

There is a substantial risk of loss in trading futures and options. Purchasing of options may result in a loss of premium, commissions and fees paid for such options. Sellers of options (or option granting) should be aware and understand that they have unlimited risk



Buying Puts and Calls

This is the simplest of option strategies and the strategy that most beginning traders employ. It has been said that 90% of new traders buy options and that 90% of option buyers of options lose money. With a better understanding of how options work and by looking at some of the factors inherent in options you can increase your odds considerably. This is a directional trade.

The main factors to consider, when buying an option:

1. Time Left Till The Expiration

The first factor to take into consideration when choosing an option to buy is the amount of time that the option has till expiration. Since time decay is the strongest factor affecting options it is vital that you look at this when you consider buying an option. You do not want to buy options with more than a year till expiration, as the liquidity of those options tends to be very low. Remember, you want time decay to affect your option price as little as possible and if you buy options with more than 4 months till expiration that will be the case.

Conversely, you also may consider buying an option that contains very little time value either by virtue of being close to expiration, and close to-the-money if you are strongly convinced that the considerably big move will take place shortly/before the expiration date of the option.

But remember, that you may be right about the direction of the market, but still be wrong about the timing of it. Purchasing of options at the wrong time will cause a loss.

2. Volatility

The second factor to take into consideration is the volatility of the option. Since volatility affects option values on a day-to-day basis it is recommended that you buy options with a low to average levels of implied volatility. Keep in mind that this is just one factor you should consider when

deciding on buying an option. **Most importantly, you also expect the underlying futures contract is going to move in your favor.**

The number one reason for being an option buyer is the limitation of risk. This allows you to hold onto a position and withstand an adverse move in the underlying futures contract without the possibility of a margin call. You can hold onto a position without the potential of unlimited losses in anticipation of the market moving in your favor. However, in order for you to make money the market price has to move considerably and quite fast in the direction taken.

Property of:

Market Timers Inc.
A Trading Education Company

1-800-417-9904

www.tradingeducation.org

There is a risk of loss in all trading and we can not promise your future profitability. Past performance is not necessarily indicative of future results. When an option is sold there is an unlimited risk of loss, and when an option is purchased the premium plus commissions and fees is at risk. Trading is risky and many traders lose money. All opinions expressed are subject to change without notice.