

Greetings from the Pirate!

Hi everybody, I hope this edition of Traders Edge Insider finds each of you safe...especially you folks in the East who've been affected by Hurricane Sandy—our thoughts and prayers are with each of you and all the victims of this terrible natural disaster. Events of this nature remind each of us of that which is truly important in life.

There is some good news—we're nearing the end of what has been an exhausting election process for all of us. I don't think any among us will miss the nasty campaign ads and calls from pollsters.

While it's easy to be cynical with the process, it's important to remember that we are just days away from what most consider a critical election that will likely shape policy in the years ahead. Whatever your beliefs or political affiliation, we should all be thankful for the fact we live in a nation in which we enjoy the inalienable right to vote.

Equally important, we should be thankful that we have the opportunity to secure our well-being and that of our children, no matter who possesses power or what occurs in Washington.

With that in mind, it's time to focus on the markets and our task at hand of making money. You've heard me say it many times before. Whatever occurs, we are going to trade what the market presents us with, just as we always do.

For now, I encourage you to read and reflect on this month's edition of TEI—you'll find it's packed with plenty of good info that will benefit and enlighten as together we move forward into what is sure to be an interesting period in the markets!

— Preston James



Preston James
—Author,
"The 1% Solution"

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TOP 50 REASONS WHY FUTURES TRADERS LOSE MONEY

REASON NUMBER 43: Often, traders jump into a market based on a story in the morning paper; the market many times has already discounted the information.

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ZANER

TEI Insight

A month ago we looked at the broad U.S. indices and told you that the market was sitting in pretty good shape, all things considered...



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Zaner's Perspective

Hi, my name is Lee Snyder. On behalf of the Zaner Group, I would like to say how pleased we are to work with Traders Edge...



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Traders Talk

In this month's Traders Talk, we're chatting with Jeanne Riecse, one smart trader who's managed to find success in the market marching to her own beat...



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Musings from the Editor

When I started to write this month's article roughly a week ago, my focus was firmly upon the U.S. broad indices...



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Coaches Corner

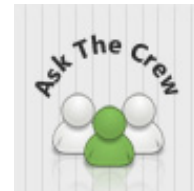
In this month's coaches corner I'd like to initiate a basic discussion of what's known in the world of options as the Option Greeks...



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Ask The Crew

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



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Upcoming Events & Special Announcements

The Indicators are Here, The Indicators are Here...

Good news for our [Swing the Axe](#) trade community. Karson and Jeff are pleased to announce that the Augen indicators are now available for download! That's right, now you can download our proprietary indicators to your own system, empowering you with the ability to use the indicators real-time at any time. You can customize your screen setting, look back in time and take advantage of the many other cool

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TEI Insight: The Question Stands...

A month ago we looked at the broad U.S. indices and told you that the market was sitting in pretty good shape, all things considered. This is what we offered at the time:

Well, we've come through the tricky month of September and managed to close out the 3rd quarter in fairly decent fashion, all things considered. As things stand now, the broad indices are flagging bull, with both the INDU and the SPX within relatively easy distance of tagging historical highs in very short order.

We did discuss quite a few issues that are still very much on the table, including the election that's now just days away, the fiscal cliff still looming in the New Year, a tricky earnings season (which has disappointed more than had

been expected) and the problems that continue to plague Europe, the Middle East and China. There was also the issue of seasonality and the real fear of an October surprise.

Well, we did in fact get an October surprise in the form of a horrendous natural disaster that has shut down much of the Northeast and mid-Atlantic regions...as well as the NYSE and most trading over the first two days of this week.

The net effect is that we've seen some pretty decent retrenchment on the part of the major indices. The INDU retraced to test the 13k mark, but held in the face of some shaky economic numbers and disappointing corporate reports...all during what is a dicey month for the market.

By Louis Horkan



The good news is the index remains in pretty fair shape as we enter the last couple months of the year—generally considered market friendly months. Moreover, despite the recent swoon, the INDU remains within 400-odd points of the September high and roughly 900 points of the all-time high.

