Trading Options is probably the least understood method of trading the markets. I think that is because it is perceived as being “complicated” and “dangerous”, both being misconceptions based on lack of correct information. For those in the know, Options trading can be a very lucrative form of trading. Why do I say it can be very lucrative? Because we can often start a trade with the cards stacked in our favor, which I will explain shortly.

There are many markets in which to trade, and many ways to trade them. You may have tried Forex trading, or Stocks or Futures trading, and my guess is that you have never made a bundle of money in these markets. There is a very simple reason why you have not made money, and that is because the odds are stacked against you. When you buy a Lotto ticket, your odds of winning big are probably in the region of one in twenty million. At the casino the odds are stacked against you, and ultimately the house will win.

When trading Futures or Forex or Stocks, you have a less than 50% statistical probability of being successful. The reason for this statistical probability is that you cannot see into the future, and the market has an equal probability of going up or down once you have entered a trade. You also have to pay a broker’s fee, which has to be recovered by the trade’s going your way before it can start to show a profit. So you are starting out with a less than 50% chance of success.

The good news is that by trading Options, you can often get the odds stacked heavily in your favor, sometimes by as much as 90% or better. I know this sounds too good to be true, but read on to see why the types of trades that I regularly take have a very high probability of success. And success in trading means money. I am not promising you that you will become fabulously wealthy by trading Options, but you should be able to make a reasonable return on your investment. I have been trading since 1997, and have found that the methods I use for Options trading suit my lifestyle and temperament. If you enjoy the adrenalin rush of risking huge amounts on the flip of a coin, then perhaps Forex or day trading the futures markets is more for you.

Why do you want to trade? If your answer is "to make money," then you need to ask the question "Do I want to make money the easy way, or do I enjoy working hard for my money?" If you enjoy slogging away and feel that you have to "earn" your money by sitting in front of a screen all day, then what I am going to say will not appeal to you.

Once you master trading Options you can be assured of good returns, but, as with all trading, there needs to be a measure of risk control and self-discipline. Another aspect to consider is that Options trading requires good tools so that you are not trading "in the dark;" you need to evaluate your position's profits and losses every day.

"Okay," you say, "but there must be a downside - otherwise everyone would be trading Options."

Yes, there is a downside, but it is not so big that it can't be overcome. I have found that there are three main reasons causing people to stay out of the Options market:

1. First is a lack of knowledge and understanding of how Options work.
2. Second, most Options traders are discouraged early on because they lose money. The reason they lose is because they are led to believe that selling Options is "dangerous". Because selling is perceived to be "dangerous," they are encouraged to buy Options - only to find that most of the time they lose money.
3. Third, the number of Options available is enormous. To try to find good Options trades among the thousands available every day is quite daunting, and scares away many prospective traders.

The best way that you can overcome the first difficulty is to obtain a good understanding of how Options work. Because I have also been through the learning curve, I developed a "Training Aid" tool, an Options manual, which will ease and shorten your learning time. Understanding Options is a whole lot easier now than when I started out years ago. If you are prepared to put in the time to learn, you will be very surprised at how rewarding Options trading can be.

The second difficulty, taking the risk out of selling Options, is of the utmost importance. Being able to see what your profit or loss looks like every day, and being able to take action depending on the state of your trade, and having the discipline to stick to your plan cannot be over-emphasized. I originally looked around for software to help with this aspect of Options trading, but found that the software available was either too expensive, or had too many bells and whistles that I did not need. Once again, I developed my own tools to help me control risk and manage my trades.

To overcome the third difficulty, you need to have a way of scanning through thousands of Options every day to pick out those that are most likely to be winning trades, or finding strategies (combinations of Options) that are most likely to be winners. The third tool I developed does exactly this job.

All these tools that I use every day are available in my MATRIX PLUS Options Trading Systems, and these tools can help you to become a successful Options trader.

So, by having the right education, the right tools, and the correct guidance by a veteran trader, you should be able to master Options trading within a short period of time.

