



## How to Get In and Out of the Market with Huge Gains in Any Climate

# Hot Trading Secrets

### THE SUMMARY IN BRIEF

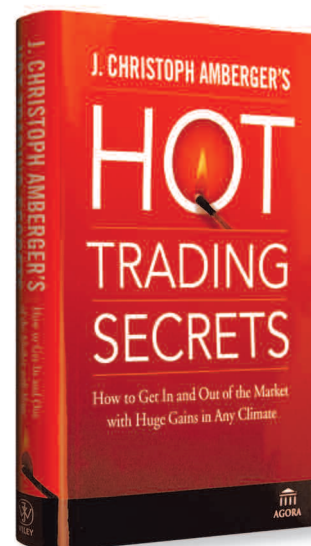
In *Hot Trading Secrets*, financial publishing executive J. Christoph Amberger reveals short- and medium-term trading secrets that will enable you to prosper in any financial climate. Amberger's methods have been tested over time in his company's newsletters, often achieving amazing results in widely varying market conditions. He promises that by applying these powerful secrets, you too will be able to master the market for maximum profit. Traders — from the novice to the veteran — will find *Hot Trading Secrets* to be both practical and profitable.

With refreshing wit and accessibility, Amberger explains how his company's investing and trading philosophy works; how over the years he has established one of the best batting averages in the financial publishing industry; and what methods and tricks his analysts use to create superior profits not only in days of global crisis, but day in and day out. These methods can help you profit handsomely in the markets in the coming years, independent of where the various domestic and international indexes are headed.

*Hot Trading Secrets* offers a blueprint for making money in the market today. What's more, you'll discover secrets for making money that you can apply to any market: up, down or sideways. In fact, you'll see it can be as easy as reading a road map. All you need to know is how to anticipate the unexpected turns.

### IN THIS SUMMARY, YOU WILL LEARN:

- The predictive power of Dynamic Market Theory.
- How to legally and profitably trade on “insider information.”
- Why you need to cast a wide net.
- How to make extreme volatility trades.
- How to out-trade the floor traders on the Chicago Board Options Exchange.
- How to profit from the “Red Zones” in newly listed stocks.
- How to become a stone-cold profit predator and win in emotional markets.



by J. Christoph Amberger

### CONTENTS

#### Dynamic Market Theory

Pages 2, 3

#### Cast a Wide Net for Maximum Profits

Pages 2, 3

#### Crisis and Opportunity in the Global Markets 2006-2009

Pages 3, 4

#### Profit from Cyclicity

Pages 4, 5

#### Actionpoint Trading

Page 6

#### Profit from the Red Zones

Pages 6, 7

#### Profiting with the WaveStrength Options Trading System

Pages 7, 8

#### A Final Word of Warning

Page 8

# THE COMPLETE SUMMARY: HOT TRADING SECRETS

by J. Christoph Amberger

**The author:** J. Christoph Amberger is the executive publisher of the Taipan Group LLC and vice president of Agora Inc. in Baltimore, Md. Born in 1963, he grew up in what used to be West Berlin, Germany, and was educated at the Freie Universität Berlin, the Georg-August-Universität Göttingen, the University of Aberdeen (Scotland), and St. John's Graduate Institute in Annapolis, Md. Since 1988, the Taipan Group has researched, compiled, and published independently assessed information and opinion in its flagship publication *Taipan*, a small-circulation bulletin available by private subscription only, *247profits e-Dispatch*, and affiliate publications and Web sites.

Copyright © 2006 by J. Christoph Amberger. Summarized by permission of the publisher, John Wiley & Sons, Inc., Hoboken, N.J. All rights reserved. 302 pages. \$24.95. 0-471-738727.

Summary copyright © 2008 by Soundview Executive Book Summaries, www.summary.com, 1-800-SUMMARY, 1-610-558-9495.

## Dynamic Market Theory

Our trading philosophy is called Dynamic Market Theory. Much like the theory of evolution, it is based on an explanation for a set of facts that has been repeatedly tested and that can be used to make predictions about those phenomena. Like evolution, our system is subject to change. A new pattern emerges, with different segments that, at least for a time, can be analyzed and translated to create the basis of yet another, modified trading strategy. The principal insight of our Dynamic Market Theory is that you need to *stop caring whether it's a bull or a bear market*. After all, who needs a bull market anyway when there's plenty of opportunity to make money all over the world?

