SWING TRADING

- OPTIONS -

7 STEPS STRATEGY FOR BEGINNERS TO LEARN HOW TO SWING TRADE IN THE FINANCIAL MARKET. EVALUATE TRENDS WITH TECHNICAL AND FUNDAMENTAL ANALYSIS TO GROW AND SECURE YOUR INVESTMENT

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7 steps strategy for beginners to learn how to swing trade in the financial market. Evaluate trends with technical and fundamental analysis to grow and secure your investment

[Benjamin Collins]

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Chapter One

Introduction

Every day we are looking for a way that can change our lives beyond recognition. Some try to find a job of their dreams, jumping from place to place, trying to get two or even three higher educations to grasp the immensity. Still, others are trying to understand something and become true professionals in their field thoroughly.

If the third way, as they say, is for you, then we suggest that you immerse yourself in the fascinating world of economic analysis. Thanks to this book, you will be able to discover several opportunities to increase your financial literacy. One of the ways to do this is by trading.

Trading

Let's say right away that trading is not a game, although most people often mistakenly call traders "players." With the right approach and due regard to business, the risks of a trader can be minimized to the maximum. In addition, trading can develop your horizons every day and work practically from any place where there is reliable Internet access.

Trading is a legal activity, the principles of which are intuitively clear to almost every layman who has reached his perfect age. It would be best if you did not consider yourself a specialist to a person who does not have luxurious theoretical baggage. To learn the basics of trading, you need to take a long time to prepare. But this does not guarantee you a stable constant profit, although it increases your chances of a favorable outcome by tens of times.

On the one hand, you can earn up to 90% of your investment in less than five minutes, and on the other, it is just as easy to lose not only your profit but also your initial deposit.

The purpose of this book "SWING TRADING OPTIONS" is to teach you the safest and most profitable method to make money online with a step-by-step strategy for beginners to win in any market. It includes market trends,

technical analysis, fundamental analysis, suggest ways to deal with external and internal factors that prevent novice traders from succeeding, and also set you up for a professional attitude business from the first minutes of market research.
In fact, trading is not only a struggle with the market and other players but also a battle with yourself. First of all, you must learn to find a balance between the emotional component and cold calculation. You should be prepared for that during the bidding; your internal enemies will wake up - greed. But you definitely shouldn't give in to their influence. Only a sharp mind and constant focus on your goal can bring success in the world of trading.
Try to get to the beginning of your journey without the illusions of easy money and insane profit in the first days. You should understand that the market looks like a chessboard: everyone knows his rules, but the most persistent, the most diligent and concentrated, can achieve success.
If you want to enter a peculiar club of successful traders, you will have to spend several weeks or even months before you can feel your first tangible achievements. The author of this book is convinced that only painstaking daily work on yourself will bring you to the top.

The beginning of the way

So, you firmly decided that soon you want to become a professional trader. Where to start? Of course, from the theoretical part. Drop everything and don't think that you are unique. Take time to basics. Believe me, this is important.
Imagine that you are on a step in front of a huge building, the entrance to which is accessible only to successful traders. Before the building's security opens the doors for you and gives a pass to a peculiar closed club of the lucky ones, you must take several training courses and show your skills in practice.
Carefully study what trading is, who the trader is, and why you want to invest. Look at each detail from different angles, do not hesitate to re-read or outline individual points.
Every self-respecting trader should have a diary with which he shares his observations. Sometimes these diaries are more valuable for experienced

players than their most successful deal.
Only after you understand the theoretical part is it worth starting the practice. The practical part for everyone starts the same way - choosing a platform for trading. There are hundreds of platforms on the Internet that allow you to trade with certain types of assets. Here you have the choice. The main thing, make sure that your guide to the world of trading is legal and provides all financial security guarantees for your traders.
Financial security in the market is one of the fundamental things, and it is not worth neglecting it, because otherwise, you risk your own money. Unclean sites are sometimes dummy sites that can block your trading right away after making your first deposit. Therefore, go to the choice of broker maximally responsible.
A broker can be compared with your hand in trading. A platform is a guide on the market. With the help of a broker, you will carry out transactions, buy and sell assets, and conduct other operations.
Experienced traders advise beginners to concentrate on finding a broker who will not fool you. Simplicity is the key to understanding. At first, it will be difficult for you to formulate exactly what you want from a broker, then an intuitive interface and around-the-clock support service. This is what you need.
Actually, after choosing a platform, you will see all the delights of trading. You can test your strategies by training on a demo account, get acquainted with the market, develop your skills, learn to analyze and, finally, earn real money.
We urge you not to play big since the first days. To get started, feel the market's mechanism and work on errors after the first week of active trading. Consult your mentors, and do not forget to turn to our book for help.
We are sure that the book "SWING TRADING OPTION" will become a starting point for every novice trader, which will allow you to change your life in the near future. Do not be afraid to study; do not be afraid to take risks; do not be afraid to think outside the box. Daily move towards your goal and your labor will be rewarded!

What is trading?

For centuries, people have sought to exchange their resources for something they don't have. An example is the prehistoric tribes of farmers and hunters who traded agricultural products for animal skins and bones. Nowadays, each of us makes exchange operations - in a store, on a bus, in a bank. Most often, money is exchanged for goods (milk, bread) or a service (bus travel, legal advice), sometimes cash is exchanged for cash (currency exchange at the bank). All of these are examples of trading.
If you want to make money on the difference between the purchase price and the sale price, then the easiest way to do this is in the financial market.
How do traders earn the difference between buying and selling? How can they know in advance whether the price will rise or fall? For most ordinary consumers, particular pricing security is a random process. Actually, the price is formed according to fundamental market laws, the main one being the Law of Supply and Demand in the market.

The law of supply and demand

A market is a meeting place for buyers and sellers of certain goods or services to make an exchange. The market provides a mechanism that maintains a constant connection between sellers and buyers; they can interact directly (as in the case of a fair) or through an intermediary (as in the case of an exchange or an online auction).
The law of supply and demand explains the result of the interaction between buyers and sellers - why and at what price this particular product (stock, option) was purchased from this buyer.
A trader makes a profit on the difference between the purchase price and the sale price, so you need to clearly understand what affects the value of securities on the stock exchange. The law of supply and demand describes how the availability of a good or service and the desire to possess it affects the formation of a fair price. Buyers determine the demand for the goods, and sellers determine the offer. As a rule, with a small supply and a significant demand, the price of a product or service will always rise. When there is an ample supply of a product or service on the market, but there is no demand, then the price, on the contrary, will fall.
The supply and demand in the financial market, for the most part, is not formed by traders, but by significant funds and banks that need securities

and currency to carry out their core business.
They account for the main trading volume in the financial market. Almost all trading operations today are performed via the Internet, and all online trading participants are united on individual online platforms - exchanges.

Financial market

Instead of ice cream, the seller sells securities or currency in the financial market. If many sellers at the market simultaneously decide to sell shares, such as Google, the offer will exceed demand. As a result, there will not be enough buyers for the shares at the current price, respectively. Their cost will begin to decline.
In this case, the equilibrium was disturbed due to an increase in the number of sellers in the market. The price of the shares will decrease until there are enough buyers on the market, and a new equilibrium price is established at a lower level.
The financial market is divided into:

- Stock market (securities market);
- Forex market;
- Derivative financial instruments market (options and futures);
- Money market (banking services).

Who is a trader?

A trader is a direct participant in the financial market.
A private (or independent) trader works for himself and pursues his goals exclusively in trading;
An institutional trader works for a specific financial institution.
Most often, traders make most of the transactions within the day, which distinguishes them from investors, who usually rely on long-term investments.
The trader's goal in the market is not to purchase goods, but to make money on the price difference between buying and selling. By speculating on the price of the products, the trader derives his profit in the form of profit from transactions. To find new trading opportunities, the trader analyzes the market, assuming where the price will move in the future. When the speculator considers that the cost of the assets will increase, he buys the

assets. When the market situation changes and the asset begins to fall in price, the trader sells the assets and receives his reward if his forecast turned out to be correct.
According to the time of transactions, traders are divided into several types:
Day trader (day-trader) - makes transactions within one trading day. Often has a relatively small capital.
Scalper- makes a large number of short duration transactions: from several seconds to ten minutes (scalping). As a rule, the effectiveness of a single transaction is small, but the number of transactions is large.
Position trader (short-term) - makes transactions with a duration of several days, closes all positions before periods of liquidity reduction (holidays, summer vacations, etc.)
Medium-term trader - makes several transactions a year, close positions when weekly trends change.
Long-term investor - transactions can last several years, closes positions when global trends change.

Development Overview

Stock options trading can be divided into organized options trading market (OrganizedExchange) according to options trading venues, namely exchanges and over-the-counter options market (Over-The-Counter, OTC). Option trading originated in the sixth century AD and was introduced into the eighteenth-century financial market. Spot stocks were used as trading objects, that is, the early stock options trading. Since then, until the 1970s, stock options trading has been relatively fragmented. From the 1970s to the 1980s, stock options were gradually standardized and developed. After the 1980s, developed countries started to trade on their exchanges. The large-scale stock options trading has entered a stage of prosperity and development.

On April 26, 1973, the world's first organized, standardized, and government-supervised stock options floor trading market- Chicago Board of Options Exchange (CBOE) was established by the United States Securities and Exchange Commission (SEC). The establishment was approved, and a standardized stock option contract was launched and officially listed for trading. In the beginning, only 16 kinds of stock options were traded. On the first day, the trading volume was only 911 contracts. After that, the trading volume increased rapidly. In March 1974, the trading volume exceeded the annual trading volume of the OTC market in 1972. The number of shares represented by the yearly contract has surpassed the American Stock Exchange's annual stock trading volume. In 1974, the American Stock Exchange, the Philadelphia Stock Exchange in 1975, the Pacific Stock Exchange, and the Midwest Stock Exchange successively launched a stock options trading business in 1976. In March 1977, the SEC approved the above exchanges to conduct stock put transactions. In 1982, the New York Stock Exchange also began to engage in stock options trading. Since the stock options in the exchange are standardized contracts and are guaranteed by standardized operating rules and regulatory systems, it is more convenient for ordinary investors to trade. It overcomes the shortcomings of OTC standardization and lack of liquidity and high transaction costs. Therefore, the stock options market has developed rapidly.

At present, the United States is the world's largest stock options trading center. The number of stock options traded had grown from the 16 most popular stocks when CBOE was established in 1973 to more than 1,400, including the most active trading on the stock exchange and NASDAQ US stocks and foreign company stocks. CBOE is the largest options exchange in the world today. It has become the second-largest financial stock exchange in the United States after the New York Stock Exchange "by the transaction amount." It has more than 300,000 brokers registered with the Stock Exchange Commission and a strong sales network. In 1978, the London Stock Exchange in the United Kingdom and the European Options Exchange in the Netherlands launched stock options business. Since the 1980s, the stock options market has developed rapidly in the world. Many exchanges in countries and regions such as France, Germany, Japan, Singapore, and Hong Kong have begun stock options trading, and the trading volume has soared. At the same time, options for the development of stock-based products have been continuously launched. According to The 1998 IFR Handbook of WorldStock & Commodity Exchanges data, among the 240 stock exchanges and futures exchanges engaged in spot options in 87 countries and regions around the world, thirty-two exchanges in 23 countries and areas conduct stock options transactions and 21 are stock exchanges.

According to WorldEquity and March 1998 data, the top ten exchanges for global stock options premiums in 1997 were Chicago Board Options Exchange, American Stock Exchange, Amsterdam Stock Exchange, Pacific Stock Exchange, Sao Paulo Stock Exchange, and German Stock Exchange. Philadelphia Stock Exchange, Swiss Exchange, Australian Stock Exchange, Hong Kong Stock Exchange, among which CBOE option premiums reached 36794.19 million US dollars. According to the 2001 Annual Report and the Third Quarter Report of the Bank for International Settlements (BIS), as of June 30, 2001, global financial derivatives exchanges and OTC traded a total national value of US$249.8 trillion, an increase of 5% over the same period the previous year. Among them, the theoretical value of equity such as stock options in OTC transactions reached US$1.9 trillion, and the number of transactions on exchanges reached US$11.6 trillion. For the first time in the past ten years, the value of stock options transactions has grown faster than over-the-counter transactions. Europe and the Asia-Pacific region grew by 13% and 18% respectively, while North America fell by 15%.

Basic form of Options

Call option

The buyer can purchase several units of stocks at the agreed price within a specified period (the Chicago Board Options Exchange stipulates a contract for 100 shares, and the London Stock Exchange stipulates for 1000 shares). When the stock price rises, he can buy at the low price specified in the contract, and then sell it at the high market price to make a profit; on the contrary, if the stock price falls below the contract price, he will bear the loss. Since the buyer's profit depends on the degree of price increase, it is called a call option. For example, a buyer and seller of an option sign a 6-month contract to buy and sell 100 shares of a company with a par value of US$10 per share, 100 shares per contract, and an option fee of US$1 per share, totalling US$100. Agreed price per share is 11 dollars.

If the stock price rises during the contract period to $13.5 per share, the buyer has two options:

The first is to exercise the option, which means buying 100 shares at $11, paying $1,100, and then selling these 100 shares at the exchange for $13.5 per share, earning $1,350, and profit of $250, deducted After the option premium, the net profit is $150.

The second is to transfer options. If the stock price rises, the option premium also rises. For example, if it rises to US$3 per share, the buyer can sell the call option, earning US$300 and netting US$200, with a yield of 200%. It is the charm of options that can obtain high profits at a small price.

If the stock market moves contrary to the buyer's prediction, the buyer will bear the loss. At this time, he also has two options:

The first is that the option is not exercised, even if the option expires automatically, the buyer loses $100 in premium. The second option is the sale of options at a price cut; that is, the buyer has lost confidence in the market's rise during the validity period of the contract.

Put option

It refers to the sale of several units of stock at an agreed price within a specified period. When the stock price drops, the option buyer sells the option to the seller at a price specified in the contract and then buys it at a low price on the exchange to make a profit. Since the size of the buyer's profit at this time depends on the degree of stock price decline, it is called a put option.

For example, the option buyer and the seller sign a 6-month contract, the agreed price is US$14 per share, the number of sold shares is 100, the option fee is US$1.5 per share for a total of US$150, and the par value of the stock is US$15 per share. The buyer has two options in this transaction:

The first is to exercise options. If the stock price falls within the specified period and drops to US$12 per share, then the buyer exercises the option, that is, sells 100 shares to the seller at the agreed price, receives US$1,400, and later buys 100 stocks on the exchange at the market price. Paying 1,200

US dollars, earning 200 US dollars, deducting the option fee of 150 US dollars, the net profit is 50 US dollars.

The second is to sell options. When the stock price falls, the put option premium also rises. If it rises to US$3.50 per share, the buyer will sell the option, earning US$350 and a net profit of US$200. Conversely, if the stock price trend is contrary to the forecast, the buyer will suffer a loss, and the extent of the loss is the premium paid for it.

Dual option

It means that the option buyer has both the right to buy and sell and the buying and selling depends on the price trend. Since this kind of trading will be profitable, the option fee will be higher than the call or put option.

Why Options?

Option as a way to reduce losses

Imagine this situation: a trader bought an option on the stock exchange for 1000 barrels of Brent crude oil, having the opportunity to pay for the goods in a month at today's price, which is $45 per barrel (thus, the full amount of the contract is $45,000 [45 barrels for a thousand dollars]). The buyer purchased the option at 10% of the cost of future delivery, that is, $4,500. This payment is called a "premium" for the option. After a month, the buyer will need to pay the remainder of the amount under the contract ($ 40,500) if he wants to pick up the goods.

However, a month later, when it came time to pay the full price of the contract, it turned out that Brent oil was already worth $35 per barrel, so 1000 barrels cost only $35,000. In this case, the buyer has the right not to pay the remaining amount under the contract ($40,500) and buy oil at today's $35 from another seller. Thus, the buyer lost $4,500 in this transaction by paying a premium for the option. But he would have lost even more money if he paid the full price of the contract.

Option as a means of making a profit

Now let's imagine another scenario: in a month the oil didn't fall but rose in price to $50. In this case, the seller must sell 1,000 barrels of oil at the price of $45 upon request. The buyer pays the remaining amount of the contract ($40,500) and receives 1000 barrels for $45,000. He can immediately sell this contract for $50,000 (because oil has risen in price to $50 a month), making a profit on the difference between buying and selling at $5,000.

At the buyer's request, the asset can be transferred to its disposal at a price agreed before the transaction, in case the full price of the contract is paid.

There are short-term options; there is long-term (for several months). You can buy the opportunity to purchase and sell assets at the agreed price after a specific time.

How to earn on options trade

Do you know a lot of useful information about earning money on options? People write and talk about win-win strategies, the methods of well-known analysts, accurate signals that can predict a price change with an almost guarantee. There is a high probability that binary or any other types of options were described to you as the most reliable, simple, and fast way to make money. In fact, everything is not quite so.

What is essential to know about earning options

If you decide to trade options "blindly," this probably will not work out well. The probability of unsuccessful trading, in this case, is 95%. Traders who want to engage in options trading seriously must have some knowledge. Besides, they should be diligent and purposeful. Logical thinking plays a vital role in this matter. Patience, excitement, or iron will are even more critical for trading options.

No one gives guarantees.

No one can give 100% guarantees that everything will work out well. The phrase "guaranteed earnings on options" was coined to attract people who do not understand anything in trading. It is not surprising that the ranks of unfortunate beginners are replenished daily.

There is an exact answer to whether it is realistic to earn money for beginners in the options market. The answer will be as follows: real, but with a great desire and weighty luggage of knowledge.

Options are a great chance to learn online trading, but there is no guarantee that you will profit immediately. Only a few traders become genuinely successful and increase their budget to millions.

Life often brings pleasant surprises to some people and failures to others. Only after you learn all the nuances of options trading, you can get to practice.

How to predict price changes

Predictions are based on market analysis. Analysis can be of three types:
Charts;
Technical;
Fundamental

The latter type, fundamental analysis, is mainly used only in long-term and medium-term trading. Graphical analysis is the technique of analyzing the price chart, identifying patterns, and trends. The technical analysis searches for suitable moments for buying options using technical indicators, which are mathematical models. All three types of study will be considered in the later chapter of this guide.

Keep in mind that options trading is not a popular lottery or a casino. This way of earning money is not a game, temporary entertainment. Set up for successful, long-term trading, and constant training. In any case, options trading must be taken seriously on how to work. With the right approach, it can become extremely profitable.

Types of options

There are several types of options: for some of them, you can get income if the price exceeds a specified level, for others - if it does not exceed it. In some, if you just correctly determine the direction of the asset's price movement. Each of these types of options may be preferable, depending on the market situation. The use of a specific type of option in certain market conditions can be safely attributed to the "top-flight" trading elements.

Studying the rules and developing strategies for different options trading is the way of the person who decided to make trading a stable income. We will consider each type of option separately, the advantages and disadvantages under specific market conditions, and then try to form an opinion on how to apply it to real trading.

Binary options

Binary options offer the trader to determine the direction of change in the price of an asset. To conclude transactions, only two buttons are used: Call and Put (increase or decrease the asset) price. This is the most widespread and time-tested type of options trading. The call option (above) is a deal to increase the cost of the asset. You make a profit if the asset's price is higher than it was at the time of the transaction. Put option (lower) - a deal to lower the price of the asset. You make a profit if the price is lower than at the time of the transaction. In rare cases, prices at the time the trade is opened and closed may be equal. In these cases, you will receive a return on the investment.

Let us consider a simple example. In the electronic technology market, Apple announced the release of the iPhone 7 at the beginning of September 2016. You assume that the new iPhone will surprise everyone so that the company's shares will rise in price after the presentation of the gadget mentioned above. In this case, you need to buy the Call option on Apple shares at the end of September 2016.

Suppose you bought an option for $200 with a yield of 80%. In this case, the profit will be $360 (net profit - $160). In the case of an incorrect forecast, you lose your investment. Some brokers, of course, return part of the amount in unfavorable outcomes, but you still can't avoid losses. Therefore, the main thing is to make the correct forecast to make a profit. Traders who prefer binary options rely mainly on technical analysis.

Classic options

Classic options differ from binary options by the presence of a strike price and potentially unlimited profitability. The strike price is the price level that an asset must reach for the trader to close the deal in plus. The strike price

is selected before the call/put option is purchased and can be higher or lower than the current price. The further it is from the current price level, the higher the potential profitability. However, the risks, in this case, also increase.
Classic options offer a choice of 500 assets, including shares of the largest international companies. Stocks are less susceptible to random fluctuations than national currencies; their quotes are mainly influenced by corporate, economic, and political news. That is why traders, who prefer trading on classic options, prefer fundamental analysis.

Digital options

Digital options are another type of option that uses a strike price. Three currency pairs are available for trading: AUD/USD, EUR/USD, and GDP/USD. To make a transaction, you need to select a strike price and press Call or Put, depending on in which direction, in your opinion, the asset price will change.
The same rules apply for Digital options as for classic ones. The easier the asset reaches a certain price level, the lower the percentage of potential profit. The further the strike price is from the current rate, the more difficult it is for an asset to reach it, and the higher the potential profit. The maximum profit for this type of option is 900%

Variable relationship

The variables in the stock options trading market include the agreed price of buying or selling stocks, the length of the term, and the premium level.

The agreed price is closely related to the spot price difference: the higher the positive difference, the lower the option premium; the more significant the negative difference, the higher the option premium. The term is also related to the level of the premium. The longer the term, the higher the premium.

The relationship between a company's annual call options is now clarified. The company's spot on March 1 was $3.

The relationship between call option variables

	Call premium		
Agreement price	Expires in May	Expires in August	Expires in November
2.6 USD	0.60	0.70	0.80
2.8 USD	0.45	0.55	0.60
US$3.0	0.35	0.45	0.50
3.2 USD	0.25	0.35	0.40
3.5 USD	0.21	0.30	0.35

It can be seen from the above table that the negotiated price rose from US$2.6 to US$3.5. The higher the increase, the greater the positive difference between it and the spot price. The more significant the positive difference, the smaller the buyer's profit, so the option fee will be lower. Conversely, the greater the negative margin, the greater the profit and the higher the premium. This is evident from the above example. In addition, it can be seen from the table that the longer the term, the greater the profit hope and the higher the premium. Of course, the fundamental factor affecting option premiums is the market supply and demand relationship, and this relationship depends on three specific factors:

Market conditions: As the stock market rises, more people buy call options, and for this reason, option sellers will increase call option premiums. As the stock market falls, more people buy put options, and put option premiums will also increase.
Contract time: The closer the stipulated contract time is to the expiration date, the smaller the profit opportunity and the lower the option premium. Once the expiration date arrives, the option premium is zero.
The potential capacity of the stock: This ability means that stock price changes can bring investors possible and even considerable income. Options trading is different from general stock investment. It has an apparent speculative nature, and its profits are entirely based on stock price fluctuations. Stable stock prices will bring huge profits to investors, but they are not attractive to option investors. If the stock price fluctuates

wildly, there are more potential profit opportunities, and of course, the option premium is also high.

Introduction to swing trading

Swing trading combines fundamental and technical analysis to catch large price movements while avoiding downtime. The advantages of this type of trading are a more efficient use of capital and higher returns, and the disadvantages are higher commissions and more volatility. Swing trading can be difficult for the average retail trader. Professional traders have more experience, leverage, information, and fewer commissions; however, they are limited by the instruments they are allowed to trade, the risk they can assume, and their significant capital. (Large institutions trade in sizes that are too large to enter and exit stocks quickly).

How swing trading works

Swing traders tend to work with the underlying trend of the chart, such as an uptrend. Traders can be guided by the following rule: buying when the trend rolls back (that is, at the moment of correction), and taking profit when the primary trend is cancelled. One of the signals to fix positions is a breakout of the line or support curve.

A swing trader usually studies the long-term fundamental trends of stock and can hold a share not only for several hours but also for several weeks or even months - it all depends on the duration of the trend. The duration of a trend may depend on the general market sentiment. This parameter reflects either the price of the index, which includes the stock or the positive news of the area where the company operates and its performance by quarters.

Differences and similarities between day and swing trading

Swing trading and day trading may seem to be similar methods, but there is a fundamental difference between the two: time. First, the timing of these trades is different. Swing traders can keep trades open for seconds or a couple of hours, or several days. Day traders usually monitor the trade for several days or weeks.

Swing traders' short trades often mean that they are unable to keep positions in balance. As a result, they avoid the risk of out-of-office news releases, as

negative news could negatively impact the trade.
The problem of such mistakes with frequently unprofitable trades may be because the trader is not sufficiently focused on trading, and the discipline of conducting transactions is not harmonious. As a result, a simple failure can lead to poor profitability. A series of bad trades can devastate a trader's account so much that there is little or no chance of recovery. This leads to the second difference between day trading and swing trading: commitment and discipline.
Correct day trading requires focus and attention on multiple positions and a constant search for new potential opportunities to look for new opportunities to enter the market.
One of the advantages of swing trading is that this method causes fewer emotional breakdowns due to less monitoring of positions because trades can take a couple of days to weeks. Positions can be checked periodically, and part of the trade can be automated. For example, when critical price points are reached, letters come to the mail or sound notifications in the terminal itself. Therefore, there is no need for constant price monitoring. This allows swing traders to diversify their investments and maintain psychological balance when investing.

What strategies can be used when trading swing

Analysis and observation of prices in conjunction with technical analysis. This method is standard for most swing traders. This type of analysis helps a trader determine which stock or ETF to trade. The technical analysis elements can be different, but they should all help determine the trend, for example, the Moving Average indicator or the MACD.
Moving Average allows you to determine the support level in the primary trend in an uptrend and a downtrend - the resistance level. Traders can use Fibonacci tools such as "Fibonacci Levels" to help set price targets and identify retracements.
Fundamental analysis. Another standard swing trading method is to track the news background. Many tools allow you to follow the news of companies to timely respond to both positive news, such as usage statistics

for the quarter, and negative news, such as an unwanted change of leadership.

Index analysis combined with a fundamental method. In addition to analyzing the company, some traders also monitor the news of the sphere, which is a profile one for the monitored asset. For example, you can subscribe to information related to the oil industry if there are open positions for this type of company.

To increase the possible likelihood of winning trades, traders can use the Index Monitor. For example - S & P500, which has many companies. The index is the very indicator that shows the general dynamics of crowd sentiment.

You can also add a track of the company's competitors' price, because if competitors began to lose value, then the traded asset may also soon fall.

Work against trends. Some swing traders work with the trends of their stocks, but they can also trade against the trend (sometimes called "fading"). It is possible to take a bearish position during the swing high of an uptrend, then exit when the correction is complete, and then go long during the low of a downtrend.

Using Japanese candlesticks. Some traders find that candlestick charts are easier to understand and interpret than traditional histograms. Traders can use charts to determine where the buying pressure is and where the selling pressure is (as well as how intense the pressure is), and then they can apply this information to their trading.

We will explain these strategies in details in subsequent chapters.

Surveillance strategy advice

Most of the time, markets are dormant, generating little revenue for buyers. Usually, they combine for several days, make several pauses, decrease, and grow again. Small swings are more common than broad trends. The art of swing trading captures profits from these small swings.

Swing traders can select assets or futures from the most actively traded stocks from ETFs (Exchange-traded funds), which tend to fluctuate in wide, well-defined channels. A trader can maintain a list of the stocks in the ETF for daily monitoring to learn about the movement of the trend and respond on time. Meta Trader 4 helps you with this strategy by creating separate profiles for each ETF. The platform also helps to use tools for technical analysis of the trend, including plotting graphical lines and curves on a chart, to improve the accuracy of forecasts.

Modesty strategy

Rather than aiming for 20% to 25% profits for most stocks, traders can aim for more modest gains- as low as 10% or even as little as 5% in more challenging markets. These indicators may seem too small, not the same as usually found in the stock market. But this is precisely the factor of this strategy since the main thing in the swing trading method is time.

The trader's primary focus may not be on the profit that develops over weeks or months but on the calculations. Typically, the average transaction duration is more than 5-10 days. In this way, traders can make many small wins, which overall will lead to much larger cumulative profits. If a trader is happy with a 20% gain in a month or more, a 5% to 10% gain weekly or two can significantly increase the overall profit.

