August 2012, Issue #3

The Traders Edge Insider

TradersEdge NETWORK

Print This Issue

Greetings from the Pirate!

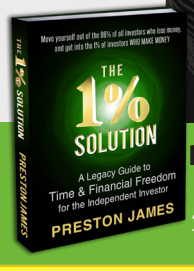
I hope this month's edition of the Traders Edge Insider newsletter finds you well.

Being summer, maybe this is catching you in between vacations or doing some other fun things. We can certainly all take lesson from the Olympics and the extraordinary example of commitment and excellence exemplified by the athletes.

I wanted to introduce several new additions we're including in the newsletter from now on. You'll notice our new "Traders Talk" interview section and also the "Ask The Crew" section. We've added these to provide even more red-meat insight sure to enrich you by enhancing your trading knowledge and overall ability to profit in the markets.

I hope you enjoy this edition of the newsletter! — Preston James





Preston James
-Author,
"The 1% Solution"

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Musings from the Editor



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Traders Talk



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Ask The Crew



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

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Our Accolades Are Written In The Stars!
"Best for Options Traders"
Three Years Running
tradeMONSTER
Trade With The Best!

Upcoming Events & Special Announcements

Be sure to join us in the upcoming September edition of the Traders Edge Insider, when well-known option trader and author Jeff Augen will be spotlighted in Traders Talk. We'll chat with him about his proprietary **Augen Indicators** and the Swing the Axe program, get his views on the impact of high frequency trading on the markets, and try to get him to offer up some gems on trading that will help you succeed as a trader in today's environment. Be sure to check out highlights from Jeff's recent presentation at the SLC June 2012 Seminar.

We also invite you to check out the Traders Edge Network blog on Thursdays starting this month. TEI Editor Louis Horkan will offer up 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. We promise this isn't going to be the same ol' staid, button-down rehashed news or analysis you're accustomed to running across most places! Check us out each week and be sure to leave a comment telling us what you think…

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Musings from the Editor: Chasing the Fears

By Louis Horkan



Having spent the better part of my adult life (we're talking chronological years—certainly not any semblance of maturity) in and focused on the markets, I've managed to pick up a bit of insight here and there. I've seen all kinds of markets, witnessed a fair amount of manipulation, tested strategies and indicators from A to Z and shared with loads of traders, new and seasoned…a few best characterized as rather haggard.

The experiences throughout the journey have taught me much and served quite well. One lesson learned long ago is amongst the best ever imparted on me…one I believe is critical to any trader hoping to last in this biz, be they newbs or those that have been around but find themselves struggling to get their legs.

I mentioned haggard traders for a reason, because it was one such rather surely, haggard fella who was kind enough (can't say he was kind in his approach—abrasive would be a better fit) to "tell me like it is." His advice, delivered with a gin-soaked finger stabbed menacingly in my chest, was to quit trading like a chicken sh_t.

Can't say the advice hit home that night, but fortunately he took to me over time and we established a friendship…in spite of his penchant for cheating at poker and stiffing me for bar tabs. He shared much with me over the next couple years, but most important of all was a lesson that seemed simplistic…yet one that I've learned is critical to success in this biz—you have to find a way to chase the fears or you'll wash out, plain and simple.

Pucker Factor

In time I learned there were a number of important factors that would allow me to chase the fears, but the most important thing my bud harped on was creating a solid trade system, even if you had to back up to do so. Frankly, I didn't like hearing at that time that I hadn't done so satisfactorily, but he was able to prove that was the case.

He made it clear that you have to focus on learning about what makes for a good trade system and then go about creating a solid one you trust in your gut versus making the mistake of starting out focusing on learning as many strategies as possible and spending your waking hours screening trades and scribbling charts.

Now I know the majority are sitting with glazed eyes thinking you've heard and covered this before and know it's important. Fair enough…then this should be painless. Ask yourself if you're able to enter each and every trade without fear? Do you understand how each trade (or trade passed up) plays into your system? Have you weighed /examined probabilities and mapped their impact on your projected P/L statement and within your overall pro-forma business projections? Do you view the amount risked on each trade as the cost to try to obtain a projected gain that justifies the trade to begin with?

