

Options:
The Way to Big Returns!

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Introduction:

“Everyone has the brainpower to follow the stock market. If you made it through fifth-grade math, you can do it.” -- Peter Lynch

If you are a seasoned investor or just a beginner to Options trading, you will benefit from the knowledge and experience in this e-book. Options trading is a unique and sometimes scary ride through the stock market that potentially can you make you returns that are unheard of!

You need to get your feet wet in options trading before risking large sums of money. I often have people come to me and say, “If I give you \$10,000 will you manage it for me and make the kind of returns you are making?” My answer is always the same. “I will take a percentage of your gains...” and then they always interrupt and say “of course!” then I say “...however you need to understand that your money will be at 100% risk, 100% of the time!” They always shy away.

With that said, I promise you that, although options are high risk they will give you high returns when traded properly!

With all of my training, through webinars, videos, coaching, phone calls and e-books, that I will be presenting to you, I will help you to minimize this risk and help you make incredible returns. Don't be afraid, but don't risk all of your money all at once. Take the time to learn and experience both incredible returns and some losses.

Now, with that said, *“it's time to experience options!”*

What is an Option?

“An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an underlying asset at a specific price on or before a certain date. An option, just like a stock or bond, is a security. It is also a binding contract with strictly defined terms and properties.” - The Internet

Sometimes the easiest way to explain this is to use the example of a house.

	<p>Let's say your house is currently worth \$100,000</p> <p>I come along and think the house will be worth \$150,000 in 3 years but I can't buy it now and I want it. You think the house will be worth \$130,000 in three years. So we discuss ideas.</p> <p>I then offer you \$10,000 now to enter into a contract with you to buy your house at \$130,000 within 3 years.</p> <p>You get the \$10,000 now and the contract says you can't sell it to anyone else unless I let you out of the contract, or the 3 years expires.</p>
<p>My Rights as an Option Holder</p>	<p>The above example says:</p> <p>“Within 3 years I can buy the house for \$130,000, however, these are my choices according to the options contract.</p> <p><i>I can...</i></p> <ol style="list-style-type: none">1. Execute the option; I can buy the house anytime within the 3 years for \$130,0002. Let it Expire; This is helpful if the market goes down. If the house is only worth \$110,000 in the 3 years I held the option, it would be a bad move to buy it for \$130,0003. Sell the Option; Let's say I was right, and the house is worth \$150,000 but, I decided I no longer want the house. My friend wants it instead. I paid \$10,000 for the option to buy it at \$130,000. I now sell him the option contract for \$20,000 and he buys the house for \$130,000 or total cost of \$150,000. I made 100% on my money and everyone is happy.

Definitions

In the example on the last page there are 3 definitions that you need to know.

The Strike Price.

This is the price I can buy the house for. In this case the strike price was \$130,000. This contract says I am buying the house for \$130,000 if I decide to execute the contract. It does not matter if a builder came to the owner and offered him a million bucks for the property. I have the right to buy the property at \$130,000 and he can't sell to anyone else.

Time Value.

The time value is the money basically that I am willing to risk to have the option to buy the house within the 3 years. This was the initial \$10,000. If the house was only worth \$100,000 when I took the option for \$130,000, I am buying time with my \$10,000.

Intrinsic Value.

This is the actual value of the investment at any given time. In the example above, there is no Intrinsic value. However, if a year later the house was worth \$135,000, I would have \$5000 intrinsic value. In this case the difference between the strike price and the value of the house.

In some cases, there can be intrinsic value right from the beginning. Let's say the owner will sell me an option to buy the house for \$90,000 in 3 years, this house has a current value of \$100,000. His option price is \$40,000. In this case the option is worth money right from the start. It is worth \$10,000. Of course the time value is now \$30,000.

By the way; the type of option in the house example, is called a "CALL OPTION".

Call Options

With a “Call Option” we essentially want the stock to go up. With Put Options we want the stock to go down. I will explain Puts shortly but let’s look at a Call Option chain and examine the parts of the chain and the definitions we discussed.

FB Oct 21 2016		79 Days to Expiration					
Calls	Bid	Ask	Last	Change	Vol	Op Int	Strike
110.0 Call	13.95	14.10	14.82	0.37	30	388	110.00
115.0 Call	9.90	10.05	9.98	-0.32	20	872	115.00
120.0 Call	6.45	6.55	6.47	-0.33	238	9,632	120.00
125.0 Call	3.75	3.85	3.80	-0.21	269	6,184	125.00
130.0 Call	1.92	1.95	1.95	-0.11	1,014	5,059	130.00
135.0 Call	0.84	0.88	0.87	-0.09	275	27,153	135.00

This is the actual chain for the options expiring on October 21 2016.

