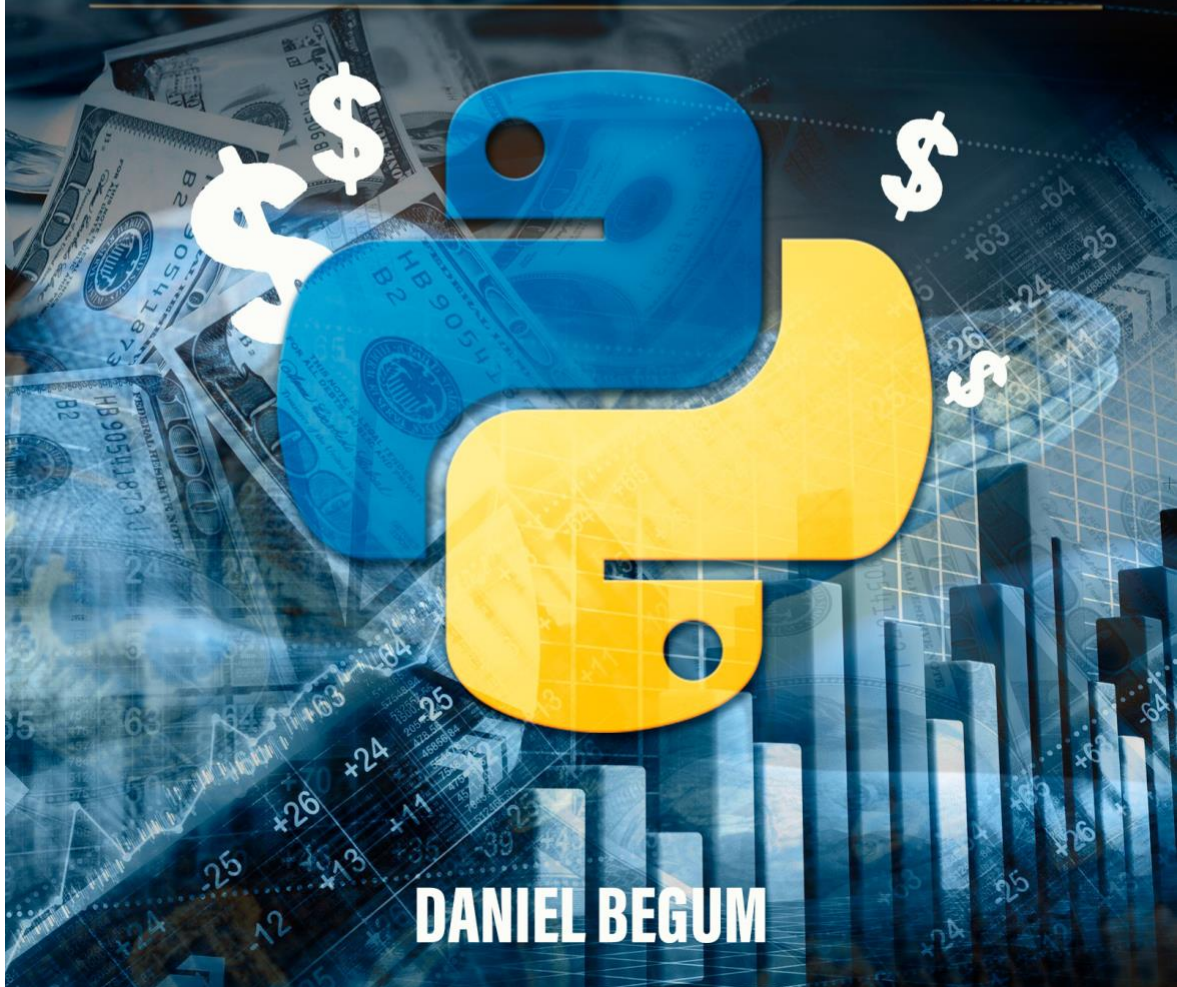


# PYTHON *for* PROFIT

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HOW TO USE THE POWER OF PYTHON TO BOOST YOUR INCOME

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**DANIEL BEGUM**

# **PYTHON FOR PROFIT**

# STOCK MARKET INVESTING WITH PYTHON

Learn how to trade for a living with solid risk-management strategies. Use techniques based on trader psychology for your investment in options and forex. Earn extra income, create your source of passive income and get your own financial freedom.

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# INTRODUCTION

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**D**id you know how many companies are registered with NYSE (New York Stock Exchange) and how much has been invested overall?

Here is a rough estimate: According to recent data, more than 3,000 companies have been registered, while the overall investment in just one stock exchange (NYSE) is about \$15 Trillion.

Think of the other stock exchanges.....

The value of the international stock exchange is said to be \$80 Trillion, Big Money – yeah – that means bigger gains...if you are in the game and (can play it correctly).

Now the question is how to learn it? Simple, follow the guidelines given in this comprehensive book, and you will be ready to play.

What's more interesting is 52 percent of Americans are Stock exchange investors. That shows how lucrative this market is.

So, before you start investing, read to learn the ABC of the stock market. It is written after doing research and is reviewed by some of the most successful investors.

Hope you would like this effort and enjoy reading and applying the strategies given in this book. In the end, if you ask me what that one thing that I should tell you as an expert to keep in mind (before beginning) is – it is: always remember: “a good Investment is always boring!”

*“If investing is entertaining, if you’re having fun, you’re probably not making any money. Good investing is boring.”*

– George Soros

# **1. THE ABC OF STOCK MARKET**

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When we talk about investing in the stock market, we must understand that it is more than buying and selling shares. This activity can also be linked to other financial instruments where it is possible to operate in the short, medium, or long term.

The investment method used in the stock market is called "invest" if it is long term or "trading" if it is short.

Stock trading has become popular in this area of the stock market. This activity can be started online from anywhere in the world and consists of the sale and purchase of financial assets.

Trading consists of buying or selling an asset, then reselling or repurchasing it, and obtaining the respective profit. The advent of online trading has allowed many to invest in the stock market with little money, without owning large amounts of capital.

To manage the stock market, it is important to document yourself and study well the type of investment you are going to make.

## **What Is The Stock Market?**

The stock exchange is an organization where transactions of different financial instruments are carried out through authorized intermediaries. This institution provides the facilities for its members, brokers, or operators to negotiate the purchase and sale of securities.

The stock exchange originates from the City of Bruges, Belgium, within the Van der Burson family of bankers. These organized meetings in his palace to make commercial operations or to transact assets, and they had like shield three bags of skin. Then in 1460 in Antwerp, Belgium, the first modern stock exchange arose, for years later, expanding to other countries.

## **Who Integrates It?**

The stock market has been made up of companies, organizations, or public and private entities, which are the applicants for capital. Savers or investors who are the capital providers and intermediaries, brokers, brokerage houses, etc. also participate.

For companies to be able to list their securities on the stock market, they must publish their financial statements to determine their financial situation. When a company makes an offer on the stock market, anyone can know the information and performance of the company.

The stock exchange works like a large market or mall where stocks are bought and sold daily. Companies are listed on the stock exchange because it allows them to obtain new capital without having to borrow or borrow.

In this medium, any company can quote, as long as it meets the standards and the minimum investment requirements.

### **Role of the Stock Exchange**

The time has come to show you what you want so much to know. Get ready to know the aim/mission of the stock market in any part of the world:

- Facilitate the transactions of the resources so that a better allocation of them is feasible.
- Support transactions by providing legal certainty.
- Guarantee liquidity, since assets such as shares and securities are converted into money.
- Inform truthfully and permanently concerning the values, operations, financial statements of companies, among other things.
- Contribute to the growth as well as the development of the capital and securities market.
- Organize the stock market through stock market operations.

### **How Does The Stock Market Work?**

Below I will show you how the stock market works internally.

Undoubtedly, this is information that you must know before entering this wonderful and fluctuating financial world. Do you want to know them?

When a person has to buy or sell part of a company, he does it through the stock market.

If the company sells its shares for the first time, it makes a public offering known as the "primary market."

For a company to grow, it needs additional capital that requires the contribution of new partners.

Shares are issued to find these partners that are sold in the so-called public offering to those who are interested in investing. When a public offer is made in the stock market, the company is made public, and the interested party obtains the shares.

Subsequently, this shareholder can, in turn, sell his shares in the future if he decides, according to his convenience. In the same way that other investors buy it, they also evaluate the updated information of the company for their convenience.

Analyzing the information allows the feasibility of a good offer to change significantly from one day to another.

The purchase and sale price of shares is set by free-market laws, that is, supply and demand.

Those who buy set the purchase price and those who sell do the same; this is how operations are carried out, both actors setting their stance.

The shareholder always expects to earn periodic dividend earnings, or by selling his shares at a higher price. The holder is an investor who, by acquiring a bond, expects to generate regular interest or profits at the end of the term.

Stockbrokers are responsible for conducting transactions between sellers and buyers of shares. Investments in shares are considered variable income, while investments in debt as fixed income.

## **Can I Invest In The Stock Market From Home?**

Here I tell you everything! Investing in the stock market may seem like a complicated task and only for large entrepreneurs, but in reality, anyone can do it. I only recommend that you study very well what it is and of course you go to the experts in the stock market.

Thanks to the internet, this market can be accessed more easily from home or mobile by different applications. However, just because it is easy to invest in the stock market online does not mean that it is easy to obtain earnings by shares.

Investing in the stock market online maintains the principle of buying and selling shares; it is done through online brokers. Benefits are obtained without the need to be in a specific place to operate the exchange, from where you are.

The online brokers will be the tool that will help us gain access to financial markets to invest in the stock market. You can invest in national securities and also in any company in the world, from small to large companies.

These so-called brokers can be obtained on web pages, applications, and other means such as banks (which allow investing from home).

The procedure is generally as follows:

- Open an account in a broker, the platform for trading your preference.
- You will obtain the corresponding username and password (if applicable).
- Each account will be associated with a bank account, where the money you will use for purchase and sales orders will be. The bank account will enter the money from the sale of shares, collection of dividends, and any other operation.
- Each operation will generate its commission, and you must bear in mind the brokerage costs, administrative expenses, and stock fees.
- Brokering costs are generally based on a percentage of what is invested for the services received. The costs or administration expenses depend on the country where you open your account; the commissions vary due to different factors.

### **Invest in the stock market: What platform to use?**

There are many platforms to invest in the stock market. Below I will mention some of the most popular brokers or online trading platforms to invest or trade.

However, don't stop to decide! Take your time to try until you get the one that makes you feel safe and comfortable according to your needs.

### **How much money do I have to invest in the stock market?**

You may have in mind that to invest in the stock market, you need to have a lot of money, but it is not.



I have good news for you, and it is that you do not need a lot of money, although I cannot give you a specific figure. Anyone can invest in the stock market on their own, without having as much money available to start.

When you invest more money in the stock market, it does not mean higher profitability; it is recommended to think in percentage terms, in terms of investment. You should start with little money to experiment, and then increase the investment according to the results obtained.

My primary recommendation is that you should save. That is, you need to have the ability to save to generate money, which you will then invest consecutively.

It is essential to make it clear that initially, your goal should be to gain experience and train. It is a complicated world, where many people end up losing a lot of money. It occurs because they do not form before fully entering the stock market investment.

You should also take into account the impact in terms of money that the associated commissions will have on your investment. Remember the commissions for a capital increase, custody of securities, purchase, and sale, collection of dividends, etc.

### **Can I start investing in a stock simulator?**

A stock market simulator is a computer program with a very advanced interface that allows you to learn how to spend money in the stock market online. It has all the necessary tools to practice in real-time as if you were in the stock market.

It can support you as a fundamental tool to start trading in values and make some decisions without any risk! These simulators can be found in some specialized brokers or banks, and they are complex applications that are being commonly used.

Operating a simulator can avoid many headaches, helping you to train and learn, to have good knowledge. It enables you to get familiar with the interface handling play money, seeing the results of your decisions, to jump to reality.

*“Unless you can watch your stock holding decline by 50% without becoming panic-stricken, you should not be in the stock market.”*

– Warren Buffett

## 2. THE MECHANICS OF OWNING, BUYING AND SELLING STOCKS

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*“If you aren’t thinking about owning a stock for ten years, don’t even think about owning it for ten minutes.”*

- Warren Buffett

The use of stock shares, whether it is getting dividends or speculating on their listing, is an increasingly popular and interesting practice. Of course, the risk of loss is also present, but depending on how you buy and sell your shares, this risk may be decreased. If you are wondering how to buy and sell stocks to large companies that are listed directly online, the following explanations may interest you.

### **Buy Shares to Become A Shareholder**

A large part of individuals and institutions that buy securities do so to become a shareholder. It is the simplest use of stocks and their main objective. Indeed, when a company issues shares, it is possible to be a buyer directly online.

However, for shares already listed, this must go through an intermediary that can be an online agent or an online bank.

Of course, it is possible to buy shares directly from sellers who bought these shares themselves in the same way that you can resell your shares.

### **Buy and sell stocks with online brokers**

People who wish to buy and sell shares on the stock exchange can do this from their homes. They can do so through an online trading platform proposed by a Forex broker. These Forex brokers make available to investors simplified trading tools called CFDs that allow speculation in the stock market.

These CFDs or Contracts for Difference allow you to buy a batch of shares on the stock exchange at a certain price and then sell it when the

price has reached a level interesting enough to give you a profit on the difference.

However, the real advantage of CFDs for buying and selling shares on the stock exchange lies in the leverage effect, which allows you to multiply your investment by 100, 200, and sometimes even 400. In this way, you can generate significant benefits when operating lots of larger stocks over a short period.

For example, if Apple shares are at € 40 and you want to buy 100 lots, in theory, you would need an investment of € 4,000. However, if you use a lever effect of 1: 200 you can buy these 100 lots for just 200 euros.

Similarly, if this share goes to € 42 and you resell the lot of 100 shares, your profit will be  $100 \times 2$ , that is, 200 euros. It means that in a few minutes, you can double your investment.

### **Purchase and sale orders for shares**

The Forex trading platforms that allow you to buy and sell shares on the stock market also allow you to enjoy practical tools to place your orders or program them in advance.

Thus, when scheduling a sell order for a certain price level, you no longer need to follow the market live, as your positions will automatically close at the right time. This method can be used to make profits, but also to limit losses with the "stop-loss" order that triggers the sale of your shares below a certain limit.

CFDs also allow positions to be taken directly for the sale of the securities, which means betting on the drop in prices.

### **When is it the best time to buy shares on the stock exchange?**

Buying shares on the stock exchange can be an attractive investment, but it is not about buying any stock at any time. Indeed, the purchase of shares on the stock exchange is, first of all, a decision that must be made following a strategy. But then, when is it better to buy stocks?

When it comes to equity stocks, and to create a stock portfolio, it is preferable to buy the shares of long-listed companies to know in advance the potential of each security in terms of long dividends term. You can also choose to buy the shares of the innovative companies that issue their

securities for the first time to be part of their success, although this is a bit riskier.

When it comes to online trading using CFDs, buying stocks is, first and foremost, a matter of finding the right time. Indeed, from a trading platform, you can access numerous international stock securities. But be careful: you should only buy a title if you think that your price will increase over time and in a more or less long term. In this way, you can obtain benefits by reselling the most expensive shares of what you have bought them.

Therefore, we advise you to buy shares on the stock exchange under the following conditions:

- the stock follows a strong and lasting bullish trend;
- a major event has just, or is going to, influence the share's upward price;
- technical indicators announce that the trend will remain bullish or a bullish reversal of a negative trend, and
- The sector of activity from which the share comes experiences strong growth.

### **When is it a good idea to sell the shares on the stock exchange?**

Now we will be interested in cases of sale of shares on the stock exchange. A sale can be made to recover the money to invest it again or simply to pocket the profits if the corresponding title has increased in value.

Indeed, if you own some stocks in your stock portfolio whose dividends are becoming less interesting, it would be a good option to get rid of them to add more profitable stocks. You can also sell your shares to pocket profits because they have greatly increased in value since you purchased them.

When it comes to stocks trading on an online trading platform, things get a little complicated. Of course, you can re-sell the shares you have bought, but you can also directly sell a security without ever buying it. This method consists of investing in the price of these shares.

CFDs offer the possibility of investing both in the purchase and sale of shares on the stock exchange so that every opportunity can be taken advantage of even when the market is bearish. Thus, you can sell a share when:

- its price follows a strong and lasting downward trend;
- an event will take place or has taken place, and there is a good chance that it will lead to a fall or fall in the price of this asset;
- one or more technical indicators announce a sharp decline or bearish change for a stock, and
- the sector of activity from which the corresponding action comes suffers a major economic crisis.

### **How long do you have to hold stocks in a short-term strategy?**

If you trade short term, or even concise term, you obviously will not hold your shares too long. A strategy like Day Trading, for example, will require the resale of your lots before the end of the session.

In this specific case, it is sensible to use a crowbar effect or bet a significant part of your capital to generate a substantial profit in just a few hours. Do not set yourself too ambitious a target, as you risk not being able to achieve it in time and suffering a bearish correction before leaving the platform you are speculating on.

If you trade for several days, you will only keep your shares until you reach a realistic target of a few max points. Consider setting a stop order in the right place so that your position closes on time.