Of course, traders should still consider losses. Smaller profits can only lead to growth in the portfolio if the losses are small. Instead of the usual stop loss (stopping trading and withdrawing funds for a short time) from 7% to 8%, traders can take their losses faster and lose a maximum of 2% to 3%. This will provide a 3: 1 profit to loss ratio, a reasonable rule of thumb for portfolio management to succeed. This is a critical component for the entire system, as huge losses can quickly wipe out significant progress made with lower revenues.

Since it is unknown how many days or weeks the trend might last, traders can enter a bullish swing trade only after the stock appears to have resumed the original uptrend.

One way to identify this is to highlight a move against such a trend. If the stock is trading above the previous day's high (the highest point of the Japanese candlestick), the swing trader can enter the trade after performing the risk analysis we covered in the previous strategy. This possible point is called the "entry point."

First, find the lowest point to determine the "stop" (stop loss) position. If the stock falls below this point, you must exit the trade to reduce your losses. Then find the high point of the recent uptrend. This becomes a profit

target. If a stock hits your target price or higher, you should consider exiting your position to lock in some profit.
Swing trading is an exciting technique for trading small swings on the chart of an asset or futures. It has an average duration and minimal need to be chained to the screen.
This method can be suitable for day traders who do not have enough time for their practices or those traders who would like to learn how to appropriately respond to price changes, reducing their losses to an acceptable level.

Swing trader routine

It is essential to follow a routine to be disciplined in swing trading. This is a guarantee of performance; it is a pillar of your success. It also helps to stay motivated during the slack that everyone encounters one day or another.
I will outline what a daily trading routine and strategy look like and show you how you can be so successful in your trading activities.

Pre-Market

The retail swing trader will often start their day at 6 a.m. EST, well before the opening bell. The time to open is crucial for getting a general idea of the market for the day, finding potential trades, creating a daily watch list, and, finally, checking out existing positions.

Market overview

The first task of the day is to keep abreast of the latest news and developments in the markets. The fastest way to do this is through the CNBC cable TV channel or reputable websites such as Market Watch. Three things, in particular, the trader should keep an eye on:

1. General market sentiment (bullish/bearish, key economic reports, inflation, currencies, foreign trade, etc.)
2. Sector sentiment (hot sectors, growing sectors, etc.)
3. Current holdings (news, wins, SEC filings, etc.)

Find potential trades

Then the trader will analyze for potential trades for the day. Typically, swing traders will enter a position with a fundamental catalyst and manage or exit the position using technical analysis. There are two good ways to find essential catalysts:

1. Special occasions: These are best found in SEC documents and, in some cases, the news. These opportunities may include initial public offerings (IPOs), bankruptcies, insider buyouts, buyouts, takeovers, mergers, restructurings, acquisitions, and other similar events. Usually, they are detected by monitoring certain SEC statements, such as S-4 and 13D. This can be quickly done with the help of sites such as SECFilings. com, which will send notifications as soon as such a deposit is made.

These opportunities often come with many risks, but they offer plenty of rewards for those who carefully study each opportunity. These types of games involve the buying of swing trading when most sell and sell when everyone else is buying, in an attempt to "fade" over-reactions to news and events.

2. Sector games: These are best found by analyzing the news or looking at reputable financial news websites to determine which sectors are performing well. For example, you can tell the energy sector is hot just by checking out a popular energy exchange-traded fund (like IYE) or sweeping the news for mentions of the energy sector. Traders looking for higher risk and higher returns may choose to look for more obscure industries, such as Coal or Titanium. These are often much more difficult to analyze, but they can give much higher returns. These types of games involve the swing trader

Chart breaks are a third type of opportunity available to swing traders. These are typically heavily traded stocks that are near a critical level of support or resistance. Swing traders will look for different patterns designed to predict breakouts or breakdowns, such as triangles, channels, Wolfe waves, Fibonacci levels, Gann levels, and others. Note that the rebates are only significant if there is enough interest in the stock. These types of games involve the swing trader buying after a breakout and selling shortly after that at the next resistance level.

Create a watchlist

The next step is to create an inventory watch list for the day. These are simply stocks that have a fundamental catalyst and a chance to be a good trade. Some swing traders like to keep a dry erase board next to their trading stations with a categorized list of opportunities, entry prices, target prices, and stop-loss prices.

Check existing positions

Finally, in the hours leading up to the marketing, the trader should check his existing positions. First, check the news to make sure that nothing material has arrived in the stock overnight. This can be done simply by typing the ticker symbol into a news service such as Google News. Next, check if any deposits have been made by searching the SEC's EDGAR database. If there is any critical information, you need to analyze it and determine if it affects your current trading plan. You may also need to adjust your stop-loss and take-profit points.

Market hours

Market hours are a great time to watch and trade. Many swing traders look at the Level II quotes, which will show who is buying and selling and what quantities they are trading. Those coming from the day trading world will often check which market maker is trading (this can draw traders' attention to who is behind the market maker traders) and be aware of bogus offers and queries placed just to confuse retail traders.

As soon as a viable trade has been found and entered, traders start looking for an exit. This is usually done using technical analysis. Many swing traders like to use Fibonacci extensions, simple resistance levels, or volume prices. Ideally, this is done before the trade has been placed, but a lot will often depend on the trade of the day. Also, adjustments may need to be made later, depending on future transactions. As a general rule, however, you should never adjust a position to take more risk (e.g., reducing a stop-loss): only adjust the take-profit levels if trading remains bullish or adjust stop-loss levels rise to lock in profits.

You will often find that entering the trades is more of an art than a science and usually depends on the business of the day. On the other hand, managing and exiting the trade should always be an exact science.

Market after opening hours

After-hours trading is rarely used to place trades because the market is illiquid, and the spread is often too justified. An essential part of after-hours trading is performance evaluation. It is important to carefully record all trades and ideas for both tax and performance evaluation purposes. Performance appraisal is about looking at all of your trading activity and identifying areas for improvement. Finally, you should review your open positions one last time, paying particular attention to after-hours earnings announcements or other important events that may affect your positions.

The Bottom Line

Looking at the typical swing trader's daily routine, it is evident that the pre-market method is paramount for successful trading. This is the time when trading opportunities are located, and the day is planned. Market hours are simply a time of entering and exiting positions, not devising new plans. And finally, after hours, it's just time to review today's trades and evaluate performance. Adopting a daily trading routine like this can help you improve your trading and ultimately beat market returns. It just takes excellent resources and proper planning and preparation.

Advantages of swing trading

Swing trading offers several advantages, especially for beginners. Some of these advantages include:

Swing trading takes less time

As already mentioned, short-term trades require constant monitoring. On the other hand, long-term trades offer too little exercise for some traders and require a high degree of discipline.

Swing trading is suitable for a beginner's mentality only because it takes place in a more user-friendly time frame. Swing traders spend much less time analyzing and also make significantly fewer trades than scalpers, for example. This gives them more time to think about their position openings.

Swing trading takes advantage of long-term trends

While scalping and day trading depends on short-term volatility, swing trading allows users to take advantage of weekly, monthly, or yearly trends.

This means that swing trading could be more profitable than day trading because the analysis is more relevant. Analyzes applied to long-term periods are usually more reliable, while short-term trading is more susceptible to wrong signals. Also, every trade in swing trading has more time to generate a profit, since trades often follow the long-term price development.

Swing trading is cost-effective

One of the cost factors in trading is the spread, i.e., the difference between the bids and ask prices of a financial instrument. Although spreads are low, you have to pay them for each trade, which can significantly impact profit in very short-term trading.

In swing trading, the spread is of little importance, since the trades are held so long that a spread of a few points or pips does not reduce the profit.

There are many swing trading indicators

The time frames used in swing trading - H4, D1, or W1 - make it possible to use the available indicators effectively. As an example, take a day candle that closes above the 20-day moving average. This is much more meaningful than a candle that closes above the moving average in a 5-minute chart. Larger time frames are usually more accurate, which can benefit swing traders.

The free MetaTrader Supreme Edition, is particularly suitable for analyzing multiple time frames. This offers many additional indicators and other useful trading tools that also help you with swing trading.

Swing trading can take advantage of large price movements

Swing traders can benefit from significant price movements or swings that rarely occur within a single day. The more volatile the market traded, the larger the swings and the number of swing trading opportunities.

How To Trade DITM Options And Buy Stocks At Half The Price

Trading DITM options (in-the-money trading) is one of the best swing trading strategies around. By taking advantage of the high increments of options contracts, you can effectively buy and sell stocks while only assuming half of the risks incurred by standard liquidation transactions. If you can buy the right to the same number of shares at half the price but still get the same profit, then you can double the return on investment.

This is a good strategy for those who are still a little afraid of buying options, but like the challenge of volatile stocks, and want to gain some leverage in trading and reduce overall risks and investment costs. It can be said to be a beneficial strategy because it doubles the leverage of stock trading and minimizes the impact of time decay on the value of options. The duration of swing trading is usually three to ten days. If you trade DITM options within a short period, the time decay will not significantly affect the option's price.

How do you trade DITM options?

First: Choose your stock. You can use a stock you like, or you can scan for "spot" stocks that are ideal for DITM options.

Second: technical analysis. You will need to perform the following steps to determine a suitable closing trade for DITM options trading:

trend analysis. Determine the market and the trend of your stock. Don't try to buy a phone in a falling market!

Swing analysis. Look for stocks that have fallen to the bottom of the trend band. The trading price of these stocks is between 10ma and 30ema.

Swing to confirm. Confirm the swing with the candlestick pattern. Check RSI and SAR to ensure that swing reversal does not occur immediately.

Third: Choose your option and buy!

A list of options is pulled up, showing the DELTA of the options. Your proxy software should have this feature. Either use an option calculator, or you need to understand the volatility of options. Choose an option with DELTA equal to or close to 100.

Option value. Don't buy overvalued options! You will see the value of your transactions lost.

Fourth: Set stop loss and profit targets immediately!

Remember, this is not gambling! Analyzing your swing and determining it by looking at support and resistance levels will help you do this.

Stop Loss-If you usually set the stop loss for stocks to 4%, set the stop loss for options to approximately 8-10%.

Profit Target-Set a profit target based on the fluctuation of related stocks. Simply add the dollar value of the expected profit to the option price or use the option calculator to calculate it. Or use a trailing stop loss-whichever method you prefer. Sell the option immediately after reaching the profit target- don't wait until expiration, or you will lose 100% of your investment! Plan to exit the transaction in about ten days if it has not moved by then, the dynamics of the volatility analysis will change, and your transaction will be at risk.

Chapter Two

Options spreads

In the following, we present the different ways to trade spreads. They are divided into:

- Vertical spreads
- Horizontal spreads
- Diagonal spreads
- Special spreads

What do I mean when I say: You shorten an option and "Protect" them?
So there are two ways.
The first is that you have the underlying stock of the option you are shortening (in this case, a short call) physically in the portfolio.
This means that if you have sold a GOOG call (they are short with this call), you must also have bought 100 or already own 100og shares at the same time.
These 100og shares that you own "protect" you (even partially) when you have to deliver the shares to the buyer at the strike price. This will be the case if the price is above its strike on the call's expiry date.
The other way would be to create a spread.

It is these spreads that make options trading unique, versatile ... and above all ... profitable.
Now, what is the spread?
There are four basic types of options (We explained these in details in our options trading e-book)

1. Buy Call (Long Call)
2. Sell Call ((Short Call)
3. Buy Put (Long Put)
4. Sell put ((short put)

These are the basic options strategies; there are no more because all other techniques consist of the four options mentioned above.
A spread is simply a combination of long calls and short calls or long puts and short puts.
If you use spreads, you primarily reduce your risk compared to pure short positions, where the loss potential is initially mathematically unlimited.
But you can also use spreads to create strategies that make you a profit if the stock moves sideways.
Spreads are versatile, and therefore you have many options that a pure share purchase cannot offer.
With spreads, you have the unique opportunity to realize profits no matter whether the stock rises, falls, or runs sideways!!
That means you make profits no matter what the stock market does, but if you only buy stocks physically, you can only make profits if they go up, and you only have a 50:50 chance.
A spread mainly consists of at least two different options, either of which has different terms or different strike prices.
Now let's take a closer look at such spreads.
1. Spreads (combinations)

As already mentioned, there are four basic types of options.

1. Purchase of a call (long call).
2. Selling a call (short call).
3. Buying a put (long call).
4. Selling a put (short call).

A large number of so-called spreads can contain any number of different options and, thus, consist of a combination of different options. Even the most complicated option combinations or option strategies are always made up of only the four basic types of options!
A distinction is made between vertical spreads, horizontal spreads, diagonal spreads, any combination of these spreads and as a unique feature Naked spreads.

Note: In all examples, the commissions and fees to be paid are not taken into account!

Vertical spreads

Vertical spreads are available in two versions: as a bull spread or as a bear spread, whereby you can display both types of spread with calls and puts, but the objective is fundamentally different - you will find the explanation below in the different spreads.
A distinction is also made between whether the spread is a debit spread (money flows from the account) or a credit spread (money flows into the account).
Vertical spreads are called this because these spreads only involve options from the same month.

Bull spreads
Bull spreads are spreads that target a particular direction of the market "Speculate", in this case, on rising (bull) markets.

Call Bull Spread (Call Debit Spread):
Here a call with a lower base price is bought, and a call with a higher base price is sold in the same month.
• Assumption: the rising price of the base stock.
• Risk: option premium paid (premium paid - premium received).
• Max profit: the difference between the two base prices minus the option premium paid.
• Objective: The price of the base stock rises - ideally to above the higher base price (maximum profit).

Put Bull Spread (Put Credit Spread):
Here, a put with a lower strike price is bought, and a put with a higher strike price is sold in the same month.
• Assumption: the rising price of the base stock.
• Risk: the difference between the two base prices minus the option premium received.
• Max profit: option premium received (premium paid - premium received).

• Objective: The price of the underlying stock rises, remains unchanged, or falls most up to the higher base price (maximum profit).

Bear spreads
Bear spreads are spreads that target a particular direction of the market "Speculate", in this case, on falling (bear) markets.

Call Bear Spread (Call Credit Spread):
Here a call with a lower base price is sold, and a call with a higher base price is bought in the same month.
• Assumption: falling price of the base stock.
• Risk: the difference between the two base prices minus the option premium received.
• Max profit: option premium received.
• Objective: The price of the base security falls, remains unchanged or rises at most to the lower base price (maximum profit).

Put Bear Spread:
Here, a put with a lower strike price is sold, and a put with a higher strike price is bought in the same month.
• Assumption: falling price of the base stock.
• Risk: option premium paid (premium paid - premium received).
• Max profit: the difference between the two base prices minus the option premium paid.
• Objective: The price of the base stock falls - ideally below the lower base price (maximum profit).

Iron Condor:
An Iron Condor is the combination of a vertical call spread AND a vertical put spread, whereby both spreads must have the same month.
A distinction is made between whether it is a debit or credit spread, whereby the objectives are different - you can find the explanation for each of the different spreads.

Iron Condor as a debit spread:
A Call Bull Spread is combined with a Put Bear Spread.

• Assumption: sharply rising OR falling prices.
• Risk: option premium paid.
• Max profit: the difference between the two base prices minus the option premium paid.
• Objective: The price of the underlying security should move outside the range: lowest strike price of the put spread - highest strike price of the call spread.

Iron Condor as credit spread:
Here a Call Bear Spread is combined with a Put Bull Spread.
• Assumption: courses that are as constant as possible or that move only slightly.
• Risk: the difference between the two base prices minus the option premium received.
• Max profit: option premium received.
• Objective: The price of the underlying security should move within the range: highest strike price of the put spread - lowest strike price of the call spread.

Butterfly:
The Butterfly is a particular form of the Iron Condor:
Instead of 4, only 3 base prices are involved - the average base price is the same for the call and put.

Butterfly as a debit spread:
A Call Bull Spread is combined with a Put Bear Spread only that the base prices of the purchased call and the purchased put are identical.
• Assumption: sharply rising OR falling prices.
• Risk: option premium paid.
• Max profit: the difference between the two base prices minus the option premium paid.
• Objective: The price of the underlying security should move outside the range: lowest strike price of the put spread - highest strike price of the call spread.

Butterfly as credit spread:

A call bear spread is combined with a Put bull spread only that the base prices of the sold call and the put are identical.
• Assumption: courses that are as constant as possible or that move only slightly.
• Risk: the difference between the two base prices minus the option premium received.
• Max profit: option premium received.
• Objective: The price of the underlying security should move within the range: highest strike price of the put spread - lowest strike price of the call spread.

Horizontal spreads

Horizontal spreads include options with different maturities, i.e., options (calls or puts) with varying dates of expiry; whereby there can be any number of months between the two terms (as far as this makes sense), but usually two consecutive months are chosen. We only discuss horizontal spreads. Only the shorter-running option is sold (short) since horizontal spreads, in which the longer-running option is sold, are usually not offered by retail brokers anyway due to the unlimited risk, and it is there are much better alternatives to such strategies.

Calendar Spreads:

The simplest type of horizontal spread is the "Calendar Spread." Here, a longer-running option is bought, and a shorter-running option is sold with the same base price, both of which are either calls or puts.
• Assumption: courses that are as constant as possible or that move only slightly.
• Risk: Option premium paid (option premium longer-running option
- option premium shorter running option) - unlimited in sporadic cases (e.g., VIX options).
• Max profit: theoretically unlimited if you keep them longer running option after the shorter running option expires.
• Objective: if the assumption is confirmed that the price of the underlying security moves only slightly, then the longer-running option should exceed the previously paid option premium.

One uses the different decay curves (due to theta) of the two options involved.

Diagonal spreads

Diagonal spreads are spreads that combine a horizontal spread with a vertical spread. For example, combine a Call Bear Spread with a horizontal spread.
Examples:
With a "diagonal call bear spread," a shorter call with a lower strike price is sold, and a longer call with a higher strike price is bought.
With a "diagonal put bull spread," a shorter put is sold with a higher strike price and a longer put with a lower strike price is bought.
For the sake of completeness, we would also like to mention the Diagonal Call Bull Spread, in which the shorter-running call has a higher base price and the Diagonal Put Bear Spread, in which the shorter-running put has a lower base price these are rarely used because the effect of the theta decay is counteracted.

Special spreads

Strangle

With a strangle, a call and a put with different base prices are bought or sold in the same month

Long strangle:

- Assumption: sharply rising OR falling prices.
- Risk: option premium paid.
- Max profit: unlimited.
- Objective: The price of the underlying security should move above the call base price or below the put base price PLUS option premium paid.

Short strangle:

- Assumption: courses hardly moving.
- Risk: unlimited (!).
- Max profit: option premiums received (call and put).
- Objective: The price of the underlying base security should move between the call base price or below the put base price to be able to keep the option

premiums.

Straddle

The straddle is a particular form of the strangle, whereby the base price of the call is the same as that of the put.

Long straddle:

• Assumption: sharply rising OR falling prices.
• Risk: option premium paid.
• Max profit: unlimited.
• Objective: The price of the underlying security should move above the standard base price PLUS the option premium paid.

Short straddle:

• Assumption: courses hardly moving.
• Risk: unlimited (!).
• Max profit: option premiums received (call and put).
• Objective: The price of the underlying security should move around the common strike price to keep the option premiums.

If you physically own stocks and hedge them with long put options, you can speak of a spread (covered stock)

Note: We will want to make this swing trading options guide as easy as possible for you.

We will, therefore, go into a simple but all the more successful spread in this chapter. This is entirely sufficient to protect your share portfolio against price drops and thus make you immune

There are two good reasons I only want to introduce this spread to you: on the one hand, so as not to unsettle you and, on the other hand, because others are unsuitable for adequate share protection.

There is as much information on the Internet about options spreads as there is sand at sea. But please exercise caution when trading these spreads; there should be an expert at your side in any case.

I personally mainly trade shares in connection with put options (Married Put). If you are a beginner in options trading, I would recommend that to you. Just take it from me as I write it.

This "spread" (married put) is easy to use. This regularly brings us free shares and profits. But above all, your share portfolio is always protected against price drops.

Married Put Spread

Many people have a problem understanding the shares they buy for free. I take this from a large number of emails that reach us.

Therefore, let's make two real Married Put Spread Examples below so that you can see how this spread works on the one hand and do other research on the other to see whether all of the things I'm reporting here are correct.

Note: The following option prices are the original bid/ask prices (option premiums) traded at the respective trading times, and no numbers and figures brought up by the hair!

Company: International Business Machines Corp. (IBM) - NYSE

Example 1:

Trade 1 - IBM share price falls.

We examine three different trades:

Example A: Buy shares.

Example B: Put option purchase.

Example C: Buy shares and put options. Time frame: August 15, 2008, to December 12, 2008.

Example A: Share purchase on August 15, 2008.

•200, IBM shares at $126.36.

•IBM stock value: $25,272.

•Opportunity to profit if the share price rises: Unlimited

•Maximum loss potential with falling share price: $-25,272.

Example B: Put option purchase on August 15, 2008.

•2 option contracts - IBM - Jan 09 - 130 - PUT at $9.60.

•Option value: $1,920.

• Possibility of profit on falling share price: Unlimited (up to a share price of $0.0).

• Maximum loss potential with rising share price: $ -1,920.

Now make a symbiosis and put two financial products together (Examples A and B) to create fertilization.

Example C: Share purchase and put option purchase financial product 1:

• 200, IBM shares at $ 126.36.

• Share value: $ 25,272. Financial product 2:
• 2 option contracts - IBM - Jan 09 - 130 - PUT TO $ 9.60.
• Option value: $ 1,920. Symbiosis:
• Shares and Options Capital: $ 27,192.
• Opportunity to profit if the share price rises: Unlimited.
• Maximum loss potential with falling share price: $ -1,192 or - 4.38%.

Shares and options result on December 12, 2008. In detail.

Shares:
• IBM share price: $ 82.20 / share.
• IBM stock value: $ 16,440.
• Loss: $ -8,832 or -34.95%.
Options:
•2 option contracts - IBM - Jan 09 - 130 - PUT for $ 48.60 / option.
•IBM option value: $ 9,720.
•Profit: $ 7,800 or 406.25%.
For those investors who want to know precisely:
For an option contract:
Intrinsic value: $ 44.16 per option or $ 4,416 per option contract.
Fair value: $ 4.44 per option or $ 444 per option contract.

With two option contracts (as in our example above): Intrinsic value: $ 88.32 or $ 8,832.
Fair value: $ 8.88 or $ 888.
Result of shares and option value:

• August 15, 2008 - Stocks and Options Capital: $ 27,192.
• December 12, 2008 - shares and option value: $ 26,160.
• December 12, 2008 - loss: $ -1,032 or -3.80%.

Well, on December 12, 2008, the open positions (positions still in the market) are worth $ 26,160. The IBM shares are valued at $ 16,440, which makes a loss of $ -8,832 or -34.95%. The put options are worth $ 9,720, which translates into a profit of $ 7,800 or 406.25%.

Now we adjust:

On December 12, 2008, you sell your two put option contracts on the market (closeout). This increases your custody account (cash or cash account) by $ 9,720.
You paid $ 1,920 on August 15, 2008, when you bought the put options.
You received $ 9,720 on December 12 through the sale of the put options.
That makes a profit of $ 7,800, or 406.25%.
This put options profit of $ 7,800 is replacement, compensation, consideration, compensation, reimbursement, equivalent, reimbursement, repayment, or damages, for your IBM share loss of $8,832.
Only $ -1,032 or -3.80% is missing to offset this loss of IBM stock fully.
(Please note the comment on this small portfolio/portfolio loss below!)
You have on December 12, 2008, after the sale of your 2 put option contracts
Get $ 9,720 credited to your deposit account.
This credit includes a profit of $7,800 in return for the loss of your IBM shares.

The purchase of 94 free IBM shares!
The IBM share price is on December 12. 2008 at $82.20/share.

As previously mentioned, by selling the two put option contracts, your deposit account on December 12, 2008, would have a profit/surplus of $ 7,800.

You divide $ 7,800 / profit by $ 82.20 (the price of the IBM share), which gives the number 94,891, then round this down to 94.

On December 12. 2008, you buy another 94 IBM shares at 82.20 / share.

Your stock portfolio now contains 294 IBM shares with a stock value of $24,166.80. The IBM share purchase price is from $ 126.36 / share originally due to the purchase of 94 IBM shares at $ 82.20 / share on one IBM share- The average price dropped to 112.24 / share.

As seen on December 12. 2008 your deposit account balance according to Trade 1?

• August 15, 2008 - Number of shares: 200 IBM shares.
• August 15, 2008 - Stocks and Options Capital: $ 27,192.
• December 12, 2008 - After buying free shares:
• December 12, 2008 - Amount of shares: 294 IBM shares.
• December 12, 2008 - Share value: $ 26,160.
• December 12, 2008 - loss: $ -1,032 or -3.80%.

I wrote at the beginning, "Many people have a problem with this "shares acquired free of charge.
Now a question for you, do you think these 94 IBM shares bought at $ 82.20 / share are free or not?

In the future, you will receive dividends not only for 200 IBM shares but also for 294 IBM shares and participate in future share price increases! So you get dividends from 94 IBM shares that I think you got for free; because they didn't have to take fresh capital in their hands! Right?

Note: You only need $ -1,032 or -3.80% to compensate for the loss in IBM's share price fully.

Of course, you can fully compensate for the loss of IBM stock and even make a profit. For this, you would have to buy 3 option contracts - IBM - January 09 - 130 - PUT for $ 9.60 / option instead of two (as in our example above).

If you buy 3 option contracts - IBM - January 09 - 130 - PUT for $9.60 / option, the profit potential with increasing prices remains unlimited. Still, the one way or the already minimal risk of loss (which you have with 2 option contracts, i.e., a 1: 1 hedge) is practically no longer present when prices fall, with 3 option contracts.

Please do the following yourself:

• August 15, 2008 - Purchase: 200 IBM shares at $ 126.36.
• 08/15/2008 - Purchase: 3 option contracts - IBM - Jan 09 - 130 - PUT for $9.60 / option.
• December 12, 2008 - IBM share price $ 82.20.
• Dec 12, 2008 - Sale: 3 option contracts - IBM - Jan 09-130 - PUT for $ 48.60 / option.
How many free IBM shares can you buy?
Let's go one step further and see how things went with the IBM share from this period.

Example 2:
Trade 2 - IBM share price increases.
Example A: Share purchase.
Example B: Put option purchase.
Example C: Buy shares and put options. Time frame: December 12, 2008, to January 15, 2010.

You now have 294 IBM shares in your share account on December 12, 2008. The IBM share price stands at $ 82.20. The IBM share price is $ 24,166.80.
Since you always want to have your IBM shares hedged, buy on December 12.2008 - 3 option contracts - IBM - Jan10 - 90 - PUT for $21.80 / option
What do you have in your portfolio on December 12, 2008, after Trade 2?
• 294 IBM shares at a stock price of $ 82.20 / share
• IBM share value $ 24,166.80.
• 3 option contracts - IBM - Jan10 - 90 - PUT for $ 21.80 / option
• Option value: $6,540

(These option premiums are costly, I chose them deliberately so that you can see that this stock portfolio - hedging - trading strategy works in such a case.)

• Shares and option value: $30,706.80
• Opportunity to profit if the share price rises: Unlimited
• Maximum loss potential with falling share price: $ 4,200 or - 13.68%

(Again, if you buy four option contracts - IBM - Jan10 - 90 - PUT, the profit potential with increasing prices remains unlimited, but the risk of loss, which you have with 3 standard option contracts is almost 0 if the prices fall been limited.)

Shares and earnings from options on January 15, 2010. In detail

Shares:
• IBM share price: $ 131.78
• IBM stock value: $ 38,743.30
• Win: $ 14,576.50 or 60.32%

Options:
• 3 option contracts - IBM - Jan10 - 90 - PUT AT $ 0.0
• IBM option value: $ 0.0
• Loss: $ -6,540 or -100%

Result of shares and option value:
• December 12, 2008 - shares and option value: $ 30,706.80
• January 15, 2010 - Shares and option value: $ 38,743.30
• January 15, 2010 - Winning $ 8,036.50 or 26.17%.