*In the above example taken on August 3, 2016,
Facebook stock is trading at \$122.66.*

On the left is the name of the option, which is essentially the strike price. The Strike price is also listed on the far right. Clearly a “110.0 Call” has a strike price of 110.00

As you can see in this snapshot there are yellow and white highlights. The Yellow highlights indicate that the stock has Intrinsic value. This is also known as an “in the money” option. (I will explain this in another chapter).

If the stock is trading for \$122.66 and the strike price is \$110.00 then you have \$12.66 intrinsic value. The remaining difference is the cost is the time value. In this case the time value (from the bid price of \$13.95) is \$1.29, making up the total price of the option.

The two other columns of interest are the “bid” and “ask” price of the option. Basically, this is a negotiation between someone wanting to buy and someone

wanting to sell. In this case there is someone who is willing to sell the \$110 strike price option for \$14.10, however the highest price offered is only \$13.95. Just like any negotiation someone has to change their price in order for there to be a sale. My guess, in the time it took you to read this, many changes in price were made.

Let's do some basic math and figure out our breakeven point if we buy this option at the bid price. The stock is currently trading at \$122.66. If we buy the option with a strike price of \$110.00 and paid \$1.29-time value plus \$12.66-intrinsic value, we need the stock to go to \$123.95, before the expiration date, just to break even. Or to make it simple, $\$110 + \$13.95 = \$123.95$. Everything above this is pure profit!



Here is some interesting math that should get you excited. If I buy the stock is trading for \$122.66 and it goes up to \$125.66, I make \$3 for every 122.66 I spent. The difference between what it is selling for now and what I bought it for.

Now look at this math. If I buy the option for 13.95, my intrinsic value in the example from the last page, is \$12.66. Even if my time value ran out, (it the day of expiration) and the stock went up 3 points, I can sell the option for \$15.66, minimum! That is a profit of \$1.71 per share I control on an investment of \$13.95.

That would like the stock going up to \$137.69 and that assumes the time value is now zero.

Put Options

Put Options often confuse the investor and I hope I will make this easy for you to understand.

Let's go back to our house example and see if we can make some sense of Put Options.

	<p>Let's say your house is currently worth \$100,000. I will assume you have an insurance policy on this house to cover it. The Insurance covers up to \$100,000 if it burns down to the ground. In fact, if it has a mortgaged loan, the bank is going to insist you have insurance to cover their asset.</p> <p>So what does this have to do with PUTS?</p> <p><i>Well, a PUT Option is actually an insurance policy that you or someone else can buy.</i></p>
	<p>This means, if you have a stock worth \$100/share and buy puts to insure the stock at \$100/share you are guaranteed that the stock price will always be 100 or more.</p> <p>If the stock goes \$88 and your insurance is in place, someone has to buy it for \$100 guaranteed.</p> <p>I know! I know! It's sounds so complicated and so easy at the same time.</p>

Let's talk about the stock market and how this applies.

Remember our basic definitions; Strike price, Time Value and Intrinsic Value.

Look at the Options chain for Facebook again, but this time, let's look at the Put side with the same expiration date.

Strike	Puts 	Bid	Ask	Last	Change	Vol	Op Int
110.00	110.0 Put 	1.26	1.30	1.27	-0.01	506	4,606
115.00	115.0 Put 	2.18	2.21	2.19	0.02	156	4,141
120.00	120.0 Put 	3.65	3.80	3.70	0.10	253	5,802
125.00	125.0 Put 	5.90	6.05	6.07	0.22	17	3,130
130.00	130.0 Put 	9.00	9.20	9.33	0.53	16	499
135.00	135.0 Put 	12.90	13.10	13.00	1.30	0	88

This is the actual chain for the options expiring on October 21 2016.

*In the above example taken on August 3, 2016,
Facebook stock is trading at \$122.57.*

Let's go to the first thing you may have noticed. The yellow, "in the money" is now on the bottom of the chain. That's because the stock is trading BELOW the option strike price. Before I continue, I want you to understand that with a PUT option you can pick the insurance value price *equal to, above, or below* the current asking price.

