OPTION

Nail the market — Find the best stocks — Apply leverage.

Welcome!

Thank you for registering for this book.

I started my career over 30 years ago in the CBOT 30-year bond pit. Since then I have been the SVP for a large brokerage firm, traded options for a hedge fund and built a state-of-the-art trading platform called Option Stalker. During those three decades I've seen it all and I've tried it all.

These experiences have forged my beliefs on how to successfully trade stocks & options. Follow this decision making process and you will greatly improve your performance.

Pete Stolcers — Founder, OneOption LLC

How To Make Money Trading

1. Nail The Market
2. Find The Best Stocks
3. Apply Leverage

Introduction

As obvious as this seems, many traders lose sight of the market. They zero in on a stock and they become oblivious to the surrounding conditions. Over **75%** of all stocks follow the market so you must get this key component right. It's all about context. Where has the market been and what is it likely to do?

Sometimes the direction is clear and other times it is not. During times of uncertainty **(1)** it is important to reduce your size and to focus on option selling strategies so that you can distance yourself from the action. Conversely, when the trend is strong **(2 & 3)** and the probability of nailing the market is high, you need to buy options and you need to increase your size.

Think of the professional Blackjack player who places small bets when the probability is low. He counts cards and when the conditions are favorable he ramps up his bet. This is what you do as a trader.

Your market forecast and your confidence in it must drive all of your trading decisions.

Scheduled News

This first section is a little dry and it seems like common sense. Don't discount its importance.

Scheduled news events often drive the market. You need to know when these releases will hit the wires and the expected outcome. These events include the FOMC statement, economic releases, political events, and major earnings releases. There are many sources for this information and www.investing.com is one of the many that I use. In the screenshot you can see that "Fed speak" and foreign exchange holidays (low US volume) are listed.

As a trader you need analyze previous reactions to the news and you need to conduct technical analysis to quantify the expected price movement for various outcomes. This allows you to develop a game plan and you will know exactly what to do when the news is released.

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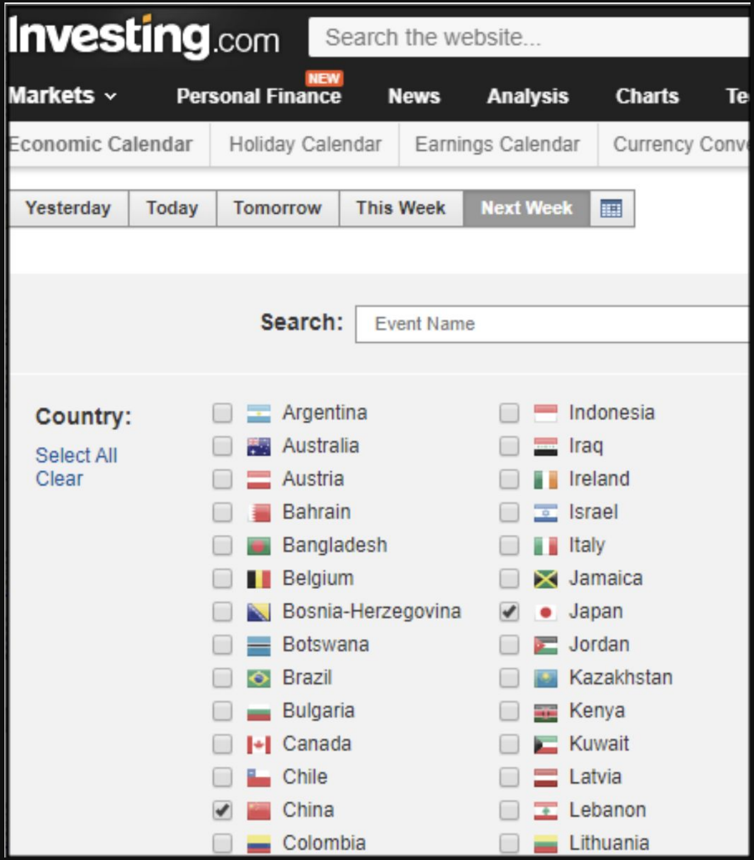
11:40	EUR		ECB's De Guindos Speaks			
Tuesday, October 22, 2019						
All Day		Holiday	Japan - Holiday			
04:00	EUR		ECB Bank Lending Survey			
04:30	GBP		Public Sector Net Borrowing (Sep)	8.73B	8.80B	4.92B
04:30	GBP		Public Sector Net Cash Requirement (Sep)	2.655B		6.387B
06:00	GBP		CBI Industrial Trends Orders (Oct)	-37	-28	-28
31 min	USD		Redbook (MoM)			-0.2%
31 min	USD		Redbook (YoY)			4.1%
10:00	USD		Existing Home Sales (Sep)		5.45M	5.49M
10:00	USD		Existing Home Sales (MoM) (Sep)		-0.7%	1.3%
10:00	USD		Richmond Manufacturing Index (Oct)		-7	-9
10:00	USD		Richmond Manufacturing Shipments (Oct)			-14
10:00	USD		Richmond Services Index (Oct)			6
13:00	USD		2-Year Note Auction			1.612%
13:00	USD		FOMC Member Kaplan Speaks			
Tentative	USD		Federal Budget Balance		83.5B	-200.0B
16:30	USD		API Weekly Crude Oil Stock			10.500M

Scheduled News

In general here are the important economic releases to watch: ISM Manufacturing, ISM Services, ADP, the Unemployment Report, retail sales and GDP. It is also important to monitor these same releases in major economies. China is the second largest economy in the world and I monitor imports/exports, industrial production, GDP, retail sales and the official PMI.

Investing.com lets you filter the news by country and I typically only monitor the US, China, Europe, Japan and India.

Pay particular attention to releases that hit during trading hours. You need to set a reminder because it is easy to forget about them when you are focused on trading.



Scheduled News

In time you will know which numbers are important and which ones are not. For instance, Durable Goods Orders are volatile and they do not carry much weight on a month-to-month basis. On the other hand, ISM services is an important number because the service sector accounts for 80% of US economic activity. As a survey it is a current reading (not backward looking) and it is released 30 minutes after the open. As you can see in the chart, traders who did not plan their day around the ISM services release might have taken big losses.

Your research might indicate that a scheduled event has the potential to surprise the market. This presumption might come from trending data points, corporate earnings guidance or comments made by Fed officials. Don't try to predict the news, prepare for the expected price movement. If you think the surprise will be bearish, prepare a list of weak stocks to short and reduce your long positions into the number.

Scheduled News

Political events and government policies can have a huge market impact. President Trump's 2017 tax cut fueled a market rally and it is a good example.

People are harder to predict than economic data points. It's important to know when the calendar is "heavy" and to reduce risk ahead of that market volatility. Trade deals, debit ceilings, tax policies, elections and economic sanctions are examples of political events. Know when press conferences are scheduled and don't get blind-sided. Tweets are a new way for politicians to communicate – subscribe to their feed. Tweets can wreak havoc and there is no way to prepare for them. Sometimes they will work in your favor and sometimes they will work against you.

Scheduled News

Conclusion

Devise a game plan for scheduled events. Know which releases are important and which ones have a chance to surprise. Conduct scenario analysis and define the expected price movement for each outcome. Reduce risk and hold off on new trades ahead of big news.

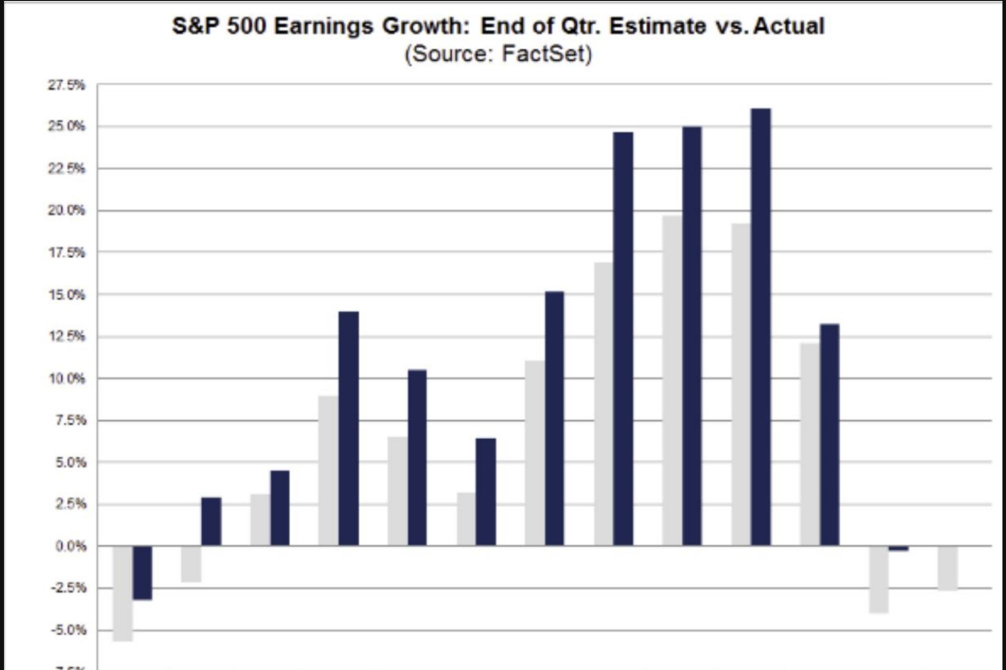
Don't gamble on a hunch. There are multi-billion dollar trading firms with incredible research departments trying to predict moves. We don't have those resources so wait for the reaction and have your orders loaded. Instead of adjusting losing positions from a bad hunch you will be focusing on the opportunity at hand.

Fundamental Analysis

Fundamental forces are always at work and they have a long-term impact on market direction and momentum. Economic growth, stock valuations, interest rates and credit are the most important market fundamentals.

Most economic releases are backward looking. They do have a market impact, but there are better sources for forecasting current and future growth.

Earnings growth rates determine if current valuations are too high or too low. Know when the market is trading at the upper end of its valuation range or the lower end. Watch the aggregate beats and misses and monitor if the earnings growth rates are on track during earnings season. Corporate guidance provides foresight and this is a great way to forecast economic growth in various sectors. Search for the S&P 500 earnings scorecard to track the results. Yahoo Finance publishes the results.



