



6 Options Trading Tips

Options trading is a fun and often profitable way to make money on stocks. If you're new to options trading, then these basic guidelines will definitely come in handy as you initiate your first trades and build your option strategies.

1. THINK FLEXIBLY

Options trading is unlike traditional investing where you simply try to buy low and sell high. Using options, traders can profit by predicting downturns, stagnation, and general volatility, as well as upturns.

Get ready to look for and seize opportunities in new locations.

The "straddling" tactic, for example, allows options traders to profit by predicting a stock's volatility. Whether the stock spikes or sinks, the straddle position will result in a win for the trader.

2. USE OPTIONS TRADING TO HEDGE

Options trading provides a way for investors to limit their risks.

If you're uncertain about the stability of a stock but you don't want to sell it, then you can purchase a put option for the stock that will allow you to get out at a good price, even if the stock nosedives.

These types of hedging opportunities are abundant in options trading.

3. BUY AND SELL STOCK AT A PRICE OF YOUR CHOOSING

Smart options traders use options to fine-tune their general investment strategy, making the most of their hard-earned insight into the market.

With options, you can purchase the right to buy or sell a stock at a certain price at a certain time.

While most basic investment platforms will allow you to set your own buy and sell prices for stocks, the buying, selling, and exercising of options can dramatically expand your profit opportunities.

A stylized stock ticker. Keeping pace with options charts can help those investors who are serious about options trading make the smartest possible decisions and improve their option strategies.

Tactics such as covered calls and cash-secured puts can grant you more control and profit opportunity when it comes to buying and selling stock.

These strategies and others are covered in more depth in my book, *Options Trading for Beginners*.

4. KNOW YOUR “BREAK-EVEN POINTS”

Every option you buy or sell has a break-even point.

The break-even point is a specific high point or low point that a stock price must reach in order for the option owner to begin turning a profit. Break-even points must take into account the price paid to own the option and the commissions charged on the buy trade and the sell trade.

5. DON'T LIMIT YOURSELF TO THE OPTION CHART

The option chart plots the behavior and pricing patterns of the option itself but doesn't always provide adequate insight into the behavior of the underlying asset (the stock).

It's important to understand a stock as best you can before you buy or sell any options associated with it.

Pay attention to option charts but don't neglect your study of the stock charts.

6. ERR ON THE SIDE OF THE TREND LINE

There's an old investing adage: “The trend is your friend.”

When assessing the value of underlying stocks, don't try to guess at where you think a sinking stock will plateau or where a rising stock will level off.

Always assume that trends will continue. You won't be right 100% of the time, but you'll be right more times than not.

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