

TRADING BINARY OPTIONS

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TRADING BINARY OPTIONS

Strategies and Tactics

Abe Cofnas

BLOOMBERG PRESS

An Imprint of



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*This book is dedicated to the contrarian thinker who knows
that the market rewards those on the side of surprise.*

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Foreword

“To expect the unexpected shows a thoroughly modern intellect.”

—Oscar Wilde

This is a book about expectations—and how to make money when they go awry.

So perhaps it’s fitting that I’m writing the foreword. Because if you know anything about me or the publications I write (like *The 5-Minute Forecast*), then you might think this the last place you’d expect to see my name.

As the executive publisher of Agora Financial, LLC, I oversee over 24 newsletters and e-letters. And while a few of them offer information on short-term trades, I like to focus on the bigger, overarching trends. The “big picture” events. The strategies you need to grow and manage your own money.

On the surface, the “binary options” described inside this book are the antithesis of all that. These options are quick bets on short-term fluctuations in the market. If you get them right, they can double or triple your money in five days or less. Impressive, sure. But not the sort of thing I’d usually be comfortable advocating.

That all changed on Aug. 4, 2011. Abe submitted an article titled “Using Binaries to Protect Your Portfolio.” As he explains, binary options can be like an insurance policy that pays you “when there is financial storm damage.”

I was intrigued with the idea because, like you, I have been shocked by the significant “financial storm damage” since the market panic of ’08.

Since that low time, thousands of pages have been devoted to what went “wrong” in the global economy . . . the actions, policies and decisions by millions of people that sent the whole system into the tank. But not much has been written about the rise of the bubble. Nor on the fact that had you viewed the boom properly, you could have not only avoided the damage, but even profited by betting against the unlikely idea that it would continue.

In short, the entire financial system came to rely on everything going exactly as expected. Homebuyers expected to remain fully employed with steady—if not growing—wages. Banks expected people to keep paying their mortgages and the value of their properties to go up. Stock prices were

expected to rise ad infinitum. And so on down the line . . . every cog behaving as if every other cog would stay in line.

Of course, that wasn't the case. Despite the fine print, people still believe past performance is indicative of future results. They rarely consider what to do if things don't go as expected.

And that's what makes binary options a useful tool if you're inclined to deploy them. They are nothing more than inexpensive bets on people's expectations. Where people think the stock indexes are going . . . the price of gold . . . foreign exchange rates . . . and much more . . . you can take the opposite position and benefit should the market go your way.

Sometimes it pays to bet with the crowd. That much is surely true. But it pays even more when you bet against them and are right. Because when the crowd is wrong, they tend to be very wrong.

As you'll see, there are two ways binaries can help you profit when things go differently than the crowd expects.

The first way is to use binary options as an easy and inexpensive hedge against losses. Before binaries came along, hedging meant using complicated instruments and strategies—or pay a hedge fund enormous fees to do the hard work for you. Even then, they were far from foolproof.

Binary options change that equation, offering an easy and affordable way to hedge for the worst. For a very small price—less than \$100 per contract—binaries give you a chance to add money to your portfolio when things don't go as expected.

Abe Cofnas is adept at showing how “insuring” your portfolio with these innovative tools has never been easier. Binary trading gives you the flexibility to adjust your strategy weekly or even daily. Fees are miniscule—even lower than some stock trading commissions. The maximum risks and rewards are known upfront, so you know exactly how much you could expect to lose or make.

Still, even more than just insurance for your portfolio, binary options are also a speculator's dream—all the things that make them great hedges make them great trading instruments, too. But I'll leave that for Abe to discuss.

My discussions with Abe reveal to me that he's really looking forward to the opportunity to spread his excitement for these new instruments.

“I'm telling you,” Abe says, “everybody in the world has to try trading these things just once.”

Reading this book will absolutely give you the best chance of catching the enthusiasm yourself.

Addison Wiggin
October 2011

Preface

Are you interested in trading, but don't like to wait weeks and months for a return? Are you following news events and want to financially benefit from your knowledge? Or maybe you are new to trading and want to participate but avoid the long learning curve for mastering trading skills. If these questions are on your mind, this book is for you.

Binary option trading provides excitement and opportunity for achieving unusually large returns in less than a week! While there are many variations to this type of trading, this book focuses on the regulatory approved weekly binary option trades of the North American Derivative Exchange (Nadex). Trades have limited risk to the cost of a position. There is no margin. The trade is a bet on the direction of a market by the end of the week. If the trade is correct the payoff is \$100 per lot. If it is wrong, the payoff is \$0. Simply put, it's a yes-or-no proposition. One can open an account with as little as \$100 and start trading. This simple structure allows anyone to trade in over 20 different underlying markets, from currencies to indexes to commodities.

This book takes the reader through the basic features of the binary option instrument. But it does more. It provides a detailed review of fundamental and technical analysis useful to making trading decisions. Beginners, as well as more experienced traders, will be able to build upon their core trading knowledge. Importantly, new online tools and techniques for detecting market sentiment are presented, because trading can no longer be separated from the Internet and the social media it has generated. The web itself is a force on trading decisions and outcomes, as emotions are propagated through the web. This phenomenon has made sentiment analysis a major challenge for traders. For the binary option trader who is shaping a decision for a weekly outcome, or even an intraday outcome, the critical factor will be the actionable knowledge that is applied.

The book provides real-world examples of how to scan the political and economic news and formulate appropriate binary option trading strategies. Key trading strategies are reviewed with examples. These include: *at-the-money*; *out-of-the-money*; *in-the-money*; *deep-in-the-money*; and *deep-out-of-the-money*.

Also reviewed are case studies of binary option trading in relationship to key news events that we have lived through. These include: The U.S. congressional elections; the Greek sovereign risk crises; turmoil in the Middle East; and the Japanese earthquake. The reader will see exactly how these events shaped trading strategies that worked.

The book is also designed to provide a self-directed performance audit capability to the trader. Specific training challenges are provided, including a test of your knowledge (see Appendix A).

No other book provides a comprehensive get-started approach to trading binary options. It is my hope that *Trading Binary Options: Strategies and Tactics* makes a difference and improves your ability to get started in binary option trading, but most importantly, to do it the right way!

Abe Cofnas

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This book would not have been possible without the support of many people. First, I want to thank Agora Financial Inc., and in particular, Addison Wiggin, for his support in my development of binary options analysis and alerts for the Strategic Currency Trading newsletter. The experience of weekly providing real-time alerts and analysis of binary options has provided an invaluable base of knowledge that made this book possible. Joseph Shriefer and Rick Barnard of the Agora Financial team have also provided valuable input on my analysis. The North American Derivative Exchange (Nadex) has been of great assistance in providing access to technical information and data used in this book. None of the opinions or alerts in this book has been subject to any prior review or approval by Agora Financial Inc., or Nadex. Dean Reese, Bryant Lie, Zach Tyvand, and Bill Egan, provided important research support. Finally, thanks goes to my wife Paula, who provided the support and good will at home that sustained me during the intense writing period.

A.C.

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