Hughes Optioneering™

Presents…

A Practical Guide to Understanding Options

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A Practical Guide to Understanding Options

The focus of this Guide is to provide you with the practical knowledge you need to understand in order to trade options. Learning the mechanics of option investing can be a bit overwhelming particularly if you have never invested in options before. There is no need to memorize the material presented. This Guide can be used as a future reference when implementing an option strategy.

To be a successful options investor you don't need to know complicated mathematical formulas or Greek letters. You only need to know the basic mechanics of buying and selling options. In our 60 years of combined trading experience, we have learned that option trading has been the most versatile and rewarding approach to profitable trading.

Option trading enables many different types of traders to achieve their specific investment goals. We have traded many types of option strategies with different investment goals. We favor the three limited risk option strategies listed below as we have had good success trading these strategies.

- Purchasing options to realize trading profits
- Trading option spreads that can profit during an up or down market and can lock in a profit on an existing profitable option trade
- Selling option premium to produce cash income

Successful Option Trading

The overall goal of the *Hughes Optioneering™ Trading Strategies* is to maintain at least a 3 to 1 profit to loss ratio. This ratio is calculated by dividing your total profits by your total losses and is a good overall measure of reward versus risk. The higher this ratio is, the better.

A high profit to loss ratio is a good indication that you are keeping losses to a minimum by exiting losing trades before a big loss occurs. The best way to achieve this goal is to hold on to your winning trades and exit your losing trades before they develop into large losses.

This defies human nature as most traders want to do just the opposite and take a quick 10% profit as soon as possible. People like the euphoria associated with winning and will take a small profit even though they are giving up a potentially greater profit later by holding on to winning trades. Most traders tend to trade with limited upside and unlimited downside. They will sell an option when they have a small profit but continue to hold losing options eventually winding up with a portfolio of losers.

When you establish an option trading portfolio, there is no way to predict which holdings are going to produce big profits over time. Typically, if you own a diversified portfolio of let's say eight options, usually there are two or three of the eight options that produce a big profit that accounts for most of the gain for the entire portfolio. ***It's the big winners not the small winners that produce profitable portfolios.***

You can't tell in advance which of the eight options might produce a large profit. So you want practice sound trade management and continue to hold on to the profitable trades and take small losses with losing positions before they develop into large losses.

Practicing sound trade management is important for your trading success and is often overlooked in the search for finding profitable trading strategies. In my experience trade management is just as important as trade selection. Trade management involves several steps:

1) Entering and exiting trades
2) Limiting the size of trades
3) Managing losses
4) Managing profits

Entering Trades

When purchasing a call option, we wait until the underlying stock is on a 'buy' signal according to our trend following system.

And conversely, when purchasing a put option, we wait until the underlying stock is on a 'sell' signal according to our trend following system.

Exiting Trades

Once we have our option position established, we will exit trades before they develop into big losses. As a general rule, we will normally sell an option before it incurs a 20% to 30% loss from our entry price. If you are willing to risk 20% on a trade then you should be expecting a 60% profit on a profitable trade if you want to maintain a 3 to 1 profit to loss ratio.

Taking small losses is essential to your trading success as it may take years for you to recover from a large loss. For example, if your portfolio suffered a 50% loss it would require a subsequent gain of 100% for your portfolio just to break even! Let's assume you had a $10,000 portfolio that incurred a 50% loss which resulted in the value of your portfolio declining to $5,000. You would have to achieve a 100% return on your $5,000 portfolio in order break even with the value returning to $10,000.

A 75% portfolio loss would require a subsequent gain of 300% for your portfolio just to break even!

Taking small losses before they develop into big losses has allowed the *Hughes Optioneering™ Team* to maintain a better than 3 to 1 profit to loss ratio over the long term.

The brokerage confirmations below show that we took a 13%, 9%, 13% and a 15% loss respectively for the four options trades listed which are good examples of taking small losses before they develop into large losses. We can take several small losing trades and still have a profitable portfolio if just one trade has large profits.