At a more latent level, you've certainly experienced drawdown and losing streaks, but when doing so did you continue to feel confident or did you instead experience some real doubt? Perhaps even some serious "pucker factor," as it were?

If the answer is yes or maybe…or just makes you a little uncomfortable, you better back up and take heed. Fear and doubt, no matter how small, undercut your ability to execute a plan, and in turn strategies. You cannot trade unemotionally and in correct fashion with fear…period!

It's the Process

So what makes for a good trade system? A solid trade system is comprised of a network of rules and conditioned, disciplined actions. Yeah, yeah… you've heard it all before, I know. Set up an account management system based on rules, such as trade sizing, risk per trade, using a 1 or 2 percent rule, a daily/weekly walk-away limit…yadayadayada…

Here's the rub—the rules are the easy part. You can find reams on good rules. Belief in their ability to keep you on the straight and narrow is what allows for the conditioned actions. It is the lack thereof that undermines most peeps systems. For some a general lack of discipline is the problem…and they have no business trading. For most others, it's a matter of not having spent the time digging down to understand how those rules work, what they do for you, consequences of breaking them, etc. Doing so is what allows you to start to trust them.

Okay, simple enough… we're done here. Quick question though—how come most wash out? The unavoidable truth is they put the cart before the horse and start out focusing on the wrong things. Strategy focus is the biggest culprit. Hey, they're sexy and cool and others are out there bagging sweet gains using this or that strategy. Makes sense that's where you need to be focused.

Not so much…

A good trader knows that strategies are nothing more than a specified or formulated approach to a given set of market conditions. Believe me, I'm not minimizing their importance in the least. You need different strategies for different markets and conditions. The problem most make is placing nearly all their emphasis on strategy. They fail to recognize that the entire underpinning for what they do is based on utilizing a system that they implicitly trust and faithfully execute.

Lip Service

Do you fall into the aforementioned camp? Take a moment now to contemplate what your system is and how you came about formulating it. The process of creating a good system is in fact more important than the system itself in a number of respects. While you can gain insight from others regarding what a good system entails, you can't really begin to trust such a system without going through the process of examining why one is necessary, determining which elements are critical to any system and gaining insight into how it works to both protect you and to guide you toward profitability.

Bet this sounds like some Zen exercise and next I'm gonna suggest drawing concentric circles in the sand with a needle, enabling you to obtain a higher consciousness that will chase those dragon fears…

No, that's not the case at all. I too believe this is simplistic. Frankly this is nothing more than common sense to me. There's no voodoo magic or some archaic concept that only a card-carrying Mensa member can grasp. Simply put, the major component of gaining trust in a system comes about from going through the examination and actual process of putting the system together. Despite the importance of doing so, my experience tells me (backed up by the wash-out rate in trading) that most pay plan creation simple lip service—yet it's the underpinning of running a successful trading business.

A good example of not spending your "own" time and thought in the process is that of the small business person failing to put together a plan at all (disastrous, so no need to discuss) or paying someone like myself to create one for them, which I've done for years.

Well, truth be known (and please don't tell anyone—bad for my consulting biz…Doh!), while I am damn good at creating exhaustive business plans and doing so has richly rewarded me over the years, they really do nothing at all for the recipient. Shocking, huh! Why is this? Because I went through the process and gained the knowledge that would allow me to understand the risks and run the business.

Now before you starting tossing stones… Sure, I always pass that information on to clients in the form of a holistic plan. And in theory they gain that knowledge by reading and studying the plan (which is still not enough in my view), but frankly I've never had someone come back and ask more than a couple cursory questions about a plan I submitted. This tells me they aren't really reading them, let alone using them to gain intended benefit.

Instead, the shiny new plan is a possession and goes on the bookshelf. They now have a plan and they can

check it off their "to do" list…but they didn't gain the expertise—I did. In reality they paid for peace of mind—but this is illusory, because you can't have peace of mind without gaining trust in something you've examined and know with certainty (inside your bones) will work through good and bad times.

Peace of Mind

Bottom line, faith in the system and the ability to be free of fear are byproducts of having gone through the process of creating a good system…end of story!

Beyond chasing fears, a solid system provides a basis of understanding of how trading success is achieved. It's your roadmap on how to operate from trade to trade, so that each trade is but that, a single trade with no more or less value than the previous or the one to follow. This understanding provides the basis for trust in your system when times get tough, which inevitably they will. The understanding and the trust work hand in hand.

