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The Traders Edge Insider

TradersEdge NETWORK

Print This Issue

Greetings from the Pirate!

Hey everybody, I hope the May edition of Traders Edge Insider finds you well. We've had some beautiful weather out here as of late. Man, it just makes you want to get out and enjoy life.

I hope you're taking time to do just that. Sort of gets lost in the shuffle when you're battling in the trenches, but you're here to build something for yourself - to create a better, more secure future for you and your family.

You, the entire Crew and myself - we're all working hard and need to take time to reward ourselves a bit…and to remember what this is all about. Trust me, doing so is essential and it's a wonderful way to go about refocusing and recommitting to your plan for success.

My question today is what happened to that big-time reversal so many talking heads told us was inevitable. You know, "The rally is overdone, exhausted and without merit given the problems that remain here and abroad." Hmmmm.

Well, no doubt they'll be right…eventually. That game of Tom-n-Jerry chasing tail never ends… The experts will continue to predict the future and there will remain audiences that continue to listen with baited breath. People wanting to believe there are gurus who see the market in advance or who are in search of the latest "sure fire" cookie cutter approach to trading. The only thing that neither group appears to seek for guidance is the market…and what it's telling them.

Comically sad, but that's the way it is and will continue. Not our approach, as each of you well know. We'll continue to stick to our methods premised on understanding market cycles, trading in any direction based on what the market tells us, and utilizing strategies and trading plans that provide a statistical advantage - proven…simple… successful!!!

For now, I invite you to sit back, read and reflect on the May edition of TEI. It's packed with good, actionable info, including a compilation of some of the best insight offered over the past year in our Traders Talk interviews. It's worth a read and sure to serve you well this month and beyond.

— Preston James

Preston James
-Author,
"The 1% Solution"

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Traders Talk

In this month's Traders Talk we decided to take a look back at some of the more sage advice and insight offered up by individuals...

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One investor hoped for some good news when Martin Marietta reports first-quarter results on April 30th...

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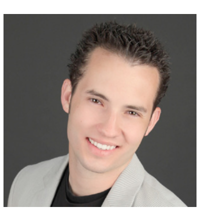
Karson's Insight

It is no secret that the Japanese government is trying to weaken the Yen by printing massive amounts of money...



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Musings from the Editor

Yes, the calendar stands ready to turn, so it's time to trot out the ol' "sell in May" adage that peeps just can't seem to resist this time each year...

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Coaches Corner

Welcome back to another edition of Coaches Corner. In last month's edition we learned about implied volatility...

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Ask The Crew

Crew members tackle questions submitted by readers each month...

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Traders Talk: Best Of Traders Talk…

In this month's Traders Talk we decided to take a look back at some of the more sage advice and insight offered up by individuals we've had the privilege of interviewing over the course of the past year - members of the Crew (Jeanne, Mike, Jon, Karson and the Pirate), joined by Norman Hallett of The Disciplined Trader.

Why would we elect to recount conversations from the past? Well, good advice doesn't go stale, no matter the topic or venue. That's more so the case when it comes from people who've spent years toiling, failing, persevering and finding success.

Frankly, success in anything comes from learning core tenets and principles…and then applying them over and again - learn, apply, adhere to and repeat! In our view, the most direct path to success in trading can be found in the words and advice of traders who've already come to that success. As such, it makes absolute sense to revisit past conversations every so often, as it stands to reason you'll gain in a different manner each time you do so.

Bottom line, this is some of the very best of the best you'll find anywhere.

Without further adieu…

Key Lessons Learned

TEI: So your approach was to read price and volume, and understanding and following the market cycle?

Pirate: Yes, it really was. Most people think becoming smart means to make everything complicated. I've tried to stick with the opposite. For example, if you looked at a chart of Yahoo…here's a peak, here's resistance and support, and here's the moving average… I guess it was the linebacker in me that said, "You know, it looks like there's four really big peaks every year in Yahoo." To find that this corresponded with the earnings announcement date… Not trading the earnings announcement, but just noticing that Yahoo has an average of a 60 percent run-up in the one-month period before their earnings announcement date. I'm like, "Can we just trade this?" "Are there options on Yahoo?" Could you for a lot less money get involved with Yahoo, not knowing anything else, and just buy a one-month-out call option and just try it? You don't have to understand what their EPS is or anything else. You could just trade these run-ups...just put all of this technical stuff and everything else over there on the shelf for everyone else to worry about.

TEI: So keeping it simple and not complicating things is where you came to find real success?

Pirate: …I came across a study in 2002 that was done in 2001. So 2001 is the dot com meltdown, and for extra measure, later in the year is 9/11. I believe it was in Briefing.com and they were talking about every time that a company had come out in 2001 and announced that their earnings were gonna be better than expected. It could be on the earnings announcement, but they were talking about a pre-announcement. They looked down the road about six months and the stock price was trading higher six months later than it was when the company pre-announced the better-than-expected earnings. I thought, "Wow, you've got to be kidding me. I mean if that worked in 2001, than in any other normal year that's got to be something to really hang your hat on."

Some years later I saw that Zacks Investment Research, based on the decades they had studied the markets, said that the biggest moves a stock would make would be in reaction to an earnings revision. Of course it can move up or down [depending on] if it's revised down or upward. That was another simpleton thing. You can measure all the lines and do everything else, but really a company exists out there for its earning. And not just the earnings that it's showing now. The market is always saying, "What have you done for me lately?"

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TEI: When it comes to trading, ultimately you've got to gain experience running real trades—getting trades under your belt and learning lessons. Would you agree?

Karson: There's two ways to learn. You learn from looking at this guy—he knows what he's doing… whether it's a book or training or whatever it might be, and you truly understand what he's talking about. Or you learn the hard way. So everyone learns their own way, but there's the easy way to do it. I've tried to save people from making the same mistakes.

TEI: When you started, did you spent a lot of time learning technical analysis or did you spend more time on the fundamental side, learning about PEs and similar metrics? Where do you place emphasis now?

Karson: When I first started I was really heavy into technical analysis because of the day trading with my father. With day trading that's what you're looking at… real-time trying to make decisions. Then I kind of read the 3-inch thick manual on options. It didn't take me very long, thanks to Preston, to conclude that a lot of that is a bunch of mumbo jumbo.

The bottom line is what can you go out there and make money with…that's what matters. If I'm looking at the PE ratio and every other investor in the whole world is looking at the same thing as me, do I have any edge whatsoever? No, I don't have any edge at all. So I learned fairly young that it's not about analyzing stock and companies as much as it is how I can make money exploiting things that options present. There is certain fundamental analysis that you can factor in, such as whether a company is going to fall off a cliff in the next six days while I'm in this trade. If the answer is no, then great, that's about all I need to know.

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TEI: Looking back, what was a one of the toughest struggles you dealt with in your trading?

Jeanne: I think we're all too optimistic about the market. Comparing how I trade now to then, I know I didn't really look at risk.

TEI: How has that changed for you over time?

Jeanne: I've learned it's really important to know my risk in a trade. Before you put a position on you need to know why you're doing it…not just because you have a gut feeling the market's going to do something…those kind of trades usually end up making you sick to your stomach. Whether it's a technical thing or I'm looking at a certain indicator or there's something that's going to move the stock or option, you have to have an exit point. That's the way I trade now—I know where I'm going to get out. When I go into a trade I want to know where to get out if it doesn't work out the way I anticipated.