As for the SPX, the story is much the same. The index tested and held at the 1,400 level. It's now managed to trade back within 20 points of where it stood a month ago and less than 50 points off of the September high of 1,474.

portended a signal that perhaps we've entered a new stage and now find ourselves on the cusp of emerging from the worst geopolitical and macroeconomic period of our lifetimes.

Can the emergence from the turmoil of the past dozen or so years be placed in the same category or given the same weight? Dunno... we shall see. But the fact is we have come through the worst economic period since the Depression. We have existed for some time on the brink of economic disaster. Yet



At this point it's fair to assume that the bulls have to feel like they've dodged a bullet (for now) and are likely to be emboldened given where the broad market stands. Bears on the other hand have to be wondering what it will take to tip this market into further decline and a test of the bottom-end of the channel that was formed off the March '09 breakdown lows.

What is sure is the fact the markets have come through the past month in relatively benign fashion. They've managed to coil even more tightly and the likelihood of a resolution move seems that much more inevitable. Looking back to last month, we asked if there might be a hidden message in the charts...something that

we have come through it all intact...changed, but very much still in the game. Moreover, when you put things into perspective, we have survived in this past decade just about anything you could possibly envision, short of nuclear war. Ironically, that is more of a real possibility today than at any time since the Cuban Missile Crisis. Notwithstanding such a chilling prospect, the question at hand is whether there is indeed a message in the market for us to discern?

That question stands...and time will provide the answer...

~LH

Zaner's Perspective: Got Futures?

Hi, my name is Lee Snyder. On behalf of the Zaner Group, I would like to say how pleased we are to work with Traders Edge to offer our futures and Forex services!

Do our self-directed trading accounts for futures and Forex include options? You bet they do! More on that later...

For most futures traders, the allure comes from the profit potential of trading the e-mini S&P 500 futures, known as the ES. With our day-trading margin of only \$500 per contract, you can trade at your own speed. The ES trades from Sunday afternoon through Friday afternoon (interspersed with short breaks), so it accommodates your schedule. Whether you're a doctor or dentist busy with patients during the day or a business owner tied down during certain hours, the "nearly-round-the-clock" ES hours allow you to trade when you want, such as early morning, after work, 2 a.m.—whenever you can and from anywhere you have Internet access.

In addition to ES futures, we offer US and non-US equity/indices, energies, financials, grains, meats, metals, softs and currencies. The scope of futures we offer is wide-ranging. For example, within the sphere of currencies, we offer you not just the "normal majors," but also Chinese Renminbi, Brazilian Real, Korean Won, Mexican Peso and

Turkish Lira. As for equity futures, in addition to the S&P 500 ES, you can trade the Dow, NASDAQ, Russell and others.

Our platform features Depth of Market (DOM), real-time direct market access, comprehensive functionality, charting, advanced orders and custom platform layouts.

Do we provide back-up? Can you reach a human when you have a problem or question? Yes. And let's talk about service: we have a support desk here at the Zaner office to help you understand the platform, help with understanding order entry when you're opening your account and placing your first trades, and on-going support for the life of the account. When you combine the Zaner support with the additional back-up of our clearing partners, you have 24/6 trade-desk support.

For over 30 years, the Zaner Group has been helping futures, commodity and Forex traders' trade faster and easier and more professionally. Allow me to "crib" from our www.zaner.com website: "Zaner is an established, highly regarded award-winning execution and brokerage firm known for providing clients with exceptional service, cutting-edge technology, industry expertise and access to the world's major exchanges and execution facilities."

Enough with the commercial, what about options? We offer options on US and non-US futures. Whether you're a "fiscal-cliffer" who wants the downside profits from ES puts or you just like to trade ES options in general, you can place option trades and execute from the same platform as futures. If you like to trade AAPL options, why not try your hand at NASDAQ options? Or why not engage in plain vanilla strategies such as buying ES puts or playing the currency market by buying euro calls? If you're an option trader looking for the profits afforded by more sophisticated options spread strategies, go ahead! You can do strangles, straddles, back spreads, vertical spreads, etc.

Bottom line, futures and Forex add to your array of profit tactics and strategies! I can be reached at 312-277-0103 and lsnyder@zaner.com to discuss the possibilities.

