

## Successful Trading and the Tuesday Trade

I want you to read the blog I wrote today.

It is a must read. I am not going to make you leave this report, I posted it for you right here:

What if I told you there really is a secret to being a successful trader?

What if I told you it was about as secretive as Liberate's bachelorhood?

There are a lot of 'secrets' that really aren't secrets. One of these 'secrets' most traders want to know is: What are the steps necessary to become a successful option trader?

Believe it or not I do not think becoming successful at trading is that hard, when given the right help. In practice, trading is difficult, but the actual tactics and strategies we teach at Option Pit Mentoring should be understandable to all traders:

**Know the Market:** by evaluating things like vol levels, skew, term structure and other market conditions traders can pinpoint what trade is most likely to win. This is a lot like what I teach during our special Event on January 14th.

**Evaluate underlying securities:** compare similar underlying products to find the most favorable stock or index for the trade that you think is going to be the most favorable.

**Know the product you are trading:** do not trade an ETF or index that you do not know or understand. Dear Lord so many people do this and it's the exact reason why institutions around the world ask my opinion on especially volatility based instruments. I have no sympathy for those who got railroaded by the "vol-pocalypse."

**Be specific in the trade:** once the trader knows what kind of trade they are looking to enter, and what stock to trade it in, the trader should structure the trade...the right way. Many either over simplify, or over think a trade set up.

**Have a profit target:** THIS SHOULD BE SIMPLE...HOW MUCH MONEY ARE YOU TRYING TO ACTUALLY MAKE

**Know your position:** I am shocked by the number of traders that do not know what they have on at any given time. If I ask my students what their position is, you better believe they know what their position is.

**Understand the risk of your position:** This means that you know how changes in volatility, price, the passage of time, skew and term structure will affect your risk. Remember the Greeks are not real; they only represent what your trading platform THINKS your position might do under changing conditions. We teach traders how to understand risk to be better at evaluating their position than a trader only using the broker platforms.

**Understand how much a trade is down or up:** it's a simple thing to know, that many neglect to keep track. It's great to have a target, but you have to KNOW if you are at your target.

**Have a breaking point:** it's okay to kill a trade. Traders that decide that a trade is a loser and exit, usually avoid getting into real trouble. MASSIVE SECRET – If you can't decide if a trade is a loser, then

let your P&L do the talking. When you hit a max loss kill the trade.

Most people are aware of what they need to do; they just don't do it, or don't know how to do it. That is why we are here. Option Pit is here to help you, the retail option trader, trade with a disciplined approach. Newer traders should learn the right way to trade from the start. More experienced traders should fix problems before they become too big to handle.

Now On to the Markets

We are at another new all-time high. Everything seems wonderful according to the S&P 500. Yet, is it? Take a look at the performance of the Top of the S&P 500 relative to the DJX. Yes, the Dow has AAPL but that's about it from the major tech names. MSFT, GOOGL, AMZN, and FB are all catapulting higher.



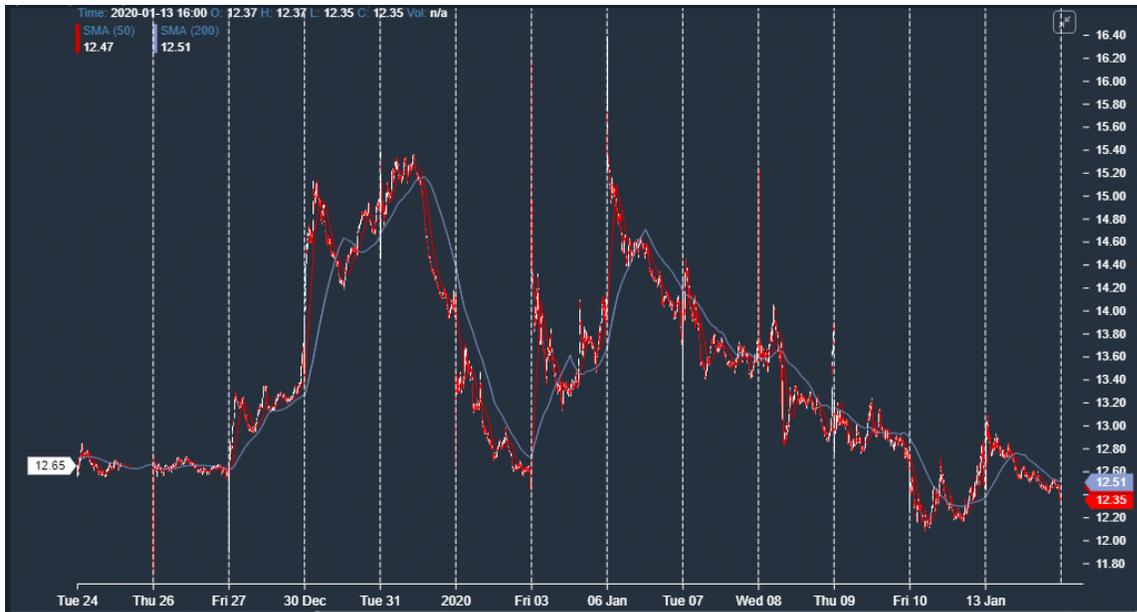
I am not saying that the S&P 500 and those top names are bad stocks. But the speed with which they have rallied at the beginning of the year is astonishing. We do have some positives:

It appears China is no longer much of an issue, for the time being. However, there are issues:

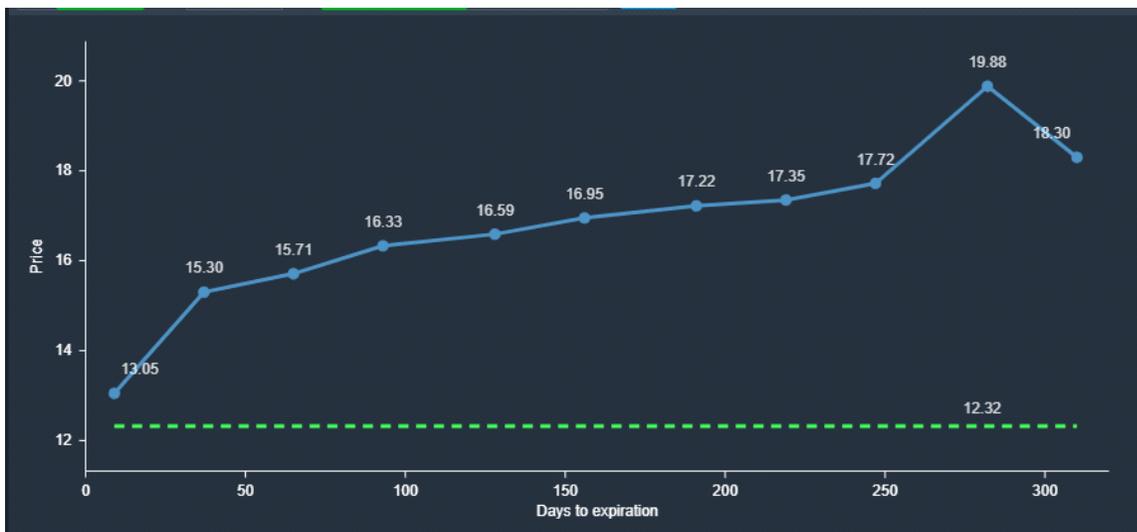
REPO, FED, Election.

I think two out of three of those are important....UNLESS Sanders or Warren become the Democratic nominee, THEN we have an election that could affect markets.

That being said, as I look at the stock market what do I see: A firm VIX.



This is a 20 day chart. VIX is where it was at the beginning of the year. Yet, we are about 100 points higher. More interesting the spread between Feb VIX futures and the VIX cash is scary.



Feb has 35 days to expire (it's a short month) and is trading at a full three point premium to cash. That is UNHEARD OF wide. When the future trades that far above cash, eventually the two have to normalize; typically the cash market is wrong.