If the insurance contract, the PUT Option, is insuring the stock for \$135.00, as in the bottom option, and the stock is trading at \$122.57. That means it has an intrinsic value of \$12.43. ($\$135 - \122.57). The time value, of course would be \$0.47 at the bid price shown.

This means if the stock is equal to \$122.10, before the expiration date, you break even. If the stock goes lower than that, let's say \$120, you make \$2.10 per share that you control through your stock options.

Review



Let's summarize what we have learned so far.

Option: *a contract that gives the buyer the right, but not the obligation, to buy or sell an underlying asset at a specific price on or before a certain time.*

CALL: *You want the stock to increase in value. It's a contract in which you have a strong feeling the stock will go up in value.*

PUT: *You want the stock to decrease in value. It's an insurance policy that PUT's the stock back to a predetermined price.*

The Strike Price. This is the price I can buy the stock for in a call option or the price I can sell the stock for in a PUT option.

Time Value is the money that I am willing to risk to have the option to buy the stock within the time frame offered.

Intrinsic Value is the actual value of the investment at any given time.

Expiration date is the date your option expires. By this date you must, exercise it, sell it or let it expire.

Option Contracts

The other thing you need to know is that options are sold in 100 bundle contracts. This simply means that you can't control 1 share. The minimum is 100 shares.

For example: if we take the chart of Call Options we can see that the 110 call is selling for an ask price of \$14.10. Because we must buy 100 contracts, your minimum investment would be \$1,410.00 for 1 contract. What makes this important is the amount of money you need to start or to invest in these options. when you are using smaller amounts of money, it is hard to buy contracts with intrinsic value. As you can determine, if you started with \$1000 in your account, you can only buy the 115 or 120 strike price options.

FB Oct 21 2016		79 Days to Expiration					
Calls	Bid	Ask	Last	Change	Vol	Op Int	Strike
110.0 Call	13.95	14.10	14.82	0.37	30	388	110.00
115.0 Call	9.90	10.05	9.98	-0.32	20	872	115.00
120.0 Call	6.45	6.55	6.47	-0.33	238	9,632	120.00
125.0 Call	3.75	3.85	3.80	-0.21	269	6,184	125.00
130.0 Call	1.92	1.95	1.95	-0.11	1,014	5,059	130.00
135.0 Call	0.84	0.88	0.87	-0.09	275	27,153	135.00

This is the actual chain for the options expiring on October 21 2016.

*In the above example taken on August 3, 2016,
Facebook stock is trading at \$122.66.*

There are different types of option play and each one has different risk factors. When you run an option chain, you will have the following choices.

- In The Money
- Near The Money
- Out of the Money

An “In the Money” Option means that the stock has Intrinsic value already. This is the safest type of option. It basically means you can buy the stock for lower than the current price. Of course if you are buying this option “In The Money” then you are paying for the intrinsic value within the option price.

FB Oct 21 2016		79 Days to Expiration						
Calls	Bid	Ask	Last	Change	Vol	Op Int	Strike	
110.0 Call	13.95	14.10	14.82	0.37	30	388	110.00	In The Money
115.0 Call	9.90	10.05	9.98	-0.32	20	872	115.00	
120.0 Call	6.45	6.55	6.47	-0.33	238	9,632	120.00	
125.0 Call	3.75	3.85	3.80	-0.21	269	6,184	125.00	Near The Money
130.0 Call	1.92	1.95	1.95	-0.11	1,014	5,059	130.00	
135.0 Call	0.84	0.88	0.87	-0.09	275	27,153	135.00	

In our option chain above, the 110, 115 and 120 calls are “In The Money”. This is usually highlighted by your options trading platform, and in this case, it is yellow.

A Near the Money Option is one that is simply, “near the money”. As we discussed earlier, this stock is trading for \$122.66 a share. That means a 125.00 Call is possible to reach by the expiration date, therefore It is “Near the Money”.

In this Chain they are stating that \$135.00 is also Near the Money. This means if you buy this contract, as with all, Near the Money contracts, you are paying for Time Value only.

Finally, there is something called “Out of the Money”. This chain is usually numbers that are very high and frankly most of the time they expire. Here is a good tip; if you buy, “Out of the Money” options, you will soon be **out of money!**

This is generally an unwise trading strategy, but some find it intriguing because of the unheard of returns, sometimes 1000% or higher.

