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Please visit The Options Clearing Corporation - www.optionsclearing.com to view the document titled Characteristics and Risks of Standardized Options.

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Smarter Directional Option Buying



Directional Options

There are dozens of options strategies to capture directional movement.

For this talk we'll focus on simple calls, puts, and debit spreads.



Three Things I Look For In An Option Play

 Underlying Chart That Shows Probability of Movement

- Liquidity
- "Big Money" sweeps, blocks in options and/or underlying



Underlying Chart

- Pattern In Play
 - SnapBack
 - 50 Bounce
 - Breakout / Breakdown
 - Wedge
 - etc
- Clearly Defined Support / Resistance
 - Horizontal
 - 8 / 21 EMA
 - 50 / 200 SMA





If You Are A TradeStation User And Want A Copy Of This Workspace, email me: Matt@youcantrade.com

In 'normal' trading conditions, I'm less concerned with the fundamentals / news of the underlying. The price action will tell me what I need to know. In current conditions, however, I have found it beneficial to keep a closer eye on my news feed.



Liquidity

- "Liquidity is King"
 - Small Spreads
 - Volume
 - Open Interest
 - Weeklies



Liquid Option Chain

| 2 | | | (| CALLS | | | | | | | | PUTS | PUTS | | | |
|---|------------------|---------|----------------|----------------|--------------|------|----------------|----------|------|--------------|-------|-------|----------------|----------|------------------|----------|
| Pos P | rob OTM | Volume | Open Int | Theta | Delta | Bid | Ask | Strike | Bid | Ask | Delta | Theta | Open Int | Volume | Prob OTM | |
| > 22 May 20 | (4d) Weekly | | | | | | | | | | | | | | 65.89% | (±3.32) |
| 29 May 20 | | | | | | | | | | | | | | | 57.44% | (±4.50) |
| • 05 Jun 20 | | | | | | | | | | | | | | | 57.05% | (±5.63) |
| ▶ 12 Jun 20 | | | | | | | | | | | | | | | 57.45% | (±6.64) |
| • 19 Jun 20 | | | | | | | | | | | | | | | 57.42% | (±7.49) |
| 26 Jun 20 | | | | | | | | | | | | | | | 56.83% | |
| ▲ 17 Jul 20 | | | 4 700 | 0.02 | 0.04 | | 40.70 | 42 | 4.02 | 4.22 | 0.45 | 0.00 | 0.440 | 440 | 57.26% | |
| | 23.65% | 8 | 1,728 1,486 | -0.03 -0.03 | 0.84 0.83 | | | 42 | | 1.33 1.45 | | | 8,149 4,018 | 118 8 | 77.1 | |
| | 25.81% 27.59% | 2 20 | 1,469 | -0.03 | 0.81 | | | 43 44 | | 1.45 | | | 1,597 | 140 | 76.1 73.6 | |
| | 29.07% | 461 | 5,207 | -0.03 | 0.81 | | 12.05 11.15 | 44 | | | | | 5,175 | 225 | 71.5 | |
| | 31.88% | 5 | 836 | -0.03 | 0.79 | | | 46 | | | | | 1,699 | 109 | 68.9 | |
| | 34.33% | 33 | 5,626 | -0.04 | 0.77 | | | 47 | | | | | 2,763 | 85 | 66.4 | |
| | 36.78% | 12 | 1,630 | -0.04 | 0.73 | | | 48 | | | | | 3,076 | 281 | 63.6 | |
| | 39.67% | 51 | 1,371 | -0.04 | 0.72 | | | 49 | | | -0.30 | | 1,592 | 141 | 60.9 | |
| | 42.50% | 323 | 8,318 | -0.04 | 0.67 | | | 50 | | | | | 7,683 | 282 | 58.0 | |
| | 49.78% | 1,640 | 13,413 | -0.04 | 0.60 | | | 52.5 | | 4.30 | | | 2,938 | 230 | 50.5 | |
| | 57.13% | 3,606 | 14,467 | -0.04 | 0.52 | | 4.75 | 55 | | | | | 4,287 | 139 | 42.8 | |
| | 64.42% | 366 | 4,388 | -0.04 | 0.45 | 3.50 | 3.70 | 57.5 | | | | | 1,643 | 306 | 35.5 | |
| | 71.43% | 2,752 | 18,659 | -0.04 | 0.37 | 2.50 | 2.70 | 60 | | | | -0.04 | 1,515 | 25 | 28.5 | 59% |
| | 77.52% | 407 | 6,412 | -0.03 | 0.30 | | 2.00 | 62.5 | | | -0.70 | -0.03 | 174 | 52 | 22.5 | |
| | 82.80% | 407 | 11,686 | -0.03 | 0.23 | | | 65 | | | -0.77 | -0.03 | 269 | 0 | 17.0 | 02% |
| | 90.68% | 114 | 8,718 | -0.02 | 0.13 | | | 70 | | | -0.86 | -0.02 | 114 | 0 | 9.7 | 74% |
| | 94.99% | 384 | 5,029 | -0.01 | 0.08 | | | 75 | | | | | 259 | 3 | | 43% |
| | 97.11% | 68 | 7,718 | -0.01 | 0.05 | | | 80 | | | | | 123 | 0 | | 16% |
| | 98.16% | 27 | 4,960 | -0.01 | 0.03 | | | 85 | | | | | 183 | 0 | | 45% |
| | 98.95% | 112 | 6,121 | 0.00 | 0.02 | 0.06 | 0.08 | 90 | | | -0.98 | -0.01 | 1 | 0 | | 32% |
| ▶ 16 Oct 20 | | | | | | | | | | | | | | | 59.29% | |
| • 15 Jan 21 | | | | | | | | | | | | | | | 58.25% | |
| 19 Mar 21 | | | | | | | | | | | | | | | 58.18% | |
| 18 Jun 2121 Jan 22 | | | | | | | | | | | | | | | 57.60% 56.28% | (±27.52) |
| | (613d) | | | | | | | | | | | | | | 36.28% | (±34.38) |