#### Option Pit Traffic Light

SPX: Green

VIX: GREEN

SPX IV: GREEN

VIX IV: GREEN

VXX: Yellow

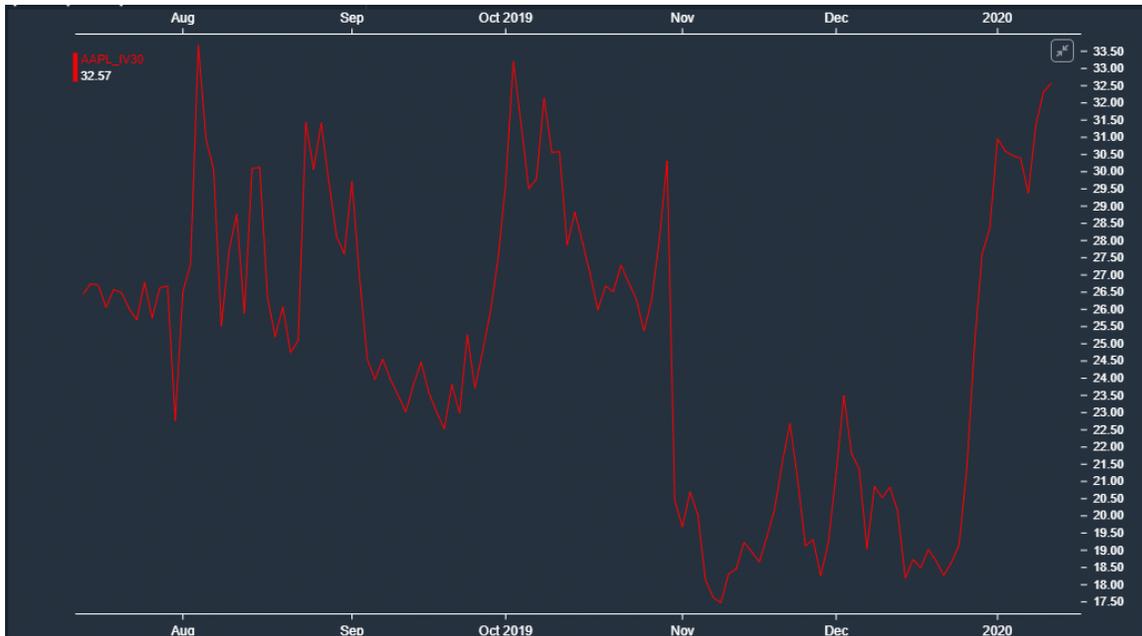
We like long SPY long VIX as a trade.

AAPL:

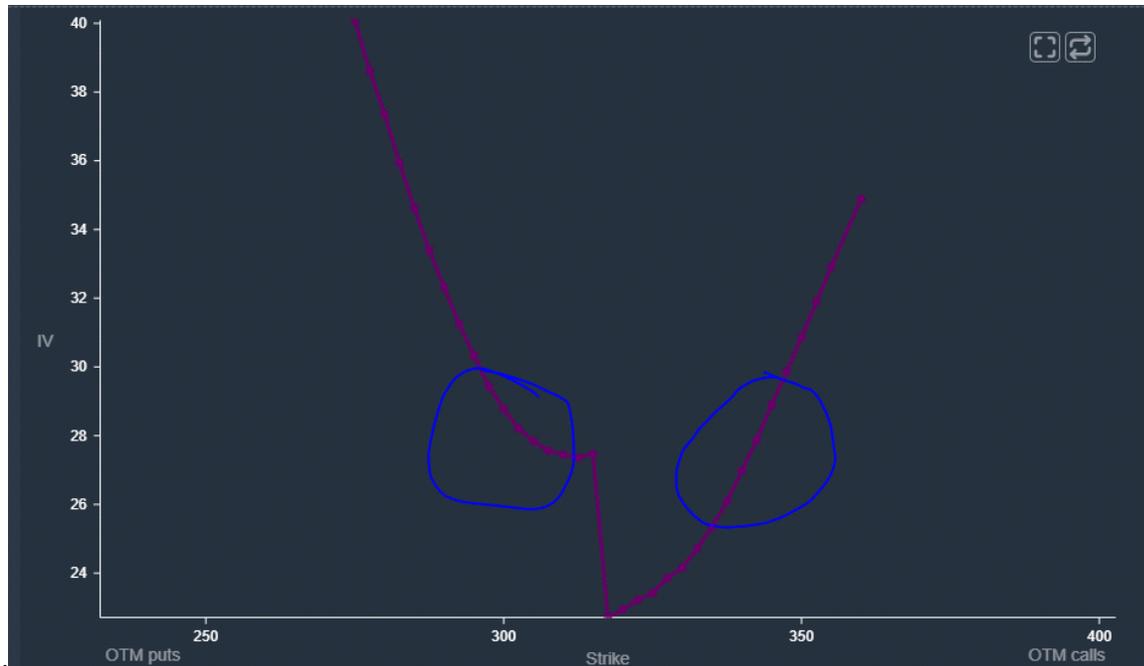
I am a huge fan of AAPL as a long term play. But even the best names can get over bought or oversold within a long term rally. AAPL appears to be having that right now. Yes, the China news is great, being taken off as a currency manipulator. The stock chart is IMPRESSIVE:



Since the beginning of the year, AAPL has moved a total of \$24 in 8 trading days. That's 3 bucks a day, about 1%....STRAIGHT UP. What else has gone straight up? The IV.