Let me ask you a question: if, on average, nearly two billion dollars a day is changing hands between buyers and sellers of futures Options in New York and Chicago, does this mean that the sellers are losing money all the time? You may be surprised to learn that, in fact, the buyers are the ones who are consistently losing their money: 70% to 75% is often the figure quoted for the buyers who lose money.

If the buyers lose their money so consistently, then, you may ask, why do the buyers keep coming back? The answer lies in the fact that every now and again they do “strike it lucky” and “make a killing,” but most of the time they lose their premiums. This eternal optimism that they will strike it lucky keeps them coming back, and thank goodness they do, because otherwise I would have no one to whom to sell my Options!

One of the best-kept secrets in Options trading is, in fact, that selling Options is far more lucrative in the long run than is buying Options. I’m not saying that every buyer of an Option will lose money, but if you want to make money consistently, and have the odds stacked in your favor, then selling Options is the way to go.

One of the secrets that most traders overlook is to understand how the markets are manipulated. You may be surprised to learn that what you may think of as “random” price movements in the markets, are, in fact, manipulations to make the “insiders” a lot of money. Who are the insiders? They are the large institutions, the brokerage houses, large traders, and funds, who all know the secret that it is the Options sellers who make most of the money.

When you want to buy an Option there is no shortage of someone to sell it to you, and often it is one of the “big guys.” If they are holding a lot of Options they can, and often do, manipulate the market prices until the Options expire, and so keep the premiums of the Options that they sold.

In the MATRIX PLUS, I show you exactly how they do this, and how you can take advantage and ride on the back of what they are doing, to also make some money.

Have a look at the statistics below for the 22nd February 2013.

Date:	2013-Feb-22	POSITIONGRAPH PAGE / SORT PAGE / INPUTS PAGE / HELP
Number of Futures in Portfolio		41
Number of Options Available		44,930
Number of Options Contracts traded:		1,916,899
Value of Options Contracts traded:		$1,957,802,570
Number of Open Interest Contracts:		24,126,884
Value of Open Interest Contracts:		$48,894,284,750
Percentage of Options Expiring Worthless Today:	79%	

This is a typical trading day, and what it tells us is that out of 41 Futures that I track, over 44 thousand Options were available for trading on that day. Over 1.9 million contracts were actually traded, and 1.9 billion dollars' worth of premiums changed hands between the buyers and sellers of the Options. This is a lot of money changing hands every day, and if we can't scrape a few hundred out of this amount for ourselves, then there is something wrong with us! 25 million Contracts were still open (the Open Interest figure), with a value of over 48 BILLION dollars. This is big money, and some of it belongs in our pockets. Notice that on this day, 79% of Options expired worthless! 79% of the buyers holding their Options on expiry day lost their premiums, and 79% of the Options sellers on expiry day kept their money. On which side would you like to be?

With the tools in the MATRIX PLUS, you will learn exactly how to take advantage of the many Options' selling opportunities that come along virtually every day. You will learn how to analyze and filter out the best Options from more than 40,000 in a matter of minutes; then scan through a list of Options to pick out the best strategy that is going to give you the best profit to loss ratio (P/L). You will learn how to manage your trades so that you very seldom take a loss - and sometimes how to sell that loss to someone else! You'll find the best strategies for different market conditions, and much, much more.

Years ago, when I was trying my hand at Futures trading, I never made any money. I never lost a great deal, but I never made anything worth speaking about, and found it most frustrating that for all my efforts, I was actually standing still. At this time I took some Options trades in the Silver market in New York, and made some handsome profits over a couple of months. This opened my eyes, and I sat down to work out why these trades were so successful.

From this analysis, I came up with what I call my "four basic maxims for selecting a trade," which are easily measured in the Options market.

1. Make as much <u>money</u> as possible
2. in the shortest possible <u>time</u>
3. with the least <u>risk</u>
4. and with the highest <u>probability</u> of success.

We would all love to make a trade from which we profit $1,000,000 in 1 minute, by risking $10, with a 100% probability of success. Unfortunately, as you must already know, these types of trades do not come along very often! So what I do in my trading is to try to balance these four criteria so that we select only the best Options to trade.

