



How To Make A Killing In Shares & Options



by Jules Dawson

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The information I want to share with you has changed my life positively and profoundly. It's a money-making opportunity in the stockmarket that may well do the same for you.

Despite our legendary laid-back lifestyles, there are more than 180,000 millionaires in Australia. What you're about to read will help you whether you wish to join their ranks, or aspire to a lifestyle of your own design.

My own family's personal comforts, and more, are thanks to the strategies discussed in this report. Freeing ourselves financially was an experience that showed us once and for all that life really doesn't have to be difficult. Believe me, with this opportunity, I know how close YOU are to experiencing this for yourself.

Why Share My Knowledge With You?

Why am I telling you, or anyone else, about how I make money? Well it just so happens that there's always plenty of room in the winners' pool. In fact the addition of more players in the stock market doesn't inconvenience profit-takers in the slightest.

There are dozens of trading strategies out there. Many of them involve buying the very things **we** wish to sell, and selling the very things **we** wish to buy. You'll understand in a few moments, how money can easily be made whether share prices go up **or** down.

On a personal level, I believe that what I'm sharing is not some isolated opportunity. Nor is it a secret sworn never to be revealed. It's a way of trading that takes the sweat and tears out of the process and presents many opportunities to escalate one's wealth.

Sharing this with you also reflects my own response to the immediacy of poverty in my childhood. I've seen enough of it. So *why not*, I ask, *try to make a difference?*

How Do You Proceed?

Financial well-being need not be more complex than a simple step by step process. The steps are not difficult to understand or to follow.

The first step to financial freedom is so simple it somehow gets overlooked. The wealthy minority though, always abide by it. That simple step is to formulate a coherent, do-able plan for achieving objectives in your life.

What we're looking for here is a step by step written plan. And when you write down your goal-oriented wish list, remember that your most powerful tool is your imagination... use it to help fill in the blanks.

Do you need help with the steps involved with wealth creation? Read on...

What Defines Wealth?

Let's quickly look at what wealth means for us generally.

Wealth offers security and lifestyle. Not treadmill. It'll cover your living expenses... and then some. Its capacity to break chains and allow greater independence is, in a word, liberating!

Wealth hinges on three ingredients:

- 1. Income**
- 2. Capital Growth**
- 3. Insurance**

Income leads in many cases, to a property purchase. **Capital Growth** can be expected from that investment which is guaranteed against loss by **Insurance**.

What About Risks?

Property investment is one viable path to wealth. Another is business development. Pursuing either is sensible. But the golden goose on everyone's lips is share market investment.

Horror stories? Share market trading tragedies can still occur, just as they do in other speculative ventures, but they are now more a thing of the past.

Many of us already know someone who is successfully trading for a living right now. Those who continue to trade for a living make money steadily, not freakishly over night.

Keep in mind that it's a case always of ***higher gain means higher risk.***

Our aim here is not to play high risk games of chance, but to minimise our risks and at the same time retain our profits.

You are out on a limb when you trade shares in little known companies. But the form is on the board with "Blue Chips" – established performers. These tried and tested favourites offer opportunities for profit with some peace of mind.

For many of us though, owning Blue Chip shares is expensive. What if I told you there's a way of trading Blue Chips in an affordable way...

Options You Can Afford

Options traded on the Australian Stock Market give control over one thousand shares.

These Options are contracts to buy or sell shares.

Call options are contracts to **buy** shares.

Put options are contracts to **sell** shares.

Either way, buy or sell, each contract stipulates an agreed price and an expiry date.

Owning a share is more expensive than owning an Option over that same share. **For example, a share might cost \$15 to own, whereas \$1.50 could buy an option to buy or sell that same share.**

In the preceding example, control over \$15,000 worth of shares would have an Option cost of only \$1,500 (plus broker's fee, a relatively small amount).

Options present opportunities because they give you **leverage**. And making money on Blue Chips suddenly becomes more affordable and more effective.

To own an Option means paying a fee known as a **Premium**.

A person buying an Option is called a Taker. A "*Taker*" pays a Premium to acquire an option. He or she then has the right to sell that option, exercise the option (transact the 'buy' or 'sell'), or let it expire.

A "*Writer*" is paid a Premium for selling the option in the first place, which means he or she is under obligation until the option's expiry.

What Happens When Share's Go Down?

