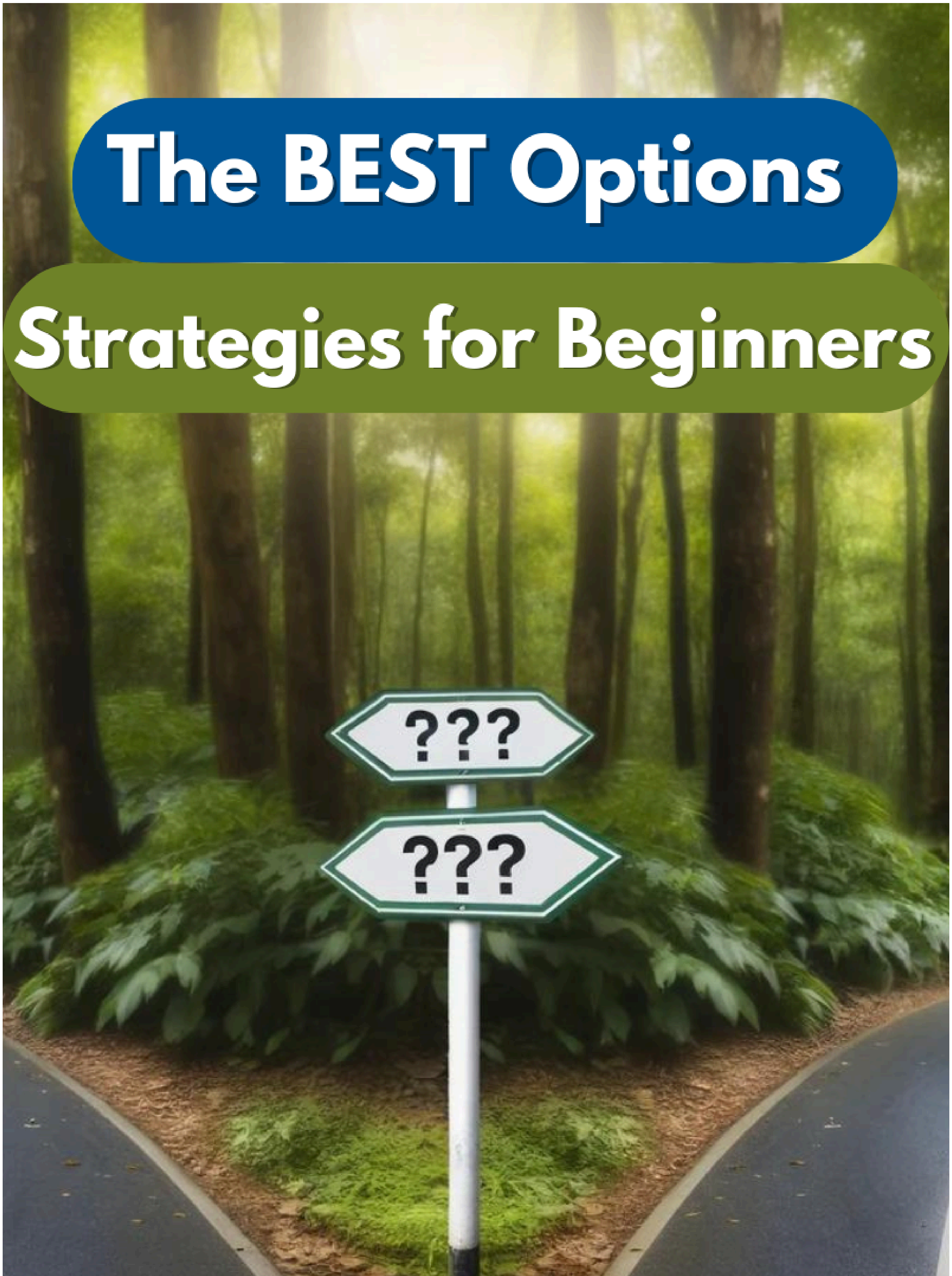
# The BEST Options Strategies for Beginners

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# The Best Options Strategies for Beginners!

# How To Get Started Trading Options Successfully

ZenectWealth.com

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# OPTIONS 101

Options are an amazing way to generate cash flow and profits in your trading account.

I've been trading options for decades!

While some options strategies can get complicated, oftentimes I've found the simplest strategies are the best.

With that said, I decided to create a guide of sorts for beginning traders.

This will be good enough to give you the basics and start you on a profitable journey of profitably trading options.

Just remember there is risk in all kinds of options trades… so if I can give you one piece of advice… <u>***understand the downside before placing any trade.***</u>

Once you know the downside, you'll know what to do if the trade moves against you!

OK, let's get started…

# Where to Start with Options

Just like learning anything new, it will take time. So don't get discouraged. Just keep at it, and before long, you'll be an options pro!

Here's the basics of how options work…

There are a few parts to any option trade.

First you have the underlying security. If you're trading AT&T options, the underlying security is 100 shares of AT&T stock (Ticker T).

- This is important, ONE options contract represents 100 shares of stock. If you buy 5 options contracts, you "control" 500 shares of the underlying stock!