TEI: So you want to identify the potential cost of the trade going in by identifying where you're gonna blow out if it doesn't work?

Jeanne: Exactly! And the shorter the trade, such as a day trade, you better take your money off the table pretty quick, especially if you're trading something like Apple options—they can move a lot in one day and if you're on the wrong side of that trade it's not very pretty.

TEI: What's your thought on biting the bullet and taking a loss on a trade?

Jeanne: I've learned how important it is to take your loss. Sometimes they come back around and you might have made boo-coo bucks if you had not closed the position, but you can't look at it that way. Instead you have to pat yourself on the back when you take a planned loss just as much as when you take a planned profit. That said, it's not always easy. I don't like taking losses…I hate them and don't like being wrong, but it's a fact that your first loss is your cheapest loss. If you did actually get out too soon you'll have another chance to get back in the trade.

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TEI: What was the early lesson to come out of that time and experience?

Norman: In the beginning you tend to want to add filters to your trading plan in order to define your trades…take fewer trades, but better trades. What you wind up finding along the way is that too many filters

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causes a certain paralysis and a frustration which can lead you to taking trades that aren't really qualified trade. I found that long-term successful trading is a matter of knowing yourself and then balancing what you know about yourself with what's available in the market. I've learned that simple is good and complicated is bad…simplicity in trading is the key to successful-trading long term.

TEI: What do you consider the biggest impediments to successful trading?

Norman: Based on the feedback we get in our training, a big one is focus. To remain focused and to eliminate distraction. Whether it's CNBC, somebody walking into the room, self-created distractions where you step away from the screen, etc. Without focus you're going to make mistakes. You tend to forgive yourself, but if you look back you'll find they were all preventable. You need to follow and remain with that trade in a very focused manner. You must consider your trading a business and maintain disciplined focus.

Another area of great importance is patience—you need to be patient in your trading…wait for the setups to complete themselves. I find that a lot of traders jump the gun. Their trading plan says they make their move after the formation on the 10-minute bar is complete. But at the nine-minute point the market is moving up and they jump in to grab those points, since obviously the trade is going in the right direction. But of course, the market often corrects and the sought-after formation never actually completes, leaving them stuck in a bad trade. Patience is a key virtue in trading. Patience to let the trade go if it's not going to happen…to not take the trade. So you must be patient and wait for the A-plus trades—the high-probability trades. You need to identify those high-probability trades for yourself and then spend your time being patient for those to happen.

The third is keeping a positive expectancy. In other words, expecting success and envisioning yourself as a successful and valuable trader. Create some positive energy in the very beginning of your trading day, whether it's doing some affirmations or some subconscious training. We actually offer Mastery Minute one-minute motivators for traders that can be downloaded to the iPhone. They provide a one-minute pop of enthusiasm and positive energy right in the beginning of the day. Those are the three areas I would concentrate on as a trader who is struggling and looking for real and consistent change. Not another system or another Holy Grail.

Market cycle

TEI: Can you briefly explain why the market cycle that Preston talks about frequently is so important?

Mike: Understanding the market cycle is so important because it gives you a feel for whether we might be heading for a correction or are actually heading higher. We base our trades around the prevailing market cycle. Not paying attention to the market cycle is much like trying to play all offense and no defense in a game. You have to know when to protect your trades and your account. If the market cycle is changing and heading into a correction, you can react accordingly by structuring some bearish positions and taking steps to protect other positions that you're currently in.

TEI: It's detailed in Preston's book, "The 1% Solution," but can you tell us the main element you look for when attempting to discern the market trend?

Mike: We monitor Investor's Business Daily's proprietary formula that calculates accumulation/distribution grades for the S&P 500 and the Nasdaq Composite indices. When we see a two-grade shift, such as from an A to a C grade, we know we're looking at a significant move. The market cycle is shifting, so we come in and make adjustments accordingly.

TEI: You just mentioned institution buying, which is talked about a lot in the book because of how it drives market cycles. Can you briefly explain that?

Mike: When institutions enter a position in a stock, they're generally buying upwards of hundreds of thousands of shares at a time. It can take days, if not several weeks, to establish a position. That's the game that these institutional traders have to play. They're coming in and building positions over time. Fact is, their buying is what tends to drive cycles and also works to propel stocks to new levels, which is all the more reason to consider jumping on a stock trading to new highs instead of automatically being afraid of doing so.

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TEI: Looking at the market cycle as it now stands, how is your trading influenced?

Pirate: Well, there's always little hiccup-type things or it wouldn't be a market. As we're recording the Cyprus thing came in and scared it, but it looks like it's rebounded because that vote didn't go through. Until we see some breakdown I adjust everything that I'm doing with a more bullish bent to it. That means utilizing margin, but also portfolio margin…which a lot of people still don't know about. You basically don't want to be looking at the short-side of the market too much right now. I'm a little forgiving on what a stop loss or protections might be. Those are a little more aggressive, meaning they're a little further away. If the market cycle were to turn, I'm going to be a lot more selective…it's going to be smaller size and there's going to be protections that are a lot closer.

I want to back up for one second to reiterate something [important] about the market cycle. It's often detached from what the economy is doing. If you listen to the evening national news and heard the first five stories about the economy, that is completely not the market cycle. The other little corollary of that is that some people just can't do it - they cannot trust the market cycle. They cannot see what is right in front of them. They're too tainted and clouded, either by the person that just got laid off next to them or a neighbor that just had to move. I don't blame them. We're not always wired to see what is plain in front of us. We're constantly trying to interject and think about things in the world. Some people just can't ever do it - it's the most frustrating thing for them. They revert back to old habits - this stock has to go up because of this-and-that reason. They keep interjecting what they think should happen or what shouldn't happen - and it's a recipe for disaster.

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TEI: The market cycle is a big issue with Preston and something you've mentioned several times. Please explain its importance and how it applies to trading?

Jon: I think that trading with the current market cycle and not against it is the single biggest thing traders can do to tilt the odds in their favor. And while it sounds easy, you'd be surprised how many people have on bearish trades when the market is going up and bullish positions when the market is going down. And they wonder why they are losing money.

Now if you watch CNBC or Bloomberg you'll find that they have all these analysts analyzing the market, yet they never all agree with each other. So if they don't know, how are we supposed to know? Well, instead of trying to predict where the market's going, I just go with whatever the market is currently doing…you know, what is the trend and where are we in the trend?

Strategy

TEI: Please share some about weekly options and while ya'll suggest them?

Mike: We've got several strategies that we build around weekly options, but in general we're selling premium. Doing so allows time decay to work in our favor. Weekly options get created Thursday morning and expire the following Friday afternoon, which provides for extremely rapid time decay over those seven trading days. We sell the new options each week to capture profits from time decay. To give you an idea of how powerful they can be, when weekly options originally hit the scene and became available, our income strategies pretty much we doubled.

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TEI: Focusing now on your trading, what are the primary strategies you use routinely?

Jon: Nowadays I typically prefer to be a seller of premium. It gives you a higher probability of success and I'm trying to create cash flow by selling premium. I can sell either call or put premium. That's determined obviously by what the current market cycle is and what the underlying stocks I'm looking at are doing. But I do that in a couple of different ways. I sell a lot of vertical spreads. I do that usually based on the reaction of stocks to their news. The news is actually unimportant to me - it's just how the stock is reacting to that news.

