

# The *Art* OF SELLING

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**EXPLOSIVE**  
OPTIONS

## INTRODUCTION

Many traders have trouble selling. They get paralyzed and cannot make a move. However, it is the one action that gives traders the greatest freedom – either booking profits or letting go of a bad position.

Yet, why are so many afraid to sell? Here are some reasons I hear:

I won't pick another winner for a while, if ever again.

This trade is my lottery ticket.

I don't want to be wrong.

I can't bear to make a mistake.

The profits aren't big enough.

There's plenty of time left.

I have no idea what else to do.

We all need to learn how to sell, even if it's to take a small win or to unload a loss.

If an options trader is not ready to exit at the appropriate time, then all can be lost.

One thing I've learned over the years is that many people fear booking a trade. Yes, really.

What I have come to understand is that people are not afraid of booking a winner. They are afraid of booking a winner that they have decided is their golden ticket. Instead of taking a decent profit, they hold on to it and ride it out to sunset, no matter what the market is doing. That strategy is a sure-fire formula for disaster.

Selling is refreshing! It allows us to reset and get started all over again.

In this ebook, I'll share the rules I use to help me determine when and how to sell.

And remember: Nobody rings a bell telling you when to sell.

# CHAPTER I: THE ONE OPTIONS TRADING STRATEGY YOU NEED TO FOLLOW

If you want to play, you're gonna pay. However, that doesn't mean you need to pass on a trade. I have found that options are priced high for a reason - they have VALUE. Much like a diamond ring, a Mercedes or a fur coat that may attract top dollar bidders, options tend to carry some meaningful value.

But how do we know if something is valuable or just plain over-priced? This is where studying patterns and finding the best trends on the charts can make the difference.

Let's say the markets have been highly volatile for a few months. Many traders will step aside and wait it out, preferring a calmer environment. That's a perfectly legitimate decision to make.

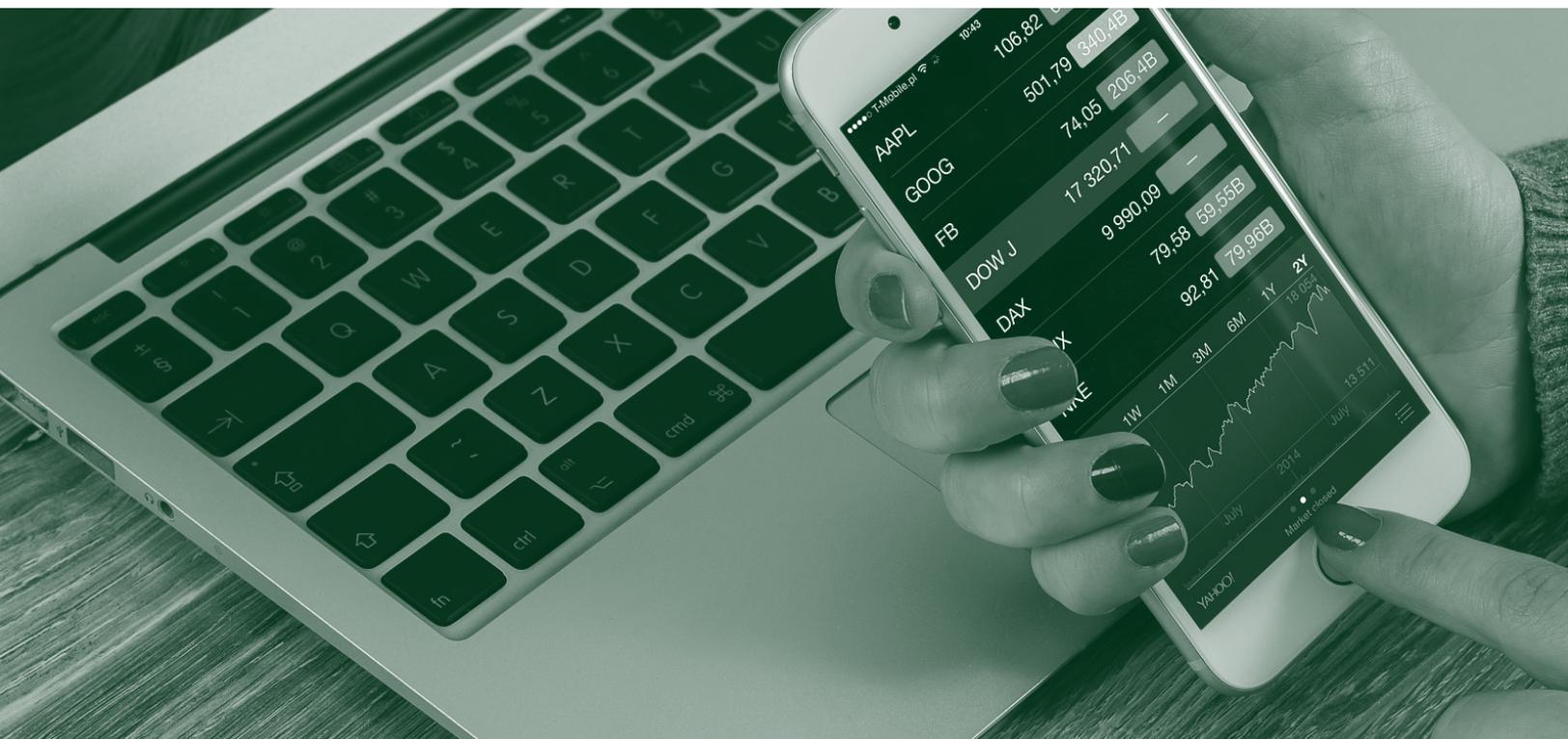
However, as option traders, we have to recognize when the market offers an opportunity to win. When the market is volatile, rewards come to those who venture away from the shore and into the stormy seas.

