect a re-test of the recent lows around \$123 or less in the next week.

If that happens, then TLT puts should give us a good return.

I just bought **60 TLT JAN 26 2018 125.0 Put @ .80**.

I am ready to add to this in the \$.60's, otherwise I am shooting for a 100%+ win on this in a week. As always, I will stop out with a 50% loss overall on the trade.

A handwritten signature of the name "Jeff Bishop" in black ink.

**Jeff Bishop**

Take a look at the hourly chart when we got into the trade on January 17, 2018:



We figured with rates set to rise and strong economic outlook, bond prices had a high probability of falling. To confirm our thesis, we had the 13 SMA cross below the 30 SMA.



I wanted to do some "housekeeping" with the portfolio going into the weekend.

I just sold the **VZ** puts, which I've held for almost 2 weeks. That stock just won't break down for me but I was up about 30% on the trade so I locked in the **\$2000 profit** around \$1.20 on those puts.

Really not too shabby at all considering it was a short bet, and this market has been very cruel to any short trades.

I also took half of the **TLT** puts off the table, for about **130% or \$7300 in profits for about 3 days** work! It's another 100%+ winner to add to the **WMM** scorecard for the year. Congrats to everyone who was in that with me, it was a great winner.

While I sold 2 option trades, I decided to add to the **DIS** calls. I picked up 40 more contracts of the **Feb 2 \$112 calls @ .91** this afternoon on the dip. I still think DIS is a great looking chart, and this brought my average price down to \$1.10 overall.

If DIS runs above \$113 like I think it will, then this will be another 100% winner from here. If not, I am looking at the 200-hourly average to hold up (which is currently around \$109.50). If that breaks, I will start to scale out of this trade.

The **FCX** calls are pretty much flat for me. I still have a bid to buy more at \$1.02.

The **USO** puts from yesterday are up a little, currently trading @ .42, which is about **\$1200 in profit overnight**. Nothing to be too upset about there.

All in all, it has been a great week of trading and I am looking to make some more moves next week.

Have a great weekend!

  
Jeff Bishop

We took that off the table for +130%. Well, how was that possible? TLT dropped over a point, that meant the options became more intrinsically valuable, therefore, the stock price increased.

Now, I'm not telling you it'll be easy to make 100% on small moves. But it's highly possible to make over 50% on your options trades on small movements. It'll take you some time and experience, but if you have a mentor who has battle-tested strategies, well you're able to flatten the learning curve. Things will be much easier if you have people around you to answer questions

about options. Let's face it, options could be difficult to trade when you start, but when you have experience people around you, you'll pick up on them a lot quicker.

## Bonus: How to Think Like Smart Money

There are levels to the markets. Managing your emotions, position sizing, risk-reward ratio, trading activity, being mindful of key catalyst events, and knowing key indicators and tools are all part of the game. Moreover, time management and being around like-minded individuals helps. Not only that, understanding some factors affecting your money and returns helps.

Now, through my two decades of experience, I've learned:

- Scared money doesn't make money. In fact, scared money tends to lose money.
- If you don't have the right risk-reward ratio, you cannot properly manage your positions.
  - You won't be able to properly size your positions.
  - You also won't have the right exit strategy.

- Losing traders churn their accounts.
  - Smart money focuses on their strengths and don't try to follow thousands of stocks.
- Successful traders are mindful of key catalyst events like earnings announcements.
- Great traders don't spend their time dabbling in social media and internet gossip. They spend time talking to successful traders and study the game – focusing on things that will make them money.
- Genius traders understand the notion of compound interest – what Albert Einstein once called “the eighth wonder of the world.”

That said, let's look at some ways to think like smart money and how you could potentially multiply your money.

## Scared Money Don't Make Money

You've probably heard someone say, "*Trading options is like gambling, you're bound to lose money... it's right.*" Well, they're wrong about that. That's just letting emotions control your ability to make money. You're letting someone else's fears influence the way you think.

Of course, when you're trading or investing, you're going to have to risk something... nothing is guaranteed. That said, you need to trade options with an amount you're comfortable with losing. This will help you ride out any bumps along the way.

If you know what to look for and focus on risk-reward ratio and position sizing – which we'll go

over in detail later – it's easy to remove the fear of trading options.

For example, how often have you heard of people “panic selling their positions?” In other words, witness a crashing market... seeing their stocks get decimated... let fear set in... sell the bottom... only to see the stock rebound.

You see, they're actually losing money twice.

- First, they could've used stop losses and the money pattern to signal when to get out of their positions.
- Second, they give up the potential to make money. You see, when you can spot potential shifts in trends, you could actually purchase put options and make money that way.

You've seen how powerful the money pattern can be, and we're going to go over that again, just so you can solidify how smart money thinks about trading stocks and options.

Now, scared money tends to be short sighted and obsess over their positions... they watch their positions tick by tick... they see their positions down a little, and get frustrated... selling their positions way too early. Moreover, they “need” to see profits quick, otherwise they'll end up selling for a loss.

If you've traded before and were forced out of your positions for small losses because you were afraid of losing a large portion of your capital... there's a simple solution: trade with less capital.

For example, let's say you have a \$25K account. It doesn't make sense to slam into an options position with \$5K of your capital, right?

This is where managing your risk-reward ratio and position sizing comes into play.

## **Focus on Risk-Reward and Managing Position Sizes**

The smart money looks for low-risk, high-reward trades.

*What am I talking about here?*

You've probably heard of the Massachusetts Institute of Technology (MIT) blackjack team before... yes, it's the one they made the movie about.

Well, why were they able to beat the casinos?

It boils down to risk-reward.

You see, they would bet a certain amount given the circumstances, and their payout was known. In general, they were looking to at least double their money. In other words, if they bet \$1K, they were looking to get \$1K back... if they hit blackjack, they would get \$1,500.

So what's the idea here?

Find a risk-reward ratio that works for you.

The MIT blackjack team had a 1-2 risk-reward ratio. In other words, they were willing to risk say 5% of their capital to make 10%.

Similarly, I have the same risk-reward ratio. Since I'm shooting for 100%+ winners, I'm willing to lose 50% of my capital on the ones that don't work out. You might be thinking, "Wow, that seems like a lot! Losing 50% of your capital... I don't have the stomach for that."

That's fine. You just need to find what works for you. When you're first starting out to trade options, it makes sense to aim for smaller percentage returns and focus on the process until you understand the trading process. Once you're able to do that and show consistent profits, you can start to scale up your position sizes.

At the end of the day, understanding risk-reward will make you a better trader.

For example, if you know how much you're risking when you get into a trade, chances are you won't get stuck holding the back. Let's look at one example in which not knowing your risk-reward ratio would have got you into quite a bit of trouble.

Check out the hourly chart on Tilray Inc. (TLRY) below.



Let's say you bought shares at \$130, after the stock broke out above the previous resistance (the blue horizontal line). Well, if you didn't have a set risk-reward, you might have thought this stock could keep going...

And it actually did.



Now, if you didn't have a risk-reward ratio in mind, you probably would've continued to hold onto this stock because you wouldn't know where to take profits. Moreover, when you're in the heat of the

moment, it's easy to get euphoric and think the stock could still run higher.

Well, this is when you run into trouble.

Let's say you kept holding onto this stock, despite it more than doubling at one point. Trust me, I've seen this happen so much.

