

Strategic Trade Management

A Comprehensive Trading Plan for
Managing Risk in Option Trading

BetterTrades Instructor
BILL CORCORAN



Neither Better Trades or any of its personnel are registered broker-dealers or investment advisers. I will mention that I consider certain securities or positions to be good candidates for the types of strategies we are discussing or illustrating. Because I consider the securities or positions appropriate to the discussion or for illustration purposes does not mean that I am telling you to trade the strategies or securities. Keep in mind that we are not providing you with recommendations or personalized advice about your trading activities. The information we are providing is not tailored to any particular individual. Any mention of a particular security is not a recommendation to buy, sell, or hold that or any other security or a suggestion that it is suitable for any specific person. Keep in mind that all trading involves a risk of loss, and this will always be the situation, regardless of whether we are discussing strategies that are intended to limit risk.

Also Better Trades' personnel are not subject to trading restrictions. I and others at Better Trades could have a position in a security or initiate a position in a security at any time.



Practice First

- There is risk involved in any form of options trading!
- The strategies taught in this workshop are advanced options trading strategies!
- These strategies are taught as a way to potentially manage and mitigate trading risk.
- You must practice these strategies in unfunded trading until you understand them and are comfortable with them before you ever consider using them in a funded trade!



Directional Strategies

- **Directional option traders may realize losses in short-term options trades, especially in fickle markets.**
- **In the money (ITM) directional option trades offer limited opportunity for hedging.**
- **Traders can become frustrated when they see a trade go in the anticipated direction AFTER they have exited the trade at a loss.**
- **This can all lead to negative and destructive trading practices.**



Less Directional Strategies

- **Traders who use less directional strategies, like spreads, are less likely to be shaken out of trades based on price movement in the stock, but....**
- **Less directional strategies typically require more time to develop, thus exposing the trader to market volatility and risk and....**
- **When structured trade strategies do fail, they can incur significant costs if they are not managed correctly.**



Another Way

- **There is another way of using and trading options.**
- **Used properly, options can potentially provide the trader with unique opportunities to hedge positions and possibly minimize risk and loss.**
- **By carefully evaluating initial option selection and using hedging opportunities, a trading system was developed to potentially address the challenges traders face in fickle markets.**
- **That trading system is called Strategic Trade Management.**



Strategic Trade Management

A Trading system based on

- **Selecting the appropriate trading candidate**
- **Selecting the appropriate option**
 - Based on directional move
 - Based on hedging opportunities
- **Preparing contingency planning**
- **Executing predetermined entry and exit on directional move or....**
- **Executing contingency hedge**
- **Managing hedged position**
- **Seeking additional hedges**



The Objective

- **Learn to**
 - **Seek good directional candidates using daily weekly and intraday technical analysis.**
 - **Execute an option trade to generate potential profit on the directional move.**
 - **Execute an option trade to create a hedge and reduce losses if the directional move is not realized.**
 - **Manage the hedged position and seek an additional hedging opportunity to create potential profit.**



Versatility

- **Strategic Trade Management (STM) can be used on longer term trades.**
- **STM may be used in combination with other strategies like strangles or straddles.**
- **STM may be used on short-term trades.**
- **STM may be effective tool for managing expiration day trades.**



Identifying Candidates

- STM uses sound technical analysis and considers Average True Range (ATR) to identify candidates that have the potential to move to and through the next strike price in a short time frame.
- Careful evaluation of option chains is also used to identify candidates that offer beneficial hedging opportunity.
- Selecting candidates in this manner can potentially improve the likelihood of a successful outcome.



Technical Analysis



Technical Analysis

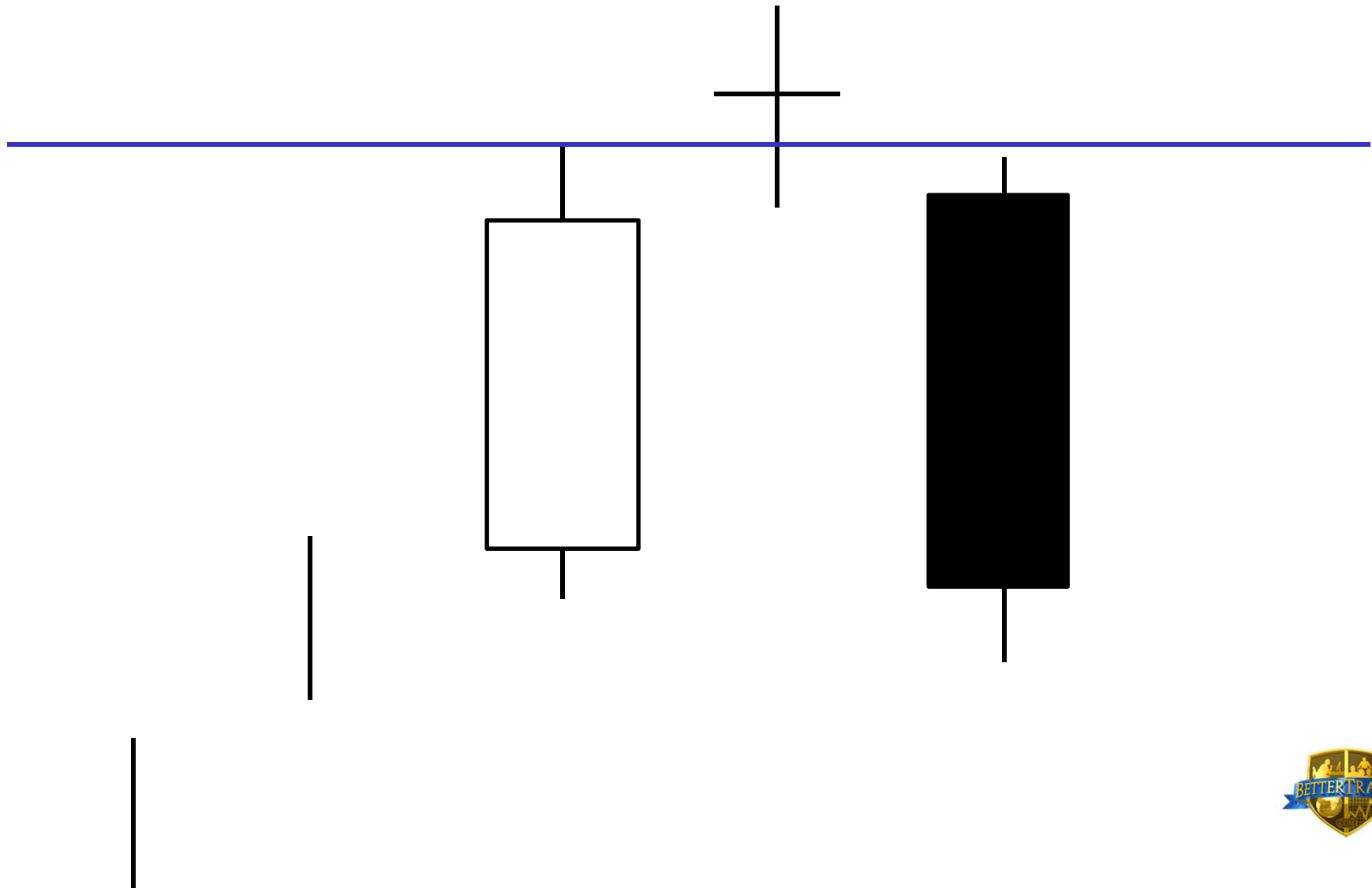
- **Technical Analysis should be evaluated from a “preponderance of the evidence.”**
Examples include:
 - **Candlestick Patterns**
 - **Classic Charting**
 - **Oscillating Indicators**
 - **Moving Average Indicators**
 - **Volatility indicators**
 - **Diverg**



