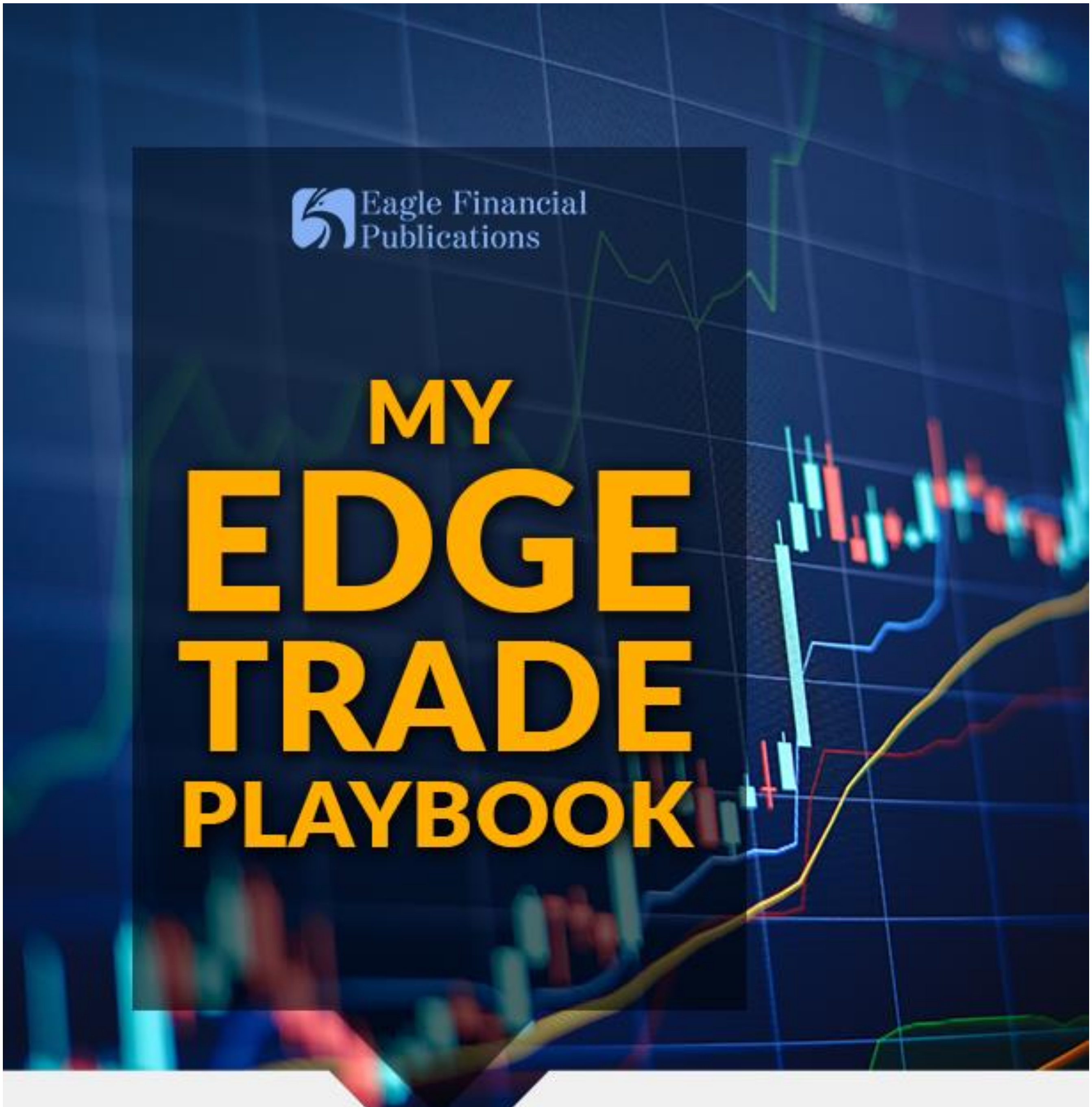

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MY EDGE TRADE PLAYBOOK

Jim Woods

IMPORTANT NOTE: This special report is based on data as of 2024 for information and educational purposes. Do not buy or sell any investments until you have read the most recent ***Bullseye Stock Trader*** alert or the most recent email update from Jim Woods.

My Edge Trade Playbook: How I Double My Investments in Just a Few Weeks

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My Edge Trade Playbook:
How I Double My Investment in Just a Few Weeks

First, let me congratulate you on your desire to learn more about one of the most powerful investment vehicles in the market. Second, I would like to welcome you to the wonderful world of options trading.

