

6 Secrets to Options Trading Success

Hello. My name is Mike Rykse and I am the Options Specialist at NetPicks. I have been an active trader in the markets since 2002 and have traded every market you can think of (stock, options, futures, forex, bonds). Without a doubt my favorite area of the market is trading options and that is where I have seen the most success in my own trading over the years. I have personally developed the NetPicks Options Fast Track program. The Fast Track program focuses on swing trading stocks and ETF's using the power of options.

In working with thousands of traders over the years, I have learned some tricks of the trade that I want to share with you that can make a big difference in your trading results over time. Trading can be difficult but following these 6 secrets below will help improve your results right away.

Like any successful business the traders that see the most success are the ones that stay disciplined to a plan. Whether you are trading full time or part time you need to treat this as a business. This means having a plan in place that will guide you everyday. In this ebook I will walk through 6 of the secrets that have guided my trading over the years and have helped me make a full time income from the markets.



Secret 1: Make sure you have a trading system in place before putting capital to work.

Talk to any successful trader and you will find that they have a detailed system in place that they follow on every trade. Trading options is no different. You have to have a system in place telling you when to get in and when to get out before you ever put your hard earned capital on the line. There are many trading systems available in the marketplace that claim to give you an edge. The big key here is to have a system that prints entry, target, and stop points right on the charts for you in real time. You don't want a system that requires a lot of discretionary decisions to be made.

You also want to use a system that works on all stocks and ETF's. You don't want to be limited to a few products. Trading a diversified list of products will make a huge difference in your

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returns. Markets change and you want a system that can adjust to those changes quickly. This is the only way you can stay disciplined to your system.

I use this example with traders all the time. Would you ever try to build a house without blueprints? It would be a long shot to do and have it turn out. Trading is no different. You have to have the blueprints there to guide you on every trade. If you don't you are left taking trades with your fingers crossed hoping they work out. Using a trading system will put a methodology in place that you can trust when putting your hard earned capital to work

The system that I use in my own trading is the **NetPicks Options Fast Track**. It is our reversal setup which takes advantage of market extremes. You can see a screenshot of this system in action below. If you are looking for a system that puts the odds in your favor then click on the link below and I'm willing to share this setup with you free of charge. This will give you a chance to see what it looks like to use a system that gives clear entries and exits in real time.

[Click Here for Options Fast Track Reversal System](#)

You can see from the screenshot below we have exact entry, target, and stop levels in place before we ever put our hard earned money into a trade.



Secret 2: Weekly vs Monthly Options...Which should I trade?

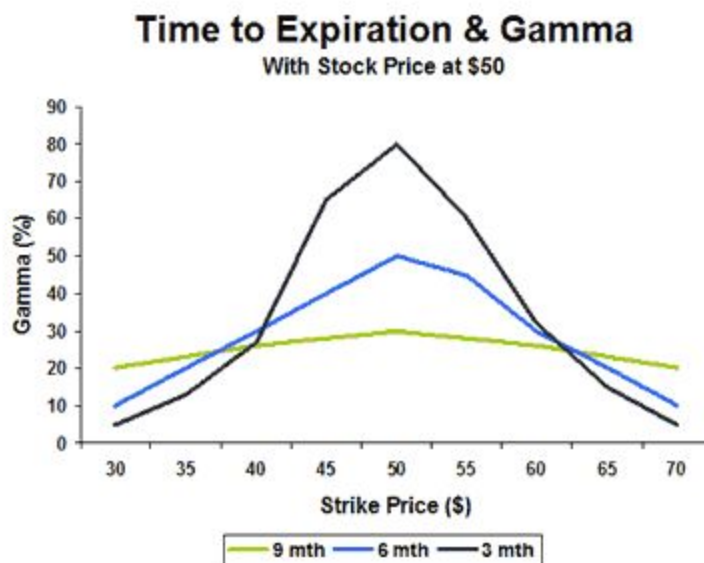
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When talking about stock options there are many common questions that come up. **Which strike price should I trade? Should I buy or sell the options? Should I use weekly or monthly options?** The reason these questions can be tricky is that there is no perfect answer that fits every situation. It all depends on your outlook and what you are looking to accomplish with that trade. Let's talk about the different expiration cycles in more detail.