Portfolios: Gains & Losses

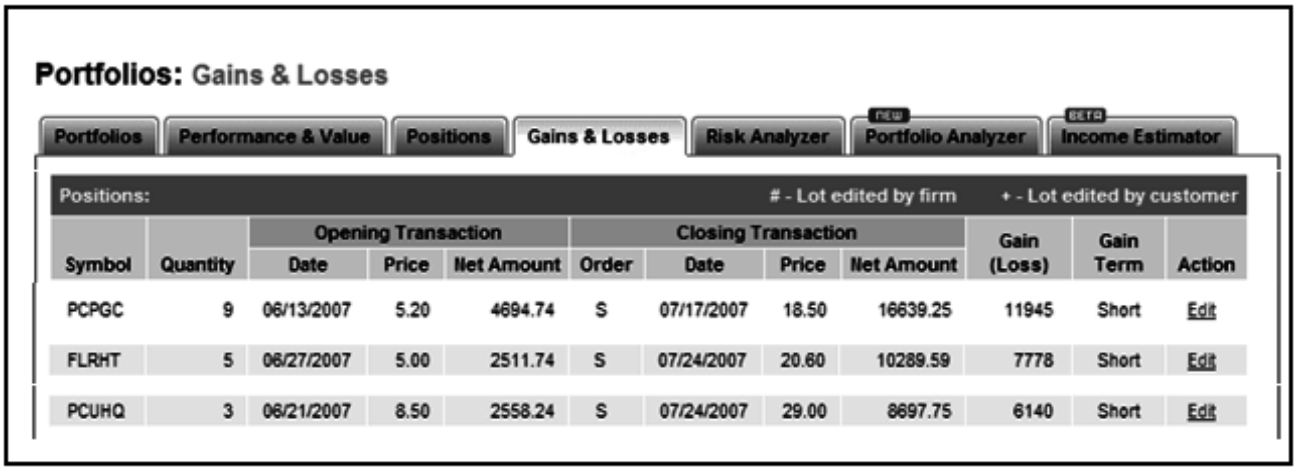
Portfolios | Performance & Value | Positions | Gains & Losses | Risk Analyzer | Portfolio Analyzer (new) | Income Estimator (BETA)

Positions: # - Lot edited by firm + - Lot edited by customer

Symbol	Quantity	Opening Transaction			Closing Transaction				Gain (Loss)	Gain Term	Action
		Date	Price	Net Amount	Order	Date	Price	Net Amount			
UVAHH	4	07/12/2007	6.80	2730.99	S	07/24/2007	5.90	2349.01	(382)	Short	Edit
TEXGP	7	06/12/2007	5.70	4003.24	S	07/05/2007	5.20	3631.46	(372)	Short	Edit
MROGL	14	05/31/2007	3.90	5473.24	S	07/12/2007	3.40	4746.00	(727)	Short	Edit
XTQHW	9	07/19/2007	6.90	6224.74	S	07/24/2007	6.00	5393.25	(831)	Short	Edit

Managing Profitable Trades

The brokerage confirmations below show that we took a 255%, 312% and a 241% profit respectively for the three options trades listed which are good examples of the 'big winners' you want to have in your portfolio by holding on to your winning positions. ***You could take 5 or 6 small losing trades and still achieve an overall 100% portfolio return with just <u>one</u> of these big winning trades!***



Portfolios: Gains & Losses

Portfolios | Performance & Value | Positions | Gains & Losses | Risk Analyzer | Portfolio Analyzer (new) | Income Estimator (BETA)

Positions: # - Lot edited by firm + - Lot edited by customer

Symbol	Quantity	Opening Transaction			Closing Transaction				Gain (Loss)	Gain Term	Action
		Date	Price	Net Amount	Order	Date	Price	Net Amount			
PCPGC	9	06/13/2007	5.20	4694.74	S	07/17/2007	18.50	16639.25	11945	Short	Edit
FLRHT	5	06/27/2007	5.00	2511.74	S	07/24/2007	20.60	10289.59	7778	Short	Edit
PCUHQ	3	06/21/2007	8.50	2558.24	S	07/24/2007	29.00	8697.75	6140	Short	Edit

Maintaining a trade management discipline of holding on to our winning trades and selling losing trades before they develop into large losses has been an important part of our trading success and has allowed us to maintain a better than 3 to 1 profit to loss ratio over the long term.

"If you must play, decide upon three things at the start: the rules of the game, the stakes and the quitting time."

Chinese Proverb

Use the 30% Rule for Protecting Profits

The *Hughes Optioneering*™ trend following system has produced more than $6 million in ***actual*** profits over the past 10 years. Generating a lot of winning option trades poses a dilemma . . . do you hold a winning call option trade for further upside profit potential or do you take profits in case the stock declines in price with the possibility of a profitable option trade turning into a loss?

We know that our money management rules of holding on to winning trades has proven to be the best course of action in producing big portfolio profits. We also know from experience that it is very difficult to watch a winning option trade develop into a losing trade. This is very hard on your psyche as a trader and can help you lose confidence in your ability to be a successful trader.