Have you ever heard of the formula RISK=REWARD? Well, that comes into play when you think of options. Options offer a way to earn large profits, but they also come with increased risk compared to traditional stock investing.

Indeed, options can be bought and sold to turbo-charge your portfolio.

How Do Options Work?

By definition, options are a contract giving the buyer the right, but not the obligation, to buy or sell an underlying asset (such as a stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. It is also a binding contract with strictly defined terms and properties.

Buying an options contract gives you control of a "block" of 100 shares of a particular stock. An option also grants you the right, but not the obligation, to purchase the related shares in that stock at a pre-determined price within a certain period. This period concludes with an expiration date. I typically like to buy call options with a life cycle of at least several months to allow enough time for the call options to rise in value sufficiently to sell at a nice profit before they expire.

What is the benefit of buying an option instead of just buying the stock outright? Well, for one, options tend to be far cheaper than their related stocks. As a result, you can buy options with comparatively little investment capital to leverage your money in search of heightened profits. And your investment risk is fully disclosed upfront. You can only lose what you spend on an options contract. However, the profit potential with options is virtually limitless. Even a tiny move in the underlying stock can yield a tremendous jump in the value of an option.

Generally speaking, there are two types of options: calls and puts. You buy a call option when you think the price of a stock is destined to go up and you buy a put option when you think the price of a stock will go down.

Both are equally powerful and profitable, given the right set of circumstances. But since my services almost exclusively use calls and not puts, I'll focus this special report on them.

What Does an Option Recommendation Look Like?

An option is defined by five main components:

1. The ticker symbol
2. The expiration month
3. The strike price
4. Whether it's a call or a put
5. The premium paid to buy the option

Expiration Month | Strike Price | Option Type: Call or Put | Premium | Ticker Symbol/ Company

Buy the December $25.50 Calls for $2.75 in XYZ Corporation

So, an option recommendation looks like this: **Buy the December $25.50 Calls for $2.75 in XYZ Corporation.**

This is a completely theoretical recommendation. But let's examine what each component means and how it would impact your investment if this were an actual recommendation.

A **ticker symbol** is quite simply a short-hand description featuring a unique combination of letters that helps investors identify a specific publicly traded company.

The **expiration month** is just what you would expect. It indicates the month in which an option expires. If the month when the option becomes invalid (or expires) is reported without including a particular year, you can assume the option expires in the current year. All stock options end their useful life on the Saturday after the third Friday of their expiration month. I'll provide further explanation about expiration dates elsewhere in this report.

The **strike price** of an option signifies that the investment is "in the money" and able to help you turn a profit. I watch for the stock price of a related option to rise to and significantly above its strike price. When a given stock rises well beyond the strike price in a call option, the investor can sell the option at a handsome profit. I will alert you to such opportunities through my trading services.

For example, if company XYZ traded at $20 a share, but I think there's a good chance the stock price will reach *at least* $25.50 per share by the Saturday after the third Friday in October when the related option expires, I might recommend that you buy call options in the stock that have a strike price of $25.50. Of course, I'll want the stock price to soar above the strike price to enhance the value of the call options. As the related stock price jumps, so does the value of the options.

As I previously stated, I almost always recommend call options rather than put options. Call options are bullish investments that aim to achieve heightened gains if the price of the underlying stock increases (which is why I recommend the stock in the first place).

Finally, I want you to understand that the **premium** is the price you pay to buy an option. The price of an option typically is written in as a "per-share" value. In the case of our example, featuring the hypothetical company XYZ, each contract you buy applies to 100 shares. So, if the option price is listed as $2.75, then your total premium -- or the price you pay for the right but not the obligation to exercise the option -- would be $275 per contract. You always pay the premium on an option regardless of whether the underlying stock rises or falls.

So, let's recap the basic terms that we've just covered.

Let's say company XYZ Company has been trading steadily around the $20 mark. However, my research and indicators led me to project that XYZ Company was about to sign a huge deal or launch a breakthrough new product before December. Based on this information, I am ready to recommend the stock and the coordinated December call options with a strike price I feel the company will likely reach. With this information in hand, I might recommend buying XYZ Company December $25.50 Calls for $2.75.

At this point, you would need to tell your broker the information you receive in your alert to place your order. You would tell your broker in plain English that you want to purchase the XYZ Company December $25.50 Calls for $2.75 and indicate how many contracts you would like to purchase. Then, you would follow the stock's price and the options to wait for the rise.

Understanding How Options Work

As I already mentioned, each option contract grants you control of 100 shares of a particular stock. The price you pay for an option is called the **premium**. The **premium** is determined by combining two factors: an option's **intrinsic** and **extrinsic value**.