Over the past few years, weekly options have become very popular with traders because in most cases they provide a cheap way for the retail trader to get into a trade. These options expire every Friday, which means they are great products for traders looking for quick movement in the stock or ETF. With the cheaper price many traders view the weekly's as safer trades.

However, are they always the best products to use?

When deciding whether we should use the weekly or monthly options, it depends on our outlook for the stock or ETF. If we are expecting a quick move within the next few days, then the weekly options will give us the most bang for our buck. This is due to the fact that Gamma, or directional risk, is higher the closer we get to expiration (see chart below). As a result of the higher gamma in the weekly options, the price of those options will react quicker to movement in the stock. **The key take away here is we will see more powerful moves as long as the move happens quick enough.**



However, options are decaying assets which means the longer we hold them the more time value comes out. The weekly options will allow us to make money faster if we get a quick move in our favor. The problem here is if the trade takes longer than anticipated the time decay will hurt our position very quickly. The weekly options just don't give us much margin for error. **With**

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this in mind, I recommend using more monthly options. Even though you will pay more when trading the monthly options, you are building in a safety net just in case the trade doesn't happen as quickly as anticipated. ***Our sweet spot is to look for options with between 20-40 days left to expiration.***

Secret 3: Trade the In-The-Money Options

Buying Calls or Puts:

When buying a long call or put we need to make sure we have a strong opinion on which way the stock or ETF is headed in the near term. We have to keep in mind that whenever we buy an option the clock is ticking the second we decide to initiate the trade. The time decay will start to add up and potentially eat into the profit potential that we have. This means not only do we need to be right on market direction, but the move needs to happen in our favor quick enough.

To combat some of the negative features of buying an option, we like to be very picky with the criteria that we use when selecting the call or put option. First, we don't pick the option based on what we can afford like so many retail traders make the mistake of doing. In many cases, this will leave you with an out of the money option which has a very low probability of success. Instead, we like to trade the in the money options.

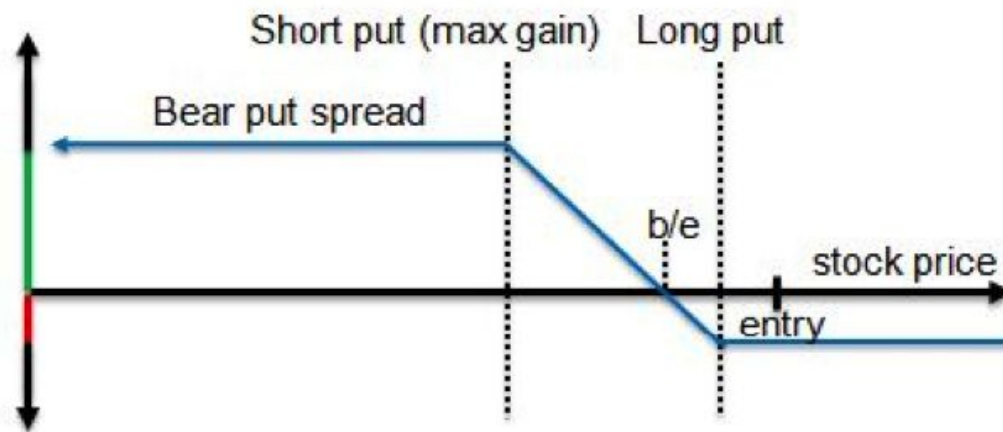
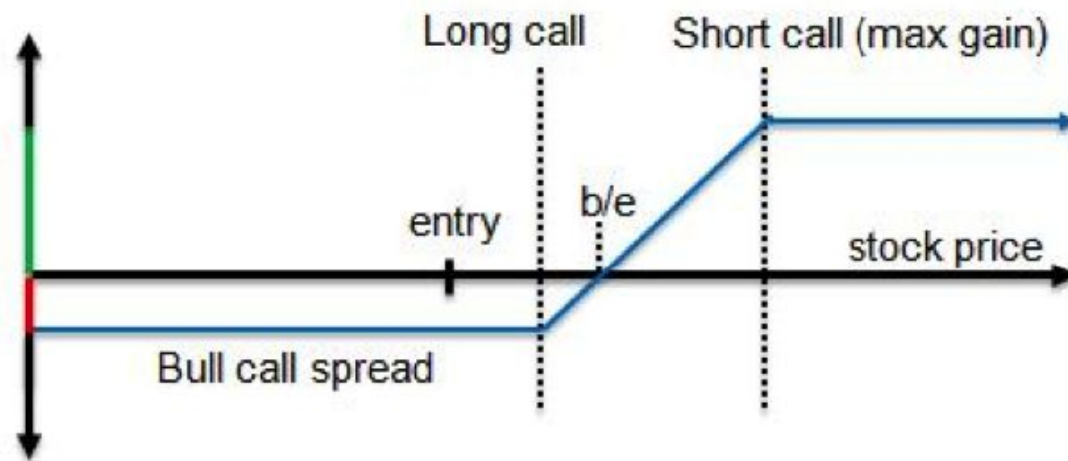
Our criteria has us going out 20-40 days until expiration and buying the call or put option that is 1-2 strikes in the money. This criteria is the same whether we are trading GOOGL, DIA, or C. By using the same criteria on all stocks and ETF's, we are able to take much of the discretionary decisions out of the equation.