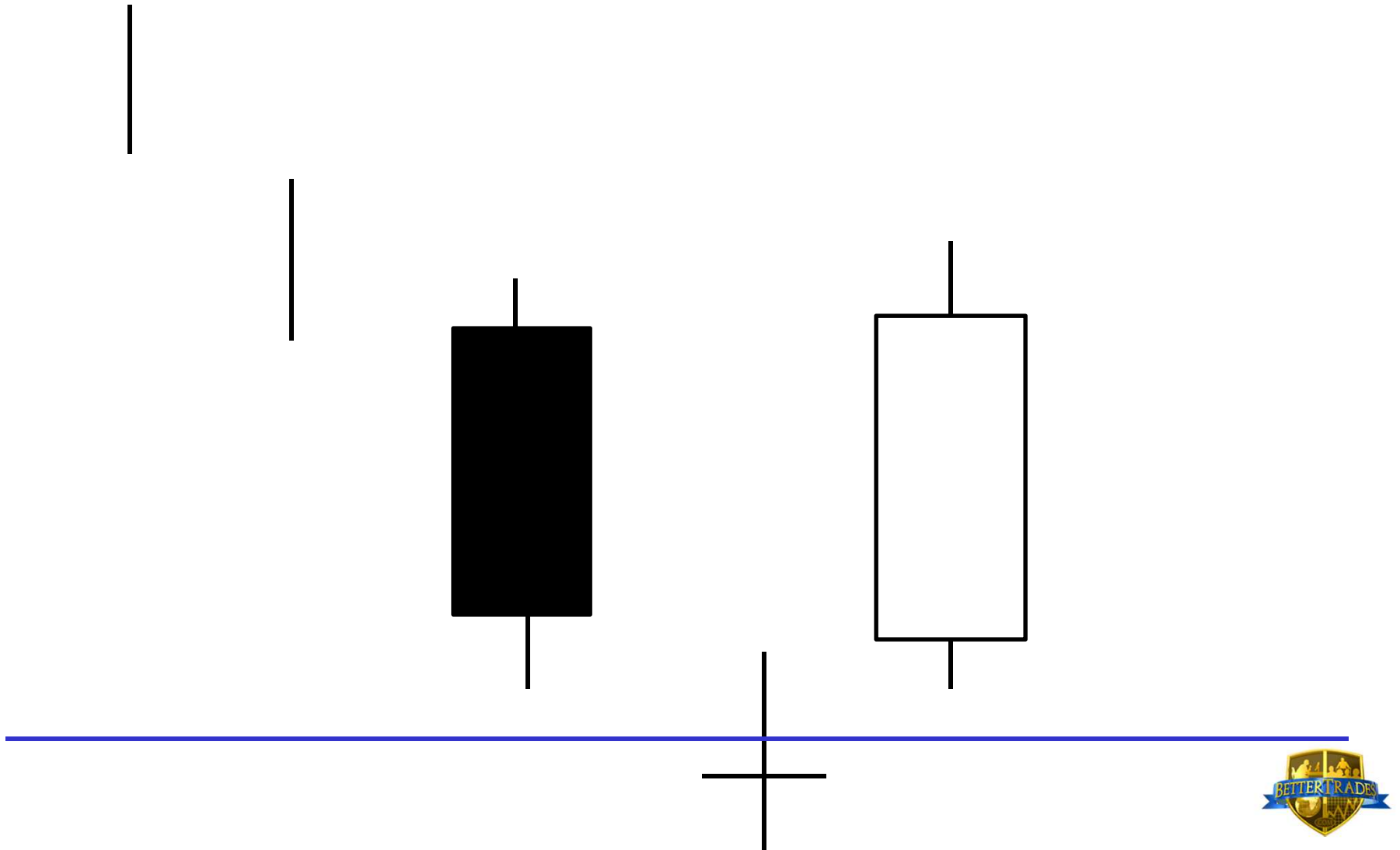
Candlestick Patterns



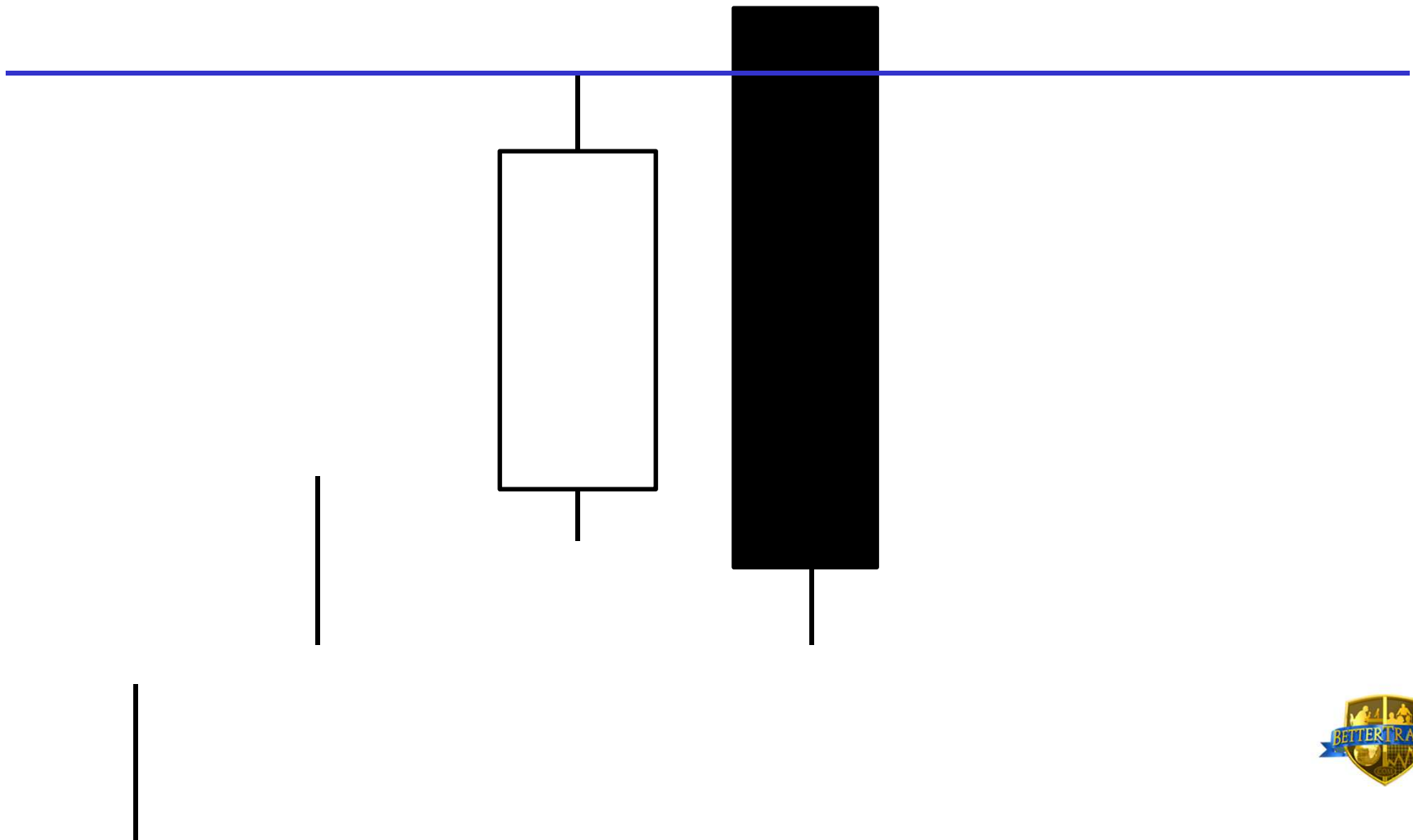
Evening Star Reversal Pattern



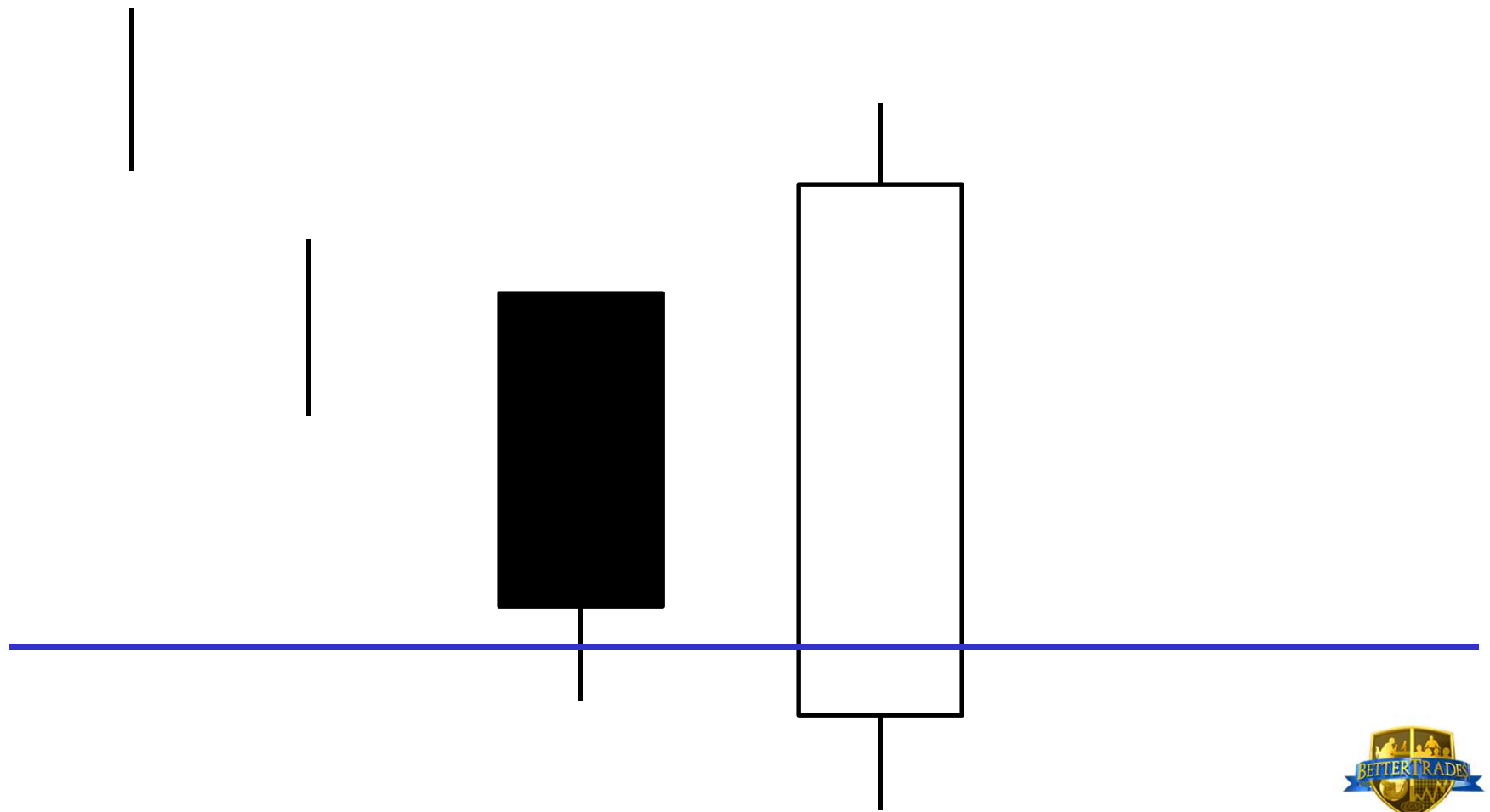
Morning Star Reversal Pattern



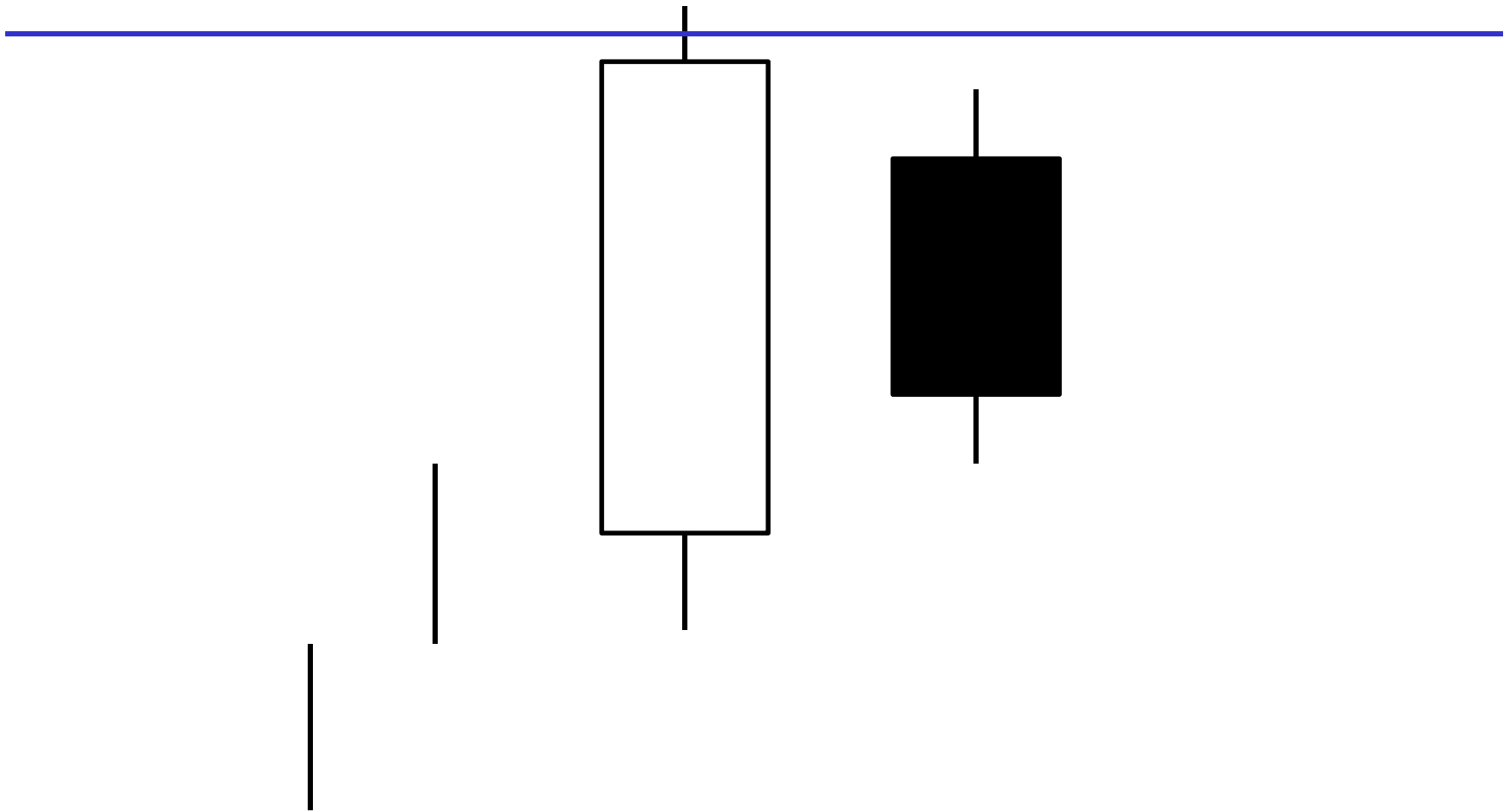
Bearish Engulfing Reversal Pattern



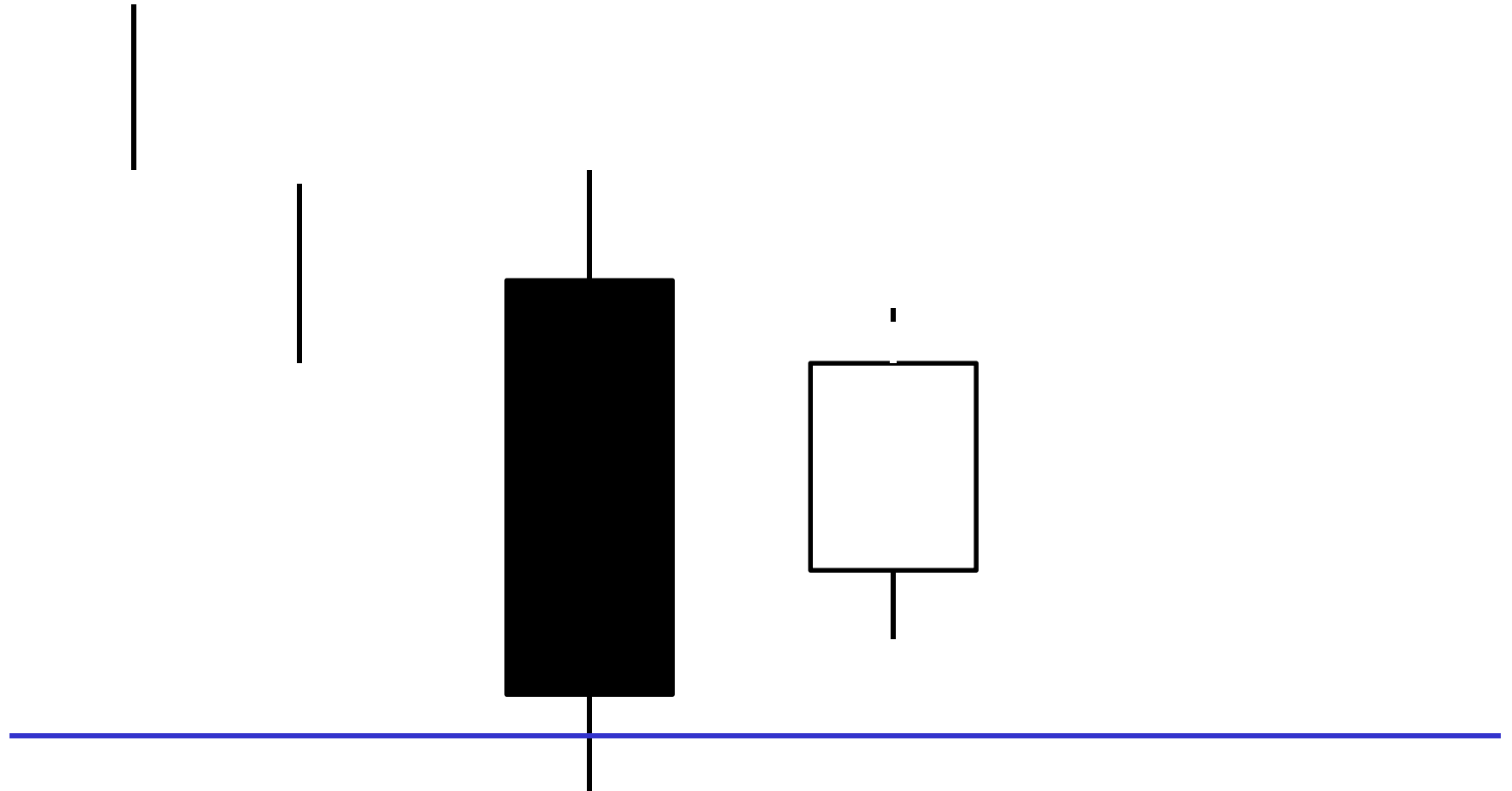
Bullish Engulfing Reversal Pattern



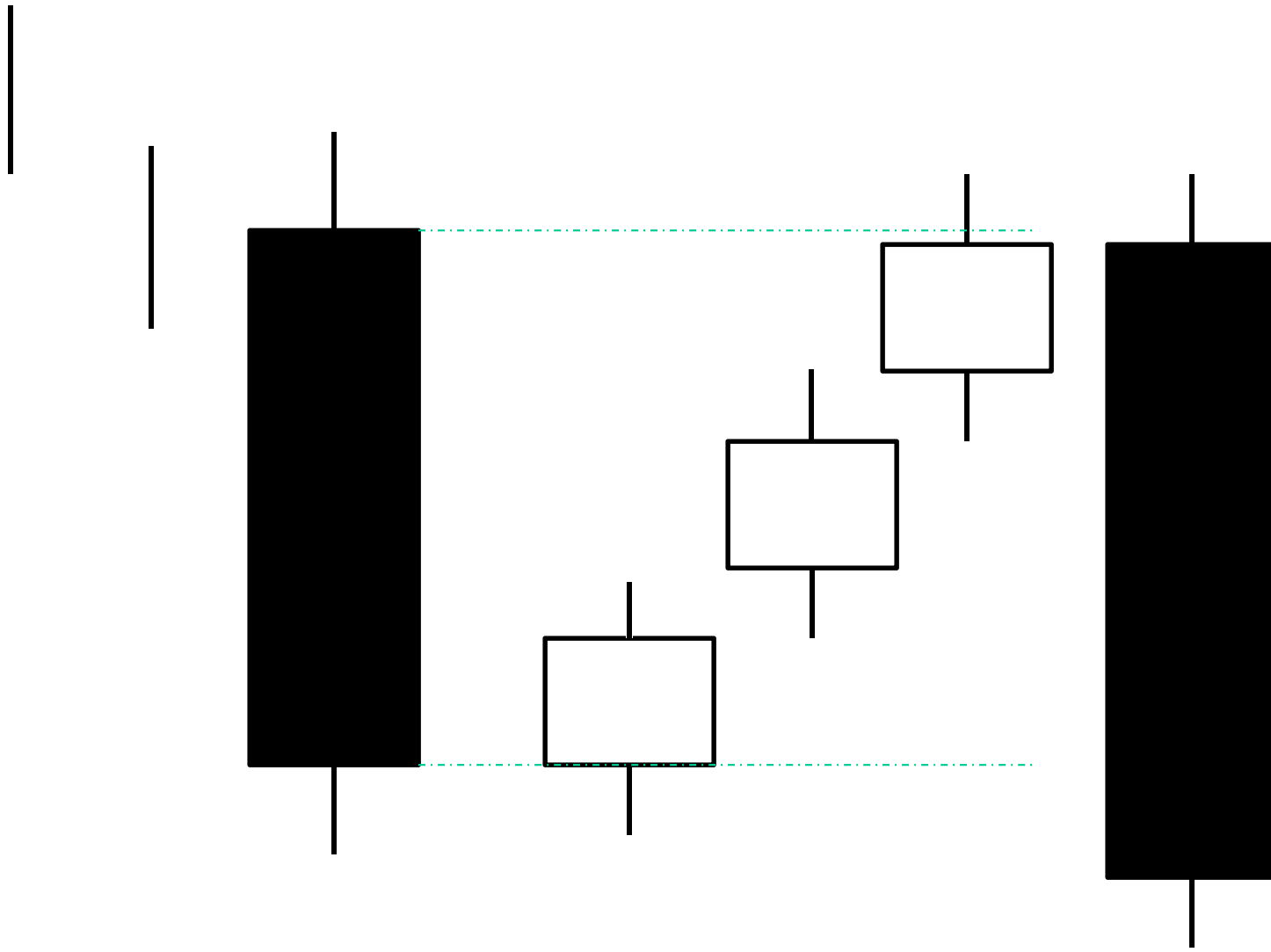
Bearish Harami Reversal Pattern



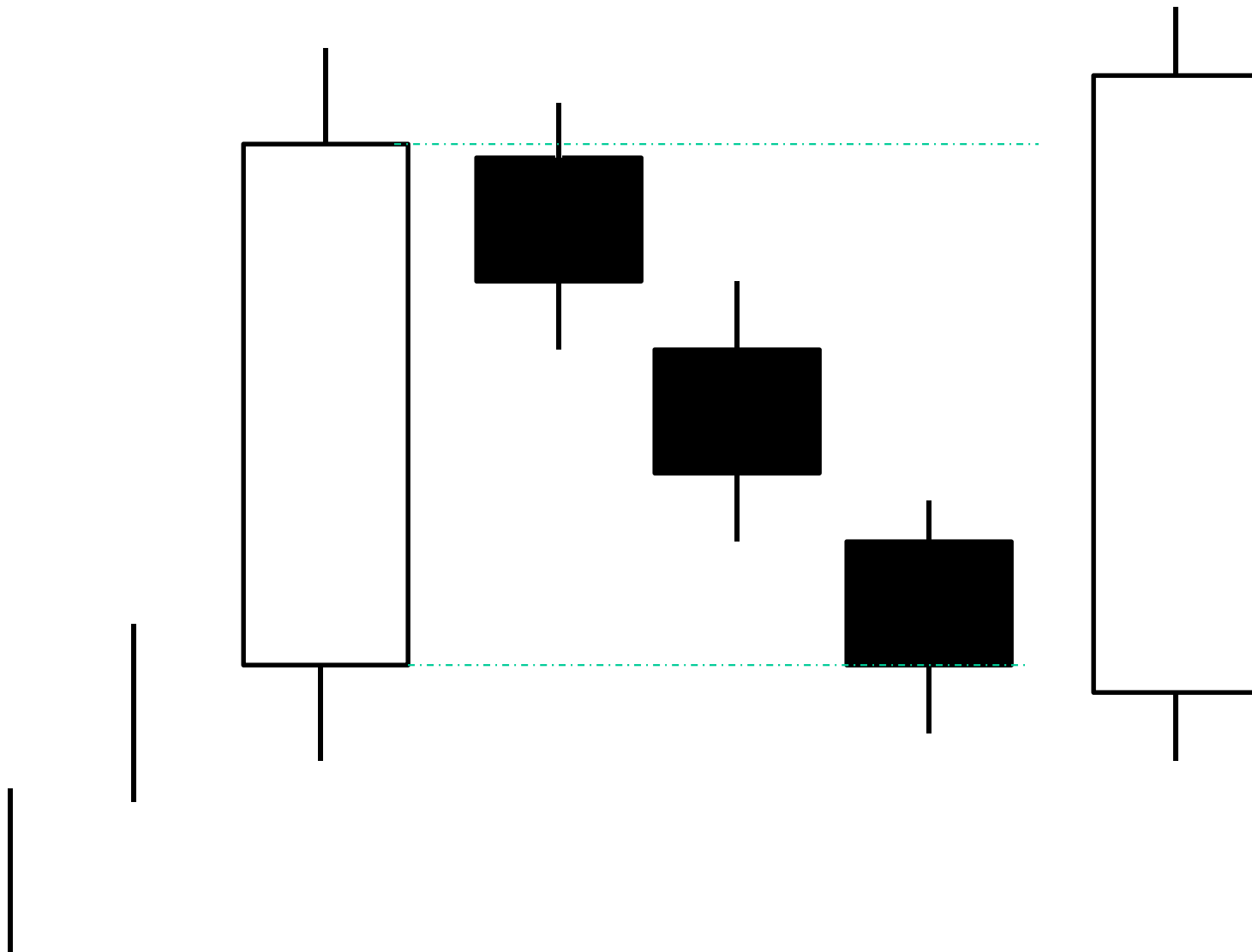
Bullish Harami Reversal Pattern



Falling Three Method Pattern



Rising Three Method Pattern



Classical Charting Example



Oscillating Stochastic Indicator



Moving Average and MACD



Bollinger Band Volatility Study



Divergence Example



Option Selection