	Q216	Q316	Q416	Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119	Q219
End of Qtr.	-5.7%	-2.1%	3.1%	9.0%	6.5%	3.2%	11.0%	16.9%	19.7%	19.2%	12.1%	-4.0%	-2.7%
Actual	-3.2%	3.0%	4.6%	14.0%	10.5%	6.5%	15.2%	24.7%	25.0%	26.1%	13.2%	-0.3%	

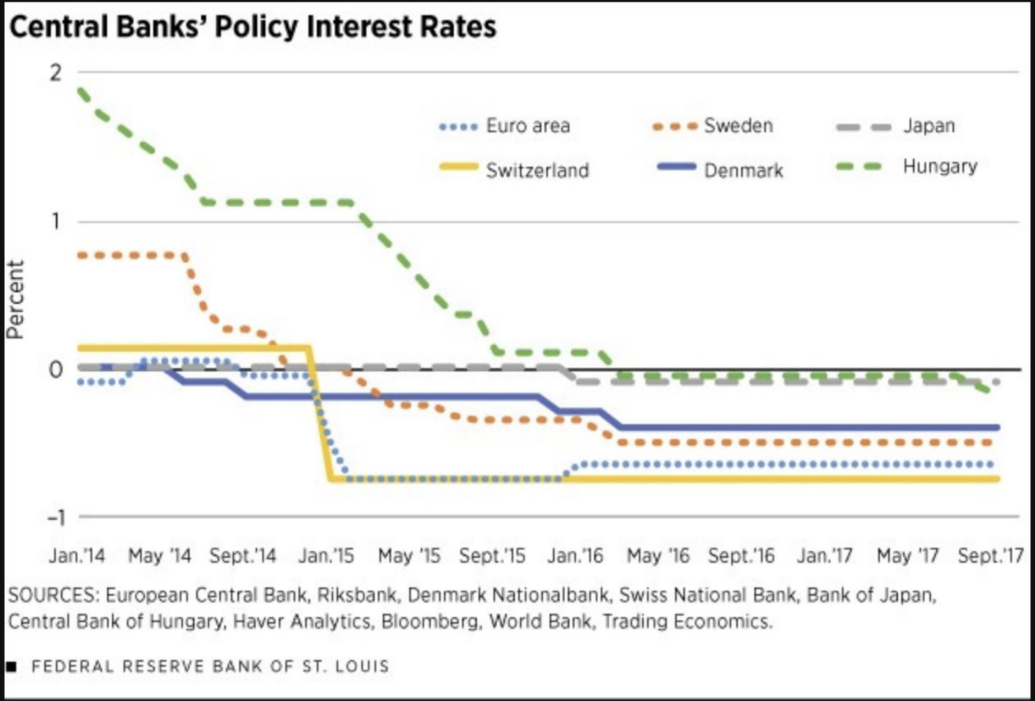
Fundamental Analysis

Interest rates are important to the market and it is addicted to loose monetary policy. Low interest rates encourage consumers to borrow money and that makes them more inclined to spend. Central banks stimulate economic activity by lowering interest rates when economic conditions are slumping. They raise rates to curb economic growth, especially when inflation starts to rise. As of this writing, central bank easing is not stimulating economic growth. In many parts of the globe interest rates are negative. These low yields are propping up the market, but not because of the impact on economic activity.

On the next page I will explain how this is providing a safety net for stocks. The important take-away for traders is that extremely low interest rates reduce market volatility.

Fundamental Analysis

With bond yields at historic lows, fixed income investments are generating negative real returns because the inflation rate is greater than the yield. Investors are forced to own equities to generate a reasonable rate of return. Central bank easing allows companies to borrow at a very low cost and they are using the proceeds to repurchase shares. In the last 10 years the outstanding shares have been cut in half. With the same amount of money chasing fewer shares the price goes up. Consequently, market volatility is low with interest rates near 0% because money is always looking to flow into the market on pullbacks… PROVIDED THERE ARE NO CREDIT CONCERNS

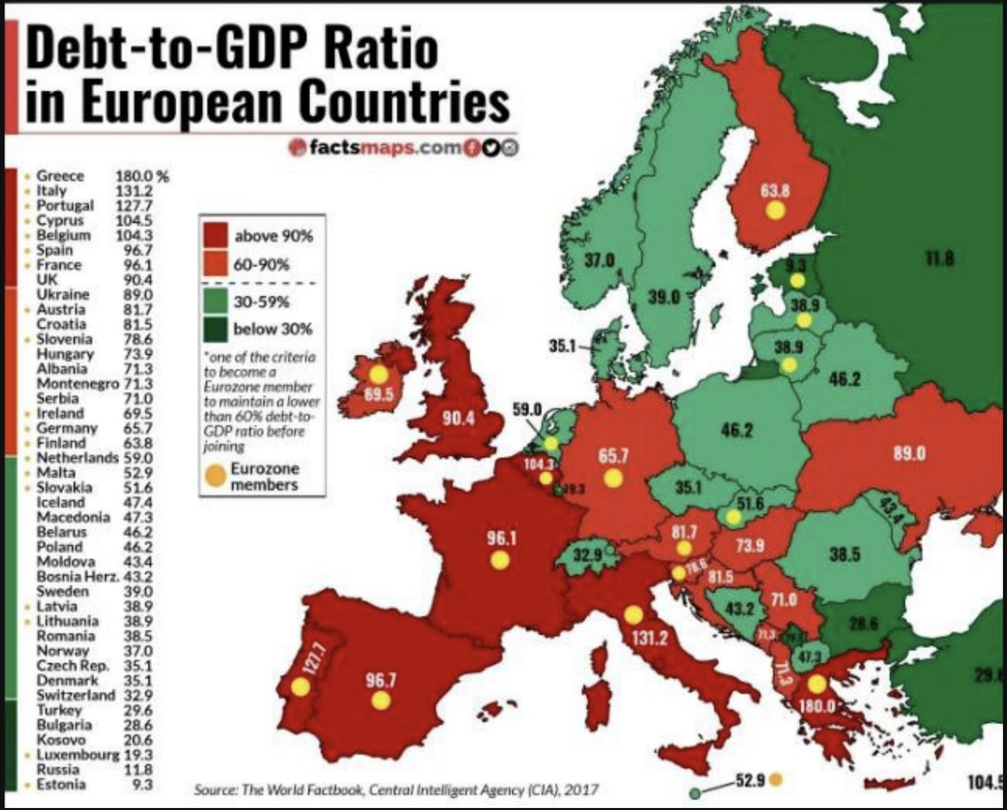


Fundamental Analysis

Credit is the oil that lubricates the economic engines of the world and a crisis can lead to sustained market declines. Financial institutions were responsible for the 2008-2009 market crash and the market dropped 50% from its high. Sovereign debt could be a future problem as the debt to GDP ratios climb to new record levels. Many analysts feel that the next financial crisis could happen on a global level.

If bond yields spike, monitor global interest rates and sovereign bond auctions. A sudden rise in yields is a warning sign. Corporate bond defaults are also a warning sign if they start to rise across an industry.

Credit is not something that you have to monitor every day. When interest rates spike credit becomes your sole focus because a crisis can spread quickly and result in a market correction. The drops are extreme due to margin calls, asset reallocation and panic selling



Technical Analysis

Technical analysis is easier to track and interpret than fundamental analysis. The shorter your time frame the more you should rely on technical analysis.

Trendlines are used extensively across multiple time frames. The longer-term the trendline, the more weight it should carry. The more data points it connects the more significant the breach.

When drawing trendlines I use the high and the low of the bars instead of the open and close. I feel that this gives the stock more room to move. Try to connect as many highs (downward slope) or lows (upward slope) as you can.

Many proprietary trading programs use algorithmic trendlines so they are closely monitored and they are important. I will discuss trendlines in greater detail in the stock section.

Technical Analysis

Major moving averages are watched by financial institutions and traders. Consequently, they are self-fulfilling; the more traders that rely on them the more relevant they become.

The 200-day, 100-day, 50-day and 20-day simple moving averages are the most widely used. The longer term the moving average, the more significant it is.

These are resting points for the market and when they are within striking distance they often act as magnets. This allows us to gauge how far the market might move and its likely destination. The support and resistance provided by these moving averages is very helpful when structuring options trades. We will discuss that in the stock section.

When the SPY bounces before it reaches a major moving average (200-day MA in the chart) it is a sign of strong support. Buyers are scooping shares up before the moving average is even tested.

Technical Analysis

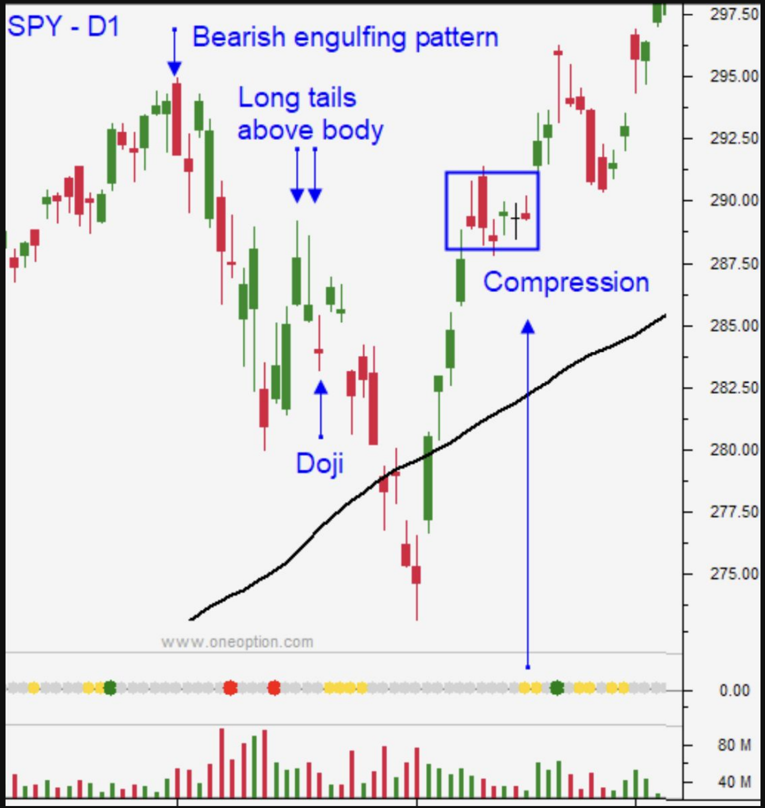
Price patterns often signal what's ahead. Here are my favorite short-term patterns. Each has a bearish counterpart.

