5 SECRET TRADING STRATEGIES

TO WIN EVERY DAY IN THE MARKET

MONUMENT
TRADERS ALLIANCE

Table of Contents

“An army of sheep led by a lion is better than an army of lions led by a sheep.”

Alexander the Great

Bryan Bottarelli
HEAD TRADE TACTICIAN

Whether it was selling the Star Wars figures he collected as a little boy for 50 times their value or using $125 of grass-cutting money to buy a Michael Jordan rookie card that he later sold for $1,500, it was clear Bryan Bottarelli was a born trader – possessing the unique ability to identify opportunities and leverage those investments.

Graduating with a business degree from the highly rated Indiana University Kelley School of Business, Bryan got his first job out of college trading stock options on the floor of the Chicago Board Options Exchange (CBOE). There he was mentored by one of the country's top floor traders in the heart of the technology boom from 1999 to 2000 – trading in the crowded and lively Apple computer pit. Executing his trades in real time, Bryan learned to identify and implement some of his most powerful trading secrets... secrets that rarely make their way outside the CBOE to individual traders.

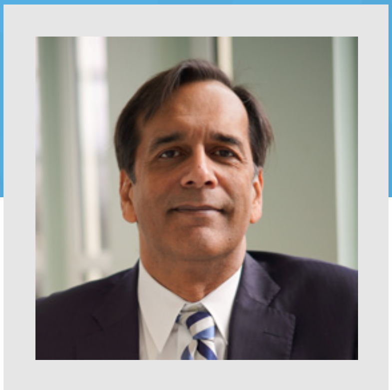
Recognizing the true value of these methods, Bryan tapped into his entrepreneurial spirit to take a risk. He walked off the CBOE floor and launched his own independent trading advisory service called Bottarelli Research. From February 2006 to December 2018, Bryan gave his precise trading instructions to a small, elite group of high-level traders – most who joined him on day one have been clients ever since.

As a so-called "play tactician," Bryan uses his hands-on knowledge of floor trading to shape opportunities and chart formations into elegant, powerful and profitable recommendations. And by using the same hedging techniques taught by professional floor traders, Bryan is able to deliver his clients remarkable gains while strictly limiting their total risk.

He now spends his days moderating The War Room, one of the most elite trading forums ever created.

Karim Rahemtulla

HEAD FUNDAMENTAL TACTICIAN



Karim began his trading career early… very early. While attending boarding school in England, he recognized the value of the homemade snacks his mom sent to him every semester and sold them for a profit to his fellow classmates who were trying to avoid the horrendous British food.

He then graduated to stocks and options, becoming one of the youngest CFOs of a brokerage and trading firm that cleared through Bear Stearns in the late 1980s. There he learned his trading skills from veterans of the business. They had already made their mistakes, and he recognized the value of the strategies they were using late in their careers.

Educated in England, Canada and the United States, Karim's fluent in several languages. He completed his undergraduate studies in economics and foreign languages. He also earned a master's degree in finance. Karim travels the world regularly, seeking out the best investment opportunities.

He developed a covered call strategy in the late '90s while investment director of The Oxford Club and identified a unique aberration. The trading system he built around this allowed him to hand his readers a win percentage of more than 80%.

Not satisfied with that system, he turned to Long-Term Equity Anticipation Securities (LEAPS) and put selling strategies as co-founder and chief options strategist for the groundbreaking publication Wall Street Daily. After that, he honed his strategies for readers of Automatic Trading Millionaire, where he didn't record a single realized loss over a span of more than 40 recommendations in an 18-month period.

While even he admits the record is not the norm, it showcases the effectiveness of a sound trading strategy.

He has closed out positions in as little as a few hours for triple- and quadruple-digit gains. His focus is on “smart” trading. Using volatility and proprietary probability modeling as his guideposts, he makes investments where risk and reward are defined ahead of time.

Today, Karim is all about lowering risk while enhancing returns using strategies such as LEAPS trading, spread trading, put selling and, of course, small cap investing. His background as the head of a venture capital publication gives him unique insight into low market cap companies, and he brings that experience into the daily chats of The War Room.

With more than 30 years of experience in options trading and international markets, Karim also contributes to *The Oxford Income Letter* and *Wealthy Retirement*. He is the author of the best-selling book *Where in the World Should I Invest?*

PART 1:

Understanding the Tactics of Trading Pros

> *"If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle."*
>
> **SUN TZU, THE ART OF WAR**

Welcome to Monument Traders Alliance!

In this three-part report, we will give you an inside look at the battle tactics we use every single day in The War Room. If you would like to join us but think you could use a quick trading primer before diving into the big leagues, then consider this report series your own personal options trading boot camp. After reading this three-part series, you'll be well-equipped to trade alongside the experts in The War Room.

We admit, options trading seems intimidating at first, simply because it requires more strategic thinking than trading other assets. That's why we're offering you this special report series! With it, you can understand the strategies and language behind options trading.

Think of this basic knowledge as your primary weapon.