This is what could happen to your position if you don't have a set target and stop loss.



Ouch. In just a matter of days, you would've witnessed a massive swing in your profit and losses (PnL). Ultimately, what happens here is traders become deer in headlights... panicking... and then selling, and probably calling the stock a "turd".

Well, what would've happened if you had a set risk-reward ratio of 1-2? In other words, risking 50% and taking profits at 100%... and putting a stop and letting the rest ride after taking the first half of the position.

First, you need to understand it takes experience to spot plays like this. What I mean by that is placing a bearish bet on the position. Now, with my trading approach, I break it down, focus on the sector, market internals, and macro plays.

For example, after I noticed the strong move in TLRY, I let Weekly Money Multiplier members know about my next moves.

Selling QQQ calls to lock in big profit Inbox x 🖨️

**Jeff Bishop** jeff@weeklymoneymultiplier.com via sendgrid.net Fri, Sep 14, 2018, 9:29 AM ☆ ↶ ⋮

**to me** ▾

I think the market pop is not going to hold much past today, at least before pulling back first.

I am going to play it safe and lock in profit on the rest of the QQQ position this morning near the market open.

I am going to hold GOOGL a little longer though.

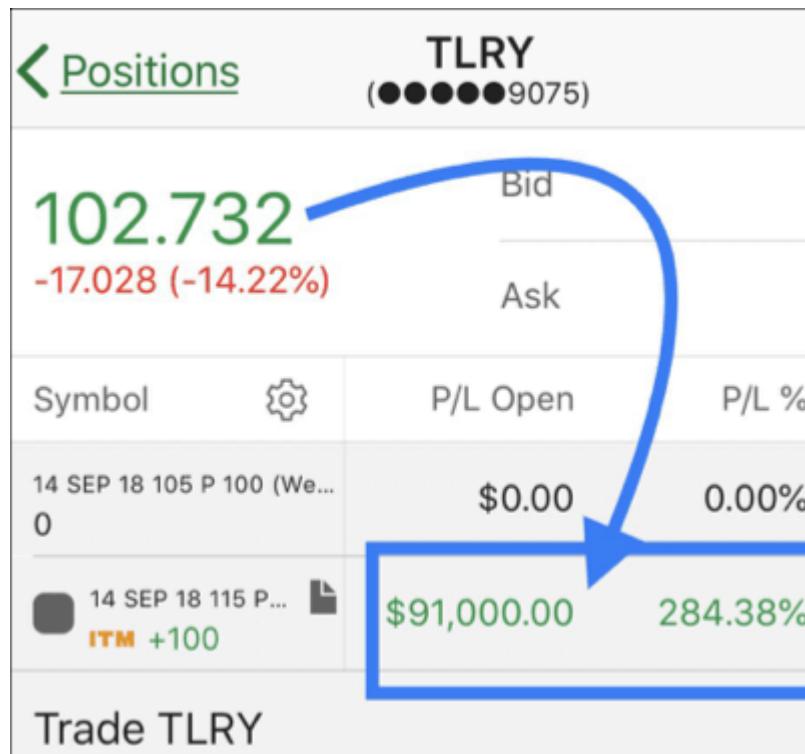
My gut says that it's a good day to play weekly options that expire today, on the short side. I will be looking to go with puts on several tech stocks, TLRY and the pot stocks, and go long on VXX. All day trades, so keep an eye on the live portfolio or join me in the Millionaire Roadmap chatroom.

Just a reminder... I don't send email alerts on day trades since they are so fast by nature.

Good luck out there today, congrats if you're cashing in on QQQ with me today!

  
Jeff Bishop

Just by having the right risk-reward ratio, understanding options, and the money pattern. As well as position sizing, allowed me to snatch gains like these:



This brings us to our next smart-money tip:  
position sizing.

## Position Sizing

The difference between smart money and mom-and-pop traders and investors is the fact that smart money understands risk. Smart-money traders didn't get to where they are by luck or "sure things." You see, they actually understand the way risk works and only bet with an amount that they're comfortable with losing. Consequently, they're able to properly size their positions.

Now, I can't tell you how to size your positions because it all depends on the account size and your risk profile.

Some of my biggest losses when I first started trading options, stocks, and exchange-traded funds (ETFs) have stemmed from improper

position sizing and being overconfident. In these trades, I realized I went too big and thought they were guaranteed money trades.

It turns out, just like in life, nothing is guaranteed (minus death and taxes).

Think about it like this, when you're playing poker and you're dealt pocket Aces... you can place good bets... but just because you have the "strongest" cards off the bat, it doesn't mean someone can't catch a river or turn card and beat your hand.

If I knew what I knew now in my early days: staying nimble, not being massive in positions, or overconfident on my ideas... I would be much, much richer. So learn from my mistakes, and understand that proper position sizing is key to your trading success.

But how can you do this properly?

Well, it's simple...

Only trade with the amount of capital you're willing to lose. What I like to do is limit my position sizes to 5% of my portfolio in any one option trade. Consequently, even if all the premium gets sucked out, which is unlikely with my trading style, I would only lose 5% of my portfolio.

This is what's known as a fixed-dollar (or percentage in my case) amount position sizing strategy. When you use this strategy, it actually helps you become a better trader because it has a built-in mathematical formula.

If we go back and look at the MIT blackjack team, they were actually using the Kelly Criterion. Don't

worry, we won't get into all the mathematical details of this. What it all boils down to is this:

- When you make more money, you're essentially betting more.
- If you're in a slump, you would bet less. Consequently, this would protect your account.

So using this fixed-percentage or fixed-dollar could be a way to start off trading. In general, if you're first starting to trade options, you might consider sizing your positions 1-2% of your portfolio. For example, using a 2% maximum position size, if you have a \$25K account, you should size your positions no more than \$500. That way, you're able to learn the options trading process, while minimizing the potential damage to your account.

On the other hand, there is the equal-share or equal-contract sizing strategy.

What that means is you would only trade a specific amount of shares or contracts depending on your account size. Now, this position-sizing strategy is what gets a lot of beginners into trouble.

Why's that?

Let's say you set your position sizing to 5 contracts. If you buy 5 call option contracts in a stock like Apple Inc. (AAPL), it's a lot different than buying 5 call option contracts in small-cap stock. Moreover, having a set contract size could get you into trouble because it doesn't take into account your capital. If you're in a slump, you'll still be trading 5

contracts, which could destroy your account. Conversely, when you have a fixed-percentage position-sizing strategy, if you're in a slump... you would essentially bet less. If you're making more money and building your account, you would risk more and your potential profits would get bigger.

In general, the smart money understands how to size positions relative to their personalities and account sizes. For the most part, the fixed-percentage strategy has worked well for me, and I'll continue using that. That said, find a position-sizing strategy that works for you and never get "too big" in relation to your account size.

Moving on, there's another smart-money tip that could help you with your options trading – limiting the number of trades you take.

## Don't Overtrade

Overtrading – sometimes traders call this churning – is when you're excessively trading your account and getting eaten up by commissions. When you're first starting out to trade, you need to understand the costs of trading options.

Depending on your broker, your costs will vary.