Outrageous Returns

The returns in trading stock options are simply outrageous! When a stock moves up just 2 or 3 points, a stock option has the potential to for 50% or more return on your money.

Take a look at what happen in the last two days as I was writing this e-book!

FB Oct 21 2016	79 Days to Expiration						
Calls	Bid	Ask	Last	Change	Vol	Op Int	Strike
110.0 Call	13.95	14.10	14.82	0.37	30	388	110.00
115.0 Call	9.90	10.05	9.98	-0.32	20	872	115.00
120.0 Call	6.45	6.55	6.47	-0.33	238	9,632	120.00
125.0 Call	3.75	3.85	3.80	-0.21	269	6,184	125.00
130.0 Call	1.92	1.95	1.95	-0.11	1,014	5,059	130.00
135.0 Call	0.84	0.88	0.87	-0.09	275	27,153	135.00

Look at the 115 calls above selling for \$10.05

FB Oct 21 2016	76 Days to Expiration						
Calls	Bid	Ask	Last	Change	Vol	Op Int	Strike
115.0 Call	11.85	12.00	11.91	0.46	68	968	115.00
120.0 Call	8.00	8.10	8.09	0.34	694	9,534	120.00
125.0 Call	4.90	5.00	4.95	0.28	1,637	7,635	125.00
130.0 Call	2.62	2.69	2.69	0.20	1,677	6,826	130.00
135.0 Call	1.21	1.25	1.24	0.09	2,069	27,109	135.00
140.0 Call	0.50	0.54	0.53	0.03	251	2,586	140.00

Just 2 days later the same 115 calls are selling \$12.00.

That's almost a 20% return in 2 days!

Now look at the "near the money" option with a strike price of \$135. The option was selling for \$.88 and now it's selling for \$1.25. That is a 42% return!

Now that I have you excited, be careful! A 1-point downward move can take away a lot of money. That's what make options so risky! It's all about leverage.

Remember, with options you control, but don't own the stock. If the stock value falls below the strike price at the time of expiration, you lose all of your money!

That as happen to me and it has happened to very experienced traders. Make sure you know how and when to buy and how and when to sell!

That brings me to the next part of this book!

Support and Resistance

Many people think that stocks go up fast. The reality is stocks move up (or down) very slowly. Stocks, however move in small increments constantly. If you track any stock that trades regularly, you will see this movement on a daily basis.

Stocks are traded by emotion. These emotions are greed and fear. The movement in stocks isn't by the lowly stock investor. It is caused by the fund managers who buy and sell massive amounts of shares constantly.

Think about the mutual fund manager who has to make returns for his company or he gets fired. He does not want to make a mistake. In fact, neither do I!

Support is the lower range of a stock that fund managers "think" is the bottom of the small movement and they get greedy. Resistance is where the fund managers get fearful and start selling. You will see support and resistance in almost every chart for almost every stock.

Support and Resistance is the key to making money in stock options. Imagine if you could buy at every support level and sell at every resistance level. You would be a million in a short time!

As always, there is a catch. In a down market, sometimes the support level becomes the resistance. That means you bought at the top and now you are stuck selling at a lower value. Sometimes the resistance becomes the support. If you were holding the stock or the call option, you would be very happy, but if you were waiting for it to go down to buy in, you missed the opportunity.

If this confused you, don't worry about it. My videos and coaching will help you find good entry points for stock options using support and resistance.

Support and Resistance chart



This is a great illustration of Support and Resistance. You can see that even as the stock increases to the next support level you had a few opportunities to make money. My favorite type of chart is the second half. Here you can see a continuous “support” to “resistance” bounce. This is the money maker!

K.I.S.S.

Keep it Simple Student

I was all set to create chapters about “Spreads”, “collars”, “covered calls”, “Strangles” etc. I was also going to create a chapter about the Greeks, like “Delta”, “Theta” and “RHO”. Then I realized, I would just be clouding your mind with all kinds of data, that frankly I don’t use.

My trades are simply Naked CALLS and PUTS. In fact, most of my trades are just CALLS. I’m looking for small movements and I cash in fast! My trading philosophy has always been “Buy low and Sell high!”

If you are a subscriber to my coaching or videos, you should have received my basic rules of trading. If not, subscribe today and receive these tips and practices that have been making me incredible returns for the last 2 years.

I look forward to hearing about your success!

Larry Steinhouse

The Crazy Options Trader!

www.crazyoptionstrader.com