The next part of this document is an explanation of the Call Option, just to give you a taste of why selling Options is the way to make money. I make the assumption that you know something about futures trading. If, however, you would like to get the full picture, then I suggest you start with my MATRIX PLUS system straight away, where you will not only find a complete explanation, but you will also be able to use the "Option Training Aid" tool that will shortcut your learning curve.

THE CALL OPTION

BUYING A CALL OPTION (THE LONG CALL)

Let's first look at what it is that we are buying when we buy a CALL Option contract.

WHEN WE BUY A CALL OPTION, IT GIVES US, THE BUYER, THE RIGHT, BUT NOT THE OBLIGATION (i.e. A CHOICE OR OPTION), TO BUY (GO LONG) THE UNDERLYING FUTURES CONTRACT AT A PRE-DETERMINED FUTURES PRICE (THE STRIKE).

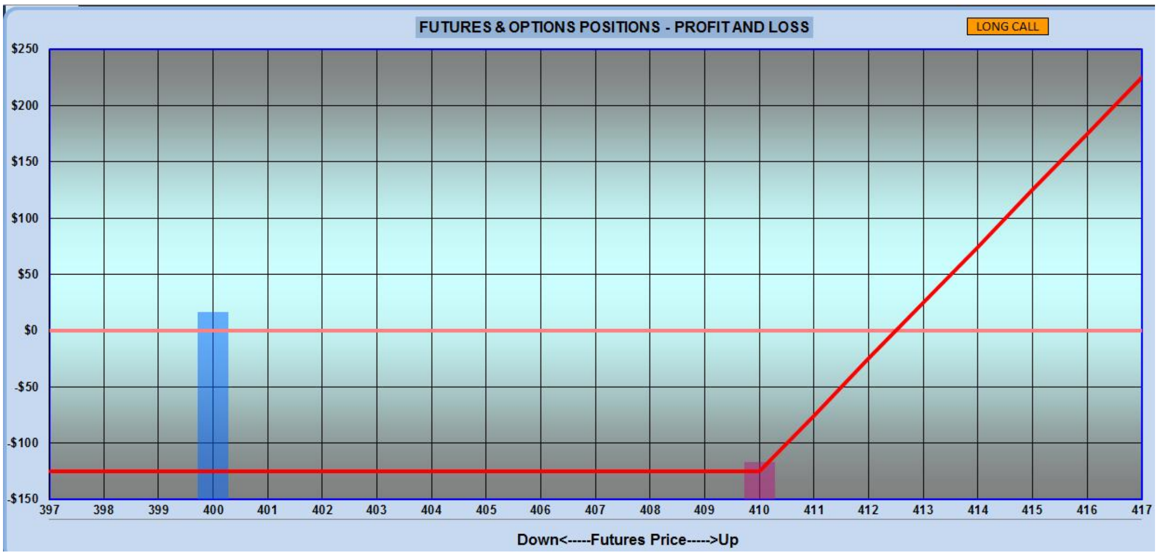
WHEN WE BUY THE CALL, WE WILL HAVE TO PAY A PRICE (PREMIUM), AND THE OPTION WILL HAVE A CERTAIN AMOUNT OF TIME BEFORE IT EXPIRES (DAYS TO EXPIRY).

Notice that the above definition allows us to buy (go long) the underlying futures contract at any time between the time that we buy the call and expiry day. So we are guaranteed a long futures position at the strike price at any time that we decide to exercise our right under the Option contract.

This is an American-style Option because it can be exercised at any time during the trade. There are European-style Options which can be exercised only at expiry. Most of the Options we will be dealing with are American-style. Please note that the style of

Option has nothing to do with where the Options are traded; it's just one of the conventions that have come into use in the Options' market.

Let's look at a graph of the profit and loss of a Long Call Option in relation to the underlying futures prices. We assume that we bought this 410 strike Call Option when the futures price was at 400 for 2.5 points, which equals $125 in the corn market. The graph shows us the P/L on expiry day depending on the futures price.