By Lee Snyder



TOP 50 REASONS WHY FUTURES TRADERS LOSE MONEY

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Sincerely,

Lee Snyder

VP, Institutional Sales

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lsnyder@zaner.com

Lee Snyder, Vice President of the Zaner Group; is a series 3 registered futures and forex broker; was previously Vice President/Manager of the Global Services Division of LFG, overseeing the foreign exchange desk and a 30-person global futures execution desk; has taught options classes in-house at Citibank, LIT Holdings, & additional FCMs; holds a M.B.A. in economics from DePaul University of Chicago, and holds Eurex certification.

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

features. What's more, you can use them for any stock, currency or ETF over any timeframe and in any size. You've asked and now we're happy to deliver—directly to your home system. Check the [Swing the Axe](#) site for further details. Please keep in mind these indicators only work on the Trade Station platform.

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...

Traders Talk:

TEI's Louis Horkan Interviews Jeanne Riecscs



In this month's Traders Talk, we're chatting with Jeanne Riecscs, one smart trader who's managed to find success in the market marching to her own beat. Her path to trading is varied, ranging from work as a flight attendant and stock broker to a career in nursing...oh, she's also a columnist and trading coach that many of you will likely recognize. She's been at this for a good clip of time, made some serious dough and has some invaluable insight to share.

TEI: What got you interested in trading and the markets to begin with?

JR: I've been interested in the stock market since high school when I took my first economics course. You had to pick a few stocks and follow them over the course of the semester and see how they did. That's probably what got me hooked. I have always been somebody who reads the Wall Street Journal when everybody else is reading a romance novel. When I worked at Delta Airlines as a flight attendant I would be sitting there and waiting to get on my flight reading the Wall Street Journal.

TEI: Was your education geared to finance or the markets?

JR: I actually had a two-year college degree and decided to go back to school. I did so and got a BA and a MBA with a finance concentration in just over two years. I got my BA from Western Illinois University and then I got the MBA at Dallas Baptist University. I did also work as a stock broker for two years, but I kept my job as a flight attendant the whole time.

TEI: Did you like being a stock broker?

JR: I realized quickly that I hated being a stock broker. I was a trader at heart and started to educate myself doing Wade Cook and going out to seminars... I met a lot of people who were giving me money to invest for them, but I hated it—I didn't want to manage other people's money.

TEI: That's a pretty varied background. And you're in nursing as well, correct?

JR: Yes, when things started to go bad at Delta I thought that I'm not seeing a whole lot of future in this.

I was trading stocks, but realized I'm not that great at it. So I started looking around and since every other person I met was a nurse, I decided I'll go become a nurse. I had all these finance classes, but I had nothing medical at all. I applied though and got into nursing school and became a nurse.

TEI: And you continue to do that on a limited basis?

JR: Yes, because I've been successful in my trading I've gone from working full time as a nurse to working part time doing two shifts a month. I have certain trading quotas for myself and if I don't make a certain amount of money then I make myself pick up a shift. Fortunately I don't pick up many shifts.

TEI: When was it you started to trade for yourself and what did you focus on?

JR: I started at a really good time back about 1999. That was when you could pretty much throw a dart at anything that was dot com and it would just go up like crazy. Everybody was a genius. I started with about \$50,000 in my personal account and ran it up to \$200,000. I had to write a check for \$55,000 to the IRS that year. This got me to thinking that I was making this amount of money trading my own stocks and not making anywhere near this working as a stock broker... so I quit. As for my trading, I was an options trader and was doing a lot of short puts.

TEI: Lots of traders made money at that time, but more still got wiped out in the crash thereafter. How did you fare during that period?

JR: Fortunately I started to get wise. I was looking at Fibonacci retracement levels at that time and thought that this is not going to last. I remember looking at NVDA, which was at about \$150 at that time, and thinking that this stock is going to drop to at least \$15 a share. All the other guys in my office were saying no way and telling their clients to buy it on dips.

Meanwhile I was telling my clients to buy puts for a year out. Many of them did. I know I did and within a year I had made \$55,000 on those puts.

TEI: You mentioned training and the Cook program earlier. I assume you read lots of books as well, such as *Trading for a Living* and others of that genre.