Part 1 of this guide will teach you the ins and outs of that weapon and how to use it.

Part 2 will show you how to win a battle, with several critical strategies and principles to keep in mind as you begin trading.

Part 3 will show you how to win a war and earn massive gains with advanced strategies.

Armed with the knowledge presented in these reports, you'll be ready to join our elite group of traders – and begin using The War Room as your own daily wealth-generating machine.

Lock, Stock and Barrel: Getting to Know Options

An option is essentially a contract. It's an agreement to buy or sell a certain amount of an asset, usually 100 shares of stock, at a specified date and price. Options allow you to bet on the direction you think an asset's price will go, just like a normal stock.

If you look up an option on an exchange, it will look something like this:
(1) IBM (2) January (3) $90 (4) Put (5) $700.

In this example, IBM is the underlying instrument, January is the expiration month of the option, $90 is the strike price, put is the type of option and $700 is the price premium, or what you would pay for the option.

Options are leverage tools. Instead of ponying up the cash to buy an asset outright, you're instead buying a contract that gives you the right (but not the obligation) to buy or sell that asset. You can also sell that contract to another investor or simply let it expire with no more financial obligation on your part.

There are two basic types of options contracts: calls, which are bullish assets, and puts, which are bearish assets. Assuming the underlying asset is a stock, as the value of that stock goes up or down, so too does the value of the options contract for that stock.

The relative change in an option's price compared with the price of the underlying asset is called delta. The rate of that change is gamma. Gamma is how much the price of the option changes when the price of the underlying asset changes.

An option has two types of value: intrinsic value and time value. For a call option, the intrinsic value is the strike price of the option subtracted from the stock price. Let's say stock XYZ is valued at $100 and an option contract for 100 shares in stock XYZ has a strike price of $90. The intrinsic value of the call option is $10.

For a put option, let's take the same $100 stock. If an investor held a put contract with a strike price of $110, then the intrinsic value of that option would also be $10.

The other way of valuing an option is called time value. Time value goes down as the expiration date of the option draws near because there's less time for the value of the underlying asset to be what's called "in the money."

An option that's in the money has intrinsic value. For an in-the-money call option, the strike price is lower than the price of the underlying asset. An in-the-money put is the exact opposite, and the strike price is higher than the price of the underlying asset.

An option that has no intrinsic value is called "out of the money." Most options expire out of the money. If a call option's strike price is greater than the underlying asset, it is out of the money. If a put option's strike price is lower than the underlying asset, then it's also out of the money. If the asset price and strike price are equal, then the option is at the money.

If an option has no intrinsic value, it has only time value. The time value is the premium (the price you pay for the option) minus the intrinsic value. Take stock XYZ from my example. If the call option has a premium of $15, you subtract the $10 intrinsic value to get the time value of $5. If the put option has a premium of $25, you subtract the intrinsic value of $10 to get a time value of $15.

The decrease of an option's value over time is called theta. Along with gamma and delta, these numbers are called "The Greeks." If you hear that term thrown about in options trading circles, that's what it refers to. There is a fourth number called vega, which is the rate of change between an option's value and the volatility of its underlying asset. It's the option's sensitivity to volatility. We won't get into that too much here; volatility is another layer of complexity that will be covered in Part 3.

So now that you know what an option is and how it's valued, you're probably wondering how you go about trading them.

Just Getting Started

Before you start buying options, we recommend talking to your broker. Your account will need to be at least Level 2. We would also recommend a minimum of $2,000 to start, a margin account and the time to be primarily a trader. Making money with options trading requires you to be active anytime the market is open. Trading alerts can be issued at any time, orders are meant to be entered right away and multiple trades can be recommended any given day.

Options trading is for the strategic investor, and it's one of the best ways to make money in the market. When done correctly, the risk is lower and the profit potential is higher than ordinary investments. You just need to put in a little more to get the best results from trading options and jump through a few hoops first.

The Hoops

If you have no experience, then this guide is for you. The thing is, there's not a test or anything similar standing between you and options trading. All you have to do is find a broker willing to help you. If you're already experienced, this guide is the perfect refresher for you.

You can trade with any type of account, retirement or otherwise. Regardless of which one you want to use, you will have to complete an options and margin agreement.

The fact that you can trade options in your IRA itself seems to contradict the notion of riskiness in options trading. After all, why would Big Brother let you trade options in your retirement account if he doesn't allow you to hold life insurance in there?

You can trade every type of option strategy in your retirement account, except the ones that have undefined risk. The basic options trading methods of put selling, covered calls, debit and credit spreads, etc., are all possible with your retirement or other account.

The only difference between trading in an IRA is that for some options you have to secure the trade with more cash than a non-IRA (where you are able to use margin).

Margin is something you need to sign an agreement for regardless of the type of account. Much like options, it's a dirty word in most people's dictionaries. We often hear people say margin is dangerous and options are dangerous. It's true, but only if using them is done without the requisite knowledge and caution. And by that logic, buying stocks and bonds is also dangerous if not done knowledgeably and carefully.