Longer Term Option Selection

- **Once you have a candidate, select an option that can be hedged if the trade goes against you.**
- **Typically this involves selecting an option that is one strike out of the money (OTM) and possibly more than one month out.**
- **The priority is to take profit on the position if the stock moves in the anticipated direction toward the target.**
- **If, however, the stock moves against the position, you will execute preplanned counter moves.**



Pre-Planned Counter Move **No. 1**

- Your option selection allows you to employ a number of counter moves if the stock does not move in the anticipated direction.
- The first counter move is to create a Horizontal Calendar Spread
 - **Sell to Open (STO) the same strike and type (call or put) for the front month or week creating a horizontal calendar spread.**
- The priority is to offset cost in the initial position by creating credit from the short position.



Pre-Planned Counter Move **No. 1** Horizontal Calendar Spread

Use when stock price moves sideways or slightly away from anticipated trade direction

BTO SEP 125 C @ \$4

ABC 122



Pre-Planned Counter Move **No. 1** Horizontal Calendar Spread

Use when stock price moves sideways or slightly away from anticipated trade direction

STO AUG (W) 125 C for \$1 ← **BTO SEP 125 C @ \$4**

ABC 122 →



Pre-Planned Counter Move No. 1

Horizontal Calendar Spread

Use when stock price moves sideways or slightly away from anticipated trade direction

STO AUG (W) 125 C for \$1 ← BTO SEP 125 C @ \$4