JR: Yes, Wade Cook, Optionetics, Karson's program and others. And I did read *Trading for a Living* and I've got all of Elder's other books, along with just about everything else out there on trading and the markets. I've got an entire library. I've found that there might be just one sentence in a book where you go, "Wow, that really makes sense," which can end up making a huge difference in your trading.

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

JR: 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?

JR: 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?

JR: 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?

JR: 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.

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

JR: 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



Money Chasing You - Trading Success Stories

Another excellent webinar yesterday... All of my 6 trades yesterday were profitable! I netted \$4170.92. I practiced 2 trades relying on the mechanical buy/sell/ red & blue arrows and really gained confidence in reading the indicator graphs then buying or selling AAPL options.

Many thanks for all your hard work Karson and Jeff! Yesterday was the best trading day I have ever had.

M.P., AZ

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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.

TEI: Eventually you were asked to coach for the program.

JR: Yes, Karson asked me if I would do some coaching. I told him that I had met some people at the seminars that had been through coaching that still don't get it. I suggested they give me those people to see if I couldn't fine tune their trading a little bit or give them something else to look at or help them identify where they were making mistakes. That's what I've been doing with the coaching program. And I started writing the "Jeanne's Corner" pieces for the Stock Wiz Kid Website a little over a year ago.

TEI: Given your perspective of having utilized a coaching program and training other traders, what's your advice regarding the merit of a coaching program?

JR: I can say honestly based on my experience that I am a fan of it. I've met people at seminars and I tell them to try coaching...they will fine tune your trading and give you something consistent to do. And you can always go to them if you're having problems—you can ask what you are doing wrong and they're there to help. I think it's good to have somebody to bounce ideas off of. Believe me, what you spend for coaching is a lot cheaper than what you're gonna lose in the market without a good plan.

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

JR: 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.

TEI: Given the insight you've gained over the years in the market, what would you focus on if you were starting out now?

JR: I would keep it really simple. First, decide whether you're looking for income or you're looking for an investment? Have you maximized your 401(K) and you're looking for further investment or are you looking for something that you can pay the bills with? If you're looking for something that's more of an investment, then I'd probably be looking at something like covered calls or money press trades where you have long-term options and you're selling short-term options against your position. If I'm looking for income trades then I'd be looking to do short-term option trades... but you have to be ready and able to get in and out really fast if they don't go your way. If that proved too stressful, you might buy the monthly options instead of buying the weekly options.

TEI: What's your best advice for the newb trader coming into the business?

JR: What I said before...know your risk before you hit the trading button. Have two exits plans before entering a trade—know where you're gonna take profits and losses.

TEI: And your best advice for those peeps that have been at it a while who're struggling to turn the corner and find their way to consistently bagging profits in their trading?

JR: We need to sit back and review your trades. What have you done? Have you followed your trading plan? I know for myself it's not fun to look at my book and realize I had three opportunities to get out of a trade with a \$200 loss, only to let it turn into a \$2,000 loss. I suggest keeping track of your trades in a journal. Write down why you got in, why you got out, the current market value of the option when you entered, etc. By recording the trades you can go back and look for a trend that will help you understand why and where you're struggling. Am I coming to the party too late or perhaps I'm jumping in too early? By looking at

the trades you may find that you don't understand the concept of the strategy you're trading or the application of the indicator you're using as much as you think you do.

Jeanne Riecse is a nurse at St. David's Hospital in Austin, Texas. She also worked as a flight attendant for Delta Airlines and had a brief career as a stockbroker where she soon realized she loved trading, not selling stocks!

Actively trading for over 20 years, she wasn't consistently successful until she was mentored by Stock Wiz Kid—Karson Keith. Coaching was the key missing ingredient allowing her to turn the corner and become a full-time trader. Jeanne now works at the hospital a couple days a month at her discretion. What's more, she gets doctors asking her all the time what she's currently trading.

You can read her column "[Jeanne's Corner](#)" on the Stock Whiz Kid website.



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

I dare say I am the only person living in South America that trades AAPL using the Augen Indicators, and had a successful, not too stressful, and enjoyable day!

