



>: Answers to Some of Your Options Questions ...

Thursday, September 28, 2006 / Chris Rowe

Low stock share comments that we all have seen at the bottom of each Tycoon Report (by clicking on the link allowing you to rate the article.)

● ~~Keep 90% of your position if you can't buy your GM March 35 put (which is your ?long put,?) then you must FIRST buy back your ?short put?~~

I'm telling you, I really get a kick out of reading what you all write. Most of it is motivating, some is funny, some is obscene (which is usually funny to me.) Last week (Thursday) I wrote an article titled "Sometimes Free Only About 10% of the Way" which is usually funny to me.) Last week (Thursday) I wrote an article titled "Sometimes Free Only About 10% of the Way" which is usually funny to me.) Last week (Thursday) I wrote an article titled "Sometimes Free Only About 10% of the Way" which is usually funny to me.)

● You should understand, and be prepared to accept the consequences if your options are exercised. Here the consequence was a net sale price of \$5.00. Calculate that first. Then

make the decision.

I talked about how easy it is to get greedy with making money on options, and how I was once in an ?abusive? relationship with the out-of-the money, short-term call option.

● Over 90% of all options are traded out in the marketplace. This means that buyers sell their options in the market, and writers buy their positions back to close.

I got some great feedback and questions relating to last week's article, and although I can't answer most of them, I will answer a few that seem to be popular.

(By the way, sometimes people choose to leave their name, and sometimes they choose not to. I decided that I will only post the first name.)

Let's start with this one:

A good word of caution that I needed to hear. What about selling the options since most expire worthless?

ANSWER:

Actually, while many people believe that **90% of options expire worthless**, this is a myth. According to the Chicago Board Options Exchange:

But in answer to your question, here's what I think about selling options:

When *buying* an option, the one thing that can work in your favor, is that the underlying stock moves in the direction that you predicted it would move in.

But there is always something *working against you* at the same time, and that is that time is always tick-tick-ticking away, causing your option to lose some of its value.

You can compare *buying* an option that ends up profitable to being a great swimmer and swimming against the current, or upstream. Sure, you might be able to do it, but the force of the water (or time) is always working against you.

Selling options is a great strategy, because you have time working in your favor. As time passes, options lose part of their value. This is a positive since you have first sold something which then goes down in value (which in this case is a profitable trade.)

Selling (shorting) an option contract is like swimming with the current, or downstream. You will move with the water, and if you swim with it (or if the stock also happens to move in the right direction,) then you (or your option contract) will move in the right direction twice as easily. You don't even have to make any effort whatsoever, and the water can actually carry you to where you want to be. Just like if you sell an option, and the stock trades flat (you would still make money as the option lost some value due to time decay.)

If you are the seller of an option, I believe (and most would agree with me) that you should be covered with either the underlying stock, or another option as a hedge.

Here's a funny one:

Why can't you make a short summary at the beginning or end? Such a paper would never be accepted in a scientific journal. ~ BC.

ANSWER:

Yes, thank you. And I will be sure to remember that for the next time that I submit my article to a scientific journal! To tell you the truth, I'm a good trader. But I feel lucky when I write three paragraphs without one spelling or grammar error!

Here's a very good question, but I need your help with this one:

Do you have any suggestions on good sources for learning better trade discipline?

ANSWER:

If any of you readers have suggestions of any good places that help teach discipline, please leave a message by clicking below on ?rate this article here.?

I personally learned my discipline through trial and error over several years. I do write in The Tycoon Report from time to time about ways to keep your cool. But although many of the books that I have read over the years talk about discipline, it is hard to obtain from reading a book.

I suggest starting by learning about technical analysis which takes much of the emotion out of trading and investing. I also suggest checking back next week in this section to see what our readers recommend. And you can also read this article that I wrote on August 3, 2006 titled How not to jump the gun on the trade? for some of my suggested exercises for learning discipline.

QUESTION:

Hello Chris,