Fortunately, we have found a way to avoid this dilemma by purchasing 'insurance' on your profitable call option trade. Put options profit as the price of the underlying stock declines. If you have a winning call option trade, purchasing a put option can help 'insure' you against loss of your call option investment in the event the underlying stock declines in price.

At the same time, purchasing a put option does not limit the upside profit potential of your call option if the underlying stock continues to increase in price. This allows us to maintain our trade management discipline of 'holding on' to winning option trades. We will purchase a put option to protect profits whenever our call option trade has a 30% or greater profit.

Transforms Option Trading

As you will learn shortly, purchasing this put option insurance can even GUARANTEE that you will be successful!

Purchasing put option insurance transforms option investing from one of the riskiest investments in the investment universe to one of the lowest risk investments.

Once you buy the put option protection for your call option investment, you can forget about your option trade! No need to monitor the markets or world events. Bad earnings reports don't matter. A severe selloff in the markets actually produces more profits with this strategy. You can place the trade and take a vacation!

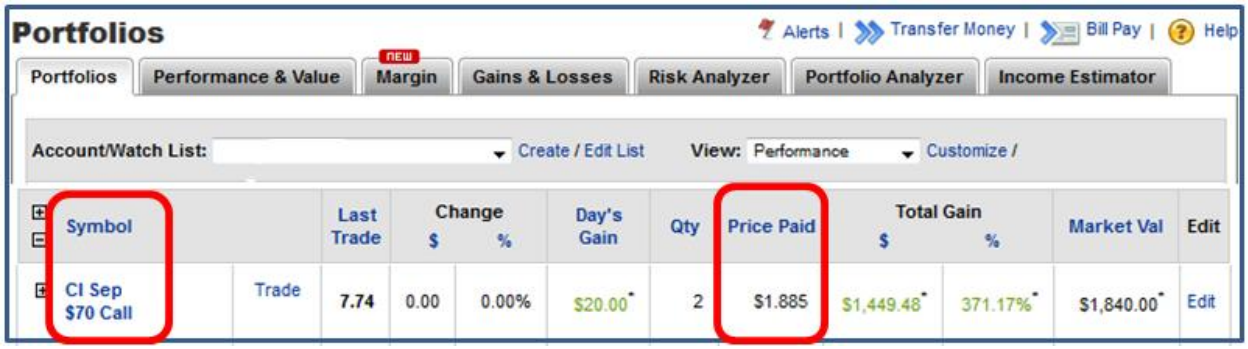
This strategy is particularly successful during choppy or non-trending markets which occur over the vast majority of time. Because there is a long position (call option) and a short position (put option) we call this a 'Market Neutral' Spread Strategy.

There are plenty of new profit opportunities available every day with the *Optioneering™ Market Neutral Strategy*.

This is the lowest risk, highest profit way to invest in options that we have discovered over decades of trading experience. Let's take a look at one of our Market Neutral Option trades for the CIGNA (symbol CI) insurance company so you can get an idea of how powerful the *Optioneering™ Market Neutral Strategy* can be.

CIGNA was on a trend following 'buy' signal so our online brokerage account report below shows that we purchased the CI 70-Strike call option for 1.885 points or $188.50.

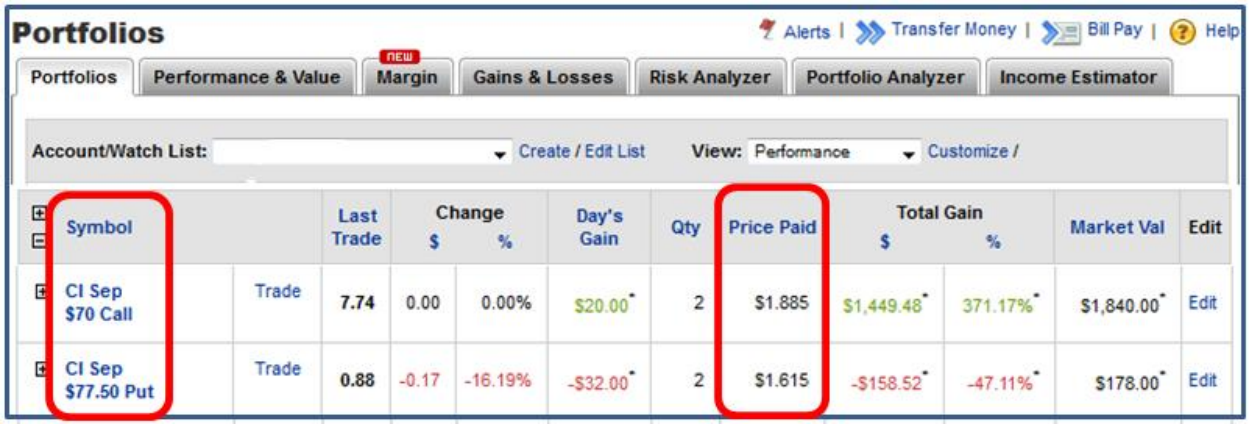
Buy 2 Cigna Sep 70-Strike call options @ 1.885