For example, here's a look at TD Ameritrade's Options fees:

Options	Internet	\$6.95 + \$0.75 fee per contract
	Options exercises and assignments	\$19.99
	Interactive Voice Response (IVR) Phone System	\$34.99 + \$0.75 fee per contract
	Broker-assisted	\$44.99 + \$0.75 fee per contract

Think about how much this can eat at your account. For TD Ameritrade, and many other

brokers out there, you're paying \$6.95 per trade, and on top of that \$0.75 per contract. So let's say you trade 10 contracts, you're spending \$6.95 and then \$7.50 on top of that, just to get in. So round trip, you're spending \$28.90. Now, think about doing that multiple times a week... that adds up.

Now, most beginners get too excited and just start trading options for the heck of it. Maybe they're bored, maybe they like the thrill of it... but for whatever reason, they overtrade and usually realize too late how excessive trading could be to their accounts.

The way I like to think of it is by the options price. You see, I don't like to trade options under 50 cents because a bulk of the profits could be eaten up by commissions. Think about it like this... if you trade options that are 50 cents, a bulk of the profits could be eaten up by commissions. The higher the price, the less percentage of the trade the commission will be.

You might think 75 cents a contract is negligible when you're trading with small position sizes... but think when you start trading bigger, like 100 option contracts, you'd be spending \$163.90 round trip.

What happens if you have 10 trades like that, and you're break even on those?

Well, you've just spent \$1,639 just to trade.

But would you prevent overtrading?

- Focus on your A+ setups. For me, that's the 13-30 hourly moving average crossover,

macroeconomic variables, understanding risk-reward, and having an exit strategy in place.

- Trading a set number of stocks and options.  
For example, I focus on a basket of stocks and ETFs, which allows me to focus on how they move.
  - There are thousands of stocks trading on the market, and the smart money doesn't try to focus on every... it's just too difficult to do. If you just stick with focusing on a basket of stocks, you can truly understand what works and doesn't work for you. Essentially, you'll be more effective and efficient when you trade 50 or less stocks. However, when you're first starting out to trade options, follow around 10 stocks of companies you like, and build a list of stocks you're comfortable with.
  - Once you have a list of stocks, watch the price charts and learn how they move with the market. When you get a feel for these stocks and the overall market, you'll realize how volatile they could be, as well as their trading ranges.
  - For example, maybe you like Apple Inc. (AAPL) and are current with its products and news. Well, you could start by looking at the hourly chart, with the 13-, 30- and 200-period simple moving average (AAPL).



— Now, compare that with a market index ETF, like the SPDR S&P 500 Index (SPY) or PowerShares QQQ Trust (QQQ).





— When you look at the two charts, which one looks more relatable to AAPL? I think it's QQQ. The reason being? QQQ tracks Nasdaq stocks (it's often thought of as the technology ETF), and AAPL is one of its largest holdings. That said, when you follow AAPL, you'll start to realize it trades with stocks like Microsoft Corp. (MSFT), Amazon.com Inc (AMZN) and Alphabet Inc. (GOOGL).

— Plan your trades. When you plan your trades, it allows you to think about them thoroughly and should prevent you from overtrading. For example, since I focus on the money pattern (13- and 30-hourly SMA crossovers) and other macro variables, it's unlikely I'll trade more than 30 stock options because it allows me to hone in on setups that work for me.

Now, these are not the be-all and end-all tips for preventing overtrading. It takes experience and discipline. That's why beginner options traders should focus on the process and trading small, rather than just slinging options and thinking they could be overnight millionaires.

Moving on, let's look at another key smart-money tip.

## Be Mindful of Catalysts (Earnings)

I've seen this time and time again... beginner traders buy options contracts, not knowing that there's an event coming up... only to wake up and see their entire investment gone. Well, a lot of beginners trade options not knowing how catalysts like earnings announcements could affect their positions.

For example, if you understand implied volatility, as we explained in an earlier section, you'll know that the options market prices in events. When there are catalyst events like earnings announcements, traders bid up the implied volatility. This is due to the fact that earnings announcements experience wild swings.

Although earnings season could provide a lot of opportunities, you need to be mindful of earnings announcement dates. There are a plethora of ways to know when these dates:

- Company website. Companies typically include their earnings announcement dates on their investor relations page.
- Brokerage platform. Your platform, whether it be TD Ameritrade, E\*Trade, or Interactive Brokers, it should include an earnings calendar.
- [Nasdaq offers an earnings calendar](#).
- [Earnings Whispers](#) offers a comprehensive earnings calendar.

- **Weekly Money Multiplier** members receive a comprehensive list of earnings and economic indicators every Sunday.

Once you know when a company in your stock list reports earnings, it will help you a great deal. You see, beginner options traders tend to lose money on earnings strategy. Beginners will buy contracts into an announcement, thinking they're going to hit a massive winner... only to realize they risked too much and see a large portion of their account evaporate.

Heck, some try to buy an at-the-money (ATM) straddle in an attempt to take advantage of an increase in implied volatility and hold the position into the earnings announcement. However, what they don't know is the fact that implied volatility tends to get crushed after the earnings announcement. The reason being: the market has nothing to look forward to anymore. The news is out already.

That said, there's an added cost of volatility when you hold options through earnings.

The smart-money tip: Don't buy options into an earnings announcement, unless you can really afford to lose all of the premium.

If and when I trade earnings, I will rarely hold them into the announcement. But that doesn't mean I won't take a small position – in relation to my account size – through earnings from time to time. For the most part, I want to buy options ahead of an earnings announcement and sell them prior to the date.

When you buy options ahead and sell them ahead of an earnings announcement, you can benefit from the increase in volatility.

Another smart-money tip for earnings announcements: Try to find a spot to enter after the earnings announcement date.

That said, let's look at some earnings trade example.

For example, I bought Constellation Brands (STZ) options into earnings, and alerted Weekly Money Multiplier clients about my moves.

Bought STZ and ROKU calls Inbox Print

**Jeff Bishop** jeff@weeklymoneymultiplier.com via sendgrid.net  
to me Thu, Jan 3, 11:27 AM Star Reply More



**Weekly Money Multiplier**  
with Jeff Bishop

I hope you followed my email from yesterday and didn't buy into the rally we saw off the lows. This market is ready to sell off anytime, and news, like we saw with AAPL, can set it off instantly. I expect a lot more companies to now announce weaker earnings as well, so watch out!

I am fine to buy good stocks on dips right now and look for a quick flip if I'm up 30-50% on a trade.

From the list I sent yesterday, I bought **ROKU JAN 18 2019 30.0 Call @ 1.90**, and also **STZ JAN 11 2019 165.0 Call @ 4.40**.

I really like both companies. **ROKU** had great news yesterday and I'm happy to buy on this dip. **STZ** has earnings coming up next week and I might hold thru that event. I like the risk/reward from these levels

I'm willing to add to either of these about 30% lower and I would take half off the table if I get around a 30% profit.

I need to keep reminding people to trade small sizes right now too. Things are too wild with moves, and you are going to make bad decisions if you are sized in too large on trades.

I'm also **selling a lot of options short** if you're watching in the live portfolio (a "short" option has a - (minus sign) next to the Qty size in my portfolio). I have said this is a great time to take advantage of collecting big premiums right now, so you can follow along with what I am doing there to add income in this market.

The idea here was to take advantage of the increase in implied volatility and stock market

crash. Remember, my risk-reward ratio is 1-2 or more. In other words, for every 1 unit of risk, I'm looking to make 2 units in reward. For me, I'm risking 50% to make 100%+.

