

How to Be Brave and Smart in the Realm of Options Trading

A lot of people get nervous once you start talking about options. After all, they're not your standard investment. You really have to read between the lines and have a keen eye for short-term trends! Sometimes, those trends only last for a few hours.

But, with all that said, with keen investing sense and the right preparation you could make some very nice gains on the open options market. Through my own experience, both as a trader and from learning from my father, I've discovered some powerful secrets that could help you in becoming the best options investor you can be!

Maximize Your Options Gains with These Six Trading Secrets

At first glance, it may seem like speculating with options is a risky business. After all, price swings of 30% in an hour are far from comfortable for most investors. But with risk comes reward - and when you can manage that risk successfully, the rewards far outweigh the risks over time. That's where these six trading secrets come in!

They're the tools I've turned to for decades to maximize my gains as an options investor while keeping my risks tolerable. My Options Hotline readers have used these rules to maximize their options gains over the years too, and now, I'm passing them on to you!

Speculators get a bad rap. The very word conjures up pictures of some carefree playboy throwing money into any crazy investment - not really caring if they win or lose.

It's not a flattering picture. And that's why conservative investors shy away from anything "speculative" - lest they be called speculators, too.

Well, I'm here to tell you "speculating" isn't a dirty word. You can be a conservative investor and still enjoy that chance at phenomenal profits that speculating can bring.

I learned that lesson from my father, Paul Sarnoff. He was one of the first people to offer an options course - introducing novice investors to the concept of Super leverage (more on that on Friday). But he also had a strong conservative streak. In fact, he was an avid fan of precious metals, advocating that they should be at the core of every solid investment portfolio. He even wrote books on gold and silver investing.

My father proved that even cautious investors can benefit from speculating. But as he always stressed - and as I still stress today - the key to being successful was to have a complete plan of action. You never, ever throw your money around casually! even if it is money you can afford to lose. And you must take steps to make sure you never get in over your head.

Of course, that's easier said than done. That's why my father developed six simple strategies for keeping a level head when speculating. They may sound common sense, but I've spent enough time in the markets to know that common sense isn't that common when money is involved.

So, if you're thinking of dipping your toe into the speculative markets, here are a few proven ideas to keep in mind:

Create a sound money-management strategy.

This one flies in the face of the conventional image of a speculator. But believe me, all consistently successful speculators start with a plan. It doesn't have to be anything too involved - just make sure you're clear on your objectives, and set some guidelines for yourself. Figure out your entry and exit strategy for each play, starting with how much to invest, how many open positions you plan to have, how you will monitor positions, what kind of stop-losses you will use to preserve capital, etc.

A sound money management strategy is the most important factor in successful speculation and it allows you to stay in the game.

Know your broker and monitor your investment.

When choosing a broker make sure to ask as many questions as necessary and that you get the appropriate answers before simply giving over your money. If you are a beginner, find out about the broker's history and references, and speak to them frequently to establish a relationship. Make sure that either you or your broker will be constantly monitoring your investment - today's markets are very volatile and with options the price can shoot up 30% or more in just a few hours! so it is necessary that your broker is able to see the option is performing and be able to execute an order in a timely manner, to ensure that your capital is protected.

With so many discount Internet brokers out there, it seems like more and more people aren't doing their homework before opening an account. It's OK

to try and go it aloneâ€ unless you don't know what you're doing. In that case, it's well worth the time and money to explore more experienced flesh-and-blood brokers. And if you want a hand in selecting a broker, make sure you check out the Penny Sleuth's Discount Broker Guideâ€

Stick with your exit strategy if a trade goes against you.

With a good money-management plan, there should never be any surprises. No matter what price your trade is at, the action you need to take should be clear. That doesn't mean you have to be inflexible, however. Just because an option has met your profit target, you don't have to automatically sell. But there has to be a compelling reason to stick with the trade - something more than a feeling that the trade will continue climbing above your target price. (After all, you selected that target price for a reason.) And always use a stop-loss or a trailing stop order to make sure you're ready for any reversal that might pop up.

For a losing trade, however, you need to be a little more harsh. Options are wasting instruments, and their value dies a little each day. Sometimes it's better to stick to your strategy and settle for a loss than it is to wait it out and hope for a miracle. That's money you could be plugging into another play.

Always, always, always, ask questions.

The Internet age is creating a generation of independent investors. But some are still too proud to admit that there are things they don't know. In the speculation game, what you don't know can hurt you.

If you've taken my advice about finding a good broker, you've already got a ready source of info to turn to. Dozens of Web sites also offer complete details on options trading. So there's just no excuse for ignorance any moreâ€ and losing money because of ignorance makes even less sense.

Learn from your mistakes.

Find out what works for you. There will be losers along the way - but just make sure you know what you did wrong in previous trades (e.g. you set a stop loss of 15% and were stopped out too early and the option rebounded to 56% profits). Take every trade as a lesson and use it to improve as you continue trading.

Remember that knowledge is power.

You can never know too muchâ€ strive to learn as much as you can about options and their inner workings, strategies, fundamentals, everythingâ€ so that you will be better equipped to profit with options trading. As I've said in the past, options trading is more accessible than ever before. And the profit potential hasn't diminished a single cent. Going out of your way to learn the myriad of ways they can boost your bottom line is the easiest way to discover what works for you.