We don't advocate the use of margin for people who don't know what they're doing. If you don't know what you're doing, don't use margin and don't trade options. Essentially, margin is using other people's money. In this case, you're using the broker's money. It's often referred to as leverage. The brokerage firm asks you to pony up 15%, 20% or even 50% of the cost of a trade, and it'll loan you the rest.

Margin is like borrowing money from your bank to buy more than you can afford if you pay cash. You can see how this can quickly go wrong in the hands of people who like to max out their credit cards and make only minimum payments.

If the underlying trade goes against you, you've got to come up with more cash. That means you can rack up huge losses very quickly based on a very small initial outlay. You can also rack up huge wins.

If you use margin wisely and for the right reason, like selling puts to buy shares at much lower prices, it's a winning strategy.

There are no free lunches on Wall Street and no secret codes for cash. However, there are bona fide strategies that come close by reducing risk. And before you make your first trade, you have to fill out the paperwork we mentioned above.

Now that you have the basics, it's time to move on to some strategies and tools to get you started. In Part 2 of this guide, we'll give you the strategies and concepts you need to succeed in options trading. We'll teach you how to win a battle (and money)!

PART 2:

Win First, Then Go to War

> *“Victorious warriors win first and then go to war, while defeated warriors go to war first and then seek to win.”*
>
> **SUN TZU, THE ART OF WAR**

In Part 1 of this guide, you learned what options are and some of the fundamentals of trading them. This basic knowledge is your primary weapon, and you learned how to use it. Part 2 will show you how to become proficient in it – the next step on the path to mastery.

If Part 1 taught you how to fight, this section will teach you how to win a battle.

There are an endless number of options trading strategies. Many are complex and require an intimate knowledge of options. If you’re a beginner, however, fear not. You don’t need to be an expert to employ these basic strategies efficiently and profitably. Start using them and the other principles in this guide and you’ll be well on your way to earning profits.

Time Is Money

Time is money, the adage goes. That couldn’t be truer when it comes to options trading.

Since options have an expiration date, most people associate time with that aspect of options trading. And it’s true that the time to expiration is arguably one of the most important components of options trading and investing.

After all, once an option expires, so do your chances of making money.

Between 9:30 a.m. and 9:50 a.m., stocks trade at their most unpredictable levels of the day. This is when you can find the best opportunity – if you know where to look. Aside from some aberrations, the normal trading pattern goes something like this: Stocks react to overnight news, earnings results, geopolitical news and market pundits in the hours and minutes leading up to the open.

Then the stock market opens with a ton of investors making bets driven by nothing but news. This is impulse buying and selling.

Sure, you might want to exit a position after bad news or enter a position after good news, but know that everyone else is thinking the same way. It's like a herd of elephants heading for a French door-sized entrance or exit. For most, it's confusing and chaotic.

However, the results can work to your advantage – if you follow along in The War Room.

The market makers – those in charge of setting the prices based on supply, demand and experience – make the prices. If they see a ton of buying, they raise the price quickly, maybe even before the shares open. If they see a ton of selling, they drop prices sharply.

That's a look at the stock market from the inside. Now imagine what the options market is like.

It's a market where prices are derived from the underlying stock price and trade on leverage (think of options as stocks on steroids). If a stock moves up a couple of percent at the open, the option may move up 10%.

The options pricing model incorporates several factors – the expiration date, the volatility of the shares, the volatility of the market and a couple of other lesser inputs. If any of these inputs are magnified in either direction, the effects on an option price are magnified as well.

At the market open, the pressure to price options is huge on market makers, and they are not willing to take the risk until share prices have settled down. On a normal day, that takes about 20 minutes. On a volatile day, it could take all day.

The way you know this is to look at the spread at the open and the spread later in the day. At the open, the difference between the bid and ask could be anywhere from 30% to several hundred percent. By midday, that spread could be much smaller.

Insider Signals

There are few feelings better than knowing you have an edge in the market over your fellow investors. Most people don't believe you can have an edge. They believe in a market where all information is available to all investors all the time, where the price of a stock is always "perfectly" priced.

Then comes a bombshell and suddenly the rules are radically different!

It could be an accounting investigation, a positive trial from a cancer-fighting drug, a huge contract win, earnings that blow away the street, a takeover, or any combination of these or similar events. For investors, these are the holy grail of stock announcements… if they own the stocks, that is.

Others look at these announcements and wish they knew the information ahead of time. In most cases, someone does know before something is going to happen. In many cases, they know months before something happens and don't just sit on the information. They buy stock with the information and then wait patiently for the news to come out – news that they know, most of the time, will eventually emerge.

It sounds illegal, doesn't it? Maybe too good to be true? It's not. It's perfectly legal, and it happens every single day. If you know where to look, you can be privy to this type of trading as well.

