

Wiley Trading Series



PROFITING FROM **WEEKLY OPTIONS**

**HOW TO EARN CONSISTENT INCOME TRADING
WEEKLY OPTION SERIALS**

ROBERT J. SEIFERT



WILEY

PROFITING FROM WEEKLY OPTIONS

Founded in 1807, John Wiley & Sons is the oldest independent publishing company in the United States. With offices in North America, Europe, Australia, and Asia, Wiley is globally committed to developing and marketing print and electronic products and services for our customers' professional and personal knowledge and understanding.

The Wiley Trading series features books by traders who have survived the market's ever changing temperament and have prospered—some by reinventing systems, others by getting back to basics. Whether a novice trader, professional, or somewhere in between, these books will provide the advice and strategies needed to prosper today and well into the future.

For more on this series, visit our website at www.WileyTrading.com.



PROFITING FROM WEEKLY OPTIONS

How to Earn Consistent Income Trading
Weekly Option Serials

Robert J. Seifert

WILEY

Cover image: © iStock.com/adam smigielski
Cover design: Wiley

Copyright © 2015 by Robert J. Seifert. All rights reserved.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.
Published simultaneously in Canada.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, (978) 750-8400, fax (978) 646-8600, or on the Web at www.copyright.com. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at <http://www.wiley.com/go/permissions>.

Limit of Liability/Disclaimer of Warranty: While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

For general information on our other products and services or for technical support, please contact our Customer Care Department within the United States at (800) 762-2974, outside the United States at (317) 572-3993 or fax (317) 572-4002.

Wiley publishes in a variety of print and electronic formats and by print-on-demand. Some material included with standard print versions of this book may not be included in e-books or in print-on-demand. If this book refers to media such as a CD or DVD that is not included in the version you purchased, you may download this material at <http://booksupport.wiley.com>. For more information about Wiley products, visit www.wiley.com.

Library of Congress Cataloging-in-Publication Data:

Seifert, Robert J.

Profiting from weekly options : how to earn consistent income trading weekly option serials /
Robert J. Seifert.

pages cm. — (Wiley trading series)

Includes index.

ISBN 978-1-118-98058-3 (Hardcover) — ISBN 978-1-118-98095-8 (ePDF) — ISBN 978-1-118-98094-1 (ePub) 1. Options (Finance) I. Title.

HG6024.A3S437 2015

332.64'53—dc23

2014037475

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

To Ryan, Aly, and Steph, how could I be so lucky?

CONTENTS

Foreword		xiii
<i>Todd “Bubba” Horwitz</i>		
Preface		xv
Acknowledgments		xvii
CHAPTER 1	Market Psychology: The Mind-Set of a Trader	1
	The Herd Mentality: Bubbles	2
	The South Sea Bubble 1711–1721: Trade, War, and Government Collusion	2
	The Cotton Panic of 1837: Land, Commodities, and Government	4
	The Panic of 1893: Railroads Have No Upper Limit	6
	September 11, 2001: Price Can Never Go Up Again	7
	The Commodity Bubble of 2008: Price Can Never Go Down Again	8
	Bitcoin 2009 to Present: Crypto-Currency Meets Greed	10
	Lessons to Be Learned	11
	Chapter 1 Quiz	12
CHAPTER 2	Modern Markets	15
	Equity Markets	15
	Liquidity	16

	Flow of Funds	17
	Futures Markets: Origins	18
	Calculating Future Contract Values	18
	Tick Size	19
	Margin	20
	Stock Index Futures	20
	Index Futures versus Stock	21
	Forex: Currencies	22
	Options	22
	Summary	23
	Chapter 2 Quiz	23
CHAPTER 3	Technical versus Fundamental Price Analysis	27
	Summary	29
	Chapter 3 Quiz	29
CHAPTER 4	Phases of the Market	31
	Congestion	31
	Breakout to the Trend	33
	Blowoff	35
	Summary	37
	Chapter 4 Quiz	37
CHAPTER 5	The Relationship of Time and Price	41
	Summary	47
	Chapter 5 Quiz	48
CHAPTER 6	Introduction to Options	51
	Basic Option Glossary	51
	Working Option Vocabulary	56
	Summary	58
	Chapter 6 Quiz	58
CHAPTER 7	The Option Model	63
	Games of Chance	63
	Air in the Balloon	66