### **How long do you have to keep stocks in a long-term strategy?**

For more long-term strategies, it is necessary to take into account the possibilities of bearish reversals in the price of your shares. These micro-movements should not force their positions to close before reaching their goal.

In effect, you will have to use stop and limit orders at the same time. The latter must be established far enough from its opening price so that its position remains open in the event of a possible correction. You should also think about having enough capital in your trading account to be able to cover these types of cases.

### **When should the shares be resold?**

Apart from achieving the goal that you have set, some particular cases will push you to sell your shares without waiting any longer.

For example, when the price of the stocks you are following passes below a critical point indicating a strong probability of decline, it is better not to wait and close your position so as not to risk losing more money. These levels can be determined by the levels of technical support observed in the charts.

Likewise, if you follow the economic news of a company whose shares it operates, some posts may create a risk, and sometimes it is preferable to sell your shares before they expire.

### **What shares can be purchased or sold online?**

For some years now, the offer of Forex brokers regarding CFDs for stocks has increased considerably, and now many titles can be accessed from the trading platforms we have.

Of course, you will find Spanish, European and international stocks. All the actions proposed on these platforms are part of the large international stock indices. They are, therefore, especially popular, volatile thanks to precise strategies based on technical or fundamental data.

### **What stocks to invest in?**

As you will no doubt have observed, the actions proposed by brokers on their trading platforms are very numerous and, therefore, it is becoming increasingly difficult to choose which assets to trade.

So what stocks should you invest in? Although investing in the stock market is not an exact science and it is not possible to foresee exactly which stocks will be profitable and which will be losers, it is sensible to analyze the sectors of activity that may experience strong growth.

### 3. **WHO IS A BROKER & HOW TO CHOOSE ONE**

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**D**o you know what a stockbroker does? What are the main functions it performs? If you are not familiar with the answer to these questions, we invite you to read the following post, in which we will clarify everything about it.

#### **Stockbroker: What is it?**

The main task of a stockbroker is to advise other people who do not have sufficient experience to carry out operations in the diverse financial markets.

The stockbroker stands out for having good knowledge of finance and playing an active and main role in the stock market. It could be said that the stockbroker acts as an intermediary. It is the person who is between the broker and the investor who is interested in buying or selling.

The stockbroker guides and advises his clients in finance so that they can obtain the best possible returns. It is also in charge of managing the purchases, and the rest of the operations carried out by its clients. So it can be said that a broker's work cycle begins when one of his clients buys an asset and ends when he sells it and definitively closes the transaction.

#### **Stockbroker: Functions**

Among the functions performed by the stockbroker, we can find:

- Intervene in the purchase/sale of assets and the management of securities.
- It is placing of new securities in the market (Public sale offer, or also known as IPO). This refers to when a company is interested in starting to go public; it should be addressed to the broker, who will be in charge of finding a buyer for its shares.
- Inform and advise the client and companies.

## **Characteristics of a Stockbroker**

We already know before that a stockbroker is the link between supply and demand in the stock market. Now, we will see the characteristics of the stockbroker and his trade:

- It is a commercial activity that can be carried out by any type of person.
- As it is an activity that anyone can exercise, not everyone can enter to carry out stock movements and transactions, because yes, no, it must go through the acceptance of a regulator. This process requires different requirements, including A minimum age, a specific level of education on the subject, accredit such knowledge if possible.
- The broker is under strict supervision at all times, promoting the good performance of the work without malicious news.
- The stock market regulator will constantly require the financial status of your account. Likewise, you are required to maintain a stable amount of equity.
- The agent will receive a commission according to the specifications of the agreement, this varies depending on the number of operations carried out, and may receive a fixed commission on their services, without the results of the operations affecting their heading, or, you can choose remuneration according to the percentage of their results.

## **How to choose the right stockbroker?**

Investing is not as simple as buying and selling stocks, so the help of a professional is invaluable. A proficient stockbroker will devise a plan to grow your money while keeping your goals, risk tolerance, and time horizon in mind. Unfortunately, all stockbrokers are not created equal.

There are the bad, the good, and the ugly when it comes to investing. Choose the wrong broker, and it can cost you a lot of money on investment losses and unnecessary fees.

### **A Background Check Is a Must**

You need your broker to be licensed and registered in the state in which you reside, yet you also want to ensure you have the right credentials, enough experience. And there are no major breaches of compliance.



All of that information is available by contacting your state's securities regulator. The American Association of Securities Administrators provides a list of contact information for state regulators [here](#).

Equally important is how the professional is paid. Stockbrokers can be paid a percentage of their invested assets, an hourly rate, a fixed rate, or a commission on the shares they sell to them.

Unlike financial advisers who have a fiduciary duty to take into account the best interests of their clients, brokers cannot earn a commission on the sale of particular stocks, bonds, or mutual funds and can earn a commission. Often it is better to turn to a fee advisor or stockbroker who does not earn a commission. Because they do not receive paid commissions, they have no incentive to drive one action or investment idea over another.

### **Interviewing multiple runners is a must.**

A lot of thinking and searching should be done to choose a doctor, and the same diligence must be applied to finding a stockbroker. It means in addition to checking your history; You must interview multiple brokers before making a decision. It is particularly important because you want to feel comfortable with the person who handles your money.

When interviewing potential brokers, there are some key questions to ask. First, know how the broker is paid and what he can expect to pay in fees. After that, you want to know how your agent will contact you and how often.

Nothing can sour a relationship faster than an unresponsive stockbroker, especially when you're uncomfortable with an investment or when the markets are trading. Each broker will offer different investment services and products, so you also want to know what their fees are charging you. For example, does the broker offer online tools to verify your accounts, communicate, and analyze your portfolio?

Also, does the firm give you access to property research and third-party research on individual stocks, different industries, and market analysis? If you're interested in real estate or international investments, you want to make sure that the agent you go with not only offers investments in those areas but is also well-trained to invest in those industries.

### **Check out these red flags.**

The way your agent acts during the interview can tell you a lot about that person. The goal of investing is to achieve a goal that is unique to you. At the initial meeting, your broker should ask you about your goals, risk tolerance, and time horizon. But if he or she is advocating a specific investment idea or making guarantees on return instead, you should raise red flags.

If the broker doesn't take the time to know your goals and is only interested in telling you what they can do for you, it's a telltale sign that the broker has their interest in your heart, not yours.

### **Do your homework with references.**

Often one of the finest ways to find a good stockbroker is through word of mouth. Ask your family, friends, coworkers, and other acquaintances that they use for their investment advice, and you should be able to get a list of some names.

A referral can be invaluable, especially when it comes to someone you trust, but don't take the recommendation blindly. You need to do your due diligence, which means checking the agent's background, uncovering the fee structure, and interviewing the person to ensure their personalities identify themselves. After all, many of the investors who were scammed by Bernie Madoff and his Ponzi scheme blindly invested on the recommendation of a friend.

#### ***The Bottom Line***

Investing in the stock markets can be very complex and time-consuming and often requires the help of a professional. But while a stockbroker can provide invaluable service if your money grows, not all stockbrokers are created equal.

There are the good, the bad, and the ugly. Eliminating those falls on the investor and to do that requires a bit of homework. From consulting the agent's background to asking key questions before hiring someone, there are many steps to choosing the right agent for your particular financial situation.

## 4. HOW TO ASSESS RISK AND VOLATILITY

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Assessing risk is a step by step process and is a basic part of the risk management of an organization. However, risk management is also conducted on behalf of an individual as there are several types of risks; hence multiple ways and purposes are served to conduct a risk assessment or risk analysis. Mainly, two types of risk are undertaken in a casual way, and that includes:

### **Individual risk assessment**

Within individual cases and transactions, the risk is always involved. Risk can be assessed and analyzed in case of interaction between a physician and patient, a teacher and a student, a buyer and seller, and so on. It means whenever individuals interact with each other for any purpose. Individual risk can happen to occur between both sides.

However, individual risk assessment is affected by several factors like behavioral, psychological, ideological, religious, and others depend on the purpose of an individual's interaction with each other. Individual risk assessment affects rationally the whole process for which individuals interact with each other, and dealings and transactions are made among people.

So, there may be several requirements for individual risk assessment just depending on the nature of the task to be done by individuals, transactions to be made between them, and interaction is done among individuals. Whatever the purpose or reason for meeting individuals with each other, risk assessment and analysis becomes necessary to run the process smoothly.

### **Systematic risk assessment**

Systems risk assessment or management can be seen in larger scenarios and broader sense. It can also be said an organizational risk assessment

process that may require multiple problems, functional issues, and safety hurdles, etc.

Well, systems can be of two types like linear and non-linear. Whatever the type of system, several types of problems may occur over there, and it becomes essential to assess and analyze risks involved in each system. Risk can involve at all scales; from nuclear technology to food safety system and organizational or systems risks is evaluated on different parameters and requirements.

So, how to assess risk is another important point of our discussion, and the process of risk assessment involves identifying the amount of risk in a system. According to statistical and mathematical parameters, there are different ways to assess risk, and some of these are used commonly, but some are not used in routine life. Commonly used measurements of risk assessment include:

### **Standard Deviation**

Standard deviation is a commonly used method for assessing and calculating risk; it measures the dispersion of data from its expected value. This particular method of assessing risk is used in the commercial industry, where investors have to make decisions about making investments or not. The current and expected rate of return is measured and compared for important decision making in the industry.

### **Beta**

Beta is another one important tool to measure risk value in both individual and systems risk management processes. It is a mathematical and statistical term that is used to calculate the expected and current value of risk involved in any system or individual interaction. If a system has a beta value of more than 1, it would be considered the risk involved in the stock market.

### **Value at risk**

The level and value of risk are analyzed with the help of this mathematical tool, and it is also commonly used in measuring risk in the stock market. The maximum potential loss of an organization is judged using this value at risk method, and important business decisions are made

according to the results of the assessment of risk in the industry and stock market.

## **Conditional Value at risk**

This is another important and commonly used way to calculate and assess risk in the industry and stock market. Basically, tail risk is assessed using this tool, and it is also helpful in understanding the current condition of the stock market and other industries.

Risk management and risk assessment are categorized in two ways; systematic risk assessment and unsystematic risk assessment. Systematic risk is assessing risk about the market, and it also affects the overall security of the market.

However, systematic risk assessment is considered unpredictable, but hedging can be helpful in mitigating the risk of the industry. For example, unfair political affairs can affect a large span of industry and stock market, and this can be said a systematic risk involved in the stock market and other related industries of a country. Put options technique is used to sort out this type of risk.

Unsystematic risk is all about risk is involved in a particular organization, company, or sector. This type of risk is diversifiable, and it can be mitigated by the asset diversification process. A particular stock, company, or industry can be affected by this type of risk.

## **What is Volatility?**

Volatility is a particular mathematical and statistical term that is used in measuring the dispersion of a security system, a company's rate of return, and the stock market index. In most business and commercial cases, if the volatility is higher, the risk is also considered higher in the particular industry.

Multiple statistical tools are used to measure volatility in the commercial sector and the stock market. Volatility represents the current value of assets of an industry, and important business decisions are made, and strategies are formulated according to the recent condition of the company's finances.

Volatility is also referred to as the amount of risk that is involved in security and other systematic approaches of an organization. If the volatility

of an organization is lower, it would be considered that the security value will not fluctuate at once.

Traders, analysts, and risk managers use different techniques and tools to measure and assess volatility in the stock market index position. Often high volatility is considered a sign of high risk involved in the business sector and stock market sector.

Trade and business become riskier if the measuring parameters show high volatility in the stock market index. Volatility is measured by commonly used statistical tools like standard deviation, Beta, and variance.

Standard deviation is a common statistical tool that is used to measure market volatility, and Bollinger Bands is used by traders and investors to make decisions and formulate strategies in the stock market.

Maximum drawdown is another one important tool to assess volatility in the stock market, and it is useful in calculating the index points in the stock market as well. Stock price volatility is also measured by the drawdown method of assessing risk and volatility.

A beta is also a common tool that is used to measure the stock market volatility and also helpful in determining the diversification and benefits of other assets of the industry and stock market.

Regardless of measuring tools for assessing volatility, it is also important to discuss the types of volatility in the stock market and other market sectors. There are two major types of volatility that go hand in hand in all market sectors and the stock market, and they include:

## **Implied Volatility**

Implied volatility is known as projected volatility, and it is used to determine metrics of the stock market and other option traders. Having implied volatility, traders and investors are able to determine the right position of industry and stock market, and they can go ahead in all of their business dealings and transactions.

In this way, traders are also able to calculate the probability of the current stock market index and related trade and industry. However, implied volatility does not work in scientific affairs; hence there is not forecasting about how the market and industry will move forward in recent conditions.

Having implied volatility, traders cannot rely on the past performance of the organization and rate of return to move on in existing market conditions. They have to make estimates about the potential of the options in the stock market.

## **Historical Volatility**

Historical volatility is also referred to as statistical volatility, and it gauges the fluctuations of security approaches after measuring and assessing price changes over. The rise in historical volatility means the price of a security will also move to the top than its normal range.

This is the time when traders and investors expect some unusual changes in the stock market and other market sectors. If historical volatility drops down, traders are not able to move on ahead in making decisions about business development or making any investment in the industry or stock market.

Whatever the types and categories of Volatility in the stock market, it can be assessed and measured by well-known statistical tools and approaches like standard deviation, co, efficient, Beta, and making a bell-shaped curve in diagrams of measuring volatility. Investors and traders use to compare different tools of measuring and assessing volatility, and it remains helpful for them to deal with different approaches to volatility.

Volatility and risk go hand in hand in all business sectors and stock market industries. If the volatility of the stock market is high, the risk is also higher, and if volatility goes down, then there is a low risk for making investments in the stock market.

Investors and traders need to have the most reliable and valuable tools for measuring and assessing volatility and risk involved in their business industry and the stock market. And remember a tip:

*“I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful.”*

– Warren Buffet

## 5. TOP INDICATORS OF A WINNING INVESTMENT

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When it comes to stocks, people are always afraid of losing their money because of the lack of the right strategy. You can make your investment secure by applying different strategies. Some people try to learn about indicators of a winning investment, which helps them to grow their business.

If you follow the indicators in the right way and wisely, they will minimize the chances of loss and can help make more profit. These indicators are helpful for both long term and short term investment. All these indicators are present on stock market websites.

Some top indicators of a winning investment in the stock market are mentioned below:

### **Trend line**

#### **Type**

Trend indicator

#### **Computation**

When three rising price bottoms are connected, they make an uptrend, and when three falling price bottoms are connected, they make a downtrend.

#### **Signals**

When stocks are showing above an uptrend, it means that the market is positive and bullish, but when stocks show below a downtrend, it indicates that the market is negative or bearish.

#### **Takeaway**

If you are planning for the investment, but when the market goes above, then the downtrend line. If you are looking for profit or avoiding the chances of loss, then sell when market prices go below the downtrend line.



## **Simple Moving Average**

### **Type**

Trend indicator

### **Computation**

A simple moving average is simply the average fluctuation of the stock market in a selected period. Investors use this method for the long term and short term investment. People who set a plan to invest for the short term calculate average fluctuation for the last ten days.

Traders who plan for long term investment calculate average fluctuations in the stock market for the last 100 or sometimes more than 200 days.

### **Signals**

If the stocks remain above than long term indicators in which investors applied a simple average method of 100 to 200 days, then the stock market is considered to be positive and bullish.

So it makes it easy for the traders to have a sense of making the right decision to invest at the right time.

### **Takeaway**

When stocks approach long term moving average, then this is the perfect time to make your investment in the stock market, but when prices go below then moving average, then this is a time to sell. This technique is really helpful for making your money secure in stocks.

## **Rate of change**

### **Type**

Momentum indicator

### **Computation**

When we talk about stocks, we must have to pay close attention to the rates which are changing with time. Rate of change is one of the best indicators which is used to check for the percentage change in prices in the selected period. Most commonly, traders use 14 days rate of change indicator, which helps them to understand better.

### **What it signals**

After calculation, the positive rate of change indicates that the stock market is now positive, and prices are rising. The negative rate of change means the stock market is negative or prices are falling.

### **Takeaway**

Fluctuation in the rate of change indicates that stock prices will make possibly turnaround. When prices are rising, but the rate of change is not affected, it indicates the reverse of trend.

## **Relative strength Index**

### **Type**

Momentum indicator

### **Computation**

The relative strength index is based on the average ratio of high prices when stock rates rise. It also includes the average ratio of low prices when the stock market falls. This indicates how much a price can rise and fall on average. On the graph, it is plotted between 0 and 100.

### **What does it indicate?**

You will have all the information about the relative strength index by paying close attention to the graph. If the graph rises above then 70 to 80 it indicates that stocks are overbought. If the graph falls below 30 to 20, it signals that stocks are oversold.

### **Takeaway**

Set up a plan to make the investment if the relative strength index goes above then 30 to 40 twice consecutively. Sell to make a profit or avoid loss when the relative strength index goes above then 70 to 80 twice consecutively.

## **Moving Average Convergence Divergence**

### **Type**

Trend and momentum indicator

### **Computation**

Convergence Divergence is a difference between twelve and twenty-six-day moving average.

### **What does it indicate?**

If you are searching for the best way to have an idea of an upward trend and downward trend in the stock market, then moving average convergence divergence indication can help you.

If the rate of moving average convergence divergence is increasing, then this indicates an upward trend. If it is falling, it indicates a downward trend.