These are the six strategies that drove my father to successâ€ and they've led to fantastic wins for my Options Hotline readers over the years. Now, hopefully they'll help spur your success, too.

Of course, these are not the only, ahem, options you have for being successful in trading options. There are some devices you can use to get ahead of other investorsâ€ very far if you're smart and plan ahead.

The Internet is certainly a good device to use in trading your options. The World Wide Web allows us to see, in real time, how our investments are doing, both good and bad. We can also use it to get out of investments that are no longer helpful to our strategyâ€ and find ones that are. We have a name for this online strategy: â€Virtual trading.â€

Perfect Your Options Trades for Free with â€Virtual Tradingâ€

Technology has made significant strides at flattening out the learning curve for investing in options. Now, one free online tool can help you perfect your options trades in real time without risking a single cent. Here's everything you need to know to gain options experience without the riskâ€

I firmly believe it is my job to be as blunt about that as possible. The potential rewards of options are very tempting, and anyone who forgets about the potential downsides is toast.

Unfortunately, those stark warnings also scare away people who could benefit from options. People who have built solid portfoliosâ€ and can easily afford to speculate a bit. They're the complete opposite of traders who blindly rush in focused on the gains. Instead, they only see the potential lossesâ€

That's why I offer a simple suggestion - try options trading for yourself. With just a few minutes a day, you can learn how profitable options can be,

without risking a single cent.

In the old days - as little as a decade ago - the best way to do this was by paper trading. As the name suggests, it doesn't involve any real money or even a broker. Instead, you simply chose an option and kept track of it each day. With a few simple calculations, you could see how you would have done if you actually made the trade.

There are still plenty of good things to say about paper trading. For one thing, it forces you to work - tracking down prices and calculating potential profits. If you're going to put that much time into an activity, you might be more inspired to do well. It's a good trait to have if you ever decide to trade for real.

Virtual Trading Is the Road to Real Profits

Still, the pen-and-paper method is a little outdated now. Today, lots of websites offer virtual trading - free computer programs that let you practice trading without putting any money at stake. Most require you set up an account - not an actual brokerage account, but a membership account - containing basic information like your age and interests. When you sign up, you'll get a username and password to get to your account. You'll also get a small sum of virtual money to start trading with. (Beware of a site that offers to give you more fake money in exchange for real money. The point is to avoid spending ANY out-of-pocket cash.)

I must be honest, I haven't signed up for many virtual trading accounts - so I can't honestly compare and contrast them all for you. However, a colleague recently opened up a mock account on the Chicago Board Options Exchange (offered by Options Monster) so I can tell you all about that.

The CBOE virtual trading site starts you off with virtual money that you can use to simulate trading any of the securities the CBOE tracks - from stocks to options, even some futures.

The Web site does its best to make the trading as realistic as possible. Price quotes are based on the actual prices seen on the exchange. When you wish to buy something for your virtual account, you are given the same kind of choices that you'd face if you were actually buying a real security. You can dictate limit and stop orders. You can make day orders or standing "good to cancelled" orders. You can even choose to write options or use covered calls.

After you make your virtual order, the software does the rest. If you placed a market order, the security is added to your virtual portfolio. If you used a limit order, the program won't place your order until the real market hits your limit price.

Everything you need to know is spelled out for you - the program even levies a virtual commission charge on each of your trades. After that, it's just a matter of logging in to see how you're doing. You can also set sell orders, even trailing stops. Programs like this can be a very useful tool for gauging how well you'd do in the options market - making any lingering fears disappear.

Of course, there are some important differences between real investing and virtual investing that you need to keep in mind.

It's a lot easier to trade when you're not spending real money. But virtual trading is so lifelike, you might actually lose sight of that when you really start trading. This is especially true since actual trading will involve money you can afford to lose. If you're not careful, it will all seem like a game and in games, taking unnecessary risks is part of the fun.

The solution is to treat your virtual account as actual money. Don't make crazy trades just because you can. Instead, only make trades you'd make in real life. It's not only the best way to get a feel for how you'd actual do with options, but it's also the easiest way to transition from virtual trading to real trading.

Once you see how much money you're missing out on by not using real money, it won't be long before you'll want to try your hand at actually trading options.

Picking the Right Virtual Trading Platform

Here's a rundown of several of the free virtual options trading platforms you can sign-up for right now:

paperTRADE

This full-featured trading platform from trade MONSTER offers newbie options investors the chance to experience options trading on a realistic trading platform.

CBOE Virtual Trade Tool

While not as robust as other trading platforms, this simple options trading tool still gets the job done without the advanced tools that some beginners may find confusing or unnecessary.

Trade Smarter Options

This innovative binary options platform isn't as realistic as the other offerings, but this website shines by simplifying the options investing process to limited outcomes. If you're having trouble grasping options concepts, this site may be a good intermediary step for you.

PaperMoney

thinkorswim's virtual trading system is simply their award winning real-time trading platform with virtual money. This system offers investors the advanced features you'd expect from a real options broker.

Not So Scary, Is It?

Trading options isn't all that scary now, is it? Using virtual trading in combination with the six secrets I learned from my father, you could show yourself very brave in the world of trading. Just be smart, be observant and then you could be profitable.

About the Author

Steve Sarnoff is a contributor to The Penny Sleuth, which offers unbiased commentary from expert analysts and authors about [penny stock symbols](#).

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