The best thing you can do is stay true to your strategy, remain focused, and act on your ideas.

But PLEASE, for the love of pizza, follow this simple strategy if you want to be successful at options trading:

*Take profits when you have winners.*

Don't get greedy, or you could be out of the game for good. You'll hear me repeat this several times. It's practically my mantra, because you cannot succeed at options trading if you get greedy.



## CHAPTER 2: LISTEN TO THE MARKETS

I have been successfully trading options for a long time. That's because I follow a simple formula: I take profits into a big market run when I have calls, and I sell my puts into a big drop. This dual strategy keeps me in the game at all times.

We can discuss every reason to get in or out of a trade, and we can spin it every which way. But at the end of the day, we need to listen to what the markets are telling us and act accordingly.

All you have to do is this:

*Follow the patterns of price and volume, moving averages, and trends. Charts don't lie!*

Your money is only safe if you decide to be proactive. The days of buy-and-hold are gone. I know I said this already, but I'll say it again: pay attention to the markets.



## CHAPTER 3: LOCK 'N ROLL

Trading options is all about (all together now!) taking profits.

I don't care what your strategy or system tells you to do – if you're not taking profits consistently, you'll find yourself wiped out and on the sidelines.

I'm the first to admit that I'm not perfect or completely immune to greed. I am human – I absolutely get greedy sometimes. However, I keep it in check more often than not by managing my emotions in a very logical and systematic way.

Let's illustrate it with a scenario:

I'm in a trade with Amazon during earnings week. The earnings report is even stronger than expected, and the option pops 27% - much higher than anticipated. Based on historical performance, I thought it would rise "only" 15% or so. But now it's gone up almost double that. I just earned a really nice profit – but should I stay with it hoping my profits swell even higher?