I take note of what the stock price was when I entered the trade, and then when I watched the stock price increase or decrease to levels it was trading in, then I would exit my trade for a profit. I know this method is not scientific, but it gave me 3 excellent trades today.

Many thanks to all of you for this wonderful program, and all the extra help you are providing to me.

Sincerely,
W.R., South America

I would like to start off by thanking you for sharing your INCREDIBLE trading indicators. Been at this a while and never seen anything like that before. Been trying to find a good system to trade the euro and this came along, funny how life works out sometimes. Now that I found this wonderful system I don't want to lose it. I want to know more about it and study it -- get more familiar with the entry/exit signals.

Anyway thanks again, this has been life changing. Was getting ready to start working again and being a single father of a 3yr. old I wasn't looking forward to putting the little guy in daycare full time just yet.

Best Wishes,
Drew

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Musings from the Editor: Meters Running...

By Louis Horkan



When I started to write this month's article roughly a week ago, my focus was firmly upon the U.S. broad indices. This should come as no surprise, as I've been hitting the issue hard in the last couple newsletters and the weekly blog posts out on Thursdays. And with good reason, given that the indices are seemingly stuck in a tight range... poised for what very much looks like a pretty important resolution workout—an inflection point that could well turn into a long-awaited breakout in either direction... sooner rather than later given the energy building in the coiling action of the past couple months.

Certainly some good meat to chew on, so all was well for me as I had largely finished my piece prior to this past weekend...just the need for some finishing touches and a good edit.

But as is often the case in life, the best laid plan goes askew and suddenly you find yourself walkin along a different path. Although it would be easier and less time consuming to stick with my original plan for this month's article, upon reflection late this afternoon I realized that there might be a salient lesson to share involving my foibles...or at least a laugh at my expense.

The different path started last week innocently enough, when my Audi went back into the shop for the third time in the past two months...and for the umpteenth time in the past couple years. Ok, full-disclosure—the car has been in for literally dozens of visits beyond those called for under the routine maintenance schedule, not including a two-month stint for repairs related to an accident my “Ex” had in it during the first year I owned it.

Sooooo, at this point I'm gonna go ahead and concede the obvious—I've a love/hate relationship with that damn car... and I've allowed that dysfunction to blossom into a losing scenario. Yes, I've married myself to a losing stock and am hell-bent on trying to prove I've been right all along to hold rather than cut a loser and move on to something else. Believe me, those around me have enjoyed telling me time-and-again how misguided I've been...grrrrrr

Back to the present and many thousands of dollars later for this go-round, my car remains with Audi. While costly

and certainly a thorn in my side, the situation was certainly not something to jump off the cliff over.

But fate has a sense of humor...as well as a keen sense of timing and a new twist in store for me, so it seems. Unbeknownst to me until after having filed a police report late this very morning after walking out to an empty parking space, I found out that the rental/loaner that Audi had generously arranged for me (with my money) had in fact been towed from my complex Monday evening because it lacked my private parking permit—the very permit safely ensconced in the back window of my car—sitting in the Audi garage.

At that point I had certainly had my fill of surprises and wanted off the path on to which I had veered. Unfortunately, fate had one last card to play and it came in the form of the Rule of Three...there was indeed a third shoe to drop. I actually started the day optimistically due mainly to a favorable real-estate endeavor I had made an offer on first thing in the morning. Later in the afternoon, while standing outside the tow yard and listening to the attendant tell me they can't release a rental car to anyone but the registered owner, I found out that my “sure thing” deal was suddenly not so sure.

As things stand now, my car remains in the Audi shop were the only thing running is the meter, the loaner is racking up fees (started at \$300 but grows by the hour) in the hoosegow until the rental car company figures out what to do and my sweet real-estate deal has apparently gone south, although I can't be sure because I'm unable to get a call back from my own representative in the deal...Doh!

So, what does this have to do with broad markets that I started out speaking about? Or anything market related, for that matter? Predictably, my answer at this point would normally be “dunno.” But in fact there is a connection which I'm getting to and you might just connect with...a common experience that actually takes a whole lot of peeps out of the trading business...