It's called insider trading, but it's the legal type. And when an insider buys the shares of a company, they must report the purchase to the Securities and Exchange Commission within a couple of days, by law. That's one of the "tells" that we use to decide whether the opportunity is worth taking.

There are other, more important, tells that you need to know about.

Most insiders buy for one reason: They know something good is coming down the pike. Other insiders buy because they know people are watching insider buys and they buy to influence the market for their shares.

We are going to focus on the first type and a fictional character we'll call Joe. Joe buys because he knows something is going to happen. He may not know the exact date, but he doesn't care. He knows that the shares he buys are going to scream higher when that announcement or event occurs.

What we're looking for is that first insider to buy, and buy in size. This means they buy thousands of shares on the open market with real money. This real money has to be in the tens – if not hundreds – of thousands of dollars. They can't be any insider either. They have to be an executive at the company, not a director. Executives are privy to much more relevant information – the kind that can move a stock.

The next thing we look for is at least two more executives buying shares on the open market with size and at market prices. Then we want to see some director buys. In all, we want to see at least three to five insiders buy shares in size before looking at the stock. If there are only three or four, we still want a lot of size and executive participation.

Sometimes the underlying company is not doing well and is a turnaround candidate. This is the most dangerous type of insider buy, and we will note that the buy is very speculative. In this case, the returns can be phenomenal, but so is the risk. Don't buy too much on pure speculation!

Other times we'll look at companies in the healthcare or biotech sector. When insiders buy here, it's usually because they have good information from clinical trials, long before the FDA or the public knows about the trial data. While not as speculative, these types of insider trades do hinge on a final outcome of a trial, so they carry more than average risk.

There might be situations where there are massive buys by insiders – in the millions of dollars. But those buys are usually by shareholders who already own a large chunk of stock. This type of buying, while attractive, also makes us wary. These are super long-term investors – value investors who can wait years.

We're not interested in waiting years. Most insider trades that meet the tests we described above come to fruition in a year or less. Those are the trades we want to focus on. If options are not available or are too expensive, we'll look to the shares themselves.

Which Companies to Sell Puts On?

Put selling should be no different from any other type of investment when it comes to which companies you are willing to own.

If you're an aggressive trader, you'll sell puts on companies that are highly volatile. If you're the "buy and hold" type, you'll choose a steadier name that has a long-term track record with slower growth. If you're an income investor, you'll look to a company that is a steady dividend payer or one that is growing dividends.

Each type of company will present a different set of rewards and challenges.

Growth companies, such as tech and biotech companies, will deliver large premiums upfront when you sell puts. If you catch these companies early in the cycle, you could be in for a monthly treat, as you can sell puts on these companies every month and collect income.

NVIDIA (Nasdaq: NVDA) is a good example, as its shares have almost tripled in the past year. That's the reward. The challenge comes with volatility.

Companies like NVIDIA and **Amazon** (Nasdaq: AMZN) can rise or fall by double-digit percentages in a week. So focusing on just the monthly income could be a huge mistake if you are not a true believer in the long-term potential of the shares.

You should ask yourself if you really want to own Amazon for $1,200 per share because that is what you might be on the hook for.

The next type of company is the steady type. Take a company like **Procter & Gamble** (NYSE: PG). You can expect steady, single-digit growth from this purveyor of everything consumer related. The put premium you will receive from selling puts on Procter & Gamble will reflect that safety and low risk. Hence the premium will be much lower than that of an Amazon-like company. On the flip side, Procter & Gamble is not going to fall or rise 10% after an earnings announcement.

The third type is a dividend-paying company. Dividend-paying companies tend to be the least volatile in a normal market and often sport very low premiums when it comes to put selling. Their downside is normally limited by their ability to pay and grow their dividends.

A steady dividend payer will have slower growth, while dividend growers may provide both upside and income. The former will have lower put premiums. Good examples of steady dividend payers are companies in the utility sector and the telecommunications sector.

Ultimately, you want to sell puts on companies that you would normally own or buy. If, for example, you're looking to load up with tech shares "on the cheap," you'll pull in a ton of income knowing that the risk you're taking is owning a lot of stock in that sector.

An important rule for put selling is that you must be willing to own the shares that you sell puts on because there is always a chance that you will have to buy the underlying shares. That's our mentality, and we welcome the opportunity to buy great stocks on the cheap!

The Two Most Critical Times for an Options Investor

Investing in options is presumed to be more difficult than investing in stocks. So is changing your oil for the first time, or doing so without the right tools. Once you've done it a couple of times, however, it's no longer daunting.

Yet unlike investing in stocks, options investing does have a unique set of rules. The rules are logical and straightforward. Consider Monument Traders Alliance as your personal toolbox!

One of the most quoted rules when it comes to buying options, whether puts or calls, is that when buying an option, you have the "right but not the obligation" to buy or sell the underlying stock at the strike price. That is mostly true, except for one occasion.