### **Takeaway**

Most commonly nine days, moving average convergence divergence is considered for buying and selling stocks. Make investment when it goes above than 9-day moving average and sell when moving average convergence divergence reaches below than nine days moving average.

## **Bollinger Bands**

### **Type**

Fluctuation, Trend, Momentum indicator

### **Computation**

Bollinger bands indicator is composed of three lines. The first one is 20 days moving average second one is the upper band, and the third and last one is the lower band. The two bands upper and lower are plotted in such a way that they act as two standard deviations, and their core is moving average.

### **What did it indicate?**

If you are interested to see the trend, it is indicated by the moving average. Now the gap between these two bands, which are upper and lower, signals the fluctuations in the stocks.

### **Takeaway**

When prices start reaching the upper band during high fluctuation in the market shows stocks are overbought. On the other hand, when prices start decreasing or falling towards the lower band due to a high rate of fluctuation, this indicates that the counter is oversold.

## **Fibonacci Retracements**

### **Type**

Trend indicator

## **Computation**

Percentages 23.6%, 38.2%, and 61.8% are considered the golden ratio in the stock market, which is based on the Fibonacci number series.

## **What did it indicate?**

Whenever a fall occurs in stocks, most often stock market retraces stock prices to an extent before it happens to the beginning of the next trend. Many investors believe that these retracements occur almost close to the Fibonacci numbers golden ratio.

## **Takeaway**

Occurring of retracement at 23.6% indicates the strong trend of upward retracement or downward retracement. Typically retracement ends on 38.2%. If the retracement goes over than 61.8%, this is the indication that the trend is over.

## **All about Technical Indicators**

Some technical indicators are listed below:

### **Trend indicators**

This is one of the most advanced techniques to grab an idea of market trends such as upward trend, downward trend, and sideways trend.

### **Momentum Indicators**

When traders want an in-depth analysis of trends, momentum indicators help them out to have a better understanding of the market. They just act as warning signals. In some cases, they might be giving the right information. It does not mean that all reduction in market momentum will lead to the trend reversal.

### **Volatility Indicators**

Understanding of fluctuation of stocks in the stock market is a goal of every person who has invested in stocks. Volatility indicators help to understand the unpredictability of the market. It is mostly measured in standard deviation.

### **Volume indicators**

Volume indicators play a key role in making a decision, whether it is a perfect time for making the investment or otherwise. Small traders focus on

this indicator because as soon people start selling volume decreases and rates also fall, then they consider it the best time for investment.

After some time people start buying once again and rates start rising, and they consider it the best time for selling with big profits.

### **On-Balance Volume**

On-Balance volume is the most advanced technique used by professional and experienced traders. It is a more in-depth analysis of volume indicators. The on-Balance volumes gather all the information about the volume and setup all this information on a single-line indicator.

Now, this indicator adds up the volume on up days and also subtracts the volume, which is on down days. As a result, it assists in calculating the cumulative buying and pressure of selling.

It also tells us about the trends. The escalation in prices leads to the rising of On-Balance volume. Drop down in prices leads to the falling of On-Balance volume.

### **Average Directional Index**

After knowing trends, it is most important to learn the concept of trend strength. Usually, it is graphed on a single line with the value ranging from 0 to 100. It is the most powerful technique which helps the investors to have a better understanding of a stronger zone.

Average Directional Index helps traders to build more confidence and aggressive position.

When the values on the graph reach above 20, it indicates the rise in the average directional index, and it represents that trend is getting stronger.

### **Relative Rotation Graph**

This is one of the unique indicators which is used to visualize trends in the relative strength of even more than one or multiple securities against each other.

This helps to indicate relative outclass performers in the market and tell you to pay attention to the specific area of the market, which deserves the most. According to the most expert people in stocks, the relative rotation graph indicator helps to build a portfolio.

### **Final words**

Indicators are simply the warning signals that give you certain information about different things, such as trend reversals. These can be used to have a deep understanding of the stock market. Before working on any indicator and going for the live trade, you just need to gather all the information related to that specific indicator.

Each of the indicators can be used in many different ways. Also, it can provide you with more in-depth information as long as you try to research it. It may be a tricky process for beginners who are just starting or have not started yet.

## **6. BASIC INVESTMENT TECHNIQUES**

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Investing a portion of your earnings is always a smart decision, especially in a world where nothing is permanent.

You never really know when you might end up needing your investments or savings. You don't always end up in need of them, but when you do, having a backup investment plan managed properly is a great way to sum up, your lifetime earning efforts. This way, when the hard time comes, you can be sure that you didn't work hard all your life to simply end up with nothing at all.

However, when you aren't very familiar with investment techniques, and you're more of a novice in this phase, you might end up investing your earnings in something useless or a waste of money.

Now to avoid such situations as a newbie in investing your earnings, its better you go through the basic techniques. This way, you can be sure that you'll end up investing your precious savings in something that's actually worth it.

You might think of looking for sources to help you learn these basic techniques, right? Well, you don't really have to go anywhere else, as we've got you covered with just the right basic techniques you'll need to start as a beginner in this. So let's not waste any more time and just go ahead to discover some such basic techniques.

### **10 Basic Investment Techniques for Beginners**

#### **1. Set a Goal**

When you start investing your money, you need to firstly think of what you really want from your investment. This means that even if your basic motto is to earn money through your investment.

You should mainly determine what your income is along with your financial condition, how much you can really invest according to your

circumstances, and how much profit you would need.

## **2. Early Investment is Beneficial**

Yes, it is true, whether you're a college student or studying in high school, the sooner you consider investing in something that benefits you, the more it will get easier for you to invest with time.

This simply means that your earnings would increase over time, while the investments you make would also benefit you with the passage of time. Hence, with all these aspects, starting early would help you invest less money in the future and again more of the profit.

So it doesn't matter how less you can invest in the first place or what options you've got with the least of your savings or earnings; it's all going to benefit you over time. So just go for it as early as possible!

## **3. Invest a Constant Figure Automatically**

Often we consider stalling and storing our money for some uses and needs, whether they're important or just something we're keen to invest in. And in such situations, we often utilize our investment money in such ways, ending up with no money to invest at all.

This gives the least motivation for investing further, and sooner when you'll notice, you'd probably forget about investing at all. But since it is really important for the upcoming time of your life, its better you go for an automatic investment option.

This way, the money you set aside for investing every month would be automatically taken from your account through brokerage service firms or automated investment services. Also, with this, if you even forget about the investment money, these services would make them don't.

## **4. Don't Invest Too Much**

Now considering investing a great amount of your savings or earnings with the idea of having it doubled or profited into a figure that would leave you overwhelmed is good – and also something we all think of.

When you do start investing anything anywhere, it's important you snap yourself out of those fantasized dreams and get realistic.

This means that you can't go with investing a great number of your earnings without keeping your basic expenses in mind. Since you aren't



sure of when the profit might arrive, and these bills are more of a constant paying need.

Hence, starting small with your investments, while calculating the money you'll need for your needs is certainly a great way to manage your earnings while also investing them.

### **5. Do Your Homework on Investment**

Yes, we all need this, quite aware of everything basic when it comes to investment. But that's certainly not enough when you're getting ahead with choosing options and managing the dealing process on your own. Since this is more of official business, and you can't just act amateur and new in this, even when you are.

Hence, studying the basic terminology on making the right decisions and furthermore on stocks, bonds, funds, CDs, and other such investment options – is really important.

This way, you won't only learn about investment options and what suites you according to your position, but you'll also learn how you should deal with your investment and make decisions according to the market efficiency.

All this homework would certainly benefit you in the beginning, as well as for future investment needs.

### **6. Don't Pay High Commission**

Remember this, when you go to professionals to help you look for investment options that would profit you well, you might end up being scammed by these professionals. This isn't something obvious, but as a newbie, you might end up facing these situations.

Hence, to avoid it, it's important you don't blindly trust professionals who would take a high commission from you for the investment options and further process.

In this way, you might end up paying a large commission to the professionals, while being rewarded with the least of profit afterward.

Hence, before you trust any professional and their commission demands blindly, its better you study on them and research on the investment options they offer you with. This would keep you safe from any kind of loss.

### **7. Don't Invest in One Place/Stock**

Well, investing in stocks doesn't always result in large profits, but also leads you to equal losses. However, it's in your hands if you need to limit your losses and keep it all neutral.

For this, you can always look for investment options that are completely different from what you are already investing in.

This way, when one market ends up going down for a while, the other would be up. Hence, you won't just be left with loss only, but rather both profit and loss. This would be a way of diverse investment for you, keeping you benefitted with your investment at all times.

### **8. Invest in Long-term Options**

This is highly beneficial, and that is why some of the top investors recommend beginners and everyone looking for basic investment techniques to always invest in long-term options. This mainly means that when you consider the short-term profits offered by a company and only do timely research on it, you might not end up gaining profits with that investment option for long.

So instead, investing in what might keep you happy and pleased for the next ten years, despite the ups and downs, are certainly the right company's you should look for. Hence, when you research on any company or investment option, make sure it is based on solid fundamentals as well as a strong and consistent long-term prospect.

### **9. Keep an Eye on Your Portfolio**

Now before you start thinking what this basic technique is mainly referring to, let's get to the point here. So keeping a specific portfolio carried in terms of your investments is very good.

However, you can't always invest in the same place and never really go for a change. Because most of the time, we find options that are much better in the profit or the previous ones just don't profit us much anymore.

Hence, keeping track of your portfolio and changing your investment options every time the economic market changes would certainly be a smart move. This way, you can stay away from the investments that are giving you loss, even when they once offered you great profit.

And also, you can explore new options from time to time and make the most out of your money through these options.

## **10. Continue Research**

As mentioned several times earlier, learning more on the economic market and what goes on in the present time is always a smart move in terms of investment.

This means that even when you've invested your money somewhere and have learned the most of that aspect and what's trending, you don't have to stop there.

But instead of that, reading and studying about the things you've invested in while also staying intact with the market trends every now and then, along with the global economic change – all would surely help you make smarter decisions in the future.

### **Final Words**

Investments are the smart way everyone plans to save and benefit from their income nowadays. Whether you're someone old, a young entrepreneur, or just a student, you've surely come across multiple investment options several times in your life.

As much as it all seemed pleasing, beginners find investing their money anywhere a lot frightening too. A simple reason for that is the fact that they might end up losing their precious earnings or savings.

But even if you are new in something, it shouldn't be what stops you from taking a step forward. Instead, leaning the new ways of making more profit and the tons of options you've got today to invest in; is always a great way to spend your money as well as time.

Now that you've even got some basic techniques that can help you get started and going in your investment journey just righty, there's really nothing more you should be worrying about. So without having any second thoughts, just go ahead and apply these techniques for your better future!

### **Pro Tip:**

*“Patience is the key when you are investing in the stock market.”*

## 7. WHAT YOU SHOULD KNOW ABOUT TAXES

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The stock market is a great place to pour in your savings as an investment. As only with some basic skills and knowledge on this market, you can make a great profit out of it. However, that's surely not all to what it is, as there are losses too.

But that's mainly what the stock market mainly revolves around; the losses and the profits. It's never really the same, and as much as you invest in it, the more you get to have a hold on this aspect.

However, learning just about the basics of what might result in a loss and what would profit you is not the only thing one should study. As when you're a beginner, you'd probably end up in situations that would ask you to understand more than just that.

Now, this can refer to a lot when it comes to learning everything about stock markets, but what I'm mainly referring to are the taxes.

Now whether you're a newbie in the stock market or someone who was around for a while now, learning the role of tax here is essential.

As only this way, you can be sure to make better investments in the right stocks; while understanding the tax criteria according to your position. So for a clearer view on everything about tax in the stock market, let's discuss some basics below.

### **The Long-term Capital Gains Rate Criteria**

This tax rate is mainly applied to your profit, which is less in comparison to the rate that is applied to your other income that applies a tax. As an example, if your tax rate is 15%, you're most likely to pay a tax of 5% on your stock's profit.

Whereas, if you've got a tax rate of 25% to pay, then your profits tax rate would be 15%. However, this tax rate is mainly applied to the profit kept for a year or more, which is gained by the sale of your stock.

But that's not the tax rate applied to the profit from stock selling that is kept for less than a year. As instead, when you've got profit stored for less than a year, you're more likely to pay the tax rate for it, which is equal to the ordinary tax rate you pay on your income.

## **Reducing Tax on your Stock Sales**

Here is a point to remember, when you determine the profit of your stock sale in a specific calculation method, you are more likely to understand the exact meaning of the variables in the formula. This mainly means that you can plan the exact amount in a way that you reduce the liability of the tax when you sell your stock.

Now, most of the time, we consider the full amount of the check received after selling stock to be the one that we should pay a tax on. However, that's certainly not the complete truth, as there are ways you can subtract the amount of tax you pay according to how much you can.

A simple formula to get this done is to subtract the basis of your tax amount to the sales you've received, and you'll get a deductible loss or a taxable profit you can eliminate from this profit of yours. This way, you won't really end up losing too much of the unexpected tax from your profit, especially when you don't even want to.

Now one might consider how they can really reduce the sales proceeds in all this calculation so that you don't pay too much tax, right?

Well, a simple and obvious way to do that is to pay some commission to a broker who would help you get through this. So instead of paying too much on the tax, you can pay a little in order to make sure you can get along with this formula of reducing your sales tax.

Next, is the basis in the formula just mentioned? Well, if you're still wondering what that might refer to, and then you can consider it to be the main cost of the stock you'll be selling. However, that's not all, as it can also include the dividends that you've reinvested in the stock or the commissions you pay to the opposition.

Yet, in some cases, if you've inherited a stock, then the basis would simply be determined as the fair market value of the stock after the date of the decedent's death. Also, if you've received the stock as a gift to you from

someone, then you can consider the basis to be a lower amount of the fair-market value, according to its value, at the time the gift was sent to you.

## **Experimenting with the Wash Rule**

Now you might have heard of this rule in the stock market, but understanding it from a closer perspective is also very important. Since we're mainly discussing taxes in the stock market, this rule also revolves around just that.

However, it's mainly the practice of selling a stock for profit when you're in the position of gaining loss from it, and when you do sell it and gain the profit, you buy it back instantly.

Now, this isn't really what the rule mainly is, but rather where you can apply it in your stock affairs. Hence, with the help of the 'wash rule,' you get to prevent the loss you'd get on the sale of a stock if you buy its replacement stock in the time period of 30 days.

This mainly helps you get out of the limitations applied by the IRS; that doesn't allow an investor to claim the loss after selling stock and then buying it again in less than 30 days. Hence, when you've got the 'wash rule,' you can make less loss through a stock.

## **Deduction of Capital Losses**

When you face losses in your stock market, you are allowed to deduct an amount with respect to the losses from your tax returning amount. Now as much as this is a benefitting factor of the stock market, you're also supposed to face some limitation here.

This means that you are only allowed to gain a specific amount of your losses through the tax return every year. Hence, no matter how many stocks you sell at a loss, you are going to be able to deduct only \$3,000 per year. And the rest of your loss would be taken forward to provide to you in the coming years.

However, if you're willing to first calculate all your losses and gains through this specific limitation and understanding how what you'll be ending up with, you can always apply the capital losses against the capital gains you achieve – both in the present year and the one's coming afterward.

## **Other Deductible Expenses in Investment**

Often we don't pay attention to a specifically less tax deduction from our profits, which is mainly the commission of the brokers in the stock market. However, these aren't just any brokers, but rather the one's who either manage our mutual fund account or simply provide us with advisory services in the stock market. And so, this tax amount is deducted as a fee for their services offered to us.

But if you don't feel like allowing the deduction of this fee, then you've always got a long-term option of having these fees deducted back to your account. This deduction to provide your fees back to you can take place as an investment expense on Schedule A, which would be possible on your tax return.

Now in terms of understanding the exact amount deducted from your profit for the broker fees, you'll need to do a little work. This doesn't mean proper research and study on it, as most of the broker fees depend upon the 1099s of year-end statements – where you can find a statement provided on the total charged fee for a year.

But since many brokers do not follow this criterion, you might simply have to contact your broker and ask them for how much fee you paid. This way, you can have a clear idea of how much you would want to take back as the deduction.

## **Final verdict**

Almost everyone nowadays considers the stock market as a great source of investment and profit income. And so, we'd quite often notice how most of the people around us are a part of this market. And why not? When there's such a huge stock market available for you to invest and gain profit from, there's hardly any reason one should step back from it.

However, even with all the pros one might consider this hugely benefiting market, there are certainly some loopholes one should consider before stepping into it. Now one obvious one here might be the fact that you might lose just as much as you would gain (unless you don't master the investing techniques). But other than that, the tax factor in the stock market is also

something one should study about; before you end up noticing that your profits have lessened.

Now keeping that in mind and the fact that not many consider the taxing of their stocks to be as important of an enlightening subject for them as others in this aspect, we've aligned everything important you should learn about. Now keeping that in mind and the fact that not many consider the taxing of their stocks to be as important of an enlightening subject for them as others in this aspect; hence, just go ahead; and make the most of it!



## 8. ALL ABOUT THE BULL & BEAR MARKET

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Incorporate the world; you must have heard the words Bull and Bear; this is a general description for dual market conditions rise and down. Simply, a bull market is just about the market is on the rise, and its economy is sound and stable, whereas a bear market describes the down condition of the economy in which stocks are in decline in value.

