HOW TO MAKE OVER 5% A WEEK TRADING WEEKLY OPTIONS

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Hold On To Your Hats!

In the following pages I am going to share with you something very exciting.

In the world of investing there is no such thing as a sure thing. Investors search their whole lives for a trade or a system that can, over the long term, make them money. Very few find the elusive "Holy Grail Trade".

After years of searching I think I have found a system that works based on my chosen criteria. And the results so far have been amazing.

You can see a list of all the trades and results at http://www.weeklytradingsystem.com/track-record/

The system is as follows:

- A credit spread trade on weekly options
- Trading one or two days a week
- No need for adjustments
- No need for market analysis
- Trading on an Index (I will explain why this is important later on)
- Limited risk
- No need to watch the markets when not trading
- Only trade when market conditions are favorable

Let's start with the basics. Why Credit Spreads?

The versatile credit spread is designed to collect credit premiums when a stock moves up, down or sideways.

Credit spreads are one of the most powerful tools a trader has in his arsenal. Why? Because it can be used no matter which way a stock is moving. Even if you are wrong about direction, you can still win. Let's see how.

A credit spread is a simple option trade in which the trader sells one option and buys another option farther away from the money. This results in a credit to the trader. This credit is the max amount that can be made on the trade and is deposited into the traders account as soon as the trade is made.

Example: XYZ stock is currently trading at 100. A trader feels XYZ is a good candidate for a Put Credit Spread. This trader think XYZ is a great company and the stock is going to continue its uptrend. So he sells one 90 strike Put, and buys one 85 strike Put. The credit he receives is 60 cents.

In this trade the highest premium the trader can keep is 60 cents or $60 because each option is made up of 100 shares. The most the trader can lose is $440. This max loss is also the margin requirement the broker will require to be in the account to make the trade.

We can calculate the margin/ max loss by subtracting the credit from the difference between the strikes. In this case 90-85 = 5. So $5 is the max loss per share. But the trader already got paid .60 per share for the trade so the max loss really is $4.40 per share or $440 per option spread.

We calculate the return on our credit spread options trade by dividing the potential profit by the amount used for the trade. 60/440 = 13.6% potential return on this trade.

Ok so now we have the trade. But how does it work?

Since we are short the 90 Put, we want XYZ to stay above 90. If it is above 90 at expiration (30 days in our example) then we get the keep the whole credit. <u>XYZ could go up or it could stay around 100 or even down 10% and the trade still makes money.</u>

Even if XYZ goes below 90, as long as it stays above our breakeven point of 89.40 we still make money.

In our example the trader thought XYZ was not going to go down. But if he thought instead that it was going to drop, he could have done a Call Credit Spread using Call options instead. The idea is the same except that he would not want XYZ to rise above the strike of the call option that he sold.

In Summary:

1. **With a credit spread you choose a strike price that you think the stock will NOT move to. If your stock is trading at 100, and you sell the 90/85 Put spread, you win as long as the stock is not below 90 at expiration. The stock could move up, sideways, or even down a little and you still win.**
2. Credit spreads **limit your risk**. You will know in advance how much you can lose if the trade goes totally against you.
3. Credit spreads can be set up to have a high probability of winning. **My system trades spreads with an 80% or greater probability of winning.**
4. Credit Spreads are super **simple to execute**. Even those who have never traded options get the hang of it after practicing a couple times.
5. Credit Spreads offer **very nice returns**.

Why Weekly Options?

Before I explain why the system is for weekly options and not monthly, quarterly or leaps, let talk about why options started trading in the first place.

Options were created as a way to lose money!

Most amateur traders don't realize this. Options were created as a way to hedge a position. They were created to act as insurance.

They were first introduced in the commodities space. Imagine you are a wheat farmer and you need to know what the price of wheat will be when your crop is ready to sell. Prices fluctuate all the time. As a farmer you could buy Put options on wheat as a hedge against falling prices. This way even if the price of wheat drops to zero and your crop is worthless, your Put options will make money and make up for the loss.

Or take the example of a toy manufacturer. Toys are made of mostly plastic which is made from oil and gasoline. In order for you to know your costs, you need to know what the oil and gasoline will cost in the future. If they go up too much your toys will cost too much to produce and no one will buy them. So what you do is buy Call options on Oil and Gasoline. That way even if the prices go up, your options will make money and you can use that money to offset the higher cost of materials.