What is your deposit account balance according to Trade 2 on January 15, 2010?

• December 12, 2008 - shares and option value: $ 30,706.80.
• January 15, 2010 - Shares and option value: $ 38,743.30.
• Jan 15, 2010 - Subtotal: $ 8,036.50 or 26.17%.
• Loss carried forward from December 12, 2008 to Trade 1: $ -1,032.
• January 15, 2010 - Subtotal: 7,004.50 or 22.81%
• Dividends from Nov. 6th to Nov. 6th: $732.10
• January 15, 2010 Prize: $ 7,736.60 or 25.20%

Summary:
Period: August 15, 2008, to January 15, 2010

• Your stock portfolio now contains 294 IBM securities instead of 200 IBM shares.
• You could purchase 94 IBM shares for free at $ 82.20!
• The average purchase price of 294 IBM shares is now $ 112.24.
• You were now able to purchase $ 732.10 dividends instead of $ 530.
• Your stock portfolio has a profit of $ 7,736.10 or 25.20%.
• Commissions for buying and selling shares/options were not taken into account.

Read through the examples above one or more times; because I think this is very, very important for you!

Chapter Three

Technical Analysis

Technical analysis is the study of the market using mathematical models. Technical analysis is based on the assertion that the market is cyclical. Therefore, events are repeated on it. Therefore, using specific formulas, you can accurately determine further price movement. The formula is displayed on the chart in the form of a broken line - an indicator.

There are over a hundred different technical analysis indicators; their logic is very similar. In this section, you will learn about the most common indicators, many of which are used by professional traders on real exchanges. They are divided into two types - some work better on-trend the market, showing the strength and direction of price movement. Other indicators are most active at the time of sideways movement when the price moves within the same price channel.

The correct combination of various methods of technical and graphical analysis significantly increases the likelihood of a successful trade.

Postulates of Technical Analysis

Technical analysis is based on specific postulates - the main principles to which it is subordinated.

The first postulate says that:

All the information necessary for the analysis is contained in the price chart

All factors that influence the market: economic, fundamental, emotional are already included in the price chart. It is enough to analyze the price chart to predict changes in the future.

The second postulate states:

Prices move directionally; their steady movement is called a trend

Technical analysis is the forecasting of likely price changes based on patterns in the form of similar price changes in the past.

This postulate consolidates the essence of the financial market's functioning and defines its central concept - a trend. Hence the critical task of a trader is to analyze time trends and, on their basis, predict future price behaviour. For this, there are several types of charts: lines, "Japanese candles," bars, and particular indicators - oscillators. They make it possible to see the current trends visually. They differ in the amount of data on changes in various indicators in the market.

The third postulate reads as follows:

The market is regular and cyclical

History repeats itself - technical analysis is based on this. However, do not forget one thing - each case is unique. Therefore, no one can predict with a 100% probability that the schedule will change in the future due to asymmetric information and various political, economic, and other phenomena that influence the market conditions.

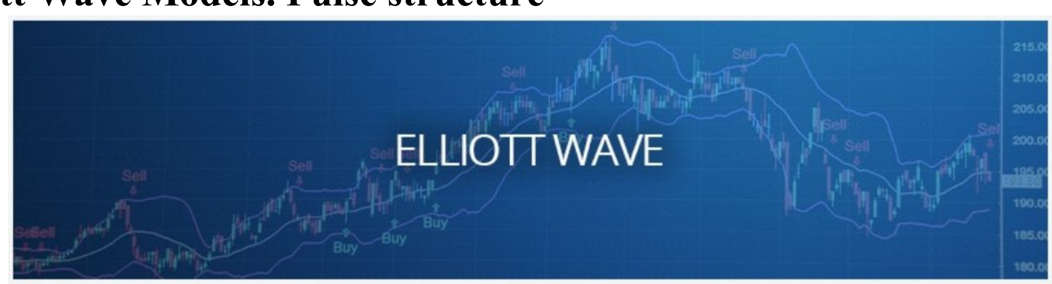
Therefore, technical analysis uses charts, formulas, and other financial instruments, but the element of uncertainty can never be eliminated - you need to put it into your trading system.

Eliott's Wave Theory

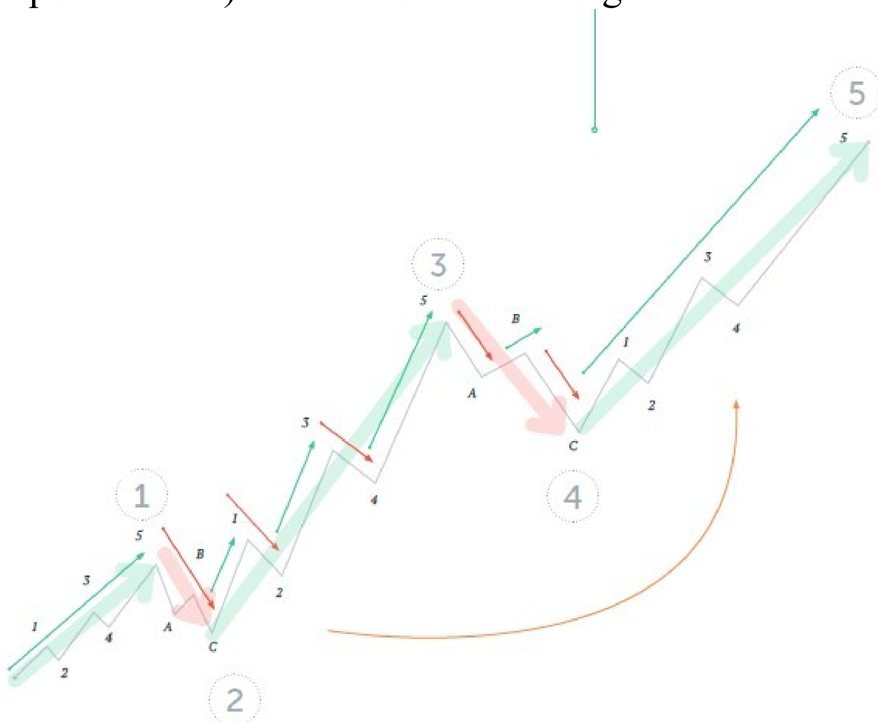
Elliott's wave theory is a theory that represents specific models of the development of the stock price and even society as a whole.

Price behaviour patterns are presented in the form of waves. Over time, a tool called Elliott waves was created, which is actively used by traders for technical and graphical analysis.

Elliott Wave Models. Pulse structure



The figure shows us the development of an impulse upward movement on a smaller scale. In this case, a smaller scale means that we have a larger number of considered sub-waves of our impulse. The general scheme of the formation of a wave impulse model remained unchanged. Waves 1, 3, 5 are impulse and consist of five segments, and waves 2 and 4 are correction (relative to impulse waves) and consist of three segments.



The history of the theory

The father of wave analysis is Ralph Elliott. At the age of 66, an accountant with extensive work experience was able to study the fundamental subtleties of the stock market, accumulating over 75 years.

This tool allows the trader to break the price chart into waves, according to the theory of Ralph Elliott. While studying the exchange sphere, the wave creator noticed that there are regularities in the markets.

Based on the theory, the mass summing up of a large number of depositors goes through the following stages:

Enthusiasm

Euphoria

Sedation

Decline

Depression

The economist argues this by the fact that the change in value up and down is the cause of collective psychology. Thus, the dynamics of such changes are repeated continuously. These fluctuations are called "waves."

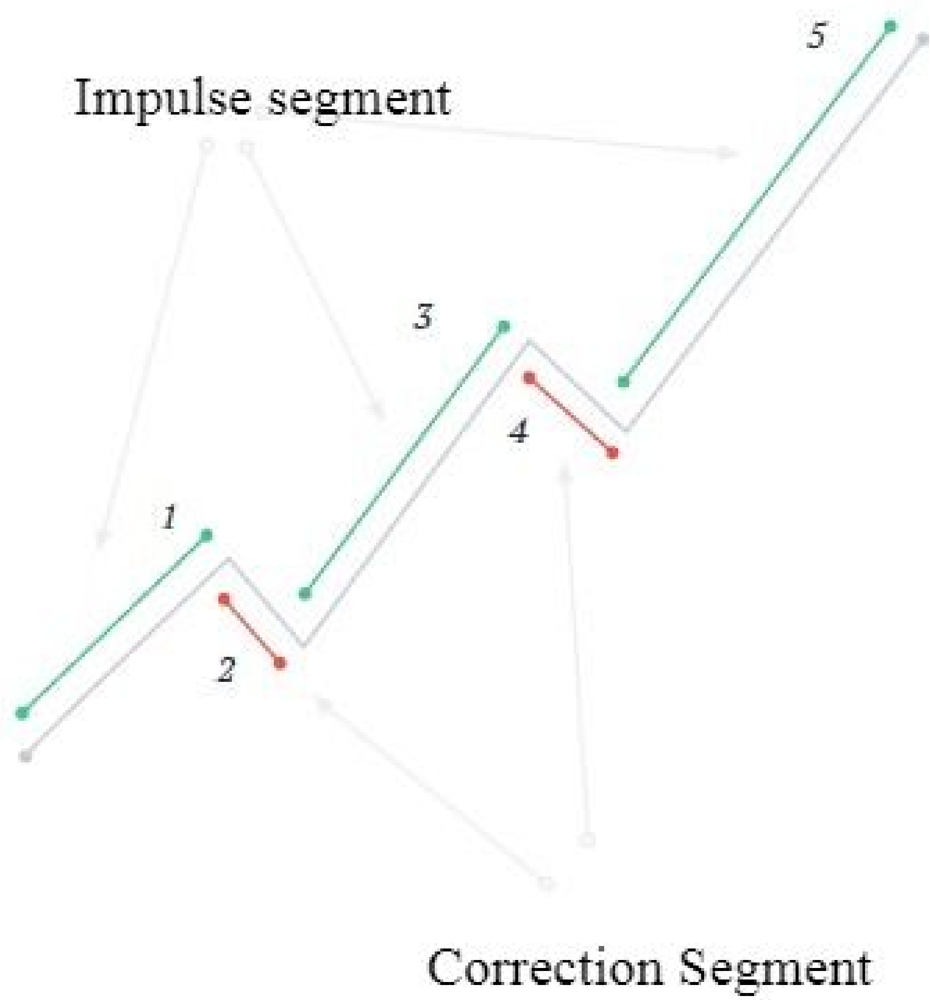
If the repetition length is correctly calculated, it is possible to predict with high accuracy where the chart will move. The competent use of this indicator will help determine the exact places where it will begin to move in the other direction. It is a tool with which a speculator can calculate Cast the top and bottom of the wave motion.

Wave analysis rules

Naturally, to consistently make money with this tool, the trader should initially familiarize himself with the Elliott wave analysis's main features. Earlier, we have already determined that each trend is presented in the form of repeating patterns that can be conditionally divided into two types:

The impulse segment is a kind of driving force behind the development of the trend.

Correction segment - needed to compensate for impulse movement.

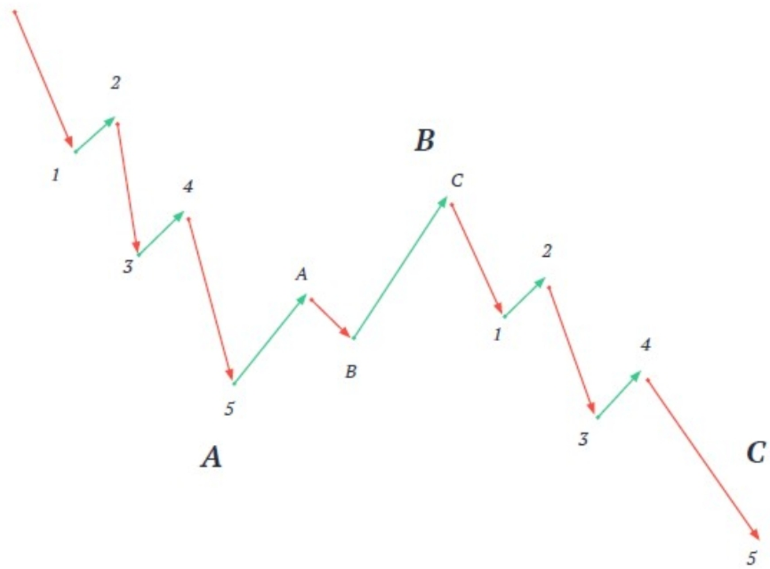


The theory of wave analysis says that in the context of studying quotes, you should pay attention to each wave's characteristics. Also, it is customary to be guided by the postulates of the Elliott waves' proportional creation, which can be found in the figure above.

All these rules will help calculate as accurately as possible the moment of occurrence of the wave and their duration. The size of the wave is measured by determining the maximum and minimum points.

What does the wave counting say?

There are several variations of wave counting; most of them are presented in the form of a multi-level system. As an example, consider the events that occur during one wave.



Segment 1.
Initially, the value begins to move upward. This trend is determined by the activities of traders who decided to focus on the purchase of assets.
Segment 2.
The price leaves the positions that were conquered relatively recently. The second wave can roll back almost to the original position of the first wave but in no case below its values.
Segment 3.
The most dynamic and long-lasting wave. Among investors, optimistic forecasts dominate, the price and trading volumes are increasing.
Segment 4.
A group of large investors is profitable because the quotes have reached very high values again, and they decide to start selling. However, it is challenging to identify this wave due to its lethargy. As a rule, there is a rollback of about 40% of the third Waves. The depth and duration are insignificant. In general, the dominance of optimistic investors is characteristic.
Segment 5.
The time when most traders enter the market, and panic begins. This is precisely when all investors notice the previous price action and decide to capitalize on a good trend. All this is accompanied by maximum excitement. Most often, near the end of the wave, the Trading volumes are growing. There is less and less time left before the price correction, as the

quotes are significantly overvalued. After that, a reversal occurs, as large investors decide to get rid of assets at the highest possible price. And small investors remain in the red because they entered the market too late.
Eliott's wave theory is not a direct guide to action but is an excellent addition to any trading system. Even if you do not calculate the exact wavelength, knowing the very principle of impulse-corrective movement will help you avoid thoughtless, premature solutions.
The same principle holds for a downtrend.

Trend Indicators

Types of moving averages

There are more than a dozen types of moving averages, the most common among traders are:
SMA or MA (Simple Moving Average) is a simple moving average.
The most common indicator among novice traders and those who are focused on longer-term investing.
SMA gives equal importance to each candle of the selected period. It is calculated by summing the instrument's closing prices for a certain number of unit periods (for example, 34 hours) and then dividing the sum by the number of periods.
EMA (Exponential Moving Average) - the exponential moving average is smoothed, taking into account the current average value.
Its EMA value gives the highest specific weight to new bars. The last price change is the most significant. The previous but one candlestick is slightly less significant, and so on decreasing until the very first bar.
Usually, an exponential moving average is used for shorter periods (period <14), as it reacts more quickly to recent price changes.
WMA (Weighted Moving Average) - a weighted moving average, assigns the highest priority to the importance of the current price; therefore, the WMA chart is not dependent on old prices
Like exponential, it also gives the later bars additional "weight," but its calculation and idea is much easier to understand.
With a period equal to, for example, 6, the current candlestick is given weight 6, the preceding one - 5, the third from the end - 4, and so on, i.e.,

with each candlestick, the significance decreases by a fixed amount.
The formula is simple: each price included in the calculation of the weighted moving average must be multiplied by its serial number and divided by the sum of the serial numbers.
SSMA (Smoothed Simple Moving Average) - a smoothed moving average, takes into account a large number of candles in the entire history, is very smoothed.
The smoothed moving average takes into account more candles (across the entire history) rather than concentrating on a specific period. Thus, the line is more fixed than other types of moving averages. It is used very rarely.

What the Simple Moving Average Shows
The Simple Moving Average (SMA) shows the average level of the asset price over a certain period, smoothing the chart. Thus, the more periods are selected for analysis, the smoother the indicator line will be, the more accurate and rare the signals will be.
Moving averages are one of the most popular indicators on the market.
It is widely used for trading in both the forex and the stock/commodity markets.

The formula for calculating SMA
The indicator is calculated based on the closing price of each specific period:

Where Pi is the price in the market, and n is the number of periods. Unlike other types of MA, this one gives equal importance to the price indicators for all periods and, for example, does not make the indicator of the last period more significant.

$$SMA = \frac{\sum_{i=1}^{n} P_i}{n}$$

Periods

The higher the period of the moving average, the less sensitive it is to price changes, and signals can be significantly delayed. A moving average with a too-small period can give a lot of false signals. When there are sideways movements in the market, this indicator can provide a lot of incorrect signals.

SMA application

The moving average reflects the asset's real movement, allowing you to predict the change in its price based on its behavior in the past. The fewer periods are considered, the more the curved line of the indicator. More occasional periods make the indicator more sensitive to price fluctuations. This can lead to a large number of false signals.

Each trader chooses the size of the periods individually, depending on the goals.

During a sideways movement, the moving average is almost at a right angle. At this point, the chart crosses the moving average above and below, and it becomes possible to trade online breakouts. At that moment, the market must have high volatility, otherwise use the moving average; the average in a sideways trend is impractical.
When there is a clearly defined trend in the market, the moving average turns into one of the trend lines. You should use it in the same way - trade on price rebounds from the moving line. The strength of the trend can be determined by the angle of the indicator line when crossing the price chart. The larger the formed angle, the more significant the trend movement will be.

Using a moving average as a support/resistance line
If the quote is above the moving average, then the indicator line becomes a support line, if below, then a resistance line. If the moving average breaks through, the resistance line becomes a support line, and vice versa, the support line becomes a resistance line. These levels are very are essential in trading, as a certain momentum is required for the support or resistance level to be broken.
Quick Tips
5-30
Suitable values for short-term trading
14-60

For trading on medium time frames
The moving average acts as a resistance level

Moving Average Signals

The moving average is capable of giving a wide range of signals: a breakdown of the indicator line, a rebound from the indicator line, the intersection of two moving average with different periods. A signal is considered confirmed if 2 candles in a row are closed in its direction, after which you can enter a trade.

Moving average breakout

This indicator's primary signal is the crossing of the indicator line by the line of the asset price chart.

If the price crosses the indicator chart from bottom to top, then this indicates the formation of a downtrend.

If the price crosses the indicator line from top to bottom, this indicates the formation of an upward trend.

Bouncing off the moving average

A rebound from the moving average is a strong signal about the trend's continuation, both upward and downward.

If the candlestick touched or almost touched the moving average from above, then began to move in the opposite direction, this is a signal to buy a CALL option.

If the candlestick touched or almost touched the moving average from below and bounced back, this is a signal to buy a PUT option.

If the indicator line with a shorter period crosses the longer one upwards, then this is a buy signal.
If a line with a shorter period crosses another from top to bottom, this is a sell signal.

QUICK TIPS
If the chart crosses the SMA line from top to bottom, and the RSI crosses 70%, then this is a PUT signal

If the price chart crosses the SMA line upwards, and the RSI crosses 30%, this is a CALL signal

Adx Indicator

ADX indicator on the chart

The ADX indicator is a system of indices that help determine the strength of a trend.
Due to its peculiarities, the indicator can work ahead of schedule and demonstrate the trend's strength before the price starts moving in this direction. This makes the ADX very popular among options traders.

Description of ADX

What is ADX for? The indicator was created by W. Wilder to identify the trend. It is calculated based on another indicator also invented by Wilder - Directional Movement Indicator (DMI). Two variants of directional movement (DMI) are derived - positive (DI +) and negative (DI -) In addition to being the basis for calculating the ADX line, they are also shown on the indicator chart along with this line.
ADX is a trend indicator; the primary function is to help determine the presence of a trend in the market and its strength.
The indicator also helps to identify only emerging trends before the price starts to move. Thus, he can highlight the best times to open positions.
In the figures, the ADX line is colored yellow, while the DI + and DI– lines are green and red, respectively.

ADX settings
From the settings in the ADX, you can change only periods. The standard period is 14, as many indicators. The settings should be changed only if you want to experiment. It is enough to use the standard parameters that have been tested by time.
The indicator readings range from 0 to 100, but most of the time, the readings do not exceed 60. An indicator value of up to 20 indicates that the current market trend is too weak for trading.
ADX signals
It is worth noting that when the readings fall to 40 and below, this indicates that the trend is losing its strength and may indicate an imminent change in the movement direction. If the indicator moves up and crosses the 20 marks, then the current trend is gaining strength and will develop further ...
Also, DI lines are used to determine the trend reversal.

Crossing DI lines:
If the line of positive DI crosses the line of a negative from bottom to top, then this indicates the formation of an upward trend.
If the negative DI line crosses the positive line from the bottom up, this is evidence of the formation of a downward trend.
If the line of the indicator itself is above the DI lines and at the same time moves up, you should expect a quick completion of the current trend. In this case, you should not open new trades.

ADX position relative to DI

If the line, in fact, of the indicator, is between two DI lines, moreover, its value increases, one should expect the strengthening of the trend present in the market. This is the most favorable moment for opening trades in the direction of the trend.

The ADX line's position below the two auxiliary ones indicates that a new strong trend is forming in the market. The longer this line stays at the very bottom, the stronger the emerging trend.

However, due to its peculiarities, the indicator cannot provide genuinely reliable signals for entry. Therefore it is recommended to use it together with other indicators.

Conclusion

ADX is a prevalent and useful indicator that helps to determine the strength of the trend. It provides much information, but it cannot provide clear signals for opening positions. ADX is recommended to be used in conjunction with other indicators.

Quick tips

30-40

Readings from 30 to 40 indicate a trend of sufficient strength;

50 ~

About 50 is about a powerful movement.

50 <

Readings above 50 are a sign of a trend peak, often followed by a reversal of direction.

Alligator Indicator

How Alligator works

The Alligator is a simple combination of 3 simple moving averages of different lengths and different, forward shifts. The Alligator indicator uses smoothed moving averages that use the Median Price to calculate.

Median Price = (High + Low) / 2, where:

High - the maximum of this candlestick bar;

Low - the minimum of this candlestick bar;

The figure shows the High, Low and Median Price

Alligator Jaws = Ssma (Period 13, shift 8)

Moving Average 1 is called "Alligator's Jaw" by Bill Williams. The line is a 13-period smoothed moving average, shifted 8 bars forward on the chart. The blue line in the picture.

Alligator Teeth = Ssma (Median Price, 8, 5)

The moving average 2 is called "Alligator's Teeth" by Bill Williams. The line is an 8-period moving average shifted 5 bars into the future on the chart. The red line in the picture.

Alligator Lips = Ssma (Median Price, 5, 3)

The moving average 3 is called "Alligator's Lips" by Bill Williams. The line is a 5-period moving average shifted 3 bars forward on the chart. The green line in the picture.

All SSMAs used to calculate the Alligator indicator are shifted on the chart by 5, 8, and 13 bars; that is, they are simply moved sideways without changing the values. This is done for clarity, otherwise, the lines would merge, and the signals would be indistinguishable.

The first line MA or "Jaw" (period 13 shift 8) is usually colored blue. The second "Teeth" - (8, 5) is most often red, the third "Lips" (5,3) is highlighted in green.

Alligator Indicator

Its primary purpose is to inform about the formation of a new trend in advance. Most of the time, any asset does not go beyond certain boundaries of the volatility corridor.

Using the indicator

It shows the strength of the trend present in the market. In a sideways pattern, the lines are intertwined. The longer the lines are intertwined, the higher the strength of the subsequent trend.

Preparing to enter: the slope of the lines and the distance between them increases, which indicates the formation of a new trend and is a signal to prepare for entering the market.

Formation of a trend. The further the Alligator lines are apart from each other, the stronger the new direction will be.

End of the trend. When the lines cross, it may indicate the end of a trend movement or the beginning of a correction.

Alligator signals

Of course, you can use the indicator without fractals; then, a buy signal will be a candlestick breakout of the indicator line.

The Alligator informs about the development of a new trend. When the market is in a sideways movement, the indicator lines are intertwined and directed horizontally. As soon as the lines start to move up (the Alligator "opens its mouth"), and the candlestick closes above the indicator line, this is a signal to buy a Call option:

When the mouth opens down, this is a signal to buy a Put option:

Alligator and fractals

Fractals are combinations of three, five, or more candles, the central of which has the maximum or minimum value of the closing price. If the middle candle of five (three, seven) is higher than the others, it is an up fractal; if the central candle is lower than the others, it is a down fractal.

Fractals are indicated by green (up) and red (down) arrows:

The Alligator will be very useful for trend trading.

The main signals for entering the market provided by the Alligator, William Bill, recommend using the indicator together in fractals.
Examples of up fractals:

Up fractals can look different, they are united only by the fact that the middle candlestick has the highest high.
Examples of down fractals:

Down fractals can look different; they are united by the fact that the central candlestick has the highest value of the minimum.
Bill Williams invented fractals, and he strongly recommended using them simultaneously with the Alligator to improve signal accuracy. Fractals alone do not provide valuable signals to enter the market.
Alligator indicator signals
If the Alligator indicator lines after crossing began to move upwards, and an upward fractal is formed on the chart, we can talk about the formation of a new upward trend. Simultaneously, the signal candlestick should be located above the indicator lines and not intersect with them. A buy signal is a price breakout at the fractal level.

If the indicator lines move down, and a downward fractal is formed, then this indicates the formation of a downward trend. The candlestick should be below the indicator lines, and they should not cross it. A sell signal is generated when the price falls below the fractal level.

Strategies with the Alligator indicator

The Alligator trend indicator combines well with oscillators, which are needed to work in the flat market.

Alligator + Awesome Oscillator

This method uses two indicators of the same author: the Awesome oscillator and the Alligator trend. In this strategy, the signal to prepare for entering the market will be to find all indicators in a state of rest - the oscillator is close to zero. The lines of the last indicator move alongside and intersect.

Quick Tips
Call signal
The Alligator starts moving up after crossing the lines
The oscillator is shown by growing green bars

Put signal
The Alligator starts moving down after crossing the lines
The oscillator shows decreasing red bars

Parabolic Sar

The Parabolic SAR indicator, the Parabolic SAR (or merely the Parabolic) system, was first introduced by W. Wilder in his 1978 book on new concepts in technical analysis.
Parabolic SAR is used to determine when the current trend changes by dividing the chart into periods of upward and downward price movements.
Parabolic is a trend indicator. It provides timely information about the formation of a new trend and the loss of strength of the existing ones.
During the lateral movement, the SAR indicator works less clearly.

How the Parabolic SAR system works
The abbreviation SAR stands for Stop and Reversal - stop and reversal. This name is because the Parabolic indicator was created to determine the

moment of price reversal and change of the current trend.

QUICK TIPS

Points on the chart are the indicative SAR price, upon reaching which the system changes its direction (the points move under the chart), and the chart breaks the trend.

SAR is calculated based on the price high in an uptrend and the low in a downtrend.

Description of the Parabolic indicator

The Parabolic SAR on the chart looks like a chain of dots that breaks when the trend changes direction. Therefore, the Parabolic SAR indicator is used to find the ideal moment to enter the market.

If a dot appears on top, then the trend changes to a downtrend, a dot appears on the bottom - the trend will be upward. With a sideways movement, the chart works well only in periods of high volatility. The distance between the points indicates the strength of the trend. The larger it is, the stronger the trend.
The further from the price chart, the indicator is, the stronger the price movement. If the points are located close to the chart, it is better to refrain from trading.
The parabolic changes direction when the price reaches the SAR level and starts its movement from the extreme level of the previous period.
At the moment of the necessary news release, volatility increases sharply, and long shadows (extrema) appear at the candles. The distance between the points can be significant, and the quotation does not change much, as shown in the figure below.
Therefore, you should not use Parabolic SAR during periods of high volatility:

You should carefully monitor the value of the acceleration factor. If the value is too large, the indicator will provide a significant number of false signals even when the price moves along the trend. It is better to use the standard indicator settings, the effectiveness of which has been proven in practice by experience.

When trading on a trending market with a stable trend, it will be correct to trade only in the direction of the trend. That is, ignore the Parabolic signals, which suggest trading against the trend. If there is no clearly defined trend, you can trade in both directions, but you will have to work on the definition ideal expiration time (standard option - 4-6 candles).

