And Now For Something Completely Different

Low-cost Speculation Setups

BetterTrades Instructor
BILL CORCORAN
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STRATEGY OVERVIEW

You are about to be exposed to a speculative, risk-managed, option trading system that applies sound technical analysis to identify directional trade opportunities and exploit low-cost options to create tremendous leverage with significant potential rates of return.
SPECULATION

• Speculative
  – Based on probability of success
  – Based on evaluation of risk to reward
  – Risk is evident and considerable
  – Seeks to maintain defined risk
RISK MANAGEMENT

• Managed Risk
  – Clearly defined entry point
  – Mechanical exit (stop)
  – Technicals define risk
  – Pre-planned exits
TECHNICAL ANALYSIS

• Used to potentially elevate probability
  – Multiple time frames
  – Multiple indicator sets
  – Identifies critical entry/exit signals
  – Can help define risk
  – Pre-planned exits
OPTION PRICING

• Intrinsic Value
  – Relatively stable
  – Stock price minus strike price = Intrinsic Value
  – Always moves with 1 delta to stock price
  – Can be expensive
OPTION PRICING

• **Time Value**
  – Typically very unstable
  – Determined by “Implied Volatility”
  – Can swing wildly
  – Can move independently of stock price
  – Represents all OTM option premium
  – Option price minus *Intrinsic Value* = *Time Value*
RATE OF RETURN

• Change how you look at money!
  – Rate of return = how hard your money works

\[
\frac{\text{PROFIT}}{\text{INVESTMENT}} = \text{RATE OF RETURN}
\]
RATE OF RETURN

• Change how you look at money!
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\[
\frac{\$500}{\$1000} = 50\% \text{ RATE}
\]
RISK MANAGEMENT

• Risk
  – The extent to which your trading capital may be lost due to price movement against your position.

• For directional trades risk can be defined.
  – From the ENTRY price to the STOP EXIT

• Option traders will base stops on:
  – Option price
  – Contingent to underlying stock price
RISK MANAGEMENT

• Basic Rule
  – Never expose TOTAL ACCOUNT VALUE to more than 2.5% risk per trade.

• Position sizing
  – Once stop is established, appropriate position size can be taken based on risk to account value.

• Other considerations
  – Multiple positions in one sector increase risk exposure
  – ITM and OTM positions may have different exposure
Trade Setup
STOCK SELECTION

• Stock Criteria
  – Weekly Options
  – ATR 5 of at least 3% of stock price
  – ATR 5 more than $2
  – Or ATR 5 more than $5 (Friday trade)
  – Filter in ECSM
CANDIDATE LIST

• The eligible candidate list changes daily and is not all-inclusive nor is it a recommendation of any kind.

• Students should consider building a filter in ECSM to scan for potential candidates.

• How to build Filters and Criteria is covered in the Boot Camp and Morning Lab.

• Future changes to stock selection criteria due to market conditions will be presented to the MORNING LAB and BOOT CAMP students immediately.
OPTION SELECTION

• Option Criteria Monday-Thursday
  – Weekly Options
  – Option cost less than $2
  – Typically OTM
    • This option is all time value
    • Subject to implied volatility
OPTION SELECTION

• Option Criteria for Friday
  – Weekly Options
  – Option cost less than $5
  – One strike ITM
    • Nearly all Intrinsic Value
    • Moves at nearly a 1 Delta to stock
OPTION SELECTION

• The market is very fluid right now and these criteria may change frequently.

• Future changes to option criteria due to market conditions will be presented to the MORNING LAB and BOOT CAMP students immediately.
TECHNICAL ANALYSIS

• Technical Analysis
  – Multiple Time Frames
  – Chart Patterns
  – Candlestick Patterns
  – Support/Resistance
  – Volume
  – Trending Indicators
  – Oscillating Indicators
  – Divergences
BIG PICTURE FIRST

• A look at the daily or even weekly candlestick chart can provide an idea about the potential direction and momentum of the stock.
• Identify candlestick and chart patterns
• Evaluate support/resistance levels
• Consider technical indicators
• Trade in the direction of momentum to maximize potential results.
Engulfing
NARROW IT DOWN

• A look at the 15 minute candlestick chart can give you an idea about the shorter term potential direction and momentum of the stock.
• Identify candlestick and chart patterns
• Evaluate support/resistance levels
• Consider technical indicators
• Trade in the direction of momentum to maximize potential results.
Breakdown below 10 EMA
Doji below EMA
Bearish EMA Cross
Bearish Stoch and MACD
TIGHTER FOCUS

• A look at the 5 minute candlestick chart can provide early entry to trade in the direction of the momentum.

