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ESSENTIAL RULES TO WINNING AT OPTIONS TRADING

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OPTIONS**

INTRODUCTION

Discipline, or lack thereof, is a main reason traders fail. It doesn't matter if you are trading stocks, futures, commodities or options. If you don't have a plan, then you will fail.

I can't tell you how many stories I have heard from traders who have experienced a "deer in the headlights" feeling when trading - mostly because they had never been there before and were not prepared or ready.

This short ebook provides you with some valuable skills to help you:

- Navigate trades good and bad
- Find ideas that can make you money
- Provide the structure necessary to avoid a disaster

These rules were developed after I suffered through some painful lessons. By learning from my mistakes, I hope you may avoid the losses I have had over my trading career.

ESSENTIAL RULE #1: PAY ATTENTION TO TRADING VOLUME

This is the most underrated and misunderstood technical signal.

Institutions make up more than 80% of the total trade volume, so why would you not follow them?

Money follows money, which follows more

money. If a stock sees big volume and price action follows, then you most likely have the start of a trend. Institutions have teams of analysts studying the markets. Let them do the work, and follow their lead.

When buying options, I look for the best trends, the ones that indicate stock prices are accelerating quickly.

There is absolutely no magic involved. Pay attention, and you can forecast the right side of the chart (aka, where the stock is going).

ESSENTIAL RULE #2: BE IN THE RIGHT PLACE AT THE RIGHT TIME

As in real estate, successful options trading is about location, location, location.

Pick the right strike and the right time, and you could have a real-life explosive option, earning.

As options traders, we analyze charts and technicals to understand future movements. Unfortunately, we don't always get the timing right.

Could we add an extra month to get to our desired goal?

How about a strike deeper in the money?

Can we pay more for extra time and still get a good payoff?

These and other questions need to be considered.

I have watched patterns develop and play out for years, and I have had my share of hits and misses.

Unfortunately, there is no magic formula for getting it right every single time. Trading is not a game of perfect. Instead, study the technicals, study the charts and follow the volume.



ESSENTIAL RULE #3: TAKE PROFITS

Let's face it - the name of the game is to make money.

When you have earned a profit on a trade, take it.

Options trading is like hitting a pitch in baseball – the odds are against you. You'll have far more losses than wins in trading, but those wins can be large enough to overcome a draw-down (a string of losses).

If a trader is right 50% of the time, he or she can be enormously successful. This is very similar to a top baseball player, who can command millions of dollars for a 3-year contract even while striking out 70% of the time.

I have seen many traders make big mistakes when it comes to collecting a profit, choosing to let greed overwhelm their better judgment. If you can't book consistent gains, you'll soon be separated from your wealth.

When trading options, the profitability timeframe is contracted to weeks, days, hours or less. A 40% gain could turn into a 30% loss in the span of 10 minutes.

Be proactive, use your judgment, take your profit and move along to the next trade.

RULE #4: BE DIFFERENT, AND BE CREATIVE

Actively trading is absolutely essential to winning in the options game. If you are complacent, passive, or lazy, you run the risk of losing control of your account and possibly large amounts of capital.

Protect gains when you have them, and learn some creative strategies that will give you extra flexibility:

- Sell an upside call
- Buy some protection via puts
- Create spreads
- Roll profits out to future months/strikes
- Take partial profits while still riding out trends

We tend to forget that the choices we have are abundant and powerful, yet we ignore these possibilities. As a result, our profits shrink or disappear.

Options trading is about taking risk, but we can reduce the risk when we are in an advantageous position and in control of the outcome.

All it takes is a little creativity.

CONCLUSION

Do these rules seem simple? A lot of it is ... on paper.

The hardest part of options trading is having the discipline to do it each and every trading day.

If you can maintain discipline and focus, following these rules will help you stay ahead of the pack.

Remember: Think through your trades and open your mind to possibilities. Your account will grow, and so will you.

ABOUT EXPLOSIVE OPTIONS

Explosive Options is an options trading service.

Founded in 2011 by Bob Lang, the industry's leading technical expert, we provide proprietary options trading knowledge to people who are committed long-term to trading. Our members join because they want to learn more about options trading and grow their portfolio, but they don't have the time or knowledge to do it full-time.

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