When options expire, they expire either "in the money" or "out of the money." For example, if you own the right to buy **AT&T** (NYSE: T) at $30 and the shares close at $29.99 on the expiration, your option will expire worthless and you don't have to do a thing. Your obligation is over.
But if AT&T closes at $30.01 at expiration and the options you own are still in your account (meaning that you didn't sell them prior to expiration), then you're in for a decision. Now, that decision could be pleasant or unpleasant, depending on your objective.

If your objective was never to own AT&T, then you'd simply want to let your options expire. Otherwise, you'll be assigned the corresponding number of shares for which you hold options. So if you held 10 contracts, you will be assigned 1,000 shares. Come Saturday morning after expiration, you will see 1,000 shares of AT&T in your account and $30,000 (1,000 x $30) less cash in your account. Your broker will normally send you an email or other message alerting you to the possibility – so be sure to properly communicate your intentions.

For most people, this is not an issue since they monitor their accounts regularly and are aware of their positions. But there are occasions, especially in a volatile market, for all sorts of things to happen at the last minute. The solution is to always check your account at 3:30 p.m. on the afternoon of expiration.

There's a second critical time for put sellers like us. When you sell puts, you are obligating yourself to buy the shares of the underlying stock at any time at or before expiration, if you can buy the shares at the strike price. Now, if the shares are trading above the strike price, you wouldn't sell the put because you could immediately sell the shares in the market and pocket a profit.

However, and this normally occurs at expiration or a few days before, if the stock is trading below your strike price, you will be assigned the shares and you will have to pay for them.

The way out is to buy back the options that you sold if you don't want to have that obligation anymore.

Choose the type of options strategy that's best for you. The broker cares only that you pay for it.

[**Note:** Very rarely do we allow options to expire worthless in The War Room, so the section above is purely for educational purposes. By and large, this will not be something you need to concern yourself with while trading with us in the live trading room.]

“Opportunities Multiply as They Are Seized”

These strategies and principles will get you started. By the time you master them, you’ll be raking in money left and right. Once you get in there and get a feel for options trading, it won’t take long before you’re an expert yourself. Then you’ll be ready for the advanced strategies in Part 3 of this introductory report. We just showed you how to win a battle. Next time you’ll learn how to win a war.

PART 3:

Strike Like a Thunderbolt

> *"Let your plans be dark and impenetrable as night, and when you move, fall like a thunderbolt."*
>
> **SUN TZU, THE ART OF WAR**

Part 1 of this guide taught you how to use your weapon of knowledge.

Part 2 taught you how to win a battle with it.

Now you're ready for the third and final part of this report – it's time to learn *how to win a war.*

The strategies and principles outlined here are more advanced, but they're still something a beginning options investor can use to great effect. Once mastered, these strategies will serve you well in the markets.

So, if you're ready, then it's time to fight – and it's time to win. These are the strategies and principles that will allow you to win the options trading war!

STRATEGY NO. 1:

LEAPS

Thanks to a unique, simple strategy, you can take more than 85% of the risk off the table and still not give up an ounce of upside. Think about that. You can pull 85% of your cash out of the market but still retain the same exposure you had before.

With a class of options called **LEAPS**, you can mitigate substantial amounts of risk while still enjoying unlimited upside.

LEAPS are options you can buy in any account, including your retirement account. They allow you to control the underlying shares for periods of up to three years.

When you consider that most investors today don't hold stocks for more than a few months, three years is like an eternity.

These LEAPS are usually available on most established midcap to large cap stocks on the Nasdaq and the New York Stock Exchange. You will find them on companies like **Apple** (Nasdaq: AAPL), Nvidia, **Merck** (NYSE: MRK), **Barrick Gold** (NYSE: GOLD) and the like. You won't find them on small cap tech or biotech stocks.

Let's say you own 1,000 shares of Apple, for example. You are at risk $152,000 in the market for your position. You think Apple is going to $220 in the next two years. That would be a fat return. But your 25% downside stop means you are willing to give up more than $38,000 if you're wrong.

Let's look at how a LEAPS option would work in this situation. You can buy a LEAPS option that expires in 840 days (more than two years), which allows you to own Apple at $155. That option would cost you about $23 per contract. For a 10-contract trade (100 shares per contract), which allows you to control 1,000 shares, your cost would be $23,000.

So right off the bat, you stand to lose less than your 25% stop loss. In fact, the MOST you can lose on this trade is what you invested – $23,000 is 14.9% of the $154,000 you would have at risk owning the Apple shares outright. So you have just yanked 85% of your cash and risk off the table.

If Apple hits your $220 target, you would be up $66,000, or 42%. Your LEAPS option would be worth $65 ($220 minus the $155 strike). You must subtract another $23 for your cost, so your net would be $42,000 ($65,000 - $23,000). That is almost double what you invested! Sure, your actual dollar return is less, but you have 85% less at risk!

At the time of writing, with volatility so low, you can control 1,000 shares of a gold stock like Barrick Gold for less than $3 per contract, or $3,000 to control 1,000 shares. This is the right time to use LEAPS, as the market is in nosebleed territory and low volatility allows you to buy call options cheaply.