In both scenarios, you want to lose money on your options! You only wanted them as insurance. No one ever wants to collect on their insurance, because that means something bad happened.

Market makers and other traders are happy to sell these options because they know the odds are on their side and that the options will most likely expire worthless.

So you see, both sides know that the options will expire. And they are happy with it.

Options were then introduced on stocks in the hopes of increasing trading and commissions. Boy did that pay off for the stock exchanges.

But that's when speculators jumped in and started promoting options as a way to get rich. And while it is possible to hit a home run with options once in a while, over the long term, buying options is a losing game.

I don't know who came up with weekly options, but they were another way to increase trading and commissions. And again they worked wonderfully. For example, one quarter of all option activity on AAPL is done on weekly options.

Are weekly options necessary in the market? Probably not. Any hedging you can do with a weekly can be done with a monthly option. These are just a way to get traders to make more trades and pay more in fees and commissions to the brokers and exchanges.

And the sad part is the **trading in weeklies, the way most people do it, is nothing sort of gambling.**

That's a bold claim. So let's think about it.

Why would you buy a weekly option? Only if you thought a stock was going to move up or down in the next couple days. So what is that, like a 50/50 coin flip? Sounds like gambling to me.

What about the people who sell options? Didn't we talk about how credit spread offer such a high probability of profit, why not sell those on weeklies?

There are a couple problems with this.

1. Since you only have a week in time premium, your credit spread has to be sold very close to the money. Meaning that is the stock is at 100, your credit spread needs to be at 90 to make any decent return. To make a similar return on a monthly option your spread would be at 80 or farther. Being closer to the money is added risk.
2. Since you only have a week, it is extremely difficult to adjust the position if the stock goes against you. If you were trading monthly options, and the stock made a large move against you, you could either adjust the trade, or exit with a small loss. The same move while trading weekly options would result in a huge loss with no possibility of adjusting.

Option sellers are also gambling with weeklies even though they have a high probability of profit. That high probability of profit is actually an illusion. To explain why, I would have to get more technical and explain all the different Greeks and how they work, but take my word for it.

I have had many members of my OptionGenius.com site tell me that they are trading weekly options and doing very well. Until the one week comes that blows them up and they lose months of gains.

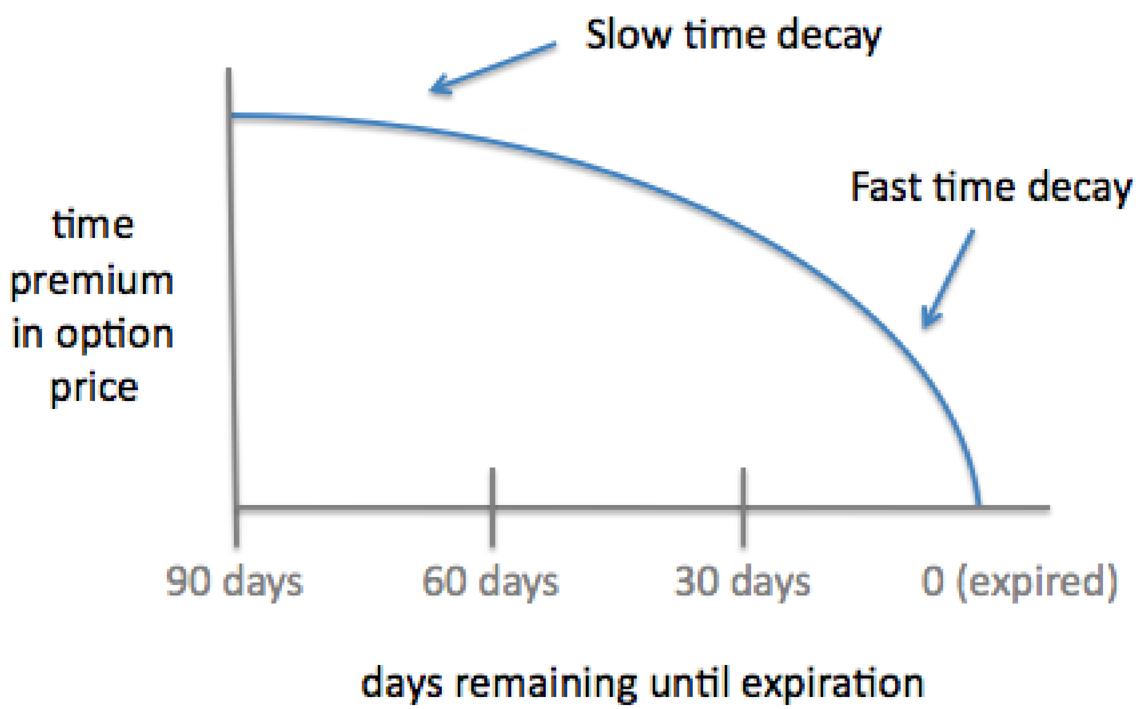
That is the problem with all the other sites that give weekly "picks". They trade weeklies the same way they trade monthlies even though they are totally different animals. They also "force" trades, meaning they trade just to put on a trade.