Let's analyze what this graph is telling us:

1. We have to pay a premium for the call so we are starting out at a loss, in this case $125.
2. If the call option expires when the underlying futures is trading below 410, we would lose the premium that we had paid.
3. If the futures price reaches the strike price of 410 at expiry, we would still lose 2.5 points.
4. If the futures price reaches 412.5 at expiry, we are at breakeven, but would still have to pay the broker's fee, so still no profit.
5. If the futures price is above 412.5 at expiry, we will make a profit.

Notice that the breakeven point on the futures axis is the strike price plus the premium in points.

So the profit/loss situation for a long call is:

1. We can't lose more than the premium.
2. Our profit is unlimited, depending on how high the futures price goes.

This is why buying a call is a popular type of trade, because you can't lose more than your premium, and if you are right in anticipating the market direction, then you can make a lot of money.
Can you see what is wrong with buying a call when you consider my four criteria for selecting a trade?

1. You can make a lot of money - that's good.
2. If the underlying futures price moves up quickly in a few days - that's good.
3. The risk is limited - that's good.
4. What about the probability of success? Here we get stuck, because if we are wrong in predicting the direction of the underlying futures price we will lose our premium. In our example here, you would find that typically your probability of success is about 26%.

   The calculation of probabilities is a quite complicated formula, but the good news is that the MATRIX PLUS does this for you automatically.

<u>SELLING A CALL OPTION (THE SHORT CALL)</u>

OK, we bought a call Option! From whom did we buy it? There has to be someone who sold it to us; someone on the other side of our trade. We realize that not only are there buyers of call Options, but there are also sellers of call Options. The seller of an Option is often referred to as the WRITER of an Option.

The buyer of the Option has either a bullish or bearish opinion on market direction, and the seller usually has an expectation that the market will trade in a channel without drastic moves in either direction.

What are we getting ourselves into when we sell a call Option contract?

THE CONTRACT IMPOSES THE OBLIGATION ON THE WRITER (SELLER) OF THE CALL, IF EXERCISED: TO SELL (GO SHORT) THE UNDERLYING FUTURES CONTRACT AT A PRE-DETERMINED FUTURES PRICE (THE STRIKE).

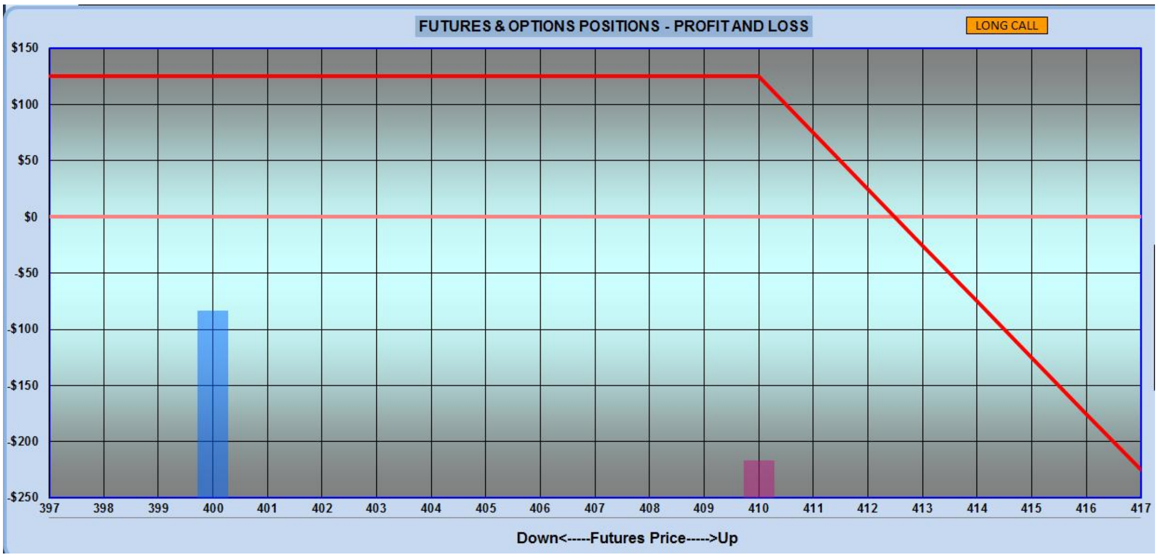
WHEN WE SELL THE CALL, WE WILL RECEIVE THE PREMIUM, AND THE OPTION WILL HAVE A CERTAIN AMOUNT OF TIME BEFORE IT EXPIRES (DAYS TO EXPIRY).