Well, in just a few days, I was able to lock in a 120% gain, or over \$20K in realized profits.

Sold STZ +120% Profit! [Inbox](#) 

 **Jeff Bishop** jeff@weeklymoneymultiplier.com via sendgrid.net Mon, Jan 7, 11:59 AM   

 **Jeff Bishop** jeff@weeklymoneymultiplier.com via sendgrid.net Mon, Jan 7, 11:59 AM   

**Weekly Money Multiplier**   
with **Jeff Bishop**

Well, the market has been really good to me so far this year. 2 new WMM trades, and 2 wins for over 100% now. I sold ROKU on Friday for over 100%, though I wish I had it today... it would have been about 300% profit now!

I just sold the **STZ calls @ \$9.15 average, for a 120% gain in less than week and over \$20,000 in realized profits there!**

Great way to start the New Year!

I am looking for more trades right now. I am cautious about entering new long trades here, so I am actually looking for short setups. I'll let you know if I make any new moves.

I am cashed up and ready to reload now.

Congrats!

  
**Jeff Bishop**

You see, that's the beauty of options.

Moving on, let's look at a trade that I actually held through earnings.

Take a look at the hourly chart on XPO Logistics (XPO).

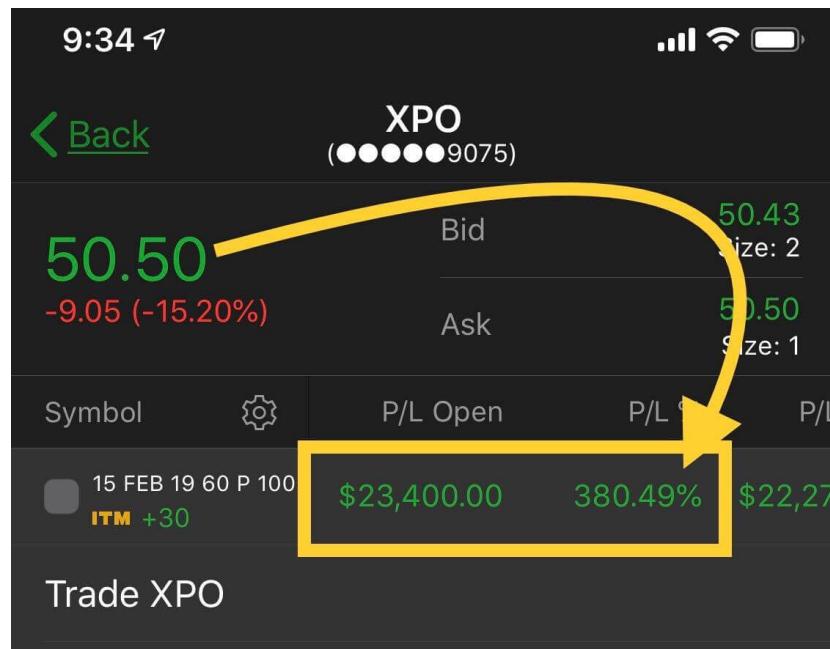


This is the power of the 13- and 30-hourly SMA crossover. The best part here was the fact I had an exit plan.

You see, XPO had a clear area of resistance. In other words, the stock had a tough time breaking a specific level. Here, I was looking at the way the stock traded ahead of earnings. It broke below the green line (the 200-hourly SMA), and tried to break back above it three times, but failed. That told me it was time to look to start looking at a bearish trade.

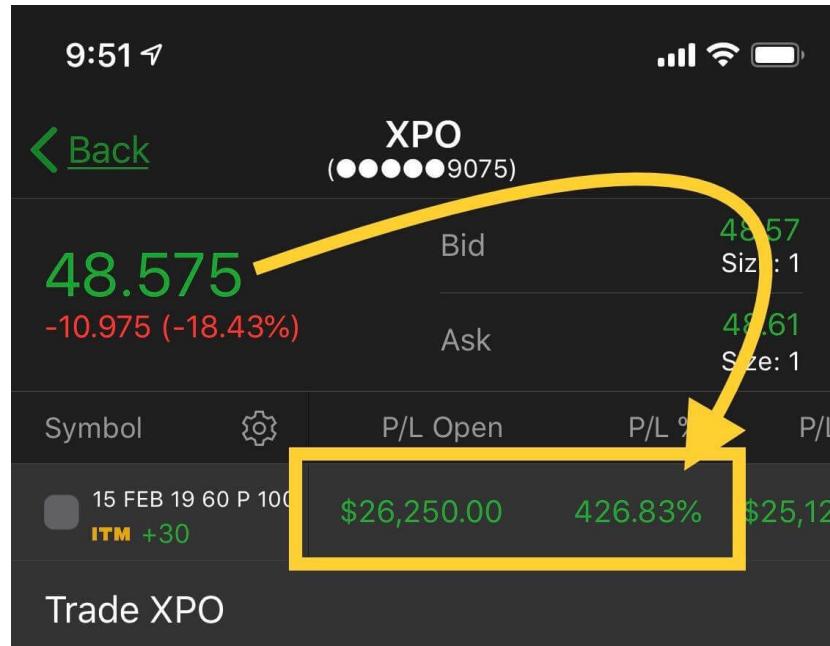
Generally, I wait for the 13-hourly SMA (the blue line) to cross below the 30-hourly SMA (the red line). However, I couldn't pass up the opportunity to purchase put options in XPO. I was anticipating a bearish crossover, and I had a clear exit in mind. I would have cut the position loose if it broke above the 200-hourly SMA. Moreover, I was looking to take some off of the table at 100%+.

Well, when XPO options finally opened, I was looking at 380.49% in profits.



However, I know when stocks sell off, they tend to go a lot farther than you would expect. I wasn't going to let this trade go against me, so I had exits in place. I also wanted to let this winner run.

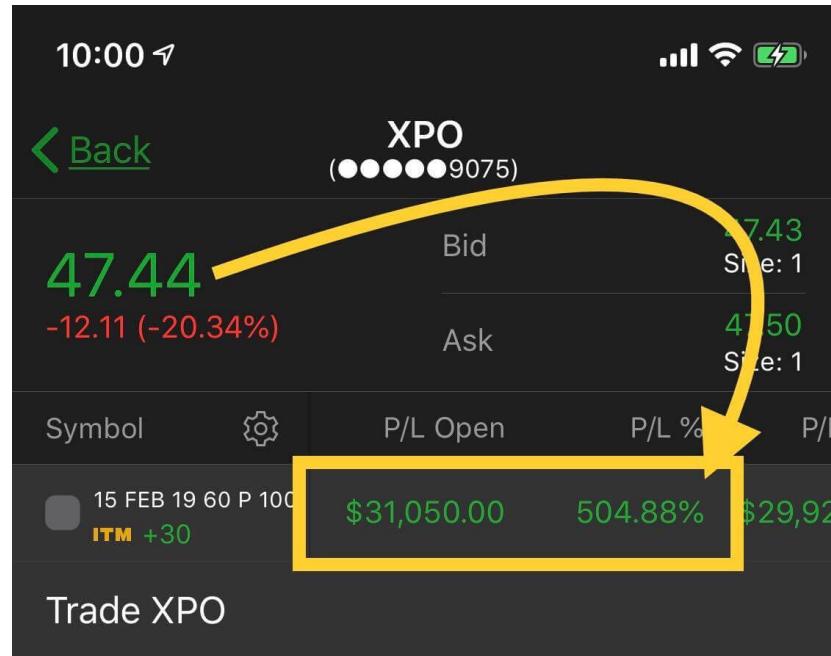
Holding on for a few more minutes got me an extra 40%+ in profits...