This particular name and the term is used to describe what markets are doing in general and what its positions in the current situation are. Bull and Bear also narrate about appreciation and depreciation of market value. Investors and traders are also given names as Bullish and Bearish according to the particular market conditions.

Bull and Bear both names are just phrases that indicate the current condition and situation of the market; hence behavior and mentality of investors and traders can also be judged in a particular scenario. If the market is Bull, the investors would be named as Bullish, but if the market is bear, then they would be called Bearish.

There is a historical background behind these particular terms and names of market conditions, and they are related to the psychology and gestures of both animals bear and bull. However, it is also said that actual expression for these terms is just unclear right now, but it can be described according to bull and bear's action.

For example, a bull is always seen to attack by its horns upwards while the bear is analyzed attacking with its paws downwards. So these factors can be considered for giving names to market conditions; up and down.

Actions of both animals are related metaphorically to the market conditions. If the economy is up, it would be considered a bull market, and if the stock goes down, it would be named as a bear market.

Whatever the origin of these phrases and terms, they are interesting and seen to be rational in the corporate world. Our next discussion would be

based on all about the bull and bear market. What market conditions and indicators can fall in both types of terms or categories? So, keep reading the following lines for the interesting narration of the bull and bear market.

Some of the usual indicators of the bull market include:

### **High Gross Domestic Products**

This is simply a usual indicator for a well-established, stable, sound, and flourishes economy as it is bull market condition. In this particular condition, GDP remains high; hence consumer spending is also upward.

### **Rising Stock Prices**

Rising stock prices leave a very good impact on the mentality and behavior of people associated with bull market conditions, and they get more confident in making investments in the industry. Prices and rates are also increased in this particular market condition.

### **Longer Stock Trading**

The whole environment and climate of the market last cool and hopeful, so investors feel free to busy their shares on more business sides. This is the reason this condition is related to longer stock trading terms.

### **Lower Unemployment Rates**

In bull market conditions, more and more people are hired on jobs, and there is no concept of unemployment. Up-gradation of business means there is growth in the workforce, and most of the people are hoping to be part of the good ear of industry.

Another good point of bull market conditions is that it remains longer than bear market conditions. Not only this, but the average total return for a bull market is also seen to grow. If we see a global scenario of bull market conditions, we can find notable examples of bull market conditions in the corporate world historically. Like:

## **The Bull Market History**

### **The 1940s-1950s**

It was a time after post second world war, and it was the bull market condition when the US economy was at the top, and most of the soldiers were returned to their homes.

### **1980s-2000s**

This was also a golden period for US economic conditions, and it was a bull market when a 600% average return rate was determined to be gain in the overall corporate world.

### **Today**

US economic conditions have consistently grown up since 2017. This is also said to be a golden era of the corporate world in the United States as jobs are always available over there, average returns for investment have grown up, investors are always ready to put their part in trading activities and business.

So this is a bull market in a nutshell; however, whatever the condition of the bull market is, it can exist with a bear market. Further, we are going to describe the same information about the bear market. So don't leave it without reading the following lines.

In contrast with the bull market, a bear market is just all about going down, getting pessimism, the condition of trade is stagnation, trends are down, people are unconfident and insecure, stocks are sold rather than buying, etc. This is a bear market condition where there are no jobs, no hope, no business planning at all.

## **The Bear Market Indicators**

Some of the usual indicators for the bear market include:

### **Fall down of Market Prices**

Investors and traders become bearish in a bear market, and they are not willing to buy a new share of the business that results in complete fall down in market prices and stability of industry as well.

### **Complete Unemployment**

Unavailability of jobs or relatively low rates of employment is a clear sign of bear market. Fall down of companies and shareholders results in layoffs and downfall of the workforce as well.

## **Shorter Stock Trading**

In the bear market, stock trading conditions get more bearish, and investors do not buy and sell stock shares. The industry stops at all.

Although a bear market is seen to be very bad, it does not last long at all. A study by Morningstar reveals the fact that average bear market conditions last just for 1.4 years in the history of the corporate world.

Regardless of indicators and facts about the bear market, there are several notable examples of the bear market that last in the history of the US economy.

## **The Bear Market History**

### **1929s**

During this session of the year, the US economy was seen to be paralyzed entirely as there were no jobs; people get homeless and lost wellbeing. Not only America but the entire world was impacted by the bear market conditions in the United States in 1929.

### **The 2000s**

This was the time when there was a severe downfall of tech companies in the United States, and it was called a bear market.

### **2008s**

2008 was the time for the housing market crash. This was a severe bear market as there were no jobs, homeowners lost their homes and traders get empty and fail to even think about investing in stock shares. This bad bear market is felt till now the United States has come into the bull market.

Investors and traders are always seen scary about the bear market as it is a scary and empty region in the corporate world, but it does not last long as we have seen in the previous history of the United States economic survey and information.

From our discussion put above, you can now better understand a clear difference between the Bull and Bear markets. Both conditions are contrary but go hand in hand with each other.

You know, up and downs are parts of life, and everyone has to go through both of these phases, whether it relates to the personal life of an individual or it is associated with a corporate world. We can say that the

Bull and Bear market reflects the general overview and behavior of practical life.

Don't you think that this particular term or name of market conditions is pretty much interesting? These market conditions are associated with the attack actions of two animals Bull and Bear.

Well, the importance and existence of both the Bull and Bear market are undeniable, but both animals are remarkable for their incredible and unpredictable strength to attack and defense. Some facts reveal the evidence of Bull and Bear market concepts from the era of Elizabeth and ancient times when bull and bear were together to entertain the people come in the crowd.

The fight between Bull and Bear is famous in this regard, and this is the reason both market conditions are named accordingly.

So, what do bull and bear market means for you become important to ask after giving you solid facts and information about bull and bear market? Hopefully, this would be pretty much enough about the bull and bear market. Good Luck with your investment!

## **9. COMMON STOCK EXCHANGE TERMS AND WHAT THEY MEAN**

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If you are planning to start investing your money in the stock market, then there are some common stock exchange terms that you must know. These terms are very important in understanding the behavior of the stock market.

You should also have known the basics before diving onto the live trade. If you want to become a successful trader, these terms will assist you in achieving your goals and building your career in the stock market.

### **What is the Stock Market?**

In short, any exchange allows people to buy and selling of stocks and give permission to companies to issue stocks to people. Stocks represent the company's ownership or equity. Shares are the units of the company. When people invest in the stock market, it means that they have bought shares of one or more than one stock.

What does the stock exchange term mean?

Stock exchange terms are slang specifically for industry security. Professionals and expert traders use these terms to talk about different game plans, patterns, charts, and many other related elements of the stock market industry.

Common stock exchange terms are listed below:

### **1-Annual Report**

The annual report is specifically made by the company for its shareholders. This report is designed in such a way that it attracts the shareholders. The annual report carries all the information about the company's shares and their game plan for the present and future. When you are going through the annual report, you are gathering information about the company's financial situation.

## **2- Arbitrage**

This is one of the most advanced terms in the stock market, which every trader should know. This refers to buying stocks at a low price from one market and selling at a higher rate on another market.

For example, sometimes a stock ABC trade on 50\$ on one market and the same stock on the other market trade on 55\$ so traders buy shares on low price points and sell them on higher rates to make the profit.

## **3-Averaging Down**

When stock prices fall, and you plan to buy stocks on lower rates, your average buying prices decrease. This strategy is used most commonly in the stock market. After buying, you plan to sell those stocks shares when the stock market rebounds.

## **4- Bear Market**

A bear market is opposite to Bull market. It means that the overall market is negative or falling. In this stage, the market falls up to 20% the quarter after quarter. This is one of the scariest situations for big investors because their investments are at great risk.

## **5- Bull Market**

Bull Market is opposite to the bear market. Bull market meant the rising of the stock points. In this stage, people start investing money in the stock market because of their positive behavior.

## **6- Beta**

This is the whole relationship between the stocks and the overall market. If stock ABC has a beta of 5.5, it means that for every one-point movement in the market, the stock ABC moves 5.5 points and vice versa.

## **7- Blue Chip Stocks**

These are the stocks that large backup companies and leading industries. Blue-chip stocks are well known for their management and sound records. This expression is thought to be derived from casinos where blue gambling chips are used.

## **8- Bourse**

In short, Bourse is a modern and more advanced name of the stock market. It means where people gather for the purchasing and selling of stock shares. Most commonly, it refers to Parris stock exchanges or non-US stock exchanges.

## **9- Broker**

Many people who are beginners and don't understand the behavior of the stock market make contact with different brokers. These brokers are experienced traders who have sound knowledge of trading of stocks. These beginners contact these brokers and ask them to buy and sell stocks for them. Brokers charge high commissions for these services.

## **10- Bid**

Bidding is as common and simple as we do in freelancing and other daily projects. In stock market bidder, who is a buyer bid for a specific share. Bid means the buyer willing to buy the share on his desired rates. The bid is made according to the asking price of the seller.

## **11- Close**

Simply this refers to the time when trading will stop, and the stock market will close. Its timings vary from country to country. Each stock market has its own time of closing and opening. After closing the stock market, it is not available for live trade.

## **12- Day trading**

This is one of the most advanced terms in the stock market. Day trading refers to buying and selling of stocks shares on the same day. This method is used by many experienced traders.

After buying shares, people wait for the next day to sell them at much higher rates. But there are 50/50 chances that they may end up with profit or loss. So, Day trading is a smart strategy, but it requires a lot of experience to make profits.

## **13- Dividend**



Many companies offer incentives to attract more traders to their company. Some companies pay their shareholders one of their earnings portions, which are called the dividend. Some companies pay dividends annually or quarterly. Not all companies offer a dividend.

#### **14- Exchange**

Exchange refers to a place where thousands of investments are traded daily. There are many popular exchanges in the world. New York Stock Exchange is one of the most popular exchanges in the world, which is present in the United States of America.

#### **15- Execution**

We are familiar with this term in the sense of computer where it means the completion of a task. In the stock market, it also acts the same as in the said case. When a trader buys or sells stock shares, after completion, it is said that the transaction has been executed.

#### **16- Haircut**

The haircut is the most known term used in the stock market. It is the slight difference between the bid made by the buyer and the asking price of the seller.

#### **17- High**

High indicates the milestone reached by the stocks. It points out that the specific stock has never reached such a high price before. In the stock market, there is also one other high. This high is used to demonstrate the milestone reached by stocks in a specific period. It may be fortnightly or in 30 days.

#### **18- Initial Public Offering**

Initial Public Offering means that when a company decides to expand its business and offers its stocks available for the public. The Securities Exchange Commissions is responsible for issuing Initial Public offering and is very strict against its rules.

#### **19- Leverage**

Leverage is considered the riskiest and dangerous game tom plays in the stock market. After having your complete research, you decide to borrow shares from your broker and set up a plan to sell them on higher rates. If you successfully sell those shares on higher rates, you again return those borrowed shares to the broker and keep the difference.

## **20- Low**

Low is opposite to high. It indicates that the specific stocks have never fallen to this price before. Low is also demonstrated for a specific period may be weekly or monthly.

## **21- Margin**

Margin is almost the same as that of leverage. It is also considered one of the riskiest game. It is an account that allows you to borrow money from the broker to invest that money into the stocks. Now the difference between the loan which you borrowed from the broker and rates of the securities is called margin.

Margin is not for beginners; even the most experienced traders fail to apply this strategy.

## **22- Moving Average**

Moving average is the average price of the stock shares at a specific time. 50 and 200 are considered the best common time frames to study the behavior of the moving average.

## **23- Open**

Simply open refers to the time when the stock market is open for the live trade. Traders start buying and selling of stocks according to their plans. This varies from country to country. Every stock market has its own time to open and close.

## **24- Order**

Order is the same as bid, but in the order, you decide to buy or sell stock shares according to your plan after deciding your order to sell or buy the

stocks. For example, if you are willing to buy 200 shares, then you have to make an order.

## **25- pink sheet stocks**

Many beginners take start with pink sheet stocks. If you are just planning to invest in this stock market, you most probably have listened to pink sheet stocks. These are penny stocks and are traded on a small scale, and each share price is 5\$ or even less than that. Because these are the shares of smaller company's, you will not find them on the big markets such New York Stock Exchange.

## **26- Sector**

There are dozens of companies that belong to the same industry. These companies are available publically on the stock market to buy their shares. These stocks groups which belong to the same industry are called sectors.

Many experienced traders trades in a single sector, such as cement or steel. There are many advantages to investing in the same sector because it is much easy to predict the fluctuations.

## 10. TIPS AND TRICKS FOR INVESTING IN THE STOCK EXCHANGE

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Almost everyone is searching for a shortcut, which leads them to success. Its human nature, we always look for miracles that can change everything. When it comes to the stock market, people are scared of losing their investments. They find ways that could become beneficial for them to secure their investments and make a profit.

Avoiding loss in stocks is not an easy task, and even sometimes, experienced traders fail to achieve their goals. With time by learning more and more about stock market behavior is the only way to get success.

There are some pro tips and tricks for investing in stock exchange which every trader should know:

### **1- Invest in Index Fund**

One of the most important tips for investing is to invest in an index fund instead of looking to invest in individual stocks. It also depends upon your goals, but investing in individual funds is not a good approach.

If you are taking stocks on a serious note, then investing in an index fund in a specific sector can be a great way to build your portfolio. It also helps to focus on one thing. There are some important points to remember while investing in an index fund. These are expense ratio and assets in total.

### **2- Focus on Mutual Funds**

It is a well-known saying that putting all eggs in one basket is always the worst choice. When you are planning to buy some stocks shares, do remember not to invest in single stocks. Always find good growth mutual funds and put your money in it. This approach is the most secure one, but it seems boring and time taking. But many people love to focus on mutual funds. This technique helps to minimize the chances of losing investment.

### 3- Timing the Market

Many beginners think that there are sometimes when the selling or buying of stocks can make them profits. They all end up losing their money. Learning market volatility is not an easy task. Some experienced traders also believe that timing the market is not a good way to dominate in the stock market. You have to experience about market fluctuations and sell or buy stocks accordingly. There is no best and worst time to buy or sell stock shares.

### 4- Set Goals

Setting up goals is always the best method that every person should follow, which leads to success. People without goals are like blind people. Before diving into the stock market, first of all, you should set the goals of your investments. When you have set a long term plan, then you will have a better understanding of what to do and how to reach the destination.

### 5- Five Golden steps of trading to learn:

- **Setup:** A setup is composed of a high probability pattern to follow on the chart. It also ensures the reason why you are considering a trade. You need to track them to make sure that how consistent they are.
- **Strategy:** There must be a way to trade the setup and the perfect plan for it, which seems to be working. Beginners should always work on the strategies and spend time on it.
- **Entry:** Entry can make a big difference. If you enter the right way, then you will end up making a profit. On the other hand, the wrong entry will lead you to make run out of money.
- **Stop:** There should always be a stopping point when you are going through live trade. This whole thing should be pre-planned, and you should know why you are going to stop.
- **Profit Target:** When things start getting right in your favor, you sometimes make bad decisions. Instead of regretting later on, make decisions to set a profit target.

### 6- Have a balance of investments

There are three types of investments, which are low, high, and moderate risk investments. All these investments have some pros and cons. Keeping a balance between these three risky investments can be a wise approach. If you are just starting, then prefer to invest in low-risk investments.

As soon as you get some experience, move to the moderate and then high-risk investments. Low-risk investments can make you small profits, but instead of losing all of your money in high-risk investments, consider low and moderate risk investments.

## **7- Think for long term**

We always look for short term methods which can make big profits. But in reality, these things are nothing. So always plan for the long term. Try to invest your time in learning the behavior of the stocks to make more profits in the long run.

## **8- Buy value stocks**

Value stocks mean stocks that are established with minimum variations. If you want to get success in the stock market, you need to learn the volatility of the stocks. Buying value stocks can make your investments much safer and secure. While looking for value stocks, consider their earning ratio and price to sales ratio.

## **9- Diversify investments among sectors**

No one can predict the stock market uncertainty. A sudden change in the country or even abroad can affect the stock market. This sudden change may be a political activity, a storm, a disaster, or any unusual thing. Diversification of investments among sectors is a proven way to minimize the chances of losing investments.

## **10- How much risk you can take?**

Before start trading, you should make your mind clear that how much risk you can take. There are some pros and cons of this strategy. This strategy helps to have a better understanding of your game plan. Whether you are going for long term or you have made your plan for the long term in both cases, you need to be clear about how much risk you can bear.

## **11- Control your emotions**

One of the key activities to achieve your goals in the stock market is to be patient. The stock market is considered one of the most uncertain market. No one knows what will happen in the next minute. People lose millions in seconds.

To control your emotions at that time is a hard task. But to become a mature trader, you must have the capability to see your pockets running out of money. With a relaxed mind, you can set a plan B and C to get things in the right direction.

## **12- 360 Degree View**

Experienced traders always dive deep into learning more about stocks every day. This is the reason because of which you gain more and more experience. Whether you are buying or selling stocks shares, you always be completely aware of what you are doing.

You must be clear about what its outcomes will be. There must be some strategies for the sudden uncertainty to keep you stable in the market.