The Second part is the type of option - either a CALL or PUT option.

Think of it this way - the owner (buyer) of a <u>call option</u> makes money when the stock price goes up. The owner (buyer) of a <u>put option</u> makes money when the stock price falls.

The next part of an option is the Strike price.

This is the price per share the option buyer and seller agree to transact business.

So if you BUY a Call Option on AT&T Stock (Ticker: T) and the strike price is $20… That means you can buy 100 shares of AT&T for $20 per share - and the person who sold you the Option must deliver 100 shares of AT&T agreeing to accept $20.

Then we have the Expiration date. This is the day the option contract expires. So, if you own a Call option you will either want to Sell it or exercise it before expiration.

One last bit of information is the Options Price. Options Prices are always quoted per share.

So, if you see an options contract (a put or call) and the prices is say $1.35… the entire contract cost's $135. ($1.35*100 shares = $135)

I know we covered that very quickly so let's go over a few specifics…

## CALL OPTIONS

An option is defined as a contract between a buyer and a seller for a specific period of time.

The buyer of a call option has the right, but not the obligation, to purchase 100 shares of stock at a specific price by a specific date.

This has the effect of locking in the purchase price for a period of time.

When you BUY a call option often it's called being LONG the option.

Clearly if you think a stock is going to go up in price, you can profit by purchasing a call option.

**You can SELL a call option too!**

The big difference here is when you sell a Call Option you have an obligation to sell 100 shares of stock at a specific price before the contract date.

When you SELL a call option you're considered SHORT the position.

Clearly if you think a stock is going to go down in price, you can profit by selling a call option.

Now that you understand how a CALL option works… let's look at the other side…

## PUT OPTIONS

Put options are an easy way to profit when we see the market or a stock or ETF heading lower.

Just like a call option, a Put Option is still a contract between a buyer and a seller for a specific period of time.

However, in this case, the buyer has the right, but not the obligation, to sell 100 shares of stock at a specific price by a specific date.

This has the effect of locking in the sales price for a period of time.

If I buy a put option, I have the right to sell those 100 shares at that specific stock price.

That's great news as the owner of a put option because if the market decides to make a move lower, then the put option is going to increase in value.

Even though I bought that contract, it actually increases in value when the market moves lower.

It gives us a tremendous amount of flexibility because now, I don't care which way the market goes. **We can make money in bullish and bearish markets.**

On the flip side, we can BUY or SELL put options.

If I decide to sell a put option, I have the obligation to buy 100 shares of stock at a specific price up until a specific date.

**The key point to remember as an options seller is that we have obligations.**

## MONEYNESS

An option's Moneyness describes how far in or out of the money the position is.

**At the Money (ATM)** is when the underlying price is equal to the strike price.

 

An **In the Money (ITM)** call means the current price of the stock or ETF is greater than the agreed upon price in the contract.

An In the Money (ITM) put means the current price of the stock or ETF is less than the agreed upon price in the contract.

An **Out of the Money (OTM)** call means the current price of the stock or ETF is less than the agreed upon price in the contract.

An Out of the Money (OTM) put means the current price of the stock or ETF is greater than the agreed upon price in the contract.

## EXPIRATIONS - Monthly, Weekly, Daily Options

When trading options you will have the ability to pick from a number of different options expiration dates.

MOST stocks trade monthly options. Monthly options will expire on the third Friday of every month.

MANY stocks, especially those with large trading volumes, trade Weekly options.   Weekly options will expire each Friday as the name suggests.

There are also Very long term options called LEAPS - Normally these are options that don't expire for 1 or 2 YEARS!

Recently Daily options also called Zero DTE (0-DTE, or Zero days to expiration) have started trading.  These options expire on a specific date. For example you can trade an option that expires on Tuesday, or Wednesday, or Monday or Thursday… Yes, Friday too!

Only a handful of ETFs trade 0-DTE options at the moment, but their popularity is growing

**Quick List of 0-DTE options**

Here are the Securities that trade Zero-DTE options:

- Nasdaq 100 Index (NDX)
- S&P 500 Index (SPX)
- Mini-SPX Index (XSP)
- SPDR S&P 500 ETF Trust (SPY)
- Invesco Nasdaq 100 Trust (QQQ)

All of the different length of the contracts can give us tremendous flexibility and as you get more experienced you can use a mixture of expirations in your trades.

**One thing to watch closely is the liquidity levels on these options.**

When you compare the weekly vs the monthly options side-by-side, nine times out of 10, the monthly options are going to have more volume and open interest. Because of this, they are going to be easier to trade. You'll be able to get in and out of trades faster and at better prices.

As a rule of thumb, I like to see a minimum of 50x the open interest in an option I'm looking to trade… so if I'm trading One Call option - I like to see a minimum of 50 In open interest… If I'm trading 10 options contracts - I like to see 500!

A quick note - when I started trading I was confused by Volume and Open Interest.

Volume is the number of trades that happen in that particular option over the course of a day.

Open Interest is the number of unsettled options trades since the option started trading… This is the aggregate over the course of weeks or months.