Bullish Hammer and Bullish Engulfing – On a new relative low these patterns are bullish and they signal a bounce or possibly a reversal.

Doji – These tiny little bodies are a sign of equilibrium and the market is resting. If they are grouped together it signals quiet conditions and a compression.

Compressions – The longer and tighter the range, the bigger the breakout.

Long tails/wicks under bodies – Near the low end of a trading range this is bullish when there are 2 or more. Long tails above the body is bearish at the high end of the range when there are 2 or more.



Technical Analysis

Volume is very important because it reveals the level of participation. Big moves on light volume carry less weight than big moves on heavy volume.

In a long-term bullish trend volume tends to increase during market declines. Often there will be a huge spike in volume near a support level. When combined with a bullish hammer or bullish engulfing pattern it can be a sign that a major reversal is about to begin.

In a long-term bullish trend, light volume near the high is a sign that there is not much conviction. Buyers are passively bidding and there is a chance that profit taking will set in.

Seasonal Patterns

Seasonal patterns are market anomalies.

In January, small cap stocks tend to outperform.

“Sell in May and go away.”

The market is historically weak from September – October and strong into year-end.

End-of-the-month/beginning-of-the-month fund buying has a positive effect on the market. It starts the last 2 days of the month and lasts the first 3 days of the new month.

Quadruple witching impacts market volatility the week of expiration. Monday – Wednesday are typically bullish and Thursday – Friday have a slightly negative bias.

S&P 500 Quadruple-Witching Week

	Mon	Tues	Wed	Thurs	Fri
No. of Returns	25	25	25	25	25
Average Return	0.17%	0.15%	0.25%	0.04%	-0.15%
Median Return	0.08%	0.22%	0.13%	-0.06%	-0.05%
Percent Positive	56.0%	64.0%	60.0%	48.0%	44.0%
Std. Deviation	0.80%	0.62%	0.90%	0.95%	0.75%

Define Your Time Horizon

Always have a longer-term perspective on the market. It gives context to the current moves.

For a time horizon inside of two weeks, rely more on technical analysis. Know where the longer-term moving averages are and if they will come in contact with the likely range. Horizontal support/resistance and shorter-term trendlines are your roadmap. Define and adjust these support and resistance levels daily.

Use longer-term charts for technical analysis if your time frame is more than 6 weeks and include fundamental analysis. Earnings announcements, economic releases, political events and Fed meetings often come into play and need to be considered.

If you trade in a 4-6 week time and your confidence is low, consider a shorter time frame where your confidence is higher.

Form Your Opinion

At this stage you have all of the information. It's time to put the puzzle pieces together.

There will be times when you have excellent clarity and other times when you don't. Your forecast for price movement and your confidence in your forecast are what drive all of your trading decisions.

If you are certain the market will be in a tight trading range you should focus on selling out of the money bullish and bearish spreads.

If your confidence in a directional move is high and the expected move is large you should buy options.

If your confidence in your forecast is low you should trim your size and activity. There will be times when you should not trade.

Define Your Strategy

The chart on the previous slide was a real example.

We were waiting for the market drop and for it to find support. The bullish hammer off of the 200-day MA was the technical pattern we were looking for.

Trade negotiations with China were improving and the threat of a hard UK exit from the EU was decreasing. Both events were creating uncertainty and both were weighing on the market.

US economic conditions were slipping, but the Fed was likely to lower interest rates.

Earnings season was starting and that typically attracts buyers. There had not been many preannouncement warnings.

We had the technical pattern we were looking for and the news cycle was market-friendly.

We aggressively bought calls and held them overnight. We took profits the next day.

After that initial move we started to sell out of the money bullish put spreads. The market had strong support, but the market was choppy and the trading volume was low. That kept us from getting more aggressive. Bullish put spreads allowed us to distance ourselves from the action and to take advantage of time decay.

Our market opinion determined our option trading strategy. Next we had to find strong stocks that were setting up for bullish put spreads.

Let Us Help

Pre-open Market Comments are posted before the opening bell with all of the fundamental and technical information you need. I conduct research hours before the open. I will tell you where the market is likely to go and I will outline the current option strategy.

The Morning Video is recorded 45 minutes after the open. I start it with market analysis and I update key levels to watch. During the video I reinforce some of the technical levels we are watching and I predict how the day will play out.

The Chat Room displays our proprietary buy and sell signals on a 5, 15, 30 and 60-minute basis. When they all agree the market trend is very strong.

S&P 500 trades are posted in the chat room and members can join the trade or find stocks with that directional bias.

The Swing Trading Video is recorded Wednesday evenings and it has a 1-2 week time horizon. It starts with a recap of the fundamentals that are driving the price action and we look ahead for possible events that could have an impact. Next we conduct technical analysis and we draw our conclusions. We provide key levels of support and resistance that would impact our opinion.

Market research is critical to our success and it is very time-consuming. Make sure that you always have a chart of the S&P 500 in front of you when you are conducting stock analysis. Market first!!!

How To Make Money Trading

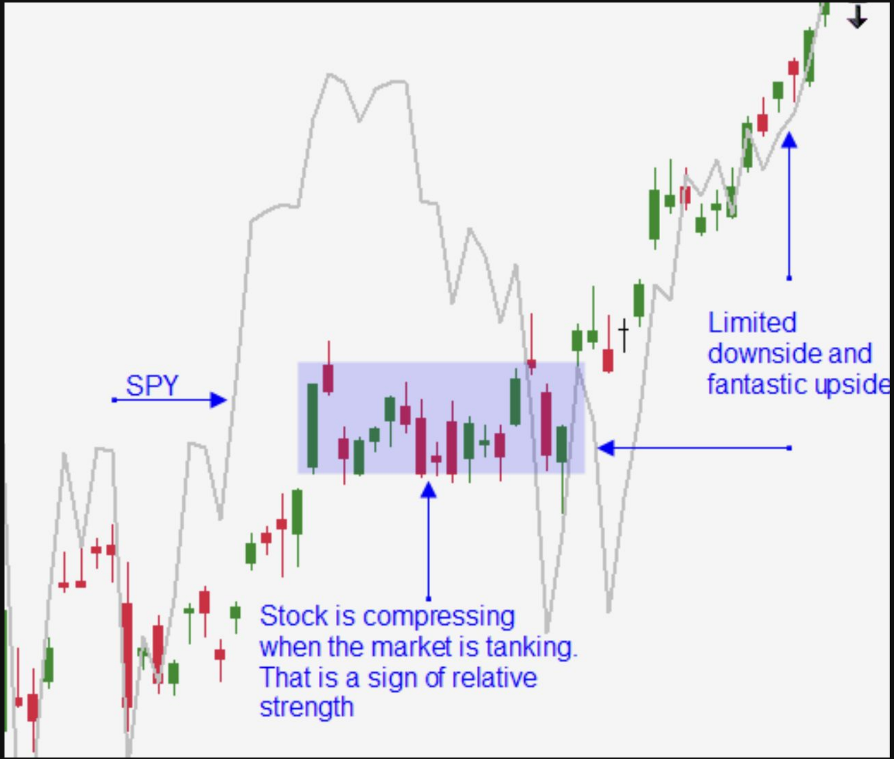
1. Nail The Market
2. Find The Best Stocks
3. Apply Leverage

Why Trade Stock?

If our market analysis is so accurate, why not just trade S&P 500 futures?

Trading futures is great when you have very high-probability market patterns and heavy volume, but this is the exception and not the rule. This is the most liquid futures contract in the world and when institutions use it to adjust risk/asset allocation it can be choppy. If you are on the wrong side of the market and you are trading futures you will lose money… period.

As individual traders we have a HUGE edge trading stocks that are strong/weak relative to the market. We use the stock as a surrogate market position. If our forecast was bullish and we bought the stock on the right we would have dodged a bullet when the market tanked. Our forecast was wrong and our losses were minimal because we were in the right stock.



Fundamental Analysis

Fundamental analysis is important when you are evaluating the market, but it is not as critical once you get to this stage. Over 75% of all stocks follow the market so it is critical that we get the market right.

Our trade duration is typically less than a month and corporate fundamentals don't change that rapidly. We do need to be aware of earnings dates and I do not recommend holding over those announcements.

Longer-term investors need to monitor key financial ratios, macro business conditions, growth rates and pending news (FDA approvals, trials, litigation and regulation).

Short to medium-term technical analysis is all I use for my stock trades because my time horizon is less than 2 weeks.

Technical Analysis

Relative Strength

Relative strength is often confused with the RSI indicator. RSI compares the stock's current movement to its recent momentum. That is NOT what we are interested in.

We want a stock that is up when the market is down. That is our definition of relative strength. This is a tremendous edge. In the event that we get the market wrong or the market makes a surprise move, these stocks will hold up well and they will provide us with precious time to reconsider our forecast. In the chart on the right the dotted line is the SPY trend and the solid line is the stock trend.

Sometimes we have to take a loss on a trade when we get surprised by the market, but most of the time we can breakeven or make money by being in the right stock - even when the market throws us a curveball. When our market forecast is correct and we get the stock right, the profits come quickly

Technical Analysis

Indicators

There are many technical indicators and for the most part they are very useful. Know what the indicator is trying to measure and how to use it properly.

The most widely used indicators are MACD, RSI, ADX, Stochastic Oscillator and On Balance Volume.

Look for stocks where the same indicator confirms a signal over multiple time frames. This greatly increases the quality of the signal.

Find combinations of indicators that work well together. It is always best to have confirmation from more than one indicator. Make sure the indicators are uncorrelated (not measuring the same thing).

Know if the indicator tends to be early or late and understand under which conditions the indicator does not perform well.