	Summary	67
	Chapter 7 Quiz	67
CHAPTER 8	The Option Chain	71
	Summary	80
	Chapter 8 Quiz	80
CHAPTER 9	Option Trading Strategies	83
	Why Selling Naked Options Is Always Wrong!	83
	Suitable Option Trades	85
	The Credit Spread	91
	Summary	99
	Chapter 9 Quiz	100
CHAPTER 10	Why Trade Weekly Options?	105
	Buying a Call or a Put Outright	110
	Summary	112
	Chapter 10 Quiz	113
CHAPTER 11	Midterm Review	115
	Psychology	116
	Liquidity	116
	Market Pricing	116
	Phases of the Market	117
	Relationship of Time and Price	117
	Option Vocabulary	117
	Summary	118
	Test for Chapters 1–10	119
CHAPTER 12	Standard Deviation—The Mathematics of the Price Cycle	127
	Summary	131
	Chapter 12 Quiz	131
CHAPTER 13	Trading in a Congestion Phase of the Market	133
	Trade One: Buying an Outright Option	136
	Trade Two: Credit Spreads	139

	Trade Three: Risk Reversals	143
	Trade Four: Backspread (1×2 for Even)	146
	Summary	150
	Chapter 13 Quiz	151
CHAPTER 14	Trading in a Trending Phase of the Market	155
	Trade One: Buying an Outright Option	156
	Trade Two: Credit Spreads	160
	Trade Three: Risk Reversals	163
	Trade Four: Backspread (1×2 for Even)	165
	Summary	167
	Chapter 14 Quiz	168
CHAPTER 15	Trading in the Blowoff Phase of the Market	173
	Trade One: Buying an Outright Option	175
	Trade Two: Credit Spreads	177
	Trade Three: Risk Reversals	180
	Trade Four: Backspread (1×2 for Even)	182
	Summary	183
	Chapter 15 Quiz	183
CHAPTER 16	Selecting a Portfolio to Trade	187
	Liquidity	188
	Volatility	190
	Diversification by Product	190
	Diversification by Dollar Risk	191
	Summary	192
	Chapter 16 Quiz	193
CHAPTER 17	Managing Your Equity	197
	Risk of Ruin	197
	Risk Capital	198
	Volatility	199
	Win Rate	199
	Starting Capital	200

	Summary	200
	Chapter 17 Quiz	201
CHAPTER 18	Organizing Trades and FAQs	203
	Step One: Observing Your Portfolio	203
	Step Two: Observing the Major Trend and Making a Trade	204
	Step Three: The Amount of Equity Needed to Trade Each Strategy	204
	Frequently Asked Questions	205
	Summary	207
	Final Exam: 100 Questions	207
	Appendix I: Answers to the Chapter Quizzes	222
	Appendix II: Days until Expiration Straddle Values	235
	Glossary of Option Terms	237
	About the Author	247
	Index	249

FOREWORD

Todd “Bubba” Horwitz

I first walked onto a trading floor at the CBOE in September of 1982. I was 24 years old and I knew that I wanted to be involved in the option market. I was one of the original market makers in the SPX, and it was quite a thrill. When you trade for a living, every day is a new adventure; you never know what is going to happen next but you know that it will be interesting. Over 30 years later, I still can't wait for the opening bell!

xiii

So much has changed since I started to trade that it isn't the same business anymore. Now there is really no open outcry, the markets have shifted upstairs to the electronic platforms, and the trading pits are almost empty. When I started to trade, the option markets only had four expirations per year. Gradually, the powers that be figured out that if you had an expiration each month, that would bring more customers into the markets and provide greater liquidity. Another major policy change was to narrow the bid–offer spreads to \$1, and that brought even more business into the market. All of the changes made it better for the retail customer.

In 2010, the SEC decided that it would allow customers to trade options on a weekly basis, bringing the expiration total to 52 times a year. Finally, three years ago, the exchanges were approved to list weekly options that would fill out the rest of the month so that they could be used for calendar spreading and rolling positions back one week instead of one month. The weekly option market has grown so much in the last year or so, it is now liquid enough to allow the retail trader to compete with the giants of Wall Street.

I am very pleased to have helped to educate scores of students on how to successfully integrate weekly options into their arsenal of trading tools, and I am