The great thing about LEAPS is that even if the market corrects, you will still have time on your side. Two years is more than enough time for the market to correct and then resume its upward trend. If it doesn't rebound, your risk is still limited to what you paid for the option. If it screams higher, you know that you won't miss out on that move. What you also know is that you have the bulk of your cash squirreled away as well. That makes for a very good night's sleep!

By using LEAPS, we can reduce the amount of money we have at risk by up to 90% of what we would ordinarily invest in a play. Apples to apples, we are risking only 10% of our capital, and that's a far cry from a 25% stop loss or worse.

Second, we will reduce our risk further and potentially enhance our returns by using a spread play. A spread play is quite simple. It means that your gains are limited to the amount between two price points – the spread. For this limited return, your gains are also limited.

Let's use an example to illustrate.

You think that asset X is going higher. It's currently at $20. You think it could be at $30 by the end of 2012, where it was at the beginning of 2010. You look at the $20 LEAPS call options, and they are trading at $4, about 20% of the underlying price.

Volatility has made them more expensive. How can you reduce that cost and the dollars you have at risk?

The answer is selling a LEAPS option against the one you just bought.

Let's use the target price of $30 as the strike price of the LEAPS we are going to sell. The $30 LEAPS option is trading for $2. We buy the $20 LEAPS option for $4, and we sell the $30 LEAPS option for $2. Our net cost is now $2 per contract, about 10% of the underlying price. The most we can make from this trade is now $10 minus the cost of $2, or $8. That's a 4-to-1 return.

On a 10-contract trade, 1,000 shares would be an $8,000 profit with $2,000 at risk. The same stock trade would cost you $20,000 to make $10,000... just $2,000 more in profit for $18,000 more in risk.

What have you given up? Well, if the shares move higher than $30, you get no more on your options trade since you sold the right to buy the shares at $30 to someone else for that $2 in premium you received. The holder of the stock has unlimited upside.

STRATEGY NO. 2:

Covered Call Writing

Sometimes the market trades in quite a narrow range, showing no signs of breaking out or breaking down. It's a wicked environment for investors looking for momentum. What you get one day, you give up the next. Your portfolio, while not crashing, is not exactly soaring either.

If you're like 99% of investors out there, you would do nothing but watch the paint dry. If you're the other 1%, you're reading this.

There are some assumptions we need to make first. The biggest one is that you OWN stocks that you plan on keeping for a while in your portfolio, unless, of course, there are extenuating circumstances. In other words, you have stocks that you will hold on to regardless of whether the market goes higher or lower.

If this applies to your whole portfolio or just a portion of it, then you need to listen up because you're leaving money on the table. You really need to learn how to write call options on your stocks, a strategy also referred to as covered call writing.

It's technical, but really, really easy. When you sell a call option against your shares, you are getting paid to sell your stock at a higher price. Your stock gets sold at a higher price if and only if the shares close at or above that higher price when the options expire. Think of it as collecting rent from your portfolio. Who wouldn't like that?

Here's how it's done. Let's assume that you own Merck at $34.

• You set a target price where you would sell Merck.

• You find the option with the strike price closest to your target price.

• The option will have a price, a bid and an ask, just like stocks.

• You enter into a trade, called an opening trade, where you ***SELL TO OPEN*** "X" number of contracts against your Merck position.

• When you do this, you receive money immediately in your account – money that is yours, period.

You own 1,000 shares of Merck. Let's say you use $40 as your target price. In this scenario, the Merck January $40 option is selling for $2. You can sell up to 10 contracts (each option contract is equivalent to 100 shares) against your position.

So multiply 10 by 100 by $2, and you get $2,000. That means you would get an extra $2,000 in your pocket by selling an option to sell your shares at a price $6 higher than it is now. Conversely, you have just reduced your cost in Merck to $34.

The only way the shares will be sold out of your account is if Merck closes at $40 or above at expiration, or if someone is willing to pay you $40 for your Merck stock at any time prior to expiration. Either way, you know you're either going to get $40 for your Merck shares or you're going to keep your shares. The $2,000 is yours to keep regardless.

STRATEGY NO. 3:

Volatility, Your New Best Friend

On February 5, 2018, volatility – as measured by the Volatility Index, or VIX – surged by 116%. That is the biggest daily percentage move since 1990 when the VIX first launched. The biggest daily move before last year was in February 2007, when the VIX jumped 64% in one day.

What does this mean to us? Don't buy long stocks in February!

Jokes aside, volatility is a serious threat to your portfolio. And we're going to show you how to turn that threat into a benefit by making volatility your best friend.

Volatility is a measure of velocity when it comes to investing. It's a measure of how large of a move you can expect in the price of a stock and the direction. While it's not a leading indicator, it can be used to establish a trend. It's critical to understand that massive moves in volatility up or down are very short term in nature.

High volatility will likely last only for a matter of days or weeks. This is when you need to be ready to make money – probably the easiest money you'll ever make.