Parabolic SAR signals

The main signals that the indicator can give are the dots' location above and below the price chart. It's very simple:

CALL signal: the appearance of a point under the chart

PUT signal: a dot appears above the graph

Since the indicator cannot accurately determine the strength of the trend, but only indicates the direction, it is most often not used without support.

Examples of strategies with the Parabolic SAR indicator

Stochastic + MA

This strategy uses three indicators:

1. Parabolic SAR (acceleration parameters 0.01% and max value 0.2)

2. Stochastic Oscillator with parameters 7, 10, 10. The indicator levels should be set at 63 and 37.

3. Moving average with parameter 100

According to the strategy, trading involves opening a deal when receiving signals from three indicators at once.

The Call signal will be:

- SAR is lower than the price chart of the asset;
- The red line of the Oscillator is above 63;

- The previous candle is above MA.

The PUT signal is generated under the following conditions:

SAR is higher than the price chart;

The red line is below 37;

The previous candlestick is below MA.

Parabolic SAR + ADX

Since the ADX indicator helps determine the strength of the trend, it is also used in combination with the SAR. In this strategy, you should look for entry points on the Parabolic SAR indicator and only look for confirmation on the ADX chart.

Call signal

When the SAR point forms below the price chart, the green ADX should cross the red one upwards.

Put signal

When a point is formed above the price chart, the red ADX should cross the green one down to the top.

Moving Average Convergence / Divergence (MACD)

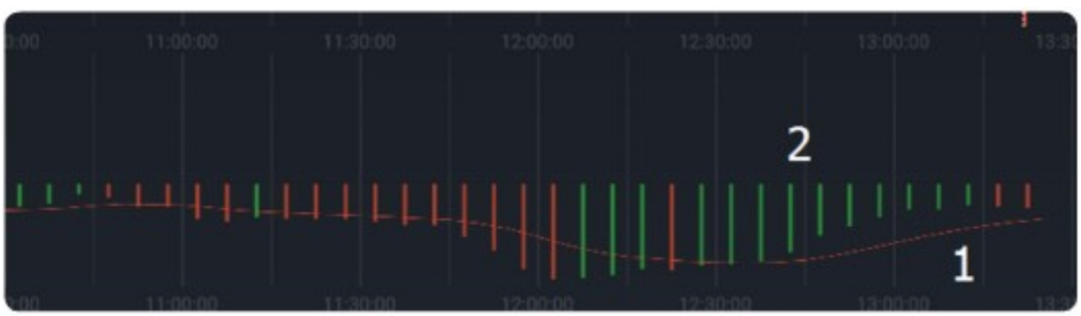
MACD is a technical analysis indicator that identifies the convergence and divergence of moving averages. Renowned analyst Gerald Appel developed the indicator. Today, the tool has become one of the most popular and integral parts of technical analysis.

However, the indicator can be used to check the dynamics, direction, and power of a trend, not to mention that the MACD does an excellent job of identifying pivot points.

How MACD works

Today there are two variations of this tool:

1. MACD histogram;
2. Linear MACD.



The indicator is formed based on moving averages, which is why many analysts tend to draw parallels between these instruments. We will give an example of the MACD histogram with one signal line.

MACD consists of two indicators, displayed at the bottom of the quotes chart: the histogram and the Signal line.

1. Signal line;

2. Histogram.

The signal line is represented by a red segment, which smooths the MACD line's movement - this approach allows you to generate signals.

The histogram is an expression of the difference between the other indicators of the indicator. It is this element that determines the power of the price movement. With its help, you can predict when the trend will pick up momentum or, on the contrary, weaken.

MACD signals

MACD gives signals in case of a change in the polarity of the histogram (transition from a negative zone to a positive one, and vice versa). The second type of signal is crossing the signal line of the histogram from above or below.

Call signals:

The signal line crosses the histogram from bottom to top;

The histogram crosses the zero mark in the positive direction.

Put signals:

The signal line crosses the histogram from top to bottom;

The histogram crosses the zero line in the negative direction.

The indicator is capable of generating a considerable number of signals, while we are not talking about false prompts, but about signals with a good percentage of profitability. The only thing required of a trader is to interpret signals to enter a position promptly.

Application of the indicator in practice

MACD is one of those instruments that can be used not only in the direction of the trend but also during the sideways movement of value. If you compare it with the same stochastic that works exclusively on flat, then the MACD is a more multifunctional and flexible indicator.

MACD trade. The signal line crossed the histogram from bottom to top.

Timeframe selection

As for the choice of time intervals for the standard settings 12, 26, and 9, it is better to focus on 15-minute options and the M1 timeframe.

If you prefer turbo options and do not want to give them up, then we advise you to buy options for 60 seconds (again, when trading on the M1 timeframe) because, at such short intervals, the MACD with standard settings is late.

The classic variation of the convergence and divergence of moving averages is not quite suitable for working by reading convergence and divergence signals; for this method, it is better to use the MACD histogram.

Reasons for the popularity of MACD

The tool is quite easy to use, and it is this aspect that explains that this indicator is the basis for all popular strategies among beginners.

It is possible to close deals with profit and the MACD indicator on any time intervals and assets by and large. Therefore, in this regard, the trader is not limited - he can change the settings for himself.

It is also essential that the indicator does not redraw, which cannot be said about the most popular technical analysis tools.

Multifunctionality. MACD is a very flexible tool; it can be used both as a signal source and as a filter. Everything will depend on the trading strategy chosen by the trader.

Often, MACD is used as the primary indicator that generates signals. The filter functions are directly transferred to the Bollinger Bands.

In the next chapter, we will be looking at pivot models in details. It is a continuation of technical analysis that we have explained in this chapter.

Chapter Four

Pivot Models

Technical analysts look for signals in price behavior that could point to market psychology changes and trend direction. These technical signals are reversal patterns. Western reversal indicators include double tops and double bottoms, reversal days, head and shoulders, and island peaks and bottoms.

The term “reversal patterns” is not entirely accurate. Hearing this expression, you might think that the old trend ends abruptly, and immediately a new, oppositely directed, price trend arises. This price behavior is rare. The trend reversal usually occurs slowly, in stages, as market participants' psychological mood gradually changes.

A trend reversal signal indicates a possibility of a trend reversal, but not necessarily the opposite. And this is important to understand. Compare the upward trend with a car traveling at 30 mph. The red brake lights come on, and the vehicle stops. The red light is a kind of reversal indicator that indicates that the previous trend (car forward movement) will soon end. But now that the car is stationary, would the driver want to go in the opposite direction? Will it stay in place? Will it go in the same direction? We will not be able to answer these questions without further signals.

Figures 4.1-4.3 show examples of possible market development after a reversal signal appears at the top. For instance, after the end of an upward trend, prices may move horizontally for some time, then a new opposite trend may begin (see Fig. 4.1). Figure 4.2 shows how the previous uptrend resumes. In Figure 4.3, the uptrend turns abruptly into a downtrend.

Figure 4.1

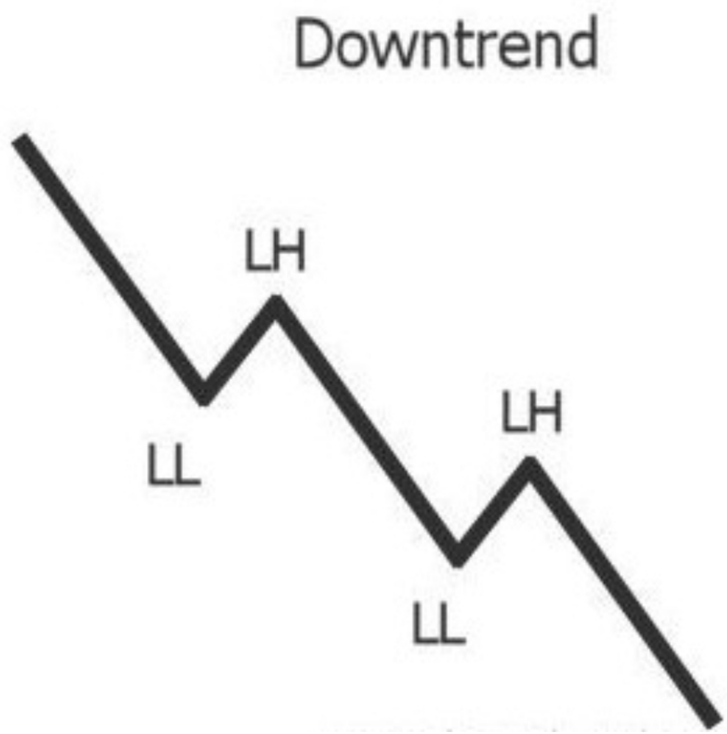


Figure 4.2

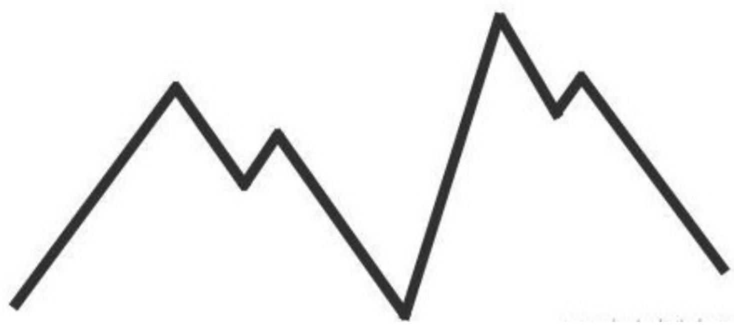


Figure 4.3

It would be more logical to call “reversal patterns trend” “reversal patterns”. I have been tempted to use the term "trend reversal pattern" instead of "reversal pattern" throughout this book. However, to avoid confusion with other technical analysis literature, I settled on the term "reversal pattern".

The ability to recognize reversal patterns promises many benefits for the trader. Trading in the direction of the mainstream drammatically increases the likelihood of success. Reversal indicators are a kind of road sign that says, "Caution - trend is in the process of changing." In other words, market psychology is changing. This means that it is necessary to change the trading tactics following the new market realities. Reversal indicators can influence a trader's decisions to open or close a position in different ways. All of this will be discussed in detail in subsequent chapters.

One of the trader's most essential precepts is to open a new position (on a reversal signal) only if this signal is consistent with the primary trend's direction. Suppose, for example, that in a bull market, a top reversal pattern is formed. Since the underlying trend is still upward, it is not recommended to open short positions based on this bearish signal. But long positions in this situation are best closed. The same signal in a bear market would be sufficient reason to go short.

I spent so much time discussing the concept of reversal patterns because most of the candlestick indicators are of this type. Now let's turn to the first group of reversal indicators: the hammer and Hanging man.

Figure 4.4

Figure 4.5

Hammer and Hanging Man

Figure 4.4 shows candles with long lower shadows and small bodies. Bodies are at the top of the daily price range. The fantastic thing about these candlesticks is that they can be both bullish and bearish, depending on which phase of the trend. The appearance of these candles during a downtrend indicates that its dominance in the market is coming to an end. With this development of events, the candle is called a "hammer" (see Fig. 4.4). It is interesting that in Japanese, such a candle is called "takuri". This word means something like "trying to measure depth by feeling the bottom with your foot."

If a candlestick similar to those shown in Figure 4.4 appears after a price rally, this indicates its possible completion. In this case, the candle has an ominous name - "the hanging man" (see Fig. 4.5). And, indeed, she resembles a hanging man with dangling legs.

It may seem strange to some that the same candlestick can be both bullish and bearish. However, there is something similar in Western graphical analysis: those familiar with island tops and bottoms know this. An island pattern can be either bullish or bearish, depending on where it forms in the trend. An island emerging after a long uptrend is bearish, while the same pattern after a downtrend is bullish.

Three main features can identify the hammer and the hanging man:

1. The body is at the top of the price range. The color of the body does not matter.

2. The lower shadow is twice as long as the body.

3. The candlestick has no upper shadow or is very short.

The longer, the lower shadow, the shorter the upper shadow, and the smaller the body, the higher the bull's hammer or a bearish hanging man. Although the bodies of these candles can be green and red, a hammer with a green body has a more bullish character, and a hanged man with a red body has a more pronounced bearish character. The green hammer body means that during the trading session, prices were falling rapidly, and then the recovery began, and the closing price approached the session's maximum price or became equal to it. This indicates an increase in bullish sentiment. The hanged man's red body indicates that the closing price cannot return to the opening price level. This is a sign of the bears' increasing potential.

In the case of a hanging man, it is especially important to wait for a bearish confirmation signal. The logic of events, in this case, is as follows: the market is full of bullish energy. Then the hanging man appears. On this day, trades open at or near the maximum price, then the price drops sharply, and then rises again and closes at or near the maximum. From such a price movement, one cannot conclude that the hanging man is a reversal signal at the top. Nevertheless, such a significant decline in prices during one session suggests that there are prerequisites for an imminent reversal in the market dynamics.

If the next day the market opens below the hanging man's body, those who bought at the opening or closing price on the day the hanging man appeared will be "Suspended" in a losing position. Thus, the basic principle to remember when the hanging man appears is that the greater the downward price gap between the hanging man's body and the next day's opening price, the more likely the hanging man will form a top. Another confirmation of the bearish nature of the market can be a red candle, the closing price of which is lower than the closing price on the day the hanging man appears.

Figure 4.6 is an excellent example of how the same candlestick can be both bearish and bullish (hammer).

Figure 4.6

Figure 4.7

Figure 4.7 also shows the dual nature of these candles. The Hanging Man, appearing in mid-April, signaled the end of the rise in prices that began after the bullish hammer on April 2. In mid-March, a kind of hanging man appeared, the length of the lower shadow of which did not exceed twice the length of the body. However, this candlestick fulfilled other requirements: the body was in the upper part of the daily range, and there was almost no upper shadow. Its bearish character was confirmed by a drop in the closing price the next day. Thus, the signal of the end of the upward trend, which began a month ago, was a candlestick, which is not a perfect hanging man. And this is quite understandable, since the technique of Japanese candlesticks, like other graphical analysis methods, obeys certain patterns, but not strict rules.

As noted above, certain circumstances enhance the significance of the "hanging man" and "hammer" candles. As shown in the example of the hanging man that appeared above, the length of the lower shadow does not have to be twice the body's length for this candle to be considered a reversal signal. The longer, the lower shadow, the more perfect the model.

Figure 4.8

As you can see in Figure 4.8, with the appearance of two consecutive hanging men, the rise that began in the first hanging man was interrupted. The chart shows how important the additional confirmation of the bearish character of the market is after the hanging man's appearance. This confirmation can be the next day's opening price, which is below the hanging man's body. Note that after the first hanging man appeared, the market opened above his body. However, the day after the second man was hanged, the opening price dipped below his body, and the market went down.

Pay attention to the hanging man 1. A confirmation of the bearish character of the market was the red candle formed after the hanged man. Although the market opened almost at the same level after the hanging man 2, by the end of the week, all those who bought at the open or close price of the hanging man 2 were "suspended" in a losing position. (In this case, the fall in prices during this long red session was so significant that everyone who bought the hanged man in the week was stranded, not just those who bought at the open and close prices).

Model of Absorption (Engulfing Pattern)

The hammer and the hanging man are separate candles, which, as noted above, send important signals about the "health" of the market. However, most of the signals that appear on Japanese candlestick charts are not based on single candlesticks, but their combinations. One of such candlestick combinations is the engulfing pattern. It is one of the most important reversal signals and is formed by two candlesticks with bodies of contrasting colors.

Figure 4.9

Chart 4.9 shows a bullish engulfing pattern. A downtrend dominates the market, then a bullish candle with a red body appears, which, as it were, engulfs the previous candle with a green body. This indicates that buying pressure has exceeded the selling pressure. Figure 4.10 shows a bearish engulfing pattern. It is formed in an upward market. "Absorption" of the green body of the candle by the red body is a signal of a reversal at the top. In this situation, it is obvious that the bears are taking over the initiative.

Figure 4.10

The engulfing pattern model must meet three criteria:

1. The market must have a clear upward or downward trend (even if short-term).

2. Two candlesticks form the engulfing pattern. The second body must absorb the first (shadows may not be absorbed).

3. The second body should be of contrasting color. (The only exception to this rule is when the body of the first candlestick in the engulfing pattern is so small that the candlestick is comparable to a Doji (or is a Doji). Thus, if, after an extended downtrend, a tiny green body is absorbed by a very large green body, this could signal a reversal at the bottom, and the absorption of a tiny red body in an uptrend by a very large red body could be considered a reversal pattern at the top.)

In Western technical analysis, the closest concept is Reversal day. A reversal day is a day when, during an upward (or downward) trend, a new high (or low) is recorded, and the closing price is lower (or higher) than the closing price of the previous day. However, the engulfing pattern can generate signals that do not appear on the day of the reversal. This can give the candlestick trader an edge over those using the traditional reversal day as a reversal signal.

The following are factors that increase the likelihood of a trend reversal after an engulfing pattern appears:

1. If the first candlestick of the pattern has a very small body, and the second one is very long. This indicates that the previous trend is weakening, and the new one is gaining strength.

2. If the engulfing pattern appears after a protracted or very rapid trend. If the trend has been going on for a long time, then all potential buyers are likely to have already taken long positions. In this case, one should hardly expect a large number of new purchases required to move the market up. Rapid price increases "stretch" the market and force traders to take profits by closing positions.

3. If the second candlestick of the engulfing pattern corresponds to a large trading volume. This may be evidence of the "blow-off" trend.

4. If the second candlestick of the pattern engulfs several bodies.

Dark Cloud Cover

The next reversal pattern is "dark cloud cover" (see Fig. 4.11). This pattern consists of two candles that appear after an uptrend (or near the upper border of a trading range) and signals a reversal at the top. On the first day, a candle appears with a strong green body. The next day, the open price exceeds the high of the previous trading day (i.e., above the upper shadow of the first candlestick). However, by the end of the day, the closing price approaches the daily low and covers a significant part of the previous candle's green body. The lower the closing price of the second candlestick (the more part of the green body is "closed" by the red body of the second candlestick), the more likely a top will form. Some Japanese analysts believe that the closing price of the red candlestick should cover more than 50% of the green body's length. If the close of the red candlestick does not reach this 50% mark, you should wait for further signals confirming the likelihood of a bearish trend.

Figure 4.11

The meaning of this bearish pattern is easy to explain. The market is going up. A new trading session after a strong green candle opens with a gap up. At the same time, the bulls are in full control of the situation. But then the price increase stops!
Moreover, the closing price drops to (or comes close to) the daily low and covers a significant portion of the previous day's green body. With such a development of events, those who have "open long positions" will ponder. Those who were going to enter short positions now received a guideline for setting their stop-loss: a new high recorded by the second candlestick of the "veil of dark clouds" pattern.
Below is a list of factors that enhance the model's relevance "Curtain of dark clouds":
1. The closer the closing price of a red candlestick is to the opening price of the preceding green candlestick (the larger part of the green body is "closed" by red), the higher the probability of a top formation. If the red body completely overlaps the previous green body, a bearish engulfing pattern is formed. In the dark cloud cover model, the red body only partially covers the green body, so the dark cloud cover model resembles a partial solar eclipse that obscures part of the sun (i.e., only part of the previous green body is covered). A bearish engulfing pattern is a total solar eclipse that obscures the entire sun (i.e., the entire green body is covered). Hence, a

bearish engulfing pattern is a stronger reversal signal. If a long green candlestick appears with a closing price higher than the highs formed by a dark cloud cover or a bearish engulfing pattern, a new price increase can be expected.

2. If during a long upward trend, a candlestick appears with a long green body, the open price of which is equal to the daily low (i.e., it has no lower shadow), the close price is the daily high (i.e., it has no upper shadow), and the next day there is a candlestick with a long red body, opening at the high and closing at the low, then it is said that it is "a rainy day with a cut top and a cut bottom."

3. If the second candle of the dark cloud cover (i.e., the candle with a red body) opens above a critical resistance level, and then the price falls, the bulls cannot control the market.

4. If a large volume of trade accompanies the opening of the second trading day, this may be evidence of the "end" of the upward trend. For example, a large volume of trade at a new maximum opening price may mean that new buyers are on board the ship. Then prices start to fall. The hour is not far off when crowds of traders who have opened new long positions (as well as those who have long opened long positions, "riding the trend") will realize that they are on board the Titanic. For traders in the futures markets, an additional caveat can significantly increase open interest at the trading day's opening.

Piercing Pattern

When I speak to an audience and talk about the dark cloud cover bearish pattern, I'm usually asked if there is a Japanese chart analysis pattern with the opposite meaning. Yes, there is, and it is called "a gap in the clouds." If the dark cloud cover pattern is a reversal signal at the top, its opposite, a gap in the clouds, is a reversal signal at the bottom (see Fig. 4.11). It consists of two candles and appears in a falling market. The first candlestick has a red body, and the second has a long green body. "The red candlestick opens well below the price low of the previous green candlestick. The price then rallies, forming a relatively long green body, which closes above the middle of the green candlestick body.

The bullish skylight pattern is close to the bullish engulfing pattern. In a bullish engulfing pattern, the red body completely engulfs the previous green body. In the bullish piercing pattern, the red body only partially opens the previous green body.

If a long green candlestick appears with a closing price below the lows set by a bullish engulfing pattern or a gap in the clouds, then a further decrease in price is possible.

The psychological underpinnings of the "piercing pattern" model are as follows: a downtrend dominates the market. The appearance of a bearish candlestick with a green body confirms its strength. The next day, the opening price gaps down and is below the previous low. The bears are happy. Then prices begin to rise, and by the end of the trading day, the closing price compares with the previous day's closing price and significantly exceeds it. The bears are pondering their positions. Those who have been waiting the right moment to buy they say that prices could not hold on to new lows, so it's time to open long positions.

The same factors determine the cloud gap model's significance as the dark cloud cover model, but in a mirror image (see the previous section). In the section on the dark cloud cover, I noted that although some Japanese traders believe that a green body should cover more than half of the preceding red body, there are exceptions to this rule. The gap in the clouds has fewer such exceptions. In this pattern, the red candlestick should always cover more than half of the previous green candlestick's body. The reason is that there are three more patterns that form in the same way as the gap in the clouds, with the only difference that the body of the red candlestick covers the body of the green one less than half. They are called on-neck, in-neck, and thrusting patterns and are considered bear signals.

Thus, the three potentially bearish patterns and the bullish piercing pattern have the same shape. They differ only in the degree of penetration of the red body into the previous green. In the model

"At the bottom," a red candlestick (usually small) closes near the low of the previous trading day. The closing price of the red candlestick from the "at the bottom" pattern (it should also be small in size) is slightly higher than that of the green candlestick. In the push pattern, the red candlestick body is larger than in previous models, but the close price does not reach the middle of the green candlestick.

If these patterns form on the chart and prices then drop below the low of the red candlestick, it means that the time has come to sell.

It is not necessary to memorize all the models shown in this section. It is enough to remember that for a reversal signal to form at the bottom, the red candlestick must overlap the previous green candle by more than half.
A strong market rally characterizes the day when the red candlestick appears. The opening price settled at the daily low (cut bottom) and the close at the daily high (cut top).

Stars

The stars represent one of the most mysterious reversal signals. A star is a small-bodied candlestick that forms a price gap with the previous large-bodied candlestick (see Figure 4.12). The main condition for the formation of a star is a gap between its body and the previous candle's body, while the intersection of shadows is allowed. The color of the star doesn't matter. Stars appear at tops and bottoms (sometimes a star that appears during a downtrend is called a "raindrop"). If a star is a Doji (i.e., it has a horizontal line instead of a body), it is called a "Doji star" (see Figure 4.13).

Figure 4.12

Figure 4.13

A star, especially a Doji star, warns of the possible end of a prior trend. The star's small body indicates that the grueling struggle between bulls and bears has come to a standstill. If a strong upward trend dominates the market, bulls are in control. The appearance of a star after a candle with a long green body in an uptrend is a signal of the end of the dominance of buyers in the market and the establishment of an equilibrium between supply and demand. This equilibrium is due to either weakening buying pressure or increasing selling pressure. In any case, the star signals that the upward trend's potential has been exhausted, and the situation on the market may change.

The same, but in a mirror image, is also true for stars in a downtrend: the appearance of a star after a long red candlestick indicates a change in the alignment of forces in the market. If, during a downward trend, bears dominated the market, then with the appearance of a star, the situation changes: the strength of bulls and bears begins to equalize. The energy pushing the market down is weakening. Bears are losing ground.

The stars are included in four reversal patterns:

1. Evening star,
2. The morning star,
3. Doji star,
4. Shooting star.

In all these models, the star's body can be either green or red.

Morning Star

The Morning Star (see Figure 4.14) is a bottom reversal pattern. Its name originated from the morning star in the sky (planet Mercury), which heralds the sunrise, as this pattern signals a possible increase in prices. The morning star pattern consists of a candlestick with a long red body, followed by a candlestick with a small body breaking downward (these two candles form the simplest star pattern). On the third day, a green candlestick appears, the body of which covers a significant part of the red body of the first day. This pattern signals that the bulls have intercepted initiative. To understand the logic behind the last statement, let us try to decompose the three candlestick patterns into separate components.

Figure 4.14

When we see a candlestick with a red body, it means that the price is falling. At this time, the bears are in command of the parade. Then a candle with a small body appears. This means that sellers are running out of strength needed to move the market further down. The appearance of a strong green body the next day proves that the bulls are beginning to gain the upper hand. Ideally, the morning star pattern contains price gaps before and after the middle candlestick body. The second gap is observed quite rarely, but, as practice shows, its absence does not diminish the significance of this model.

Figure 4.15 (number 3) shows the bullish morning star pattern that formed in December. The rise that began with this morning star came to a halt with a veil of dark clouds on December 27. Figure 4.15 (number 2) shows that the minimum level reached by prices in December fell exactly on the star. The next week, a candle appeared with a large green body. This green body completed the formation of the morning star pattern. The red candlestick, which appeared immediately after the green body, formed a “curtain of dark clouds” pattern. After that, there was a short-term decline. However, the morning star became the bottom of the long-term bear market. To understand the logic behind the last statement, let us try to decompose the three candlestick patterns into separate components.

Figure 4.15

When we see a candlestick with a red body, it means that the price is falling. At this time, the bears are in command of the parade. Then a candle with a small body appears. This means that sellers are running out of strength needed to move the market further down. The appearance of a strong green body the next day proves that the bulls are beginning to gain the upper hand. Ideally, the morning star pattern contains price gaps before and after the middle candlestick body. The second gap is observed quite rarely, but, as practice shows, its absence does not diminish the significance of this model.

Evening Star

The evening star is the bearish counterpart of the morning star. Its name arose by analogy with the evening star in the sky (planet Venus), appearing before dark. The evening star pattern is a signal of a reversal at the top, and therefore it becomes a signal for action only if it appears after an uptrend. The evening star consists of three candles (see. fig. 4.16).

Figure 4.16

The first two candles are a long red body followed by a star. This star is the first 'hint of the market approaching the top. The third candlestick confirms the formation of the top and completes the evening star pattern, consisting of three candles. The third candlestick has a red body that overlaps a significant portion of the first candlestick's green body. It seems to me that the evening star can be compared to a traffic light that switches from green (bullish red body) to green (warning star) and then to red (red body confirms the end of the previous trend).

Basically, the evening star should have a price gap between the first and second bodies and another gap between the second and third bodies. However, in my experience, the second gap is rare and unnecessary for this model to work successfully.

The main criterion is the degree of penetration of the third candlestick's red body into the green body of the first candlestick.

A first glance at Figure 4.17 gives the impression that the pattern under consideration is similar to an island top - a reversal signal used by Western technical analysts. However, a more detailed analysis shows that the evening star is not equivalent to the island top. In the signal "Island top," the second trading session's minimum price must be higher than the maximum prices of trading sessions 1 and 3. For the evening star pattern to be considered a reversal signal, it is sufficient that the lower boundary of body 2 is above the upper boundary of body 1.

Figure 4.17

The following are factors that increase the likelihood that the evening or morning stars are a reversal signal:

1. There is a gap between the bodies of the first candlestick and the star, as well as between the star's bodies and the third candlestick;

2. The body of the third candlestick covers a significant part of the body of the first candlestick;

3. A small volume of trade during the first trading session (first candle) and large volume during the third trading session (third candle).

