

## Preface

This book is a response to the many hundreds of requests I have received from newsletter readers for more information on option trading. These readers want more information on particular strategies than it is practical to include in the newsletter. I hope it helps. Here you will find a discussion of every options strategy I have employed since the newsletter's inception. Should the future bring a new strategy to the newsletter, I will add material to the book to explain it in more detail. So this book may grow over time.

Because the book covers only the strategies I've shared with readers, it differs significantly from typical books on options, which try to cover every possible options strategy. I suspect this limitation will prove an advantage to the novice at options, for whom this book is intended. While there is undeniable educational value in studying all types of option strategies, most beginners find an endless stream of them difficult to absorb and ultimately confusing and frustrating.

I would suggest that the most value from this book will be obtained by using it as you follow along (either passively watching, or actively engaging in) the options investments in the newsletter.

I must take the opportunity to express my deep gratitude to Arlo McKinnon, Dorothy Weglend and Xaio-mei Lee. As experienced investors and yet with little to no experience at options, their input was invaluable. They read several versions of the book, sent detailed notes and questions, as well as suggestions. If you find any value in this book, these are the people responsible for it.

Nathan Sturman, options trader extraordinaire, read several versions of the book and helped correct the worst of my errors. All blemishes and mistakes remain my own. All the responsibility for any use of the information I provide remains yours. I make no warranty or guarantees that you will make money using the information provided here. That is completely up to you.

I must also acknowledge the debt I owe to Eryk Gorski, dear, brilliant and generous friend, who spent many hours convincing me to make my first options trade.

I welcome corrections and suggestions for improvement. If you have a suggestion, please send me an email. I regret that an immediate response is not likely to be forthcoming. If I do use your suggestion, you will be credited as a contributor in future versions.

## General Approach

My own approach to options investing comes from my background as a value investor. I base my decisions on the underlying business, its health and its economic advantages. I then layer options trades on top of this. In some cases, this is done in connection with

stock ownership, and in some cases it is a pure option play. But it is always based on the fundamentals of the company.

### **What to do after you have read this book.**

If you are a complete novice at options, you should focus on the simplest strategies. Covered calls would be a good way to get your feet wet at options. Once you have a few of these under your belt, you might wish to try a simple bull call spread, or a diagonal bull call spread with a long LEAP instead of stock. If you are fortunate to have a more experienced friend or advisor who can help you with the decisions you need to make along the way, then you can make more advanced trades.

When dealing with options, it is important to use only strategies that you understand completely. This means not only having a clear idea of how much money you may make, but also of how much money you may lose, and how to minimize your losses when possible. Even the most experienced investor will have trades that go wrong. You need to have the knowledge and emotional strength to extricate yourself from a difficult situation if you end up in one. In some cases, this may mean accepting a 100% loss of capital.

Options are leveraging instruments, and you do not need to invest much money to make excellent returns. It is much better to have several small positions than one gigantic one. This will keep your potential losses small, and avoid the potentially dangerous mistake of excess leverage. For option only trades, such as spreads or synthetic longs, I recommend using only 1-2% of your investable cash for each position.

I wish you an enjoyable and profitable investing experience.