CIGNA stock moved up in price after our call purchase so we had a 30%+ profitable trade. A few weeks later we purchased a CIGNA put option which allowed us to lock in profits for our call option trade no matter what happens and at the same time does not limit the upside profit potential of the call option if CIGNA stock continues to increase in price. We 'legged in' to a Market Neutral Spread by purchasing the CI 77.5-Strike put option.

Our online brokerage account report below shows that we purchased the CI 77.5-Strike put option for 1.615 points or $161.50.

Buy 2 Cigna Sep 70-Strike call options @ 1.885
Buy 2 Cigna Sep 77.5-Strike put options @ 1.615



Option Calculators

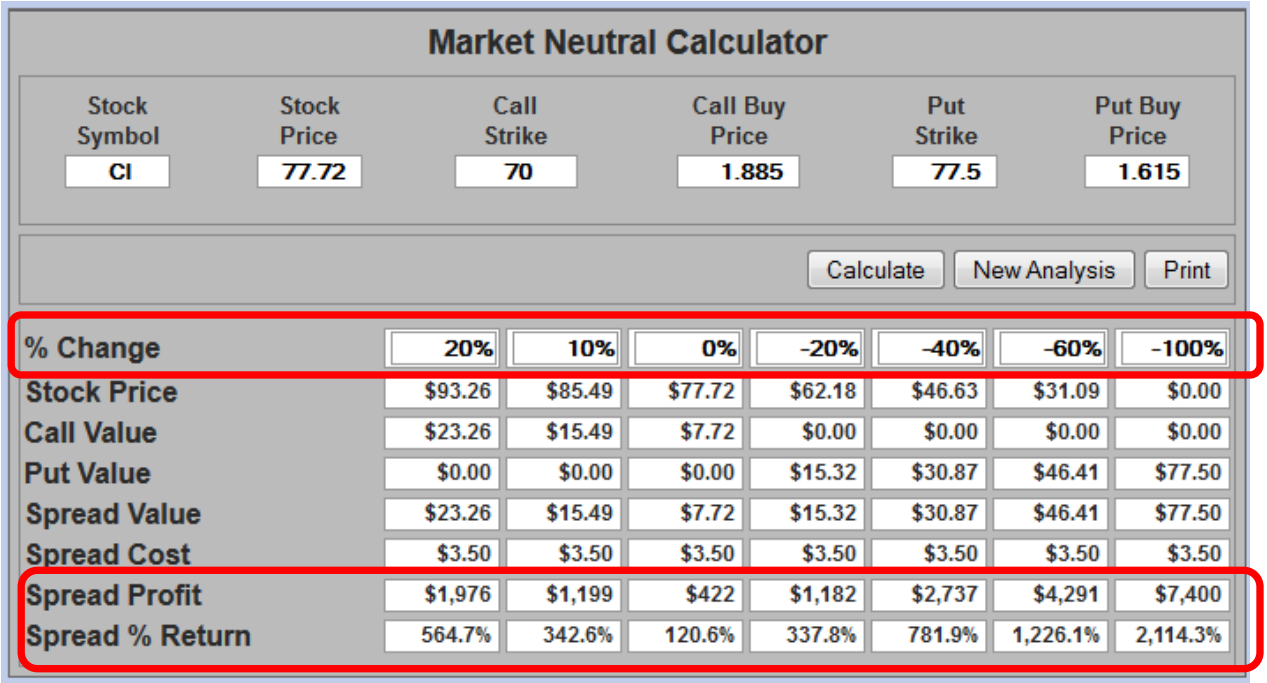
The *Hughes Optioneering™ Team* designed a series of calculators to calculate the profit potential for six different types of option trades including the Market Neutral Strategy trades. These calculators allow us to know the profit/loss potential of an option trade before we take the trade. The calculators calculate the profit potential for an option trade based on the price change in the underlying stock at option expiration.

The calculators allow us to know in advance the profit/loss potential for an option trade before you take the trade. The six *Hughes Optioneering™ Option Calculators* are available to members of our advisory service which we will discuss later in this Guide.