I use ADX as a search variable to find momentum

Technical Analysis

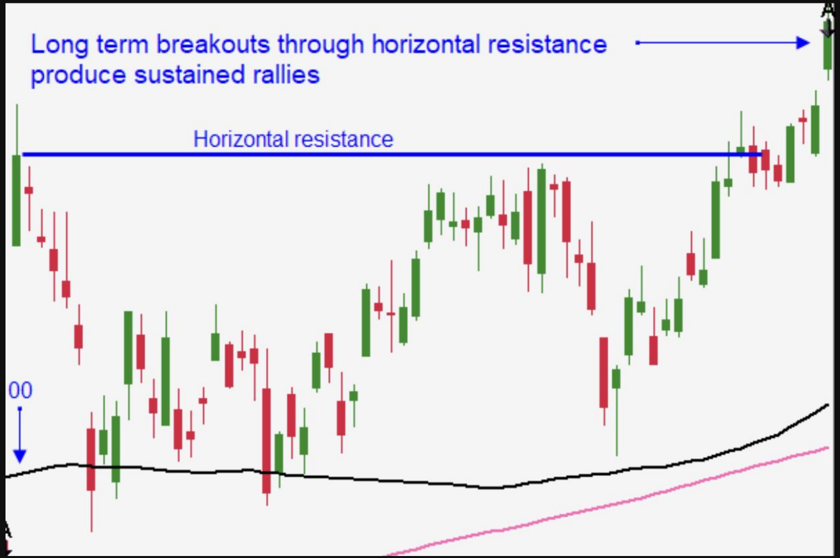
Support & Resistance

Major moving averages, horizontal support/resistance and trend lines are important to my technical analysis.

I use the 200, 100 and 50-day simple moving averages on all of my daily charts. They are used by most traders and that makes them relevant. This support and resistance helps me develop my game plan for each stock.

Horizontal lines are important on a long-term and short-term basis. Long-term breakouts through horizontal resistance after a compression tend to produce sustained rallies. Prior day highs/lows become horizontal resistance/support for day trading. Once the stock breaks through resistance that level becomes support.

I use trendlines extensively for my day trading. The more data points they connect the more relevant they are. Gradual slopes are more meaningful than steep slopes.



Technical Analysis

Price Patterns

Price patterns signal major moves and here are some of my favorites on a swing basis. There are many books on technical analysis that outline these patterns in detail.

Bull Flag – When a stock makes a sharp move higher draw a downward sloping trendline on the first pullback. We want to buy that dip and join the trend. Your charting software should have diagonal trendline alerts.

Head and shoulders – The stock broke through resistance and made a new relative high. After a pull back the next attempt at the high fell short forming the right shoulder. Short the stock when the neckline is breached.

Cup and handle – The stock makes a new relative low. On the next attempt to test the low the stock finds support at a higher level forming the handle. Buy the stock when it clears the lip.

Compressions – The longer and tighter the compression the bigger the breakout. This coiled spring produces sustained moves when it releases

Technical Analysis

Price Patterns

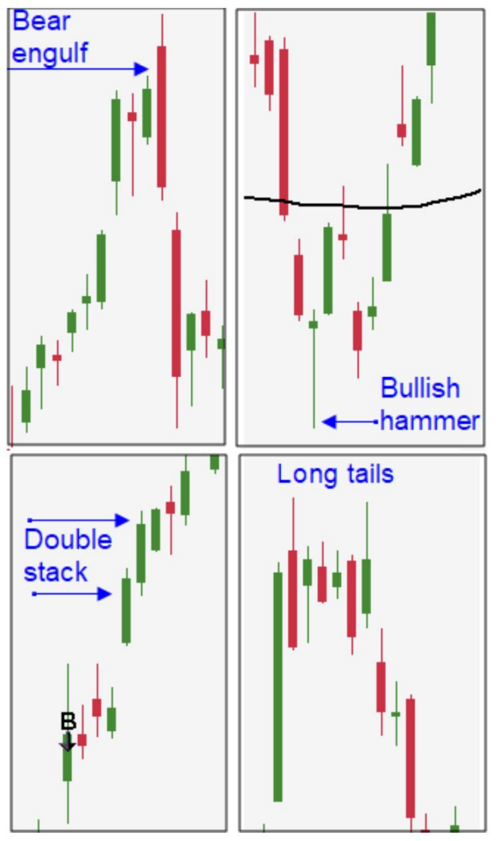
Here are some of my favorite price patterns on a short-term basis. Each of these patterns has a bullish/bearish counterpart.

Bearish Engulf – The stock opens higher than the prior day's high and it closes below the prior day's low. It engulfs the prior candle. Near a relative high this is bearish.

Bullish Hammer – The stock makes a relative low and it reverses sharply to close near the high of the day. Look for follow through buying.

Double/Triple Stack – Two or more long green candles that close near the high of the bar and that do not overlap. This is the start of a sustained move. It is hard to buy after a big move, force yourself.

Long Tails – The stock tries to make a new relative high but each time it closes in the lower quadrant of the candle. Tails above body are a sign of resistance and they are bearish when they group at the upper end of the range. This is a sign of exhaustion.



Technical Analysis

Price Action

Price action refers to the general price behavior of a stock over a longer period of time. Some stocks have nice trends while others are random and choppy.

I look for nice orderly price movement with trends that run their course over a matter of weeks. The price action needs to be tight and I avoid stocks with frequent gaps and long tails. Ideally there are a series of nice green candles that are grouped together and the pullbacks are small.

When you look at a chart ask yourself if you can reasonably predict where the stock is going next. This type of price action also lends itself to trend line entries/stops. When the move exhausts itself and the stock breaches the up trendline, take profits.

Technical Analysis

Volume

Heavy volume legitimizes big moves and trends. During a rally it is a sign that buyers are aggressive. As long as the volume remains strong these dips will be scooped up before they gain traction. Profit taking causes these retracements and they do not last long. You will typically see a series of bull flags and these are entry points when the down trend is broken. I search for relative strength and heavy volume to nail these gems.

Heavy volume on a relative low followed by a bullish hammer or bullish engulfing pattern is a sign that a reversal is coming. I call this formation a “capitulation low” or a “clean-up”. Look for follow through buying that lasts days... or longer.

Low volume rallies are a sign of low conviction. If long tails above the body start to form, prepare for a pullback. A bearish hammer or bearish engulfing pattern would also signal a top. These low volume rallies are vulnerable to profit taking and bullish speculators are easily flushed out.

Be Selective

There are hundreds of stocks with liquid options and you only need a handful of positions at any moment to make great money. If you can't form a directional opinion… keep looking.

Your probability of success increases with every desirable characteristic the stock possesses.

For example, this chart shows nice orderly price action and a low with a bullish hammer. The downtrend line has been breached. That was a nice entry on the low, but perhaps you did not see it until the gap up. It came on extremely heavy volume. Draw a down trend line on the dip that followed the gap and buy when the downtrend is breached.

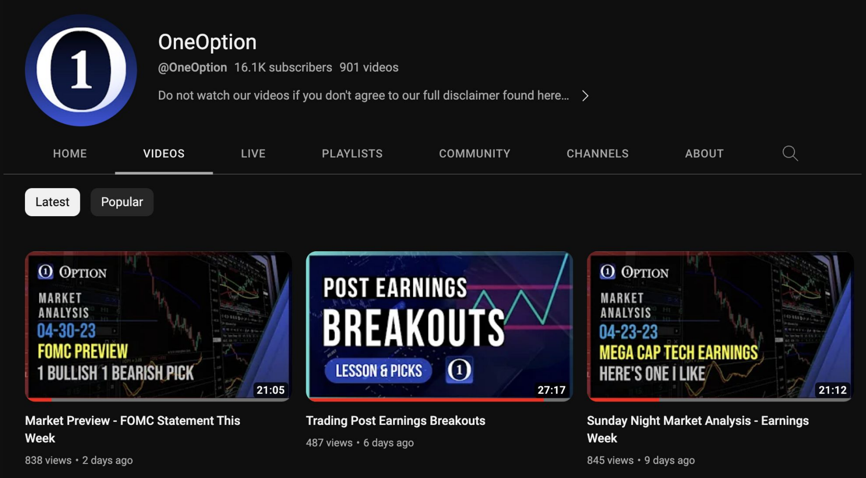
During the move upward, watch the stock at major moving averages and monitor relative strength. Draw an ascending trendline and use it to manage profits.

OneOption Videos

Here's how we can help you find the best stocks. Several times a week, I record videos to show you how to apply this system. I use Option Stalker searches to find stocks according to the market backdrop, and I explain why I like the stock and how I found it. Typically I only day trade stocks that I also like on a swing basis. Pro traders and members also post new stock trades in the chat room during the day. They provide entries and exits on a timely basis.

Once a week I record my Swing Trading Video. It has a longer term perspective and I start each video with a review of ALL of the trades from the prior week. It's important that you see the consistency and success of this approach. When a trade goes poorly we review it and we learn from it. This video also gives me a chance to conduct market analysis and to describe the option strategy we should be using.

Every pick has a game plan and you will know exactly what to do during the week.



Custom Search

Our searches make it so easy to find great stocks. On the next two pages you will see our favorite searches that are pre-configured in the Option Stalker Scanner.

Create your own searches with Custom Search. Every indicator has been optimized for the time frame you select. Just mark the boxes and run the search.

Cast a wide net and then draw it in by adding constraints. The more boxes you mark the higher the probability of success. This resource is very fast and easy to use.

Create powerful combinations or search for stocks where the same indicator confirms across multiple time frames. Save your favorite searches for future use.

We will teach you how to conduct searches every day in our videos and I post the ones I'm using in the chat room.

Preconfigured Scanners

Favorite Searches

These first four scanners will help you spot movers.

Pre-Open Gainers - Current bid is $0.50 higher than the previous day closing price. This search starts updating one hour before the open.