• Identify candlestick and chart patterns

• Evaluate support/resistance levels

• Consider technical indicators

• Trade in the direction of momentum to maximize potential results.
Bearish EMA Cross

Retracement to EMA and breakdown Coincides with 15 chart entry signal

Break of prior day’s close
RAZOR SHARP

- A look at the 3 min or 1 min candlestick chart can provide even earlier entry to trade in the direction of the momentum.
- Identify candlestick and chart patterns
- Evaluate support/resistance levels
- Consider technical indicators
- Trade in the direction of momentum to maximize potential results.
Falling 3 method pattern and break below EMA provide potential early entry opportunity
TRADE MANAGEMENT
ENTRY

• Establish entry based on Technical Analysis
• Establish entry size based on risk management rules.
• Aggressive early entries can be executed with smaller position size.
• Scale into larger positions while maintaining correct risk management on retracements if the initial direction and momentum are intact.
• Continue scaling only until max position size relative to risk management is achieved.
Retracement to EMA and breakdown allows added position size up to 100% of risk management rule. (Confirms here on 15 min. chart)

Gap up or break below 1st five min. candle allow aggressive early entry with 25% of risk size

Break of prior day’s close offer early aggressive entry on 25% of risk size
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<th>Date</th>
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<th>High</th>
<th>Low</th>
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<th>Change</th>
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<td>1.11</td>
<td>+0.25</td>
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**CLF 09/28/12 40.50P**
EXIT MANAGEMENT

• Mon-Thurs Stop Selection based on Option Price
  – $2.00 and above, 10%-15% of option price
  – $.50 to $2.00, up to 20% of option price
  – Less than $.50, 30% of option price up to no stop
  – Regardless of stop, never violate risk management rules

• Friday Stop Selection
  – Friday trades involve high delta options
  – Stops can be set contingent on underlying stock price
  – Set stops based only on technical analysis of stock price chart

• Scale Out Exits
  – OCO orders can be used to scale out of portions of the position
  – As targets are hit, portions of the trade are taken at a profit
  – Trade is always protected with the stop
In for .84, out at an average of 1.36! 61% return in 80 minutes!
SCALED ENTRY AND EXIT

.30 avg entry, .70 avg exit! That’s a 133% Return in 20 minutes!
OVERNIGHT HOLD

• OTM positions are generally intended to be intraday trades
• There will be circumstances that warrant overnight hold
  – Scaled profit exits have been hit on at least 25% of original position
  – Daily chart confirms direction and momentum
  – 15 min chart confirms direction and momentum
  – Position has moved ITM
  – Position size and stops indicate loss within risk management if stopped out.
Bullish breakout above EMA

MACD and Stoch bullish
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<tr>
<th>Date</th>
<th>Time</th>
<th>Symbol</th>
<th>Action</th>
<th>Quantity</th>
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Stock moving higher, still above bullish EMA
40.50 call option is now $1 ITM

MACD and Stoch show no bearish divergence
Stock gaps higher at open
Break below the first 5 min candlestick triggers our stop.
In at $.62, out the next morning for 1.17, .55 profit
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RATE OF RETURN

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\[
\frac{\$620}{\$550} = 88\% 
\]
YOU WILL ALSO LOSE
.17 LOSS, $170 ON 10 CTS

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<td>35.50</td>
</tr>
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</table>
.47 AVERAGE ENTRY, .37 AVG EXIT: .10 LOSS, $1000 LOSS ON 100 CTS
10% STOP, .08 LOSS, $800 ON 100 CTS
BUT SOMETIMES...

$950, a 47.5% return in 1min and 14 seconds!!
THE MARKET IS CHANGING

• You must be aware of market changes

• Learn to Manage Risk daily

• You cannot afford to make big mistakes

• Keep up with all strategies

• You need to build a trading plan.....
LEARN TO TRADE LIKE A PRO

• Would you agree that amateurs usually get amateur results?

• Isn’t it true that professionals get paid for their performance?

• Would you like to learn to use the strategies, technical indicators and setups the professionals use?

• Do you need help staying positive and motivated?
Boot Camp

• Monday 12-2 p.m. ET
  – Real time unfunded trading used to teach strategies, real time option analysis, tools, archived for 30 days

• Wednesday 8-10 p.m. ET
  – Tools, charting, strategy description, option pricing, archived for 30 days
Morning Lab

• Monday –Thursday 9:15-11:15 a.m. ET
• Pre market analysis, Real Time unfunded trading used to teach intraday directional strategies, strangles, debit and credit spreads, advanced structured spreads, real time option pricing analysis. Every session archived for 30 days.
• Friday (two per month) 9:15-11:15 a.m. ET
  – Highly specialized weekly and monthly options expiration strategies.
Super Delta

Learn how to trade high-delta options at discounted prices.

• **When:** Tuesday, Oct. 30, 8-10 p.m. ET

• **Where:** Online, with manual and archived for 30 days

• **Cost:** Only $99 if you register online tonight
  
The price goes up after tonight.
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