## **13- Automate stocks**

Automating your stocks is a key activity to gain more experience in the stock market. It also helps to build your security and play on the safe side. If you are not willing to do it manually, then Robo-Advisors are always there to assist you. When you have a habit of regular investments, then you also avoid timing the market strategy.

## **14- Say no to leverage**

Leverage simply refers to start investing in stocks by borrowing money. There are many ways to borrow money. For example, you can also borrow from brokerage firms. Some people who are new to the stock market use this method to start their stock market journey. There are bright chances of their failure because of high risks are involved. This strategy can do work for you when you have gained much experience in stocks.

## **15- Choose one sector**

Investing in one sector can be a better approach. Professional traders always invest in one sector. There are many advantages to investing in one sector. If your focus is on one industry, you will learn more in a short time. You will also start getting familiar with the fluctuations in the industry.

## **16- Risk vs. Return**

Simply, more risky investments always have chances of big profits. On the other hand, less risky investments have small profit margins. So, you have to be clear with your game plan that how much return; you are willing to have. People always make foolish mistakes and goes for high-profit margins and lose their money. So instead of regretting at that time, invest in between high and low-risk investments.

## **17- Buy low sell higher**

This is the most well-known method which almost all the traders apply. But some people get wrong with this strategy, and instead of making a profit, they end up with the loss. One of the most important factors to consider while buying low price stocks is to calculate their standard deviation.

If the stocks in which you are interested in buying to have a 15% standard deviation, you are good to go. It will be a better strategy if your stock standard deviation falls below then 15% in a short period. There are bright chances of that specific stock that now it will go up.

## **Final Word**

Many people believe that stocks are a scam, but if you set up things in the right direction, then these stocks can make you more profit than any other business in the world. All you need is not to focus on investing your money in the stock market, but you need to invest your time to learn the stock market. No one can ever predict with 100% surety about the stocks.

But by gaining more experience, you can understand the behavior of stocks and learn about the fluctuations. Before going for the live trade, considers all the above-mentioned tips and tricks for investing in the stock market to make your journey in stocks successful.



## CONCLUSION

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Thank you for downloading my book on stock market investment. It is a self-help book for newbies who want to start as investors and make money. Filled with top rules, regulations, important terms, and strategies that one should know before jumping into the investment game, the book encompasses all the beneficial information needed for new investors.

Here is one question for you, may I ask? What did you learn from this book? Can you recall?

Here is what I tell everyone to remember while investing in the stock exchange:

*“Rule number one: Don’t lose money. Rule number two: Don’t forget rule number one.”*

Warren Buffett

How can you make this sure? Follow the set of advice, suggestions, and guidelines given in this book. Hope you found it helpful and worthy to keep. Please do not forget to give us your feedback so we can improve further.

Thank you, Happy Investing!

## OPTIONS TRADING FOR BEGINNERS

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Trade for a living and earn extra passive income. Invest from home, learn how to swing trade stocks. Tips on risk management. Get financial freedom with a positive ROI in 7 days

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# INTRODUCTION

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Out of many misconceptions, one that surrounds many markets is options are risky. Well, if you ask an options trader, he won't agree to this. The reason is if options trading were risky, it would have been an obsolete concept in the market. Why are more and more traders and investors jumping into this business?

There is just fear that makes people think that options are not profitable. All you need to do is grab all the concepts carefully and apply them when needed. Moreover, make sure you pick the right strategy and at the right time.

"Investing should be more like watching paint dry or watching grass grow. If you want excitement, take \$800 and go to Las Vegas." - Paul Samuelson

Have some patience since investment is no joke! According to a ballpark estimate, a beginner needs at least one to two years to become a highly successful trader.

You can rely on this beginners' guide book on options trading that contains all the basic concepts, tips, techniques, solutions related to options trading. Read the theory carefully and then implement the concepts given in it one by one. Here is an authentic mantra to options trading:

Whenever you make a trading strategy, think it through at least three times before your final call – this is the real recipe to success!

# 1.OPTIONS TRADING BASICS

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*“Never invest in a business you cannot understand,” says Warren Buffett, the famous American Investor, and we agree to him! That’s why we shall start from scratch for you in this book.*

In this chapter, you will learn the basics of Options Trading with examples. We suggest you take notes of the new concepts you come across in here so you could absorb more than expected.

Here is a Pro Tip: Focus on the concepts and terms given in this. This will help you grab the basics really well. So, shall we start?

## **What Options Trading is?**

At first, options trading looks overpowering, but it is very easy to understand if you start from scratch. By that we mean if you start from concept to concept.

Basically, traders’ portfolios are created with different asset categories. For instance, they may be ETFs, stocks, mutual funds, and bonds, etcetera. Options are sort of an asset category with many frills. Meaning, they can give you more benefits than ETFs and stocks.

## **Uses of Options**

Options can make a trader powerful. It is because they can add to a trader’s income, leverage, and protection. For every investor, there is an option scenario present. For instance, one can use options as a beneficial hedge against a falling stock market in order to limit the losses. They can also be utilized to make recurring earnings. Besides, options are also used for ‘speculative purposes’ like betting on the movement of stocks, etcetera.

With bonds and stocks, there isn’t anything such as free lunch. Options are also not different. It involves risk, and investors should be well-aware of this.

## **Derivatives**

Derivatives are considered as a ‘bigger’ group of securities – and options belong to them. A derivative’s price is ‘derived’ from something else. For instance, ketchup is the derivate of tomatoes, and fries are the derivative of potatoes. Similarly, a stock option is the derivate of stocks, while options are derived from financial securities.

Some of the examples of derivate include puts, calls, mortgage-backed securities, futures, swaps, forwards, and more.

So, what you understand by options?

- Options are basically contracts. They allow buyers the rights (not obligations) to purchase or sell (in case of a call or put) a specific asset at a certain price or before specified expiry date.
- Investors use them for generating income, hedging risks, or speculating.
- They are called derivatives. The reason is options derive their value from underlying assets.
- A (stock option) contract typically has 100 shares of (an underlying) stock, but they may be written on any type of underlying asset from currencies, bonds to commodities.

## **Options Trading Characteristics**

### **All Options Expire**

Remember, all options expire one day. This means they ‘DIE’ after the expiration day. This expiry could be after two days or two years. Meaning, traders need to think about the expiry time before buying an option.

Stocks can be held for life, on the other hand.

### **All Options Have a Strike Price**

There is a ‘strike price’ for every option. This is the prince in which an option can be converted into ‘shares of stock.’ For instance, if there is a strike price set for an option at \$109. You can use the option to buy/sell shares of stock at this strike price.

### **Option Contract Multiplier**

Let us suppose there is a share of stock with a price of \$105. It can be purchased at \$105. When an option is \$6.00, It CANNOT be purchased at \$6.00. you would rather need \$600 to buy this.

The reason is options can be traded with 100 shares of stock. Meaning, you need to multiply an option price with 100 to attain its 'premium.'

## **Types of Options**

Options trading has immense upward potential with limited risk. There are two main types of Options.

- **Call Options**

Call option price shows an upward movement when the stock price increases, and it starts to go down when the stock price goes down. Meaning, you can say that it is directly proportional to stock prices.

Call Option Price moves with the Stock price!

One can share 100 shares of stock with the strike price of a Call Option. Let us suppose that there is a rental apartment, and its price is \$200,000. You want to purchase this apartment, thinking that its value will be doubled after some time. However, you do not want to pay the full price of this apartment.

What to do?

You can purchase a 'Call Option' for this apartment. This option will allow you to make this purchase (of amount \$200,000) in 24 months. But this process will involve a contract, and you will have to pay for that contract.

This financial contract is known as 'Option.'

So, the strike price of this option will be \$200,000 with the expiration date of 24 months. The advantage of this is if the apartment price rises during this period, it won't affect you (you will not have to pay extra on that).

Now, let us imagine that the opposite happens. The price of the apartment does not increase in value. Rather it decreases after 24 months to \$150,000.

In this case, you are not forced to buy the apartment because you have the option not to buy it. With the decreased price of \$150,000 in mind, you

will not opt to purchase it at the strike price of \$200,000.

Since you paid for the contract at a minimal price (the contract), you only lose that. Now compare this loss with the option to buy the house by paying the full price at once. You would have lost \$200,000 or (at least \$50,000), wouldn't you?

## **What is Call? What is Put?**

A call option allows an investor the right to purchase stock, while the put option allows him to sell it. Here is an example of the Call option. A person may be interested in purchasing a new apartment in a new building under construction near his locality. However, he would only want to pay for it once the construction work is complete.

That person can take advantage of his purchase option. Through option, he can purchase it from the owner in the next four years at (let us say) \$400,000 as a down payment. This cost will be called "premium."

Here is a put example. Suppose you buy a home, and with that, you also purchase a homeowner's insurance policy. This policy helps to protect your property against damage. You have to pay a premium for this for a fixed period of time. This premium is highly valuable, and it helps to protect the insurance holder in case of a home accident.

Suppose, instead of an apartment, your asset was index investment or stock. So, if a trader wants to buy insurance on his S & P 500 Index, he can buy put options.

Suppose again that you foresee bear market in the future, and you do not want to lose more than 10 or 11 percent in that Index. If the Index trades at \$2800 (for instance), you can buy a put option, which will make you eligible to sell the Index at \$2550 at any point before the expiration date.

This will help reduce your loss. Even if the market drops at zero, your loss would not be more than 10 percent, in case you hold the put option.

## **Buying and Selling**

Options allow you to do four things:

- Sell Calls
- Sell Puts
- Buy Calls

- Buy Put

Keep these four scenarios in mind because this is important when you enter the trading business. Purchasing stock offers a long position for investors. But buying a call option can extend your position (it can make it even longer). Short selling offers a shorter position. In an underlying stock, selling an uncovered call also gives a short position.

Similarly, buying puts also makes a short position for you in the underlying stocks. While selling naked puts offers you a longer position.

Remember that buyers of options are known as holders, and sellers of options are known as option 'Writers.'

1. There is no obligation on call and put holders to buy or sell. They have their rights. The only risk for them is to spend money on buying premium.

2. However, it is important to call and put writers to buy and sell in case their option expires. This means they can make more, but they also have a higher risk level than holders.

## 2. WHY TRADE WITH OPTIONS

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Options trading first started in 1973. They can give a lot of benefits to individual traders, though they have a reputation for being risky. Well, you must be thinking, what are those benefits, aren't you? Here is the answer to this.

### **The Benefits of Options Trading**

Although options have been around for quite a time now, most investors still 'fear' using them. The reason is less information and incorrect use. Meaning, if you have good knowledge of all the basics of options (like we are providing here), you are more likely to succeed as an investor.

Individual investors should be aware of the correct usage and benefits of options before blindly following the rumors that options are 'risky.'

### **Options have Low Risk**

Some situations call for high risk for buying options than having equities. However, there are also scenarios when using options trading becomes the best strategy. This also depends on how properly you use them. Options need low financial commitment than equities. Moreover, they are impervious, which promises less risk.

Another quality of options is compared with stocks; options are safer. They are protected by stock-loss order. This order helps to halt losses under a predetermined price indicated by the trader. However, the nature of the order also matters a lot.

Let us suppose a trader purchases a stock investing \$50. He does not want to lose more than 10 percent; he places a \$45 stop order. It becomes a market order when the stock trades below this price. This order can work during the daytime, not during night time.

For instance, stocks close at \$51, but the next day, you hear bad news about stocks like the company owner lies about earnings or there is embezzlement noted. Stocks might open down at \$20. If this happens, this



price would be the first trade below the investor's stop order price. The trader would sell at this price (\$20), locking in the loss.

For his protection, if the trader had bought the put, he would not have suffered from that loss. Options do not close when the market goes down and closes. This happens with stop orders. Meaning, stop orders close if the market shuts down.

Options keep the traders covered 24/7. Stop orders cannot provide insurance 24 hours. This is why options are considered as a 'dependable form of hedging.'

## **Options are More Cost-Effective**

With greater leveraging power, options can help save you a lot of money. You can attain an option position the same as you obtain a stock position. To buy 200 shares of a stock worth \$80, you have to pay \$16,000, for instance. But if you want to buy double calls worth \$20 (representing 100 shares contract), the total expenditure would be \$4000. How?

Try this formula: 2 contracts multiply by 100 shares divided by contract x \$20 price in the market. You will have an additional \$12,000 for use at your discretion.

Although this is not so simple, it requires a good understanding and good strategy. You will need to pick the right call at the right time to buy for mimicking the stock position in the correct manner. This strategy is known as Stock Replacement, which is not only viable but also cost-effective and practical.

Let's suppose you want to buy Schlumberger (SLB, thinking that it might increase in value in the next few months. You think you should buy 200 shares and the company is trading at \$131. So, your overlay would be \$26,200.

Instead of investing such a heavy amount, you could pick options to mimic the stocks and buy a call option called, August – using only a \$100 strike price for \$34.

If you want to acquire a position equal to the size of 200 shares that are mentioned above, you need to purchase double contracts. Your total investment for this would be \$6,800, instead of \$26,200. (Here is how:

double contacts x 100 shares/contract x market price of \$34). You can also get interested on this or use your money for another investment.

### **Options Offer Higher Returns**

Options trading promises higher percentage returns. Traders do not need a calculator to find this. They can invest a low amount and get a higher amount back.

Let us consider the above use case to compare the return on investment. Traders need to purchase stocks for \$50 and an option for \$6. Suppose options price changes by 80 percent (of the stock price). If stocks move up to \$5.5, a trader will get a 10 percent return. But the option would gain 80 percent of the stock price of \$4.5. A return of this kind on \$6 investment amounts to 67.5 percent, which is much better than a 10 percent profit on stocks.

### **More Alternatives with Options**

Traders can find more investing alternatives with options. They are highly flexible. There are many strategies to recreate synthetic option positions.

These positions offer investors a plethora of ways to obtain their investment goals. Besides synthetic positions, options have many other alternatives. For instance, many investors work with brokers who charge a little margin for shorting stocks. Other traders work with them (brokers) who do not wish to short stocks.

The incapability to do the downside when required limits traders and investors. However, no broker can rule against traders for buying puts in order to 'play the downside.' This is a big benefit for investors.

Options also allow traders to trade the 'third dimension' of the market. Interestingly, they can even trade-in 'no direction,' stock movements, and during volatility. Mostly, stocks do not show 'big' moves; but investors have the edge to trade in stagnation too. Thus, options can only offer multiple alternatives that can give them profit in all types of markets.

### **Why Options are a Better Choice?**

Still, if you want to know why options are a better choice, read this out:

## **Hedging**

The main purpose of inventing options was hedging. It helps to reduce risk. So, take options as your insurance policy. Like you insure your car and home, options can ensure your investment in case of a downfall movement.

Suppose a trader wants to buy something related to tech stocks. But he also wants to limit his loss. The trader can do these easy throughput options, which give him two benefits: minimize risk and maximize profit. Short selling can also reduce loss at the time of a downturn.

## **Speculation**

The ability to predict the future price is speculation, as its name hints. You might think that the price of a stock would go down in a day, based on technical or fundamental analysis. He might sell the stock or sell put after the speculation.

This has got an attraction for many investors to call options because it offers leverage. A call option (out of the money) may cost only some cents of a few dollars compared to the \$100 stock's full price.

### **How does Options Trading work?**

When weighing option contracts, it is important to determine the future probabilities. Options get costlier when there is higher predictability in the future. For example, when a stock value rises, the call value also increases. This is crucial to understand the value of options.

A shorter expiry means a lower value of an option as the chances of price rise diminish as the expiry comes near. If a trader purchases an out-of-money 1-month option, while stocks do not move, it loses its value. It is because time is money when it comes to options trading. This wasting of options is called 'time decay.'

Similarly, if a trader buys an option with a longer expiry; the chances of price movement for that option becomes brighter and brighter as there is enough time for the price to get bigger.

The price also goes up with volatility. When the market is uncertain, the odds get higher. If an asset's volatility goes up, price swings maximize the probability of substantial movements both up and downwards.

Higher price swings also up the chances of an occurring event. It means, the higher the volatility, the greater the options price. Volatility and options trading essentially linked to each other in a way.

On many exchanges, a stock option allows you to buy/sell 100 shares. This is why you should multiply your premium with 100 to get the final amount.

Check out this Example of Investment Table:

	<b>June 1</b>	<b>June 21</b>	<b>Expiry Date</b>
<b>Stock Price</b>	\$67	\$78	\$62
<b>Options Price</b>	\$3.15	\$8.25	No Value
<b>Contract Value</b>	\$315	\$825	\$0
<b>Paper Loss/Gain</b>	\$0	\$510	-\$315

Most of the time, holders make profits by closing out their positions. Meaning, a holder sells their option; while a writer buys his position back for closing. Not more than 10 percent of the options are executed, and 60 percent are closed (traded out), while 30 expire without having value.

In options, fluctuations can be understood by “time value” (intrinsic and extrinsic value). Their premium is the combination of time value and its intrinsic value. Intrinsic value is the sum above the strike price.

Time value indicates the added value a trader needs to pay above the intrinsic value. This is time value or extrinsic value. Therefore, the option price in the above example can be considered as:

<b>Time Value +</b>	<b>Intrinsic =</b>	<b>Premium</b>
\$0.25	\$8.00	\$8.25

In practical life, Options trade at (some level above) the intrinsic value. It is because the chances of an event’s happening can never be absolutely zero – even if it is never in the cards!