A LITTLE HISTORY

The full names of the evening and morning stars in Japanese sound like "evening star of three rivers" and "morning star of three rivers". At first I thought the names were evening or morning star

“Three rivers” are associated with the presence of three candles in each model - hence the name “three rivers”. But later I found out that the history of the names is much more intriguing.

Nobunaga Oda, one of the prominent military leaders of the late 16th century, was one of the three military leaders who united feudal Japan. He fought a decisive battle for one of the most fertile rice provinces. Since rice was the measure of wealth, Nobunaga was determined to conquer the territory, but the owners of fertile plantations were just as determined to defend their lands. Three rivers flowed through these fertile rice provinces. In the conditions of the fierce resistance of the inhabitants of the province, Nobunaga's troops were very difficult to overcome three water obstacles. And only when his troops finally managed to cross these three rivers, the victory went to the general. Hence the three rivers in the names of the morning and evening stars arose, indicating the difficulties that must be overcome in order to change the direction of the trend. Victory for the advancing troops will be assured if they manage to overcome the obstacle of the three rivers.

Morning and Evening Doji Stars

A doji is called a "doji star" if it breaks up with the body of the previous candle in an uptrend or breaks below the body of the previous candle in a downtrend. Doji stars are forerunners that the previous trend is changing its direction. The trading session after the doji should confirm the reversal signal. In particular, confirmation of a top reversal in an uptrend is a doji star followed by a long black body that overlaps much of the white body. This pattern is called the "Evening Doji Star" (see Figure 4.18). The evening doji star is a special case of the regular evening star. The star in the usual evening star is the candle with a small body (the second in the model), and the star in the evening doji star is the doji. The evening doji star is considered the more important model as it contains the doji.

Figure 4.18

In an uptrend, a doji star is often a sign of an approaching top. It is important to note the following: if a white candlestick appears immediately after the doji star, forming a price gap upwards, the doji ceases to be a bearish signal.

If, during a downtrend, a doji appears after a candlestick with a black body, then a white candlestick will confirm a reversal at the bottom, the body of which covers a significant part of the black candlestick body. This three-candlestick pattern is called the Morning Doji Star (see Figure 4.19). This type of morning star is a very important base reversal signal. If, during a downward trend, a black body appears following the doji star, forming a price gap down, then the doji star ceases to be a bullish signal. This explains why in case of doji stars it is necessary to wait for the confirmation signal within one or two trading sessions.

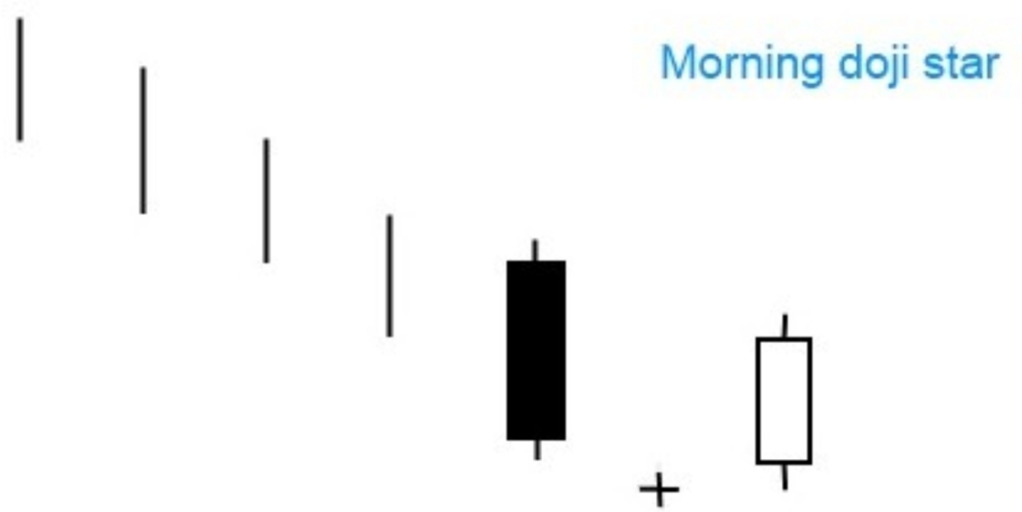


Figure 4.19

If, during an upward trend, the doji star forms a price gap up (candle shadows do not intersect), and a black candle follows with a downward price gap (shadows also do not intersect), then such a star becomes one of the strongest reversal signals at the top. It is called an abandoned baby top (see Figure 4.20). This model is very rare!

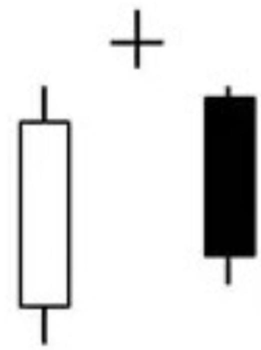


Figure 4.20

The same is true, but mirrored, for a downtrend. In particular, if a doji star appears with gaps before and after it (when the shadows do not intersect), then most likely the market has reached a bottom. This model is called the abandoned baby bottom (see Figure 4.21). It is also extremely rare! The abandoned baby pattern is similar to the western island tops or bottoms in which the doji plays the role of the island trading session.

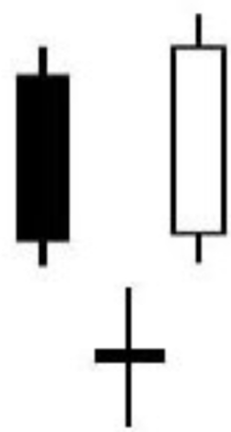


Figure 4.21

In Figure 4.21, you can see how the appearance of a Doji star in 6/26 stops the previous decline in price. Doji in this case considered a star, although its shadow overlaps part of the previous red body. A green candlestick following a star is the final confirmation of a bottom reversal. The red body in front of the doji star and the white body behind it form the morning doji star pattern, which consists of three candles.

Figure 4.21

Figure 4.21 shows that prices broke on the day the Doji star appeared. This was the support level that emerged back in the early 6/26. The fact that prices have failed to maintain their new lows is seen as a bullish sign. If we add to this the formation of the morning doji star, then there is every reason to expect the end of the downward trend.

In Figure 4.22, you can see both the evening doji star and the regular evening star. The Evening Doji Star was formed between Dec 4 and Dec 18, 2012. This pattern served as a signal to stop the rapid rise in prices that began several months ago. After the appearance of the evening doji star, prices began to fall. It ended with the formation of a bullish engulfing pattern. The subsequent rally peaked in Dec. 18 with the appearance of the evening star pattern.

Figure 4.22

Figure 4.23 shows three candles (May 28, 29, and 30) forming the evening doji star. This pattern completes the price rally that began after the hammer appeared the previous week. This example shows once again that in the stock market, some candlestick configurations may deviate somewhat from the standard. This is because the opening price of a stock (as opposed to a futures contract) is often quite close to the previous closing price. This means that models that take into account the ratio of closing and opening prices should be modified accordingly.

Figure 4.23

The United Technologies Corp chart shows that the Evening Doji Star is not a star in the true sense of the word. The doji star's body (i.e. the opening and closing prices) must be above the body of the previous candle. In this case, this is not the case. Thus, a more flexible interpretation of candlestick indicators in the analysis of the stock market should be allowed. Your experience of using Japanese candlesticks in the stock market will help you to independently determine which patterns need modification.

Shooting Star

A Shooting Star is a two-candlestick pattern that warns of the possible end of price growth. Its appearance is consistent with the name. Unlike the evening star, the shooting star is not one of the most important reversal signals. As shown in Figure 4.24, the body of the shooting star is small and located in the lower part of the candle's price range; the upper shadow is long. Like other stars, the body color of a shooting star does not matter. This candlestick clearly shows that the trading session opened close to the daily low, then the price skyrocketed and fell again, so that the closing price approached the opening price. In other words, the rise in prices during the trading session was untenable.

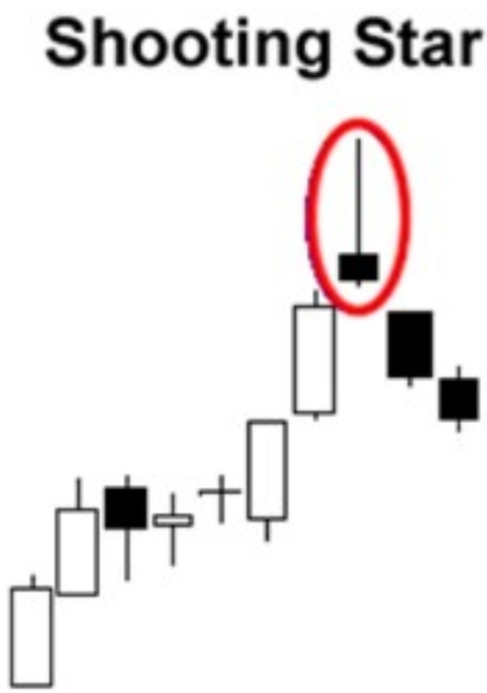


Figure 4.24

The body of a perfect shooting star forms a gap relative to the body of the previous candlestick. But, as will be shown below, this gap is optional.

A shooting star candlestick that appears after a price downturn can be a bullish signal. This candle is called an inverted hammer.

Chapter Five

Fundamental Analysis

Depending on the market, from the country, from the region, various macroeconomic indicators can be used. It is customary to evaluate the following areas of the economy:

Economic growth indicators. GDP, GDP per capita, GNP, labor productivity and other indicators of the system of national accounts;

Labor market - indicators of the level of employment, and unemployment;

Financial policy - inflation indicators, refinancing rate, inflation rates, monetary aggregates, assessment of the government's fiscal policy, the policy of central banks of countries;

Securities market - indicators of capitalization of the stock (bond) market and the ratio of this value to GDP, indicators of market liquidity, which, as a rule, are tied to the turnover of a particular financial instrument, or the ratio of turnover to capitalization.

Business activity indices are indicators that serve to determine the state of individual sectors of the economy. Traditionally, the economy is divided into industrial and agricultural sectors. Countries' financial authorities publish all indicators; the release schedule of indicators can be viewed in the economic calendar.

Fundamental analysis stages

Making a trading decision based on information received from news blocks occurs in the second stage. It is used for short timeframes. Each event has its application period.

Some indicators are subject to periodic changes; they depend on the time of day, day of the week, or season. Based on such indicators, you can achieve a stable, planned profit.

The aerobatics of fundamental analysis consists in determining not only the general trend of price movement but also its possible corrections, which can also be predicted. At the same time, the efficiency of making a profit increases significantly.

Can these figures be compared? Of course. Fundamental analysis is challenging to study; you need to monitor the news and political and economic events continually. Not every trader is so disciplined that he forces himself to undergo training, develop skills in working with fundamental analysis, and scan patiently events affecting the financial market.

If a beginner learns and begins to apply fundamental analysis techniques, his chance to break into the top trader increases significantly.

Fundamental analysis is carried out based on the primary indicators of the country's economic activity or the economic indicators of the economic activity of the enterprise (if we are talking about shares).

Fundamental analysis is based on macroeconomic and business factors.

There are long-term and short-term factors influencing the quotes of any asset, so fundamental analysis should be carried out in two stages. At the first stage, a general analysis of economic indicators is carried out to identify current market trends.

Approximately 90 out of 100 newbies give up fundamental analysis almost immediately. But 95 traders out of a hundred still do not achieve stable profits.

Economic Calendar

The options market can be unpredictable, and experienced traders strive to get all the possible information. To keep track of events that occur globally and affect asset prices, traders use the economic calendar.

Time

The exact time of the event or publication, all news in the calendar is arranged in chronological order.

13:30	USD	Real Consumer Spending	1.4%	1.5%	1.5%
13:30	USD	Jobless Claims 4-Week Avg.	322K		333K
14:45	USD	Bloomberg Consumer Confidence	-31.4		-33.7
15:00	USD	Factory Orders (MoM)	-0.9%	-1.0%	1.8%
15:00	CAD	Ivey PMI	53.7	59.0	62.8
15:00	VEF	Venezuelan Retail Sales (YoY)	12.6%		14.5%
15:00	USD	Factory orders ex transportation (MoM)	0.0%		-0.1%
15:30	USD	Natural Gas Storage	-162B	-138B	-13B
17:15	USD	FOMC Member Fisher Speaks			
22:30	AUD	AIG Construction Index	55.2		54.4

Currency

Here is the currency that will be affected by the news release. Moreover, the news release may affect all pairs that contain this currency, and maybe only some.

13:30	USD	Real Consumer Spending	1.4%	1.5%	1.5%
13:30	USD	Jobless Claims 4-Week Avg.	322K		333K
14:45	USD	Bloomberg Consumer Confidence	-31.4		-33.7
15:00	USD	Factory Orders (MoM)	-0.9%	-1.0%	1.8%
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17:15	USD	FOMC Member Fisher Speaks			
22:30	AUD	AIG Construction Index	55.2		54.4

Importance

Events can influence the movement of assets with different strengths.

13:30	USD	Real Consumer Spending	1.4%	1.5%	1.5%
13:30	USD	Jobless Claims 4-Week Avg.	322K		333K
14:45	USD	Bloomberg Consumer Confidence	-31.4		-33.7
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17:15	USD	FOMC Member Fisher Speaks			
22:30	AUD	AIG Construction Index	55.2		54.4

Low importance = Low volatility. Changes will be minor.

Medium importance = Moderate volatility. News affects prices, but not too much.

High importance = High volatility. Changes will be substantial, sometimes up to several hundred points

The economic calendar is a chronological collection of the most important and anticipated news.

The calendars used by traders provide information about which asset will be affected and the importance of the event, as well as expert forecasts that traders have already taken into account.

Events

13:30	USD	Real Consumer Spending	1.4%	1.5%	1.5%
13:30	USD	Jobless Claims 4-Week Avg.	322K		333K
14:45	USD	Bloomberg Consumer Confidence	-31.4		-33.7
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15:30	USD	Natural Gas Storage	-162B	-138B	-13B
17:15	USD	FOMC Member Fisher Speaks			
22:30	AUD	AIG Construction Index	55.2		54.4

The news itself, which may have an impact on the movement of assets.

This column also contains information regarding future performances by officials. These performances often cause significant impulse movements, and their impact is difficult to predict. Click to open full details.

13:30	USD	Real Consumer Spending	1.4%	1.5%	1.5%
13:30	USD	Jobless Claims 4-Week Avg.	322K		333K
14:45	USD	Bloomberg Consumer Confidence	-31.4		-33.7
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17:15	USD	FOMC Member Fisher Speaks			
22:30	AUD	AIG Construction Index	55.2		54.4

Fact

Reflects the real impact of news on the market, a field for news publication appears. A red number means that the Fact turned out to be worse than the Forecast, green - better. A black number means the forecast corresponds to the real impact.

Forecast

Expert forecasts on which the current asset price is based.

13:30	USD	Real Consumer Spending	1.4%	1.5%	1.5%
13:30	USD	Jobless Claims 4-Week Avg.	322K		333K
14:45	USD	Bloomberg Consumer Confidence	-31.4		-33.7
15:00	USD	Factory Orders (MoM)	-0.9%	1.0%	1.8%
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15:30	USD	Natural Gas Storage	-162B	138B	-13B
17:15	USD	FOMC Member Fisher Speaks			
22:30	AUD	AIG Construction Index	55.2		54.4

Previous data (Prev.)

13:30	USD	Real Consumer Spending	1.4%	1.5%	1.5%
13:30	USD	Jobless Claims 4-Week Avg.	322K		333K
14:45	USD	Bloomberg Consumer Confidence	-31.4		-33.7
15:00	USD	Factory Orders (MoM)	-0.9%	-1.0%	1.8%
15:00	CAD	Ivey PMI	53.7	59.0	62.8
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17:15	USD	FOMC Member Fisher Speaks			
22:30	AUD	AIG Construction Index	55.2		54.4

Data for the previous period, which determines the current dynamics of the event, has become worse or better than the last period.

How to use the economic calendar

Yesterday | Today | Tomorrow | This Week | Next Week | Filters

Current Time: **18:41** (GMT -4:00)

All data are streaming and updated automatically.

Time	Cur.	Imp.	Event	Actual	Forecast	Previous
			Tuesday, June 6, 2017			
All Day		**Holiday**	South Korea - Memorial Day			
00:30	AUD		RBA Interest Rate Decision (Jun)	**1.50%**	1.50%	1.50%
00:30	AUD		RBA Rate Statement			
04:10	EUR		Retail PMI	**52.0**		52.7
04:30	EUR		Sentix Investor Confidence (Jun)	**28.4**	27.5	27.4
05:00	EUR		Retail Sales (MoM) (Apr)	**0.1%**	0.2%	0.2%
05:00	EUR		Retail Sales (YoY) (Apr)	**2.5%**	2.3%	2.5%

Using the calendar is very simple. If you decide to trade on the news or, conversely, want to mark the release of important news to stop trading at that moment, then the actions should be as follows:

Between the release of the news and the market's reaction takes from 1 to 5 minutes, after which the news becomes irrelevant. The importance of the news is displayed in terms of volatility: the higher the indicator, the more the news will affect the asset price dynamics.

The last point is the most important - the difference between the expected and actual impact of the event. The higher the difference between the "Fact" and "Forecast" indicators, the more noticeable the quotes' changes will be.

The calendar allows you to follow the future events in the world of the economy and helps to assess their impact on the market. To effectively trade options, a trader must follow the events in the world, as they can completely change the dynamics of the asset.

1. View the calendar and select the most significant news

2. Look at the date of the event

3. Find the current value of an indicator

4. Read the "Forecast" column

5. After the event has occurred, assess the difference between the predicted and actual impact

6. The higher the difference between the columns "Fact" and "Forecast", the stronger the effect on the market will be.

7. If the actual value is higher than the predicted value, then the market will go up.

Central Banks

The four leading central banks

World central banks and agencies with similar functions, but different names, determine the country's monetary policy and, therefore, significantly influence the movement of currencies, commodities, and other assets in the market.

They issue reports, change interest rates, make important announcements. For example, the anticipation of a change in interest rates forces investors to transfer money from one currency to another in search of the highest and most stable income.

Consider financial institutions, the names of which you have heard more than once in the news.

USA: Federal Reserve System

The Federal Reserve System (FRS) is not officially a bank and is called an independent federal agency. But it acts as the Central Bank of the country. In reality, it is a separate institution in the government that is responsible only to Congress (parliament). FRS is one of the most influential financial institutions globally since the American currency is the most liquid in the world. The FRS includes more than 12 different reserve banks located in the largest cities in the country. Another system is subject to about 3,000 commercial banks, which are considered its members.

The Federal Reserve's responsibilities are as follows: maintain a balance between commercial and national interests, fulfill the obligations of the country's banks, protect consumer rights, ensure the stability of the entire financial system, control risks and oversee banks. It also provides financial services to depositories and participates in making payments within countries and beyond.

Submitting to Congress, the system every six months provides it and the entire public with reports on several leading positions in the country's monetary policy. It publishes a report on the inflation rate, and the results/minutes of all meetings held eight times. This body also publishes forecasts of economic activity and analyzes the relationship between the state's goals, the policies of the administration, and the Congress itself.

Europe: Central European Bank

Founded in 1999 and headquartered in Frankfurt am Main, Germany, this Bank is entirely independent and includes representatives from all European Union countries and is responsible for overseeing more than just banks. this region, but also behind the emission of the single European currency, the management of the gold and foreign exchange reserves of the Union,

The central bank is the first agency whose statement and reports need to be considered in the fundamental analysis and the formation and implementation of monetary policy throughout the EU. However, this organization's primary goal is to mantaein the stability and an harmonious growth of the consumer price index in the EU area. Meetings of this Bank are held once every two weeks.

The Bank is committed to transparency and accountability by publishing a weekly report across the Eurozone; it releases a statement on its activities once a quarter. Once a year, it provides information on the results of its work to parliament and other regulatory authorities. After each meeting, the Bank holds a conference. It publishes a monthly report, which contains information on the state of the economy and the Bank's decisions, as well as a forecast for the further development of the region's economy.

Britain: Bank of England

It is the central bank for the whole of the United Kingdom. It also organizes a committee's work, a unique body that determines the country's monetary policy. The primary purpose of this organization is to maintain a stable exchange rate of the national currency and ensure its purchasing power.

Also, this organization must provide the efficiency financial sector of the country and maintain financial stability within the United Kingdom and beyond.

The bank provides the public with an inflation report every three months, which contains an analysis of the bank's information and the minutes of the governor's meeting with the minister, where the issue of interest rates is decided.

Every month the Bank of England publishes a report on the country's economic situation and inflation.

Japan: Bank of Japan

The main functions of the organization are the issue of the country's currency and control over the monetary policy. It carries out settlements of commercial organizations and transactions with government securities. Responsibilities include monitoring the financial situation and other financial organizations, carrying out international activities. It also chairs the committee on monetary policy.

This bank often intervenes in the open market and makes statements when it is concerned about the exchange rate of the country's currency - the yen. It is commonly believed that the primary role of this organization is to maintain the stability and stability of the financial system and the national currency. The Monetary Policy Committee holds 1-2 meetings per month.

Conclusion

We have listed the four main departments influencing the foreign exchange market. The most important is the size of the interest rate. Slightly less is the inflation rate, which is indicated in the reporting. The higher it is, the more stringent the bank's alleged policy, which will try to keep it, will be.

Particular attention should be paid to the statements of officials of these organizations and their official reports, which are published regularly. Trading before the release of reports is risky since the information they contain can significantly change the market's mood.

Banks can intervene directly in trade, artificially lowering or helping to strengthen the currency.

Fundamental analysis indicators

Central bank policy

To date, each country's essential role in the credit and banking system is assigned to the central bank. In most countries, the Central Bank belongs to the state form of ownership. Still, there are also examples where the Central Bank's capital belongs to private shareholders: National Bank of Switzerland, The Federal Reserve System of the United States, etc. The difference between private central banks and other banks is that their purpose is not to profit. All the competences of such institutions are enshrined in legislation and meet the interests of society.

Central banks perform the following main functions:

- Issue of banknotes and coins;
- Conducting monetary policy;
- It is a "bank of banks" - it serves as the settlement center of the banking system, provides it with loans, in some countries supervises the activities of banks;
- Refinancing credit and banking institutions (including by setting the refinancing rate, pawn rate, etc.);
- Management of official gold and foreign exchange reserves;
- Conducting monetary policy.

These regulation methods are used following the goals and plans of the state policy of each country.

In more detail, let's consider the main instruments of regulation of the Central Bank of the financial sector.

Financial regulation

The most critical role in the supply of money is played by regulating the volume of bank reserves - the assets of commercial banks stored in the accounts of the Central Bank.

According to some countries' legislation, each bank must give part of its capital to the reserve of the Central Bank. The latter has the right to change the rates of such required reserves, increasing or decreasing them. This has a direct impact on bank resources.

In the case of an increase in the reserve, the Central Bank limits banks' capital, which is intended for lending to borrowers, thus preventing an increase in inflation.

A decrease in reserves is established when it is necessary to increase the circulation of the money supply by actively raising funds. In such cases, the bank's loan portfolio increases, and the rates for the use of credit funds decrease.

Open market operations

The Central Bank issues securities (bonds), which it sells to other banks at a predetermined rate. The proposal is introduced to the market to reduce banks' credit capital when the country's economy is threatened with an increase in inflation (the Central Bank issues securities and takes real money from the economy.)

When the Central Bank buys securities, there is an increase in the volume of money in circulation, credit bank resources increase, the interest on loans decreases and the volume of investment increases, the development of industrial production is stimulated, which leads to the emergence of new jobs, reducing thus the unemployment rate in the country.

The active participation of the Central Bank in the open market is welcomed in countries where the securities market is developed - in Japan, Great Britain, Germany, the USA, Canada, etc.

Refinancing rate regulation

In a market economy, the refinancing rate indicator means the annual percentage for using a loan that the Central Bank issues to commercial banks. By raising or, conversely, lowering the discount (interest) rate, the Central Bank affects the financial market situation. Other banks do not have the right to determine the rate of loans for borrowers below the value of the refinancing rate.

When the interest rate decreases, banks acquire additional loans, which leads to an increase in the supply of money in the market. Often, the Central Bank lowers the refinancing rate when there is a decline in production, and it is necessary to increase GDP growth. When the Central Bank raises the interest rate, banks begin to attract capital at higher interest rates. This situation reduces the demand for supply from banks and leads to a reduction in the market's money supply. As a result, consumer demand narrows, the volume of production falls.

The actions of the Central Banks of different countries can be observed in the economic calendar, where you can always follow the news when the central bank of a country will decide on the interest rate when the heads of central banks will speak and find out forecasts of likely changes in the values of interest rates.

Changes in interest rates can have a powerful effect on price movements in the foreign exchange market, so traders always carefully follow the news of the central banks of those countries whose currency they buy and sell.

Key Bank Interest Rate

The key rate is the minimum interest rate at which the Central Bank lends to other commercial banks, and at the same time, the maximum rate at which it is ready to accept money for deposits from other banks. Financial experts call the key rate the main instrument of monetary policy of the Central Bank of any country.

It is worth noting that it is the discount rate that determines what will be the credit or deposit interest rate offered by commercial banks to the population. At the same time, it has a direct impact on inflation in the country. To calculate this economic indicator, the Central Bank financiers practically all countries use the Taylor rule, which takes into account such fundamental indicators as inflation, discount rate, economic growth.

What does the discount interest rate affect?

The reduction of the key rate by the Central Bank stimulates lending. The low key rate makes loans available to the population and business. The fact is that the banking institutions themselves take loans from the regulator cheaper, respectively, provide them to the population and businesses on more favorable terms. For example, if a currency depreciates sharply; then, speculative banks can convert the currency volume of liquidity taken from the Central Bank into another currency (for example, dollars or euros), which can provoke an even greater collapse of the national currency.

When the discount rate rises by the regulator, speculative foreign exchange transactions become extremely risky and unprofitable. Also, the volume of lending to businesses and the population falls, since the latter becomes unprofitable.

The critical rate in the countries of the world

From the preceding, it seems that it is unprofitable for the Central Bank to raise the critical rate: lending falls, business development slows down, etc. Nevertheless, when it is necessary to quickly and effectively stop the collapse of the national currency and inflation that is gaining momentum so that it has not turned into hyperinflation, this instrument is optimal for this kind of market regulation. In other words, when the rate rises in the country, lending falls, respectively, the volume of cash in circulation decreases, which leads to a rise in the price of the national currency. It should be noted that such kind of regulation is useful if before that a lot of money was "pumped" into the country's economy (in other words, a catastrophic lot of unsecured currencies were printed and put into circulation). But if inflation appeared as a result of sanctions, various embargoes on supplies about products, such a tool is ineffective.

Gold reserves

Foreign exchange reserves consist of funds in foreign currency, reserve funds in the IMF, monetary gold, and exclusive drawing rights.

- Gold and foreign exchange reserves are needed for:
- Maintaining the stability of the national currency;
- Rapid coverage of public debt;
- Coverage of unplanned emergency and other costs of the country that may be caused by force majeure.

Gdp and Industrial Production

In the previous lesson, we examined the critical discount rate and its impact on the market when the central bank of a particular country raises or lowers it. Still, several other fundamental indices are relevant in fundamental analysis and can drastically change the market situation. Consider such an essential indicator of the state of the economy as GDP, and the indicators that affect it: the country's balance of payments, trade balance, foreign exchange reserves, industrial production index, issued building permits.

GDP is the most critical indicator of economic growth

GDP (gross domestic product) is the primary indicator of the state of economic growth in a particular country. Its international designation GDP (Gross domestic product). It consists of several smaller fundamental economic indicators.

It is worth noting that the GDP of a particular country affects not only the rate of its national currency but also the securities that belong to this state. In this regard, this indicator is vital for trading options. For example, if US GDP has grown, accordingly, the country's economy is in good condition, the flow of investments begins to increase, industrial production and export of finished goods are growing, therefore the dollar exchange rate, government bonds, and other financial assets of the United States will strengthen. In other words, if foreign money will flow into the United States economy, this will inevitably provoke demand for the national currency, which, in fact, will become the reason for the growth, in this case, of the US dollars.