I'm doing it based on sudden heavy accumulation or distribution of the stock by the institutions…I simply try to ride their coattails. When I wanna do intermediate-term trades I'll usually go with diagonal or calendar spreads.

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TEI: One of your primary offerings is the Weekly Options Windfall or WOW service, focused on trading weekly options. Please share your thoughts on the opportunity they provide traders in today's environment?

Pirate: I think it's real important to drill into a couple of key things when we're talking about the weekly options - this animal that was created in the spring of 2010. There are probably five things I want to hit as to why someone really needs to stop what they're doing right now and pay attention to why they might want to sell some income on weeklies…

Securities now get created every Thursday morning and they expire the following Friday. Now when you look at the major component out there that has produced more volatility across the board - near-zero interest rates - it has money flying around. Not only from one stock to another, but out of the market entirely and back into the market entirely. Money is not idly sitting around - it's actively moving around. The latest Barron's Round Table said we're going to have these [low rates] for the next five years at least and some are saying it's going to be here at least 10 years. So we've got these near-zero interest rates that create volatility. Volatility is great when you turn it around and become a seller of options, because options are higher-priced in general. So we have that major underlying factor. Then there's the fact that about 80 percent of the trading volume that you and I see every day is being pushed around by these big institutions. It's not you and me and our friend over our backyard fence who are participants in the market - we're a small minority. So you have all this major money sloshing around because of low interest rates.

Now all of the sudden you have this instrument - the weekly option…There are two big hot-zones of time decay in the life of an option - whether it's a 6-month option, a 3-month option or 1-year option - when it actually declines the most...loses most of its time value. Why do we even care? Because when you turn around to become a seller of these options you become very interested in where the time decay spots are. The two biggest spots are over the weekend before the final week of their existence and between the last Thursday and Friday – that Friday meaning the last day of its existence. So every weekly option created has these two biggest time decay spots built in - that fact can't be understated! Not to mention that when you add up the Thursday to the following Friday's premium, and you compare that to the former 1-month premium, four of those 1-week expiring options equals roughly double what a 1-month premium used to bring in if you were selling a 1-month option… These factors I'm laying out are impossible to ignore in terms of what they can do for you when you become a seller - doing spreads and money presses. That's the backbone and the root of why it's so damn compelling. They never used to exist.

TEI: How do you determine which ones you prefer to play, given the universe of weekly options has greatly expanded from a couple years ago?

Pirate: My head is in the paper and kind of looking around every day. A good example is Transocean Offshore - they were in the doghouse stock wise, with a lot of uncertainty regarding the Gulf oil spill. You kind of tuck that away - you've read an article here or there and you know the fundamentals. They're one of the winners in the world and have all these untouchable things…and they're not going to go out of business. All of the sudden you see news that a settlement has happened and all this uncertainty gets removed. There's an opportunity there. It's got weekly options. When you hunt down when they're going to announce earnings next and you see that it's two and one-half months off, and they've just got this - not an 800 pound gorilla, but a 3,000 pound car off their shoulders - that's kind of an event or news-type of opportunity. Not to day trade it in my world, but to say, "Wow, look at all the uncertainty that's been removed." It's likely they're going to have some fresh new forecasts they can finally talk about - maybe that happens on the earnings podium. But whatever is going to happen, right now I can go buy some protective puts out past that earnings date. I can be in business being a weekly put seller, not even touching the stock…just see if we can make some

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money off of something that's not a situation you or I created. We did not create the explosion that happened and we could have never foreseen all these events, but all of a sudden they're kind of lined up. That's an example that comes to mind.

TEI: So what is your favorite type of strategy with the weeklies now?

Pirate: What I'm doing with weeklies now is a strategy I've termed the "money press." Basically it's taking advantage of being a weekly seller of option premiums, but rather than buying a 1-week premium underneath, which would decay as fast as the one on top, you're simply going out and buying an option 2, 3, 4-months out - it just depends on the particular situation. I like to think of it like Baskin Robbins selling a single or double ice cream cone. Say the big 5-gallon tub has a wholesale cost of $10.00. Well, they dig in and get one little scoop out of there and there's still all this ice cream left, but they're selling that scoop for $2.00. I think of that ice cream tub as option time – you're buying time in bulk… Take any stock across the spectrum and look out at a 4-month option and then divide it by 16. And then go check what the quote is on a 1-week option. It's drastically different. You never want to buy week-to-week protection, you want to buy that bulk and then you want to become a seller. Just like Baskin Robbins, you want to buy your ice cream in bulk and then you want to sell the singles. That's really what the concept is.

From there it gets to why this stock and why now? There is some set up and you want to be aware of the market cycle in general…there's some artwork there too. Some people just like to shortcut that and say, "Just show me what you're doing," which is what I do on the Weekly Options Windfall membership [program]… If you just take a look at like a dozen stocks and follow their little lives - they're the bigger name stocks. I have money press [trades] going on Netflix, LinkedIn and Apple right now. Your universe of choice really shrinks down. Gone are the days of rifling through 250 new highs for the day. I deal with a very small universe of stocks.

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TEI: What would you offer on cash management strategy?

Karson: Most of my trades are statistical advantage trades. You take every single one of the trades and they'll make more money than they lose when all is said and done. You use the same amount of capital on each one and there are very basic rules. It sounds so simple, but it can really make a huge difference in the end.

TEI: Do you pay close attention to the key levels on the broad indices in general and specifically when you're contemplating putting trades on?

Karson: I don't pay close attention to them…I keep an eye on them. I tend to trade more arbitrage trades, more inefficiency in the options. So it is important to note those certain points, but it's not really my game. Usually I can take advantage of the pricing inefficiencies in the options, especially in the weekly options. But I do trade always being aware of what's going on out there with certain prices and support and resistance levels.

TEI: Refocusing on approach, can you briefly explain the absolute importance of trading the markets seeking a statistical advantage?

Karson: Well the reason I like to trade these advantages is simply because trading the market by itself, directionally, can be difficult – though we do it pretty well with the indicators. But it's usually in very short time frames. For me to put on an option position that I'm expecting a certain thing to happen over the next two weeks, that's very difficult. Any piece of news during that two weeks can completely change the dynamics of what I thought when I originally got into the trade. So you have to constantly be in tune with the market if you're going to do that. But there's much easier ways in my opinion to make money. You just take advantage of these price inefficiencies. Look at it this way, how do you price an option on Apple? Something that's going to expire Friday, say four hours from now. An ATM option is almost impossible to price that close to expiration. What's it's really worth? Well, no one really knows, right? Is Apple gonna move or not is basically the question. The volatility is priced in at somewhere around 38 percent, give or take. That's all they have to go off of. So arbitrages appear because the next week's option is nowhere near that price. The time decay is four hours and let's say it's going for five bucks. Well, that means it has $1.25 per hour of time decay. The next week's option doesn't have $1.25 of time decay per hour, right? So there are all kinds of inefficiencies just because that's the way the market is. It's impossible to price fairly. That's a much easier way in my opinion to make money than to try and guess the direction on stocks.

TEI: We've had an extended period of low-volatility, range-bound markets for a while now. What's your favorite strategy for these kinds of conditions?

Karson: I usually do a long or short butterfly, depending on the situation.

TEI: What other strategies have you used in the past year or so?

