Visual Guide to
Options
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Don’t Be Afraid to Take Risks

Load the ship and set out. No one knows for certain whether the vessel will sink or reach the harbor. Cautious people say, “I’ll do nothing until I can be sure.” Merchants know better. If you do nothing, you lose. Don’t be one of those merchants who won’t risk the ocean.

—Rumi

Think Outside the Box

. . . a new type of thinking is essential if mankind is to survive and move toward higher levels.

—Albert Einstein

Be Prepared

If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle.

—Sun Tzu

Ask Questions

A wise man can learn more from a foolish question than a fool can learn from a wise answer.

—Bruce Lee

Don’t Give Up

The world ain’t all sunshine and rainbows. It’s a very mean and nasty place and I don’t care how tough you are it will beat you to your knees and keep you there permanently if you let it. You, me, or nobody is gonna hit as hard as life. But it ain’t about how hard ya hit. It’s about how hard you can get hit and keep moving forward; how much you can take and keep moving forward. That’s how winning is done!

—Rocky
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How to Use This Book

The Visual Guide series is meant to serve as the all-encompassing, yet easy-to-follow, guide on today’s most relevant finance and trading topics. The content truly lives up to the series name by being highly visual; all charts are in color and presented in a large format for ease of use and readability. Other strong visual attributes include consistent elements that function as additional learning aids for the reader:

■ Key Points: Primary ideas and takeaways, designed to help the reader skim through definitions and text.
■ Definitions: Terminology and technical concepts that arise in the discussion.
■ Step-by-Step: Tutorials designed to ensure that readers understand and can execute each section of a multiphase process.
■ Do It Yourself: Worksheets, formulas, and calculations.
■ Bloomberg Functionality Cheat Sheet: For Bloomberg terminal users, a back-of-the-book summary of relevant functions for the topics and tools discussed.

For e-reader users, the Visual Guide series is available as an enhanced e-book and offers special features, like an interactive Test Yourself section where readers can test their newly honed knowledge and skills. The enhanced e-book version also includes video tutorials and special pop-up features. It can be purchased wherever e-books are sold.
Nothing truly meaningful in life is created or even possible if not for the trials and tribulations that shape us as humans.

I’m most gracious to life’s mountains that have stood before me, challenged me, and ultimately given me a chance to get a better view of the beautiful existence I have been fortunate enough to live.

Thank you.
Introduction

My goal for this guide is to allow you to open to just about any point in the book and find a useful tip, method, or actionable idea that you can apply immediately, without having to go back and read too far.

Most of us believe we are free thinkers, but it’s important to realize that on some level, information flows into our minds through filters or biased channels. The specific publications you read or websites you browse dictate your information sources. As you structure your investment thesis and strategy, don’t ever be afraid to break your normal pattern and look for alternative methods of gathering information, statistics, and strategy.

Depending on your particular exposure or experience with trading options, you are going to have preconceived notions about how useful they are to you. Even if you have been an extremely successful options trader, keep your mind open to looking at the option markets and their risk in a different way. The ideas, techniques, and processes in this book are not the only solution, but they have worked for me for many years and may make a good addition to your existing repertoire. No one has “the secret sauce”; you simply need a viable action plan and a sound risk and psychological management system.

Although there is no perfect way to trade options, there are many wrong ways to do it. I learned some valuable (and costly) lessons along the way; I hope to show you where I screwed it up so that you can avoid the major pitfalls of bad options trading.

This book expands on the focus of my first book, Your Options Handbook, and details more of the nuanced techniques and analysis that professionals use to get an edge on the market. The goal of this text is to help you to truly understand risk, order flow, and volume as well as execution and strategy.

Even with Bloomberg being one of the best information sources out there, don’t be discouraged if you don’t have access to a terminal. The bulk of strategies,