Options Analysis Manage Search



Illiquid Options Chain

| eau S | Single - F | ilter NONE | Strikes | | | | | | | | | | | Click | to: Trade | 7 |
|-------|---------------|------------|----------|-------|-------|------|-------|--------|------|------|-------|-------|----------|--------|-----------|----------|
| | | | C A | LLS | | | | | | | | PUT | S | | | |
| Pos | Prob OTM | Volume | Open Int | Theta | Delta | Bid | Ask | Strike | Bid | Ask | Delta | Theta | Open Int | Volume | Prob OTM | Pos |
| 19 J | lun 20 (32d) | | | | | | | | | | | | | | 49.71% | (±5.72) |
| | 26.51% | 0 | 0 | -0.08 | 0.92 | | 27.20 | 22.5 | 0.00 | 1.50 | -0.08 | -0.07 | 0 | 0 | 77.40 | % |
| | 28.38% | 0 | 0 | -0.09 | 0.90 | | | | | 1.55 | -0.09 | -0.07 | 0 | 0 | | |
| | 27.68% | 0 | 0 | -0.08 | 0.87 | | | | | | -0.12 | -0.07 | 0 | 0 | | |
| | 29.72% | 0 | | -0.08 | 0.83 | | | | | | -0.16 | -0.07 | 0 | 0 | | |
| | 32.45% | 0 | | -0.06 | 0.77 | | 9.90 | 40 | | | -0.25 | -0.09 | 1 | 0 | | |
| | 45.46% | 2 | | -0.07 | 0.64 | | 6.10 | 45 | | 2.95 | -0.35 | -0.06 | 3 | 2 | | |
| | 62.25% | 0 | | | 0.47 | | 3.60 | 50 | | | -0.52 | -0.07 | 0 | 0 | | |
| | 79.84% | 2 | | | 0.26 | | | 55 | | | -0.64 | -0.07 | 0 | 0 | 25.84 | |
| | 90.43% | 0 | | -0.03 | 0.13 | | | | | | -0.73 | -0.07 | 0 | 0 | 18.12 | |
| | 87.25% | 0 | | -0.06 | 0.20 | | 1.50 | | | | -0.75 | -0.08 | 0 | 0 | 14.98 | |
| | 89.37% | 0 | 0 | -0.07 | 0.19 | 0.00 | 1.50 | 70 | | | -0.76 | -0.09 | 1 | 0 | 13.11 | |
| 17 J | lul 20 (60d) | | | | | | | | | | | | | | | (±7.35) |
| | 27.63% | 0 | | -0.05 | 0.90 | | | | | 0.55 | -0.05 | -0.02 | 1 | 0 | | |
| | 28.36% | 0 | | -0.05 | 0.87 | | | | | | -0.10 | -0.03 | 16 | 0 | | |
| | 32.73% | 0 | | -0.05 | 0.82 | | | 35 | | | -0.14 | -0.03 | 2 | 0 | | |
| | 33.06% | 0 | | -0.04 | 0.77 | | 10.00 | 40 | | 3.20 | -0.25 | -0.05 | 14 | 0 | | |
| | 47.52% | 0 | | -0.04 | 0.64 | | 6.80 | 45 | | 4.80 | -0.36 | -0.05 | 11 | 0 | | |
| | 62.55% | 0 | | -0.03 | 0.46 | | 3.20 | 50 | | | -0.50 | -0.05 | 22 | 1 | 38.09 | |
| | 78.70% | 0 | | -0.03 | 0.28 | | 1.50 | 55 | | | -0.62 | -0.05 | 17 | 0 | 27.09 | |
| | 80.80% | 0 | | -0.04 | 0.29 | | | 60 | | | -0.69 | -0.05 | 11 | 0 | 19.88 | |
| | 86.67% | 0 | | | 0.22 | | | | | | -0.76 | -0.04 | 0 | 0 | 14.70 | |
| | 89.20% | 0 | | | 0.19 | | 1.55 | 70 | | | -0.76 | -0.05 | 0 | 0 | 12.87 | |
| | 90.90% | 0 | 0 | -0.04 | 0.17 | 0.00 | 1.50 | 75 | | | -0.80 | -0.05 | 0 | 0 | 10.40 | |
| | Oct 20 (151d) | | | | | | | | | | | | | | | (±10.37) |
| 15 J | lan 21 (242d |) | | | | | | | | | | | | | 39.63% | (±12.56) |

What to Trade?

 If I'm Expecting Upward Price Action, I will buy either a call or a call debit spread

• If the expected action is down, I'll buy a put or a put debit spread.



Which Strike?

- While I take each trade one at a time as far as strike and expiration, I will typically look for a call or put that is:
 - 2-3 weeks from expiration
 - Delta somewhere between 50-60
 - Ideally, I'll be out of the trade in 0-3 days to avoid significant theta decay



When Do I Trade A Debit Spread?

- I will sometimes opt for buying a debit spread instead of the call or put.
- Mainly, this is done to reduce costs and risk.
- This can be a way for someone with a smaller account to trade directionally on a higher priced underlying
- The trade off is your gains are capped.



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- www.YouCanTrade.com under "Channels" Two Roads Trading
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- Live Trading Room (Free Two Week Trial)



Join me on my Facebook page tonight to see:

- How I construct a debit spread
- A recent trade example, walkthrough from chart setup to trade

7:00pm EST

www.facebook.com/2roadstrading



Questions?