## Money, Markets and Mayhem

Keep this in mind: Those who are made nervous by crisis and upheaval shouldn't be trading in the financial markets. Successful investing isn't always pretty. If you win and you make money, it's because the other guy lost. And if he wins, you lose. And consider this: A 25 percent loser requires a 33 percent gainer just to get back to even, and a 50 percent loss demands you double your remaining money to break even. That said, you can also make huge gains with relative ease by putting your money into the right kinds of stocks *at the right time*.

If you want to come out ahead in the market, you need to be mobile, motivated, and disciplined. Maintain a healthy emotional detachment from the stocks you buy and be ready and willing to get rid of them at the drop of a hat. After all, every 200-point rise and fall

spells a double 200-point profit opportunity for those who know where to look — and who have the guts to take profits whenever they can make them. The message is quite simple: *There is always an opportunity to make exceptional stock market profits independent of where the domestic indexes are headed — as long as you know how to read the signs.*

## Cast a Wide Net for Maximum Profits

Forget about finding that one great investment that you can bet the rest of your life on. For instance, is “buy gold” really the only answer to burgeoning American household debt, a declining U.S. dollar, or the rise and fall of equity valuations as Bill Bonner claims in his book, *Financial Reckoning Day*?

It is part of a prudent diversification of assets to keep maybe 5 percent of your portfolio in bullion. But gold is just an asset, one out of many that can be harnessed to build wealth in the Dynamic Market environment. And the more asset groups you include in your view of the markets, the better your chances to have one or several working for you at any given time.

This is the principal insight of Dynamic Market Theory: Cast your nets wide enough, and you will be able to profit handsomely from the major and minor fluctuations — upward and downward — of equity markets, international indexes, currencies, hard assets, real estate and technologies. Supplement short- and medium-term profits with long-term protective strategies, such as calls or puts on individual indexes. And most importantly, don't get overly enamored



**1-800-SUMMARY**  
service@summary.com

Published by Soundview Executive Book Summaries (ISSN 0747-2196), P.O. Box 1053, Concordville, PA 19331 USA, a division of Concentrated Knowledge Corp. Published monthly. Subscriptions: \$209 per year in the United States, Canada and Mexico, and \$295 to all other countries. Periodicals postage paid at Concordville, Pa., and additional offices.

**Postmaster:** Send address changes to Soundview, P.O. Box 1053, Concordville, PA 19331. Copyright © 2008 by Soundview Executive Book Summaries.

**Available formats:** Summaries are available in print, audio and electronic formats. To subscribe, call us at 1-800-SUMMARY (610-558-9495 outside the United States and Canada), or order on the Internet at www.summary.com. Multiple-subscription discounts and corporate site licenses are also available.

Rebecca S. Clement, Publisher; Sarah T. Dayton, Senior Editor; Joanne Merenda, Graphic Designer; Tom Moore, Contributing Editor

## Summary: HOT TRADING SECRETS

---

with any particular investing philosophy.

### Value Explained

If, as traditional wisdom holds, real value is what investing is all about, it begs the question: What is value? For all intents and purposes, value in the stock market is the device by which we judge our relative successes and failures, moods and attitudes, and the effectiveness of our own judgment and timing. Stocks are about more than intrinsic value. They're about human behavior, human progress, and human ideals.

Value — what a thing is worth, and why — is the heart of Dynamic Market Theory. Once you understand the way value really works in the stock market, you can avoid the misconceptions that cost investors trillions in the crash of 2000, and begin to see your portfolio's worth climb steadily upward.

To begin with, the *traditional* measures of value for investors all have to do with the actual or potential earnings of a company. What is it producing? What are its costs of production? What is its position in the marketplace? What is its competition? What is its future potential for earnings? How much merchandise can it possibly sell, and at what profit margin? Is its market growing or shrinking? We must have some means for making consistent and *informed* value judgments. But, oddly enough, few investors these days seem to care about traditional value anymore.