The **intrinsic value** is based directly upon the price of the underlying stock. An option can **be in the money**, **out of the money,** or **at the money**.

I typically recommend low-priced call options that are **out of the money** to maximize your potential return. When you buy into the call option, you want the stock price to be below the strike price and then you want it to rise above the **strike price** so that it is **in the money** and you can collect your profits.

The further **out of the money** your call option is, the cheaper the premium you pay to buy it. But a key goal is to buy an option inexpensively while it's out of the money and have it move into the money within our forecasted time frame before expiration. As I explained in my introduction, this approach is the one that I use.

When the stock price matches the **strike price**, the option is considered at the money. If the **strike price** is below the current share price, the option is **in the money** and an investor will need to pay a heightened premium to buy it. However, when you are looking to buy any particular option play, you would want to purchase an **out-of-the-money** option.

Ultimately, the goal is for the stock price to rise well above a **strike price** so that the related call options will climb in value. So, after you have purchased the options, you want them to rise to become **in the money** so you can make money on the investment.

The **extrinsic value** is a much bigger variable in an option's premium. A complex formula determines the extrinsic value of an option. That formula includes the expiration date and the perceived volatility of the option, which generates value in an option.

Consider the hypothetical XYZ Company once again. In our example, I predicted the stock price would go from $20 a share to top $25.50 by December of this year. Assuming that we bought the option in October, only two months exist for those shares to exceed $25.50 -- an increase of more than 27.5%. Since the chances of a move in that direction might seem unlikely in such a short period, the price of the premium that would be required to pay for the options most likely would be low.

If I predicted that the share price wouldn't top $25.50 until the following December, an additional 12 months away, the likelihood of the stock reaching the strike price would be much greater.

Therefore, the premium required to buy it almost certainly would be higher.

Of course, volatility is another factor that affects the price of an option. Let's say the share price of XYZ was $10 in August, $15 in September and $20 in October. It seems far more likely to hit $25.50 in the next two months... raising the option's premium.

Supply and demand are also factors. As the share price approaches our strike price, more people will want to buy that option, driving up its price even further.

How Do We Make Money with Options?

Now that you have a general understanding of options and how they work, I want to explain how you can trade them to earn tremendous profits. That is why you're reading this report, right?

And you'll be happy to know we can use options to make a lot of money in several ways. The "traditional" way to make money in the stock market is to buy a stock at a low price and sell at a higher one.

Let's look at company XYZ one more time. If you bought 100 shares at $20 per share in October and the stock reached $30 per share in December, you might opt to lock in the gain by selling. The simple math shows that you notched a 50% profit. In other words, 100 shares would have cost you $2,000 without factoring in the commission for the trade. When the stock jumped to $30, your 1000 shares are now worth $3,000 – a $1,000 profit, before subtracting the commission for the trade. Not bad for two months' "work."

However, let me explain how we can make a lot more money by investing in options. I have used this method successfully to help my readers land profits of 333%, 330%, and 304% with comparatively small movements in the underlying stock price.

An option grants you the right but not the obligation to buy the underlying stock. Selling the option contract itself can be highly profitable!

For example, let's say that on May 20, I recommended that traders buy LLY (Eli Lilly and Company) in October, which is $62.50, which calls for $1.50 or $150 per contract.

At the time, Eli Lilly's stock was trading for $58.64 per share, but I felt confident it would top $62.50 on or before October of that year.

If you'd bought the stock at $58.64 and sold it about five months later on October 14 for $63, you'd have made a **7.4% profit** (calculated by dividing the gain of $63 – $58.64 = $4.36 over the initial investment of $58.64 – $4.36/$58.64 = 7.4%). And that is a decent return.

But traders could earn far higher profits with my recommendation of call options. Indeed, the readers who followed my advice would have seen the value of their options contracts soar. On September 9, the stock price had risen to $64, so if I had advised traders to sell half of their contracts for $2.78, that would have netted an impressive 85% profit (gain is $278-$150 = $128; $128/$150 = 85% gain).

But wait. Just 13 days after that, on September 22, when the stock price was only $63 (an **8%** increase), if I had suggested that they sell the other half for $3.53; traders would have

made a 135% profit. That equates to 110% average gains on the options trade with only an 8% increase in the stock price. Now that's leverage for you!

Let's look at another hypothetical example.

On November 2, let's say I recommended buying RAI (Reynolds American Inc.) February $55 calls for $.30, or $30 per contract. The stock was trading for $48.39 then. But I projected that it would be on a steady rise, and I felt confident that we might see the price top $55 by February… So, I recommended those options.