## Options Pricing Models & The Greeks

Options Pricing Models can be very complex… for example - the guys who created the Black Scholes Options Pricing model won a Nobel prize in economics.

*Seriously*.  A Nobel Prize.

I'm not going to bother with that information right now… it's boring anyway!

The other thing you'll hear a lot of people discuss is "The Greeks"

These are the variables found inside the pricing models… it includes things like, Delta, Gamma, and Theta.

If you really want to know about this stuff - get a couple of options books written by college professors.  They make nighttime reading amazing - and will help put you right to sleep.

Here's what you really need to know.

The best options traders sell when volatility is high, buy when volatility is low, and are always taking advantage of time decay.

Time decay is just a fancy way of saying the closer an option is to expiration, the faster the value will fall.

OK, enough of the theoretical stuff, let's look at real trades.

## Trade Strategy #1 & #2 - Long Calls & Long Puts

Buying puts and calls is the simplest strategy in options trading… All you need to do is have conviction for which way a stock is trending.

Let's say you've been watching META stock for a while and it looks like it's going to trend higher.  Once you figure out where you think the stock is going to go you can simply purchase call options.

If you think the stock is going lower you can buy put options.

Super simple…

Now here’s a few tips.

When buying puts and calls, you want to balance the time to expiration with how close the strike price is to being in the money.

If you use short term options (like ZERO DTE, weekly, or monthly options) you probably want to buy options that are close to “in the money”.

They will be more expensive, but the probability of hitting a winning trade is improved.

That said if the trend you see is longer term, feel free to buy farther out of the money options - just be sure to buy longer dated contracts… so you can capture as much of the move as possible.

**One professional trader I know likes to double his expected time horizon on Long Options.**

In other words, if he thinks the stock is going to move in the next 2 weeks - he buys an option that expires in 4 weeks or more!

Once you master the Long Call trades (when you think a stock is going up) AND the Long Put trades (when you think a stock is about to fall)... then you can start trading more complex setups.

The next trade type to learn has you trading 2 of the same options (2 call options for example). The difference is you buy one and sell one.

That’s called a Vertical spread…

# Trading Strategy #3 - Vertical Spreads

Vertical Spreads are the next logical step up from basic puts and calls.

The vertical spread trade gives you some great flexibility.  It's perfect when you expect a small move in an underlying stock - but not too big of a move.

Here's how it works…

A vertical spread is where you buy one strike, and at the same time sell a different strike… with the same expiration dates.

Why do this?

Because you are both buying and selling options, your cost to purchase an option can be lower - by 30% to 50%!

Now here's a tip…

When you place these kinds of trades, you're often giving up the unlimited upside for buying at a lower cost basis.

For example, if a stock is trading at $40… you might buy a $45 call and sell a $50 call.  The premium from the call you sell offsets the call you bought… lowering your overall exposure.

Just remember - any movement above the $50 mark - the profits will go to someone else!

The cool thing about a vertical spread is it works on put options as well.  If you think a stock is moving lower, instead of trading calls, you can trade puts!

These types of trades are best when you believe a stock is moving solidly in one direction or another - but not too quickly!

What's next?

## OTHER Options Strategies

Once you master the Options Basics and have a few trades under your belt, you can start mixing and matching trade types.

You can place Credit Spreads and Debit Spreads… you can learn about Calendar Spreads, and Ratio Spreads.  You can even sell Covered Calls and Cash secured Puts.

One thing I recommend you stay away from is naked put selling - that's a fast way to destroy your trading account - and lose a lot of money.

If you only sell an option - either a call or put - you are naked.  Make sure you are always pairing up your options trades!

I don't have time to go into all of those different trade strategies here… but as you develop your experience you can start placing these more complex trades that are specialty made for certain trading situations.

And if you stay a dedicated reader of the **ZenectWealth.com newsletter** - I'll be talking about these very trade strategies more in the future!

## Which Strategy To Use?

Many beginning traders are confused by which strategy to use - that's why I only taught you three of them!

Keep your trading simple.

You need to realize, There is no perfect options strategy for all market conditions.

Your strategy selection will depend on your outlook for that stock or ETF and your risk tolerance.

If you're strongly bullish, the Long Calls are the way to go. They will give you the most profit potential but will also come with more risk.

If you want to be a little bit more conservative, a Long Call Vertical Spread is our way of reducing that cost by 30% to 50%.

If you're strongly bearish, the Long Puts are the way to go. They will give you the most profit potential but will also come with more risk.

If you want to be a little bit more conservative, a Long Put Vertical Spread is our way of reducing that cost by 30% to 50%.

What's next?

Once you master those trade types, I'd recommend looking at credit spreads. They're an amazing way to put money in your pocket at the start of a trade. You really get to capitalize on changing volatility and options decay!

More on those in a future report…

Good Trading,

David Goldstein

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If you trade options, we recommend you read and fully understand all the information contained in the Characteristics and Risks of Standardized Options.  It's also known as the Options Disclosure Document and it explains the characteristics and risks of exchange traded options. (https://www.theocc.com/Company-Information/Documents-and-Archives/Options-Disclosure-Document)

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