The takeaway from all this drivel is that you must recognize that everything starts and ends with the system, making it the most critical element of your trading business. No matter how great the strategies employed or how good you are at sniffing out opportunities or picking stocks, they can't (big emphasis on CAN'T) work without a solid underpinning system. That system chases the fears that inevitably cause you to break rules and to cheat your strategies…inhibiting them from fully playing out and taking advantage of the probabilities they were created and instituted to exploit.

For now, I'd encourage you to start by reviewing why it is you are not where you want to be. I'd bet a good bottle of vino that the real answer lies not in strategies you've used, but instead in the failure to have created, AND IMPLIMENTED EACH DAY, a system that allows for the business of trading to unfold in a profitable fashion… one you trust and that will allow you to quit trading like a chicken sh_t!... :)

~L

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.

Print

Money Chasing You - Trading Success Stories

"I have been a proud subscriber of Preston James "Weekly Options Windfall" subscription. I've been a subscriber since its initial launch in October of 2011.

Right now my brother Zach is getting me set on an aggressive debt elimination plan. With the plan we've set we should both be completely debt free by December of THIS Year.

Traders Edge is world class and I get goose bumps just thinking about how lucky I've been to find a company locally who's on the cutting edge. Thanks for all the hard work that all of you do for your devout and loyal customers."

R.L. -Utah

Traders Talk:
TEI's Louis Horkan Interviews Mike Curtis



In this month's Traders Talk, we're chatting with Mike Curtis, an experienced trader and one of Preston's most experienced coaches. Mike's been an active trader in the derivatives markets for eight years, trading options, futures and foreign currencies. He shares his take on the "The 1% Solution" and some insight from personal experiences in the markets.

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

MC: 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?

MC: 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: Given that we're in the midst of earnings season, what's your advice for traders contemplating positions?

MC: Holding positions around earnings is a lot like gambling, you just don't get the free drinks. We see traders try to structure trades leading into an earnings announcement, but we don't suggest it. Premiums are priced very expensively right before the earnings announcement. Right after the announcement the implied volatility gets crushed and the options really devalue. A trader could play it correctly and have the stock actually move in the direction they anticipated, but make very little or actually take a hit because of what tends to happen with the implied volatility.

TEI: Preston identifies pre-announcements as a favorite strategy in "The 1% Solution." Can you explain the strategy and what to watch for?

MC: The pre-announcement strategy involves companies that come out and say, "Hey, we're going to do better than all of you analysts on Wall Street expected," generally a couple of months before earnings are due to report. This sparks a whole bunch of excitement and energy, and we usually see a lot of volume with the announcement. The news is good and the stocks tend to react positively. They usually continue to make a nice move over the next couple of months, allowing you to build that trade and hold it for a month or two leading into the next earnings report. Additionally, you have that implied volatility working in your favor, which helps increase your return on the trade as well.

TEI: Preston mentions the fact that his **Ideal Set-Up** trade strategy will likely make many traders a little nervous, given they are buying at breakout levels, which seems counter-intuitive. Can you explain why that makes sense?

MC: Most people are going to feel uncomfortable starting a new bullish position after a stock has already made a nice strong move to new highs. They'll feel like their late to the party and missed the boat. Fact is there is generally some good news and something going on that propelled it to new highs. These kind of scenarios can spark a rally lasting months… Yeah, the stock may have jumped up 10 percent on the news, but it might have another 20 percent or much more over the next couple months. You need to keep in mind that when this happens on big volume, it points to institution

buying, which can last for some time as they establish positions. There's the additional issue of buying activity tending to attract new buying.

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?

MC: 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.

TEI: While these scenarios can be profitable, you have to be very careful in identifying them, correct?

MC: Absolutely. Preston identifies four key criteria in the book that must be met to justify this kind of trade.

TEI: The powder keg trade is basically a stock split-scenario, correct? How profitable are they?