As a seller of the call, we get the premium that the buyer paid. This is the maximum profit we can make on this trade. We are also required to pay a deposit, called "margin", to cover any potential losses of our short call. This margin can change every day, depending on the risk exposure of your short call. (The margin is refundable at the end of the trade, provided you haven't made a loss).

As the seller of the call, we now have an obligation to provide a futures contract at the strike price. What this means is that if the buyer of a call Option exercises his right to go long futures at the strike price, you, as the seller of a call, may be called upon to provide the futures contract. This means you have to sell the futures contract at the strike price, which leaves you with a short position in the futures market.

Now, what is interesting is that you are given the money up front, and if no one assigns you an exercise, you get to keep the premium! Another important point is that the buyer will exercise the call only if the Option has passed the breakeven point, and if he can't find a buyer to whom he can sell the call. Because of these two conditions, the exercising of an Option is not an everyday occurrence.

In the following graph we assume that we sell a 410 strike call option for 2.5 points when the futures price is trading at 400. We immediately start with a credit of 2.5 points ($125), and now have to defend our position to make sure we keep the premium.



So, in order for the seller of a call to make money:

1. The futures price must not go beyond the breakeven point, which is 412.5.
2. Some profit could be made if the Option expires with the futures price between 410 and 412.5.
3. Obviously, the maximum profit would be made if the futures price was at or below the strike price of 410 at expiry; the Option expired worthless, and the seller kept the entire premium.

The P/L situation for a short call is:

1. The maximum profit is limited to the premium received.
2. The losses are unlimited, depending on how high the futures price goes.

This is why selling a call is unpopular: because all you can make is the premium, yet you can lose a lot of money if the underlying futures price should rise dramatically.

However, let's apply my 4 criteria for selecting a trade to selling a call.

1. Your only profit is the premium you receive. (Not so good.)
2. The underlying futures price moves up quickly in a few days. (That's bad.)
3. The margin required can get quite big. (That's bad.)
4. What about the probability of success? Here we have a nice surprise! Whereas previously the buyer of the call had only a 26% probability of success, the seller now has a 74% probability of success.

Now this brings us to an interesting dilemma: if I could take the risk and big losses out of selling the call, would I be happy with making only the premium as my profit?

You make the decision: would you rather have a 26% probability of making a profit, or would you rather have a 74% probability of making a profit?