When the share market goes UP, **Call options go UP in value**. Interestingly, when the share market goes DOWN, **Put options go UP in value**.

Which Shares Are Profitable?

When it comes to selecting which share to follow, two methods command respect: **Fundamental Analysis** and **Technical Analysis**.

Fundamental Analysis involves assessing the value of the company behind the shares – “account book” analysis aimed at determining whether or not a particular share is a worthwhile investment opportunity.

Technical Analysis on the other hand involves graphing a share's trading history, usually in the form of a “bar” chart or “candlestick” chart. When we see a visual representation of a share's past and present trading performance, the price extremes (tops and bottoms) become obvious.

Spotting the obvious on such charts is relatively less complicated and more accessible than analysing the fundamentals (*perhaps the reverse is true if accountancy is your forte*).

Technical Analysis can push the odds in your favour by alerting you to forthcoming changes in share-trading trends. The tell-tale signs are known as “indicators”. One example indicator is known as **Support & Resistance**.

These are lines drawn on the chart to mark a share price's tops and bottoms – the significant turning points of price behaviour. The more often a share price hits and rebounds from its support and resistance lines, the more reliable these turning points become.

Moving Averages is another technical indicator - used to confirm trends. Moving Averages are lines that trace the average closing prices over a selected period of time.

Professional traders, the world over, look for indicators to predict “turning points” at which the share price can be expected to change direction. These points are relied upon because it's reasonable to expect that share prices will not trade beyond their historical extremes but instead conform to past recorded history.

Computer trading programs automate the drawing of charts based on real trading data (*input either by downloading from the Internet or by manual input*). The programs' charts show a selection of popular indicators.

Simple Technical Analysis Tools, available with most good trading software, is all we need for the trading strategies we'll use.

Finding Information

Data for charts and pricing information for trading is found easily enough. Sources include:

1. **Australian Stock Exchange** <http://www.asx.com.au>
2. **Financial Review** — Market Wrap Section *Derivatives*.

Why Trend is Your Friend

Share prices follow any of three directions: They trend:

- **UP**,
- **DOWN**,
- or **SIDEWAYS** (staying basically within a narrow sideways band, showing no definite up or down trend).

An increase in the number of buyers causes an Up trend; a decrease in the number of buyers causes a Down trend.

More motivational force is needed for an up trend than for a down trend. A down trend needs only a moment of fear or panic, whereas for people to participate in an up trend, not only is sufficient good reason a requirement, but also money is needed.

The secret to trading success is **NEVER TRADE AGAINST THE TREND**. It's a simple rule, but worth repeating: Never trade against the trend!

Q: How do you make a small fortune?

A: Start with a large fortune and ignore the trend.

So, how often should you trade against the trend... **NEVER!** Okay?

Six Rules for Buying Shares

1. Never buy or sell shares without first checking charts.
2. Never buy shares because they appear cheap after getting smashed.
3. Never buy shares in a down trend.
4. Don't hang on to shares in a down trend.
5. Always be consistent. Buy shares in an Up trend and sell shares in a Down trend.
6. Buy Calls in an Up trend and buy Puts in a Down trend.

Write Your Own Contracts!

The ingredients of Wealth mentioned earlier were Income, Capital Growth, and Insurance. One way to create Income is to **write** Call options over shares you already own.

Writing options is different to buying options.

A Call option over shares already owned, is called a Covered Call. If you already own those shares your asset is covered (hence the term covered call). That's because at any time prior to and including the option's expiry date, the option can be "exercised". That is, the purchaser of a Call option (The Taker) can exercise their right to buy the shares at the stated price (exercise or strike price).

If this happens, you will have sold your Covered Call for a Premium (Income) and when that Call is exercised, those shares of yours convert to cash, earning you Capital Growth (proceeds from the sale of your shares).

Insurance comes in the form of Put Options. Buying Puts for insurance is called hedging. To see this in practice, let's look at the **Protected Buy Write** strategy.

Strategy #1 – The Protected Buy Write

This strategy could earn you a regular income with relatively low risks. Your monthly income from Call Premium will vary depending on the **Volatility** of the share you are using in the strategy. Volatility is a measure how much a share price fluctuates within a certain timeframe. Therefore a share that regularly goes up and down to extremes within short timeframes is said to be highly volatile.

The rules are straightforward and, by comparison to other Options strategies, the Protected Buy Write strategy is relatively conservative.