ABC 122 →



Pre-Planned Counter Move **No. 2**

- Your option selection allows you to employ a number of counter moves if the stock does not move in the anticipated direction.
- Your second counter move after the Horizontal Calendar has expired (or has otherwise been closed) is to create a Diagonal Calendar Spread
 - **STO the next strike closer to the money and one month closer to current month creating a horizontal calendar spread.**
- The priority is to offset cost in the initial position by creating credit from the short position.



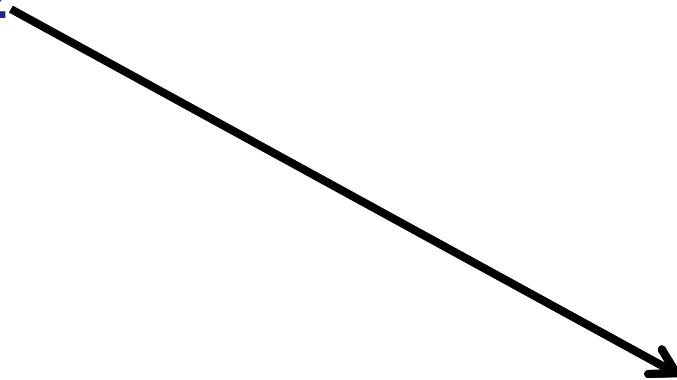
Pre-Planned Counter Move No. 2

Diagonal Calendar Spread

Use when stock price moves away from anticipated trade direction and through next strike price.