## **Types of Options**

There are two major types of options: American and European. The first type can be exercised at any time between the purchase date and expiry.

Moreover, Us-based options have a higher premium. The early use feature commends this.

But European options can only be exercised on and near their expiry date. Most of the options on the exchanges belong to the second type.

There is also another type called Exotic Options that are actually a variety of payoff profile from vanilla options. Exotic options are typically meant for professional investors. Other types of options include Binary, Asian, Knock-out, Barrier, and Bermudan Options.

### **Options Liquidity & Expiry Time**

There is another way to categorize options – by the time duration. Short term options expire with 12 months. Long term options have a greater expiry time. They are known as LEAPS or Long-term Equity Anticipation Securities. They are like regular options with typically longer time duration.

Options can also be categorized by their expiry time. Many option sets expire on Fridays, every week, every 30th or 31st of a month, and on a daily basis. There are also quarterly based expiries for ETFs and Index Options.

### **How to Read Options Table?**

It is not possible to do options trading and lack the know-how of reading options tables. Here is how you can read the options table without difficulty.

- You will notice a term “Volume (VLM)” in the table. It indicates the total number of contracts traded in the most recent session.
- You will also hear ‘Bid’ and ‘Ask.’ A bid is the most recent price at which the traders wish to purchase an option. While an ‘ask’ is the most recent price at which the market wishes to sell an option.
- Implied Bid Volatility (IMPL BID VOL) refers to uncertainty in speed and direction of price in the future.
- Delta is the predication or probability. For instance, there are 30 percent chances of expiration of a 30-delta.
- Open Interest (OPTN OP) signifies the grand total of contracts for a specific option. OPTN OP reduces when the open trade closes.
- Gamma (GMM) is called the speed of an option. It can also be called the movement of delta or predication.

- Vega and Theta are two Greek values used in Options trading tables. Vega represents the amount at which an option price is likely to change. Theta represents the degree of value downward change in an option price during a passing day.
- The 'strike price' is a term used for price at which someone buys/sells underlying security if wishes to use options.

### 3. MAJOR OPTION TRADING CONCEPTS

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Options trading is a term that is used in stock exchange the simple definition of options trading is that ‘it is the contract between two parties in which the stock option buyer(holder) purchases the right but not the obligation to buy or sell shares of the underlying stock at a predetermined price from/to the option seller (writer) within a fixed period.’

Options offer alternative systems that allow the investor to take advantage of the exchange and trading underlying protections. There are different types of procedures, including different mix options, hidden resources, and different derivatives.

A question will come into your mind that why a person needs options trading at all, options trading is the most efficient method used in the stock exchange and it predates the modern stock exchange by a large margin.

So, one must not think that it is just a scam created by some group of people to manipulate minds to earn money because whenever a common person thinks to invest money in the stock exchange he or she is confused by terms like these, so let us tell you that what options trading is.

#### **History of Option Trading**

Some believe that it was the Greeks who gave the idea of option trading. Long before the modern world, humans were trying to decide the prices of different goods, and that’s how different methods of trading were introduced into the world.

Let us revise from scratch here...

We will give you a simple example to understand what options trading is but for you to understand we want you to focus on the example with an empty mind, for example, you want to buy stocks for \$s 4000 and you go to the broker, but the broker gives you an exciting offer that you can buy stocks for \$s 4000 now, or you can give a token of 400 and reserve your write to buy it at \$s 4000 after a month, And even if stock increases in value at that time. But the token amount will be non-refundable.

Now you think that it is possible that the stock will increase its price to 4020 at that time and you can even buy it after the increase in price, and since you have only paid 400 so you have the rest of the money to use elsewhere. Now you can wait easily for a month and decide by acknowledging the stock prices after a month that if you want to buy the stock or not.

Now, this is what you call an oversimplification, and this is options trading. In the world of trading, options are used as instruments, just like a musician needs a different instrument to get the perfect song; a broker needs options to make a perfect sale. And its price is mostly derived from stocks.

We assure you that if you read the article to the end, you will perfectly know what option trading is, and we will also tell you different strategies used in options trading.

### **Risks In Options Trading?**

Most strategies that are used by options investors have limited risk but also limited profit, so options trading isn't a method that will make you rich overnight.

Options trading may not suit all types of investors, but they are among the most flexible of investment choices.

Options in investment are most likely used to reduce the risk of a drop in stock prices, but a little risk is involved in every type of investment. Returns are never guaranteed investors look for options to manage risks for ways to limit a potential loss.

Investors may choose to take options because the loss is limited to the price you pay for the token money. And in return, they gain the right to buy or sell stock at there at their desirable price, so options in trading benefit a lot to the investors.

### **Different Strategies Used In Option Trading**

Traders often know very little about strategies used in options trading and jump to trading options, knowing the different strategies may lower the risk of potential loss in the market, and traders may also learn to limit the risk and maximize the return. So with a little effort, traders can learn how to take full advantage of the flexibility and power that stock options can provide.



## **Stock VS Option**

One must think that why is there a need to trade in options when someone can trade simply too this thought confuses many of us so here is the answer

The options contract has an expiration date, depending on what type of options you are using. It may be in weeks, months, or even in years unlike stock, because the stock has no expiration date.

Stocks are usually defined by numbers, but on the other hand, there are no numbers in options.

Options drive their value from something else. That's why they fall into the derivative category, unlike stocks.

Stock owners have their right in the company (dividend or voting) on the other hand options have no right in the company

Some people may find it difficult to understand the method of options though they have even followed it in their other transaction, for example (car insurance or mortgages).

## **Option Trading Platforms**

if a person wants to trade options, he or she must have a brokerage account, and for that, he or she will want to understand what they want before they sign up with a broker. Each platform is unique and has its pros and cons. So a person must learn more about the best options trading platform to determine which one may be the best suited for their needs.

If a person wants to find the best trading platform, he or she must review different brokerages and options trading platforms. A person must consider different factors like competitive pricing, high tech experience, good for a variety of trader needs and styles.

Some of the best options trading platforms for 2020 are:

TD Ameritrade: Best Overall

Tastyworks: Runner-Up

Charles Schwab: Best for Beginners

Webull: Best for No Commissions

Interactive Brokers: Best for Expert Traders

## **Option Practicing Method**

1. Stocks are purchased, and the investor sells call options on the same stock which he has purchased. The number of stock shares you have purchased should match the number of call options you have sold.
2. After buying the stock shares, the investor buys put options to gain equal shares. Married acts as an insurance policy against short-term losses call options with a specific strike price. At the same time, you will sell similar call options at a higher strike price.
3. An investor purchases an option with cash from outside, while simultaneously works an out of the cash call choice for a similar stock.
4. The investor purchases a call option and a put choice simultaneously. The two alternatives ought to have a similar strike cost and expiry date.
5. The Investor purchases the call option out of cash and the put choice simultaneously. They have a similar termination date; however, their strike cost is extraordinary. The expense of the information strike ought to be not exactly the expense of the call strike

## **Strategies for option trading**

Options traders use several strategies to make a profit from this business. The different ways of strategies are used to get profit, which involves using the many alternatives and combinations. The most common strategies are covered calls, iron condors, buying calls, and buying puts. Option trading provides advanced strategies.

### **Buying calls**

Buying calls or long call strategy is used when an investor increasingly buys calls and sets an option on the exact underlying asset with fixed date and price. The investor uses this strategy when they are feeling bullish and confident in an increase in some stock price. In this type, the investor increases the risk as he can face a huge profit or loss, but it's always unknown which way the stock goes.

### **Buying puts**

Usually, the investor uses this strategy when they are bearish on some stock; for example, the investor is confident in a particular stock and had a

good understanding of stock but doesn't want to take a huge risk, so he uses short selling strategy.

The put option gets an increase in value when the price of the asset falls. As the market falls, the profit increase in short selling. The risk is not confirmed as the trades return with leverage. But on the off chance that the basic Ascent past the option prices, then the option will expire uselessly.

### **Covered calls**

This strategy provides a small change in the price, the profit is not that big, but the risk it involves is less. The covered call buys 100 shares of stock and then sells one call option per 100 shares. Covered call strategy gives a chance of profit to the investor and also reduce the risk. The share is protected by this call when the price of the stock decreases.

### **Iron condors**

In this strategy, the trader sales a put buys another for a low price and uses them to buy a call then sell the call at a high price after some time. If the stock price is kept somewhere between two puts or calls, then we make a profit. The loss comes with possibilities, one if the price increase suddenly and the other is if the price decrease suddenly, it is spread that causes this condition. This strategy is used by neutral traders or in a neutral place.

Several other strategies are used, which are:

- Broken butterfly
- Iron butterfly
- Jade lizard
- Bear call
- Calendar spread
- Protective put

## **The Worth of Option Trading**

When we buy a bike or car, we want to protect them; the insurance is used for the safety of the car. So just like insurance, the option gives us safety. We invest money and buy shares now we want to protect our investment, for this we use options.

The option provides us good protection of our money. For example:

We bought the 100 shares at the rate of 150 dollars, which Worth 15000. We have invested and now have the risk of a decrease in price. We buy the option to remove risk from our shoulders, and the guy gets paid now assume the risk. We buy the put option for 500 dollars. If the stock increases with the rate of 170, we will get the profit, even buying an option of 500.

But if the stock price decreases with the rate of 130, we still are stable, the loss won't affect us as we have the contract on the option which has the same price. We can sell the shares at the same rate we bought, so in that case, by using the option trade, the chance of loss is very low. It provides a lot of ways to gain profit in trading.

### **Option Trading VS Stock Trading**

An option trading is not stock trading. Well, both of them are trading, but they are quite different. Many people don't even know about the options trading; it's just another type of trading. Few things make the difference between the option trading and stock trading, here is these point.

- In options trading, the value is taken by someone else and had a contract with it. It does not get the values on its own. This is completely different from stock trading. Option trading belongs to the derivative category.
- In stock, the numbers are definite, but an option, the numbers are not definite.
- The options trading use the contract, which has the expiration date, the person has no meaning after the expiry date. The date can be in months or years according to the option there are using. Stock trading has no expiration dates.
- In options trading, the owner has no right in the company. They have no affair of any kind related to the company. In stock share, they had the rights to the company.

### **Risk in Option Trading**

The risk involves in option is not as much as people think. Trading does involve risk. Its procedures work along with the risk. In option, the risk can contain only in few things.

- The options trading use many strategies with these strategies. Each has its own risk. The few options work on the spontaneous increase and decrease process. This sometimes gives a big loss to the investor.
- The option involves a lot of complexity. This trading is bot difficult to understand. The strategies its self are complex. Those who are a beginner in option do not understand it well and invest the money with the little knowledge which results in a loss.
- The other problem with the options trading is that it has the expiration date, which can cause you all you invest if the contract expires. This is one big factor in this trading.

## **Option Account**

For option trade, you need an options account. Before you make an account, you need to fill the agreement with your broker. The broker will know your investment and your trade. He will generate the strategy according to the level of trading you want. The broker will guide you about options trading and its policies.

### **What Is An Option Account?**

The account that is used to access the option trade is an options account. The broker gives access to the user for an options account. For all the trading, the brokerage account is used; it does the selling and buying. After giving all details, you will be able to open the account.

The broker tells the two type of account which you want to open, the real money and demo money account. After all the procedures, your account will ready for trading.

## **The Right Broker**

Before choosing your broker, you check in on him. Always choose the one with an authentic source. The information you provide him should be protected. Always check the payment and its cost. Aim for the right option.

## **The Best Broker**

- Schwab Brokerage (\$0.65 per options contract)
- E-trade (\$0.65 per options contract)
- Ally Invest (\$0.5 per contract traded)

- TD Ameritrade (\$0.65 fee per contract)

## **Best platforms**

Options trading is a high-level risk. It needs to be protected from fraud. When selecting the platform, you must select the best one. There are many best platforms available in the market; there has a good reputation, such as.

- Charles Schwab, this platform is best for the beginner. If you are a beginner, you should choose this platform. This platform gives more understanding to users.
- TD Ameritrade is the best platform for the options trading in the world. The cost is low and no account minimum requirements
- Tastyworks provide trading access to different devices. It allows PC, laptops, and mobile phones. It is one of the most high-tech platforms.

Webull platform gives no commission

Options trading is not meant for beginners who have zero ideas about the market. So if you are just starting your journey with the stock market, you may have to spend some time learning the basic concepts of options trading.

When we talk about stocks, it's all about investment and turning that investment into profit. So it requires strong knowledge and experience to make some big profits and avoid loss.

## 4. OPTIONS TRADING MYTHS AND MISCONCEPTIONS

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There are many myths and misconceptions related to the term “Options Trading” not only in the stock market but also for the general public.

Options trading is known to be risky; according to Mike Bellafiore, the Co-Founder of CMB trading, “Trading is a sport of survival, reinvention, and perseverance, even for the successful trader.”

Indeed, in the stock market or business, there is no such thing as assurance; there is always a risk involved with putting your money into something. The stock market or business is always about numbers and good strategies. If your strategies and numbers are right, you are in it for the long haul; otherwise, you will end up with nothing.

The winner of U.S. Investing Championship in 1984 Martin S. Schwartz says,

“A lot of people get so enmeshed in the markets that they lose their perspective. Working longer does not necessarily equate with working smarter. In fact, sometimes it's the other way around.” in a trading business, you can use your shortcomings or failures for your future benefits as well; according to Brett Steenbarger, an active trader and a Ph.D. scholar, “we will never be perfect as traders. That’s what keeps us ever-learning, ever-growing. Our main challenge is to use our shortcomings as inspirations, fueling continuous improvement.”

There are many myths and misconceptions about trading.

### **Misconception #1 Trading and Gambling are same**

The first and the most common one is trading and gambling are the two sides of the same coin. In trading, a trader goes through all the present, past data, and numbers whether gambling is a game of available odds.

Trading is about technical analysis you look into the details, risks, profit, gain, and the market, whereas gambling is based on fundamental values. You put in your money in what you might think will happen. Also,

gambling is an addiction, illegal, and also very toxic for your mental health and behavior.

### **Misconception #2 Should only invest in Call and Put Option**

Options are the type of contract that allows the buyer to purchase or sell the underlying asset. To simplify it, the trader purchases a call option if he is expecting the demand of the underlying asset to rise within a certain deadline, and the trader opts for a put option if he is expecting the demand of the underlying asset to fall within a certain time period.

It is a misconception about the call and put option that it is the only profitable way of trading options, but in reality, the buying of calls and puts is highly risky in trading because you can never be sure about the demand of the underlying asset for that you need the proper analysis of the direction it is moving, its time frame and size of the move. You can analyze the size and the direction right, but if your options have expired before the move happens, then you may lose money.

### **Misconception #3 Option selling is more profitable**

Option selling is basically giving someone the right, but not the obligation, to make you purchase 100 shares of a stock at a strike price before the expiration date. In simpler terms, they are basically paying to increase their flexibility, and you pay to decrease your flexibility. So when you are selling options, you are not only using the money in your brokerage, but you are also in debt. Option selling can be profitable if you play right by the rules, but there is also high risk involved in it.

### **Misconception #4 Put Option expire worthlessly**

Option expiring worthless is when options expire from your trading account and cease to exist. There are a lot of misconceptions about 90 percent of the option expiring, but according to the report by The Chicago Board Options Exchange (CBOE), approximately, only 30% of the options expire worthlessly. 60% of the option positions are closed before their expiration, and 10% of the options are exercised.

Secondly, options expiring worthless, only work against the option buyers, but option writers still get their profit if the put option has expired.

### **Misconception #5 Option trading is a zero-sum**

This is one of the oldest myths about option trading. It says that if a buyer wins, then the seller has to lose. But no, that is not true at all!



Options are given to manage the risk. They do not give you anything of value other than the choice to buy or sell assets. When you use options to hedge your risk, you are transferring your risk to someone else who is willing to hold on to it. So the options trading is not a zero-sum game.

### **Misconception #6 Options trading is easy**

There is another misconception about options trading that people assume it is easy. According to the Charles Faulkner trader and an author he says “After years of studying traders, the best predictor of success is simply whether the person is improving with time and experience” you need years of experience, learning the market and its resources completely and strategies then you can be a successful trader.

Trading is rarely about “luck” its all about good hand-on knowledge. People do not mostly have an in-depth knowledge of the options trading or stock market. It is more than just investing the money. All the experts in trading business have years of experience and knowledge, and they even use their failures as a weapon for their future success.

### **Misconception #7 Trading in Tax-deferred account**

There is a common misconception about using traditional or IRA accounts for the trading option because they both will ease up the tax advantage, and It could be a perfect retirement plan, but there are certain limits to it. You can only invest to a certain limit through your tax-deferred account. You cannot use the money before retirement. After five years, you are only able to withdraw the income.

## 5.TOP OPTIONS TRADING STRATEGIES

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The options trading utilizes a few strategies for financial specialists to benefit from trading. The various methods of strategies are utilized to get profit, which includes utilizing the numerous other options and combinations.

The alternative exchanging gives advance techniques. These systems help financial specialists to increase the most extreme benefits. The top strategy is used for different levels of trading. Many popular trading strategies are used in the market. These strategies are well known in trading and have numbers of users. The following are the top option trading strategies.