But without a strategy in place, you'll just be sitting around and worried about your portfolio like most people. Don't be like them.

You have two choices when it comes to investing using volatility: establish long-term positions or set up short-term trades.

As a rule of thumb, the VIX has specific ranges that you should be aware of before any investing takes place.

The VIX measures the number of put and call options being bought and sold on S&P 500 shares. If people are buying a lot of puts, they think the market is going lower and the VIX will move higher. If they are buying a lot of calls, they think the market is going higher and the VIX will decrease in price.

Here's the key: When the VIX is between eight and 15, the market is at the lowest levels of volatility and investors are complacent. This can last a long time. When it's between 15 and 25, the market is trading in a normal range and you can expect moderate up days and moderate down days. When it is trading between 25 and 35, you can expect significant action to the tune of 1% to 2% moves in a day. Between 40 and 50, you are in a full-scale correction. Above 50, and you are likely in the midst of a crash with 80 to 90 being the high-water mark.

When volatility climbs, consider a long-term trade. For those of you seeking income, the time to lock in some huge future payouts is when the VIX is high. Preferred stocks, real estate investment trusts, utilities and other income vehicles will fall hard when the VIX is above 40. Investors don't discriminate in a panic. During the crash of 2008 and 2009, you could pick up preferred stocks of companies like **Bank of America** (NYSE: BAC) that would pay you more than 15%.

When the VIX is above 40, you should also take positions in fundamentally sound, long-term plays. A company like **Berkshire Hathaway** (NYSE: BRK-B) comes to mind. You can usually buy these kinds of companies at multiyear lows and well below their historical price-to-book and P/E ratios. Companies like Amazon, Google's parent company **Alphabet** (Nasdaq: GOOG) and other high-growth companies will fall the hardest and usually make for the best bargains of the bunch.

Buying call options on high-growth stocks or market indexes is also a great idea when the VIX is above 40. Panic doesn't last, and the snapback can make you a ton of money in a very short period of time if you are willing to take the risk.

With options, your risk is much lower in terms of the dollar outlay than it is with stocks. You will pay a higher-than-normal price when you buy options because of the increased volatility, but you will also see quicker returns when volatility normalizes.

If the market is complacent, start thinking about going short or betting the market will fall. However, shorting stocks is a dangerous game, and the market can be complacent for a long time.

When the market is complacent, it's the perfect time to use LEAPS options. LEAPS allow you to bet on the direction of the market for up to three years while being at risk for only the amount you spent on the option. Unlike shorting, which results in unlimited upside and downside, a long-term option can give you a bigger bang for less risk. The downside is that options do expire and, if the market or stocks don't move in your direction, you will take a 100% loss.

As mentioned above, increased volatility will result in more expensive options prices. That makes periods of increased volatility the best times to be a put option seller. When you sell put options, you are agreeing to buy a stock at specific price on a specific date. In return, you receive a nice payment in cash that is yours to keep regardless of the outcome. If the shares fall below the price at which you agreed to buy them, you must buy those shares at the agreed-upon price.

Since increased volatility is associated with downward moves in stock prices, you get twice the bang for your buck when selling puts. You pick up more cash and potentially get to buy stocks at even lower prices. For a long-term investor, it is the best of all worlds!

Volatility is scary, but it's also misunderstood. If you are prepared for all types of volatility (and even the lack thereof), you can put yourself way ahead of the crowd and prepare for major gains.

STRATEGY NO. 4:
Strangles and Straddles

Strangles and straddles are two option strategies that capture gains from a sharp move in a stock, either up or down. They're best applied in situations when the underlying shares are volatile and prone to oversized moves.

To place either trade, you must buy both a put option and a call option. A put option is a bet that the shares are going lower, and a call option is a bet that they will head higher. In order to profit from the trade, the shares need to exceed the strike price at which you sold the option by enough to cover the loss from the other option, which will likely lose value.

Strangles and straddles are both options strategies that allow an investor to gain from significant moves, either up or down, in a stock's price. Both strategies consist of buying an equal number of call and put options with the same expiration date. The difference between the two is that the strangle has two different strike prices, while the straddle has a common strike price.

To place a strangle trade, you must use two different strike prices on the same option. For example, if you think Stock A, which is currently at $15, could go to either $5 or $25, you would buy put options below $15 and call options above $15.

Let's say you choose the $10 strike for the put and the $20 strike for the call. Each option costs you $1. You will need the shares to move to $8 or $22 to break even. However, any move above $22 or below $8 will make you a profit. So if the shares moved to $5, you would make $5 minus the $2 you paid for both the put and the call, for a net return of $3, or 150% on the entire trade.

A strangle is often confused with a straddle. A straddle is similar in that you take a put and a call position; however, it differs in that the strike prices you use for the option on a straddle are identical.

STRATEGY NO. 5:
Spreads

Everyone has a favorite type of trade. Some people focus on technicals, others on fundamentals. Some trade only bonds or cryptocurrencies. We trade them all. But we like using strategies that involve fewer dollars at risk.