BTO SEP 125 C @ \$4

ABC 122



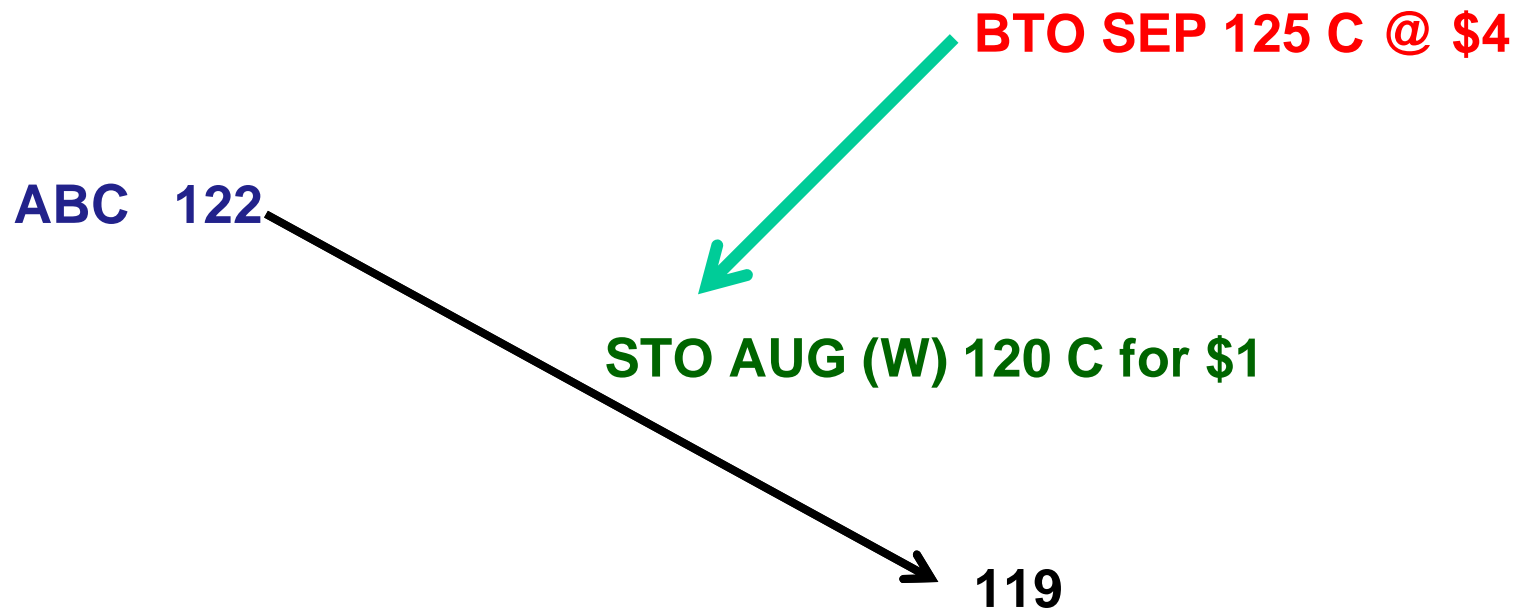
119



Pre-Planned Counter Move No. 2

Diagonal Calendar Spread

Use when stock price moves away from anticipated trade direction and through next strike price.



Pre-Planned Counter Move **No. 3**

- Your option selection allows you to employ a number of counter moves if the stock does not move in the anticipated direction.
- Your third counter move after the Horizontal Calendar has expired (or has otherwise been closed), and the diagonal calendar spread(s) have expired (or been closed) is to create a Vertical Spread.
 - **STO the next option closer to the money and create a vertical credit spread.**
- The priority is to offset cost in the initial position by creating credit from the short position.

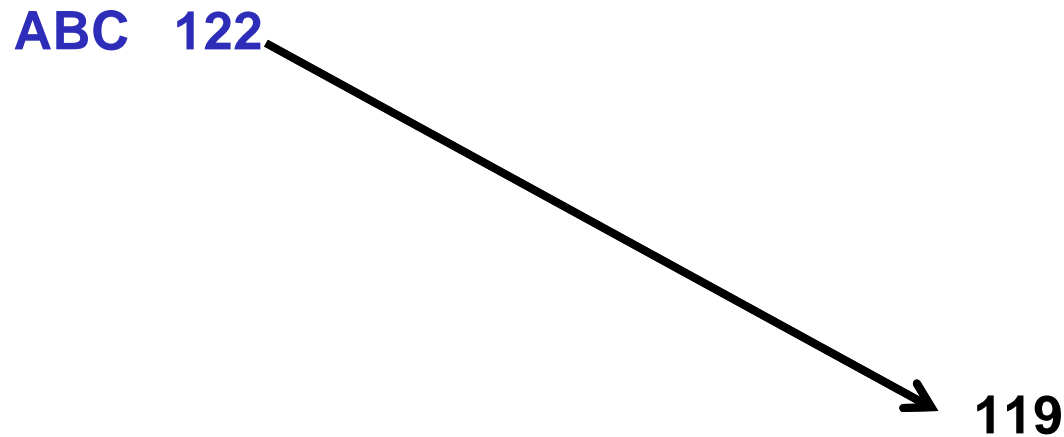


Pre-Planned Counter Move **No. 3**

Vertical Spread

Use when stock price continues to move away from anticipated trade direction and through next strike price in the same month as the long option.

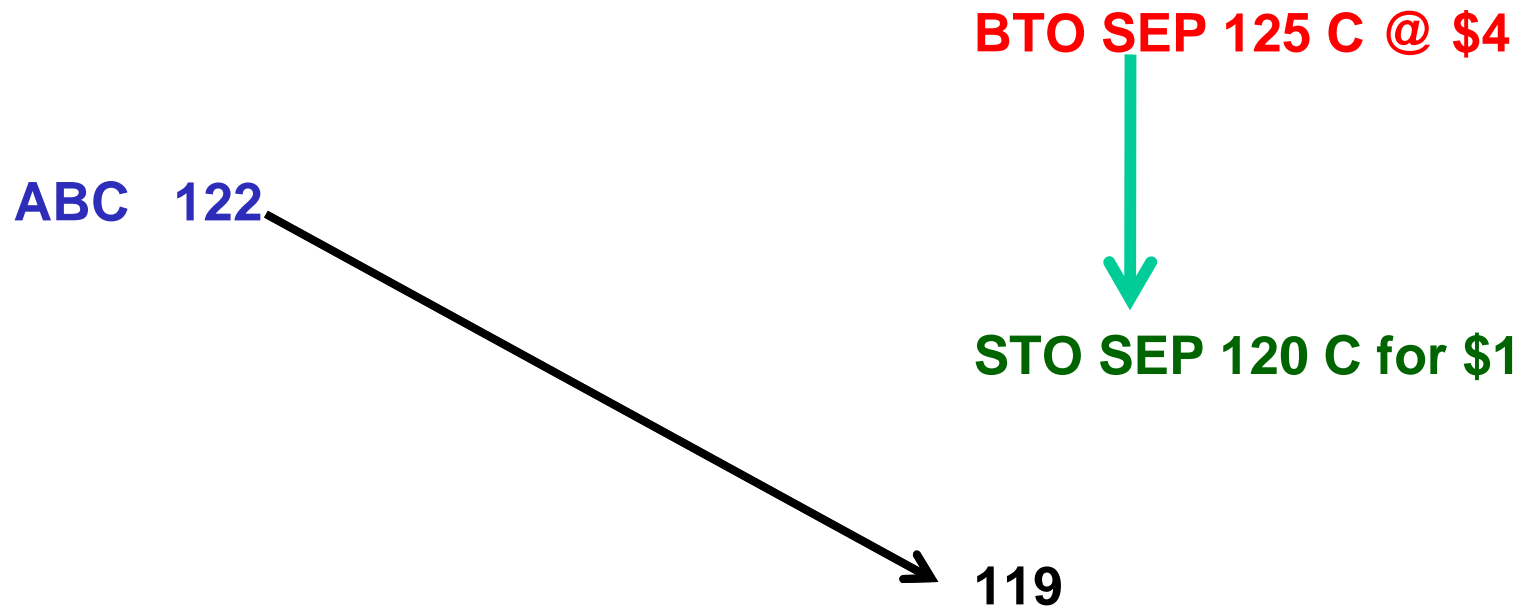
BTO SEP 125 C @ \$4



Pre-Planned Counter Move **No. 3**

Vertical Spread

Use when stock price continues to move away from anticipated trade direction and through next strike price in the same month as the long option.