Karson: Earlier in the year I actually did a lot of back spreads - like back spreads for a credit – blow-up trades as I like to call them. Basically we're just looking for a move in the stock. I still do a little bit of that with the short butterflies. But now the market has evolved in a way that the long butterfly position, particularly over the weekend, makes most sense. It's strictly a statistical trade, offering a statistical advantage. Even if the stock makes a move, which I don't want to have happen, I still end up getting out of the trade for maybe a small loss, but usually somewhere around break even or in some cases, a small profit. Now that's without legging out or doing anything fancy. But when I'm right - and I use the term right loosely - and the stock doesn't move and it stays within the range over the weekend, you walk away with a nice profit. So it's strictly just a statistical advantage trade. That's just the pricing inefficiency of the option due to the fact it's impossible to price that fairly. Over the weekend, at least for the stocks I trade, happens to be the window where this inefficiency takes place. I've really milked that to the tune of over a thousand percent return for the year. It sounds ridiculous, I know. You wouldn't even believe me if I told you that, right? But I have a track record that a third party put together for me. So, it's a phenomenal return playing an advantage like that.

TEI: Do you like trading specific known events, such as earnings, stock splits, conferences, etc.?

Karson: Absolutely, I love predetermined things. Something that's set in stone - here's the time and here's the date. You want to talk about inefficiencies in pricing. When you know Apple's going to report earnings or they're going to release a new iPhone or whatever it might be, the inefficiency is just unbelievable. You can take advantage of things several different ways. I've been doing long butterflies going into news…just before the news. Now remember that with a long butterfly you don't want the stock to move. But I'm doing long butterflies going into an event that will most certainly move the stock. That sounds crazy but it's a complete arbitrage's trade. You have to see it…many of my members have seen me actually trade this and made a lot of money along with me. These are ridiculous arbitrage trades where the amount of risk is literally zero and the reward is borderline unlimited. So, any time there is a news event, I absolutely love it. It's my favorite thing to trade.

TEI: When do you tend to enter these type trades and how long do you hold?

Karson: I usually start putting on and taking off positions typically about three days before the event. Not long before the event. That's when the highest amount of inefficiency occurs. Sometimes, depending on what it is, I'll hold over and other times just for the period before the announcement happens. It really depends on what's going on.

TEI: You've had a lot of success with Butterflies in this past year. Do you expect it to continue to be a profitable trade strategy?

Karson: Yeah, the thing with butterflies is they are really simple. The long butterfly benefits from time decay, while the short butterfly benefits from movement, other than some arbitrage setups, which are fantastic. But you have to wait for news events and things like that. Are they evergreen? Will they work in any market? Sure, because they're on both ends of the spectrum. So one or the other is gonna be working. It's either you're looking for a movement or you're not looking for movement. Pick one or the other.

TEI: Why do you think you've had such success trading butterflies and how does your strategy differ from most others?

Karson: Most people put on a long butterfly a couple of days to expiration. The option is about to expire and I think it's going to finish within the range and I'm going to make my money now. That's perfectly fine for the standard retail investor who doesn't really know what they're doing. The market's very efficient at pricing that trade though, and for that reason I don't like that trade. So I do a long butterfly going into the weekend, a week prior to the expiration. In fact, the bad time to do a long butterfly is the last couple of days when most people typically do a long butterfly. On the other end of the spectrum, since that's a bad time to do a long butterfly, then naturally it's a good time to do a short butterfly. So that's usually the window I'm doing short butterflies. Now it's not every single week, at least with the short butterfly. You need the right circumstances or certainly the right amount of credit on the trade. So I wouldn't say it's as consistent an inefficiency as with a long butterfly. Now the long butterfly - I think I've done trades every single weekend for seven or eight month now. I don't think I've missed a single one.

Coaching and Training

TEI: What originally attracted you to Preston's coaching program?

Jeanne: I was looking around for things to continue my education. His program wasn't cheap, but it appealed to me because they seemed sincere when they said they'd really try and work with you to make sure that you would make at least the price of the tuition. Once you start listening to the CDs and you hear of this or that person's making $20,000 and $30,000 a month, you're thinking that would be nice. At first when I started going over this system with Karson I didn't really understand how it worked. But then when I started to learn and understand portfolio margin, I did get it. I realized that I could buy so much more stock and yet it's protected. When I came to realize that I could have $50,000 to $60,000 worth of stock and only $10,000 dollars at risk, and could make $3,000 to $4,000 a month, I recognized that was a pretty good deal. I found it was a good system and within six months I had actually made $30,000 or $40,000 on my account.

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TEI: How does the training tend to start with someone new to the program?

Jon: The first thing that I always have to do is determine where this person is at. What kind of experience they have, their trading knowledge and what kind of lifestyle they have. For someone busy all day running kids around or having business meetings who can't watch the market, day trading is not conducive to their lifestyle…they're probably gonna be miserable and not likely to be successful. On the other hand, for someone that has quite a bit of money to trade and a high-risk tolerance that actually enjoys sitting and watching the market all day, trading leaps or covered calls is not gonna work for them either. I like to help people custom-tailor a trading program that fits their personality, their risk-tolerance and their lifestyle. That's the first step. From there we take a top-down approach. I work with them on determining the market cycle… the importance of trading with the market and not against it. Then we focus on the different strategies that they can use and how to practice good risk-money management on those strategies once they're in them. To me trading comes down to three steps:

1) Correctly identify the direction of the stock.
2) Apply the appropriate strategy.
3) Practice good risk-money management.

So, once we've talked about trading with the current market cycle, then we talk about fitting those three steps into what they are gonna be doing.

TEI: You have a unique perspective having trained/mentored traders in different programs. What sets the Traders Edge training programs apart from others?

Jon: I do have knowledge about that because I have seen so many different programs. In my experience a lot of the other programs basically teach you the same stuff you can read in a book. What a bull put spread or a bear call spread is. But they don't really teach the application of those strategies so well. So they're educating about different strategies and how they're structured correctly, but not when to put them on, when to take them off…providing a system for doing these kinds of things. That's where I think Traders Edge pulls ahead of other programs. You get emails directly from Preston and Karson explaining exactly what they're looking to trade…they're on the website as well, so you can follow right along. Instead of generalized knowledge you can read in a book, you get a lot more on the actual application of the strategies

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TEI: What do you have to say to somebody out there contemplating the Traders Edge trading and training programs in terms of why they should do it and what they should expect?

Pirate: People come in with so many different backgrounds and talents and expectations. Maybe they come to the conclusion on their own or because they've heard from a financial planner or a stupid retirement calculator…that you'll need $1.6 million now to have X amount of money peel off from a bank CD. The paradigm now is that person can have a $200,000 brokerage account. Just doing some pretty rudimentary stuff on some no-name companies like Intel - you know, real charlatan companies like that or a tobacco producer - doing small things like that, with a dividend spread against margin interest, and then writing weekly premium. This is a paradigm shift where you could have a tenth of what you thought you needed, according to a financial planner, in order to make the same amount of money as with a big pot of $1 million to $2 million.

That gets back to the goal for that person. We don't want people to come in the door and have unrealistic expectations. "Hey, I need to be doubling my money every four months. What strategy's best for that?" We want to change people's paradigm, but we also don't want to work with unrealistic expectations. It really depends on the person contemplating this. They really have to sit down and re-evaluate what they've been told their entire life. That can determine where we want to point them and what we want to get them started doing. Maybe they want to adjust and change their dreams and goals upwards because of some things we can do for them.