Long Call and Put Criteria	
Time to Expiration:	20-40 days
Strikes In the Money:	1-2 Strikes
Exit Trade:	When target price is hit on the chart

Buying Vertical Spreads:

When using a long vertical spread, we still need to have a strong opinion on which way the stock or ETF is heading in the near term. While the time decay is still going to be there like with a long call or put, the long vertical spread is able to limit the effect of the time decay slightly. We like to use the long vertical spread when we desire to be in a more conservative position. We are able to do this because a long spread is constructed by both buying an option and selling an option with a different strike price at the same time. Vertical spreads offer a unique ability to control risk and reward by allowing us to determine our maximum gain, maximum loss, break-even price, maximum return on capital, and the odds of having a winning trade, all at the time we open a position.

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When setting up a long vertical spread we still like to trade the options that have between 20-40 days left until expiration. We structure the trade by always buying the option that is 1 strike in the money and then selling the strike that is closest to our target for that stock or ETF in the near term. The nice part about using this simple criteria is that it is the same when using call or put options. The criteria is also the same regardless of the symbol of the stock we are trading.

Long Vertical Spread Criteria	
Time to Expiration:	20-40 days
Buy:	1 Strike in the money
Sell:	Strike closest to target price on the chart
Exit trade:	When target price is hit on the chart

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So why wouldn't we trade a spread on every trade? While it's great that vertical spreads limit the risk, they also limit the profit potential at the same time. Our profit is limited to difference between the strike prices minus what we paid for the trade. For example, if we are putting on the long 25/30 call spread that would have us buying the 25 call and then selling the 30 call. This leaves us with a \$5 wide call spread. If we paid \$2.00 for the spread our maximum profit potential would be \$3.00. This is calculated by taking the \$5 difference between the strikes and subtracting the \$2.00 price that we paid for the spread.

Many newer traders get intimidated by trading spreads because they think they will be left with huge risk. However, in reality the long vertical spread is actually safer than buying an outright call or put. The reason for this is that we can never lose more than what we paid for the vertical spread. It is a defined risk trade. This is due to the fact that we are buying the option that is one strike in the money and at the same time offsetting some of that cost by selling the option that is farther out of the money. As a result we are able to lower the overall cost of the trade.

The long vertical spread is one of my favorite trade types and should be a part of your overall options toolbox.

Secret 4: Risk Management - Position Sizing

One of the biggest reasons for traders failing to reach their trading goals is trading positions that are way too big for their account size. I hear it all the time from newer students, "If I just hit a few big winners the whole game changes for me." This approach is completely backwards thinking. When trading with a small account size, it's crucial to focus on consistent growth over time. If you can focus on small winners on a regular basis you will see the power of compounding take over.

I would also much rather see a newer trader take 5-6 small positions instead of 1-2 big positions. With any trading system out there the statistics become more significant as the sample set of trades becomes larger. If you are just taking 1 or 2 trades at a time, it becomes a long shot to see the results you are looking for. However, if you are taking 5-6 trades now all the sudden we can get more diversification built in and also build our sample set of trades larger to make sure the odds are in our favor.

