

Short Term Options Trading

There are many traders who still consider options and warrants to be long term trading markets, but options can even be traded short term. It is important to understand that trading options short terms is not dramatically different from trading any other market but there are a couple of options specifics that need to be taken into account. In short term trading, the aptitude to steer the short term market is a key component for continued success. As an equity trader one has to learn to trade with the short trend of the markets to reduce market risk.

An option trading is a strategy that does not depend on the market direction; in fact it does well in volatile markets. With options trading there are two methods through which you can enter a long trade and short terms trade. While a long fundamental trade can be entered either by buying a call or by selling a put, a short underlying trade can be entered either by buying a put or by selling a call.

In short term options trading calculating risk reward is yet another important point that trader need to well aware of. Calculating the risk reward can be defined as the amount trader would risk if he or she were wrong and the amount trader would make if he or she were right. If we don't figure out this number, the chances are more where we may find the stock that may go in favor but the option goes against.

If we compare long term and short term options trading, then both have their own advantages. However, buying short term options can be very beneficial as it gives more control. It very general that no one can exactly make prediction very clearly when it comes to stock trading. It's really hard to predict what will happen to a stock 3 months down the road. Though sometimes it is easier to predict which way the stock will be heading in just a few weeks as opposed to a few months. Thus, selling short term options allow capture more premiums over a longer time frame.

Apart from this, it even works well and provides an excellent way for novice traders to trade. This is because as the price movement is so fast and dynamic that when things happen, beginners may not know what to do and be able to do it quickly. Moreover, it is an enormously lively options trading method where options are bought and sold very quickly in order to gain profit from the least intraday price swing or change in volatility.

Today certainly short term option trading has gained its world-wide popularity. It has become extremely money-making method in the hands of options trading veterans and new comers in current extremely volatile market conditions.

About the Author

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