Managing Counter Moves

- Once a defensive position has been deployed, it should be closed IF the stock reverses and moves back in the anticipated direction.
- Traders should be careful not to “over-manage” defensive positions.
- Short calendar spread positions can be allowed to expire worthless if they are OTM or they can be closed (BTC) at a profit to allow additional short positions.
- Short vertical spread positions can be closed (BTC) when an acceptable gain is realized or when the stock indicates a reversal.



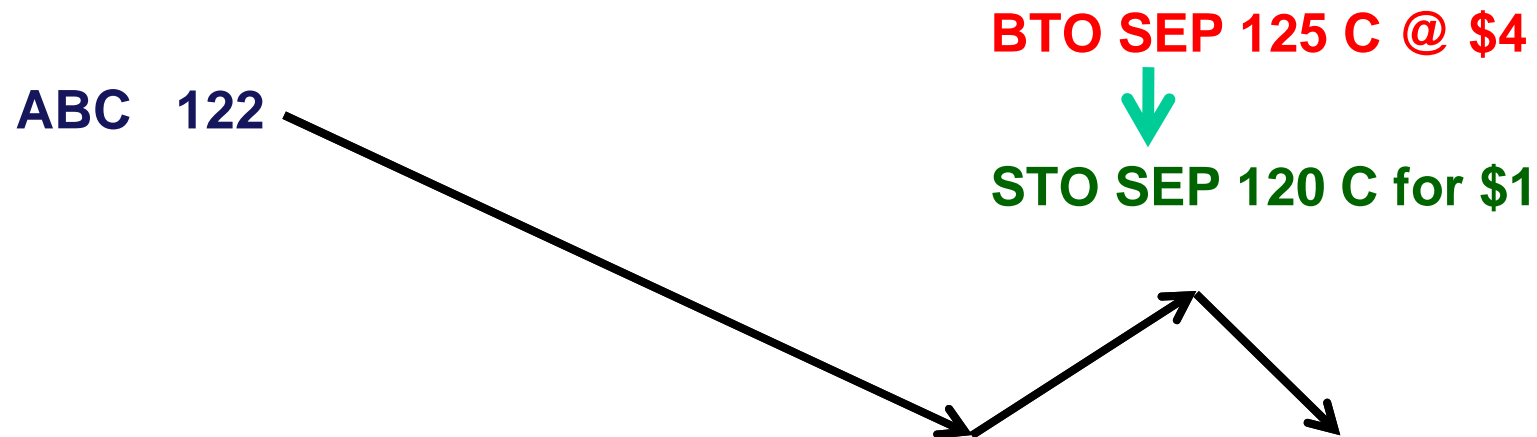
Additional Hedging Opportunities

- Once a position has been hedged in order to potentially reduce costs on the trade, additional opportunities may exist to potentially reduce costs or possibly even create small profit.
 - Weekly options at or very near expiration can provide opportunity to sell rapidly eroding premium multiple times on expiration day.
 - If a vertical spread was used (either as an initial hedge or as a secondary hedge to a calendar spread that expired), then additional premium can be secured by executing an opposing OTM credit spread in order to create an Iron Condor.



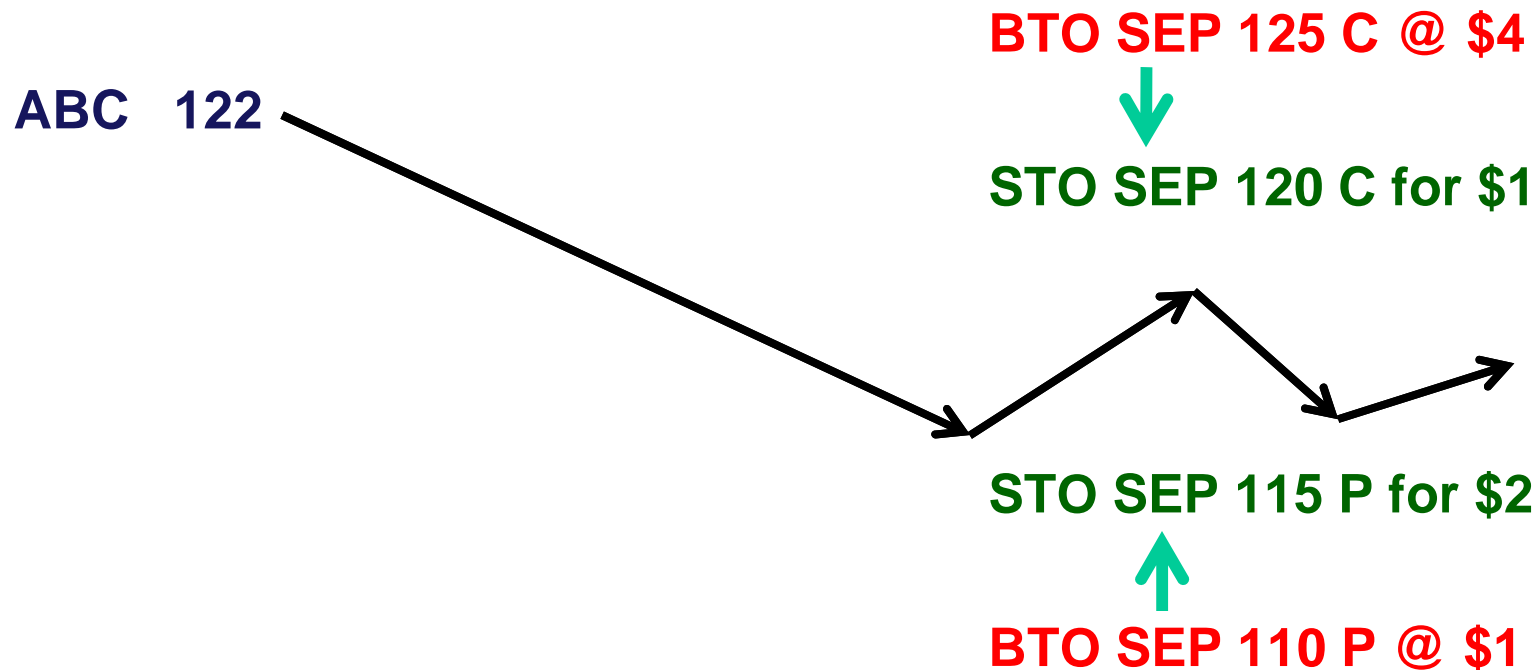
Additional Hedging Opportunity Iron Condor

Use when stock price stabilized but is unlikely to reverse direction enough to challenge the original spread



Additional Hedging Opportunity Iron Condor

Use when stock price stabilized but is unlikely to reverse direction enough to challenge the original spread



STM In the Short Term

- **STM can be used in very short-term trades.**
- **The closer the expiration date the more restricted the hedging opportunity.**
 - **Front week options can only be hedged vertically**
- **By selecting one strike OTM on a weekly option, intraday traders are positioned to take profit on a directional move, or hedge with a very short-term vertical spread.**



STM With the Strangle

- **STM may be used with the strangle as a hedge.**
- **STM allows the trader to reduce or even eliminate potential losses to the losing leg of a strangle.**
- **This powerful combination permits traders to take on a completely directional neutral trade and then manage the trade as it moves.**



The STM Strangle Combo

Use to possibly mitigate against the losing leg of a strangle.