In fact, based on our research into Dynamic Market Theory, *the traditional views on value are all wrong*. Most market theories deal with the intrinsic value of stocks or other commodities — in other words, the notion that the value comes from within the thing, and that it has value in and of itself, regardless of any association with other things. But for investors, *the only value of any importance is the value that someone else places on a stock, commodity, or investment at any given point in time*.

### Bursting Bubbles

At its core, a bubble is an argument about value — mostly made in retrospect, after a particular investment fad has gone bust. But — and here's what most investors don't seem to realize — all figures of market valuations are assignments of value based only on what a small percentage of shares trades for. Only a tiny fraction of a given company's shares are in play at a given time. So the valuation commonly given to any or all stocks is more or less arbitrary, not real, even if it is based on the latest sale of a few shares of the stock.

The bubble is a natural phenomenon that occurs when a large number of human beings attempt to better their current living conditions. Seeking gains and profits, whether by emigration, by discovery or by investing in a bull market, is not at all irrational. To the contrary, it would be irrational not to. Because gains generated — and taken — during bubble events are just as real as those generated in a bear market.

In both cases, the operative term is “gains taken.” For gains to materialize, however, you must find and invest in an asset that is growing in value, and sell before it declines in value. The trick is to first find out what exactly the catalyst is that speeds the reaction in an upward direction, and then to identify the point in that process where the reaction is about to “run out of steam.”

### Trading Profitably

Dynamic Market Theory is simply a common-sense approach to handling your money and your portfolio.

Since 1988, the Dynamic Market Theory team at the Taipan Group has made piles of profits by holding true to a single core belief about investing: The truest and best investments are found where no one else can see value. That sounds obvious, even fundamental. Nevertheless, from 1998 to 2001, just by following advice based on the principles of Dynamic Market Theory trading systems, you could have averaged 271 percent gains on your total portfolio.

Incidentally, did you know that 80 percent of money managers and investment advisors and 95 percent of bond fund managers underperform the market? ●

---

## Crisis and Opportunity in the Global Markets of 2006-2009

### The Last Phase of the Bubble Market (2006-2009)

No bull market lasts forever and the end of this one will be orchestrated by global forces that have already embarked on a course that will shatter our profitable little bullish idyll by the time the first decade of the new century is wrapping up. In a worst-case scenario, you have less than five years of a strong bull market to get your house in order, to get ready for the tough decade and a half that will follow the collapse of this last great bubble boom sometime in late 2009 or 2010.

### **Europe's Long Decline and China's Coming Collapse**

The European Union is the envy of the world until you look at the numbers. Steeped in the welfare mentality that took hold in Europe in the 1970s, many European countries have government pension systems that seem to Americans to be overly generous and enviable: Spaniards continue to receive 94.7 percent of their average paycheck at retirement, while Austrians are guaranteed 93 percent. As a result, 90 percent of Europeans rely completely on government pensions to see them through retirement. This is causing a problem beyond the obvious number crunch.

Most European countries use a pay-as-you-go pension system. Pension funding comes out of current tax revenue, so, in order to maintain the current pension system, taxes will have to escalate each successive year in order to meet the government's obligations. Where is that money going to come from?

As dark as Europe's future looks, China, which has the world's fastest growing economy, will trigger the first big global economic crisis of the 21st century. The collapse of the Chinese Wirtschaftswunder (economic miracle) will come within 18 months after the Olympic Games of 2008 in Beijing. Below the surface of an exploding GDP growth and record-breaking exports, not all is well in China.

China already borrows more as a percentage of GDP than the United States under the second Bush Administration and China's banks — much like Japanese banks in 1991— are buckling under a heavy load of non-performing loans. The Chinese government is currently attempting to overhaul the Big Four state-owned banks, which hold 55 percent of China's total banking assets, but they are weighed down with more than \$500 billion in bad debt owed by ramshackle state-owned enterprises (SOEs) and corrupt bank officials. And just like Japanese banks in the 1980s, Chinese banks are at the core of a highly speculative real estate bubble.