Time to take profits?

No.

Just by being patient, using the money pattern, risk-reward, and understanding how XPO trades... I was able to make 5 times my money!



Keep in mind, this was a small position for my account... and it wasn't anywhere close to my 5% max position size.

Here's a look at the hourly chart after I took profits.



As you can see, yet again, the 13- and 30-hourly SMA crossovers are powerful and could be great tools to help you identify changes in trends.

The key takeaways:

- If you can't stomach the risk, don't hold options through earnings.
- Understand your risk-reward ratio.
- The 13- and 30-hourly SMA crossovers are powerful.
- Always have an exit in mind. In an earlier section, we covered exit strategies and how to use stops.
  - For the XPO trade, I had a clear exit and target in mind. I had a place where I would have cut my position loose. Once you find a stop-loss area, you need to stick to that.
  - When you have profit targets, you should try to let winners run farther than you're comfortable with. Don't take it the wrong way though. Take some profits off of the table when you're sitting in profits (whatever you're comfortable). However, if you want to trade like the smart money, you need to hold a core position and place a trailing stop.
- For example, I like to take half of my position off of the table when my position is up 100%. Thereafter, I'll move my stop up to say 50% and hold on for more gains. Therefore, even if the position comes back in, I've already locked in 100% gains on half of the trade... and I would still be locking in 50%.
- Don't feel like you need to sell the entire position unless the charts or fundamentals are clearly reversing on you.

Moving on, this brings us to another trading tip – spend less time on social media and participating in Internet gossip.

## Spend More Time Studying the Process

If you own a business, would you do anything other than try to grow and make more money?

No.

So as traders, why would you spend a bulk of your time on social media and Internet gossip... figuring out what the Kardashians, Jenners, or trolls on Stocktwits are doing?

There's a difference between millionaire traders and amateurs – **the millionaire trader has a winning mindset**. Smart money focuses on ways to make them more money, they constantly study about trading, and are always looking for the next best trade. Moreover, they're studying the world in general.

For example Warren Buffett's key tip for success is to read 500 pages a day.

I get it... not everyone has the luxury of time to read 500 pages a day. But think about it like this, how much time do you spend on social media and just fooling around on the Internet?

My guess is a few hours a day.

If you are serious about building wealth, allocate those hours to accumulating knowledge about trading. You could be reading books, watching

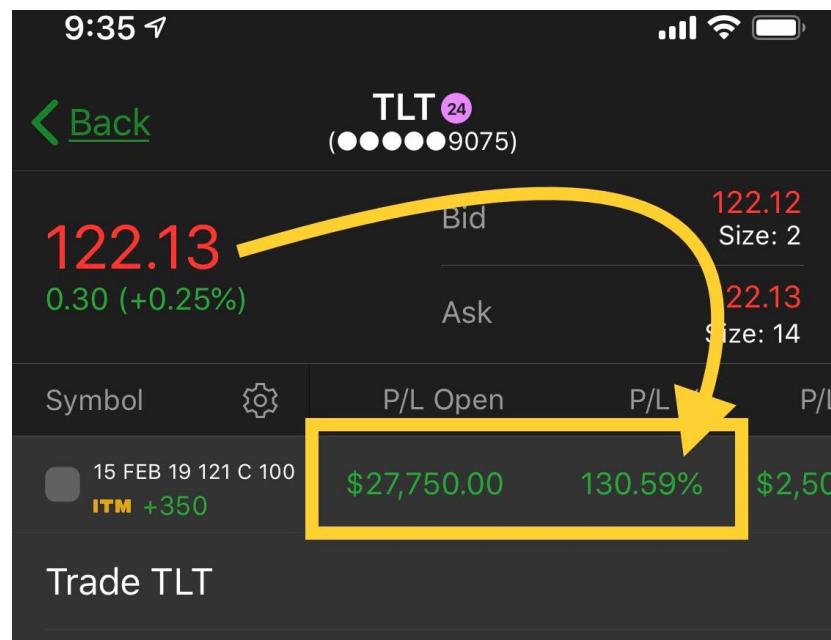
webinars, or chatting with like-minded individuals immersed in the trading world.

Think about it like this: if you spend 3 hours a day on average browsing the web for funny videos, catching up on news about celebrities lives, looking at your friends' most recent vacations on social media, and what not... you're spending 21 hours a week.

If you dedicated 20 hours to learning about the trading process, different tools for options trading, and trading strategies, as well as, reading up on macroeconomics, politics, company news, and just general knowledge... you'll be much better off.

I spend my time always looking for my next play, and a lot of the times they're 100%+ winners. That said, let's look at how time management browsing the web for useful information helped me lock in over \$25K on just one trade alone.

## Managing My Time Properly Made Me Over \$25K



At the time, I figured the bonds were signaling a move higher.

You see, traders and investors like to look to the bond market to hedge their risk. Take a look at the hourly chart of the iShares 20+ Year Treasury Bond ETF (TLT) – an exchange-traded fund (ETF) that holds U.S. Treasury securities with maturity dates 20 or more years from now.



In late 2018, when volatility was picking up and the market was selling off, traders and investors bid up the prices of TLT in an attempt to hedge their portfolios.



Now, I looked at the chart of SPY and noticed a disconnect.

Generally, the bond market doesn't move with the stock market. This is due to the fact that when corporations are growing their profits and the economy is expanding, inflation tends to increase... in turn, it causes bond prices to fall.

If you look at the hourly chart on TLT and the way the market rallied... TLT should be at the low-end of its range... but it wasn't falling at all. In fact, it remained strong with the market. That said, there was a disconnect between these two markets – potentially signaling a pullback.

You see, TLT is thought to be a safe haven. In other words, if it's risk-off sentiment... the smart money will look to buy bonds and gold. There's one viable reason for this disconnect: smart money is protecting themselves with bonds.

Moreover, by scouring the web for news and [talking to my millionaire-trader friends](#), I realized the market actually saw outflows from both mutual funds and ETFs. Now, in the month prior to when I entered the TLT trade, investors took out nearly \$20B from U.S. stock ETFs, and that was one of the worst monthly outflows in years.

Not only did investors take money out of stock ETFs, they used that money to go on the defensive and purchased low-volatility ETFs. That signaled to me it was time to start looking to get into TLT call options.

If you look at this annotated chart, you could see I clearly identified my exits:



In addition to identifying this trade, I was able to reflect about the trade and what I could do better next time:



Even though I made money in the trade, there were some mistakes... and I used my time wisely to review this trade.