This is still new, to be brutally frank and honest. This way of trading didn't exist just three years ago. We think we've done a good job getting up to speed with it, but we're talking about another type of ballgame compared to what people were doing that had a Schwab account for the last 25 years. Hey, hats off to anyone that has been disciplined and set money aside - we're not talking about that. I have to think we are the only company out there offering this type of game-changing know-how. We're not teaching someone how to be a better traditional trader. I don't even like the term trading anymore. We came up with Master Income Trader and Weekly Options Windfall. We're in a whole different paradigm here. I know that sounds kind of creepy - that's what everybody says… that's the language - it's going to be different this time…You should see the face of someone when they kind of get it a little bit. They walk away going, "Holy crap, I hadn't thought about this, that and the other."

Psychology

TEI: When it comes to psychology, how much do you find it to be a stumbling block for most you've worked with?

Jon: It's really all psychology. You know that fear and greed run the market, but fear is actually the more powerful emotion. It's what destroys traders I think. The two main types are fear of taking a loss and fear of losing a profit. Because of those two things people tend to take big losses and small profits. That's one of the things I like to address when we're meeting together.

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TEI: What made you realize the importance of focusing on the mental and emotional aspect?

Norman: Well, I had been working with my own mental game for a couple of decades. I didn't realize that what I was doing was really taking some of the things that my wife, one of the premiere hypnotist in the southeast United States, was doing with her clients…helping people with their lives. I came to understand that what you believe and hold predominant in your mind is where you're going to

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head. If you don't see a bright and successful future for yourself as a trader and keep that thought predominate in your mind, you won't head in that direction. If you're being controlled by fear of performance and constantly reminiscing on what went wrong with trading versus what's gone right, your projection to the future will be clouded. The clearer you are on having a positive outcome in your trading, the more you do the things that will create that positive outcome.

TEI: Can you share some on mastering trade psychology and how you address it in your program?

Norman: At that time I thought to myself there are not a whole lot of people in the area of trading psychology. Yes, there are authors…Mark Douglas, Van Tharp, Jake Bernstein who wrote "The Investor's Quotient" and others. They all talk about the poor thoughts that come up and how you have to control them through having a solid trading plan. Although that's true, that's not the fast track for individuals in the mental control area. The fast track is to actually train your mind on a subconscious level so that you're decision making, which is your conscious mind, is not dominated by negative thoughts about your trading or about you. Your subconscious mind holds your beliefs about what's true for you. Your conscious mind makes decisions based on what those truths are. So, if you're making poor decisions in your trading, it's likely because you're holding a subconscious dominant pattern that's not beneficial to your trading. For instance, as a trader you may think that trading is gambling. As a child you might have heard your parents talking about how trading is gambling. And then all of a sudden you wonder why you can't pull the trigger on a trade. It's not something that's obvious, but if you look into it you can see that the problem is a subconscious pattern that's not serving you as a trader. The great part is that you don't really need to go to a psychiatrist or psychologist to delve into what the problem is…All you really need to do is create another subconscious set of neural nets that carry the right message:

I have a valuable trading plan.

I pull the trigger every time my trading plan gives me the signal.

I believe in my trading plan.

I'm a wise and disciplined trader.

I do the things that a wise and disciplined trader does.

Those kinds of beliefs, if established in your subconscious mind, will have you making the right decisions. Your conscious mind will make decisions now based on these new dominant behaviors. And the way to get them to be dominant neural pathways is to just really relax and do a little self hypnosis—it's very easy.

TEI: Your experience is that traders generally haven't focused enough on trade psychology?

Norman: I'm always asked the question of how many traders actually win and how many lose. When I'm in front of an audience I'll always ask that question. I'll get people yelling 99 percent, 90 percent, 80 percent… And they're about right—studies have been done and the actual number is about 90 percent. Why is it that the vast majority is losing? I think there is a correlation between the vast majority paying little or no attention to trading psychology. Everybody needs to understand trading psychology, but nobody really wants to. Nobody wants to admit that they are the problem. So I wind up seeing people all the time that have already blown out two or three accounts. They realize that they've got to do something different or get out of trading. I'm always thrilled when somebody just starting to trade comes to me—I really feel that they've done it right. But it's a rarity… The fact is you don't have to experience the pain in order to get to the profit

Mistakes or Problems Encountered:

TEI: Drawing on your experience, what do you see as the biggest problem for traders that you've worked with?

Jon: Not having a plan. We all need to plan. The most important thing is that you plan your trade and you trade your plan, but people are just trading kind of willy-nilly, based on water cooler talk or what they hear on CNBC. But you've got to be more structured - you've got to treat it like a business.

TEI: You know that newer trader's hate that answer…but it's no less true.

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Jon: Oh yeah, because having that plan and then following it takes discipline. And it's not fun to sit and measure your risk-reward…actually write down a couple sentences about how you plan to manage that position. It's like keeping your books in a business - it's tedious, but it's essential.

TEI: How would you characterize a sound, comprehensive trading plan?

Jon: The plan needs to entail what to trade, when to trade, how much to trade, when to take a loss and when to take a profit. Once you understand how to put that plan together, it's really not complicated. But if you fail to plan, then you're planning to fail.

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TEI: What's the biggest problem you see with people coming into trading?

Jeanne: They come in too optimistic and most are impatient. They really want the big bucks quickly. My view is that when you're learning you should just focus on getting comfortable with your system, even if you're just trading one or two option contracts at a time. So what if you only make $50 or $90 on the trade—you're learning. As you get better and more comfortable, then go ahead and add another contract. You have to get comfortable and consistent first. Don't start out buying 10 and 20 contracts. That's just too gut-wrenching and when it goes against you, then you're likely to panic and lose money. Then you decide that this system doesn't work even though it really does work. But only if you stick with it and trade your plan correctly and in disciplined fashion. I also believe it's critically important at all times that you know what your risk is in a trade. You need to know where you're getting out if you're right and where you're getting out if you're wrong. If you can't answer those questions, don't push the button and take the trade.

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TEI: What are the biggest mistakes you see traders consistently making?

Norman: I find that traders give up too easily. Also, it's about maintaining a total program. It's one thing to maintain a positive vision of the future as a successful trader, but it's not going to have legs or be believable to you unless you've done the homework. You've got to have a solid trading plan and I find that too many traders don't. Having a solid trading plan that you can believe in is something of extreme importance. Without such a plan you're really not going to get any place.

Parting Advice

TEI: What should traders concentrate on to find success?

Norman: Along with the positive expectancy you need to concentrate on keeping things simple rather than complicated. And you have to spend your time focusing on your A-plus trades. You need to go back to your past trades and look for the setups and the exit strategies that resulted in your best success as a trader. Then have the patience to only trade those particular A-plus strategies. This is important because you've already proven to yourself that you'll win more if you stick to those strategies. If you stick to making the A-plus trades you're making fewer trades, saving transactional costs and headaches, and you're taking the more high-probability trades based on your own success and history. That's the kind of structure that you need to create in order to ensure that when you're envisioning your positive expectancy, it has roots that you can actually believe in. Then it's a matter of training your mind to follow it…to execute the trade and then execute the exit strategy… Keep control of what you can control and ignore the things that you cannot control. It really is as simple as that.

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TEI: What's your advice to newbs coming into the business in terms of, hey, focus on this, learn this?