In the future, under the terms of the WTO, China's banks will face stiff competition starting in 2006. There will be additional pressure on the Chinese financial system caused by the triple strains of hosting the 2008 Olympics, speeding along its space program, and continuing the military buildup while footing the bills for increased social costs.

Now is the time to use the strong upside moves of the boom to build the foundation of your financial survival: Get rid of debt and pay off your mortgage, free up the income and effort required to service both, and channel them into wealth-building strategies. Get in shape and eliminate health risks that will otherwise drain your wealth at a time when you can least afford it. Look for income-generating investments, producing rent, interest, dividend, or yield income that you can use as "wealth engines" that will substitute for income generated by your current work. Most of all, once you've covered your bases, set aside an amount of speculative capital that you can use to learn the ins and outs of the trading secrets that follow. ●

### **The Trading Secrets**

#### **Profit From Cyclicity**

To survive and prosper in the changing market climates that lie ahead, you will need to understand this: Markets are the compound reflection of human attitudes and desires and are as such as much a part of nature as man himself. They are subject to certain recurring patterns that are as predictable as natural cycles of growth and contraction.

This insight is the ultimate secret of seasonal cyclicity trading. In consumer terms, we can find cyclicity all around us. The time to buy Christmas decorations is the week between December 26 and December 31 in any given year. March to May are good months to get bargains on furniture. Between June and August, you can stock up on beach gear and cheap menswear, as long as you shop before and right after Father's Day. And between September and November, in the model changeover period, your chances are good for finding a favorable price on a new car of last year's vintage.

The concept of seasonal trades is nothing new in the commodities futures market either. There are specific seasons of the year when functions have to be performed within a clearly defined time frame including sowing, planting, growing and harvesting of crops. At the bottom of this predictive science is the phenomenon of cyclicity. Markets and populations move according to long-term cycles, each of which can span decades and even centuries.

So how can you make trading cyclicity a cornerstone of your financial survival strategy? Market seasonality features a number of catalysts that create opportunities that

## Summary: HOT TRADING SECRETS

appear with predictable recurrence. Here's a short synopsis of seasonal profit opportunities that are offered by the markets almost every year:

**The January Effect:** In more than two-thirds of all Januaries since 1926, the stock market has gained in value.

**St. Patrick's Day Green:** The average person, according to a National Retail Federation survey, planned to spend \$27.65 on the holiday. The stocks to buy during the St. Patrick's Day season are retailers.

**The Monster Index:** (MNST: Nasdaq) In November and December, online job postings have a history of falling because of the holiday season and Monster.com stock plunges along with them. Sell Monster short based on this cycle and you can create handsome profits.

**Back-to-School Profits:** Every year from 2001 through 2004, Varsity Group (VSTY: Nasdaq) rose from mid-December through January, and from mid-August through September — and by an average of 75 percent. There is a simple reason for it. Varsity Group is a clearinghouse for used course books.

Once you know which stocks will move and when, all you have to do to make money is invest ahead of that move. Cycle research is key to finding these gems. And remember, the cycle indicates not only when to buy, but also how to time the sale. Within the grand overall market climate, seasonal cyclicity creates micro-pockets of opportunity.

### Follow the Money

Our research team focuses on roughly 1,000 lesser-known small-cap high-tech and biotechnology companies with the most potential for breakthrough deals and announcements. Because their trading volume is generally light, any sudden surges are very noticeable.

We never profit from insider information, but we are observant. When we see sudden unexplained volume activity surrounding a once-quiet stock, we look to see if there's any current news on the company. If everything seems normal and quiet, that's when we know something big is up. The system we developed around this volume spike indicator allows us to catch anywhere from 35 to 75 opportunities each year. Insider information has a way of leaking out.