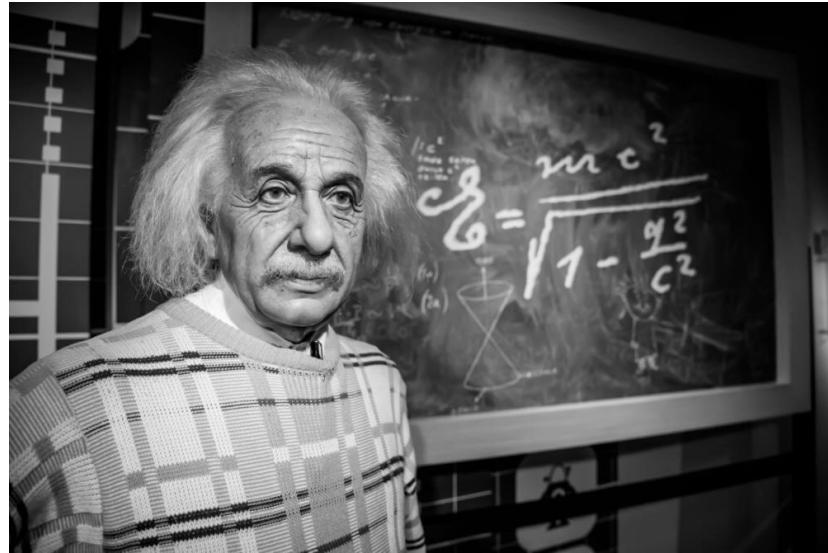
I came to the conclusion that I should've taken some profits off the table when TLT reached my target, instead of going through a swing. It was a good lesson on sticking to my game plan and not giving up on a trade because it didn't do exactly what I wanted.

Again, spend less time on social media and listening to the trolls of the web, and focus your

time on learning from successful traders and the trading process, and conducting your due diligence.

Moving on, there's one smart money "secret" that you should know about: compound interest.

## Smart Money Understands Compound Interest



Albert Einstein once called compound interest the "eighth wonder of the world." He added, "*He who understands it earns it; he who doesn't pays it.*" Now, I'm no Einstein, but I am in MENSA. That said, I agree with Einstein.

It is magical how your returns on returns grow over time.

What do we mean by compound interest here?

It's simple when you break it down.

There are a few ways to take advantage of one of the most beautiful mathematical discoveries:

- Reinvest your dividends or earnings

- Continue to grow your account every year
- Add money to your trading account
- Learn different strategies to increase your returns

Let's focus on growing your account every year... it's essentially the same idea for these bullets.

For example, let's say you start trading options with \$25K. Keep in mind this is hypothetical and we're not taking trading costs into account.

Assume you make 50% of your capital (which isn't far-fetched) the year of your options trading career. Your account would sit at \$37,500.

Stick with me here.

Let's say you leave your profits in there and the following year, you make 50% again. Well, your account would now sit at \$56,250.

What happens if you do that for 5 consecutive years?

Well, your account would be nearly \$190,000, assuming you didn't take any of your returns out. Now, you could imagine what would happen if you put in an extra \$5K a year in this example...

A lot of amateurs don't protect their profits. Instead, when they're up money... they'll just take it and spend it all in one place. It's fine to spend your money on things that will make you a better trader, but think if you actually just grow your account every year and protect your profits.

Those who understand compound interest will take full advantage of it.

But what happens to those who don't manage their risk properly and fall into the habit of gambling – just because they didn't have a mentor who has a proven track record making money in the options market?

Well, think about it like this.

If you go at it alone, don't know how to manage your position sizing, trade without a proper risk-reward ratio, and spend your time on social media instead of studying the markets, it's not crazy to lose 20% of your portfolio quickly.

That's a big draw down in my opinion. Again, assume you have a \$25K trading account and you actually lose 25% the first year. Ouch.

Your account would sit at \$18,750.

In order to just get back to \$25,000, you would need to make 33.33% the following year.

What happens if you let your account get to 50% of your initial capital? (I've seen this happen to lazy options traders before.) Well, you would need to make 100% just to get back to your initial capital. It's doable, but you never want to put yourself in a position in which your back is against the wall... and you have to dig yourself out of a massive hole, because that's when emotions take over.

That said, avoid big drawdowns (going well below your initial capital) and try to protect your profits.

## Final Thoughts About the Smart-Money Mindset

Now, I'm not telling you these smart-money tips will make you an overnight success, but they should help your trading process. Here are the takeaways:

- Only trade options with capital you could afford to lose. If you trade with your savings, chances are you will trade scared... which would most likely cost you money.
- Trade with a risk-reward ratio that you're comfortable with. For me, I think of my risk-reward in percentage terms, rather than dollar terms. I'm willing to risk 50% to make 100% (or more).
- Size your positions properly. I set my position sizes based on a percentage of my account size. I never allocate more than 5% of my account to any one position.
- Focus on a basket of stocks, rather than the entire market.
- Know when companies in your stock list are reporting earnings.
- Spend less time on social media and listening to Internet trolls. Rather, try to spend more time learning about trading and the world.
- Be mindful of compound interest, and protect your account and try to grow it every year.

# The Moment You've Been Waiting For: Jeff's Inside Secret

Traders don't usually associate options trading with technical patterns. However, through experience and constantly testing a key technical indicator for entries, it's shown to potentially generate more than 100% returns. Now, you might be wondering, "How's that possible?" Well, it's simple, you select specific options, look for the money pattern and use options as a directional play. With some options, all you need is a small move in the stock price, and the options could double or even triple in a few days.

Well, this money pattern is your friend and a powerful trading tool. First, you'll need to understand simple moving average crossovers. Basically, you can take high-probability trades by mastering the 13/30 hourly-crossover pattern. If the 13-hourly simple moving average (SMA) crosses above or below the 30-hourly SMA, that alerts you to buy specific options. This pattern produces clean signals to trade with and you're using options to leverage the battle-tested signal.

First things first, let's take a look at how to set up your charts.

## Indicators and Charts

If you have a brokerage platform you like to use, it should have simple moving averages. All you need to do is set the time frame to hourly, and plot the 13-period, 30-period and 200-period SMAs.

If you don't have charting software, that's fine. There are plenty of free charting websites out there, such as TradingView, Investing.com and Stockcharts.com.

For example, here's a look at how I set up all my charts.



Now, if the 13-period SMA crosses above the 30-period SMA on the hourly, it's considered a bullish crossover. Conversely, if the 13-hourly SMA crosses below the 30-period SMA, it's considered bearish. That in mind, we look to buy calls on a bullish

crossover and buy puts on a bearish crossover. It's that simple.

Moreover, the 200-hourly SMA can give you a good idea of the longer term trend and could act as a support or resistance level.

Next, you need to understand the basics of support and resistance. Support is an area where a stock has had a hard time breaking below. Think of it as a "floor" and traders are willing to step in and buy the stock at that price. Resistance is the exact opposite of support. Resistance is like a "ceiling" and traders are either selling their stock or short selling it at the area. In other words, stocks tend to bounce off of support areas and fail at resistance.

For you to really understand the money pattern, let's take a look at some real trades. I actually traded these names and bought options on the underlying stock, depending on the 13/30 hourly crossover pattern. If you get the hang of this, it's not rare for you to double your money, or more, in just a few days to weeks. Don't worry if you don't know what support and resistance, or if any of this isn't clear. Once you see how these tools work in real trades, it's not that difficult to spot them.

## The “Money Pattern” Examples

Alarm.com Holdings Inc (ALRM) is one perfect example of how you could multiply your money in just a short period. Here's a look at the chart and what we were looking at.