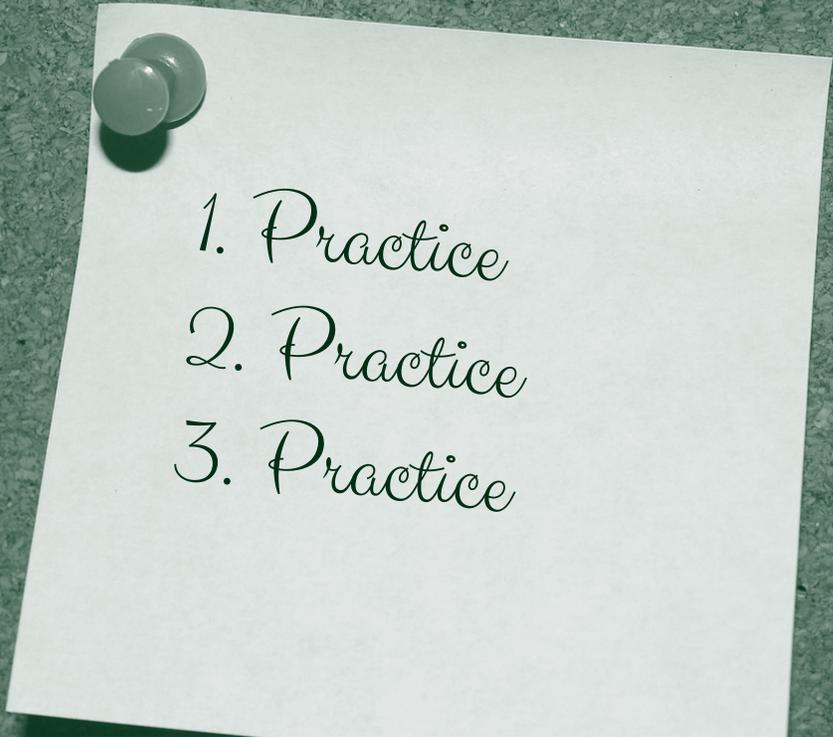
No.

I lock down those profits now *and* roll to a lower strike, one month out.

That's what I call lock 'n roll!

I cannot tell you how good it feels to take a nice profit and stay with the current trend.

*Tip: If you are trading in an overbought market, you're in an ideal scenario. The trend is established, and you can buy dips and sell the rips.*

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1. Practice
  2. Practice
  3. Practice

## CHAPTER 4: PRACTICE, PRACTICE, PRACTICE

There are so many quotes that emphasize the importance of practice. “Practice makes perfect” is the one most of us are familiar with, but I particularly like this one from the football legend Don Hutston, a former wide receiver for the Green Bay Packers:

*“For every pass I caught in a game, I caught a thousand in practice.”*

Think of the hours he spent practicing on the field. He knew that he couldn’t slack off; he had to practice to hone his talent.

I think we can all agree that practice is necessary if you want to achieve excellence.

In options trading, not only is there very little room for error, but the distance between success and failure is very small. Practicing is crucial for long term success.

One of the best ways to practice is by using a paper-trade account. It allows you to test out your strategy and try new ideas without risking your cash trading accounts.

While it can be frustrating when a paper trade hits it big (because you are not making actual money), you should be proud that your new strategy or idea worked.

By testing it out on paper, you can be more confident that it will work in real life. After all, that is what practice is for.

## CHAPTER 5: TECHNICAL ANALYSIS

Another way to improve your options trading skills is to learn new systems and how to analyze trends.

As a technically-focused options trader, I have found that charts and patterns are the best way to determine future price action, around both timing and direction.

There are 5 main indicators to follow:

- Price (the king)
- Volume (the queen)
- Momentum
- Trend
- Sentiment

I suggest experimenting with different indicators to learn which work best when combined. You should also try changing settings and using various timeframes for particular trades.

This practice will help you implement a system based on discipline and focus.

Because I believe that technical analysis is an individual experience, I am not going to tell you which indicators to use or how. Find the indicators that speak to you and give you the best odds for making a winning trade.

Below is a list of the best ones available to traders.