### **Buying calls**

Purchasing calls or long call methodology is utilized when a financial specialist progressively purchases calls and sets a choice on the specific hidden resource with fixed date and cost. The investor expects more leverage than just owning the stock. The financial specialist uses this procedure when they are feeling bullish and certain about increment at some stock cost. The confidence of the investor prepares them to pick this option strategy.

In this sort, the speculators increment the hazard as he can confront the gigantic benefit or loss, but it's consistently obscure what direction the stock goes. If the stock goes up, the investor will get the profit, and if the shares price decrease, then the investor will face a big loss. Even the most experienced traders face loss at some point, but that does not mean it will only give loss.

The profit in it usually covers the loss of investors. For example, If the investor wants to buy a developing house, then he will purchase the buy call option by doing this he can pay the same price according to the contract as the cost of a house is 200,000 now as when the development will be complete, the cost of the house will be increased.

Suppose the price of the house incredibly increased after 2,3 years, and now the house is worth 400,000. The investor will pay the same amount, although its price in the market is double because of the option he can pay the same amount of 200,000 as written on the contract. The only thing the investor will be worried about is the expiration date.

### **Buying puts**

In this options trading strategy, the investor has the legal right to sell the shares at the given price. The date is also fixed at a certain time. The buying puts give more authority to the investor.

Normally, the financial specialist utilizes this strategy when they are bearish on some stock; for the model, the speculator is positive about the specific stock and had great comprehension of stock yet wouldn't like to face an immense challenge, so he utilizes short selling procedure.

The put choice gets increment in esteem when the cost of benefit falls. As the market falls, the benefit increment by short selling. The chance isn't affirmed as the trade return with leverage. But if the fundamental Ascent past the choice value, then the alternative will terminate pointlessly.

Mostly the traders are sure that the market will fall. They purchase the share to sell it at a certain time as they have the right to do so, the values of share increase when the stock moves towards the other direction. It is a simple way to gain profit.

If you want the insurance on your shares in stock, you can buy a put option. If the investor has a share of 500 dollars, and he realized the market would lose the value. They can sell there share at a reduced price of about 475 dollars. The loss is reduced in this way.

### **Covered call**

This strategy provides a small change in the price, the profit is not that big, but the risk it involves is less. The covered call buys 100 shares of stock and then sale one call option per 100 shares. Covered call strategy gives a chance of profit to the investor and also reduce the risk.

The share is protected by this call when the price of the stock decreases. In this strategy, the seller of the call option possesses the related amount of underlying instrument. In the covered call option, you can buy stock and sell the call option on Out of money(OTM).

The term buy-write is referred to when the call been sold at the same time with the purchase of stock. We get a small amount for call sales when we pay for stock shares. We have to sell calls to generate income in it. This option needs direct investment and calls to sell.

The investor uses this option strategy when they think the price will not further increase. We have to hold a long position. The chance of profit is low as the increase in price is not expected.

Suppose, the stock was trading at \$200 on May 20th, 2014; The Leg 1 Buy 100 portions of the stock for \$ 200 and Leg 2: Sell the 206 strikes June 26th, 2014 Call for \$7.30, Lot size – 100 offers

The sum paid to take these two positions approaches - the Stock cost paid less call premium got, for example, \$. 20,000 (Stock buy) – \$ 730 (Premium got) = \$ 19,270

If the stock value ascends over the call strike of 206, it will be worked out, and the stock will be sold. In any case, the methodology will make a benefit since you are secured by the stock you own.

State, the stock cost at termination is \$ 210.

In the event that the stock falls beneath the underlying stock price tag, your long position is at a misfortune. However, you have some pad from the call premium got by selling the call.

State, the stock falls and is at \$ 190 on the lapse

## **Iron condors**

In this strategy, the trader sales a put buys another for a low price and uses them to buy a call then sell the call at a high price after some time. If the stock price is kept somewhere between two puts or calls, then we make a profit.

The loss comes with possibilities, one if the price increase suddenly and the other is if the price decrease suddenly, it is spread that causes this condition. This strategy is used by neutral traders or in a neutral place. This is a simple options strategy.

The iron condors option does not require a big investment to start a trade; you can start the trade with a minimum amount. The investor relies on the stock to stay at some particular point. It is a small strategy that involves risk, but the investor invests in a small amount to maintain the risk.

Consider the stock is trading at the cost of \$120, executing an Iron Condor trading procedure we will: Sell \$100 Strike Put for \$3.0 Sell \$140 Strike Call for \$3.0

With an expectation that the cost will stay inside these two strike costs that we booked so, we make a benefit. In any case, because of the danger of boundless misfortune, we would ensure our situations by Buy Strike Put for \$90 Buy Strike \$160 Call for \$ 2.

### **Bear calls**

This option works on the procedure of sale and buy. The investor sells the call option and then purchases the calls at a high strike rate. This option uses the investment of the trader to get the profit income. The procedure works on limited levels. It uses two legs. These work on a 1:1 ratio to make the net credit.

Even though this is not a Bearish Strategy, it is actualized when one is bullish. It is generally set up for a 'net credit,' and the expense of buying call choices is financed by selling an 'in the cash' call choice. For this Options Trading Strategy, one must guarantee the Call alternatives have a place with a similar expiry, the equivalent hidden resource, and the proportion is kept up.

It, for the most part, ensures the drawback of a Call sold by safeguarding it, for example, by purchasing a Call of a higher strike cost. It is fundamental, however, that you execute the system just when you are persuaded that the market would be moving essentially higher.

The investor is expecting a small decrease in the stock. They sell the calls and then purchase the calls at high strike. The option works better when the volatility is high. The expiration date is good enough to handle things. The traders don't waste the expiry date, as it is important for the trading. The investor uses the long term to execute the process.

If the market is expecting the rise in stock, then the traders sell the one strike call and then buy another at the higher strike. The investor gets the profit by the amount of cost.

If the stock is expecting a sudden rise, then they sales the call and then buy the new ones which they even buy at a high rate, but instead of loss they gain profit, and then they buy more calls.

## **Jade lizard**

In this options trading strategy, the traders sell short calls and put, and the underlying assets should not move. The cost collect in the results is great. All the options have the same expiration date. It minimizes the risk and maximizes the reward. Trading options maximize the risk in one direction.

The jade lizards option are a sort of Options Trading Strategy which is rehearsed by Traders to pick up benefit from their exchanges

If there should arise an occurrence of Straddles and Strangles, Lizards diminish the upside hazard. They are most valuable when basic stays or floats toward the strike. High benefits are created in high IV and non-bearish situations. This neutral strategy involves short calls and short put spread. It is a slow strategy; it does not increase suddenly. It uses the call cost and puts the cost at high volatility.

Let's suppose that the investor accepts this trade is a drawback chance. In the event that ABC stock moves above £25 per share, the financial specialist would lose \$£1 on the call spread, yet gains £1.10 from the premium gathered for a net addition of £0.10.

The investor benefits from the exchange, except if the cost of ABC moves underneath the strike cost of the bare put by more than the top-notch that is gathered. In this model, the stock cost would need to dip under £18.90.

## **Collar option**

It is similar to the covered call but has extra protective puts to protect the value of security between 2 bounds. The Collar Options Trading Strategy can be built by holding portions of the hidden all the while and purchasing put-call alternatives and selling call choices against the held offers.

One can support the expected drawback in the offers by purchasing the fundamental and, at the same time, purchasing a put alternative beneath the current cost and selling a call choice over the current cost. Buy one put option than lower the limit for protection; sell the call option at the upper limit.

Both must have the same expiration date and the quantity. The call and put options are out of money. The underlying assets price expired at a strike

price of the short call option. The instability is surprising when the market is unstable at the point when the cost of an alternative ascent, there is a likelihood that the cost may fall and you may miss out on the benefit.

In such a case, the advantage should be secured. The option protects the losses a lot and decreases the chances of all loss, but with all the protection, sometimes it reduces the profit.

Let us guess that stock value rises to Rs 50. In this case; the trader would have understood the estimation of his stock holding rise to  $(100 \times 50) = \text{Rs } 5000$ .

As he is the seller of the Call option, he anticipated that the cost of the fundamentals should fall. In any case, its cost has, in certainty, risen. The Call option purchaser will practice his privilege and will purchase the Call alternative at the strike cost of 48, which is lower than the cost of the fundamental that is 50. So the option seller got  $(48 \times 100) = \text{Rs } 4800$  by selling the Call option.

For a Put alternative purchaser, an option is in the cash if the strike cost is higher than the cost of the hidden. For this situation, as the strike cost of 43 is not exactly the CMP of the hidden, which is 50, and along these lines, the option is rendered useless for him.

Net benefit from the exchange =  $\text{Rs } 5000 - \text{Rs } 4800 + 500 - 300 = 400$

### **Diagonal spread**

The diagonal spread option strategy uses many strikes and months. It works with the combined bits of a long call spread and a short call spread. Diagonal spread moves diagonally and also the names.

The option is presented in different rows and columns. In this options trading strategy, the short terms are sold, and long terms are bought. A transient shortcoming or Strength that you think would go up or go down once more, at that point, to the advantage of it.

The system is controlled on the short-side for risk, and if the market plays smoothly, it can become open-finished on the long side.

At the point when executed for cash, it permits edge necessities to be met. The investment is at high risk when it works quickly in our way. The diagonal spread has its setup, which we have to follow.

- The equal number of options is required.

- The options must have the exact underlying security.
- The options in the diagonal spread should have the same class.
- The different expiry dates are used.
- The two different strike prices.

In the diagonal spread, the bullish long call diagonal spread purchases the option with the lower strike rate and longer expiry date then sells the short date option with high strike rates.

## **Butterfly**

The broken wing butterfly option is a bit similar to the butterfly trading strategy, but In this trading strategy, the calls and puts are much similar to directional strategy rather than the butterfly strategy.

Its sides have a different level of risk; the risk is different on each side. Usually, the profit occurs if the underlying expires at the short strike price. The broken wing butterfly option provides more profit than the butterfly option.

Futuresmag merits the credit for begetting the "Broken Wing Butterfly," an amazing option in contrast to the Butterfly, where the objective is starting an exchange at zero expense.

It is an amazing options trading which expands on the positive attributes of a Butterfly Spread. Dissimilar to the Long Butterfly, where one needs to pay another charge, Broken Wing Butterfly Strategy is a net credit procedure, frequently rehearsed to build the likelihood of benefit.

Broken Wing Butterfly Strategy is equivalent to a Butterfly in which the sold spread is regularly more extensive spread than the bought spread. It has the similarity of long butterfly spread having the same strikes that are not much different from the short strike. It works when the option has all the puts or all the calls.

For example, the stock is trading at Rs100. You buy one 120 calls on ABC, you sell two 105 calls in ABC and purchase one 100 calls in ABC, So you get the net credit of Rs. 10.



## 6.TOP QUALITIES OF A SUCCESSFUL OPTIONS TRADER

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*‘The key to trading success is emotional discipline. If intelligence were the key, there would be a lot more people making trading money’ – Victor Sperandeo*

To be an options trader, certain qualities are required that are not at all difficult to achieve. To develop those qualities, you have to know about the options trading.

### **Options Trading**

In options trading, the buyer has the right, when he wants to buy (the case of a call) and when he wants to sell (the case of a put) but he is not bound to buy or sell the certain asset at a specific price, as the name ‘Options’ suggest. The trader is also not bound to trade in some specific time. He has the total choice of what and when he wants to trade.

### **Why people tend to go for options trading?**

Options can provide better income than any other job. It is not much different than the stock exchange. It is just like your own business; all you have to do is predict where the market and stock rates are going. You have to take a risk, but the income will be higher than you have thought. The end results can give a shock as market rates keep on changing every minute.

### **Top Qualities of a Successful Options Trader**

Just like in any other business, there is a huge risk of loss. Every other person cannot be a good businessman. Many people have weak patience level, they lose their heart, and on failure, they leave the business or sell at a low price without giving another try.

The one who buys that at a low price takes it to another level. Similarly, everyone cannot be a good trader. Being a successful trader demands

certain qualities. If you achieve those qualities, nothing can stop you from becoming one of the most successful options traders.

1. Control on emotions
2. Record keeping
3. Finding the right strategy for you
4. Consistency
5. Learning from failures
6. News interpretation
7. Being yourself
8. Patience
9. Flexibility
10. Risk management

These are a few qualities to make you a successful trader in options trading, and a positive attitude towards these skills can make you a professional options trader. Let's dig a bit more into these qualities to polish your personality a little more.

## **Control on Emotions**

Mixing your emotions with your business can take you towards destruction. You have to manage your social life along with the real-life without tangling them with each other. You must be able to manage the happening in real life and happenings in the business. You must have total control over your mind and hold your nerves while doing the business.

## **Records Management**

If you keep a record of whatever you do, next time you will be able to avoid the mistake you have made previously, and you will be able to see where you have gone wrong.

This habit will provide you information on your wealth to improving your odds of success. By keeping the records, you will be able to make up your previous losses. Records will also help you keep track of profit/losses for tax purposes, if applicable.

## **A Good Planner**

Everyone has their own strategy (like the way of doing things). Some people tend to go for short sales and make multiple sales in a day. Others hit their luck after a long time and make a large amount by a single sale.

Even if they perform a single sale in a week, they can earn more than the one who makes many sales in a day. Once you find the right strategy for yourself, you have to stick with that strategy. It is crucial which strategy you are choosing for yourself. It is because in options trading, the right strategy and technique to trade will take you to the top, and the wrong will do the opposite.

## **Consistency**

Nothing other than small chunks can be earned without consistency. You have to give a lot to achieve a lot. In the case of options trading, you have to invest your time to achieve experience. The more experience you get, the more you learn.

Like you learn when and where to put your money; and when to draw it out. Many people get back when they see smaller earnings, not knowing that smaller steps lead towards greater steps.

## **Learning from Failures**

Just as most businessmen lose their money, similarly, every trader also faces losses. This is just part of the game! But a successful trader doesn't give up on his loss and try to avoid loss in the future from the experience he gained from his previous loss.

Then a time comes when he has learned every possible reason leading to his loss. In the future, he can cover up his previous losses by avoiding the same mistake.

## **News Interpretation**

The traders must be able to interpret the news. If you are good at interpreting the news, you will have the exact knowledge to predict which is the product will give profit and when. If you can predict the future, you'll be able to raise your income by investing in a certain product.

You'll also be able to predict when to buy or sell the product to maximize your profit. Some news is just the hype; you have to be able to

differentiate between the real news and the hype.

## **Do not Follow What Others are Doing**

Everyone has their thinking. But once you come to the trade business, do not rely completely on others' strategies. In order to be a successful trader, you don't have to do what everyone else is doing. You have to be limitless and be yourself. You may come out of your comfort zone, but following your own passion will be the key to success. Your willingness to take risks will benefit you in being yourself.

## **Patience**

Being a successful options trader demands a lot of patience. You have to be able to wait until; it's the right time to perform the action. It means, if you have to put your money into something, you have to wait until you think; it is the lowest price for a certain product. Similarly, while selling, you have to be patient until it reaches the highest amount of profits.

If you are not patient while trading; a huge loss may be on your way!

## **Flexibility**

The rates of market changes every day; you have to be able to learn the changing dimensions of the market. You have to learn about the changing trends of the market and adopt newer strategies.

You have to be well aware of the relevant news and always believe yourself as a learner. You have to accept the losses as loss in any field of work is inevitable. You have to accept wherever the market is going, whether it suits you or not.

## **Risk Management**

In options, you are playing in millions, so there is a huge risk. You have to manage how much risk you can bear at a certain time. Being limitless does not mean you have to forget about what you are risking while putting your money. If you allot a certain capital to an investment, you may be able to avoid a higher risk of loss but, the greater the risk, the greater will be the gains or losses.

## **Conclusion**

If you have these certain skills or qualities, one day, you will be the most successful trader of the options trading. Just be patient and have consistency in your work. The doors of success will keep opening for you. The most important thing is believing in yourself; if you take larger risks and have belief in yourself, there is nothing you cannot do.

## 7. HOW TO SELECT THE RIGHT OPTION FOR A MAJOR GAIN

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Starting from simple purchases to more complicated spreads like butterflies, options have a plethora of strategies. Moreover, they are available for a bigger range of currencies, stocks and commodities, futures contracts, and exchange-traded funds.

Often, there are hundreds of expiries and strike prices for each option. This poses a challenge for the novices to select the best option out of many. Here is how you can do that like a pro.

### **Look for the Right Option**

Imagine, you already have an asset in mind that you wish to trade on, like a commodity. You picked it from stock screener through your insight and the insight of others (e.g. research). Regardless of the selection technique, after identifying your asset for trading, you need to follow these steps to achieve your goal.

- Frame your purpose of investment
- Determine your payoff
- Analyze volatility
- Recognize events
- Make a Strategy
- Launch parameters of options

These steps follow a logical process, which makes it easy to select the right option to trade on. Let us breakdown what these steps reveal.

### **Frame your Purpose**

The base of getting into the trading business is finding the purpose of investment. Why do you want to start options trading? What is the purpose behind this? Do you want to make real money, or is it just a side-business?

Ask yourself these questions. Make a notebook and write all the answers that you have.

Now you might be thinking, why so? It is because you need to be clear on this point. Using options to make real money is very different as compared to purchasing them for speculating or hedging.