Here's a look at ALRM before we bought options on the stock. You can clearly see the \$39 area was support. In other words, ALRM had a tough time breaking below this area. That said, we were looking to buy call options on ALRM, anticipating a move higher. Now, a higher probability trade would have been to wait for the 13-hourly SMA to actually cross above the 30-hourly SMA. Notice how the 13-hourly SMA (the blue line) looks like it's going to cross above the 30-hourly SMA (the red line). This pattern was just starting to flash "buy".

ALRM is a strong stock that just pulled back, and I wanted to take advantage of it. The stock still seemed strong, and was holding up fairly well.



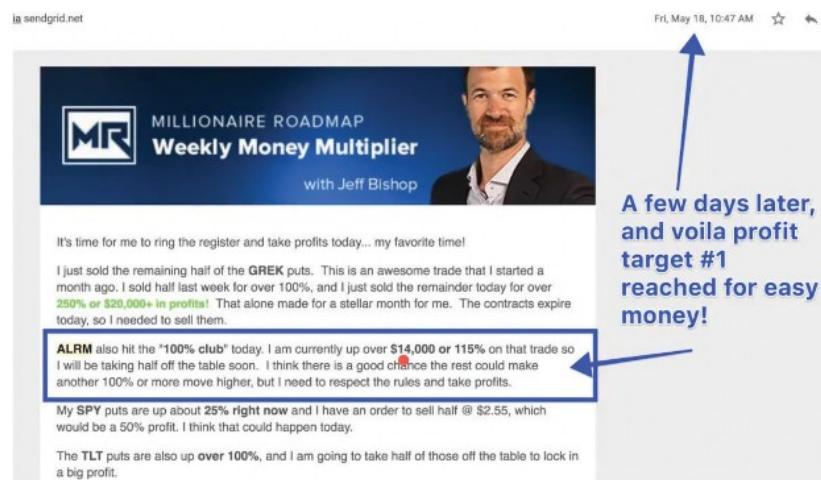
Take a look at the plan above. I bought the call options expiring on June 15, 2018 on May 9, 2018 at \$1.20. I was looking to add more if the calls pulled back to the \$0.80's. Moreover, I would stop out if

the options fell around \$0.60. Now, this is something you should always do when you're trading. Always have a plan and specify where you would buy more and stop out of your position.

Here's a look at what happened with ALRM.

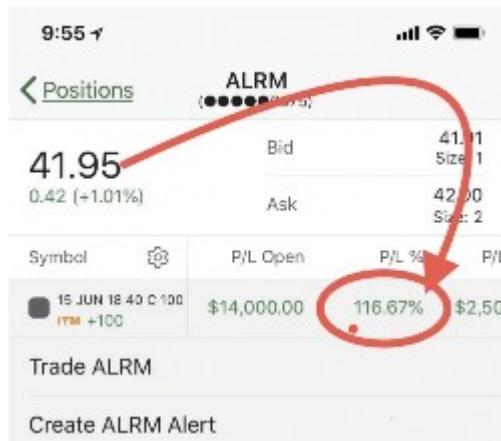


The 13-hourly SMA crossed above the 30-hourly SMA, as shown in the encircled area. The stock got a nice pop and had a nice move to the upside. The options doubled and we were sitting on some nice profits.



That's right, that small investment turned into \$14K. If you were to do this with stock, it would be a lot harder to see returns like this. This is due to the fact that stocks are linear. In other words, if

you're long 1K shares of a stock and it moves up \$1, you make \$1,000. However, with options, you're able to generate high returns with a "small" initial investment because they provide leverage and are non-linear. If a stock runs up just a few bucks, the call options could more than double, depending on the strike price and expiration date.



The takeaways from this trade are:

- ALRM found support around the \$39 area and was a strong stock
- The 13-hourly SMA looked to potentially cross above the 30-hourly SMA
- Just buying at-the-money (ATM) call options was a good play. (You should have a good understanding of moneyness, but if you don't, ATM just means the strike price of the options is near the stock's current price.)

Let's take a look at another example of the 13/30-hourly SMA crossover in action.

The Global X MSCI Greece ETF (GREK) was another trade that we used the 13/30-hourly SMA crossover to get in. This time, puts were involved. Rather than shorting the exchange-trade fund (ETF), which could lead to large unexpected losses, we

bought put options. Remember, put options allow us to express our bearish opinion on a stock or ETF. Keep in mind, when you purchase options, the maximum you could lose is the amount of premium paid.



GREK had a clear long signal, but I missed out on this one. It had a move from around \$9.60 to more than \$10.80. This time, the 13-hourly SMA was changing direction and looked to cross below the 30-hourly SMA. So what do we do here? We buy puts because, again, when the 13-hourly crosses below the 30-hourly, it signals the stock price could fall.

I wasn't going to miss out on this trade after I saw the ETF run higher after the buy signal. Now, it's indicating it could fall.

Happy Friday!

I just finished a live training in the Millionaire Roadmap chat room and picked up 2 new trades that I want to make you aware of.

First, I just filled **VXX APR 27 2018 43.0 Call @ 1.12**. My thinking here is that the market is very heavy and we have a clean hourly crossover pattern happening which is very bearish for the market in my opinion. Until that changes, I think the market will be pressured. Assuming SPY goes lower, VXX should rally. I think we could see \$45 on VXX next week, which would be a huge move for the options.

I also started a new short trade on **GREK**. I won't get into all the details right now, but I don't like the Greek markets right now and this is a great way to bet against it. I just bought **GREK MAY 18 2018 11.0 Put @ .50**. This gives me about a month to see if **GREK** will make a meaningful drop lower again, which I think it will.

I bought put options expiring on May 18, 2018 with a strike price of \$11 for just 50 cents on April 20, 2018.

Keep in mind, the ETF made a high of \$10.81, and I would have stopped out if the stock broke above that level. When you're wrong, you have to realize that and just cut your losses quick. The ETF did try to make a new high above \$10.81, but failed. I was close to stopping out of my position, but luckily, GREK didn't make a new high.

Here's what happened with the ETF.



When the ETF started pulling in, I figured it was a good time to start taking profits.



Even though I wasn't up 100% on the options position, it was prudent to take profits when the puts were up 70%. When you're up, you should always look to take profits and let the rest run, and that's what happened with the put options on GREK.

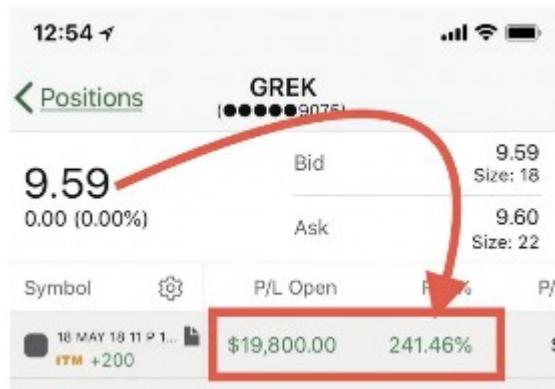
Take a look at what happened with the ETF.



The ETF continued to collapse and the options more than doubled!



Again, this isn't an unusual trade in the options market. By holding onto a portion of the position, the trade generated an additional \$12K. If you traded this ETF, you would've had to short around 10K shares, just to make the same amount, which would eat up your buying power.