MC: Powder kegs are a ton of fun. You're talking about the same excitement and buzz of a pre-announcement. Think of a stock that's just exploding, and then take a gas can and dump gas on that fire—that's what powder kegs are like. Almost anytime you get a stock split it's a very positive catalyst for the announcing company. Good things are already going on for the stock to trade up to the point where a split is justified. The split announcement is essentially the company puffing up their chest and announcing that they are doing very well. Given what are usually a number of positive factors going on in the company and with the stock, you're really stacking the odds in your favor. You can get spectacular moves in these situations.

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

MC: 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.

TEI: Preston talks about information overload and how it hurts traders. What are your thoughts?

MC: So many times we've got eight different newsletters coming in and we're reading four different books. This is a lot to focus on, which can inhibit any trader, especially newer traders, from getting good at any approach. You have to be discerning in what you read and follow. Not doing so waters down your time and efforts.

Another related issue is that of traders believing they can go out and try to tackle multiple strategies. While they might understand them in theory, they generally aren't equipped to understand each strategy to a level where they can trade them safely and effectively.

TEI: Aside from information overload and trying to trade too many strategies, what are other key mistakes you see newer traders make?

MC: They take on too much risk. This is generally due to the fact they don't really have a structured plan of attack as far as position sizing, risk tolerance and overall account management. Unfortunately, taking on too much risk invariably strips the trader of a chance to be successful. They begin letting emotions come into the picture and that starts to compound their problems.

TEI: Before wrapping up, I wanted to touch on your background, given that one's own perspective is generally helpful to other traders, both new and seasoned. How did you get involved with the markets?

MC: I've been trading almost nine years now. My interest in the markets started early. I actually remember being about 12 years old and my dad teaching me about trading companies and looking up ticker symbols.

TEI: What was the size of your first account and did you blow it up or manage to build it up?

MC: I think my first account was just a few thousand—$5000 or less. My first trade was a covered call. I made the mistake of not checking the earnings. The stock gapped down when earnings were released, so I took a decent hit… fortunately I managed not to blow that account up. The experience made me go back and question what I was doing and begin to learn more about creating a successful approach.

TEI: When did you begin to feel you were turning a corner in your trading?

MC: To begin with and for some time thereafter, I would buy calls or puts and try to hold them for a few days. Basically I had some winners and some losers, but I felt like a hamster on a wheel. I started branching into becoming an option seller. Eventually the results really started to improve for me. I went from simply trying to pick direction and using the "hope and pray" method, to feeling as if I was taking more control of my trading.

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

MC: 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.

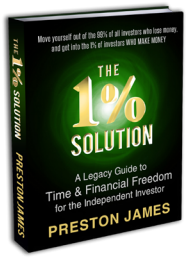
TEI: Regarding training, how can individuals take advantage of the training offered through Traders Edge Network?

MC: Once they purchase "The 1% Solution" or become a member of one of our subscription services, we'll talk to them about the potential of coaching. They can also dial our office directly with questions or to discuss utilizing our coaching service. We'll talk or meet with them several times to determine their needs, decide whether coaching makes sense and devise a personalized program.

Featured: Mike Curtis has been an active trader in the derivatives markets for 8 years. He has mastered the world of equity and index options along with spread trades, futures and foreign currency. He loves teaching and has personally coached over 500 individual 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. He is a husband and father of 4 young children and currently lives in Salt Lake City, Utah.

You can contact Mike at 801-717-3993 to learn more about the Traders Edge Coaching Program.

Order your copy of "The 1% Solution" by Preston James.



BUY NOW!

Print

Karson Keith's Options Insight: Disliking Facebook (FB)

By Karson Keith



Everybody knows that the IPO of Facebook was an absolute catastrophe, but few really understand where the company stands now.

Facebook just reported their first earnings and the stock dropped down to an all time low near $23. Analysts will say it is because they didn't post any guidance, but I have another opinion. The issue is simple—employees are sitting on millions of dollars in stock and they can't wait to cash it in.

We've seen this very situation many times previously. One example that comes to mind is Google. They reported crushing earnings and projected even better for the next quarter, yet shares of GOOG dropped like a rock and nobody (at first) understood why. In time the market came to recognize the simple fact that too many $20 an hour employees had a ton of money in stock. When their lockup deadline hit, employees were able to dump shares.

Think about it. If you made $50k a year, yet you held $5 million in shares, wouldn't you do the same thing? I know I would be selling shares off as fast as possible.