### Profit at the Speed of News

One of our Dynamic Market Theory specialist teams generated 41 percent and 253 percent gains in just four

days on just one single play in Monster.com puts. The key to returns like this is what we call extreme volatility. In a way, extreme volatility works a bit like the volume spike indicator of the preceding trading secret: It revolves around inside information that moves stock prices. This system uses the Internet (and other sources) to access the information affecting the market including:

- Insider buying
- Buybacks (repurchase agreements)
- Stock splits and dividends
- Disseminated rumors
- New product or major contract
- FDA approvals for new drugs
- Successful clinical trial for drugs
- FCC license grants
- Big government orders

### Profitable Examples Made by Our Profit at the Speed of News System:

**Gigamedia, bought June 5, sold July 8, plus 40 percent.** *The story:* Something looked to be taking shape in the Gigamedia camp. Volume jumped to six times the average on June 5, on news that management was attempting to negotiate with the company's directors to take it private. While the company decided to reject the management buyout offer, we walked away with a cool \$4,000 profit on every \$10,000 risked.

**Lynch Corporation, bought July 2, sold July 8, plus 11 percent (on top of a 24 percent gain in one day, June 23 to June 24).** *The story:* Insiders were tripping over one another to pick up shares and the company had just got three multimillion-dollar orders for capital equipment. We played this one twice in two weeks for profits of 24 percent and 11 percent.

**CPI Aerostructures, bought June 27, sold July 8, plus 20 percent.** *The story:* With insiders laying down \$73,000 for 10,000 shares of their own money, the *Extreme Volatility Speculator* editors knew something had to be brewing. You simply do not put that kind of money on the table if you think your company is down for the count. Sure enough, the company released news that it had received \$19.4 million in contracts during the first half of the year, up 46 percent from the past year's numbers, giving us the opportunity to walk away with a cool 20 percent gain in less than two weeks.

## Summary: HOT TRADING SECRETS

- Joint ventures
- Commercialization of new technology
- Spikes in volume, message board chatter
- Senseless stock or sector sell-offs
- Bidding wars

Everybody knows stocks eventually go up following events like this, but average investors don't move fast enough. There is always a window of opportunity when just a few people know and before millions of people find out.

### The Stone-Cold Profit Predator

Thus far, we have been looking at patterns created by human greed. The downside to greed, of course, is the other dominant human emotion: fear.

Look for situations where most investors are scared, and that's when you move in to seize quick profits. Warren Buffett offers similar advice to investors hungry for profits: "Be brave when others are afraid." While this system is based on complex technical indicators, it boils down to a simple three-step process:

**First**, look for a stock with a high put/call ratio (PCR) — the higher the better. This indicates that the stock is oversold and a reversal is imminent.

**Second**, check to see if the falling stock has a doji, a stock chart signal also known as a profit star. The doji indicates that the stock has hit bottom and is poised for a breakout.

**Third**, buy the stock, or calls on the stock, and then wait for the herd to rush in on oversold conditions and buy, buy, buy.

### Actionpoint Trading

As most people already know, some of the biggest gainers in the market in the late 1990s were the initial public offerings (IPOs). Even though the bear market of 2000 took some of the luster off IPOs, these days, they are coming back into their own. But how does the average investor get in on the fantastic profits that hot IPOs can offer?

There are several extremely effective indicators that you can use to help weed out the weak IPO stocks from the strong, viable ones. We like to zero in on a short list of key ingredients for success:

- **Management** needs to have extensive specific industry related experience, preferably with successful large companies.

- **The board of directors** is dominated by members not affiliated with the company in any other capacity and who provide specific industry-related experience.
- **Strategic niches and marketing channels** are well-defined.
- **Proceeds use** is a key teller of tales. Be sure the proceeds of the stock sales are going to fund company growth.

At their core, profitable IPO stocks are true growth stocks. They are value investments rather than quick in-and-out trades. The most important thing about IPOs is knowing when to take your profits by selling at the right time. Following are several of the most significant signals that are particular to IPOs:

- **Round Trippers:** Buy on the way up, and when you spot the hype cooling, take your profits.
- **Early Management Changes:** One of the surest signs that an IPO company may be in trouble early on is a change in management. Exit and take profits while you can.
- **Sharp and Steady Changes in Cash Position with Slow Operating Results:** This can be a sure sign of coming problems with an IPO company. Watch to see how fast the company spends its funds compared to its operating achievements.
- **Changes in Stated Goals:** What we often see with IPOs that ultimately fail is early and unanticipated changes in the company's goals.
- **Analyst Coverage:** Most IPOs have only one or two analysts following their progress. However, most successful IPOs will begin to pick up additional analysts within the first six to 12 months after going public. Without that added interest, the IPO may be running out of steam.