### **Price**

- Average Directional
- Bollinger Bands
- Movement (ADX)
- Moving Averages

### **Volume**

- On Balance Volume
- Volume Weighted Average

### **Momentum**

- CCI
- MACD
- Momentum
- Money Flow
- Rate of Change
- Relative Strength

### **Trend**

- Envelopes
- MACD
- Momentum
- Parabolic SAR
- Pivot Points
- Stochastics
- Williams %R

### **Sentiment**

- Average True Range

## CHAPTER 6: SENTIMENT: WHEN EMOTIONS DICTATE ACTION

Looking at sentiment is the best way to gauge the pulse of players in the markets.

People really do vote with their heart when it comes to money. Regardless of the fundamental and objective evidence that has been analyzed and studied, logic gets thrown out the window and emotions dictate the action.

We can measure sentiment and its effects using different tools. But first, what are we looking for? The public is usually wrong at extremes, so we'll look at both a bullish and bearish example.

A bullish move in the markets that takes the indices to the top of the range may seem to flash an all clear sign. As a result, sentiment indicators will flash "complacency."

This is the exact wrong moment to be a buyer, because the smart money is most likely selling just when the public is getting interested.

An extreme bearish move in the markets is likely to trigger a painful retreat

("I cannot stand it anymore, get me out!") at the very moment when smart money is buying.

There are many different sentiment indicators to use, so rely on your personal preference. Here are two you might consider:

**VIX:** The VIX is a fear gauge that is contrary to the market indices. Players use this gauge to buy protection against an adverse move.

**Put/Call Ratio:** The put/call ratio indicates where players are placing their bets in the options market. Are they buying up puts, bringing up the ratio? Is there too much insurance being bought by the public?

You can view the changes in these two indicators on a daily basis.

Other sentiment indicators include weekly readings from the American Association of Individual Investors, the Weather Vane and Institutional Investors Sentiment Index.

These tend to have jagged moves, but when a trend develops, we look for a contrarian move (reversals at extreme levels). I will use bollinger bands around the indicator, which will show extremes in fear or complacency, indicating the market has gone too far and is ready to reverse the trend.



## CHAPTER 7: IT'S GETTING NOISY OUT THERE

One thing that influences our decision-making is the overabundance of data, news, and opinion out there. Opinions always come with the news, but who do we believe – or should we believe?

To me, anything other than the facts – charts and technical patterns – is noise. Sometimes I like to turn it down – or even off – for a while. When emotions are on edge, it gets very loud. Remember the angst we all felt around the debt ceiling crisis? How about all the calls for a disastrous outcome?

The entire situation was overblown, as it usually is. The crowd is attracted to market rumor, opinion and innuendo, much like moths to a flame. Interpretations of the news, usually full of bias and conjecture, can lead you astray.

The truth can be found within the market technicals. There is no mistaking the analysis of what investors are doing with their dollars. When the noise gets too loud, turn it down.

But make no mistake, being informed is far better than being ignorant. In this age of hyper speed transactions and news flow, we must be receptive to the information *that matters*.

Understanding which indicators and trends matter is important. If you try to absorb every single piece of information that comes your way, you will be plagued with information overload and “analysis paralysis,” unable to do anything.

Use news to your advantage and follow it to keep up with what is happening and what people are saying. In other words, use it as a tool, but do not rely on it.



## CHAPTER 8: PARTING THOUGHTS

Selling.

It is the hardest activity to do in trading and investing, but it is also the most liberating experience. There is NO BETTER feeling than getting a bad trade off the books or putting cash in the account after a great win.

Don't wait for those wins to turn into losses. If you find yourself in a tough situation where you feel there is "no way out," take heart. You always have a way out. There are many options at your fingertips, and selling is the first and best one of all.

Look, you may have a nice gain on paper, but it does not count until you close the trade. This game of trading is about growing and building, not blowing out our accounts. Give yourself a chance to stay in the game. Take profits (and losses) when you want to, not when the market forces it.

### 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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