Karson: First I say here's what making money right now. As I'm talking to you now, I'm doing extremely well with long butterflies. This sounds insane because the VIX is down the toilet and you're grossly undercompensated right now for risk. So, a position like a long butterfly that benefits from time decay seems insane. But look at my track record—it's fantastic.

To go back to your question, I usually start with what's making money. First things first, somebody who is making money is a hundred times more interested and more committed than somebody who's not. It's very simple to jump from one program to another, saying "I'm not making any money yet." You kind of lose your enthusiasm. But if all the sudden you see a little bit of positive action in your account…wow, wait a second—this is it…I need to pay more attention to what he's doing because this really works and my account is filling up. I try to be that guy for as many people as possible.

So I usually focus on one strategy with new traders—whatever happens to be working at the time. I'll tell them to learn this inside and out…this one strategy. It'll take you all of two weeks to really get it down pat, then go make money and then we'll branch out from there.

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TEI: What's your best advice to traders now?

Mike: Well, it amazes me how many people go out there and try to start a trading business without obtaining training. You wouldn't do that in any other business, yet a lot of newer traders do just that. They simply flip on their computer and jump in after having read a few articles and a book or two. In my view most people would be benefited by training. I can honestly say that what helped me become successful so quickly, and at such a young age, was the fact that I was able to surround myself with experienced traders that had been there…that had made mistakes and already gone through the trial and error. I was able to tap into them and learn their systems and methods without trying to figure it out all on my own.

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Upcoming Events & Special Announcements

Upcoming 2-day Live Seminar

Karson, Preston and Mike Curtis are hosting a Live Stream, 2-day seminar that you can attend from the comfort of your own home on May 16th and 17th. They'll be sharing the #1 trading strategy that's made them money for all but one of the last 14 weeks. They'll be trading live with structured positions that are easy to follow along with…all that and much more.

Get details here:

https://www.tradersedgenetwork.com/live-stream

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Money Chasing You - Trading Success Stories

Thanks for your email regarding Preston's electronic copy of the 1% Solution. I did receive it and am so glad to have received it. I believe it is the finest book I've read on investing in the past 20 years. So far I've read it twice. Congrats to Preston for a fine job.

Kindest regards,
Bob F.

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Monster's Perspective: Bulls Liked Martin Marietta Before Report

By Jon "DRJ" Najarian

Martin Marietta (MLM) April 29, 2013

One investor hoped for some good news when Martin Marietta reports first-quarter results on April 30th.

optionMONSTER's Heat Seeker monitoring system detected the purchase of about 2,000 May 100 calls against previous open interest of just 116 contracts. Premiums rose from $1.40 to $1.80 as the trades crossed, with the largest block pricing at the top of the range.

The trader now has the right to buy shares in the provider of sand and gravel for $100 in the next three weeks, no matter how high they may go. He or she has the potential to earn significant leverage and now has long exposure at a fraction of the stock price, which limits risk. Buying calls gives you the ability to control a lot of stock without owning it, or "leverage." Equity calls give the buyer the right to buy 100 shares of an underlying stock or exchange traded funds (ETFs) at a designated strike price until the expiration date. Long calls are used to profit from upward moves in the underlying.

Buying calls is as simple as picking the strike and expiration date that you wish to buy. Call buyers often use out-of-the-money options (when the strike is above the stock price) because they are "cheap" and appear to offer the best leverage. Speculators and traders must keep in mind, however, that out-of-the-money options also offer a lower probability of profit.

Long calls have significant profit potential, as holders generally will make money as the stock moves up. Because you are paying a premium, in essence buying time value, the stock has to rise above the strike price plus the cost of the contract to be profitable at expiration. Significant upward price moves will benefit the position. Long calls also benefit from an increase in implied volatility, because the likelihood of movement, which is implied by the price of the option, is the key component of the time value of the option contract's price. Option buyers are best served by divesting their long positions as expiration gets close, however, as that is when time decay is greatest.

The long call strategy loses if the stock price, at expiration, is below the strike price plus the premium paid. The maximum risk is the amount paid for the call. Clearly, if the underlying price falls, the position will lose value. If the implied volatility drops (thus lowering the time value of the option), the position can also lose value, even if the underlying moves up. This is the reason that buying calls before earnings (or other news) can be a risky strategy. Even if the stock moves up, the drop in implied volatility that often happens after earnings are released can more than offset the gain from the move in the underlying.

MLM was up 0.91 percent to $97.57 in morning trading on the 29th. It appreciated more than 60 percent between last June and March amid improving sentiment in the construction industry, but has been retreating since. The shares are now trying to bounce around the same $95 level that was resistance several times in recent years, which could be leading some chart watchers to believe that it will keep rallying.

First-quarter results were scheduled to be released Tuesday, April 30th, prior to the open.

Total option volume was 45 times greater than average on 4/29, according to Heat Seeker. Calls outnumbered puts by a margin of 56 to 1.

You can review all of the subsequent MLM trading activity using the tradeMONSTER Trading Platform.

Regards,
Jon "DRJ" Najarian

ask-drj@optionmonster.com

Jon 'DRJ' Najarian is co-founder of optionMONSTER® and co-lead analyst for the InsideOptions™ trade idea alert systems. He spent the first 29 years of his trading career trading in and around the pits of the Chicago exchanges.

"DRJ" is a frequent contributor to CNBC, the Wall Street Journal, as well as other prominent financial media organizations. Mr. Najarian also co-developed the patented trading algorithm the Heat Seeker®, used to detect unusual trading activity.

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Upcoming Events & Special Announcements, *cont'd...*

Next Edition - We talk with optionMonster's Guy Adami

You've seen him talk smack as one of the Fast Money Five on CNBC's Fast Money and offer insight on Squawk Box, but Guy Adami is anything but another talking head carrying the water for the Wall Street establishment. Guy earned his stripes and plenty of respect as a gold trader on some of the most respected desks in the biz. He now works with the Najarian Brothers at optionMONSTER, helping individuals gain insight on the market so that they can make solid trade decisions. Be sure to check out the June edition of Traders Talk to get his take on the markets, Gold and what individual traders should be doing to gain success in their efforts.

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Karson's Insight: Foreign Currency Battles Present Opportunities

By Karson Keith

It is no secret that the Japanese government is trying to weaken the Yen by printing massive amounts of money. Though I am not the most seasoned currency trader, I have been able to do extremely well trading the USDJPY pair using the Augen indicators and maintaining a negative bias on the Yen.

In the past couple of weeks, the Yen has actually strengthened due to the Japanese economy, including banks, trying to keep the currency from completely collapsing Japan. This presents a fantastic opportunity because I believe that no matter how hard they fight it, they simply cannot keep up with the trillions of Yen being printed. Though I have been taking signals to both buy and sell the Yen, my bias gets me out of the short-term moves when the Yen strengthens and give me confidence in bigger moves when shorting. I think the USDJPY pair will get close to the 100 mark again in the not-so-distant future. I believe the fact that it has strengthened at all presents a great opportunity to get an even better price.

I don't pretend to be an expert at the currency markets, but knowing just enough has proved to be very profitable. It will be very interesting to see how all of this unfolds long term. In the meantime, I plan to continue to trade along the way.

Karson Keith

Karson Keith's interest in trading started at a very young age. By age 13, he began trading and managing his father's money. Today, his passion for trading has attracted a following of like-minded income traders seeking his help in taking their trading to the next level.