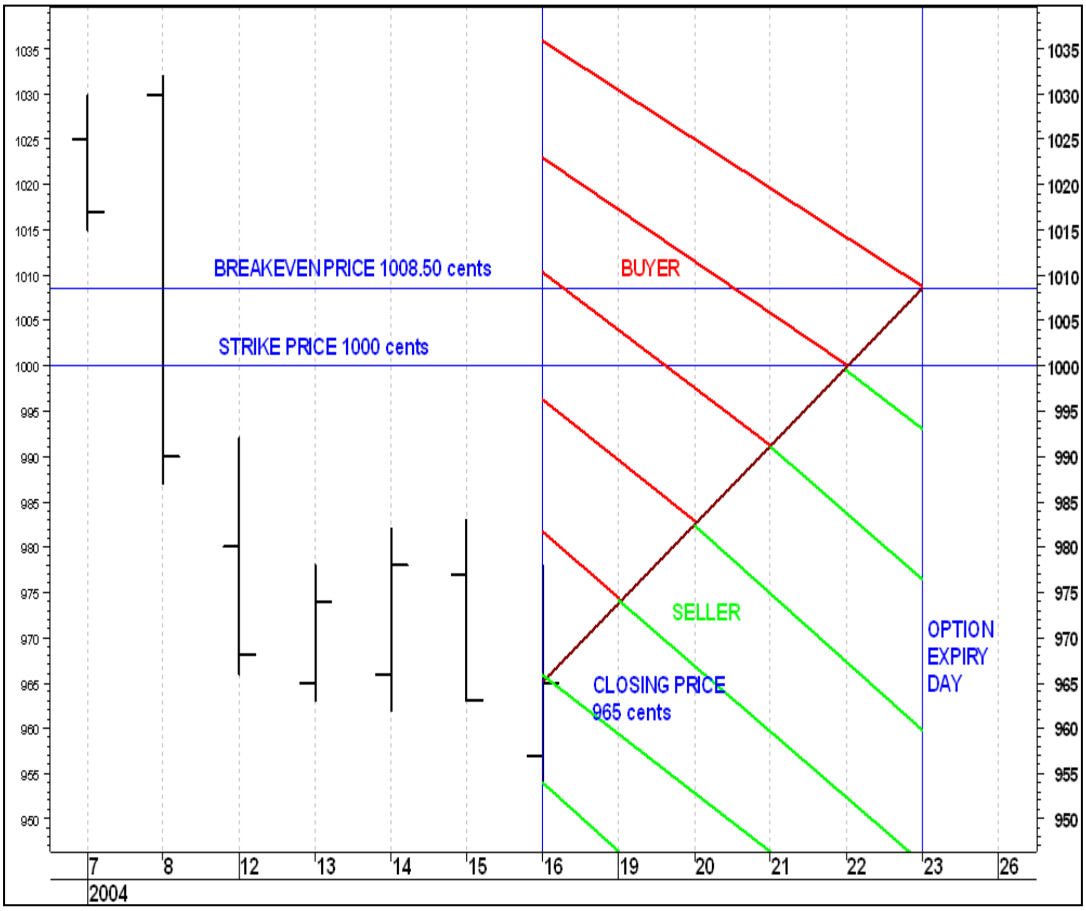
I happen to like the idea that the probabilities of making a successful trade are stacked in my favor when I sell Options. If I can find a way to take the risk out of selling Options, then this kind of trade could well be what I am looking for.

As you have probably guessed, there are various ways of taking out most of the risk in selling Options. One way is to sell a call and then cover it with a futures contract (known as a "covered call"), another strategy is a call or put spread, or even a credit Condor or Butterfly. These may sound like strange names for some of the trades, but they are all designed to limit our losses and improve our chances of success.

By using a combination of Options, we can set up strategies that have various profit-to-loss scenarios: unlimited loss with limited loss, and unlimited profit with limited profit.

I will not go into the mechanics of the various strategies here, as they are all covered in the MATRIX PLUS system.

Let's rather discuss the graph of futures prices below, which highlights why the Options seller has a much better chance of making money than does the Options buyer.



The above is a daily bar graph of the futures prices for the May Soybeans contract. The last price bar on the right shows us that the closing price on 16th April was 965 cents (you must assume that today is 16th April). There are 7 days left to expiry, which is on the 23rd of April, and we are looking at the 1000 cent call Option (the lower blue horizontal line). We cannot see into the future, so we do not know where the prices will go in the next 7 days.

I bought this Option for 8.5 cents ($425) on 16th April; the breakeven point is at 1008.5 cents (the horizontal blue line above the strike). Let's draw an imaginary line from the closing price on 16th April into the future, to the breakeven point on 23rd April. Strictly speaking, this would not be a straight line, but for our purposes it is good enough.

For the buyer of this call to make any money, the futures price must move to the red-shaded area on any day. As the days go by, the more the futures have to move up so that the buyer can be in his profit zone. If the futures price is below the line on any day, in the green-shaded area, then the seller is sitting with a profit. So the red-shaded area is the box of opportunity for the buyer of the call to make money, and the green-shaded area is the box of opportunity for the seller to make money.