Nevertheless, if GDP growth has been observed for a long time, this can provoke the effect of "overheating" of the economy, which will entail a chain reaction: a possible increase in inflation, an increase in the discount rate, etc.

GDP is published in comparison with the previous period and the absolute sum of the value of goods/services produced. At the beginning of the year, experts from the IMF and the country's finance ministries make forecasts for the level of GDP of each country at the end of the year.

Once a quarter or more often, this indicator is revised. If the forecast level was worse than the actual GDP level, it is worth concluding transactions to buy. If the forecast were more optimistic than the real indicator, the value of the country's currency and securities would decline.

Payment balance

Based on this, two types of balance of payments are distinguished: active and passive. The first type is a positive balance, i.e., when the inflow of funds exceeds their outflow. The second type is the negative value of the balance of payments. This means that payments abroad are significantly exceeding receipts in it.

The balance of payments data consists of the following main subsections: foreign trade balance and capital balance.

Foreign trade balance is a subsection of the balance of payments. Export of goods forms a positive balance because payments for these goods come to the country in foreign currency, import is negative, because they need to be paid for; therefore, money is leaving the country.

The more a country imports, the worse the situation in the economy is - the country cannot provide itself with goods. But developed countries have been actively transferring their industries abroad in the past decade, in search of cheaper labor so that they may have a trade balance negative. This is compensated by direct and portfolio investments in high-tech industries. But if there are practically no high-tech capital-intensive industries in the country, then the trade balance should be positive; otherwise, it indicates a lag in the country's economy.

The balance of capital and financial resources is the volume of all direct and portfolio investments in a country. It includes loans, advances, loans and borrowings, foreign currency in cash, balances on current accounts and deposits, debt, etc.

Direct (real) investments in enterprises are under the control of the investor; that is, he completely controls their movement. It is often a long-term investment in the construction of new plants and factories or the purchase and improvement of equipment and infrastructure. Portfolio investments are all other types of investments; they aim to obtain a certain level of income and are managed by investment funds, consultants, or mutual funds.

In options trading, we use the indicator the following way: if there is an increase in the trade balance - we conclude Call transactions. When the trade balance falls, the country's financial assets will fall, therefore, taking into account this indicator, we find transactions only for sale.

Industrial production

The main element on which the economy of the state rests is production. In fundamental analysis, an index shows the level of growth or decline in national production. This indicator is the index of the industrial output. It is calculated based on the volume of products produced and services rendered. If the index is industrial production grows, then the country's currency, shares, and other financial securities will strengthen.

The balance of payments is the ratio of the volume of payments received into the country and taken out abroad.

PMI or business activity index in the manufacturing sector

The Manufacturing PMI includes information on the current and estimated production levels and employment in the private sector. When trading binary options, for example, when they release a report, you should pay special attention to wages. If it increased at the same time as PMI, it has a positive effect on economic activity.

The data on the index of business activity in the manufacturing sector of the USA is always published on Fridays and can provoke quite a lot of volatility on the trading floors.

PMI is also calculated for the non-manufacturing sector; it should be applied similarly. An increase in the indicator indicates positive processes in the economy, a decrease - of negative ones.

Building permits - Building permits

Building permits are the total number of new home permits issued and are released every 3rd week of the month, along with a report on actual new homes built in the United States.

Although this indicator is published regularly, it does not have any substantial impact on the market. This fundamental index is calculated based on the data collected from 19 thousand US companies that issue such permits. The indicator is a so-called leading indicator. It preliminary demonstrates how developed the population's ability to pay.

At the same time, this index also signals a possible increase or decrease in unemployment. So, if more permits for the construction of new houses are issued, then, presumably, the unemployment rate will decrease, since the mass scale of construction work will provoke higher employment of the population.

The indicators described in this lesson are indicators of the development of the country's economy that can be very effectively used in options trading, especially for those who have mastered trading on the news. But the fundamental analysis includes several vital indicators that we will consider in the next lesson.

Inflation

Retail Sales, Monetary Base, Consumer Confidence

In this section, you will get acquainted with several important economic indicators that affect the state's monetary policy. Let's discuss such concepts as inflation, retail sales, monetary base (supply), and the consumer confidence index, with the help of which trading options will become even more understandable and profitable.

Money

Money is a specific commodity that participates in exchange operations. People have taken for a universal equivalent, a measure of value and circulation; in addition, it is a convenient way to store savings. For these purposes, people used to use shells, stones with holes, furs, and animal skins. Later, they were replaced by metals, as a more standardized material that is easy to measure. From metals began to mint coins. The most liquid metal was gold, which can be used as a measure of value. Later, people began to understand that they carry mountains of metal with them not very convenient, due to which paper money began to appear.

Formally, the dollar is a Ticket of the Bank of US, written on any banknote. We trust money, printed on a machine, only because the state provides it.

But what exactly is money? Previously, all money was backed by gold; for a specific banknote, you could get a certain amount of gold in the bank. Now there is no direct exchange of money for gold, and it has become much more challenging to determine the real value of money. The exchange market determines its value. , and they are exchanged on the Forex market. In this section, I will tell you what factors influence inflation and how to react to such news.

Inflation

The first fundamental indicator that we will look at is inflation. It is one of the essential concepts in fundamental analysis. Inflation is the degree to which money is depreciated in a particular country, expressed in an increase in the prices of goods and services. Inflation is a stable process that continues for a long time and can affect only some sectors of the economy. With high inflation at the end of the year, you will be able to buy much fewer goods and services than initially. In other words, inflation, the level of which is growing rapidly, indicates that the economy of the state is in an extremely deplorable situation. Based on this, we can conclude that the securities and the national currency of this country, do not inspire confidence.

As a general rule in options trading, if you have executed Call deals on the securities of a given state, you need to get rid of such orders immediately. The fact is that inflation is hard to stop, and the cause of a high level of inflation can be anything. Still, more often, In all, it turns out that the government is pumping up the economy with money supply to cover the debts in the budget. In other words, it is an obligation.

Government employees are fulfilled but only formally. For example, a teacher at school begins to receive a higher salary, but with this money, he can afford less because the money has depreciated.

Inflation can be attributed to the following reasons:

- Emission (issue) of money to cover the needs of the budget;
- The monopoly of large firms;
- Reduced production;
- Increase in taxes and duties.

All of the above can further provoke other negative processes in the economy because it looks like a chain reaction that has already been launched. For example, companies operating in the heavy industry can begin to close, and foreign goods' demand begins to grow—more expensive services.

Let's consider the positions from the economic calendar that predetermine the increase in inflation.

Retail sales report

The Retail Sales Report is published in the middle of each month. It indicates the changes that have taken place in the retail segment, showing the current supply and demand level, as well as corresponding to the latest consumer spending.

The Retail Sales report is divided into two parts, namely:

Car sales - this indicator is usually not taken into account due to its strong volatility;

All other sales data, excluding automobiles. Sales of both large retail chains and vending machines with mineral water and lemonades, which are in hospitals, are taken into account here.

This is the broadest possible report, so it has a significant impact on the dollar rate.

The publication of data on retail sales dramatically affects both the foreign exchange market and the trading platforms of options. The fact is that the growth of retail sales indicates the strengthening of the economy, respectively, all securities are growing, including the rate of the national currency. If the news on retail sales is bad, then everything happens exactly the opposite.

How to use the Retail Sales report

When trading ahead of news such as retail sales, 20 minutes will always be important, i.e. 10 minutes before the release and 10 minutes after the release of this report. During this period, the market is so volatile due to all kinds of transactions, which cause large jumps in trading floors, which can easily mislead any novice trader. No technical analysis will help here, since the market reacts impulsively to the news.

However, experienced traders manage to make good money here. The main thing is not to forget about a simple principle: the market reaction here is not the indicator, but the expectation compared with the forecasts. For example, the data came out right but did not reach the forecasts - even higher growth was expected. In this situation, the market will react not with growth, but, on the contrary, with a fall, since the data on retail sales did not meet expectations.

The best option for a novice trader who has not yet fully mastered the tactics of trading options on the news is to stay out of the market.

Monetary base

The monetary base is the sum of all liabilities of the central bank, used to create the money supply. For a trader, such data is valuable because it shows the rate of inflation. For example, in Russia, an increase in the monetary base reduces the circulation of money, which reduces growth inflation.

But the monetary base cannot be considered separately or without knowing what it is.

Money supply - the total amount of cash in circulation, including the balances of funds in the settlement and deposit accounts of enterprises, organizations, and individuals. The money supply in circulation is calculated according to 3 indicators: M1, M2, and M3., also called monetary aggregates.

M0 - cash

M1 - demand deposits + M0.

M2 - direct debts of banks to citizens on time deposits + M1.

M3 - borrowing by the state and banks + M2.

The rapid growth of the money supply causes inflation to rise. If all monetary aggregates are at their peak, then an economic recession may begin.

Employment Cost Index

It is a critical indicator that shows the level of possible inflation. The fact is that the labor cost index shows changes in the level of wages or benefits. Since now the inflation rate is significant for both the USA and the Eurozone, this indicator is very carefully monitored. There are both the Fed and the ECB.

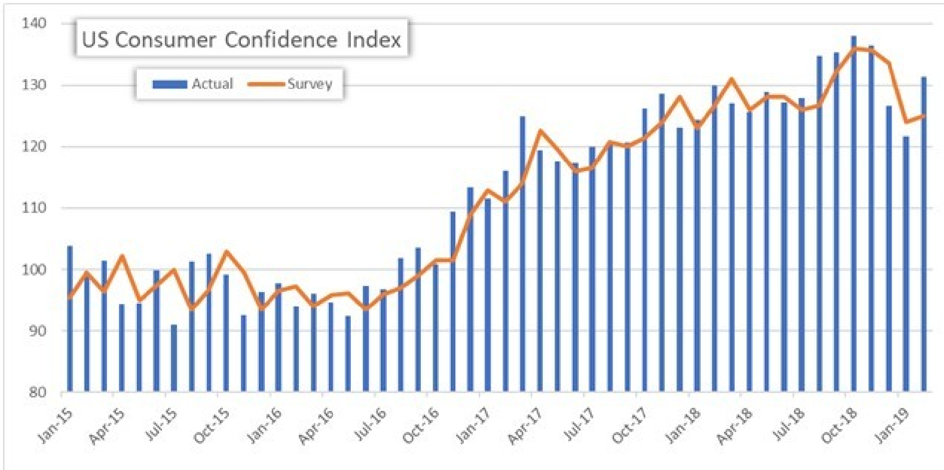
Published quarterly (last business day in January, April, July, and October at 8:30 am CET) by the Department of Labor and contains data for the past quarter and is considered one of the most important leading indicators of inflation.

Consumer Confidence

The Consumer Confidence Index is another reasonably necessary fundamental indicator. It is based on a survey of approximately 5,000 households and consists of various issues, including assessments of the labor market, the conditions for doing business, and the economic situation.

The survey results were published every month on the last Tuesday. The Consumer Confidence Index does not have a very significant impact on the market. However, if the indicator differs sharply from the forecasted, it could cause impressive jumps on the trading floors. Here is the graph of the US consumer confidence index, starting from 2011.

US CONSUMER CONFIDENCE INDEX PRICE CHART: MONTHLY TIME FRAME (JANUARY 2015 TO FEBRUARY 2019)



You should know that the average value of consumer confidence in the US over the past 20 years is 93. Based on this, the trader should be aware that a low indicator can provoke a fall in the USD exchange rate.

But with a high indicator, the market can support the dollar, causing a sharp increase in the exchange rate. The main thing is to remember and start from which side of 93, the current indicator is. But the number 93 may lose relevance, so it is worth starting from how usually, from the expectations of traders.

Employment Level

Unemployment Rate, NonFarm Payrolls, Jobless Claims

In the previous section, we looked at the fundamentals related to the financial sector. Still, another area is no less important for both market analysis and options trading - the labor market.

There are critical reports associated with it, which can provoke both growth and a sharp drop in the trading floors. These include Unemployment Rate, Nonfarm Payrolls, Jobless Claims, Unit Labor Cost. Let's dwell on each of them.

Unemployment Rate

It represents the so-called ratio of the population currently unemployed to the total number of non-disabled people, expressed as a percentage.

The US unemployment rate is calculated as follows: the US Bureau of Labor Statistics, which is part of the US Department of Labor, conducts a Household survey, as well as about 375 thousand companies. Based on the data obtained, the Bureau draws up a statistical report. At the same time, it uses fundamental indicators related to:

- Families: gender, race, age category, marital status, employment.

- Companies: average working week, wages per hour, total wages.

To calculate the Unemployment Rate, data is taken on the number of unemployed registered at the labor exchange (i.e., actively looking for work). It is divided by the number of the economically active population, multiplied by 100%. According to experts, a level of 4-5% can be considered normal.

Unemployment data have a powerful impact on the market. The fact is that this indicator demonstrates the current economic state of the country. If the data goes above the designated 4-5%, this can depreciate the national currency, stocks, and indices. It should be noted that a fall is possible only if a high level of unemployment was not expected. If it coincided with forecasts, trading floors might not even react to it, also though it is above 4-5%. This is important. A point to always watch out for: The US unemployment rate returned to this range in 2016 after reaching 10% after the 2008 crisis.

Employment data is also called the Unemployment Rate.

Normal unemployment rate

The publication of the unemployment rate is usually published on the first Friday of every month. Along with it, there is such an important indicator as NonFarm Payrolls or the number of jobs outside the agricultural sector. European and Japanese data on the unemployment rate are always published in the first decade of each month.

Non-Farm Payrolls

The Bureau of Labor Statistics does its calculation.

To compile the report, a sample of 400 thousand firms is taken that operates in the production, construction sector, services, real estate, and others. Agriculture is not included in this report. Additionally, data from a survey of 50 thousand people are added to the report.

The report on the number of new jobs outside the agricultural sector is a powerful indicator showing the most recent changes in employment in the country. Often options traders refer to this report as the indicator that drives the market.

On April 1, 2016, a report was released, the data of which turned out to be above expectations.

The market reacted with a serious rally towards the strengthening of the dollar:

Novice traders who want to learn how to trade options successfully need to know that there is a rule in this report: if the number of jobs increased by 200 thousand, this equates to approximately 3% GDP growth. Data is released (like the previous report) on the first Friday of every month and have a strong market impact.

Jobless Claims - claims for unemployment benefits.

Data on claims for unemployment benefits is an important indicator that is very often used in fundamental analysis of the options market. It is published every week on Fridays. It should be noted that data for other countries are also published every week and are no less interesting for traders in options than the indicators for the US. The indicator for the UK is equally important.

Jobless claims refer to leading indicators. Analysts often use them to predict prices. However, initial claims for unemployment benefits can give false signals because they do not represent the real situation.

The constant decline in unemployment claims indicates that the country's economic situation is beginning to stabilize. If the number of people who applied for an increase, this suggests the opposite. However, this report is better to take into account together with several other data to obtain confirmation.

Signal transmission.

Most experts take data, not for 1 week, but 4. Thus, when analyzing, they can determine the incipient upward / downward trend. For example, if considered together with the previous NFP report, a decrease in applications can mean an increase in the number of jobs in the non-agricultural sector, as people will be employed in the future, which is a good signal to buy.

If the indicator for Jobless claims is growing, this may already indicate a negative trend. It is essential to know that if the indicator is above 500 thousand claims in the US data, then it is bad. As you can see from the graph below, for the last two years, it was below 350-300 thousand.

Unit Labor Cost

One of the most important reports that reflect the level of labor productivity in the United States. This is an important index that characterizes the effectiveness of the country's development. This report is published once in a quarter.

The report can have a substantial impact on trading floors. The fact is that an increase in the cost of a unit of goods can provoke the Fed by raising the critical rate. This is a decisive factor contributing to the growth of both the national currency and other financial instruments.

In conclusion, it is worth noting that in developed countries, particularly in the United States, vast amounts of money are spent to obtain all data on the labor market. The data on unemployment, job growth, and wages are considered key indicators of economic growth. Every options trader needs to know them to be able to react correctly in a given situation.

Application of fundamental analysis

News trading method

Trading on the news attracts many traders with its simplicity and high profitability. During the news release, literally within one minute, the rate of a currency pair can travel a distance equal to its average daily range.

Another advantage of news trading is a large number of trading opportunities. Forex works 24 hours a day, and there are at least a dozen news per day on major currencies. We will discuss how to prepare for the news release, choose the right moment to enter, and what pitfalls to expect when trading using this method.

News release time

The figure below shows the approximate release periods of the most important news releases, broken down by country and currency. Even if you do not trade on the news, you need to be especially vigilant. News from the United States, for example, can affect the course immediately all major pairs. If you are trading based on technical analysis, then you must avoid any trading during the news release period.

IMAGE

What releases are worth paying attention to

When trading on the news, you must first determine what news to expect in the week. Having a list of future releases, the second step is to select the most important events from this list. You need to choose those events, which can potentially provoke large movements in the market. Regardless of the country, such events include:

- Changes in monetary policy;
- Retail Sales data;
- Consumer price inflation;
- Employment rate;
- Business Sentiment Index;
- Foreign trade balance.

Depending on the current state of a given country's economy, the relative importance of each of these indicators may change. For example, if expectations are too high, a report on the employment level may be significantly more significant than changes in the government's credit policy. Therefore, it is crucial to understand where exactly the market is looking now.

Economic indicators are the main catalyst for short-term movements in the currency market.

Examples of TRADES on news

How does news trading begin? The first step is to check the economic calendar to learn about the most important news of the day and prepare for their release.

Example One - RBA Report

On the morning of May 17, the Bank of Australia publishes the Commission's decision on changes in the monetary policy of the state. Market players highly anticipate the results of the meeting. The report is published every third Tuesday of the month (except January), two weeks after the very fact of the meeting. It contains the final decisions of the Reserve Bank of Australia on the interest rate.

AUD News Release

The meeting results are not displayed in the economic calendar, but they can be seen on the RBA website. In the search engine, the request "Reserve

Bank of Australia," we find the site - http://www.rba.gov.au/. At the specified time (4:30), the meeting protocol appears on the site - http://www.rba.gov.au/monetary-policy/rba-board-minutes/2016/2016-05-03.html. Scroll to the end, and read the last chapter to make a decision. Following the meeting, the loan rate was reduced from 2% to 1.75%, without any hints of further reduction. The lower this rate, the more confident the currency feels. Since the report was generally positive, buy a contract to increase the currency. Most likely, you will not have time to capture the first wave, but the movement, as a rule, continues for some time after the release of the news.

The choice of expiration time depends on many factors, such as the importance of the economic indicator and the frequency of publication of the reports. Monthly reports can have a lasting residual effect, but one should consider the presence of "news noise" and the general state of the country's economy. Often, they can be published within a short period. Therefore, when choosing an expiration date, news of a multidirectional nature does not forget about news releases of medium importance. In most cases, a period of 15 minutes or less is sufficient. After 15 minutes, the news is already considered fully accounted for by the market, and you can reapply technical analysis.

Example two – Non-Farm Payrolls

In the following example, consider the critical indicator of employment in the United States, Nonfarm Payrolls. This report shows the change in the number of jobs excluding the agricultural sector. It is 80% of all jobs that create the entire volume of GDP in the United States that provokes high volatility in the market, especially for pairs with the US dollar. The April 2016 report showed a significantly lower value than expected, which indicates a weakening of the dollar.

In this case, despite the unequivocally pessimistic report on jobs, the single currency turned out to be too weak after a short period of growth.

It caved in under the pressure of the dollar. Obviously, this is due to the unstable economy of the Eurozone. It is better to avoid such entries or set a minimum expiration date.

The choice of an exotic option, such as Dynamic Option or Ladder, will be justified here. Both options bring large profits (up to 900%) if the quotation changes significantly in a short period. Sometime before the news release, you need to buy both options - PUT and CALL at the same time at the same price for one expiration (15-30 minutes after the news release).

In this case, you risk the cost of one option, but the potential profit covers these losses. Options should be bought sometime before the news release when the price begins to show signs of consolidation. This usually happens about half an hour before the news.

Regardless of which direction the price goes, at the time of the expiration of the contract, you will, in any case, find yourself in the money, and the percentage of profitability will depend only on how much the actual data differ from the forecast. Not much, then you will not be able to cover losses from the second option, so this method should be used only in case of the most important news.

The Forex market is especially prone to short-term moves caused by economic releases in the United States and the rest of the world. However, trading the news is much more complicated than it might seem at first glance and requires some preparation. If you want to succeed in this method, it should be borne in mind when news releases are released, which will provoke the most significant movements and how best to trade them.

Combining Different Types of Analysis

In this section, we will discuss the benefits of the simultaneous application of different methods of assessing and forecasting the market. If you do not know how to increase your profitability in the long term, try combining fundamental, technical, and graphical analysis - historically developed and already managed to recommend—approaches to market analytics and options trading.

Each trader must have a complete understanding of what is happening in the market, including correctly interpreting the indicators of news indicators. On this basis, people can be divided into at least two types. Most often, there are "players" - traders who become very focused on what fundamental events make the market rally and try to enter the market when it's too late. Yes, the market is driven by short-term sentiment. At the same time, the markets are constantly changing, so traders who rely on only one type of analysis can easily be knocked out.

The second type includes "masters" - traders who use all available instruments to enter the market. Fundamental analysis helps them choose the main direction - which instrument to trade and in which direction. If the news lends itself to unambiguous interpretation, then there should be no problems with the choice of the approach. In turn, the methods of graphical and technical analysis will help to calculate the exact moment for entry and correctly calculate the term of a contract, which in most cases, is the leading analytical task of a trader.

It is in combination with other types of analyzes that the fundamental approach reveals itself to the fullest. Such kinds of analyzes as technical and graphical, to an exhaustive extent, complement the overall financial and economic picture, meeting mainly the interests of risk management. With options, risk assessment is one of the vital analytical tasks and the main strategic decisions. Here are examples of combining fundamentals with other types of analysis.

Graphical analysis + fundamental

Let's look at a combination of graphical and fundamental analysis using the following example: On the daily AUD / USD chart, we see the formation of a healthy resistance level around 0.9400-0.9450 after the previous prolonged upward movement. This indicates that the market cannot gain sufficient strength of the impulse to continue the upward movement; therefore, it is forced to be in a state of consolidation. Also, three lows on the chart were formed.

A round support level is set around 0.9200, which will play a vital role when entering a position.

Even a small external stimulus is enough to bring the price out of equilibrium (consolidation).

Using some candlestick patterns, it is also possible to determine the moment of a level breakout. Still, the problem is that this method gives a much higher percentage of false signals. All this threatens with the loss of funds.

On September 10, the price still breaks the support level at 0.9200. It is too early to talk about a trend change, but this is not the main thing. The main thing is that now the support level can potentially become a resistance level.

The next morning, September 11, the Australian unemployment data is released. The indicators showed a decrease in the unemployment rate and an increase in the number of jobs. Outstripping forecasts, as a rule, leads to an appreciation.

If we were trading based only on fundamental analysis, we would buy the Call option to collect profit from useful unemployment data in Australia. But graphical analysis tells us that we need to wait for the breakdown of the new resistance level first, and only after that buy-up option, what is the bottom line? See:

Literally, a few hours after the news was released, the bullish sentiment faded away, and the price continued its confident downward movement without breaking through the new resistance level. Thus, the graphical analysis helped to decipher how strongly the news on unemployment in Australia would affect the market.

Technical analysis + fundamental

It is essential to understand the behavior of the crowd and understand the basic principles of pricing. You are already familiar with the work of the most common technical indicators. Therefore, the following will be a story about how these indicators are affected by the psychology of the market. If not, then you need to go through the section Technical analysis.

Before starting trading, we look at the economic calendar and immediately note a group of positive indicators for the Australian - a clear sign of growth. The problem is that the Australian is in a prolonged downward trend, so you need to be extremely careful.

03:00	✔	AUD	HIA New Home Sales (MoM) (Mar)	8.9%		-5.3%
03:30	✔	AUD	Retail Sales s.a. (MoM) (Mar)	0.4%	0.3%	0.0%
03:30	✔	AUD	Trade Balance (Mar)	-2,163M	-2,900M	-3,410M
03:30	✔	AUD	Exports (Mar)	4%		-1%
03:30	✔	AUD	Imports (Mar)	1%		0%

To ensure that the exchange priorities are changing, we will use the standard technical indicator ADX. The indicator allows you to make a statistical assessment of players' first reaction to the data received and choose the safest moment to enter.

After releasing data on the real estate market, we are waiting to open a new candle. The + DI line of the ADX indicator crosses the -DI up, which indicates a possible change in the direction of the trend. The main line of the indicator, in turn, helps to determine the strength of the movement. If the ADX is above 20, we are dealing with a trend of weak strength. As soon as ADX is above 30, it is a signal for the beginning of a strong trend.

Since within half an hour, a new portion of the Australian data is released, the market trend can change very sharply. Therefore, it is advisable to choose a short expiration time so that the contract is executed before the next news is released. So using the ADX indicator, we were able to determine that there is enough news strongly influenced the market, and with the help of fundamental analysis - in which direction the trend starts.

A real-life example of the method of mutual trend assessment

For a more comprehensive clarification of how fundamental analysis works in a team with technical and graphical methods for assessing the market situation, here is an example of mutual trend assessment.

On February 12, two indicators could have contributed to the weakening of the single currency: GDP data for Germany and industrial production in the Eurozone. GDP data for Germany and the Eurozone were insignificant; there was only a slight increase in GDP for the last quarter of 2015. the dollar managed to strengthen slightly against the euro. We will use the formed “crest” for the basis of the Fibonacci grid.

On the chart, we see how the price breaks the 38.2 level and fixes this achievement on the next bar, opening well below the level.

To confirm that the market really has serious intentions, let's turn to the methods of technical analysis using the most common indicator of volatility - ATR.

As you can see, the ATR value shows a steady growth, which means more and more traders are involved in the game. The tremendous amount of volatility can also mean an increase in investor confidence, which we expect. It should also be borne in mind that the more market volatility, the less the expiration time should be chosen; that is, the price will reach the same goal in a shorter period.

Expiry calculation

There is a fairly simple and at the same time quite accurate method for calculating the expiration time when the price moves within the boundaries of a certain channel. All you have to do is calculate the average time it takes for the price to travel from one channel boundary to another. That is, we count how much time it took for the price to get from the lower border to the upper one, and add to this value the number of bars that have gone on the way back. Divide the resulting amount by two and get 16 bars M5. We decided to use this number as a guideline and try not to exceed it - in most cases, a shorter period will do, because the price may return back to its values.

Industrial production data turned out to be extremely disappointing. On the chart, we see a rebound from the level of 38.2, as well as the formation of a reversal candlestick pattern. In principle, this information is already enough to buy a Put-contract for a short time.

We calculate the expiration time, relying on the previously described technique. Actually, the chart has an answer to the question of why it is so important to calculate the expiration time accurately. If we chose a value slightly higher than the average, we would most likely lose money, since the price before continuing movement down again returned to retest the resistance level (Fibonacci level 38.2).

What traders love technical analysis for is the unambiguous signals when it is worth exiting the market. In our case, ATR shows a systematic decrease in trading activity. This means that interest in the asset is falling, and uncertainty in the market is growing. Since the price is challenging to predict, it is better to avoid trading during this period.

