

Investing in Options

Before you begin investing in options, you must decide how much of your money you can safely put at risk. If you are new to options, we recommend no more than 10% of your portfolio.

Remember:

- With every passing day, your option loses time value
- The easiest way to profit from options is to be an options buyer.. You simply buy calls if you think the index will rise, or puts, if you think the index will fall.
- If the index price rises above the strike price of your call option, or if the index falls below the price of your put option, you win your bet.
- If the index does not move the way you thought it would, you could lose the entire premium you paid for your option.

Never wait for an option to expire, always sell it before the expiry date:

Just as important as selecting the right option and paying the right price is knowing how and when to take profits. Most option buyers lose, not because they buy the wrong option, but because they fail to take profits properly.

- When your option begins to show a profit, you must get ready to act.
- Get ready to sell your position if the index drops by 5%(if you bought a call option), or if it rises by 5% (if you bought a put option).
- If your option is in the money and the index makes a big move in your favor, sell your position and pocket the profit.
- Also take profits if your option is in the money, moves past the strike price and enters its last week before expiration.

Cutting your losses is just as important as taking profits.

- The hardest part is convincing yourself to cut your losses.
- If you do not cut your losses quickly, you will not last as an options player.

- If you own an option that has fallen by 50% or more, sell it and close out your position.

Basically, as an options trader you have to know

- When to buy
- When to sell
- Your likely profit target
- At what predetermined target will you take a loss