You can see that the futures prices have a much greater probability of being in the green area than of being in the red area. If the futures price moves down or sideways, the seller will make money, and even if it moves up, as long as it does not go into the red zone, the seller will make money.

What this tells us is that the buyer of the call, in order to make any money, has to be correct in predicting future price direction, which we know is not an exact science. The seller, however, can be wrong in predicting future price direction, as long as he is not too wrong.

Because of this, we are able to calculate what the probability is that the futures price will end up at or below the strike price on expiry day. This probability figure takes into consideration how many days there are to expiry, how far the futures price is from the strike price, and how volatile the market is.

All these calculations are done for you, and explained, in the MATRIX PLUS system.

Let's consider this same futures price graph, but with another call Option with a strike price of, say, 1025 cents, which is further away from the closing price on the 16th April. I think that it should be obvious to you by now that there is a higher probability that the futures price will not get to the 1025 cents strike price in the next 7 days, and, of course, there is even less chance that the prices will reach the 1050 strike price.

This probability of the Option expiring worthless is calculated using an industry standard formula. If there is a probability of 75% that an Option will expire worthless, it means that the seller of the Option has a 75% chance of keeping the premium, and the buyer of the Option has a 25% chance of making some money.

Wouldn't you rather have a 75% chance of making money than a 25% chance? I'm sure you would, so the MATRIX PLUS is all about showing you how to make money by selling Options.

Remember that the fourth point was to find Options with a high probability of success.

So why do some people buy Options and other people sell Options?

Well, the buyers are always hoping and dreaming of a big win when the market moves drastically in their favor, and occasionally they do make some money. However, most of the time they see their premiums go down the drain. Remember that most of the time Options expire worthless.

The sellers, however, are given the premium when they sell an Option and, if they defend their position correctly, they get to keep the premium at expiry. To be given the money up front is far better than is paying money out and hoping that the market will go your way.

You will find that most Options are sold by the "insiders" who control the markets. This becomes very obvious when you start to analyze how the futures prices move as the Option approaches expiry. They can and do manipulate the markets most of the time, causing many traders to be frightened away, giving up their profits just before expiry because they got cold feet. We show you how this manipulation takes place, and how you can stay the distance to collect all those lovely premiums that are there for the taking.

I have not touched here on the other type of Option, the "Put", but this is fully explained in the MATRIX PLUS. By combining Calls and Puts, we come up with some amazing strategies to make your trading even safer and, at the same time, more profitable.