The price jumped in a little more than a month, and our options leaped from $.30 to $1.25. So we'd sell half the options for a whopping 317% gain. Meanwhile, the underlying stock went up just 7% to $51.95, but that was enough to push our options way up by 317%.

Still, that was only half of our options play. We'd go on to sell another quarter on December 14 for 433% and the final quarter for 150% on January 11, the following year. We were able to average **300% of profits** on this play in less than three months (calculated by [317%+433%+150%]/3=300%).

See how powerful investing with options can be?

Even if I was wrong, the most anyone could have lost from buying the RAI call options was $30 per contract -- or their original investment.

Best of all, you can buy options as quickly as you can buy stocks. You don't need a special account or broker. A few clicks of the mouse to trade in an online account or a five-minute call to your broker are all it takes to make an options trade. Of course, your brokerage may require you to fill out a consent form to ensure you understand that options will put your money at risk.

Then all you have to do is sit back, relax, wait for my sell recommendation and rake in staggering profits! Keep in mind that a small number of big winners can compensate for a larger number of modest losers. My time-tested success formula involves buying options cheaply enough to ensure that the big winners I recommend more than offset any losing positions.

Another Alternative to Consider: Exercising Your Options

An alternative way to try to make money with an option is to "exercise" it. My preferred method is to sell the option at a profit before it expires, but I will explain what happens when you exercise an option if you ever decide to do so.

Once again, let's consider the hypothetical XYZ Company. If you purchase one (1) contract of the XYZ December $25.50 call option at a $2.00 premium, you will pay $200.00 per contract. As I explained earlier in this report, you have a contract granting you the right to buy 100 XYZ shares at the price of $25.50 any time before the Saturday following the third Friday in December.

A Tip About Options Trading:

Please remember that options trading is not for everyone. If you are a beginner investor, you should not be trading options.

Only experienced investors should trade options. Please consult your broker for more information on how to trade options and any requirements they may have to trade them.

If the stock price climbed to $30.00 per share and you chose to exercise your stock option, you could buy 100 shares of XYZ Company for a total of $2,550.00 and sell them immediately for $3,000.00. So, that $200.00 investment would have become $450.00 ($3,000.00 – $2,550.00) before subtracting the $200 price of the contract. Once the $200 price of the contract is subtracted, the return is $250.

That's a gain of 125% (($450-$200)/$200)! And you never had more than $200.00 at stake.

In other words, if the Saturday after the third Friday in December had rolled around and the stock had dropped by 50% instead of being above the strike price, the options would have expired worthless and you'd be out $275 (the call premium). However, had you bought the underlying stock for $2,000 and it dropped by 50%, you'd be out $1,000!

Conclusion

Options trades will be an important part of your ***Bullseye Stock Trader*** subscription. Knowing how to trade them, and how easily they can be used to make money -- big money -- will soon become one of your favorite benefits of this service. I'm sure of it!

Biography

Jim Woods is the editor of *Successful Investing*, *Bullseye Stock Trader*, *Woods' Wealth Alliance,* and *High-Velocity Options*, his newest trading service. He is a 20-plus-year veteran of the markets with varied experience as a broker, hedge fund trader, financial writer and newsletter editor.

His books include co-authoring, "Billion Dollar Green: Profit from the Eco Revolution," and "The Wealth Shield: How to Invest and Protect Your Money from Another Stock Market Crash, Financial Crisis or Global Economic Collapse." He's also ghostwritten many books and articles, as well as edited content for some of the investment industry's biggest luminaries.

His Top Pick was the #1 Performing Stock out of 120 in the MoneyShow's 2022 Top Pro's' Top Picks Report. His pick led the way out of the picks of the nation's leading financial experts.

His articles have appeared on many leading financial websites, including InvestorPlace.com, Main Street Investor, MarketWatch, Street Authority, Human Events and many others.

Jim formerly worked with *Investor's Business Daily* founder William J. O'Neil, helping to author training courses in the CANSLIM stock-picking methodology.

In the five-year period from 2009 to 2014, the independent firm TipRanks ranked Jim the No. 4 financial blogger in the world (out of more than 9,000). TipRanks calculates that during that period, he made 378 successful recommendations out of 506 total, earning a success rate of 75% and a +16.3% average return per recommendation.

He is known in professional and personal circles as "The Renaissance Man," because his expertise includes such varied fields as composing and performing music, Western horsemanship, combat marksmanship, martial arts, auto racing and bodybuilding.

Jim holds a BA in philosophy from the University of California, Los Angeles and is a former U.S. Army paratrooper. A self-described "radical for capitalism," he celebrates the virtue of making money from his Southern California horse ranch.

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