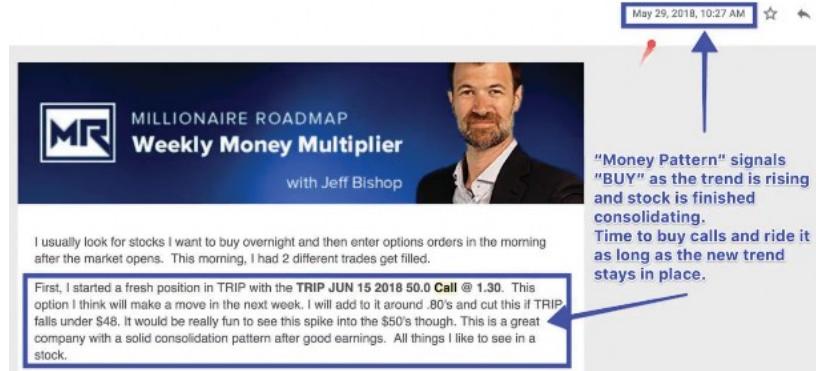
Moving on, let's look at another options trade that generated a high return with just a little bit of capital.

TripAdvisor Inc (TRIP) had an excellent breakout on strong earnings. However, it's best not to chase stocks. Rather, you should wait for it to consolidate and show you a clear entry.



If you look at the chart above, you can clearly see the support area is around the \$47.60s. The stock

started to trend higher after consolidating. That in mind, this was a good time to buy call options since the trend was rising. When this happens, you can ride the trend as long as the tide doesn't change.



If the stock broke below the support area, that would've been an indication to sell the call options.

However, that didn't happen. Here's what the stock actually did.



The 13-hourly SMA crossed above the 30-hourly SMA earlier, and TRIP started to trend higher.

In just a matter of days, the options went up over 200%.

Fri, Jun 1, 9:53 AM

What a great trade this has been. Since I alerted the TRIP calls on Tuesday this week, they are now up over 230%!

I just sold half of mine @ 4.33 which is over \$15,000 in profit on just that one piece.

TRIP is in rally mode now and I'll be looking to cash in the remainder in the upper \$5's if it gets there today.

You really can't lose at this point, so enjoy the big profit this weekend!

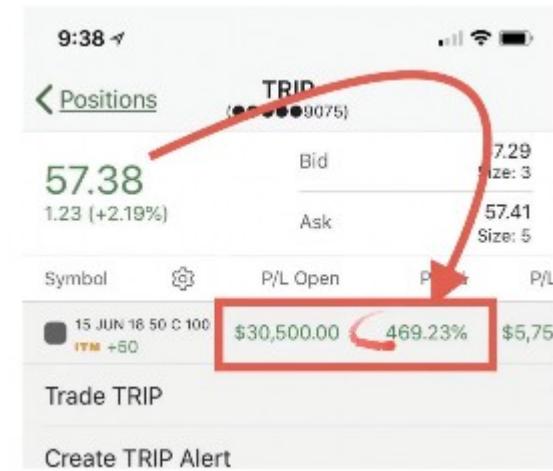
Congrats!!

*Jeff Bishop*  
Jeff Bishop

Remember, it's always good to take profits when the option prices are near your targets. TRIP continued higher, and the stock was up 20% from when I purchased the calls. This was a good time to take profits.



The options trade returned nearly 500% on a \$6,500 investment. If you wanted to do that with stock, you would have to buy around 3,000 shares, which would've been over \$130K just to make the same amount. Moreover, you would have to be nearly perfect if you were trading the stock to get the same profits in dollar terms.



Now, another reason to trade options is due to the fact that not everyone has the amount of capital to trade high dollar names. For example, Chipotle Mexican Grill Inc (CMG) was trading over \$400 and just 100 shares would've costed you over \$40K! Here's a look at a trade where you could have purchased options on CMG and more than doubled your money.



Notice the fake out here. The stock gapped up and the 13-hourly SMA crossed above the 30-hourly SMA. If you bought the stock there, you would've paid up and potentially got stopped out. You need to take into account the fakeout breakout when using this indicator. The stock broke above resistance, only to pull in. However, it started to consolidate, and there was no clear direction yet.

In just a matter of days, CMG found some support around the \$429 area. Thereafter, the 13-hourly SMA clearly crossed above the 30-hourly SMA and trended higher.

Wed, May 23, 2:15 PM

**MILLIONAIRE ROADMAP**  
**Weekly Money Multiplier**  
with Jeff Bishop

I really like the setup for the markets to run to the upside here. I am long QQQ calls as a day trade on that and plan to keep adding into the close.

I just started a new swing trade as well on **CMG**. This is the burrito company everyone loves to hate, at least for the last year. Things have been on the rebound lately and possibly the worst is behind them.

I just started with the **CMG JUN 15 2018 440.0 Call @ 8.85** and am looking for a big move on this option in the next couple of weeks.

I will add to it, either at a higher price if CMG breaks north of \$440 again soon, or in the low \$6's if it dips.

I plan to cut the trade loose if CMG slips below \$425.

There are a lot of good setups to the long side right now. I think we have a nice window of buying right now.

Rather than buying 100 shares of the stock, which would've costed you around \$40,000, you could have purchase 1 call option at \$8.85. 1 call option leverages 100 shares, and was only \$8,850 in premium.

Notice how the plan was clearly laid out. There were spots where I was willing to add and a price where I would've stopped out. This was another “easy” trade following the hourly-crossover indicator. CMG never broke below \$425, so I stayed in the trade.

Jun 5, 2018, 10:44 AM

**MILLIONAIRE ROADMAP**  
**Weekly Money Multiplier**  
with Jeff Bishop

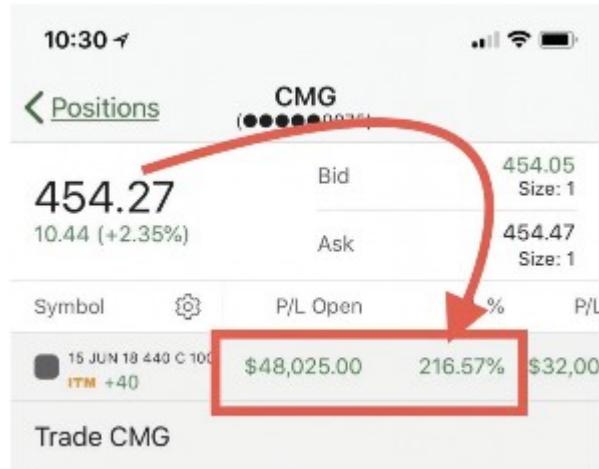
This was a pretty great week just with **TRIP**, which I sold half at 100% and now the remainder is nearly up 500% or over \$30,000 for me.

That would have been enough. Then **CMG** had to go and blow up over the last 2 days for us.

I'm up over 200% on that trade now and just sold half of it at nearly \$17. That trade is up over \$40,000 in profit for me in just the last few days.

Trading options can lead to unbelievable returns, and these trades are exactly why I play this game.

That's right, the options trade was good for a 216% return! That's really hard to do when trading the stock alone.



## Final Words

Now, you should have a good idea of how to use the 13/30-hourly crossover. However, this takes time and grit to truly understand how to use the indicators. You'll need to continue looking at charts and trying to find trades. When you're first starting out, it always helps to have a mentor to guide you along the way, especially if you're trying to start trading options.