### Profit From the Red Zones

Imagine that there is a hidden stock market, a market within the market, where returns are two to five times greater than the gains you make on your average stock position. This hidden market is the IPO market. By buying and selling shares of relatively new IPOs at specific intervals you can earn double- and triple-digit profits in a relatively short time in what we call the Red Zones.

When a new stock is issued, only a certain percentage of the company's stock is offered to the public for sale. This is known as the "float." The rest, often as much as 90 percent of the shares, is held by underwriters, compa-

## Summary: HOT TRADING SECRETS

ny officers, and other insiders. Furthermore, most of that other 10 percent that is issued to the public goes to favorites of the brokerage as a reward for their business. Here are three Red Zones you need to know about to make a lot of money:

**Red Zone I: The Widowmaker** — The first period after a new issue comes out is usually characterized by massive price swings in the share price. We call these swings widowmaker momentum plays. The inherent price moves are determined by the number of shares issued and the demand level. The underwriters determine the number of shares issued and the supply. And the Wall Street hype determines the demand. Understand this, and you can understand which way the price will move.

**Red Zone II: The Share Dump** — This is a little secret behind the insiders' manipulations called the *lockup effect*. By contractual obligation, insiders and underwriters can't sell their stock for a period of time, usually between six months and a year from the date of the IPO. This is commonly known as the *lockup period*. But once the lockup ends, anything goes, and insiders may flood the market with shares in an attempt to cash in. In the Share Dump (or the Unlock Zone), the stock starts to drop in price about two months before the lockup period ends. If you know what's going on, you can cash in on this drop.

**Red Zone III: The Value Zone** — Now we come to the point where all logical investors should want to get in. About 18 to 24 months after the new shares are listed, the stock begins its first real climb. It's now a true value play. Now is the time to step in and buy for a holding period of anywhere from a year to two years or more.

### Profiting with the WaveStrength Options Trading System

How about marketwide trends, like the Dow Jones Industrial Average, the Nasdaq, or any of a dozen other market, sector or currency indexes?

An analytical tool known as the WaveStrength method of analysis helps to determine the probability of each move with a reasonable degree of success. WaveStrength analysis is based on the premise that neither underlying value nor news events provide the genuine catalysts for market movements. Rather, short-term price changes are psychological in nature, the predictable result of large numbers of buyers' and sellers' predispositions toward value and news events. WaveStrength translates predic-

### Options: A Crash Course

An option is an intangible financial instrument that gives you the right to buy or sell a specific underlying security at a specific price, within a set time period.

One way to translate WaveStrength predictions into options plays is built on the Nasdaq-100 Trust (QQQ:Amex). The Triple-Qs, as they are known, is a basket of the top 100 companies on the Nasdaq lumped together into one instrument that trades like a stock. In Amberger's opinion, the QQQ is the safest and cheapest way to play the trends of the overall market.

Buyers can make large profits from price moves while risking only a relatively small amount of capital. When you buy a QQQ option, you are buying the right to buy or sell 100 shares of the QQQ at a set price within a set period of time. A QQQ option gives you "the right to buy or sell" the QQQ. When you buy the option, you must choose whether you expect to profit from a rise or a fall in the price of the underlying instrument. If you expect the QQQ to rise, you buy a call. If you expect the QQQ to fall, you buy a put.

A call gives the buyer the right (but not the obligation) to buy the underlying security. A put gives the buyer the right (but not the obligation) to sell the underlying security. You can also sell the option itself for a profit or loss.

The problem is, about three-fourths of all options expire worthless, so it is no easy task to consistently make a net profit in options. However, big profits can be made by buying and reselling the options themselves. You need an edge. The key to making this strategy a winner is getting an accurate market forecast and finding the right QQQ option at the right price.

tions made on this premise into options positions on the respective index in question. Options are speculative investments, and their value is as much a slave to supply and demand as anything else.