Without going into further painful detail, the fact is I've broken all kinds of my own hard-learned rules with this

car. Today was just the newest chapter, but I managed to make it a page-turner. I plowed forward with a lack of both information and awareness of my actual situation, armed with misguided assumptions and failing to understand I was operating blindly. Worse, as things started to work against me I failed to step back and play safe, as I am generally apt to do.

Any of this sounding familiar????

Fact is that a series of events largely beyond my control or awareness had been set in motion and were going to play out whether I wanted them to do so or not. My rash decisions and assumptions, exacerbated by the wrong-headed belief I could manage or change things through sheer will, were conspiring against me to make the situation worse.

Gotta be some takers here...at least one or two trader out there who've fallen into this trap...

Throughout all of this, I was letting my anger rise and becoming more emotionally invested than I realized...I was pissed and wanting to take out my frustration and somehow vindicate myself and my actions.

Am I the only one that's ever gone down this road?

As is often the case when we allow ourselves to reach this point, I then doubled down on a losing bet and threw fire on the situation—threatening the job of the tow company manager, who up to that point had agreed to substantially reduce the tow charge. She then promptly pulled her offer and instead tripled the charge by hitting me with everything she could legally. Certainly goes without saying that my approach was fool hearty and predictably doomed to failure. This was my desperation-fueled “all-in” bet that I could make it all right with one action... You know what I’m talking about—the “I’m gonna get it all back with this one trade” approach.

Hmmm....Denial ain't healthy...or a river runnin through North America...

Bottom line, I made mistakes at every turn and in so doing turned a manageable loss into something far greater...in fact I still don't know what the final bill is going to be on this whole fiasco.

K, kidding aside, the fact is that nobody starts a day thinking they are gonna blow themselves up! As traders we all assume we are gonna fatten our wallets each day. After we've been around the block a time or two, we realize that some days we do and others we don't, but that over the course of days/weeks/months/years we do fatten those wallets by consistently sticking to our plan, playing probabilities and always remaining disciplined. We learn to steer clear of situations capable of blowing us up...trades that start as manageable losses that inexplicably turn into disasters that imperil our ability to remain flush and in the game.

Cutting to the chase, many that enter trading never create a plan or rules...and they lose quickly. Lots more do establish a plan and rules, but they break them routinely...and they lose. Of the remaining group, some play loose with their rules at times...and they manage to stick around, but never profit to the extent they could. Those that do find themselves successful in this business do something very unusual—they create a simple plan with simple rules...and they adhere to them!

As for my saga, I'm waiting to hear the damage and hopefully will pick up my car in the next day or so. As for the markets, hopefully we are gonna see that resolution move soon enough...something decisive enough to open this baby up and allow for some serious smack to be made. With the meter running still on both the loaner and the Audi, I'm gonna need it!

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.

Coaches Corner: The Greeks

By Beau Keenan



In this month's coaches corner I'd like to initiate a basic discussion of what's known in the world of options as the Option Greeks.

When you're a new option trader, learning the Greeks is like learning to drive; you need only know where to turn the key and not necessarily how everything works under the hood. I would argue that the mathematical formulas and concepts behind the Greek formulas are far more complicated than learning the mechanics of how a car's engine works. As such, we'll keep the discussion simple today, with the opportunity of exploring each Option Greek in more detail at a later date.

The Option Greeks are a series of useful variables that explain the various factors driving movement in option premiums. Mathematically speaking, the Greeks are all derived from an options pricing model; the most well known being the Black-Scholes formula produced in 1973. The four most important Greeks to know are: delta, gamma, theta and vega. They are important to know because each isolates a variable that can drive options price movement despite the movement of the underlying asset at a given time.

Now as Preston often points out, not all Greeks are created equal, so we need to pay more attention to some than others. For example, you'll notice that a trader like Jeff Augen is so acutely aware of vega that he will build trades purely on the premise of gaining or hedging, focused on this one key variable. Controlling or manipulating all you can in your trades is an important part of high probability trading. Many of the trading techniques you will learn in your career will require simple knowledge of which Greeks affect which technique and how.

Delta

Let's start with the Option Greek called delta because this is the one Preston mentions the most in his 1% Solution. Delta is the Greek that dictates an option's theoretical price correlative to the underlying's movement for every one dollar, assuming everything else stays constant.