Search The Best Stock To Trade

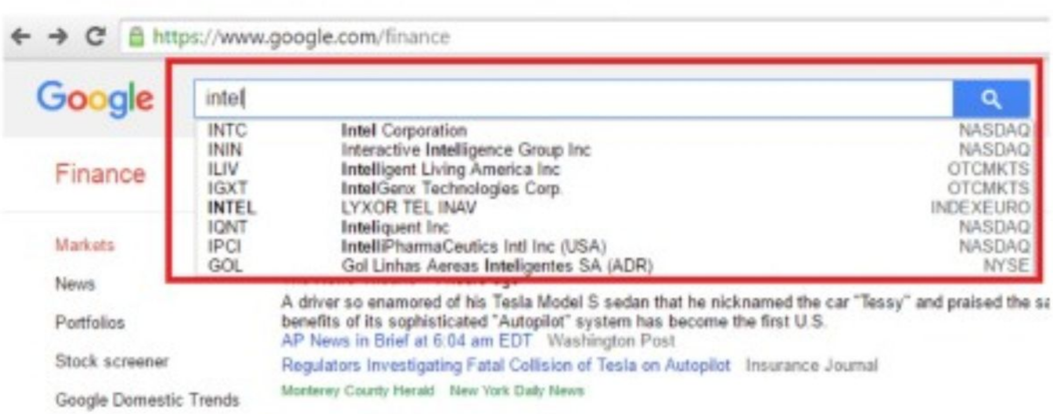
Analyzing liquid stocks with Google Finance

Without bothering with the process of difficult choices, trade the shares of world leaders in a particular industry. There are many such companies: IBM, Apple, General Motors, General Electric, Citigroup, Goldman Sachs, Microsoft, Coca-Cola, Google, Boeing, Pepsi & Co, Ford, General Electric, Nestle and many others. Their shares have high liquidity and capitalization, are traded in large volumes. First, you need to get complete information about the state of affairs from the issuer, view the latest financial reports, news on this. For the economy and the issuing company, press releases, ratings, and, of course, price dynamics on the chart. This is conveniently done through exceptional services, such as Google Finance, which provides almost all the information a trader needs about many companies issuers.

Company Profile in Google Finance

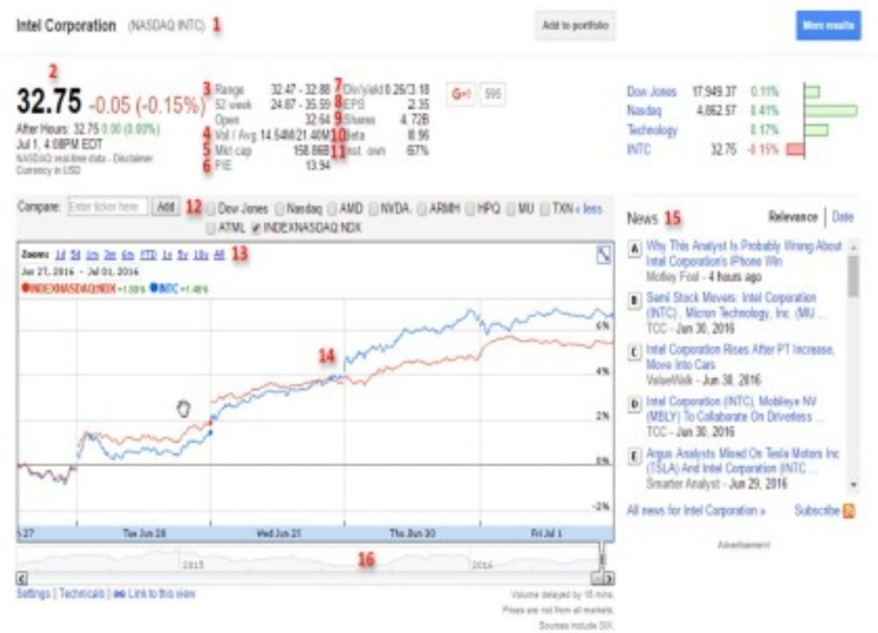
First, you need to enter the company's name in the search box and open its profile:

When trying to buy options on stocks, many novice traders find it challenging to choose from a massive list of stocks. Indeed, the selection process is always complicated and ambiguous. There are practically two ways.



The functionality of the service is intuitive and straightforward, even for novice traders. How can you read the company profile on this service?

After entering the service, you can see the following information by clicking the fyrna on specific pointers on the service:



1. The name of the company, indicating the stock exchange where the asset and its ticker are traded;

2. The cost of the share at the current moment in USD;

3. Minimum / Maximum values and dynamics of the share price for the year;

4. Trading volume by days and on average per month;

5. Indicator of the market capitalization of the issuer;

6. R / E ratio, which gives an idea of the rate of return on investment in these securities;

7. The profitability of the share at the current moment and the number of dividends per share for the last year (D / Y);

8. Indicator of net profit per share (EPS);

9. Number of shares traded on the market;

10. The risk ratio for the stock;

11. Percentage of shares owned by institutional investors;

12. Comparative assessment of quotations of the dynamics of security with similar indicators and its price with the leading indices' dynamics and the context of other issuers;

13. Selecting the period (timeframe) of the chart;

14. Graph of the dynamics of changes in the value of the asset;

15. Current news and latest analytical reviews on the issuer (macroeconomic news feed);

16. The chart of the trading volume for the selected security (broadcasted with a 15-minute delay).

Next, you conduct a technical analysis of the chart, and if you see that the stock is trading in a trend, buy an option on the selected stock according to your trading strategy.

Chapter Six

Seven steps strategies to swing trading options

Swing Trading with Options

The main problem with definitions is that they are exclusive. Therefore, rather than stating a formal definition, I prefer to express my point of view about what Swing Trading is, and especially what Swing Trading with options and their spreads is.
I am aware that each trader that operates in a particular product, instrument, and speculation period will have his definition.
These are mine:
a) Short definition: It is a style of speculation in which one operates to obtain profits from the price movement.
Too short, right? Seems Day trading!!!
b) Long and detailed definition: It is a directional speculation style in which one operates to obtain profits from the movement ("swing") of the price, and which has the following characteristics:

• Operations can last from days to several months.
• Maintaining the operation from one day to the next carries overnight risk.
• Price corrections (throwback/pullback) are usually endured.
• In most cases, traders are technical and fundamental analysts.
• Like many technical analysts, they are often obsessed with finding a "magic" indicator that indicates changes in price trends.
• Your way of limiting losses with stop loss is a real bargain for intermediaries.
• They have in common with other styles that to achieve a winning operation, a system with positive mathematical hope and a monetary management system is necessary.
• This style can be used with any product from any market: stocks, bonds, currencies, raw materials, and its indices.
• Any instrument can be used, from cash to any derivative.

c) To finish, let's see how the definition of Swing Trading seen above for options trading is particularized:

• Possibility of operating minimal price ranges or slight trends.
• The price of the underlying is only one of the elements involved in the formation of the price of the option premium. Important, yes, but one more.
• The duration of the trade, although it varies with the operator, is weeks. From 3 to 10 weeks in my case.
• The famous overnight risk (opening flash crash), if it exists, can be covered with a minimum percentage of the portfolio. Other times it favors and is not included.
• Trend corrections do not always cause losses.
• Trading with options is doubly technical: due to the displacement of the instrument's price and complexity.
• In derivatives operations and especially with options, everything begins with monetary management. Without financial management, there is no long-term system.

As you can see, the options are unique speculation instruments with unique characteristics. In addition to leverage, it is not exclusive; they are versatile and flexible. No instrument can so faithfully reflect the speculator's expectation of price movement.

The rules of Swing Trading with Options.

Anyone who aspires to speculate in the markets for himself, regardless of his style, capital, exchange, and instrument, needs specific, measurable, valuable, and achievable rules to guide him in his operations.

All the rules I work with belong to one of the principles I listed below. The Principle must be understood as the basis on which you execute a trade.

Most of these principles, and the rules that compose it, are based on statistics and probability. In my opinion, this is the best way to remove emotion from trading. If you have ever attended a class on these subjects in your training, you will most likely know what I mean by removing emotion. There are few things less exciting than statistics and probability. In my case, I have always had a natural tendency toward statistical and probabilistic trading.

These are my principles:
1. Classification of trends.
For a directional trader, there is nothing more stressful than defining the trend of a particular asset.
Every day, the media floods us with their headlines. From "today new historical highs" to "black day in the market" through "we sank". The search for a small operational advantage over where the price will go in reading the top-run economic newspaper could not be further from reality.
The price trends analysis is always a very satisfying task since whether you are bullish, lateral, or bearish, the market always agrees with us. However, operating any trend, whether we look for its beginning or take advantage of it once it is underway, is a desperate exercise. Giving recommendations and making mistakes is free, operating and making mistakes reduces capital.
Hence the importance and the need for specific tools that provide statistical data of probable direction and price displacement.

2. Know the strategies.

Different styles can share strategies but with various operations.

3. Two equations.

The Risk Reward per operation and Mathematical expectation per transaction and in the portfolio.

4. Your results.

The most common mistake is to measure your operation's quality solely by your account's performance, either in percentage terms or in monetary terms.
Terms such as profit factor, averages of winning or losing trades, dispersion of results, Sharpe ratio, correlations with indexes, conditions in which the best and worst trades occur, maximum drawdown, etc., should be known.
Although this fourth point cannot be considered a principle, I include it since, after analyzing these data, our way of operating can be substantially

modified.

7 steps swing trading strategy

The following steps explain how to use a simple swing trading options strategy

1. Choose an asset

The first step in trading options with swing trading strategy is to select an underlying asset. Swing traders will often monitor multiple asset markets for the best opportunity of discovering a good trading setup.

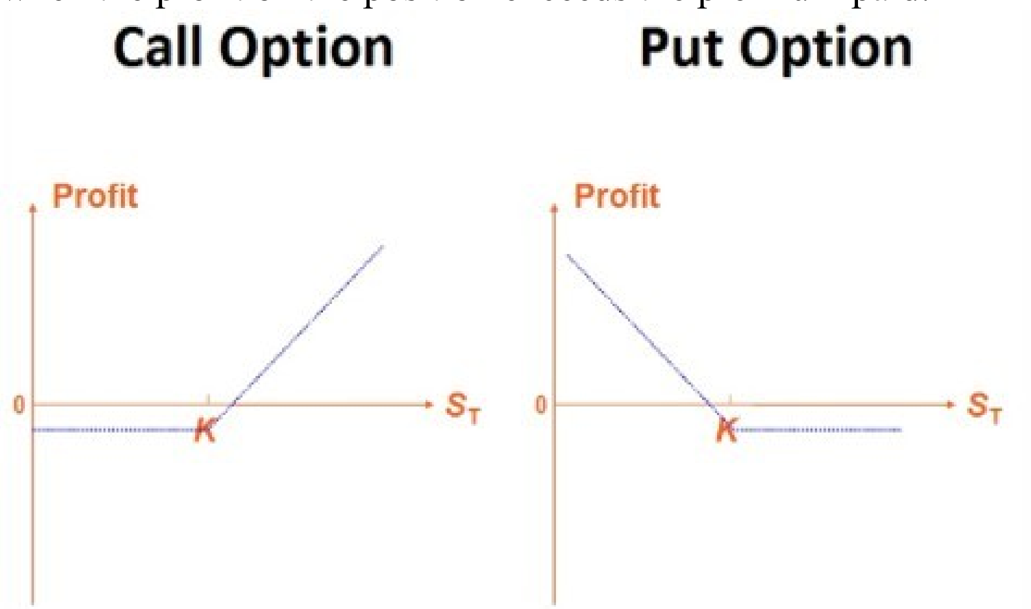
When choosing an asset,

1. First of all, you should be interested in stocks in the price range of $ 20-100. Do not trade cheap (below 5 USD) stocks and "junk" stocks (below 1 USD), since such securities are difficult to predict; they can stay for a long time without moving or moving very sharply. Always give preference to stocks of a higher price range. Many options traders avoid buying relatively expensive shares, believing that it is riskier to trade them. This is a misconception. The value of the stock is not more important for the buyer of options, and the dynamics of its movement;
2. Look for stocks with smooth movement / no gaps;
3. Choose shares of issuers with capitalization from 300 million to 1 billion USD. These are quite reliable companies;
4. The volume of daily trading must be at least 300 thousand shares. With lower volume indicators, the dynamics of movements are often poorly expressed; and with a volume of more than 1.5 million per day, there is a risk of the appearance of strongly volatile movements, which are very difficult to keep track of;
5. Exclude stocks trading with very low/high volatility; Next, you conduct a technical analysis of the chart. If you see that the stock is trading in a trend, buy an option on the selected stock according to your trading strategy.

2. Assess the market environment

Once you have identified the market and have used your ideal form of analyzing the market, both fundamental and technical (chapter four and five) to find an excellent asset to trade, then you will use a call and put option to trade the underlying asset.

For instance, if your view was that the market would go up, you should buy a call option to expand the underlying market that you want to trade with adverse downside risks and unlimited profit potential.
Alternatively, if you believe the market will fall, you should purchase a put option to short the underlying asset, again with minimal risk and infinite profit potential.
If your market view turns out to be wrong, the diagram below shows how your losses are capped at the premium paid. The potential profit on the option position is unlimited and begins to accumulate after the break-even point when the profit on the position exceeds the premium paid.



3. Pick your exercise price
The exercise price or strike price is also called the "strike." The exercise price or strike price is the price you have to pay for a share when you BUY it from the seller of the call option or which you get for a share if you SELL it to the seller of the put option.
The seller of the put option is obliged to TAKE OFF the share during the term at the strike price; for this obligation, he receives the option premium from the buyer.
In general, the lower the strike price to the current price, the higher the Option price.
Thus, the strike affects the Option price in an inversely proportional relationship.

When someone says an option is in-the-money (ITM), it means that this option has an intrinsic (money) value, which is the difference between the current market price (at the date the option is delivered) and the strike price. At-the-money (ATM) and Out-of-the-money (OTM) options have no intrinsic value. (We explained these terms in detail in our guide "OPTIONS TRADING CRASH COURSE FOR BEGINNERS.")

Most swing traders are keen to take advantage of short-term directional moves in the market, so they will likely choose the OTM option, hoping to go to ITM pretty quickly to sell it again.

The reason is that options have an intrinsic value, time value, and time value decays faster and faster as the time approaches the expiration. This prompts the hesitant trader to sell any option he buys as soon as a real profit is presented.

4. Pick your expiration

Your choice of the expiration date will partly reveal how long you believe the underlying market will reach its target. As a rule, you will go for the long-term option if you believe the movement will take a while or the short-term option if you believe it will be faster.

Basically, as a swing trader, it is best to select an option that will take a while, as it could be useless after it expires. On the other hand, you may not want to buy options with a future expiration date due to the relatively high cost.

Many swing traders will opt for options or options for approximately one month on a futures contract if it is longer than one month. This generally gives them sufficient time for their vision to expire before it expires.

5. It is time to enter the market

Trading entry times are generally made by technical analysis. Since swing operators trade trends and trends corrections, they must first determine the prevailing direction in the asset they wish to trade. When trading with a trend, swing traders will look for a corrective pullback to establish a position in the direction of the pattern. When a pullback appears to be losing momentum, as evidenced by RSI's level in the oversold or overbought area, which ideally shows a price divergence, they will feel it is time to start trading.

6. Execute your trade

Once you are ready to trade, it is time to execute according to your trading plan. For example, you can buy an OTM call if the overall trend is higher, or an OTM option if the market moves lower.
It is also imperative to recall that your trade is as significant as your broker, so be sure to choose the right broker as your trading partner. As a swing trader, the trading costs, including spreads and commissions, can increase over time if you frequently trade..

7. Manage the position

Once you have a trade and a position, you run the risk of losing, although since you bought the option, your risk will be limited by the premium you paid for it. You will also need to monitor the underlying market and adequately manage your options trading.
If you buy an out of the money (OTM) option, you can try to sell it when the underlying market reaches the strike price so that it becomes at-the-money (ATM). This will also trigger the option to receive an additional premium as the value increases.
The potential win competition will be when the option approaches the expiration date for each full day. This means that you will want to sell the option position as soon as possible to avoid a positional-based trade that is directionally reasonable, losing money due to excessive time drop.
If the market still looks like your trade will finally succeed, but the short-term move you hoped to profit from didn't take place, you may want to consider giving it more time.
You can do this by running a calendar spread or reversing a trade that involves selling your short-term option and buying a longer-term option at the same strike price. This prevents you from incurring losses due to the substantial decrease in time next to money options as they get closer to their expiration date.

Try it

A great way to learn about the many exciting ways traders benefit from options is to find a reputable broker so you can start implementing your new swing trading strategy.

Chapter Seven

The Psychology of a Successful Trader

The connection between trading and psychology

Have you already encountered a situation where you correctly calculated everything, but at the last moment, you chose the wrong entry point, and the option closed at a loss? On paper or in an Excel spreadsheet where you calculated your strategy, everything looked great, but you lost money again in the end. Few traders can boast of their success. To be precise, no more than 10%.

What are the reasons for the failures? There are several common reasons why traders lose their capital.

Indiscipline.

This is the most common cause of a trader's failures. Emotions are the worst enemy when making decisions; you shouldn't take any action under their influence. It often happens that a trader suffers minor losses and starts to make impulsive decisions. In the case of a series of failures, experienced traders recommend taking a break and not conducting any transactions.

Trading without a plan.

The absence of a trading plan negatively affects the outcome of a trader's transactions. As practice shows, successful traders work exclusively under a continuous plan in front of their eyes (in print or manuscript form). It describes the operations and actions to achieve one or another level of profits. Having a plan minimizes the impact of emotions.

Unwillingness or inability to adapt to market conditions.

With market changes (increase/decrease in asset value), new opportunities open up for the trader. Successful traders learn to predict events ahead of time.

High expectations of the trader.

The options market allows the trader to get quick money. However, professionals recommend focusing not on instant success, but the long-term prospect. Usually, high and fast profits are accompanied by significant financial risks for the trader, and, therefore, increased stress on the psyche.

Ignorance of cash management rules.

The trader's inability or unwillingness to calculate the amount of risk capital leads to unforeseen financial losses. Trading without a plan and a strategy is doomed to failure.

Lack of cash for investing.

Many traders fail in the options market due to the lack of the necessary amount. The price of the option exceeds the capital of the trader, which he can risk. As a result, he begins to take a greedy or unjustifiable risk to make a quick profit. In this situation, emotions come to the fore and, in every way, prevent the trader from conducting deliberate, exclusively rational transactions. Therefore, you must follow the rule of risk management. This will be discussed later in the next chapter.

How to overcome the euphoria

Having completed several successful transactions, the trader wants to tell everyone how much money he has earned. This psychological state is called "euphoria." Euphoria misleads the trader, making him feel invincible and victorious. Under the influence of euphoria, the trader is not capable of thinking sensibly and making informed decisions. Moreover, this feeling, weakening the vigilance of the trader, makes him miss important information. As a result, financial losses.

Almost all options traders are worried about the level of profit. When receiving income, traders feel encouraged. In the event of a negative outcome, they start to worry about losses, reviewing their trading history per day and calculating how many transactions are closed in “plus", and "minus." This behavior is a typical mistake of novice traders. Their consciousness is subject to emotions, and discipline and strict control go by the wayside.

Continuous monitoring of the trading history throughout one session necessarily leads to the development of the trader's obsession with the trading process. Thus, the work turns into a gambling game called "luck." The facts show that this approach to implementing of trading operations does not lead to a positive result.

Therefore, you do not need to get involved in counting your successful and unsuccessful transactions; read them once - at the end of the trading day.
Many traders are deeply convinced that if they notice a trend that does not change presently, they will profit in 100% of cases. Conversely, if the market is volatile and the purchased option goes into minus, then this is only an accident, and the next time you're sure to be lucky. This approach and perception of the trading process are wrong. You need to take trading in a slightly different way: if the market goes against you, you need to consider such a movement as an inevitable loss. If the trend direction brings you profit, then consider this as a potential income. Remember: there will be no profit until you cash out the money received from this operation. Using this approach in your work, you can critically evaluate the trading process and your condition. If the trader starts to convince himself that the market will soon turn around and bring him a profit, emotions will overshadow the logic, and the trader will not notice signals indicating that it is time to close the deal.
In order to overcome euphoria, you need to learn how to control it. Few traders can boast that they are perfect. In order not to succumb to euphoria's destructive effects, professionals recommend stopping operations after a profitable transaction. Trading is a job that requires logical analysis rather than spontaneous decisions made under the influence of emotions.

The effect of greed on the trading process

Greed is a negative emotion because it often leads to complete disregard for all rational money management methods. Fear and regret are closely connected with it.
To avoid greed, experienced traders recommend that their strategy include a mandatory point on the maximum daily profit/loss level. Upon reaching, the trader must stop performing trading operations.

How to deal with the fear of possible losses

Fear is the most common emotion that absolutely any trader faces. Fear causes panic attacks, which, in turn, negatively affect the emotional state of the trader, forcing him to make the wrong decisions.
The trader's fear of losing money is a prevalent problem. Absolutely all traders are afraid of failure. Yes, and in general, not only traders but also

athletes, actors, poker players, chess are struggling with this emotion. This phenomenon is not uncommon, and it happens because people are overly concerned about the results of their activities. The fear of failure interferes with their plans, affecting professional skills. Only if in sports, for example, riders have skills honed to automatic, then it doesn't always work in the financial market. A trader who constantly thinks about his trade, as a rule, misses excellent opportunities to enter. The fear of losses prevents him from getting a good profit. Adding confidence to beginners allows him to take specialized courses of psychological stability, where they learn, do not pay attention to emotions, and adhere to cold calculation tactics.

Sometimes even one failure can cause a trader to fear losing money. A trader begins to spend too much time adjusting an action plan and correcting his own mistakes. This exacerbates the situation. For example, a sharp increase in the price of an option leads to increased psychological stress and pressure on investment capital. Fear affects not only decision making but also the trader's ability to assess risks and potential profit.

Is regret good or bad?

Regret in the options market is identified with disappointment or sadness over the action that led to irreparable financial losses. Regret is a negative emotion. And any trader, of course, regrets the lost money or missed opportunities. But the trader mustn't focus on losses, but its right to evaluate them, taking the next step. There is no point in wasting your time regretting it. A trader must learn to analyze losses and avoid similar situations in the future. If you have suffered losses, then just go ahead without stopping.

Greed is an excessive desire for a trader to receive quick and high income. A greedy trader does not focus on the trading process and rational assessment of the market condition, but on how much money he received and how much more he can get by conducting operations.

Herd Instinct on the Market

The primary tool for a trader in making a profit is logic. But often in the options market, you can see a manifestation of the "herd instinct" - a phenomenon when a trader performs his actions unreasonably, under the influence of crowd decisions. In other words, people infect each other with their behavior. It happens very merely. For example, you read someone's forecast regarding the price fluctuations of the EUR / USD currency pair and performed several operations based on this information. The remaining hundred traders did the same. But you know that forecasts rarely come true. Herd instinct in trading or, as this concept is often called “infection,” leads to gross errors and the trader's unwillingness to do something on their own. Traders are always ready to shift the responsibility for their actions to a particular expert or distributor of underground signals. Under the influence of the crowd, the trader begins to buy when the price rises, and sell when there is a fall. However, in some cases, it is necessary to act differently. Only this way can you get a guaranteed income.

It must be remembered that negative events cause a stronger emotional reaction in a person than positive ones. Therefore, when the market falls, the herd instinct manifests itself more vividly.

The herd instinct of trading is spread for two main reasons: due to the trader's tendency to imitate more successful colleagues and because of envy, greed. It should also be noted that the herd instinct of the trader positive, albeit very rare. For example, when an inexperienced trader just starts trading and adopts a professional's strategy.

It is important to remember that in most cases, the herd instinct in financial markets is belated: when people start buying assets, it is usually too late to invest.

To learn how to avoid the influence of the herd instinct in the options market, you need to take a position of emotional neutrality. Invest only in accordance with your plan and if there are rational reasons.

Maintaining Control After A Negative Transaction

Investment banks and hedge funds spend large sums of money to strengthening their traders' psychology to avoid catastrophic failures, such as what happened to Kveku Adoboli - an employee of the largest Swiss financial conglomerate UBS. Kveku was an analyst - a trader in UBS's European unit who lost over £2 billion through unauthorized transactions. Losses were caused by nervous trading and the desire to improve their losing position. As a result, the situation got out of control, which led to significant losses.

Theories and research on traders' behavior and the psychology of trading helped narrow down the area of typical psycho-emotional mistakes that traders usually make. And here, we will talk about some of them, namely those that will help maintain control in a negative transaction.

Trade strictly according to plan

Loss of funds causes denial. Negation is a psychological process that manifests itself as a refusal to recognize something undesirable. So our brain is structured - it is easier for him to deny a fact than to try to integrate it into his worldview system. Especially at a time when everything is not going as it should be. You tell yourself that you will get the desired result if you put even more money at risk, but as a rule, this approach leads to even higher losses. This unwillingness to accept and acknowledge the loss is expressed in opening regular deals hoping that they will return you to a favorable position.

You have found a trading method or system that shows a result of closing in money about 60% of transactions, which allows you to receive a guaranteed profit for each week's results. The problem is that due to neglect of established management rules risks, you allow your losses to grow to a greater extent than you initially calculated. Thereby lowering the level of drawdown, and you will not be able to return to an acceptable level of risk per transaction without replenishing your trading account.. This can turn a profitable system at a loss, even if you suffer only one additional loss per week beyond the current strategy.

With the help of such leverage, one defeat that made you continue to work can empty your entire trading account and even more, as it was with Kveku Adoboli. The recipe for success is to trade exclusively within the plan without going over its boundaries, even in the case of a positive outcome and extremely heightened sensitivity concerning the trend. Nobody likes to lose, but to admit the possibility of not accepting negative consequences means trading without a plan, that is, in absolute respect, at random.

According to the behavioral-economic theory of Kahneman and Tversky (known as the Theory of Prospects), we are afraid to lose because our brain cannot equally set the same specific weight for a loss of $100 and, accordingly, the same profit.

The trader denies that this loss of funds has already been taken into account by the trading plan. Our brain goes into the standby mode of profit, and he is already almost sure that everything will close in a positive direction now. At this point, the chart can reverse side, which is not uncommon. Sometimes the market behaves very unpredictably. But our expectations were already aimed at making a profit, and when our expectations are not real, we feel miserable. After such a blow, there comes a moment of psychological instability.

How to avoid this?

You don't need to load your brain with high expectations. Your expectations should be supported by something, for example, that your strategy gives 60% of successful transactions. And in each specific transaction, anything can happen, and you should build your expectations with this in mind. So you will avoid psychological strokes during the trading session.

But the real problem lies in the fact that even after you have lost many times, theoretically, you can win and cover losses through an aggressive and unsystematic game. But trading is based on probabilities, and most of the time, this approach will not work. In the long run, you will lose your money.

It should be remembered that there is no simple, methodical solution to overcome such rejection of obvious losses, and it will haunt you for a long time, while you will be trading options. Experts advise you to always work on a well-thought-out risk system, adjusting it from time to time rather than luck and intuition.

Everyone wants to flatter themselves with a developed sense of trend, risk. These qualities are usually possessed by traders who, for many years, worked on large-scale, often collective systems and work plans with only one risk program.

Improve your trading strategies and risk management system

Always adjust and reconfigure your plan based on market conditions. Over time, you will begin to do this quickly and efficiently, and this will begin to bring you tangible profits, as well as less tangible losses that you will not even pay attention to. The plan should provide detailed information about

how you will enter the transaction and, importantly, the preconditions for further adjustment.
Always set goals and intermediate tasks for yourself. The active and systematic solution will bring you the necessary composure and improve your logical and creative thinking. To develop the right thinking culture, you should think through all possible factors based on fundamental and technical analysis.
Also, you should be prepared for various emotions. Self-control will allow you to trade successfully: support your strategy in the spirit of many small and short-term victories and defeats. Most of the time should be spent on developing your trading plan. It is vital to keep a long-term perspective. You must complete at least 40-50 transactions before the stage of the qualitative re-evaluation of the strategy comes at the expense of the necessary amount of data received.
Of course, no one likes to suffer losses. But they are always inevitable. At first, they are disastrous - they can lead to the loss of most or even the entire deposit. The key to success is how you feel about them. Successful traders understand that nothing can sinter 100% protection against all losses. While some traders trade emotionally, others will experience losses even as part of systematic work on their strategies and plan. Too many traders focus on short-term results and lose perspective. That's why they fail: they experience a bad day and begin to rethink their strategy, while a bad trading day is an integral part of any effective long-term strategy.

How To Keep Control After Profitable Transaction

In options trading, it is crucial to be able to not only lose but also control emotions even in profitable trades. To do this, traders need to have what is called a stable psyche. This is a focused psychological setting that will help you develop wise and patient trading methods.
You are at increased risk not only at the moment you are experiencing losses. If you experience the euphoria of a successful transaction, you can also begin to take rash actions. We heard a proverb: Do not make decisions when you are angry. Do not give public when you are happy? After each

transaction, you need to give yourself a break, and even better change activities.