Having a risk management rule in place is crucial to trading success. I have included a sample risk management template below:

Sample Risk Template:

Determine what % of your account size you are willing to have at risk.

In my plan I use the 50% number. This rule says I will not have more than 50% of my account size at risk at any one time. If I am using a \$50,000 account this means I can't have more than \$25,000 at risk across all my different positions. So I would have \$25,000 to work with spread

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across the 26 names on my watch list. If I reach that \$25,000 limit and I get new trades to set up, then I need to either close out of some existing trades to free up capital in order to get back below the \$25,000 level or skip the trade. The 50% number works for me and is a level I am comfortable with. That number could be different for you. It could be 25% or 60%. The number doesn't matter to me as long as you are comfortable with that level of risk and it's something you can stay disciplined to following.

Secret 5: Have a small universe of stocks/ETF's that you look at on a regular basis

*****See attached worksheet below*****

The most overwhelming issue that comes up for a trader on a daily basis is how to find the best trades for that day or week. There are thousands of stocks and ETF's out there that you can trade everyday. Instead of scanning this big list of products on a daily basis, we recommend narrowing the universe of products down to a smaller list that we can get to know really well. This way we can establish a sample set of trades that is large enough to make sure the odds are in our favor.

I write and talk about this all the time in our training materials. I don't want to look at thousands of names on a daily or weekly basis because in many cases you will be left trading names that you aren't familiar with. I would rather focus on a small list of stocks and ETF's that I get to know over time. This way I can easily determine whether I am bullish, bearish, or neutral without spending a ton of time each day staring at the charts.

My watch list can change once a month. Currently my personal watch list is 26 products. These 26 names come from my universe of 50 stocks and ETF's that I track on a monthly basis. In other words, when I created my watch list of 26 names for the month, those names came from my universe of 50 products that I have tracked and researched for an extended stretch of time.

We will share more insight into my favorite Stocks/ETF's in Worksheet A at the end of the EBook which includes a great list that you can start trading today.

Secret 6: Keeping a Trade Journal

Many successful traders talk about how important it is to keep a trade log. I actually like the term '**Trade Journal**' much better. When I think about keeping a trade log, it typically just requires you to document where you got in and out of each trade. Keeping an actual trade journal is more detailed. Documenting each trade that you take is crucial in any type of trading. However, I also like to keep detailed notes on each trade to keep track of more statistics than just entry and exit points.

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Some of the data that I like to track are things like:

- Entry date
- Exit date
- Entry Point
- Exit Point
- P/L
- Average holding time
- Types of trades (if your system has multiple trade types)
- Levels of implied volatility (for options traders)

I then take it a step further and document any key notes or important events that happened during the trade. ***Some of the notes that I like to track are below:***

- Any big news events and how they affected the trade (FOMC statement, earnings, employment report)
- Any holidays that could cause unusual market movement
- How did I execute my trade plan?

All of these notes can make an impact on my trading long term. For example, if I want to know how the market reacts to different holidays throughout the year, then I will want to document key statistics around those holidays. I track volume numbers and ranges for those holiday sessions so I can go back in time to see what the historical results have been. The same is true for I how I track any big news events like an FOMC statement on interest rates or an employment report that are released.

I also evaluate the execution of my trade plans on a regular basis. A trade plan is only powerful if you stick to it and follow it religiously. I can't tell you how many times I have had to learn hard lessons when not following the trade plan. I keep track of all discretionary decisions when I'm trading to make sure all decisions are backed up with statistics. For example, if the numbers don't back up trading between the Christmas and New Year's holidays then I won't take any trades.

How do I keep my trade journal? There are multiple parts of the journal. ***First, I log every trade with the statistics listed above.*** This can be done in a simple excel spreadsheet, a google doc, or even just handwriting things in a notebook.

You will want to make sure you document every trade that you take. While it seems like a lot of work, it only takes a few minutes each day. Think about any other business out there and you will see that it's important to track your numbers to gauge the performance of the business. Trading is no different. Just because we don't have a boss looking over our shoulder holding us accountable doesn't mean we can get lazy and not track our results in a detailed manner.

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The second part of the my trade journal is done by me taking notes on a daily/weekly basis. The last few years I just use a simple google doc for this process. I take note of any big events that affected my trades, along with how I executed my trade plan. The key here is to give an honest assessment of your performance. The only way you will be able to learn over time is if you are hard on yourself. If you make a mistake, take note of it so that mistake is not repeated down the road.