For example, if you buy a call option worth \$5.00 with a delta of 0.50, then for every one dollar move up or down in the underlying asset your option will gain or lose 0.50 cents. The further you go ITM on the option's chain the closer the delta goes to 1, while the further you go OTM on the option's chain the closer the delta goes to zero.

The delta also represents the percentage chance the option will end INT; thus a 0.50 delta would forecast a 50 percent chance your trade will end ITM and deliver profits. The 0.50 delta typically resides at ATM strikes.

Note that the further ITM you go the less the deltas change per strike, but the more price increases per strike. You want to avoid the trap of thinking that just because an option has a delta closest to 1 that it has the most bang for the buck. Imagine you have a stock worth \$100 and two strikes to choose from for a directional call trade: one strike worth \$5 that has a delta of 0.75 and one strike worth \$15 with a delta of 1. Which one would you chose? Your best bet is to risk \$5 to make 0.75 cents per dollar move because it has an initial yield of $0.75/5$, equaling 15 percent, which is far greater than the yield of $1/15$, equaling 6.66 percent.

Inversely, you shouldn't automatically assume that OTM positions are the best because they cost relatively less—they also offer less probability. A strike worth 0.10 cents with a delta of 0.05 might have an initial yield of $0.05/0.10$, equaling 50 percent, but the chance the stock will end above a strike that is so far out of the money is not good. Many traders claim the ideal option strike to purchase is the one that correlates with a 0.70 delta because it has great yield and a high probability for success.

Gamma

Keep in mind that delta is dynamic, which leads us to our next Option Greek, known as gamma. Using the earlier example where we bought an option worth \$5 with a delta of 0.50, let's say the stock sat initially at \$100, but

moved to \$101. Would the call option move another 0.50 cents? Would it move more or less if the stock moved from \$101 to \$102? The answer is it would move more than 0.50 cents since movement from \$101 to \$102 would mean the call option is becoming more ITM—the delta will increase to reflect the price movement. This change in delta is known as gamma, or the rate of change of delta.

Two things to know about gamma: First, the closer the expiration of the option the quicker the gamma moves, and second, gamma's impact is highest for ATM strikes—the impact lessens the further ITM and OTM the strikes are. This variable of gamma can affect calendar spreads, especially when buying long-term options in place of stock and selling short-term options against those purchased options. For example, if a stock has a delta of 1, the short-term sold options can never cost you more than the stock's appreciation. Hence, covered calls have a maximum profit above the sold call strike and no loss potential. When buying calls instead of stock, you'll find the bought option can have a delta less than 1, which means there's a chance the sold option could cause more losses than the bought options might gain based on the shorter-term sold options' quicker gamma.

Theta

The next Option Greek, theta (aka time decay), is one you've probably heard Preston utilize to take advantage of time decay in many of his option techniques. Theta can be best described as the variable which tells you how much an option's price will diminish over time, which is

the rate of time decay of option premium. Time decay is the phenomenon in which the value of options reduce over time even though the underlying stock remains flat. Time decay occurs because the extrinsic value, which is also known as the Time Value, of options invariably diminish as expiration draws nearer.

The Money Press trade we often utilize is an excellent candidate for taking advantage of theta—the sold leg of the spread represents the money-making piece of the technique from one week to the next. Conversely, when utilizing directional options trading strategies, such as a bought put, the time decay is the enemy and offsetting it is important.

The most important note about theta is that the closer to expiration the option gets the quicker the theta decays. Because of this, a trader might consider buying more time than needed in a directional trade to hedge against this risk.

Vega

Probably the most important Option Greek to specialized option traders is vega, which is the variable that tells us approximately how much option premium will increase or decrease given an increase or decrease in the level of implied volatility. An easy definition of implied volatility is the relative rate at which the price of an asset moves up and down. It can be determined by calculating the annualized standard deviation of daily change in price. If the price of a stock moves up and down rapidly over short time periods, it has high volatility; if the price almost never changes, it has low volatility.



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

Thank you for your email and concern for east coast subscribers. We have experienced quite a severe weather problem and dealt with the elements for this unusual storm.

