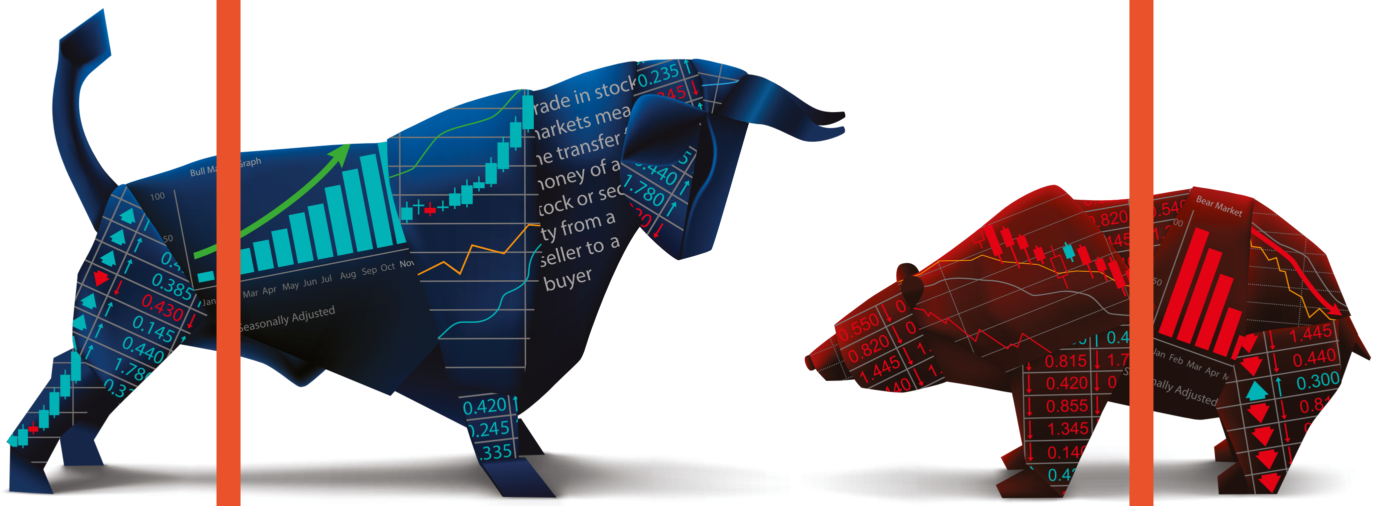
Option Trading Series – eBook 8 of 8

CONCLUSION



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About the author

Emmanuel Saphy is Trading Solutions Manager at Swissquote Bank Europe in Luxembourg.

Emmanuel has over twenty-five years experience in financial markets, including equities, CFDs, options and futures. Emmanuel started his career with Société Générale in Paris, then with Citibank, Jefferies, Brown Brothers Harriman in London in equities, options and fixed-income trading before joining Internaxx Bank (now Swissquote Bank Europe) in Luxembourg.

Emmanuel is a member of the Client Services team of Swissquote Bank Europe, where he works closely with clients and team members to service the advanced trading needs of our most active clients.

Thank you for following this ebook on options strategies; hopefully you found it useful and will use it to your advantage.

Other strategies are available, which we have not developed here, mostly because they involve multiple trades, and their complexity and cost make them more suitable for very experienced options traders. But if you would like to explore on the subject, look out online for these exotic names:

- straddle
- strangle
- call spread, put spread
- butterfly spread
- Protective collar

Please let me venture some advice if you are interested to trade options for the first time.

Start small

If you are new to options, try out a strategy, but first see if it works for you on a small scale. That way, if your investment takes an unexpected turn, your loss will be easily manageable and you can get valuable experience from it.

Regularly check your positions

Once you have options positions on your account, make sure to follow them regularly. Options are intrinsically volatile, and each passing day has an impact - time creates an automatic decay on the price of options. For instance, consider taking your losses if a long position (call or put) does not go the way you were hoping for.

Be aware of all costs involved

Options trading involves paying commissions to your broker, which will affect your overall profitability. And you will also notice that the bid-offer spread of an option, which constitutes your cost to the options exchange, is generally much wider than the spread of the underlying stock.

As volatility increases, so will options prices

The implied volatility of an option is an integral part of its pricing. A call or put option on a stock which has traded on a flat line for months will generally be much cheaper than on a stock which has recently seen heavy ups and downs.

Beware call buying

Call buying is a strategy with a theoretically infinite profit, so there is a special draw in engaging in it if you think a stock is undervalued and is due a bounce. But it is interesting to point out that historically, a majority of all call buyers have lost money rather than made a profit with this strategy alone.

Conversely, after you bought a put option, you will want the difference of the stock price minus the strike, to be as negative as possible. A put option’s price will move inversely to the underlying stock price.

If you own a Swissquote Bank Europe account and would like to discuss how you can use options and what strategies could fit your portfolio and your objectives, please feel free to contact us on

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A representative will be happy to discuss your "options" with you!

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