Like any journal, the only way you can benefit from this record keeping is to review it on a regular basis. Take a day each week or month and go to the local coffee shop to review your journal. Take note of areas that are working/not working and make adjustments when needed. This will give you a plan of attack going forward of things that need to be improved on.

Worksheet A: Creating a Watch List

Which stocks and ETF's should I be trading?

Now that we have talked through how we identify trade opportunities, let's circle back and talk about how we establish the best watch list of products that we should be looking at on a regular basis. With thousands of possible stocks and ETF's available to trade, I'm often asked how I decide which ones to trade. It's really a simple process based on a few criteria. The hot list that I trade from each and everyday is based on the criteria that I outline below.

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1. **Liquid Options** – I want to trade the products with the most actively traded options. This way I can get in and out quickly at good prices.
2. **Volatility** – I'm looking for products that show a history of good movement back and forth. Ideally, I'm looking for quick moves so I can get in and out as soon as possible. A stock or ETF that only makes a few decent moves each year is not going to make the cut into my hot list.
3. **Diversification** – It would be really easy for me to load up my entire list with tech names and call it a day. The tech sector tends to lead the market and has an endless number of quality names to trade. However, I would rather establish a broad list of names covering a number of different sectors (tech, energy, financial, index are the big ones for me).

With the above criteria in mind, I have created the following watch list of products that give you a diversified universe of products to trade.

Options Fast Track Hot List:

SPY - The S&P 500 ETF remains one of the most liquid products in the world. The massive volume in the stock and the options make this an easy one to trade. The Implied Volatility has also increased in the past few months which really opens up our options playbook giving us endless trade opportunities to consider. Others to consider: **IWM, DIA**

QQQ - While not as liquid as SPY, the Nasdaq ETF has plenty of volume for us to work with. It's an easy way to diversify as many of the big tech names are reflected in this product. I like this one for pure directional plays as well as for short premium plays (selling spreads).

TLT - With everyone's focus on the Fed these days, I want to have exposure in names that will be active with anything the Fed throws our way. The bond market is an area that can make big moves with anything a Fed speaker says. As a result, having access to a bond ETF like TLT is a great option. TLT is liquid enough for us to do anything that we want with either basic or advanced options strategies. Implied Volatility has also increased in the past few months giving us more flexibility.

AAPL - Apple is still one of the most popular stocks to trade for day traders and swing traders alike. It is a very liquid product, with both the shares of stock and the options very active on a daily basis. I like trading it because it doesn't like to stay quiet for long. It is also an easy name to see defined ranges in. While I love the products that Apple produces I like it as a trading product even more.

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NFLX - Netflix has been a really fun stock to trade for years now. It continues to make really great swings back and forth. When it's not moving, the Implied Volatility is high enough to sell premium making it one of my favorite products to look at these days. The stock split from last year has also made it more accessible for retail traders to look at. The options are reasonably priced and have decent liquidity, making it a top candidate going forward.

C and GS - The financial sector is another area that can be very sensitive to Fed speak. Regardless of experience or account size, you will want to have some exposure with this sector. I like Citigroup and Goldman Sachs for my personal account. They are names that tend to lead the sector both higher and lower and have reasonably priced options as well. The options have decent liquidity, which means we can trade many different strategies with both of these and get filled at good prices. As long as interest rates remain the center of attention, make sure you have a handful of financial names on your list. **Others to consider: XLF, BAC, JPM, FAS, WFC.**

XLE and USO - The price of oil has been all over the place for most of this year and I don't see that changing anytime soon. Both XLE and USO are energy ETF's that we have had nice success with in the Options Fast Track program. I like the liquidity in the options and I like how each one does something different for us. XLE is the slower one of the two and it typically does a better job of getting through the volatile moves back and forth better. USO is directly correlated with the price of the Crude Oil futures market, which means it's a more aggressive way to play directional moves. Both products are liquid enough to do just about any options strategy that you can think of.