Don’t get us wrong. We have a healthy stock portfolio chock-full of dividend-paying stocks and the like. But if you’re like us, you like to spice things up as well. We’re not ashamed to admit it... We like to swing for the fences.

The best way to do this is by buying a put or call option that bets on the direction of a stock. You have unlimited upside when buying a call option (betting a stock will go up) and huge upside when buying a put option (betting a stock will go down). And your risk is limited to the amount you pay for your option. In other words, you have defined risk.

That’s fine, but we have an even better strategy that we employ when trading options. It’s one that we can do in our retirement account. We can also bet long or short, and have defined risk. But it also costs us less money than buying a put or a call straight up. For that “discount,” we give up some upside. In return, we generate income while reducing our cost.

We employ this strategy only on companies that are not highfliers. There’s no point in limiting our upside on a speculation! That would defeat the whole purpose.

No, this strategy is for the steady growers, the blue chips and some midcaps too. It works perfectly in both the tech sector and the biotech sector. Now, we would not use it for a stock like NVIDIA, since that has the potential to soar as well as crash. But we would certainly use it for companies like **Cisco Systems** (Nasdaq: CSCO) or **Intel** (Nasdaq: INTC), where we could see 20% to 30% upside.

The trade is called a "spread." And you can do it in any type of account as long as you get approved by your broker. So yes, it does require an extra step from your broker, but it's well worth it.

For a spread trade, follow these steps. You buy an option and sell an option at the same time. This way, the proceeds of the option you sold reduce your overall cost on the trade and increase your upside. It's almost like a covered call in stock trading but without owning the stock. Let me show you using an example stock.

Stock XYZ is currently trading for $47.50. Its 52-week high is $57.60. Let's assume for the sake of this example that you think XYZ will hit $60 by the end of next year.

You can buy 1,000 shares of XYZ and spend $47,500. Or you can buy 10 contracts of the XYZ call option that expires in January 2020 with a $47 strike price (that means you have the option of buying XYZ at $47). It will cost you $6, or $6,000 for 10 contracts.

If Stock XYZ were to go to $60, you would make $12,500 on your stock position, or 26% plus a couple percent for the dividend. Let's call it 30%.

The price of the option at expiration would be $13 ($60 - $47). Your profit would be $7, or $7,000, once you subtract what you paid for the option. Your gain is 116%.

Now, let's see what would happen with a spread trade. You buy the $47 option and pay $6. Against this, you sell the $60 option with the same expiration date. That option is currently selling for $1.80. Your cost for the trade is now $6 minus $1.80, or $4.20. Your upside is capped at $60, so any move above $60 will not make you any extra money.

Your profit if the shares go to $60 or above is $13 ($60 strike minus $47 strike). Subtract from that your $4.20 cost, and you are left with a net profit of $8.80. Your percentage return with this trade is 209%.

Using a spread will reduce your cost in a trade dramatically. In this case, your spread required 30% less cash upfront than the straight option buy. Your profit was higher too – almost twice as much as the regular option trade and seven times more than the stock trade.

The downside is that if XYZ moved substantially higher than $60, your uncovered option trade would return more. As for the downside, in terms of dollars at risk, the spread trade would have lost you less money if XYZ closed below $47. And your total risk versus buying the shares outright would have been less than 10%, which is below the 25% stop loss we normally follow when recommending stocks.

"The Greatest Victory Is That Which Requires No Battle"

This report is your guide to options investing. It has all the information – from fundamentals to more advanced trading – you'll need to get started with options investing. Once you've taken the information in this report to heart, you'll be able to start making money trading options like an expert.

As you take your first steps onto the battlefield, you will not be alone. We will provide the advice and guidance you'll need to win the war, which means making successful trades and significant profits before you know it!

Glossary of Terms

Anatomy of an Option

(1) IBM (2) January (3) $90 (4) Put (5) $700

(1) Underlying Instrument
(2) Expiration Month
(3) Strike Price
(4) Type (Call or Put)
(5) Price Premium

The Greeks

Delta represents the relationship between the option's price and the price of the underlying asset. It's the price sensitivity of the option. Delta is the change in option price relative to a change in the price of its underlying asset.

Gamma is the rate of change of delta. It illustrates how much the price of the option changes when the price of the underlying asset changes.

Theta is the rate of change between an option portfolio and time. It's the decrease in an option's value over time.

Vega represents the rate of change between an option portfolio's value and the underlying asset's volatility. It's the option's sensitivity to volatility.

In or Out of the Money

Calls:

- When the strike price equals the underlying instrument, the option is at the money.
- When the strike price is less than the underlying instrument, the option is in the money.
- When the strike price is greater than the underlying instrument, the option is out of the money

Puts:

- When the strike price equals the underlying instrument, the option is at the money.
- When the strike price is less than the underlying instrument, the option is out of the money.
- When the strike price is greater than the underlying instrument, the option is in the money.