Facebook's situation is much more pronounced than what existed with Google. Here are some numbers to think about: FB has 2.14 billion shares outstanding, yet the float is only 1.14 billion. This means 1 billion shares, nearly half the company, are privately held.

In my opinion employees of FB are going to be coughing up shares for some time to come, until they have no more to sell.

I hope this finds you well.

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.

Print

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

"Will you please pass on my letter to Karson and Jeff for recognition of their excellent seminar in Salt Lake?

I attended with a guest who came without any knowledge of options and already is trading options and making money. My experience has been similar.

Jeff's method of selecting option trades is quite unique and very effective. I can understand and appreciate his reasoning to use Traders Edge as his method of educating people of his program."

F.K. -Virginia

Coaches Corner: Trading with Favorable Probabilities

By Beau Keenan



Welcome to the coaches corner. I'm Beau Keenan, a long time coach for the Pirate. One thing that appealed to me when teaming up with Preston was his emphasis on trading with favorable probabilities. I want to convey some of the important principles of probability in this article.

Mike and Jon did a good job previously of alluding to some things that we as traders can do to "stack the odds in our favor." Mike discussed the advantages of selling versus buying options and Jon outlined the importance of having a game plan. What's key to the concepts Mike and Jon shared is that they increase probability and are things we can control as traders.

Probability Principles

It's natural to feel somewhat overwhelmed and powerless when trading the markets, especially given the enormous market influences constantly at play, such as the billions of dollars being thrown about by institutions, the superior timing of super computers, volatile macroeconomic factors, etc. That said, there are things we can control to increase our chances for success.

There are six things that we as "Master Income Traders" need to build into our trading systems:

1. Employ option selling strategies.
2. Take advantage of option pricing discrepancies between short-term and longer-term options.
3. Utilize compelling fundamental information.
4. Buy and sell based on market cycles.
5. Always use insurance.
6. Seek appropriate risk/reward opportunities.

Selling Strategies

Every asset can go one of three ways in value—up, down or sideways. We know as a general rule that markets go up about 40 percent of the time, they create a neutral trading range 35 percent of time and decline roughly 25 percent of the time.

One big reason Preston's trades favor the upside compared to the downside is because the markets are neutral to bullish 75 percent of the time. When utilizing buying strategies with options, we are limited to making money in only one of those three market direction scenarios—if the market goes up when using calls or down when buying puts; neutral movement actually causes losses.

Meanwhile, a selling strategy actually doubles your odds for success because you gain time decay during periods of neutral movement, offering profits in two of the three aforementioned directional movement scenarios. Of course, the person buying an option has the potential to gain more than the option seller, but you have to ask yourself how many trades you've witnessed where the stock shot to the moon—not very many is the likely answer.

Option Pricing Discrepancies

Options are typically priced unevenly across their different expirations—although a one-month option might cost $3, that doesn't mean the two-month option will cost $6 or the three-month $9, and so on. As a general rule, one-month options cost about three times as much as the average monthly cost of a one-year option.

We prefer selling shorter-expiration options because they have the most bang for the buck; weekly options actually enhance this concept. Four weeks of option premiums typically equate to one and one-half to two times the premium value of a one-month option. On the other hand, if we plan to be in a trade longer than a week we should buy a protection leg with a long expiration to take advantage of the option pricing discrepancy. Doing so is much like buying in bulk during the monthly visit to Costco—you pay a little more up front, but the per-item price is much less. Preston favors calendar and diagonal spreads for these very reasons.

Compelling Fundamentals

Once we decide to use selling strategies employing diagonal spreads, we must consider the reason for getting into a trade. We need an edge to increase the probability the stock will go the direction we want it to go. Although there are many factors that can provide an edge, the fact is the majority of market volume is controlled by institutions, so we believe it's best to focus on what the institutions are doing.

Although there are more than 400 technical indicators available, we know institutions are looking for things that will affect a company's bottom line. As such, we need to look for key fundamental events, such as stock splits, upgrades, product developments, earning's pre-announcements, etc. In the long run, these kinds of fundamental events are better indicators of where a stock is heading versus a MACD crossover.