ABC 122

BTO SEP 125 C @ \$4

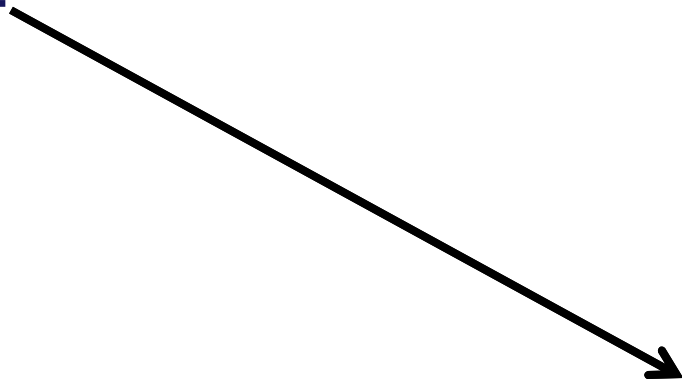
BTO SEP 120 P @ \$4



The STM Strangle Combo

Use to possibly mitigate against the losing leg of a strangle.

ABC 122



BTO SEP 125 C @ \$4



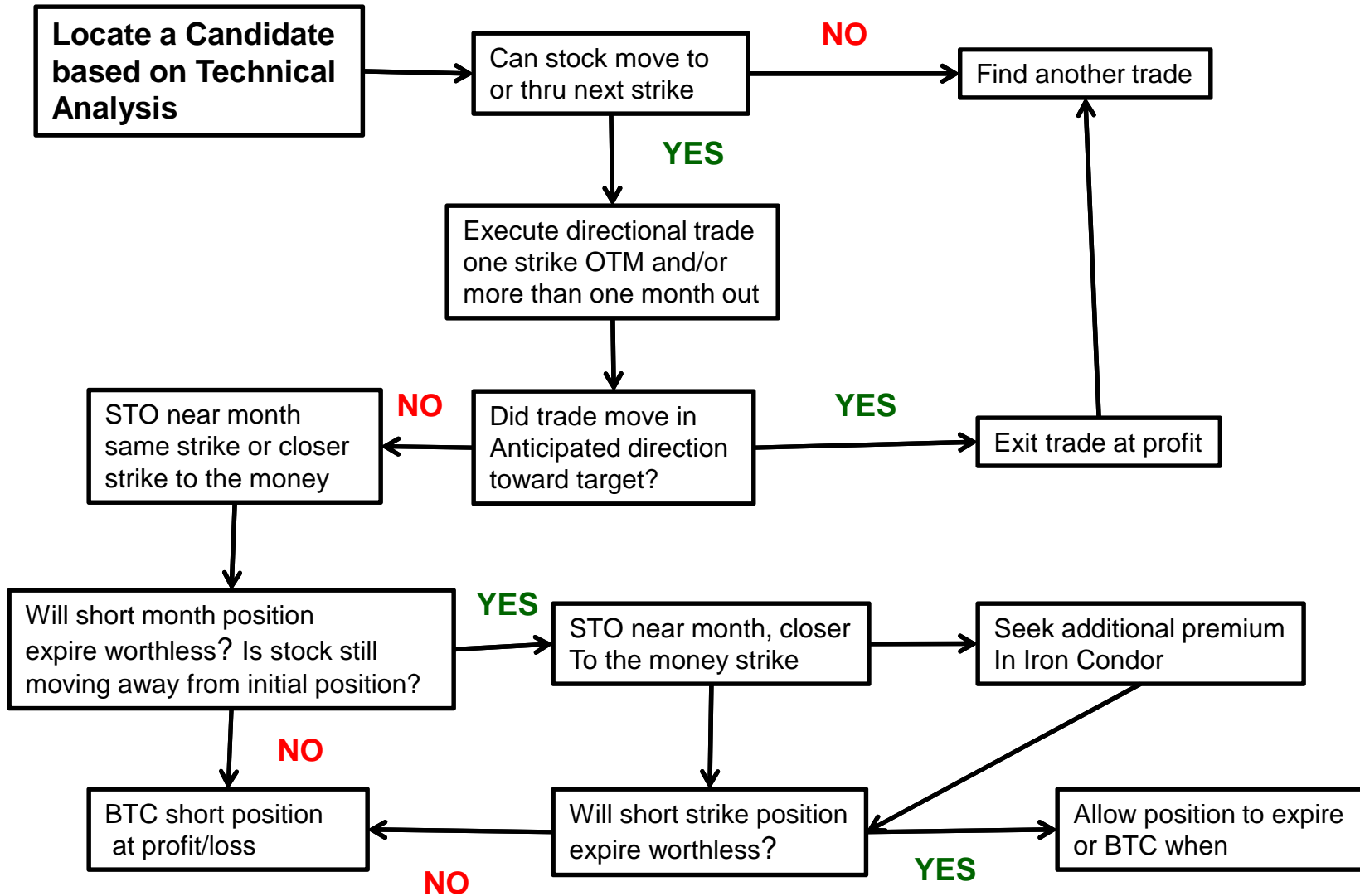
STO AUG 120 C for \$1

BTO SEP 120 P @ \$9

116



STM Flow Chart



The Morning Lab

- **A motivated, eager group of traders that meet Monday to Thursday from 9:15 a.m. to 11:15 a.m.**
- **Focused on learning short and intermediate term trading.**
- **Learn a “Winning Traders Mindset”**
- **Watch as real-time paper trades are executed in class!**



Who Should Attend?

- **The Morning Lab is for You If You are:**
 - Looking to Learn Exciting, Advanced Strategies.
 - Motivated, Eager and Positive.
 - A Successful Trader looking to Improve.
 - Struggling to Find Direction and Discipline.
 - Frustrated with Your Trading.
 - Willing to Do Whatever It Takes.
- **This is an action-packed, intense learning experience designed just for you!**



What Will You Learn?

- **With the right training you could learn how to:**
 - **Use an Awesome “Amateur Hour” Trade Setup!**
 - **Develop a Traders “Winning Mindset”.**
 - **Manage Risk Like a Pro.**
 - **Use Discipline and Planning in your Trading.**
 - **Pick the Right Strategy for the Current Market.**
 - **Use a business plan to create direction and focus.**
- **Are you ready to finally learn the critical skills that could improve your trading?**



Make the Investment in Yourself!

- Immerse yourself in the education for an entire quarter!
- Every session is archived for 30 days!
- Get Engaged, Stay Motivated!

Three Full Months

\$2495



Enroll Today! Get The Bonus!

- *What Could Possibly Make the Lab Better?*
 - Bill's e-Mail Address!!!!
 - Expiration Friday Session (two per month)
 - ECSM Pivot Point Calculator
 - Hit and Run Scan
 - Bill's Pivot Based Indicator/scan Package
 - Detailed Strategy Description Videos
 - Detailed Risk Management Plan
 - Sample Trading Business Plan
 - Any future indicators/scans Included
- *Enroll TODAY to get a full three months of the Morning Lab PLUS the Bonus Package!*



Get Special Event Pricing!

- **Enroll Now, Get Special Pricing!**

Not ~~\$2495~~

Get Three Full Months

For \$1995

Includes The Huge Bonus Package!

Register online for special price.



Neither Better Trades or any of its personnel are registered broker-dealers or investment advisers. I will mention that I consider certain securities or positions to be good candidates for the types of strategies we are discussing or illustrating. Because I consider the securities or positions appropriate to the discussion or for illustration purposes does not mean that I am telling you to trade the strategies or securities. Keep in mind that we are not providing you with recommendations or personalized advice about your trading activities. The information we are providing is not tailored to any particular individual. Any mention of a particular security is not a recommendation to buy, sell, or hold that or any other security or a suggestion that it is suitable for any specific person. Keep in mind that all trading involves a risk of loss, and this will always be the situation, regardless of whether we are discussing strategies that are intended to limit risk.

Also Better Trades' personnel are not subject to trading restrictions. I and others at Better Trades could have a position in a security or initiate a position in a security at any time.