This is your first step, and it will form the foundation for other steps. So, buckle up!

### **Trader's Payoff**

In the second step, determine your risk and reward payoff. This should be dependent upon your appetite or tolerance for risk. Know your type – like if you are one of the conservative traders, using aggressive strategies for options trading might not be suitable for you. These strategies include purchasing deep out-of-the-money options in large quantities or writing puts etcetera.

Each strategy has a well-made risk and reward profile. You have got to keep an eye on it. And do not forget to assess your payoff at the end of the day!

### **Analyze Volatility**

It is one of the most crucial steps in options trading. You have got to analyze implied volatility for sure. Compare it to the history of options stock volatility, plus the volatility level in the market.

This allows you to know about the thinking of other traders. Whether they expect the stocks to move fast or up in the future or not, if there is high volatility, there will be a higher premium too. In this case, options writing will be more suitable for you.

A lower rate of implied volatility means there will be lower premium – good for the purchase of options (if you think that the stocks will move more and so their value will increase as well).

### **Recognize Events**

There are two main types of events: stock-specific and market-wide. Stock specific events include types like spin-offs, product launches, and earnings reports, etcetera. Market-wide events, on the other hand, are those

that have a huge role in broad markets like economic data releases and Federal Reserve Announcements.

It is important that you know and recognizes each event type. Since they have a huge impact on implied volatility and, thus, can have a great impact on the price when it occurs. Recognizing events before they can help traders to make a bigger profit, determine the right time and the appropriate expiration date for your trade.

### **Make Your Strategy**

The first four steps allow you to see clearly the way to your options trading business. Now you are in a good position to devise your own plan after knowing the events, implied volatility, risk, and reward pay off and your investment goal.

Suppose a conservative trader with a good portfolio wishes to earn premium within some months. He should then use the covered call “writing” technique to achieve his goal. While an aggressive investor who foresees market decline within some months should purchase puts on main stocks so on.

### **Launch Parameters**

After the fifth step is clear on your mind, try to launch parameters. For instance, you should establish the expiration time, option delta, and strike price, etcetera. Let us say a trader wants to buy the longest expiration date call. But he also wants to pay a low premium on it. In this case, the out-of-the-money call is the most appropriate for him. But for a high delta call, focus on in-the-money option.

In short, follow the given steps to make a good profit and establish yourself as a professional options trader in the market. Determine your objective of investment, analyze your risk and reward, assess volatility, think about the happenings, make your strategy, and then tailor your options parameters.

### **How to make money with Options Trading**

An Option trader earns money by buying or selling or by being an option writer.



With options trading, you do not only buy or own stock in a company, but you are also in a position to sell that stock in the future. If you know the right strategies, you can earn above 100,815\$ through options trading. Learning the right strategies, knowledge about risks, learning the market, multiplying the profit, and building wealth will help you make more money with options trading.

### **Earning Money with options trading in 2020**

We have enlisted some special Options Trading techniques that could help you understand and earn money better through Options Trading.

### **Recap**

Before really getting into the business, you need to recap what options trading really is, what its terms are, and how it's done with minimum risks involved. In simple terms, options trading is buying and selling options contracts.

Options trading does not allow you to vote or receive dividends or anything else a (partial) owner of the company can do. It is just a contract between you and some other party that grants you the right to purchase (i.e., "call option") or sells (i.e., "put option") stock of a company at a certain price.

It is one of the most basic 'leveraging' tools available to investors who are looking to increase their potential profit by accepting the increase in risk that always comes attached to it.

There are some essential key terms that are normally used in Options Trading:

#### **Stock**

A stock option is a contract between the company and the stock option buyer to buy or sell 100 shares of the company at a determined amount within a certain time period.

#### **Expiration**

In options trading, there is a contract involved, and each contract has an expiration date. You can buy or sell your options before the expiration date, but once it crosses the expiration date, the contract has no value to it. In that case, only an option writer can earn.

## **Strike Price**

A strike price is a price at which the commodity or asset is to be bought or sold when the option is exercised. For example, if the strike price is XYZ dollars for a call option, then you could exercise your contract by purchasing the identified stock at the strike price.

## **Premium**

Options Premium is the price to be paid by the party who is purchasing the right buy/the right to sell, to the party that is selling the right to buy/the right to sell, as a premium to enter into a contract for the risk of the option being exercised if the contract is in the money, that the writer (seller) of option is bearing while entering into the option contract. It depends on the strike price, the volatility of the underlying, and expiration date.

## **Call and Put Option**

In options trading, there is a call and Put option A call is when you buy or purchase a stock and put is when you sell a stock. You can buy or sell a stock before the expiration date.

## **Underlying Asset**

The underlying asset is reference security (stock, bond, futures contract, etc.) on which the price of derivative security like an option is based. For example, options are derivative instruments, meaning that their prices are derived from the price of another security. More specifically, options prices are derived from the price of an underlying stock.

## **Option Style**

An option contract is made up of two different styles; American style or European style. Options can be practiced in a particular way, and both styles allow you to practice them differently. American style options can be used any time before expiration, whereas European style options can only be used on expiration dates itself.

## **Contract Multiplier**

The contract multiplier states the quantity of the underlying asset that needs to be delivered in the event the option is exercised. For stock options, each contract covers 100 shares.

## **Relative Value**

Selling a commodity at a higher price than the buying price and purchasing at a lower price than the market or what you sold it as.

## **Making Money with Options Trading in 2020**

Option traders use different strategies to evaluate the trade. A list of tools is included in the process of evaluation.

The list might include; analysis, history, statistics, stability, debt, dividends, etc.

With a little reading, a trader can easily minimize his risk of losing his investment. Here are the top 10 strategies of how to make money through options trading:

### **Naked Call**

A naked call is an options strategy in which an investor sells (a call option) without the security of owning the underlying stock.

### **Covered Put**

A covered option is a strategy where the stock is bought or owned, and an option is sold. The underlying stock is bought, and simultaneously writes—or sells—a call option on those same shares. The Covered Put also has a higher profit in case the stock moves down to the strike price of the short puts.

For example, an investor uses his call option (buys) on a stock that represents 100 shares of stock per call option. For every 100 shares of stock that the investor purchases, they will sell one call option against it. This strategy is referred to as a covered call because, in the event that a stock price increases rapidly, this investor's short call is covered by the long stock position.

The formula for calculating maximum profit is:

Max Profit = Premium Received - Commissions Paid

Max Profit Achieved When Price of Underlying  $\leq$  Strike Price of Short Put

## **Making most out of options**

Options are like a business; not everyone can achieve high wages or income. To be a successful businessman, you need a certain type of mindset, few skills, and a little capital. While discussing how to make money through options, we don't have to only look onto physical strategies but also mental and indirect strategies.

### **Indirect Strategies:**

#### **Record keeping**

Keeping proper records of your progress is really helpful for a successful practical life as well as for business. In options, you can track your progress, the weaknesses, and the reasons for these weaknesses. It will help you to learn from your mistakes and avoid them in the future.

#### **Stay aware**

Technology keeps on developing every day; each day, we see new innovation. To walk with others and avoid staying behind them, you must have access to the latest news and updates about technology and stay ready for what is coming next.

#### **Stay updated**

To be a successful options trader, you have to be updated on what is going on in the stock market and how and when prices are going to change. This way you will be able to predict the prices of the market and plan your move accordingly to avoid losses

### **Mental strategies:**

#### **Managing the risk**

It is a famous saying, "Cut your coat according to the cloth." Applying this on options, you have to agree that don't put all your money into one product. Only invest as much amount for which you can bear the risk.

#### **Managing time**

No one can force you to put or call the money in a certain product until you yourself want to do so. Look for the perfect time to do so, invest only when you know it is a perfect time. The most important thing is patience. But keep track of the expiration date.

#### **Separate practical and business life**

To make progress as an options trader, never mix up your emotions with your business. If you are going through something bad in real life and getting frustrated, mind taking a break. A fresh mind can think well than the mind busy in solving other issues. Options trading is the game of the mind, so take a break and come back when you are relaxed.

These are the few physical, mental, and indirect strategies that we have discussed above. Hope, this will take you to the heights of success and make most out of options.

## 8. IMPORTANT TIPS & TRICKS ABOUT OPTIONS TRADING

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An option trading is a part of trading that allows you to trade your market expectations while also control the risk that you are going to participate in this trading with. Now, if you get a better a clearer idea of how to rightly perform options trading, there are no limitations to it. This means that you can trade various strategies and seek profit in all sorts of market conditions.

However, this options trading doesn't mean that you have to trade the strategies of your complex trading options to seek profit from them. Instead, you can spend your money more effectively to gain profit by simply replacing your regular trading positions with the help of options.

### **A Little Insight:**

With the start of 2020, the options trading activity has achieved a drastic increase. Now, if we calculate the increase in the options contracts in this year up until now, an estimation of a 53% increase has been calculated – in comparison to that of the same time last year. Hence, there can certainly not be a better time to head onto the trading options activity – if you're thinking about it.

However, understanding the trading options strategies and how it can be performed properly is very important. Therefore, even if you're a pro in trading, it's important to know the major and important tips regarding options trading. Now, these strategies and tips may change according to the conditions and criteria of the market.

But to give you a consistent answer of how you can firmly perform options trading, we'll discuss some tips below that might just do the trick. So without further ado, let's go ahead and discover some such tips!

### **Follow a Well Defined Exit Plan**

Controlling your emotions while trading options can be crucial in terms of helping you achieve great profits. This crucial step can be defined by

simply having a plan to work and always sticking to it. This way, you are well aware of the outcome you desire when following that plan, and you can surely achieve it. So no matter how much your emotions force you to change your mind and forget our plan while you're on it, make sure you don't!

Now when you make a well-defined plan, you can't miss on the exit planning here too. This exit plan doesn't mean that you are supposed to minimize your loss in terms of facing the downside of options trading. But instead, having a well-defined exit plan and a downside exit plan in advance can help you get out of the trade at the right time – even if the trade is going right according to your plan.

This is very important because options trading is an activity that faces a decay in the rates when the expiration date starts coming closer.

## **Educate Yourself**

Trading options can be a complex activity in comparison to simply buying and selling stocks. And if you don't understand this activity well, there are chances that you might not be able to get anywhere in it. However, if you keep seeking knowledge and experience in this, you'll be better aware of how you can invest here and gain profit.

Now to get started in this, you need to have a proper assessment of your investment plan. This assessment can include your individual goals, the risk constraints, the time horizon, tax constraints, and the liquidity needs you have.

## **Don't Double Up for Past Losses**

If you are thinking of doubling on an options strategy just because you want to cover your past loss, then you're surely not going to get far with this. A simple reason for that is that options in options trading are simply derivatives, and their prices properties aren't the same as the underlying stock holds them.

Therefore, even if it sometimes makes sense to double up just so that you can catch up on the loss you faced earlier (and because you follow this in the stocks), it doesn't mean that it will also serve you with profit when you're in the options galaxy.

Hence, instead of enhancing your risk, you should simply step back and close the trade. This way, you can cut more of your losses that might further come in the same trade, and simply go for a different opportunity. As a result, instead of digging deeper into the specific options category, you will be accepting your loss and saving yourself from a bigger downfall.

## **Manage Your Risk**

Now the most important aspect here is the risk of the options trading. So when you go for options trading, you must understand how much risk you can take. Whether you're a beginner or someone who has been in the options trading for a while, having a certain risk assessment that you can handle is very important.

Once you have that, you can look into the different methods that can help you manage your risks. Now to manage the risks, you can go for different options throughout the life of the options contract – to manage the risks. These different options include:

**Closing a Trade:** this mainly refers to taking an offsetting position in the trade. So if you have purchased a call option in trading options, you can simply set the call option and close the trade for managing the risk on time.

### **Allowing an Option to Expire**

This can be possible when a contract in trading options has reached its expiration date without being worked on. Here, you can also purchase or sell a call or put, according to the contract.

### **Roll out an Option**

This is mainly the process of managing risk by simply closing an option that is near to the expiration date, and then simultaneously investing in a similar category of trade that has a distant expiration date.

### **Assignment**

Lastly, another strategy of managing the risks in trading options is to simply go for an assignment. This is possible when you sell an option by simply receiving or delivering the shares that lie under the stock of that option.

## **Finally**



Now trading options are quite a familiar trading aspect for many, but most of the new traders aren't very familiar with it. However, achieving great profits and success in trading options is something anyone can achieve. Only if you educate yourself in this, gain some experience, and rightly follow efficient tips and tricks (as mentioned above) – you are sure to go far in trading options.

## 9. IMPORTANT FAQs OF OPTIONS TRADING

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We tried to include all the basic and important frequently asked questions regarding options trading. Hope they help you understand the options trading better and if not. You can post your inquiries in the comment section.

### **Is there any definition of options?**

Options are derivatives that are supported on the value of underlying securities such as stocks.

Options are putting down your money for the right to buy a stock at a specific price before its expiration date. There are two types of options; options buy or sell.

When an investor takes part in options, s/he is either buying or selling an options contract and is making a bet that either the underlying share will rise in price or fall in price before the expiration date.

### **How to gain maximum profit in options trading?**

According to Allen Everhart, the best way to maximize profit in options trading is to just keep it simple. In his words, "I have come to appreciate buying deep-in-the-money/deep-in-time call options despite the disparagement this strategy gets."

Purchase a 70 delta call if you think the market is going higher - or put if you think the market is falling. You will not need to worry much about theta decay (there's a little, but not much) and you'll profit 80% of a \$1 move on the stock or ETF at a much lower cost than an equivalent number of shares of stock, and there's no risk of being randomly exercised and having the stock (long or short) suddenly appear in your account the next morning!

When you have 200 short option positions on, and a dozen of them get randomly exercised overnight, you will appreciate the 'simple' approach to options trading.

### **What happens in a case when options contract expires?**

In case if the contract reaches its expiration date and you have not yet exercised your right to options, then you will lose your right and premium. The contract becomes invalid.

The only person who will profit from this is the writer of the contract.

### **What is the difference between strike price and stock price?**

A strike price is a price at which the owner of an option can execute the contract, whereas; a stock price is the last transaction price of at least a single share of an underlying.

### **What is naked call?**

It's a strategy in which an investor writes a call option without having a position in the underlying stock itself. To set up a naked call, an investor simply sells a call option without owning the underlying stock. If s/he writes a naked call & the stock goes up 100 or 200%, the writer has to deliver, but it is a high-risk strategy.

### **What is American contract?**

An American option is a version of an options contract that allows holders to exercise the option rights at any time before and including the day of expiration.

### **What is an European contract?**

A European contract only allows you to exercise on the day of expiration.

### **Which one is more profitable European contract or American contract?**

An American contract option allows the investor to exercise any time before the expiration date whereas, in European contract options during their "exercise period" (usually right when they expire, but no earlier).

### **So an American style contract is exercised more but is it more profitable?**

If I exercise my American contract before its expiration date, the investor might get more profit, but he/she might lose money too. Mathematically,

there is no advantage, since an investor can make the same amount of profit on exercising its right on the day of its expiration.

### **When should you start options trading?**

You should start options trading when you have enough investment and savings too. You need the proper knowledge, data, and strategies about the market. You should be able to not only predict but also implement the strategies at the right time.

### **How much should you invest in options trading?**

It is advisable to start your investment with 5,000\$ to 15,000\$. Try not investing all of your savings or income on it since there is a high-risk factor involved in trading options.

### **When should you exercise your options?**

According to Bill Bischoff, you should exercise your options put the very last-minute.

The last-minute is when the stock has risen to the point where you are ready to unload — or just before the option expiration date, whichever comes first. At the last minute or on the date of expiration, you know that there is no going higher than this, so you can easily exercise your options, although, on the last day, the tax cost is usually higher.

### **Best strategy of options trading?**

According to Allen Everhart, there is no such thing is the best strategy. Everyday stock or market rate is different. Even the underlying asset or companies are different from each other too. You cannot apply one strategy to all of your options. However, all options trading strategies are directional.

### **What is a short put and long call strategy?**

A short put and a long call are direction-ally the same. The shot put and the long call makes money when the stock goes up. But short put is known to be a little riskier than the long call strategy.

The short put can be exercised if the stock does not decline, and in that case, you can keep the premium of the option.

## **How an option writer makes money?**

An option writer makes money when the stock or premium that has been bought reaches its expiration date without being exercised. In that case, the option writer gets to keep the entire premium.

## **How do investors lose money in options trading?**

There is no one specific reason why an investor loses his/her money. There are different cases and scenarios. But the most common mistakes people make are they do not gather enough information or their lack of knowledge. Most people assume that it is a short way to become rich or may believe in “luck” too much.

# CONCLUSION

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Thank you for downloading this book. The objective of writing it was to let amateurs, novices, and even pros understand the tricky and sometimes hard to digest concepts.

The language of this book is, therefore, simple, easy, and user-friendly (in a sense that anyone can grab the meaning). On top of that, we have added as many examples as we could with each new concept so that the reader does not get confused.

In the end, we would wind up from where we began from – ‘learning the concepts of options trading might seem difficult – but once you grab them – they are yours!’

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So, just remember, you have got to be patient, risk-tolerant, and a mindful planner when it comes to business. Have a great trade. May each of your investments give you more profit than you expected.