Karson specializes in cutting-edge options strategies, volatile markets and small trading accounts. He not only has single-handedly grown several small accounts into large portfolio margin accounts within just a few months, but he has also helped countless people achieve the same results.

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Upcoming Events & Special Announcements, *cont'd...*

Traders Edge Mentoring Program

In our continuing effort to provide comprehensive training for traders, TE recently expanded its mentoring program. You now have the opportunity to train side-by-side with profession traders in either Salt Lake City or St. Louis. This intensive two-day program is designed to deliver actionable instruction focused on helping you understand and apply proven strategies in a real-time trading environment - training that goes well beyond the generalized "book-based curriculums" offered by most other training services. To find out more about the Traders Edge Mentoring Program, be sure to contact us at (801)717-3993.

Traders Edge Network Blog

Be sure to check out the Traders Edge Network blog each Thursday afternoon, as TEI Editor Louis Horkan offers a bit of tongue-n-cheek commentary on what's occurring, as well as insight on things you need to be aware of and suggestions on how best to succeed in these markets. Trust us, this isn't the same ol' staid, button-down rehashed news or analysis you're accustomed to running across most places! Join us each week on the Traders Edge website (www.tradersedgenetwork.com) and be sure to leave a comment telling us what you think…

Musings from the Editor: Cookie Cutter Approach…

By Louis Horkan

Yes, the calendar stands ready to turn, so it's time to trot out the ol' "sell in May" adage that peeps just can't seem to resist this time each year. Hey, I'm no different and certainly not above taking a swipe at the myriad examples of misguided logic and assumptions that tend to abound in the market…that damn candy jar is just too dang tempting.

Let's dig in and grab a couple fistfuls.

Now there's two basic approaches generally put forward - that of comparing the average annual returns for the two cycles (May to October and November to April) and that of employing a buy-and-hold strategy throughout compared to the "Sell in May" approach…a favorite of the financial services industry.

The first version is pretty straightforward and simple - you simply compare the cumulative returns each year for the May to October cycle versus the November to April cycle. Surprising to some is the fact that over the looooong haul, there is a clear pattern of better returns for the November to April cycle. Dating from 1926 to 2012, the average monthly return for the November to April cycle each year was 1.17 percent, compared to 0.72 percent for the May to October cycle in the same years. Keep in mind this doesn't account for transactional fees, interest earned on cash (for the non-invested months) or reinvested dividends.

So there you have it - get out each May and back in November and you'll have a statistical advantage. Course there are lots of exceptions and you're not exactly burning up the market with those returns, which once again don't account for the transactional costs of getting in and out of your holdings, shrinking those returns that much more. Oh, and you have to be disciplined enough to stay invested even when getting murdered (think 4th quarter 2008 into 2nd quarter 2009), and sit on the sidelines in the "off" months even if the market is exploding to the upside, much like the late-Spring through Fall period in 2009. Some might call that discipline…I call it ignoring what the market's tellin you…or just plain crazy.

Which brings us to the comparison oft-bandied about by the financial services industry - the group out there servicing (some call it "tooling") individual investors. Yes, the good 'ol buy-and-hold strategy that invariably leads to the Promised Land! Just exactly "who" gets delivered to the Promised Land is an altogether different question…but I digress….

Now when we compare buy-and-hold to the Sell in May approach over the loooong haul, we're told that were we to invest just $1.00 in the market utilizing a buy-and-hold strategy - avoiding most transactional fees and gaining the benefit of reinvested dividends - that buck would be worth roughly $200k as of 2012. That's compared to a return just shy of a $1K for those following the Sell in May strategy and roughly $60 for the suckers who decided to buck the trend and invest only during the May to October cycle each year.

Wow…that's amazing…sign me up. That's hands down a "no brainer." The facts are clear and incontrovertible - if you invested that single dollar 142 years ago, back in 1870, and just practiced the buy-and-hold approach, you'd be sitting pretty.

Whoa Nelly…think I missed something. That $200k returns does sound pretty good, but still….142 years is a long time! Hopefully you've got an ancestor prescient enough to have plopped down a $1 legal tender note for ya back in 1870. Unfortunately, my ancestors were of the dead-broke Irish Catholic clan and too cheap to pass on a single greenback for any of us who were to come down the pike thereafter. C'est la vie….

How bout something a little more relevant in terms of a fair comparison? What if we just cheat forward a bit…? Unfortunately, the numbers don't hold up quite the same. In fact, if you fast forward all the way to the 50s, some sixty plus years ago, the Sell in May approach

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actually beat the Buy-and-Hold strategy four out of the six decades since then and finished second by only slightly less the other two. Moreover, if you consider the post-Dot-com era….well, buy-and-hold ain't lookin so sweet! Nuff said!

So, what's the takeaway? Should you "sell in May," as it were? Look to take profits now, given the strong run in recent months and considering we're trading at record levels for the INDU and SPX despite serious headwinds for the economy here and major issues abroad? There's also the reality that this most recent rally of the bull market has grown long in the tooth and looks more suspect with each new record notched.

Or, should you blindly buy and plan on holding for the long haul, regardless of what's happening at any time in the markets. So what that we are just returning to take out record levels seen more than a decade ago…buy-and-hold worked - it got us back here, right! That's the spirit….

Cutting to the chase, strategies or approaches that are absolute in nature just don't work. Cookie cutter just doesn't work in the markets over any stretch, period!

Fact is the market is very dynamic - up, down, sideways and very much multidimensional. As Preston likes to say, it seems to want to confound as many people as possible. It's certainly not one directional, so any approach predicated on being long and enduring bear cycles just seems torturous…like having good teeth pulled…senseless.

Truth is any good trader out there has dealt with the phenomenon of watching a successful strategy lose its advantage and effectiveness after some period of time. They go in with the full understanding that at some point the market structure or dynamics will shift and the strategy won't continue to work with the same success… The good trader simply recognizes when this occurs, adjusts accordingly and move on to a strategy better suited for what's NOW occurring. Bing bang boom… not rocket science…it's common sense.

So, as we enter May, the market may well tell us it's time to sell…or to buy…or to hold. Whatever it tells us, we'll be smart and listen…and adjust accordingly, playing for statistical advantages in either direction and not concerning ourselves with the games peeps play or that of trying to predict the future.

Louis Horkan
Editor

Louis entered the biz in the late 80s and spent over a decade working as a trader, instilling him with unique insight into trading and the markets. In 1998 he switched gears to become the group editorial director for a large network of award-winning, trading-focused newsletters. In 2002 he became the founding editor-in-chief for two financial trade magazines—each served approx. 40,000 independent financial advisers nationwide. He's appeared on business TV, in the business press and on numerous biz-focused radio programs in the past. He writes market commentary and analysis most days and trades on a daily basis.

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Money Chasing You - Trading Success Stories, *cont'd...*

In regards to my trading I am pleased to say I have become consistent and am finally profiting. It has been a long hard road being able to read the indicators. I have learned the hard way that while they are powerful, the signals do need to be taken in context with the overall market picture. I discovered that I was basing my decisions solely on the indicators. I am now also trading the DAX and 6E during their open and this has also helped considerably. I still do trade the U.S. close but I am much more careful with setups than I was.

I intend getting up and trading the open with you over the next few weeks and have also enrolled with the program on the 16th and 17th of May.

Thanks,
C.W.