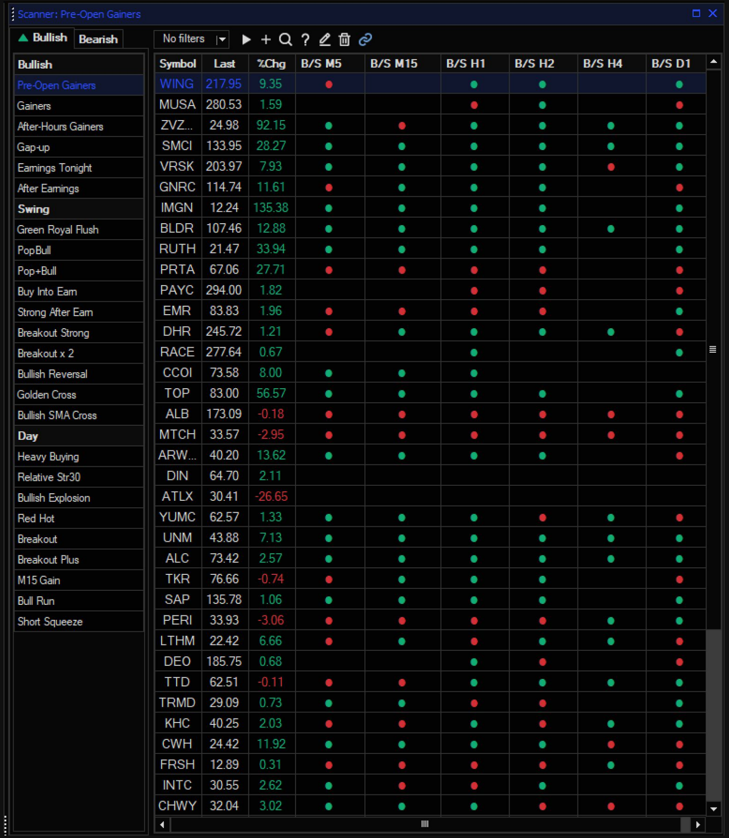
Gainers - Net change ($) is at least $1.00.

After-Hours Gainers - This search updates after the close and the stock bid must be 50¢ greater than the closing price of the regular session. This search is particularly useful during earnings season when companies announce after the close.

Gap-Up - Both Today's Open and the Last Price are higher than the previous day high.

Earnings Tonight - The stock is up today and will post earnings after the close today or before the open tomorrow.

After Earnings - The stock posted earnings after the close yesterday or before the open today. It is above the prior day high and it has liquid options. This is excellent for finding post earnings plays.



Preconfigured Scanners

Swing Searches

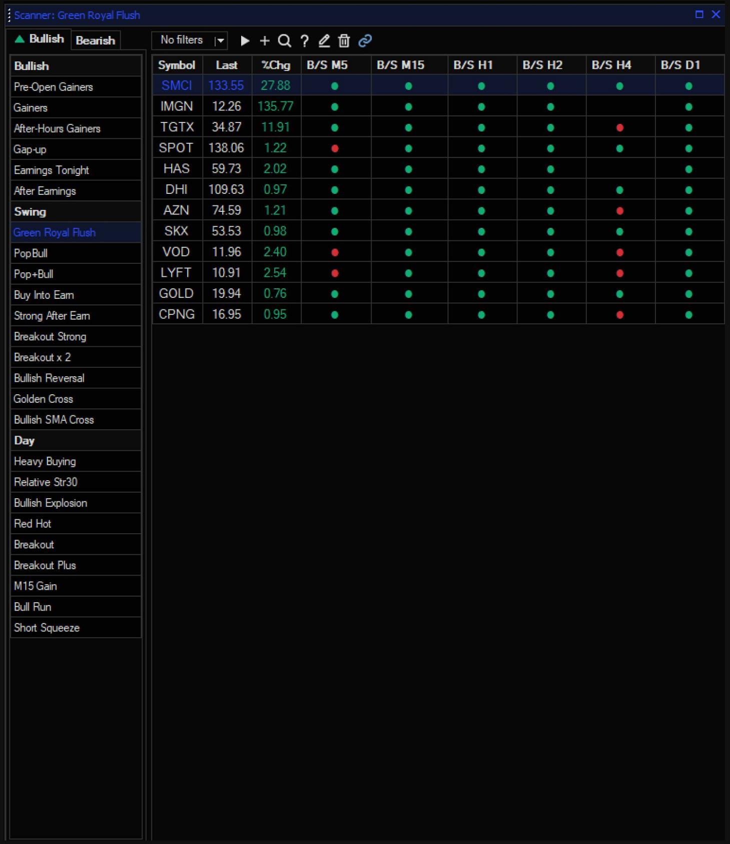
These searches use longer term variables and they are ideal for swing trading. You may not need any other searches - they are that good.

Green Royal Flush - This scanner identifies all symbols, excluding ETFs, with Buy Trade Signals across all timeframes, 20-day average volume > 1 million shares, Option Liquidity rating > -2, and price > Prior day High and >= $10.

PopBull - This is my favorite search... period. If I could only have one search this would be it. PopBull looks for stocks that have been on a compression and that are breaking out through horizontal resistance on heavy volume on a daily chart. These stocks are like a coiled spring and the breakouts typically result in sustained moves. I like selling bullish put spreads on these stocks, but if you have strong market tailwind you can buy calls as well.

Pop+Bull - These stocks were on PopBull the day before and they have traded higher than the closing price the previous day. The stock has followed through buying the day after the breakout and you have another chance to buy it before it is removed from the list.

Buy Into Earn - These stocks tend to rally once they are less than 2 weeks from reporting earnings. They have done so more than 75% of the time over the course of the last 3 years. A new earnings release is within the next 2 weeks. These stocks are great for selling at the money bullish put spreads that expire before earnings



Preconfigured Scanners

Swing Searches - Continued

Strong After Earn- These stocks have had earnings within the past 2 weeks and part of the Post Earnings Bull/Bear filter list. This search was designed to find stocks that have strong price action but that have not gotten too far out of the gate. They are trending higher and they are above the EMA (8). The stock is on a bullish D1 Trade Signal and it is Strong vs SPY using D1. Longer term indicators are used for this search and that is why the move should last longer. Since the moves are just getting started, support should be close by so use that as a stop. The move could last more than two weeks, but it should at least be able to tread water during that time. If you have a strong market tailwind consider buying a call spread. If the market is flat consider selling an out of the money bullish put spread.

Breakout Strong - The stock confirmed (closed above trendline) in the last 5 trading days for High- or High+. It is > the prior day's high and the last is above the highest trendline if there is more than one, Strong vs SPY D1 and LRSI (.70 gamma) is > 80.

Breakout x2 - In the last two weeks (10 trading days) the stock has confirmed (closed above) two or more bullish trendlines (High+ and High- or High- x 2 or High+ x 2). It could also be on Bullish Reversal (described below) and have a High+ or a High- breakout. Any combination will work. Today the stock is > prior day's close and the last is above the highest trendline breach. That price will be harder to preserve.

Bullish Reversal - The stock has been in the lower 10% of the 60-day range (same calculation as %60-day range in Custom Search) in the last (10 trading days) two weeks. In the last week (5 trading days) the stock traded through (intraday) or it closed below a bearish trendline (Low+ or Low-). Today the stock Last is above that trendline.

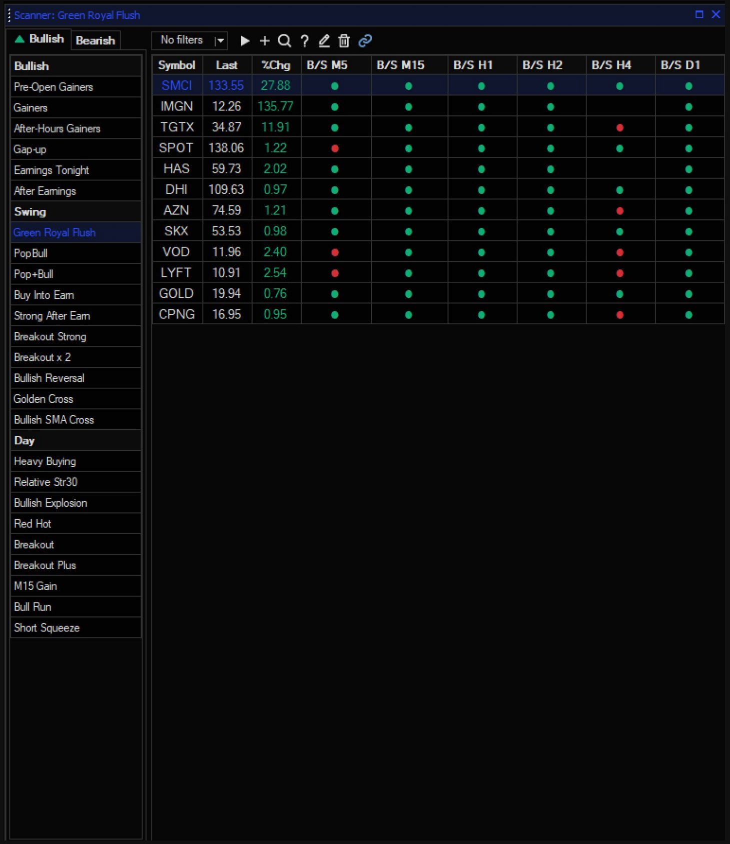
Preconfigured Scanners

Swing Searches - Continued

Golden Cross - The stock 50-day MA was below the 200-day MA yesterday and today the 50-day MA is above the 200-day MA.

Bullish SMA Cross - SMA Cross – Yesterday the stock was below the 50-day MA and today it is above the 50-day MA or yesterday the stock was below the 100-day MA and today it is above the 100-day MA or yesterday the stock was below the 200-day MA and today it is above the 200-day MA. We are combining previous searches.

WATM - This strategy is based on an article written by Dave Wyse in the *RealDayTrading* Reddit sub. The concept is to find a stock that is mildly bullish after posting earnings. We are selling a weekly (W) near-term at the money (ATM) put option and the premium we collect has to be greater than 1% of the stock price. We are buying a longer-term slightly OTM option that expires after the next earnings release and there have to be at least six weeks left before that announcement. The goal is to keep writing the ATM puts as long as possible. The stock needs to stay in a relatively narrow range. If we are able to sell the short-term puts twice and the stock is relatively unchanged, the position should be profitable and we can keep writing the short-term puts against the longer-term put. If the stock breaks technical support, we buy back the short-term put and we treat the long put as a normal bearish trade. If the stock rallies, we buy back the short-term put and we exit the longer-term put.