Let's say in this example, we want to buy a share, currently priced at \$11.30.

Step 1: We buy 12 month Puts at \$11 strike price. This is our insurance against a fall in the share price. Our expiry time is a year away, during which our strike price of \$11 gives us the right to sell (exercise the Put option). For these Puts, we pay a Premium of say \$1.50.

Step 2: Next, we buy the shares for \$11.30 each.

Step 3: We then write Covered Calls with one month to expiry with strike price of \$11.50. If someone is willing to pay us a Premium of say 50c to buy these Calls – we are in business.

In this example, our worst case scenario is if the sharemarket crashed. However, because of the Put option we've purchased we can sell our shares for \$11 regardless of how little the market is prepared to pay for them. This means we lose only 30c per share. We also need to factor in the cost of our insurance - the cost of the hedge (\$1.50 Premium)... an all-up loss of \$1.80 per share. However, this is the most that we can lose on the fall of our share.

Let me ask you...which would you prefer...

- 1) An exposure (risk) of \$11.30 (without a Put Option) **or**
- 2) An exposure of only \$1.80 (with a Put Option)?

On the other hand, we make money when conditions remain stable, and also when they improve. Each month we would collect Premiums from writing (selling) our one-month Calls. If the Premiums stay around 50c per month, our hedge \$1.50 is paid off within three months. The next nine months would show profits from the Call Premium and possibly additional profits from capital growth from a stronger share price.

As explained earlier returns for this strategy vary depending on the share's volatility (the extent of its price movement up and down). Shares with higher volatility return higher Call premiums. Higher volatility however, means owning the share is also more risky. So it's a choice between low volatility therefore lower risk and less Call Premium **or** higher volatility therefore more Call Premium at a higher risk.

At some point, your Call option will be exercised. This can easily result in more profit from trading the share. You can, if you wish, buy back into the share and continue applying the Protected Buy Write strategy. It is often wise to continue the strategy until your 12 month Put option expires. This is sensible only if the share price has remained fairly consistent without any sudden extreme upward or downward movement.

A handful of straightforward trading rules can govern our trading decisions here. To operate the Protected Buy Write strategy successfully you need some trading rules, some trading capital, and a stockbroker familiar with the method. Remember always to start off small (with an amount of money which you can afford to lose) and as your experience grows and you have proven that the strategy works for you, only then should you raise the amount of capital you have in the market and the strategy.

Strategy #2 –Short-Term Trading

This is a high leverage, high return trading strategy where we Buy Calls in an Up trend and Buy Puts in a Down trend. Profits from this strategy can be extremely high.

Beware! High leverage and high returns also mean high risk!

Short Term Trading calls for disciplined application of strict rules, including confirmation and re-confirmation of trends, and appropriate defensive actions.

It demands much practice (“paper trading”) until you are truly ready to enter the market with real money. Then proceed slowly and carefully, starting small and working your way up. Always allocate to this strategy only a small proportion of your trading capital.

Only use money you can afford to lose!

There are 2 reasons why people lose money when investing:

- 1. Inadequate knowledge.**
- 2. Doing too much, too quickly, with too little skill.**

You can avoid these potential dangers by first investing in your education of these strategies prior to investing in the strategies themselves. Through proper research and understanding of the strategies you will become aware of the tools and skills required to be successful in these techniques.

Once you've been educated, practice before committing large sums of money into the market. During your practice you want to ensure that you are trading successfully on a small scale and only then should you consider increasing the size of your trading bank. It is not unusual to allow yourself at least 6 to 12 months of practice before proceeding further.

Rushing into these strategies is like driving a car without understanding the road rules – extremely dangerous! Even after learning the road rules, you need sufficient practice behind the wheel of a car before proceeding to drive at higher speeds. The same principles apply to trading.

1. Invest in your personal education and knowledge of the strategies first!
2. Once you are comfortable with your understanding of the concepts, start paper trading for the experience. This is where you use an imaginary amount of money and practice your trading on paper without any real money committed in the market.
3. Once you are comfortable in your understanding of trading concepts and paper trading practices, consider proceeding to the next level of using only a small bank of real money in the market.
4. After at least 6 to 12 months of consistent, proven positive results in the market, you may then consider increasing your trading bank. Please do this only after careful consideration of your overall financial objectives and personal circumstances.

It is wise to obtain qualified professional financial advice before committing heavily to these strategies.

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