EWZ, EEM, and FXI - All three of these are global ETF's which we have had nice success with. EWZ is the ETF tracking the Brazil markets. EEM is the ETF that tracks the emerging markets. FXI is the ETF that tracks the Chinese markets. Much of the volatility that we have seen in the U.S. this year can also be tracked to the movement in the global markets. I like having products that allow us to participate in that movement without being overly exposed to one individual stock. You have to be careful with these names as they do tend to see overnight gaps for us in the U.S. A good number of the moves happen during the overnight hours so you have to be disciplined to not chase trades that have moved without you. The liquidity in these names also tends to be streaky. Over the last few months it hasn't been an issue, but if markets start to settle down in the coming months you will want to watch volumes closely. If they start to go down we will want to potentially reconsider some of these names.

AMZN - Amazon has been a streaky product for us the last few years. When it's on there aren't many products out there that will outperform AMZN. However, when this stock settles into a range it can get ugly quickly. The liquidity in the AMZN options also needs to be watched closely. I haven't had an issue getting filled on my trades at good prices the last few months but if volume does dry up in the coming months we are willing to put this one back on the sidelines. It is a \$600 stock so the options aren't cheap, but I have had really nice success trading vertical spreads on AMZN which is a good way to lower the cost.

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GOOGL - I know Google is another expensive stock, but I have found that it likes to make really nice tradable moves back and forth on a regular basis. This is another product that I like to use vertical spreads on to lower the cost of the trades. However, it is also another one that you have to be picky where you get in and out of trades at. The bid/ask spread can widen out quickly on the GOOGL options, so make sure you do your best to get filled at or near the mid price.

AAL, BA, DAL - The airlines have been a new area to my watch list this year. I like any of these 3 names but I personally trade AAL and BA. I don't always trade these names directionally though. For newer options traders, what I'm talking about here is that I like to sell premium on these 3 whenever possible. Selling spreads is a great way to get exposure to some of these names without placing a big directional bet. With energy prices all over the place, along with the health of the consumer in doubt, I think the airlines could be a good play for the coming months.

GLD - Gold and silver tend to be names that get more active as more doubt starts to creep back into the market. When fear jumps, there are many traders that start looking at the metals for safety. I like GLD over SLV in my own trading as GLD tends to be more liquid and easier to trade. If we continue to see volatility at elevated levels, look for Gold and Silver to remain active.

CMG - When looking for the best stocks to trade you don't often find a restaurant stock on the list. However, Chipotle is not your typical restaurant stock. It can make some wild swings back and forth which gives us some really nice trading opportunities. Not to mention it is very difficult and uncorrelated with most other products on our list. It gives us a great way to expand the diversification on our list. While it's not the most liquid product in the world I have had some really nice results with this name trading spreads this year.

COST, TGT, XRT - Costco, Target, and the Retail Sector ETF are names that I have added over the last 3 months. One area that is important to have some exposure in is the retail sector. These 3 names are actively traded and as the market is focused on the health of the economy and the consumer these names will allow us to participate in the some nice movement back and forth.

FB - Facebook has quickly become a favorite of many active traders. It is a stock that doesn't like to stay quiet for very long. As a result it's a great stock for us to have on our list. We like the swings back and forth and it also has really nice liquidity in the options which makes it easier for us to get good fills on our trades.

These are some of my favorite names that I continue to find great success with in the current market conditions . I'm not saying these are the only names to look at or that you should trade every one of these. However, taking what the market is giving us right now, these are the areas I feel give us the best opportunities to make money. If you want some other areas to look at the argument could be made to have exposure to more retail/consumer related names or even the social media names. Just remember, a bigger watch list doesn't mean bigger profits. Create a

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list of names that is diversified, but is also small enough where you can get in and out each day without spending hours looking at the charts. All of the names listed above are active enough to where we can have multiple types of trades on for each name if we wanted to.

As is the case with any trading approach the key is having a system that you can stay disciplined to. Swaying in the wind with everything you hear in the media these days or from other traders can lead to inconsistent results. Every trader is a little different, so make sure you are using a method that fits your style and risk tolerance. This might take time to develop your methodology but in the end it will make all the difference in the world. ***It's so important that if you don't have a system in place now then take a big step back and don't put any more money to work until that system is in place.*** You will see the benefits right away not only in your P/L but in your confidence as a trader. In the end trading is all about discipline. If you can become that disciplined trader with a detailed system in place then you will be well on your way to success.