Here is the WaveStrength secret you need to remember: *Buy an option when nobody wants it, and then resell it when everybody does.* The following five secrets were designed to help you make the most of trading options in today's market:

**Secret #1: Value Investing is Becoming Extinct** — In today's market, value investors are getting hit hard for one reason: They are utterly dependent on reported

## Summary: HOT TRADING SECRETS

“facts.” And, as we’ve come to know, accountants lie. CEOs lie. Brokers lie. However, index options traders don’t care when accountants lie.

**Secret #2: Four Numbers That are Nothing but the Rock-Solid Truth** — The only four numbers you can bet your life on are the ones that drive our WaveStrength Trading System. Unlike traditional long-term value investing, index options trading is based on pure facts. The four numbers, simply enough, are the opening price, the high price of the day, the low price of the day, and the price at market’s close.

**Secret #3: The Secret of Delta** — Options are purposely written in a language very few so-called Wall Street experts understand. Here’s a little tip that will help you swim with the sharks. To understand how your index option will move in relation to the underlying stock, you must understand an option’s delta. You can access an option’s delta using any higher-end tracking service. (We prefer the IVolatility.com Web site, [www.ivolatility.com](http://www.ivolatility.com).) Quite simply, the delta represents the change in dollar value of your option as the underlying stock moves up or down \$1.00.

**Secret #4: How to Turn Time Decay into a Benefit** — Since every option has an expiration date, the clock starts ticking the moment you buy it. Here’s a tip: It’s nearly impossible to make the perfect trade (in other words, buying at the exact low and selling at the exact high). Trying to make the perfect trade every time will cost you more money than you make. This is why WaveStrength adopts the mentality of the professional options trader: quickly take your gains off the table and never look back.

**Secret #5: Own the Entire Market for \$150** — When traded correctly, options are safer than stocks and offer more explosive profits. For example, QQQ options allow you to own interests in the top 100 companies on the Nasdaq for about \$150. This is a powerful statement.

### A Final Word of Warning

Trading has its own set of risks. You can gain a lot, and you can lose a lot. It’s the nature of the game. Make sure you never lose more than you think you can afford to lose. Even better, never risk more than you can afford to lose. Once you’ve covered your liabilities, shelter, and basic income, set aside a fixed amount of money for trading. Paper trade first. Put your — and our! — ideas to the test. Focus on a strategy that fits your risk tolerance and overall lifestyle. ●

## How to Out-Trade the Floor Traders on the Chicago Board Options Exchange (CBOE):

**1. You Can Use the Spread to Maximize Your Gains** — Options traders simply play what is known as a *spread*, making their money from the difference in the bid price and the ask price. If they don’t trade, they don’t profit.

**2. Greed is Their Biggest Weakness and Your Greatest Ally** — When using a limit order, always put it as close to the traders’ bid price as possible. That takes away the floor trader’s advantage, and gives you a great entry price on your options play. That’s the secret of the spread.

**3. There is One Type of Pit Play Options Traders Fear Most** — *Straddles* and *strangles* are descriptive names for two types of options positions that involve buying both a call and a put at the same time. Options traders fear these. And that’s exactly why I trade them. The downside is capped, while the upside is limitless. In this position, you profit if the market goes down, and you profit if it goes up. As long as the market doesn’t trade flat, you profit.

**4. Professional Options Traders are the Worst Market Forecasters You’ll Ever Meet** — The guys on the floor trade the spread, limit the risk, and hedge against losses. That’s it. So they don’t necessarily have the slightest clue where the market is headed. That’s why you have an advantage.

**5. Options Prices Get Soft between 11 A.M. and 1 P.M.** — The most intense action in the market happens right when it opens: futures trading. It generally lasts until 10:00 or 10:30 a.m., then calms down, and by about 11:30 prices get soft. This is when most traders take lunch. And while they’re not there to trade, you can get some great options prices.

**6. Volatility Dictates Price ... Whether Traders Like It or Not** — Options prices move higher or lower at a greater rate than the underlying stock. Options traders are able to move options prices by tinkering with volatility. But they can change prices only so far. If the market is moving against them, there is nothing they can do. If you know how to play the spread between bid and ask, you’re ahead of them.