Now some of this includes earnings. However, even looking at near dated options, IV is WAY up. The Jan 24s, which do NOT have an earnings announcement, have an IV of over 26%. That is NOT cheap. Even scarier is how the wings have moved. I tend not to show too many skew charts, but this one is pretty darn impressive.



The only options that one MIGHT call cheap are those RIGHT at the money. Everything else has a bid to it. Take a look at the IV's on both calls and puts. One can see how sticky AAPL option prices are BECAUSE OF SKEW. As one goes lower on options, the IV goes up; IV also goes up with strike prices.

This means we have out of the money hedgers (bearish) and out of the money call buyer (dumb money speculators, also bad). The rising IV with AAPL and the skew makes me extremely wary the stock. I do not want to deal with earnings, which gives me a limited set of options to play, thus I am looking at the AAPL Jan24 contract:

Options Chain								
Jan17	Jan24(W)	Jan31(W)	Feb07(W)	Feb14(W)	Feb21	Feb28(W)	Mar20	Apr17
29.82	26.30	36.50	33.95	32.01	30.34	29.52	27.62	26.50
4.00	1.10	2.00	1.10	0.90	0.60	0.60	0.30	0.10

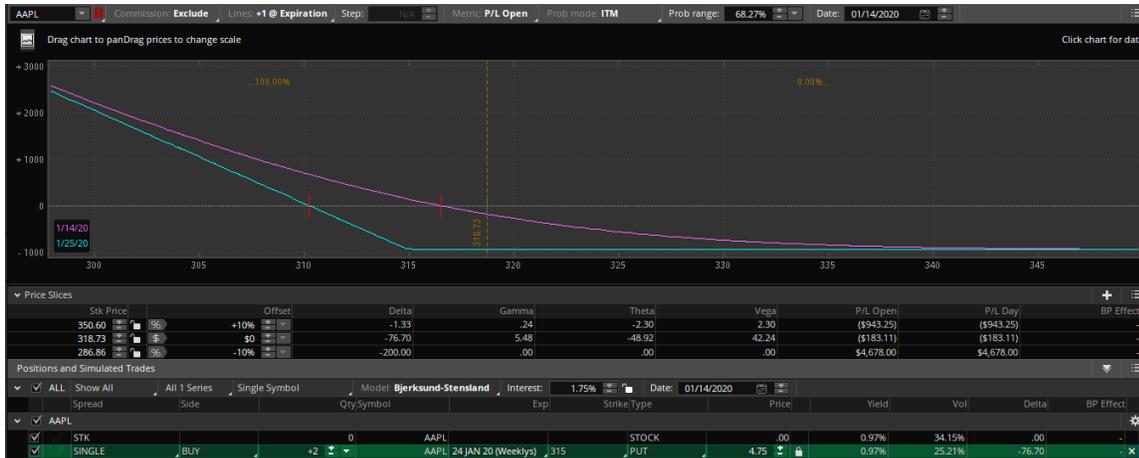
One can CLEARLY see earnings are the week of the 31st, as there is a giant IV jump that week. I am not going to play on that. However, I will make a bet that there is SOME money that comes off the table this week; potentially sell the news on China trade.

The Jan24 315 puts cost about \$4.75. That is about 1.5% of the value of the stock, NOT CHEAP. But the stock has been moving SO Much that there is very little premium in those options. AAPL is moving more than 1% over the last 10 days and that includes New Year's Eve. When that comes off HV is going to be about even with IV. I would be an option buyer.

This is one of those times where a strangle makes a lot of sense and a butterfly even more so. The stock is SO overbought that we are going to execute a put buy. The buy MIGHT not take place today,

we do not want to step in front of a speeding truck, but there WILL be an opportunity in the next day or two (if not today). Be ready.

We buy 2 AAPL Jan24 315 puts for \$ 4.75



We are targeting \$7.00-\$8.00 per option. We will kill it if the stock makes another run. This entry will be dynamic. If you do not get SMS text reach out to us to sign up.

Mark

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