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Day Searches

Day preconfigured scanners use shorter term search variables to identify short term movement. These are your day trading searches.

Heavy Buying - This search looks for stocks with high Option Liquidity rating with today's volume > 120% the average. If the stock is on the bullish search it is also above the prior day's high. This is a go-to day trading search on the opening bell.

Relative Str30 - This search looks for the strongest 20 stocks relative to SPY in the last 30 minutes by a proprietary rating system with high 20-day average volume > 1 million and price between $20 and $500. When the market is down you should use this list to find stocks that have held strong or that are moving higher. When the market finds support these stocks will shoot higher. This is one of the most powerful tactics you can use.

Bullish Explosion - This scanner begins 1 hour after the open and finds stocks without earnings since the previous day close with very high 20-day average volume that satisfy proprietary strength requirements on the higher timeframes. They have exploded higher in the past 5 minutes on extreme volume to be included in the list, and you will also get a big popup alert for immediate notification. We want stocks that hold all of the gains of that 5 minute bar and ideally that move is also breaching horizontal resistance on a daily chart. When you have these elements you know that there has been a good news release. Don't waste time – this stock will jump

Preconfigured Scanners

Day Searches - Continued

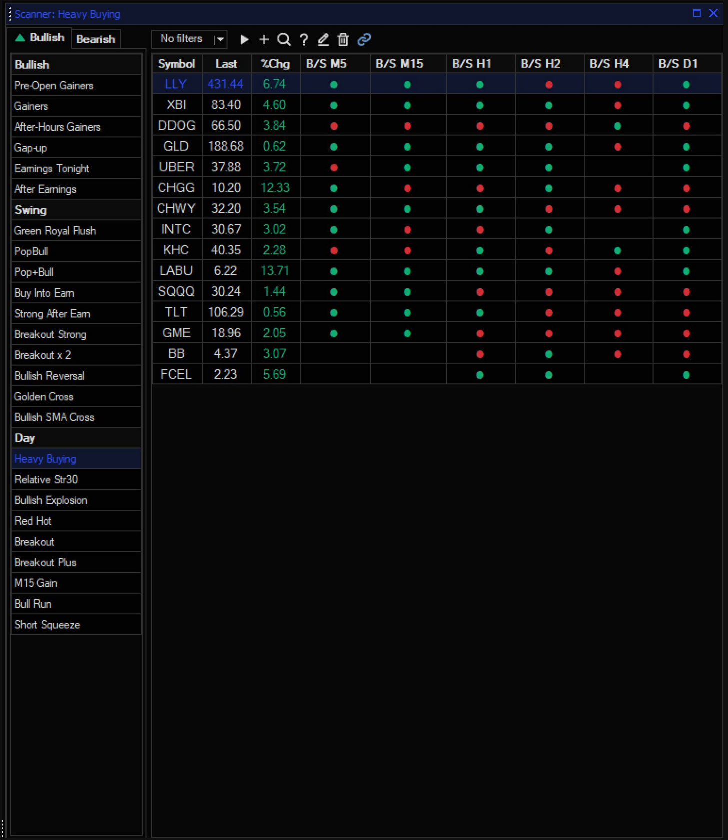
Red Hot - This is another ranking system and these stocks have incredible strength today intraday on very high volume. They are above yesterday's high, priced >= $5 and have a 20-day average volume > 2 million. Look for consecutive long green candles. When you buy, the stock should keep going. If you do not have a cushion in 10 minutes – exit. If the stock is going your way place a stop at your entry price and take gains along the way. This is a great search for option lottery trades on Friday

Breakout -The stock is above a High- or a High+ trendline, the 20-day average volume is > 2 million shares, the stock price is > $5 and 1OVol is > 0. For an official breakout the stock has to close above the trendline. We are not requiring that. We want to catch it early and if the stock remains strong it could officially be triggered if it closes above the trendline.

Breakout Plus -The stock was on Breakout yesterday and it closed above the trendline. Today the stock is > Prior Day's Close.

M15 % Gain - The stock made a new high for the day in the last 5 minutes, has 20-day ave volume > 2 million shares, Heavy Volume Today, it is > $5 and it is > prior day high. We will show the top 30 results according to M15 % Gain listed in descending order with the largest % gain in the last 15 min at the top.

Bull Run - The stock made a new high for the day in the last 5 minutes, has 20-day ave volume > 2 million shares, Heavy Volume Today, it is > $5 and it is > prior day high. We will show the top 30 results according to M15 % Gain listed in descending order with the largest % gain in the last 15 min at the top.



How To Make Money Trading

1. Nail The Market
2. Find The Best Stocks
3. Apply Leverage

How To Trade Options

Most novice traders skip right through everything I have covered so far and they dive right into option trading. They want to start doubling their money every day and they chase anything that is “hot”. If you are in this camp, take a deep breath and understand that this is going to be a journey. Most option traders blow-out their account and that is why you don’t meet many of them.

The first section on market analysis might have seemed like common sense, but it is critically important. When you get blind-sided by an event and you lose money on a trade you will gain an appreciation for it, especially when you could have avoided the loss.

You don’t need to know iron condors, butterflies or ratio back spreads. These complex strategies are for traders who can’t form a directional opinion. With two basic strategies and you can trade any scenario.

Follow this systematic approach: Nail the market, find the best stocks… apply leverage. Notice that I have not even talked about options yet. They are the icing on the cake. If you get the market right and the stock right almost any option strategy will make money.

If you get the first two wrong you are going to lose money. Options will simply accelerate the process.

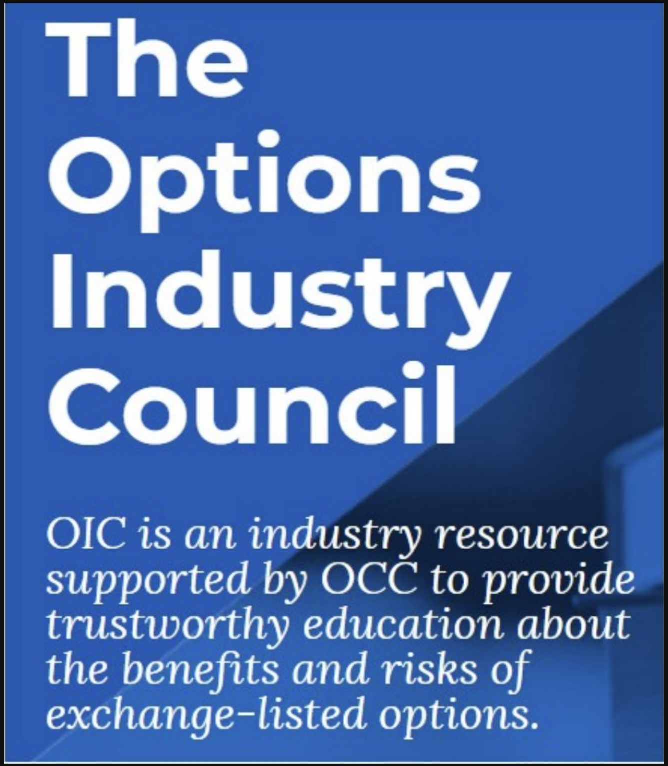
How To Trade Options

Your size and trade count is determined by your confidence in your market forecast. If you are extremely confident, size up. If you are not very confident, trim your size and your position count.

Please visit www.optionseducation.org to learn these two strategies. The Options Industry Council (OIC) is a free resource.

Buying options – This is the easiest option strategy to learn and the hardest to master. Time decay is constantly working against you and your timing has to be perfect. We buy options when the market is in a strong trend and when our confidence in our market forecast is high.

Vertical credit spreads – This strategy sells a closer to the money option and it buys a farther out option with the same expiration month. The spread is created to limit risk. We use these spreads when the market is range bound or in a gradual trend. Credit spreads take advantage of time decay and probability. Farther out of the money spreads are more neutral and they have a higher probability of success.



Buying Calls and Puts

Buying options is the most commonly used strategy because it offers limited risk and unlimited reward. Unfortunately, it is the lowest probability strategy because time decay is constantly working against you.

Typically a stock surges higher and that is how it appears on your radar. Everything looks great and you buy calls. Then the stock momentum stalls or the stock pulls back on profit taking. Time is money and when the stock is not moving higher your calls lose value because of time decay. You can’t afford to have any pauses, you need the stock to keep powering higher.

A strong market trend will fix this problem. I call this a tailwind. Profit taking will be minimal when the market is moving higher. Buyers are looking for the strongest stocks and the market will fuel the stock when it wants to rest.

These strong market trends often come on reversals. A big market drop to a major moving average followed by a bullish hammer almost guarantees that there will be at least 2-3 strong days that follow. This is the perfect time to buy calls. Strong long term market trends can result from favorable fundamentals.

Unfortunately, reliable market trends don’t happen very often. Most are filled with compressions and retracements. In any given year I can count on 3-4 really strong moves per year. Sometimes they last a few weeks, sometimes they only last a few days. During these periods you want to buy options.

Buying Calls and Puts

When you buy options it is important to form an opinion on the magnitude and duration of the stock's potential move. These two factors will determine the best options to buy.

If the market is in a strong up trend that looks likely to continue for 2-3 weeks and the stock breaks out of a longer-term compression on heavy volume you have the ingredients for a sustained directional move. In this case you might buy call options that have 4-6 weeks of life so that time decay is not an issue during the 2 weeks that you plan to be in the trade. Since the move has the potential to be fairly large you might select an out of the money call that you feel the stock will easily reach. Out of the money calls will provide the highest percentage return if you are correct.

If the market is in a slow steady grind higher and the stock has been in a nice gradual trend you might select an in the money option with a high delta so that the options move point-for-point with the underlying stock. If the market trend looks like it could last more than a month you might buy options with 2-3 months of life. For longer term trades try to buy options that expire after the earnings release date. They will hold their value better.