I have to commend you for establishing a very excellent business. Working with Mike and Karson on this type of personal level is very effective and rewarding. Jeanne was exceptional in her work and gave me special exercise instructions. I have always been impressed with the genuine honesty and integrity of your organization since starting with you several years ago.

F.K.

continued p. 14

Three important things to know about Vega: First, vega can increase or decrease regardless of whether the underlying price changes—this is due to expected events in the future (e.g. earnings, drug approvals, law suits, etc.) that can potentially cause big movement in the underlying. Second, vega typically increases when the market or underlying falls and it decreases when the market or underlying rises, but it should be noted that the inverse relationship sometimes fails to hold true. Third, vega falls as the option gets closer to expiration.

In conclusion, we've only scratched the surface on these Greeks and it's important to recognize that there are many nuances an option trader can get lost in when studying them. Luckily, there's no reason to memorize the mathematics behind the Greeks, but knowing the variables that affect your diverse techniques can certainly help you plan for maximizing profits while

mitigating risks. To gain better perspective of the positive and negative influences on bought and sold options, I suggest you review the Investopedia chart below.

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.

Call Options	Increase in Volatility	Decrease in Volatility	Increase in Time to Expiration	Decrease in Time to Expiration	Increase in the Underlying	Decrease in the Underlying
Long	+	-	+	-	+	-
Short	-	+	-	+	-	+
Put Options	Increase in Volatility	Decrease in Volatility	Increase in Time to Expiration	Decrease in Time to Expiration	Increase in the Underlying	Decrease in the Underlying
Long	+	-	+	-	-	+
Short	-	+	-	+	+	-

 Print

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

Preston,

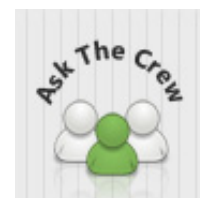
Loved the last WOW Live Trading webinar. Just wanted to share 3 reasons why I'm a Weekly Options Windfall subscriber:

1. I enjoy the war/battle analogy versus approaching the market with emotion. I had recently gotten a little off-track I don't want to be someone who monitors every second of the market day or every tick of my money press trades, but just have consistent profits week in and week out as I weigh the overall market scene.
2. Several light bulbs have gone off on how I can better approach my own trades.
3. Having a mentor or coach that keeps me on track is invaluable. The W.O.W. subscription price is a bargain when the Friday trading days are included because I get to listen to a positive person who can provide insights when I am caught up in the emotional side of a trade and the market.

Thanks again!

D.W., NY

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



Q: Could you explain how money is made on straddles and strangles? They seem like they would just cancel each other out and break even no matter what the stock does.

A: As one side gets deeper in the money the delta strengthens. As the other side gets further out of the money the delta weakens. In other words, one side gains much faster than the other side loses.

Q: My trading platform does not have a list of earnings dates. It is only on individual charts. Is there a free source for a list of earnings dates?

A: Yes, go to www.rttnews.com. There is an earnings calendar, free of charge. (Direct link to page: <http://www.rttnews.com/earnings/earningscalendar.aspx>)

Q: Can you explain why one would want to be slightly delta short on the forward ratio spreads? Why not delta neutral or slightly delta positive? I'm not sure that I understand the logic. Also, what is an acceptable amount of delta upon entry of the trade and does this number need to be maintained throughout the life of the position? (Just to clarify the "slightly negative delta"... If I cap the trade with a long call on the upside, can I

assume that delta (which will be small) gets factored into the entire delta count for the position, which I am trying to maintain at 0.01-0.05 negative delta upon entry... correct?

A: You can approach it in two ways.

1- You simply do not factor in the delta of the bought call and go into the trade fully expecting to lose whatever you paid for the call.

2- You factor it in and manage the sold call as you move your trade down. I favor option one.

Q: Novice question! How do I go short when I don't have a big account? Do I buy puts? I thought being short meant selling puts or calls?

A: Yes! Puts are how we go directional to the downside.

Q: How do you evaluate a good "forward spread" candidate? Can this be done on an index?

A: You could do it on an index, but I favor doing it on a stock that has a big spike in Implied Volatility.

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



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: alicia@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