Market Cycles

Preston often talks about trading with the markets because it increases probabilities working in our favor. History demonstrates that three of four stocks will go the way of the market," providing us with an edge if we take advantage of this knowledge. As Jon detailed last month, we use Investor's Business Daily to help determine the market cycle. Although IBD will not predict tops and bottoms, it does keep us from fighting the trend and helps us to capture the meat of major market moves.

Insurance

Utilizing insurance with option strategies is a necessary evil. Hoping for the best and trying to fix trades gone awry is a sure equation for disaster. To protect yourself, you have to be ready to adjust your protection leg, decrease your position size or simply avoid the trade altogether. While most limit their approach to the use of protective puts, we utilize strategies such as adjusting position sizing, hedging with different assets (Preston likes to do so with FAZ and other inverse ETFs) and using pre-established exit points. We don't skimp when it comes to insuring our positions because we understand that the costs of not doing so can be exorbitantly higher.

Ultimately, we recognize that mitigating risk is just as important as increasing gains when it comes to trading.

Risk/Reward Ratio

We always look for scenarios providing a risk/reward ratio of 1:2 or greater for most positions. You don't have to be the world's best stock picker to make consistent gains in such trades. Calculating your risk is very easy when utilizing selling strategies—you know that the premium received is the most you can make per share. Inversely, when buying options it can be harder to calculate because your upside is not capped.

A good example of a favorable risk/reward ratio is the Money Press trades we do. You'll see Preston with $10 of risk per share for the month, but a gain potential of $5 per week per share ($20 per month per share), which meets our risk/reward rule and justifies a trade. Granted, there's no guarantee such a position won't lose money, but it provides us with good odds for making more money over time when things do go well.

Bottom line, great traders rarely incur losses due to issues they can control. While losses are inevitable, we can limit them by always seeking trades offering higher probability. Moreover, incorporating our six principles enables us to leverage probabilities in our favor to maximize gains and mitigate losses.

Beau Keenan

Beau Keenan has been an active trader for six years. He graduated from BYU's Marriott School of Business with a degree in corporate finance, but found his passion in trading. During that time he's traveled the country coaching individuals on the markets and how to trade equities, options, futures and foreign currencies. He enjoys teaching and since joining the Traders Edge Network has personally worked with hundreds of individuals. Beau is a husband and father of two young children. He enjoys the freedom he has to do lots of other activities, from traveling to building businesses.

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



Q. Where can I find a list of stocks that have weekly options?

A. Check here for the list: http://www.cboe.com/micro/weeklys/availableweeklys.aspx or visit CBOE Web site to learn more: (www.cboe.com -> Products -> Weeklys -> Available Weeklys)

Q. The Weekly Windfall Quick Start Guide refers to "Ideal Setup" and "Sunrise/Demise". What are the definitions for these two conditions?

A. These are setups Preston has traded for quite awhile. An "Ideal Setup" is a stock breaking out of a resistance level/channel with some volume behind it.

The "Sunrise/demise" setup is a stock that has made a large gap down, into a 52 week low, and is starting to recover back to the upside. (These aren't as common as Ideal Setups).

Q. What happens with options when a special dividend is paid on a stock? Or if no payment is made why would anyone own options after a dividend is announced because the value would drop as soon as it goes ex div? Same with regular dividends. It seems I've been burned a few times on this and wouldn't want to miss if AAPL does do a special div.

A. When a special dividend is paid on a stock the broker will issue a non-standard option on ex-dividend. The non-standard option will either have the strike adjusted or they will adjust delivery if you execute the option. The non-standard options are only available for one day. The following day the new standard options will be available. Most brokers have a way for you to select non-standard options. They adjust the strikes to maintain the intrinsic value of the option. For example, if MSFT was trading at $35 per share and you owned the $30 call it would have $5 intrinsic value. Say MSFT issues a special dividend of $3. On ex-date the stock price will be adjusted for the dividend and will then be trading at $32. However, your same $30 call would then only have $2 intrinsic value. In order to keep you from unfairly losing $3 in intrinsic value the call strike would be reduced by the $3 special dividend to $27 so you would still have $5 in intrinsic value.

Q. In a past seminar, Preston talked about a book that lists companies that have consistently paid dividends over the years. Could you tell me the name of this book?

A. "Mergent's Dividend Achievers"

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

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