I typically do not advise traders to buy weekly options, but I do it fairly often. In fact, I will buy options that only have a few hours of life left if the market sets up properly. Time decay makes this very challenging and the market conditions are more important than the underlying stock selection. I call this a "lotto play" because it is like playing the lottery. Low risk, low probability and huge potential rewards. I do not allocate a lot of capital to these trades.

Bullish Put Spreads & Bearish Call Spreads

Bullish put spreads and bearish call spreads are both vertical credit spreads and I will provide some examples later. These are bread and butter strategies that you can use any time. They might not be optimal (sometimes buying options is a better choice), but they will make money. I do NOT like selling bullish put spreads and bearish call spreads on the same stock at the same time. This is called an iron condor and it means that you have no opinion on the stock. This whole book is designed to help you form an opinion so that you can increase your probability of success! If you have no opinion on a stock... KEEP LOOKING!

For simplicity I am going to refer to this strategy as bullish put spreads. You are likely to focus on these anyway since the market spends more time going up or staying flat than it does going down. Plus most traders prefer to trade from the long side.

When the market is trapped in a range your market bias should be neutral. We might not have a market tailwind, but we should have a support level that we can lean on. In this scenario find stocks with relative strength that want to move higher. Our plan is to establish a position where we can make money if the stock moves down a little, stays flat or moves higher. Bullish put spreads allow us to do that.

This is a premium selling strategy and we want to sell options that expire soon because time decay accelerates in the last 2 weeks of life. Weekly options are excellent for this strategy. I typically sell options that expire in less than 3 weeks.

Bullish Put Spreads & Bearish Call Spreads

This is a low maintenance strategy. Once you enter the trade, set your stop and let time decay work its magic.

Your market opinion will determine how aggressive/passive you are. During times of uncertainty you might have 3-4 spreads on compared to 7-8 positions when conditions are stable.

If you are very confident that market support is strong and that the likelihood of a pullback is small you will want to sell the short strike closer to the money. If the stock looks poised to shoot higher even in a flat market you might sell a put that is right at the money on notion that the stock will rally. This position has a bullish bias.

If the market is very choppy and the stock is a good distance from technical support you might decide to sell a farther out of the money bullish put spread to increase your odds of success. This position has a neutral bias.

For bullish put spreads the short strike price should always be below technical support. That support can be a major moving average, a trend line or horizontal support. If that support is breached - exit the trade. I am not a fan of adjustments, they breed bad habits. Admit when you are wrong and move on. I like to get a credit on the spread that will yield at least a 20% return on margin. So on a $5 spread I want to get at least an $.80 credit.

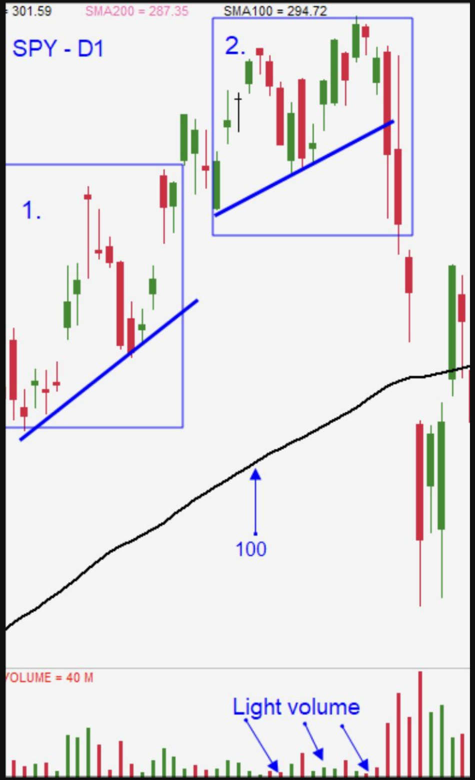
Take profits when the spread is trading for pennies and reduce risk ahead of major news (i.e. the FOMC statement) or a breach of market support (i.e. horizontal support).

Market Determines Strategy

Let’s run through some market scenarios. Please refer to the numbers in the chart on the right. These charts are all in sequence and they cover a six month period of time.

1. The market is in a choppy move higher marked by rallies and pullbacks. This stair-step pattern can be seen. The trendline provides us with support that we can lean on. Sell bullish put spreads on pullbacks to the trend line. The long tails and dojis (small bodies) are a sign that the trend is fairly weak.

2. Continue to sell bullish out of the money put spreads on strong stocks. Use the up trendline as your stop. The low volume is a warning sign. That first long red candle closed near the low of the bar and that is bearish. When the trendline is breached you need to buy back your bullish put spreads. If time has passed and the stock is strong you will probably be able to buy the spreads back at a profit. It is still too early to buy puts. When the market follows up with a second straight long red candle (double stack) you can buy puts

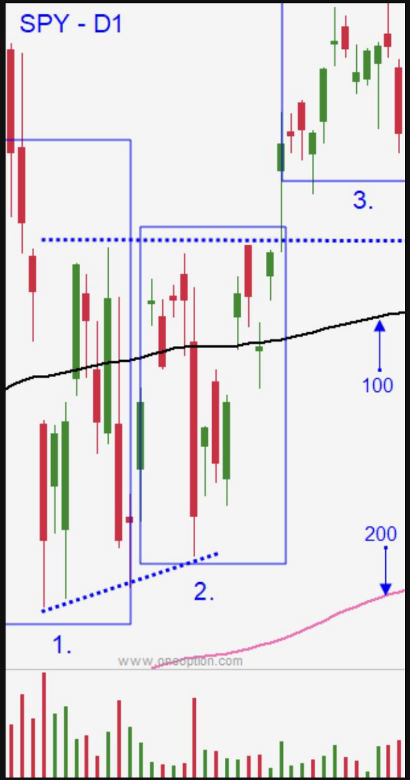


Market Determines Strategy

1. The long red candle on the left was followed by a second long red candle and both closed near the low of the bar on extreme volume. The up trendline was also broken. This is a time to buy puts. The large drops suggest big downside and out of the money options would be the best choice. The SPY drops below the 100-day MA and it bounces just above the 200-day MA. The long tails under body suggest support. Take some profits. Exit all puts when the SPY closes above the 100-day MA.

2. The market is extremely volatile with huge moves in both directions. Do not trade. By the end of the second window the market has bounced off of the same support level above the 200-day MA. Long tails under body suggest a bounce is coming. When the market rallies above the 100-day MA we can start selling bullish put spreads. That support needs to hold or we will buy them back.

3. The market gaps higher and it challenges resistance. After a period of extreme volatility caution is needed. Sell out of the money put spreads and lean on horizontal support (dotted line)

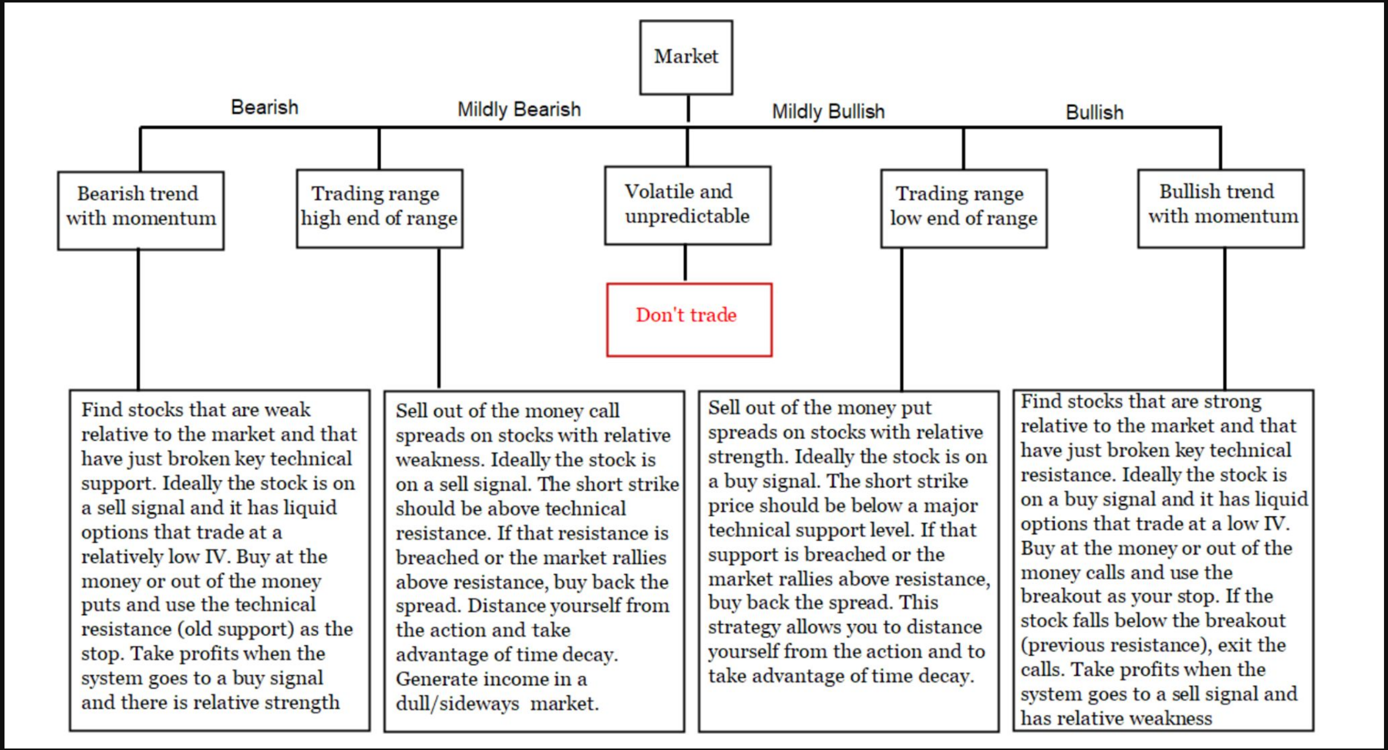


Market Determines Strategy

1. The market hit resistance and the long tails above the body on light volume were a warning sign. The first long red candle closed near the low of the bar and the up trendline was breached. Buy back your bullish put spreads in case this move gains traction. After the second long red candle consider selling some bearish call spreads. The market price action has been too wild to buy puts.