Take a break from trading

We suggest that you establish a plan of practical actions for yourself, guided by which you will improve yourself and your trading strategy after each successful transaction. Everything is simple - after each successful transaction, you have to close the trading terminal and make any of this list:

1. Learn something new about trading

Learn something new about capital intensity, or perhaps you have long wanted to know more about RSI and MACD indicators? Take a break from trading and read a book or watch video tutorials. You can also read various blogs, chat in thematic communities, and tell other traders about your successful experience.

2. Work on market research

It is crucial always to maintain an understanding of the global economic and financial situation. Looking away from short-term tasks, pay attention to fundamental long-term prospects. Never lose the opportunity to get new information about market dynamics from any source. Missing the smallest details, you can reduce your entire next initiative to nothing and drop out of successful transactions. It is vital to maintain a balance between the technical and fundamental approaches, adjusting their priorities according to the quality and volume of the data received.

3. Develop new strategies

Test new strategies on demo accounts, adjust them. Constantly rethinking your trading plan, risk management system, trading strategies, and tactics will also significantly affect your trading quality. Try a new one, even when your current strategy demonstrates noticeable positive results. The market is continually changing, and the strategy that was relevant today may already be the most ineffective tomorrow. It is also good to always have a few additional plans or additions to an existing strategy.

4. Work on a trading plan

If you still don't have one, then it's time to think about how to start planning your trade. In addition, you need to manage your capital and risks in the short, medium, and long term. As well as trading strategies, the plan needs to be adjusted from time to time.

5. Analyze new charts

A thorough analysis of the charts will help you rethink the short and long-term prospects for the development of market relations both globally and in narrower segments of the global economy. It is also useful from time to time to inquire about other traders' analytics, which may complement or criticize your approach.

Conclusion

Each time you complete a series of positive transactions, make yourself distracted by fundamental research and further trading. Various tools for managing your investment portfolio, trading strategies, plan, and analysis tools have always been essential components of this work and long-term market situations. Being regularly involved in working on tools, your discipline, analyzing the emotions of other market players, and having agreed rules for such work commensurate with the rules of risk management, you will learn to control and even eliminate your emotions.

Continuously improve and never overestimate your skills and knowledge. Very often, successful transactions occur due to luck and make us think unprofessionally, relying on intuition. Long-term success comes after gaining confidence, composure in trade, and market research.

Trader's Diary

Many options traders have probably heard about the trading diary. The trader's trading diary is a regular notebook where you write down your observations, thoughts, market actions, strategy performance, and much more. Each trader decides what information to enter into his diary. A trading diary is a useful activity not only because the trader leaves recommendations for the future, but also in assessing his professional growth.

Given the complexity of the trading process, a person is physically unable to keep massive volumes of statistical information in his head. Also, it is impossible to remember all the situations and actions that you performed at one time or another. The longer the trader works, the more information. Success depends mostly on how the trader uses the previously gained experience. It is important to remember all the errors so that they are no longer repeated.

A survey of successful traders shows that all of them, as one, keep trading diaries.

Some traders do not keep a trading diary due to a lack of time. They are busy developing a strategy, analyzing news, monitoring the trend, and much more. Therefore, there is no time left for the diary.

Another problem is the lack of understanding by traders of what diary entries should be done. Successful traders never admit what information they enter into their workbook; however, just like beginners, they once did not know why to begin.

There are some simple tips for beginners to keep a trader diary:

Be sure to make several entries in the trading diary daily. Promise yourself to keep a diary at all costs. Make notes on weekends as you relax from the trading process. Assign yourself a reward for regular diary keeping for one to two months.

It is best to start keeping a trading diary gradually - for starters; it is enough to devote no more than 10 minutes a day to making entries, gradually increasing the time. You can use a timer or a stopwatch to measure time. Many newcomers spend too much time in the diary, but keep in mind that voluminous notes are more difficult to read and painful to read. Information in the diary should be structured and spacious. The most important, as a rule, can be placed in several sentences or paragraphs. Consider using your notes in the future.

Remember self-discipline. It is essential to think over the logical sequence of entries, the general structure, and the contents of the diary. Confused notes will not bring much benefit. Also, inconsistent traders can easily get confused in their notes.

Keeping a diary should cause a pleasant feeling. If a trader makes entries against his will, then this will not lead to anything good. Today there are many services on the Internet that allow you to leave quick notes on trading operations. Thus, an options trader can start to keep an online diary that is optimized in the best way for working with specific financial instruments.

Consult your diary with your mentor. He will help with practical advice and guide you on the right path, guided by his own experience. Traders are not particularly willing to show their notes to each other, but they will gladly comment on others.

Most beginners, as practice shows, neglect the advice of professionals and try to remember everything. Naturally, such traders cannot analyze their mistakes, repeating them again and again.

Making A Trading Plan

There are several reasons why unnecessary emotions should be considered one of the main enemies of the trader. There is a theory that the quality of work depends on the degree of emotional excitement of a person. The destructive influence of excitement is known to everyone, but its influence on decision-making on the stock exchange has been studied quite superficially. A state of increased excitement strikes several parts of the brain at once. Firstly, it starts to fail the memory - in a panic, we forget the protocol of actions in a given situation, even if we have already encountered this before. Secondly, it falls the concentration of attention, which, in turn, affects the efficiency of work. In this state, any choice is much more complicated - the trader ceases to notice the arguments and is not able to make the right decisions.

First of all, excitement and lack of preliminary preparation lead to overexcitation. Lack of preparation creates a panic, and the trader makes the wrong decision, sometimes violating his own rules. That is why, in trading, it is always important to remember patience and be as prepared as possible. Unreasoned decisions almost always lead to losses. Emotions are the highest barrier that you need to overcome on the way to a successful trader's career. When analyzing your trading history, you sometimes wonder how stupid decisions you manage to make under the influence of emotions.

Transaction log

The first thing you need to do is to keep a transaction log. This is not about simple transaction history, but about a complete description of transactions following the trading system. To do this, you can use a note in Excel or a regular notebook with a pen - the choice of instrument, in this case, has no fundamental value. At a minimum, a trade journal should include the following items:

- Transaction volume;
- Order opening price;
- Order closing price;

- Stop and Take Level;
- Breakeven level;
- Possible loss;
- Possible profit.

If you wish, this list can be supplemented with your items. Creating a trading plan already implies that you have a ready-made trading strategy and money management rules. An experienced trader will tell you that each transaction needs to be calculated in advance: from the moment a position is opened and the development of events.

Trading plan

Beginner traders often do not adhere to a specific type of trading. Say, you trade according to a reversal strategy (swing trading), but after the release of the news, you suddenly noticed a beautiful moment for a quick scalping transaction. If the transaction turned out to be unsuccessful, it is worth noting in the plan. This will allow you to identify the boundaries of the "comfortable zone." Returning to this point, you will be able to assess your competence concerning a particular entrance objectively and only then make a final decision - enter the transaction or wait a moment.

Also, a correctly drawn up trading plan should answer the question "How?” At a minimum, here you need to describe in detail the rules for entering a position. An inaccurate or incomplete description leads to a lack of discipline - the trader begins to think out in the course of trading. Exactly the described rules of the strategy subsequently make it easier to find a mistake if the trading results do not suit you. An important point: this should be your strategy, corresponding to your sense of risk.

The trading plan should describe the time of trading. Here you can enter the opening time of trading sessions, their characteristics, and impact on trading. The stock market works around the clock, so the trader's task is to choose the most suitable time to enter the position. If the trading strategy is designed for one trading session, using the same strategy in a different period is walking along with the minefield.

Finally, one of the most important questions that you should answer when creating a plan is why you are engaged in trading and what goals you pursue. Trading is a challenging task, and sometimes very costly and disappointing. The goal can be quite ambitious, like: "I want to earn $

100,000 to cover my current income level and spend more time with my family." The level of profitability plays a role here, at which you are ready to devote your free time to this business. This is an awkward moment in this section will serve as a reminder of why you do trading at all and what goals you intend to achieve.

Following the notes in the plan, you will be able to navigate the situation, ignoring the feeling of excitement and greed. The task is to fix the profit if the system requires it and not outstrip the losses if the price goes in our direction. It is the hope that the price will turn around, in a compartment with aggressive money management, it often destroys deposits. Sometimes it's useful to take a step back. If the goals set earlier do not matter to you anymore, and the trading ceases to recoup the effort, it may be worth abandoning such a plan or leaving the trading.

Chapter Eight

Risks management

Introduction

Trading options, like any other financial instrument, includes an element of risk. A trader can lose all or part of his deposit (invested funds) in minutes if he allows himself to be distracted from the trading process or ignore the rules. That is why Money Management is one of the most critical components of successful options trading.

When working with options, risk management (or Money Management) consists of two parts: explicit psychological attitudes and mathematical calculations.

When a trader says that he earns large sums with minimal investment, you should know that he puts his deposit at enormous risk. And his profit is more luck than calculation. Such a trade is doomed to failure, and the trader will lose money. Risk management allows you to answer questions facing a novice trader, namely: how much money to invest in trading, how much to enter into a trade, is it worth using borrowed capital, and many others.

Risk Theory

Trading risks

To succeed in options trading, you should focus on money management and detailed planning of trading operations.

Trading options, like any other financial instrument, involves an element of risk.

A trader can lose the entire deposit (invested funds) or part of it in minutes if he allows himself to be distracted from the trading process or neglect the rules. That is why risk management is one of the most critical components of successful options trading.

One axiom is vital for trading - the higher the risk, the higher the profitability. In practice, risk reduction leads to a decrease in the broker's profitability. The most high-risk are transactions on turbo options with an expiration of fewer than 5 minutes, but the profitability there is also the highest - up to 90%. Even higher profitability (up to 98%) occurs when trading for OTC (over-the-counter transactions).

The lowest profitability on options is from 1 week and above - about 60-70%. Making a forecast for such options is much more exciting and suitable than for short-term options. A detailed study of the fundamental factors in the public domain, technical analysis, and graphical constructions can predict the chart's movement with high accuracy. Therefore, a 50% yield on such options is quite possible. But there are still risks - no one knows what can happen during the time that remains between the purchase of an option and the expiration date. There are risks always - they need to be taken into account when laying in your trading strategy.

Before directly carrying out operations, any trader must clearly understand what constitutes capital management. The term capital management in everyday life is extensive and somewhat abstract. Often, money management is equated with control over finances. In trading, money management is equated to risk management, responsible for minimizing financial risks arising in the trading process.

Planning

The main problem for most options traders is the lack of risk management planning. Traders usually take the first steps towards creating a money management system after several unsuccessful operations. After all, the presence of a money management strategy would allow avoiding the influence of adverse outcomes on the overall result.

Beginners often try to focus on achieving a high level of earnings, so sometimes they overlook risk management. Only with time and experience do traders conclude that it is necessary to create their system for planning income and risks. Even the most profitable strategies do not allow income generation in more than 70 percent of transactions. In other words, out of every ten options, three will be unprofitable for sure. The main parameter of risk management is the determination of the income that the trader plans to receive.

A well-designed trading strategy allows you to control the loss of money. Its effectiveness distinguishes any strategy - it has a predetermined percentage of profitable transactions (profit). In forming a strategy, the trader is faced with the following questions: how many operations to carry out per day, and when is the right time to trade? You should not buy options any time you want. You need to stick to the schedule and optimize your strategy for a specific time, for example, at the beginning of the trading session.

To control risks, a trader at the beginning of each trading session must:

1. Determine the number of transactions and the time of their execution.
2. For each trading session (daily), it is necessary to allocate a certain number of unprofitable transactions, upon the exhaustion of which the trader must stop any operations.
3. Set the level of daily profit, upon reaching which it will be necessary to stop trading.

Do not forget about the diversification (distribution) of risks (of course, not at the initial stage of trading).

Diversification consists of the distribution of risk capital over several transactions, which, as a rule, are based on different types of assets.

Use your strategy based on technical and fundamental analysis in your work and guided by a clearly outlined plan. This will allow you to become a successful trader who receives a stable income.

In addition to the above rules, a trader should not succumb to emotions, violate the strategy, or try to "recoup." For example, if you are not doing well with trading, you should stop making transactions for 1-3 days and take a break, required for the human nervous system to come into yourself.

Every beginner is advised to state his trading strategy in a thesis form on a piece of paper before opening a deal, so as not to deviate from the plan and avoid rash actions.

Risk capital

Determining the amount of risk capital is necessary for a precise drawing up of a risk management strategy and the prevention of significant financial losses.

You should not open a deal with an amount exceeding 5% of the attracted deposit. Compliance with this rule allows many traders to reduce losses and not give in to emotions. Let's consider a simple example. Let's say your trading account size is 500 USD. The maximum investment amount, in this case, should not exceed $25 (5% of the deposit). To lose the entire amount of investments, the trader needs to make 20 mistakes in a row. But by the theory of faith, if the profitability of his strategy turns out to be less than 55% (i.e., less than 55 trades out of 100 will be profitable), then it is worth thinking about changing its strategy.
After a trader gains some experience and the history of his operations by 56% consists of profitable trades, it is possible to increase the risk of capital by up to 10% of the initial investment. Newcomers should not open more than one trade at a time.
Whatever trading skills you have, you should remember that limiting risks is just as necessary as making a forecast.
Calculating the transaction amount
Risk capital is the amount you invest in trading and which you are willing to donate in part. It depends on the degree of risk acceptance, which is different for all people.
Risk capital
You can calculate your degree of risk acceptance by passing a psychological test to determine it. If a trader has an average level of risk acceptance, he invests 10% of his trading income.
Transaction amount
The trader has chosen an aggressive risk management strategy and allocates 5% of the trading account for each trade.
In this case, the size of the simultaneous investment in options for one expiration should not exceed 500 dollars. Everyone can calculate the size of the transaction according to this principle.
That being said, keep in mind that the main principle is to avoid the pressure. Risk capital is the amount that you can afford to lose.
Hedging
It is possible to control financial risks in options trading through hedging - a unique method of deposit insurance, in which a trader conducts certain operations on another financial market. To understand the hedging process, consider a short example.

Let's say a trader is trading in Microsoft stock. He made a forecast according to which the campaign shares will fall during the day and invested $100 in a PUT option at the end of the trading day. His forecast starts to come true, and the stock falls in value. However, at 17: 00, a report is released, according to which the unemployment rate for the reporting month declined above expectations, and this dramatically changes the situation in the market. Now Microsoft shares have received additional impetus from fundamental factors, and the forecast should be revised. In this case, the trader buys a CALL option on the shares Microsoft at the end of the day for the same $100. Now the number of his losses will be a maximum of $ 15 because one of the two options will be "in the money."

By the end of the day, the shares rose in price; the first option turned out to be "out of the money," but for the second option (CALL), the trader received a premium of $185. If the shares did not rise much, both options could close "in the money," and the trader would have received $370 in profit. This is how a hedging strategy works.

There are more complicated hedging strategies, such as buying options on different stocks of the same sector of the economy. The main thing is to establish the level of correlation between these assets.

Risk Management Psychology

Experienced traders in the process of conducting trading operations learn to overcome hidden negative signs of the psyche, namely:

- Lack of discipline
- Self-doubt
- Revaluation of forces

The list of negative manifestations affecting the course of the trading process can be continued indefinitely. Next, we will consider each sign in turn.

The main feature of any professional is self-discipline. Lack of discipline leads to direct financial losses. When starting to trade, try to leave the emotional part of yourself outside of this process for a while and learn to abstract it from your healthy life. Remember, you are exclusively a trader.

Self-doubt

Often, a trader's self-doubt appears after several unprofitable transactions. It is important to remember that following all the trading recommendations will help beginners save their funds. As practice shows, many traders who have lost their first deposit try to rethink their operations; thus, they come to the right conclusions, forming their trading strategies.

Self-doubt often prevents a trader from concentrating on the trading process and finding signals to enter the market. Self-doubt can cause opinions of professional traders who are published on individual forums if they contradict your arguments. Check everything you hear from someone else's mouth before concluding.

Plan in advance what signals you will enter into a trade. Signals can be based on different analysis methods, but they must be specific, not allowing the ambiguity of the situation.

The simplest example is candlestick analysis: when a chart pattern, consisting of the sequence of candles you are waiting for, has formed, you should immediately open a trade. The decision has already been made in advance and is easier to implement at the time of the trade.

Excitement is a desire to make up for losses incurred in the course of trading due to incorrect forecasts.

Feeling of Lust

When trading small volumes, if successful, beginners usually start depositing larger amounts into a trading account and cannot cope with the pressure that a large deposit unwittingly puts on them.

It is essential to understand that with an increase in the deposit and the volume of the transaction, the psychological load also grows. For example, the loss, $2 and $50, if the trading account is $100, is a big difference.

Aggressive trade

A common mistake in the early stages is the use of an ill-conceived aggressive trading strategy. An aggressive strategy can bring profit, but it implies a drawdown, which should also be incorporated into the strategy. A positive outcome of two or three operations carried out pushes beginners to increase the transaction volume. Accordingly, the financial risks grow, and one of the fundamental rules of capital management is violated: you should not open a deal with an amount exceeding 5% of the initial deposit.

Regarding the overestimation of their strengths and capabilities, it should be noted that this often happens to beginners who have managed to make several profitable trades. Traders, for a short time, become confident that their strategy is win-win. However, there are no 100% win-win strategies. ...

Psychology is an essential aspect of a successful trader's work, so you need to devote as much time to it as mathematical calculations.

Is it worth borrowing money for trading?

Borrowed funds are money that does not belong directly to the trader. Borrowed funds can be bank loans, urgent loans, funds borrowed from friends, or close relatives. The main feature of borrowed funds is the need for their full return, and in some cases, and payment of interest for the attraction and temporary use.

Newbies often ask a question about raising borrowed funds.

The main enemy of a trader in the process of trading operations is his emotions. Borrowed funds are initially set up for failure since the emotional stress during such trading is too high. Each wrong forecast using borrowed funds makes the trader even more nervous, worried, and, accordingly, makes fundamentally wrong decisions hoping for an immediate return of lost funds.

The use of borrowed funds creates additional pressure. Imagine a situation in which a trader trades with his funds. He risks only the capital in his trading account and is willing to lose some of these funds by his risk management strategy.

In another situation, after a trader has borrowed funds, a double amount is at risk: the trading account and the amount of the loan repayment. In such a situation, more risk is required to receive income as a result.

If you do not have the required amount to open an account with an options broker, you should not immediately apply to the bank for a loan. You can gain experience working on a demo account. In the meantime, a trader needs to start collecting the required amount seriously. This way, you can avoid unnecessary psychological stress in working with contracts.

In options trading, unlike, for example, the Forex market, there is no leverage, loans from a broker, and many other advantages that allow you to work without investment or with minimal investment. Of course, there are brokers, offering to take the n-th amount of money. Working with options is not that difficult, but it requires concentration and specific conditions.

Many traders, especially at the initial stage of trading, tend to transfer their funds to some PAMM account or only to an unfamiliar person (more experienced trader) in trust. Usually, they promise to return a stable and guaranteed income. From experience, it doesn't always end well: after all, the one who works with your capital (on your behalf) borrows from you and ten others like you. Thus the psychological burden on the managing trader increases. Before transferring money to the management of even the best trader, think well - weigh the pros and cons.

How much should you start trading with?

The main task of any trader is to make a profit on investments. Considering the desire of beginners to get a guaranteed income as soon as possible, the issue of investment/return of capital is one of the most important. For example, before starting trading on binary options, you need to decide what amount to begin with.

Many brokers are offering to open a deposit of one dollar or more. It would seem that the problem with the deposit has been solved. All that remains for the trader is to focus on making a forecast. However, if you are planning to trade with a deposit of one dollar, how at least, you violate the main rule of risk management: the volume of a transaction should not exceed 5% of the trading account. In the case of a dollar account, a trader risks the entire amount at once.

Besides, with a low deposit, you will have to make a considerable number of transactions: the average profit from an operation is 80%, the potential profit from $1, in this case, is 80 cents. It is easy to calculate how many transactions a trader needs to make to get a profit of at least $20.

Adequate profit

Trading is a large job that requires much effort. It should generate adequate income, so trading with a $1 deposit is most likely fun or training, allowing you to try your hand and gain trading experience.

That is why you should choose a deposit based on how much you earn per day, week, or month. The relationship between the deposit and the amount of profit in absolute terms is directly proportional: the larger the deposit, the higher the potential daily profit.

The basis for determining the amount of the initial deposit and the amount of the desired income is also based on the number of possible losses.

Borrowed funds do not belong directly to the trader, but is attracted by him to open a trading account.

Do not apply for a loan from the bank if you do not have the required trading amount.

The maximum loss of funds on a small deposit ($100-200) should not exceed 5% for one transaction of the deposit amount. With an increase in the size of the deposit, the loss of funds should decrease. For example, for a deposit of $5,000, a trader needs to reduce losses to 3%.

Trading account balance

When answering the question, how much to invest in trading, you must consider the conditions of the broker you have chosen. Experienced traders recommend opening an account for at least 200-300 USD, despite the minimum deposit amount. The broker offered suitable trading instruments.

There are other opinions regarding the amount of the initial investment in options trading. Some professionals recommend opening an account with a balance sufficient for 40 trades of the minimum volume. It is assumed that a stock of 40 trades will save a beginner from blunders and provide invaluable experience. Thus, if a trader, for one reason or another, makes about ten transactions that will not bring profit, then there is a chance to return the lost money with the help of the remaining amount of the deposit and further competent actions.

The calculation of the initial investment volume makes it possible to plan the trading strategy accurately, the daily number of operations, and the amount of risk capital (funds allocated for one transaction). The initial capital should not be formed from the last funds that the trader has. This can interfere with the right—good perception of the trading process. Please read the psychological aspects of risk management again in the previous chapter.

Eight possibilities to control risks

Diversification of Assets

You cannot rely on only one trading instrument, because there are "abnormal situations" in the market when the price movement does not lend itself to technical, fundamental, or figured analysis. You must select at least 4 or 5 instruments that differ in type, volatility, and time when the asset is available.

Long Period Trade

Price movements over more extended periods are much easier to predict. Indicators on minute time frames do not always display the correct picture, so traders in such cases are guided by intuitive trading, which means too high risks. More extended periods are much easier to analyze, and it is much more convenient to react to correct signals on them.

The Right Choice of Moments For Entrance

There are times when a trader is 100% sure of the signal. In such cases, do not forget about your capital protection strategy because excessive confidence can lead to catastrophic losses.

Hedging Positions

A trader can be called professional when his priority task is not to maximize profit, but to trade with minimal risks. Successful traders try to insure their positions in various ways, which we will talk about further.

Limit of Transactions

Experienced traders follow a set of rules, and a limited number of trades per day (or a certain number of unsuccessful trades in a row) is one of the main points. It is vital to eliminate the psychological factor and fatigue. Otherwise, concentration is lost, and the reaction slows down, leading to the loss of funds.

Error Analysis

According to statistics, 95% of traders do not analyze the reasons for losing trades and do not correct their strategy even after a series of mistakes. You need to understand how to build your plan during trending and sideways movements and when trading on the news.

Regular Withdrawal of Profits

Once a week/month (a convenient period for the trader), it is necessary to withdraw a small part of the profit (30-50%) for the billing period. Psychologically, it is imperative to feel that trading in options brings dividends. This is a reward for your hard work.

Choose an Approach to Capital Management

Conservative approach

It involves investing a maximum of 1% of the total balance per transaction, but no more than 3% of the balance of the entire investment portfolio in total, which means that a maximum of three transactions with a total volume of 3% of the balance can be opened at one time.

This method is more suitable for novice traders who need more time to analyze the market and select the appropriate instruments for their strategy.

Aggressive approach

Assumes invest 5% of the balance on each transaction, but not more than 15% of the total investment portfolio.

That is a maximum of 3 transactions of 5% of the balance at the same time. At the same time, the risk should be diversified so that potential losses do not exceed 5%.

This strategy is suitable for experienced traders who have already decided on their strategy and have selected appropriate instruments.

Standard money management method

The absence of a money management strategy means that a trader makes most decisions intuitively or out of emotion, which significantly increases risks. A standard approach to money management allows reducing overall risks to minimal values.

The standard capital management approach assumes that a trader allocates a certain percentage of the current balance to buy one option; in this case, investments from 1% to 3% are considered conservative, from 3% to 5% - aggressive.

Novice traders are most likely to invest a fixed profit, but this approach is flawed.

Conclusion

We are glad that you still managed to get to the very end and master the book "Swing Trading Options." This means only that you are a genuinely purposeful person who does not abandon what he started halfway.

We hope you flipped through fifty pages short of your free time and clarified several vital issues that stood before you at the very beginning.

Can you already tell your friends about what trading is after reading the introductory chapter? We are sure that yes. Before starting your way, you need to understand the basics of the law of supply and demand, on which the market, and, consequently, the entire world economy, rests.

It is essential to clarify which type of asset will become the guiding light for you to set you up for a positive result. Take the time to re-read this material. Often, choosing an asset is quite a problem for not only beginners but also for the pros.

Also, do not forget to pay attention to the psychological aspect. Sometimes this point is much more important than the theoretical part, which everyone is trying to pay close attention to.

Having carefully studied the basics of trading, you probably could find a lot of useful information that will be useful to you in the future. Before you start, try to plan your start to the smallest detail.

Try to set yourself up for long-term fruitful work. There are no trifles in trading. Treat the process not as a new hobby, but as a full-scale project, the successful implementation of which is in your hands and yours alone. You should consider the impact of all external factors and psychological aspects, which we tried to describe in detail in this book.

Do not make hasty and fussy decisions. In the first days of trading on the platform, we strongly recommend that you go through the adaptation process on your chosen platform using a demo account. This should prevent the beginner from mistakes and global losses of his funds. Also, such measures will allow you to feel the specifics of individual situations on the market.

Few people want to learn from their own mistakes. We are sure that you adhere to the same opinion. That is why we offer to listen to our advice and not be afraid to apply them. Of course, not a single novice trader is immune from miscalculations inherent in such a case. However, a planned study of the materials presented and the strengthening of theoretical knowledge in practice will increase your chances of a favorable outcome.

The goal of each successful trader is not only to save but also to increase their initial capital. It is the desire for daily profit extraction that should move you. On days of successful transactions, do not rush to act on courage, because from triumph to failure, as a rule, is one step.

In the case of overstrain or stressful situations, try to postpone all things for a few days- in this state, anyone can make irreversible mistakes that can have severe consequences for the trader. A break is essential to return your internal psychological balance to its original position.

However, as practice shows, such cases arise when a market participant moves away from the unspoken rules of "sound trading." This means that your built-in system fails or does not work well. In this case, do not look for quick solutions, you will be distracted. Engage yourself in reading books, walking in the fresh air, or anything else.

Also, you should not conceal local problems in yourself. Talk about your current failures with a mentor. Such a conversation can change your attitude to what is happening and open your eyes to the current strategy's imperfection.

Emotions are another critical factor. If you are not able to control your feelings and emotions, you will ultimately face complete failure. Even the most desperate, risk-taking traders try to keep their heads fresh during responsible transactions. Without constant analysis, without diving into the topic of economic and socio-political news and maintaining common sense in any situation, you will hardly make any significant process in the world of trading.

Do not hesitate to learn and relearn something new every day. Try to delve into the sphere of professional trading to the maximum, listen to more experienced colleagues, but still have your head on your shoulders.

Remember that only 10% of all traders become genuinely successful. This means that your thoughts and theories can often differ from most market participants. However, even if your strategies bring a steady income, this is not a reason to stop relying on what has been achieved. You should not feel special when you see your local successes. At any time, the market situation can change and start a kind of game against you. You should be fully prepared for this.

If you are ready to open the platform and start your path in the world of economic terms, numbers, and quotes, we can only wish you success. Your efforts will certainly not be in vain!

Do not forget that the best investment is in your knowledge. Knowledge is the most valuable asset, with proper use of which, in most cases, you are guaranteed the expected result. Now is the time to move from word to deed.

Success!