IMPORTANT: My system bases its trades on several factors including momentum and where the index is likely to go in the next couple days. We don't just put on a trade with a high probability of profit then hope and pray it works. We monitor momentum and volatility, and then after we get a signal, place a trade with a high probability of profit. **So not only are our trades away from the money, but they have the added bonus of being in the opposite direction the index is headed**. Of course, this does not always work out, but that is why we place the trade far away from the money.

Another key feature of the System is that we trade only on certain days of the week. Those are the only days we place trades.

Why?

Because after thousands of trades, we found that those days worked the best. And here is why.



This simple chart shows how fast options lose value/money based on a decline in time premium. The fewer days an option has until expiration, the faster the time decay.

So common sense would dictate that if you sell an option the day of expiration you get the most time decay right? Nope. The option has already lost most of the time premium by then. In fact, the week of expiration offers very little time premium (time value) at all.

And so through trial and error, we discovered that selling weekly options on days with more premium offers just enough premium to give us juicy returns, and still let us be far away enough from the money to be safe.

Once we place our trades, there is nothing left to do but sit back and relax. There are no adjustments. We let the trade work for us. That's why we call it the "Set It and Forget It" trade.

What Does the System Trade?

Actually there are 2 Systems we use. Until 2013 we only used one System. But in 2013 volatility was at extreme lows and System #1 gave us very few trades. So we developed System #2 which uses a different mechanism. After testing System #2 as bonus trades, we are excited to officially add it to the trading mix.

By using both Systems, we can have more trades and be active in times of high volatility and low volatility.

System #1 trades options on the Russell 2000 Index. Symbol: RUT

The Russell is made up of 2000 small cap stocks. We trade the actual Index and not the ETF, whose symbol is IWM. There are many reasons why.

1. Since the Russell is an index made up of 2,000 companies, the news from any one company or even a sector does not affect the index much. Any company could have earnings, an accounting scandal, or any other news event and the overall index will not be affected much.
2. RUT options are European style options. This means they cannot be assigned early. **There is no need to fear assignment with these options.**
3. RUT options are cash based. This means **you do not need to own any stock in RUT to trade** and you will never be called for stock.

4. **Index options get 60/40 tax treatment from the IRS**. 60% of the gains and losses are long term, 40% are short term.
5. RUT options are also highly liquid, so **you can trade as much or as little $ as you want**.

System #2 trades options on the S&P 500 Index. Symbol : SPX

This is the same index you hear about on the news every night. Since SPX is also an index like RUT, it has all the same advantages. System #2 uses a different mechanism to give trading signals.

So Let's Recap

The Weekly Trading System…

-trades credit spreads because they are easy to implement, and control our losses.

-trades options on the RUT and SPX because they are less volatile, highly liquid, cash based, will not cause us to be assigned stock, and get 60-40 tax treatment.

-gives trading signals in times of high volatility and low volatility.

-trades only on certain days to get the optimal time value

-only trades when there is a signal which tells us which direction to trade

-uses a set of RULES that dictate which strikes to sell

- uses a set stop loss percentage to exit trades that go bad to keep us from suffering the dreaded "max loss".

Enjoy the Benefits of the System

Isn't it time you started trading weekly options profitably?

When you join our service, we will monitor the System for you and notify you every time a trade is released.

We do all the work, you get the spoils. All you have to do is place the trade with your broker. You can do it through their website, or even on the phone.

It couldn't be easier.

Join us today at www.WeeklyTradingSystem.com