2. Buy puts on the breach of the 100-day MA. The long tail under body was concerning just above the 200-day MA on that first candle, but not enough to shake us out of the puts. The market has bounced here 3 times before. The next candle tests of the 200-day MA and it produces a bullish hammer on heavy volume. This is a capitulation low. Sell the puts (small gain) and BUY CALLS. We should get at least a few strong days after this but we only get one. The next candle is a bearish hammer at horizontal resistance (blue dotted line). Take profits on calls. The market gaps above the down trendline and it is above the 100-day MA. Normally you would buy calls, but not in this extreme volatility. Sell bullish put spreads and err on the side of safety. Sell them closer to the money so that they are more bullish than neutral. Volume during the rally is very light and that is a warning sign.

Guidelines For The Best Option Strategy



Nail The Market

Current Fundamentals

Let’s go through the entire process – Oct 31,2019

Scheduled Events – This has been a busy week for economic releases. Official PMIs were in line with expectations, but Europe remains weak. Domestic releases were still in expansion territory with advanced GDP better than expected (1.9%). ADP was good at 125K. Retail sales also strong. No major releases for 2 weeks. ISM manufacturing after the open – surprise favors the upside

Earnings season climaxed and mega cap tech reported. In aggregate, muted reaction. Stocks at upper end of valuation range (forward P/E 17).

Interest rates were cut ¼ point. Fed remarks were a bit hawkish and another rate cut should not be expected.Global yields are negative in EU/Japan. Investors forced to buy stocks.

No credit issues. Yields stable

Brexit deal might happen. England will hold general election Dec 12. They approved a deal by a narrow margin.

US/China trade deal likely in November. China will buy more ag products and agree to protect IP. US will delay new tariffs. Market has rallied even when rhetoric sour.

Impeachment is a non-issue. No substance

Tweets should be minimal. Trump wants the market to climb into 2020 election. That is his battle cry.

The forecast is for a gradual climb into year end on seasonal strength. The political landscape has improved and there is less uncertainty. Tweets should be minimal. US and China have stable economic growth. Earnings guidance has been good. If conditions change the promise of another rate cut will keep buyers engaged. Corporate buybacks have been very steady. They are issuing debt at low rates and using the proceeds to buy shares. End-of month buying.

Option strategy - sell bullish put spreads. Mildly bullish into year-end with no speed bumps the next two weeks.

Nail The Market

Current Technicals

The market has been in a light volume rally for the last month and it is making a new all-time high. It broke through resistance at SPY $302 and it has been able to hold that level. We have an upward sloping trendline that we can lean on.

This week the breakout has been tested twice leaving long tails under body – bullish hammers. The volume increased on those reversals and the bid is strong.

As long as the breakout holds we should expect a gradual grind higher.

The price action has been choppy the last six months so we can't get too aggressive with this breakout. We have seen stiff resistance at $302 with large pullbacks from this level.

Find The Best Stocks

& Apply Leverage

Review

Trade only the best.

In the prior examples I outlined my market forecast. The next day the market opened at a new all-time high and I have a great illustration for you.

Earlier, I mentioned “lotto” trades in the option buying section. They require absolute perfection and I had the market backdrop for a “lotto” trade on expiration Friday. CAT had really nice relative strength all day and it was a good candidate. My plan was to trade options very late in the day on the notion that we would rally into the close.

In the following pages I will show you how the trade unfolded and my play-by-play comments with time stamps in the chat room and time and sales.

I will also show you the supporting charts. “Lotto” trades are a very minor part of my overall activity, but this is a perfect illustration of how all of the pieces fit together. It all took place in the last 30 minutes of trading. Here are the chat room transcripts. Note the areas highlighted in red.

Pete: i have been looking for lotto trades. anyone see any good ones — 11-01 14:16

Pete: cyclicals might be good. they all have a good bid
watching CAT — 11-01 14:17

Pete: energy stocks really strong toda
today — 11-01 14:22

Pete: i think we will see a little pullback to flush out bull specs and then a push higher in last 10 min. that is when I would like to buy my calls. might use SPY — 11-01 14:23

Pete: CAT going.
was hoping for a small pullback — 11-01 14:37

Pete: almost the whole move was made in the first 30 min of trading
i think you have to be long overnight right now. we can expect gaps higher and nothing after that — 11-01 14:40

Pete: overnight risk is pretty low. news cycle is light and tweets are minimal — 11-01 14:41

davewyse: have a great weekend everyone   I am holding HD & CVS overnight and FB — 11-01 14:48

Pete: this is the bullish specs getting flushed out into the close — 11-01 14:49

Pete: bought some CAT $144 lottos for $.17 offering $.35 — 11-01 14:53

davewyse: nice one Pete — 11-01 14:55

Pete: pulled my offer
sold some — 11-01 14:56

davewyse: nice triple — 11-01 14:56

Pete: i'm out at $.54 — 11-01 14:56

Pete: i was looking at those when they were $.05
no complaints — 11-01 14:58

davewyse: nice way to end the week and start the month — 11-01 14:58

Pete: it was a nice day. there was the closing move as well — 11-01 15:05

Additional Tips

Volume

I've stressed the importance of volume. It legitimizes the move. You can see how the volume is building on the 5-minute chart. I mentioned that it was too early for the rally.

Often bullish speculators load up too early for a closing move and they get flushed out. I mentioned that in the comments. That dip would provide me with the perfect entry point. I contemplated buying SPY calls but I liked CAT better.

When the market pulled back I noticed incredible relative strength and I knew the stock wanted to move higher. It had just crossed the $144 strike price so these calls were in the money and they would move point-for-point with the stock. The next chart is a 1-minute chart of CAT with an SPY overlay.

Additional Tips

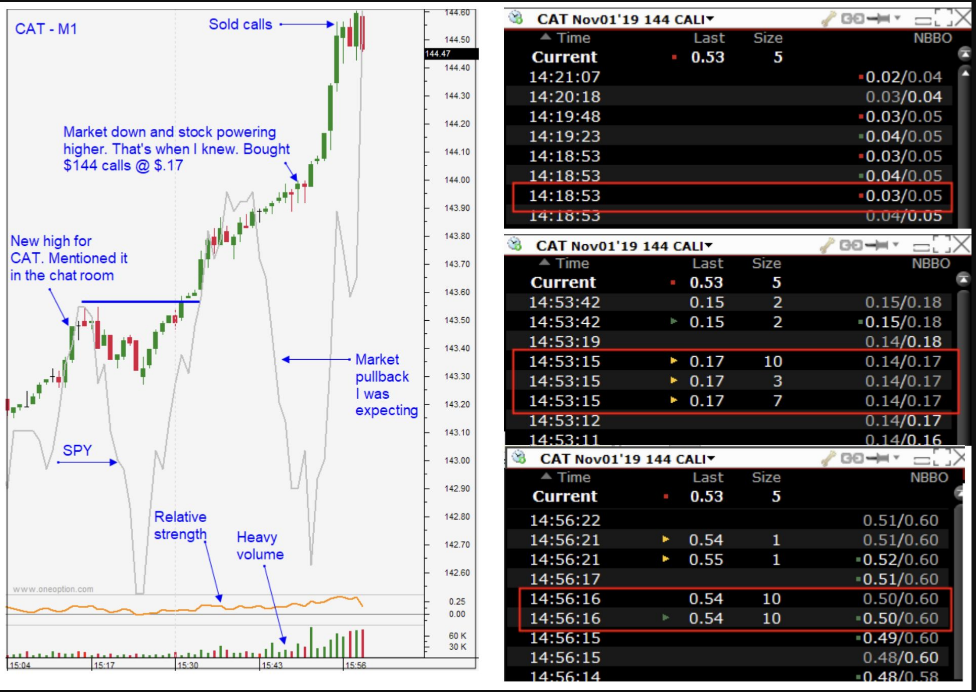
Wait For Confirmation

In the 1-minute chart on the right you can see the relative strength. The market pulled back and CAT kept powering higher.

I could have bought these calls earlier at $.05 when I first mentioned CAT in the chat room, but I wanted to monitor the stock on the market pullback. I loaded the order and it was ready to go. When the stock kept grinding higher I knew I had a good one.

This entire trade took about 5 minutes, but this approach works across all time frames and it could have been 5 days, weeks or months. The process is the same.

I did not have a lot of capital allocated to this trade, but it was a 200% winner.



The One Thing I Can’t Teach You…

After a good stretch novice traders get excited and they start expecting 200% winners every day. Those “runs” don’t set up that often and all of the conditions have to be perfect. **The one thing I can’t teach you is patience.**

There will be times when you should NOT trade. Novice traders always try to have a position on. Think of trading as a combination lock. All of the tumblers have to line up. If they don’t you will lose money. When conditions are unfavorable I tell members not to trade.

My biggest losses used to follow my biggest winners because I would get careless and overconfident. I have been marched out on stage with my pants around my ankles – every trader has. It is what you do with that experience that determines if you are going to be successful or not. My biggest winners followed draw downs. I had been humbled and I had to be patient. Eventually, I realized how much money I could have made if I only did my winning trades so I changed my ways.

Vary your size based on probability. When conditions set up and your confidence is high, trade larger size. When the probability is low, cut back. Many traders lose money trying to make something happen in a flat market. When the really good moves come they have much less capital to work with.

In the age of zero commissions, scale in and scale out. This will also help you to be more patient and you will be able to keep your emotions in check.

How to Make Money Trading

The concepts in this book are easy to understand, but gathering all of the information and putting the puzzle pieces together can prove to be challenging. I have been doing this for 30 years and it has become second nature to me. With time you will get good at it too.

Option Stalker is an alternative for those of you who would prefer to have me do the "heavy lifting". It is a comprehensive trading solution that includes the chat room, the pre-open market comments, the morning video, the swing trading video, the searches, our trade signals, the proprietary indicators and fast order entry.

From the S&P 500 emini day trader using the 1OP indicator on a 5-minute basis to the swing trader with a 4-6 week trading horizon, I have you covered.

Thank you for reading this e-book. I hope that it improves your trading. Please send any comments or suggestions to info@oneoption.com

Trade well,

Pete Stolcers

OneOption, LLC - Founder

Nail the market — Find the best stocks — Apply leverage.