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Coaches Corner: Know Your Delta…

By Jon Wirrick

Welcome back to another edition of Coaches Corner. In last month's edition we learned about implied volatility. This month I'd like to talk a little bit about what we refer to as the "Greeks" in option trading. More specifically, this month I want to cover the Greek we refer to as Delta.

Greeks are tools traders can use to measure risk in an option position. The Greeks that are used are Delta, Gamma, Vega, Theta and Rho. Studying the Greeks can get rather entailed, but for the purposes of this forum we are going to keep it very simple. A much more extensive study of Greeks can be found in many books and websites.

Each of the Greeks is a letter of the Greek alphabet except for Vega:

Δ (Delta) means "rate of change." It tells you how much the option should move with each move in the underlying stock.
Γ (Gamma) is the rate of change in the Delta as the stock price changes.
ϒ (Vega) is a measure of the rate the option will move as volatility changes.
Θ (Theta) is a measure of how much the option will decrease due to time decay.
ρ (Rho) is a measure of how the option will be effected by changes in interest rates.

Any option trader should have a foundational understanding of Delta, which you will get from this article.

Dictionary.com defines Delta as "an incremental change in a variable." In options, it represents the rate the option will change with each move in the underlying stock. For example, if an option has a Delta of 0.70, the option should theoretically move approximately 70 percent of the movement of the stock. In other words, calls and puts will go up or down about $0.70 respectively in accordance with up or down moves of $1.00 in the underlying stock.

A Delta reading ranges between 0 and 1. At the money options typically have a Delta of about 0.50. The deeper in the money the strike price, the higher the Delta, to a maximum reading of 1. The further out of the money the option, the smaller the Delta, to a minimum reading of 0. Delta does not remain constant. It will change as the stock moves. As an option goes deeper in the money the option will increase. If the option goes further out of the money the option will decrease. Gamma is the Greek we use to measure this relationship.

Some interesting facts about Delta:

- Delta can be expressed as a percentage figure. For example a Delta of 0.30 can be seen as 30 percent.
- Calls have a positive Delta while puts are expressed as a negative Delta (0.50 for a call, -0.50 for a put), but the percentage movement is the same.
- The combined Delta of a call and a put at any strike price will always equal about 100. So if a 100 strike price call has a Delta of 0.70, the 100 strike put will have a Delta of about -0.30.
- The higher the Delta of an option, the more expensive the option will be. That is because it is going to behave more like the underlying stock.
- You can measure how a spread trade will perform by combining your Deltas to calculate your "net Delta." For example, if you buy a 55 strike price call with a Delta of 0.60, and you sell a 60 strike price call that has a Delta of 0.32, you have a net Delta of 0.28. This means that as the stock moves your bull call spread will move about 28 percent of the movement of the stock.
- An option Delta can also be used to determine the theoretical probability of the option being in the money at expiration. If a put or a call has a Delta of $0.40, it has a 40 percent chance of expiring in the money. Delta doesn't tell us how deep in the money the option will be and by no means guarantees a profit.

I hope you've found this article on Delta helpful. I rarely look at the Delta when I buy or sell an option. I know that if it's an at the money option I've got a Delta of about 0.50. The deeper in the money I am, the higher the Delta, while the further out of the money I am, the lower the Delta. Bottom line, I do think it's essential to have a basic understanding of Delta to be an effective option trader.

Jon Wirrick

Jon is an active trader and private coach to Traders Edge Network investors needing help learning to apply a consistent trading method. Through his mentoring, he has helped hundreds of people change their financial situation through trading in the financial markets.

Print

Money Chasing You - Trading Success Stories, *cont'd...*

This is my feedback on the TRADING ROOMS now being conducted by Karson Keith and Mike Curtis.

I am greatly assisted by the Trading rooms, because:

- They help me see exactly what patterns of the indicators are to be used.
- They show that all is not lost if you miss one opportunity -- others will be coming along, so stay focused on the task of spotting the next opportunity.
- They help me see what NOT to trade -- I find that I am OVERTRADING and giving back money that I made.
- They teach me to be patient. I should not be looking for a trade every minute; I should be looking for the best trade set-up. Soooooo, take your time
- I'm in the business of making money (and not losing money). I am not in the business of trading for the sake of trading.
- I don't have to make large amounts of money (in a single trade) to be successful, I need to make consistent amounts of money over time.
- There are tons of small nuances that need to be learned for using the indicators, and these are best taught through the trading rooms.

Frankly, at this point of development for the indicators, the creation of the trading rooms has helped keep me on board as a subscriber. I have not made my subscription costs back yet and I need to begin to have more success with them; or, I'll have to search for other techniques for trading success.

I believe that Jeff Augen and Karson Keith will be making ME more successful over time and the trading rooms are the mechanism that provide focused application of the indicators. It is like the trading rooms are now the other half of my AUGEN indicator subscription that was missing. Trading rooms are now the draw that makes me hopeful about my future success.

Now, let us not forget how important the Thursday Webinars are, either. These sessions with Jeff and Karson keep me enthused that my future success will come with time. And that Jeff and Karson are working very hard to improve them for "ease of use" and more successful use by we subscribers, who believe in them. Personally, I would not want to go back to trading any markets without them.

Thanks for listening...
J.K.

Ask the Crew:
Crew members tackle questions submitted by readers each month

Q: I had a question regarding the pre-announcements trades. It appears that these are directional Call trades. What do you look at when deciding to trade - is there a per share increase amount or % you look for? Also, what time frame do you look at? What strike ITM, OTM, ATM? This is of interest and I can see the potential in these types of trades. Based on the run up in companies, I have looked at companies historically leading into an announcement. I see that you mostly like spreads, as do I. But the compelling event around an earnings announcement and volume increase leading up to the announcement is of interest to me.

A: I love to trade good solid pre-announcements. Really what it comes down to for me is it just needs to jump off the page at me. I like to see a nice move in the stock with some big volume. I also really like to have the market cycle in our favor. If everything is lining up then just doing a plain call and riding it up is a great way to go. If the company happens to announce a split as well then I will go big on my position. If I really think the stock is going to move big I will buy an OTM call, otherwise I am usually just ITM a little.

Q: Can the Augen indicators be used for longer term trading? I cannot be at the computer watching all day long and wondered if these indicators can help in that fashion.

A: Absolutely. They work in all time frames. We mostly use them for day trading because that is the fastest way to make money.

Q: On a credit spread do you need to exit the trade manually at expiration or just let it expire?

A: If it is even close to expiring in the money I will close it out. But if it is out of the money far enough I will just let it expire worthless.

Q: When doing weekly spreads in a small account, what is the minimum credit you would be looking to get on a $5 spread?

A: I have no straight answer on this because it really depends on the stock and what strike prices you choose. What you really need to do is step back and ask yourself if the position risk is worth the profits.

Our goal is to cover ground that will benefit the entire community… so get busy sending in those questions...

Print

Money Chasing You - Trading Success Stories

Experienced recent trading success or have a lifestyle success story as a result of your trading?

We would love to hear it!

Please email them to: alicin@tradersedgenetwork.com

Comments, Questions, Contact Us

Hey Gang, when we say we value your presence in the Traders Edge Network, we really mean it! It's not really a network, or for that matter much fun, without each of you participating… Please don't hesitate to send us your thoughts, comments, suggestions, criticisms or questions. PJ

SEND EMAIL