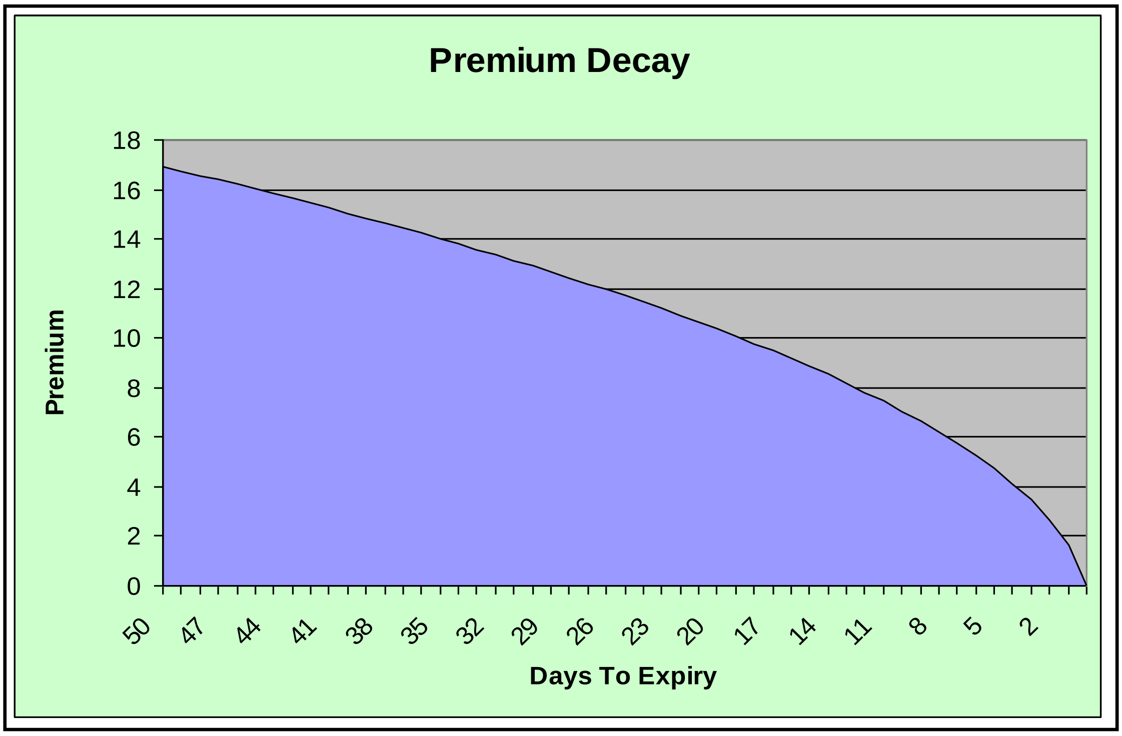
Before we end this discussion, here is one more secret of which most Option traders are unaware: <u>Usually the best day to sell Options is on a Friday.</u>

This is because of a factor called "Theta". When you understand what Theta is, you will see how this one secret could make you lots of money.

Theta is a theoretical value, calculated every day, which measures the amount by which the Option's premium will decrease daily. Theta is usually a meaningless fraction, but I have translated it into dollars and cents in the tools I developed, so that you can see the amount of premium being lost every day as the Option approaches expiry.

Sell an Option on Friday, and it will lose value on Saturday and Sunday (and public holidays) by a factor called Theta. Theta works in the seller's favor <u>every</u> day! So if Theta is $15 per day, it means that if the future's price stays more or less the same, then on Monday you will be able to buy back the Option for about $45 less than you sold it for on the previous Friday. $45 for doing nothing over a weekend is easy money! Sell ten Options, and you've made $450! Usually during the last two weeks before expiry the Theta values can get quite big, so you can make good weekend money for very little risk.

Below is a graph of how Theta changes (how the premium loses value) as each day goes by.



With many days to expiry, there is not much change in the premium (Theta is small). As we get closer to expiry, the curve becomes steeper and the premium changes by a larger amount every day (Theta becomes bigger). The buyer can only sit there and watch his premium being whittled away, as the seller rubs his hands in glee at the prospect of making more money as each day passes.

As you progress with your Options trading, you will find that the MATRIX PLUS can scan for the best strategies in any futures market (over 50 strategies). Once a good strategy is found, you can also back test the strategy over a period of time from weeks to months to see how the strategy has worked out in the past.

All the “Greeks,” as well as volatility, volume, and open interest can also be tracked over any period of time. The MATRIX PLUS has everything need now and will need in the future to make your Options trading a success.

There are many more secrets and tricks revealed in the MATRIX PLUS, which will give you distinct advantages over “Mr. Average” trader. Remember that trading is a “zero sum game”: every dollar that you make has to come from some loser. Nowhere has it ever been truer that “knowledge is power” - in this case knowledge will earn you money.

I hope you have received enough of a taste of what selling Options is all about, and why selling Options will earn you money more consistently than will buying Options. There are some rare occasions when we find a seasonal reason to buy Options, but they are few and far between. I have one overriding principle in my trading, and that is to keep it simple. If I can make money consistently 70% of the time, and cut my losses 30% of the time, then I am a happy and profitable trader.

If you never try, you will never know; but if you do, you may be pleasantly surprised!

All the best to you in your trading,

Alan Parry alanparry3@gmail.com

“We never see things as they are, we see them as we are”