The Market Neutral Calculator below shows the profit/loss potential for the CIGNA Market Neutral trade assuming various prices changes in CIGNA stock at option expiration from a 20% gain to a 100% decline in this example. CI stock was trading at 77.72 at the time.

The first row labeled '% Change' in the calculator below displays the +20% to -100% assumed price changes for CI stock at option expiration (circled). The calculator will calculate the profit/loss potential and percent return based on these CI stock price changes.

The second row from the bottom labeled 'Spread Profit' lists the dollar profit potential for the trade (circled) for the various assumed price changes. And the bottom row labeled 'Spread % Return' lists the percent return profit potential (circled).



Market Neutral Calculator

Stock Symbol	Stock Price	Call Strike	Call Buy Price	Put Strike	Put Buy Price
CI	77.72	70	1.885	77.5	1.615

Calculate | New Analysis | Print

% Change	20%	10%	0%	-20%	-40%	-60%	-100%
Stock Price	$93.26	$85.49	$77.72	$62.18	$46.63	$31.09	$0.00
Call Value	$23.26	$15.49	$7.72	$0.00	$0.00	$0.00	$0.00
Put Value	$0.00	$0.00	$0.00	$15.32	$30.87	$46.41	$77.50
Spread Value	$23.26	$15.49	$7.72	$15.32	$30.87	$46.41	$77.50
Spread Cost	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50
Spread Profit	$1,976	$1,199	$422	$1,182	$2,737	$4,291	$7,400
Spread % Return	564.7%	342.6%	120.6%	337.8%	781.9%	1,226.1%	2,114.3%

CIGNA Market Neutral Trade Profit Potential

Let's examine in detail the profit potential for the CI Market Neutral trade. The Calculator below shows that if CI stock price is flat at 77.72 at option expiration a $422 profit and a 120.6% return will be realized (circled). This is the ***minimum*** return for this trade no matter what happens.

A 10% increase in CI stock results in a $1,976 profit and a 564.7% return (circled). And a 40% decline in CI stock results in a $2,737 profit and a 781.9% return (circled). In the unlikely event CI stock declined to zero it would still result in a $7,400 profit and a 2,114.3% return.

With the put option protection in place we don't have to worry about protective stops, bad earnings reports or big down moves in CI stock as we know big down moves result in windfall profits.

Notice that profit potential for this trade is not capped. As CI stock moves up in price, the profit potential for the trade continues to increase. And if CI stock moves down in price, the profit potential for the trade also continues to increase.

Purchasing the CI put option allowed us to 'hold on' to a profitable option trade in case the trade develops into a big winner. At the same time we are ***guaranteed*** a minimum return of 120.6% regardless of price movement of CIGNA stock!

Market Neutral Calculator

Stock Symbol	Stock Price	Call Strike	Call Buy Price	Put Strike	Put Buy Price
CI	77.72	70	1.885	77.5	1.615

Calculate | New Analysis | Print

% Change	20%	10%	0%	-20%	-40%	-60%	-100%
Stock Price	$93.26	$85.49	$77.72	$62.18	$46.63	$31.09	$0.00
Call Value	$23.26	$15.49	$7.72	$0.00	$0.00	$0.00	$0.00
Put Value	$0.00	$0.00	$0.00	$15.32	$30.87	$46.41	$77.50
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Spread % Return	564.7%	342.6%	120.6%	337.8%	781.9%	1,226.1%	2,114.3%

Limit Size of Trades

If you have enough trading funds, don't risk more than 5 to 10% of your trading funds on any one trade. This helps prevent a large portfolio loss if one of your option trades experiences a big loss. This is especially important with options because they employ leverage.

If you have ten options in your portfolio and one option suffers a 100% loss your portfolio loss would be 10%. The remaining options in the portfolio would have to increase 11.1% on average to get the portfolio back to breakeven.

If you have three options in your portfolio and one option suffers a 100% loss your portfolio loss would be 33.3%. The remaining options in the portfolio ***would have to increase 50% on average just to get the portfolio back to breakeven!***

Option Basics

Options are also known as derivatives because the option contract derives its price and value from the underlying asset on which it is based. The value of an option fluctuates as the price of the underlying asset rises or falls in price. Option values are also affected by other market conditions. These conditions could be a change in volatility due to sudden fluctuations of price in the underlying asset, interest rates, dividends or stock splits.

An option is the right, but not the obligation, to buy or sell a stock or index for a specified price on or before a specific date. A call option is the right to buy a stock/index, while a put option is the right to sell a stock/index. The investor who purchases an option, whether it is a put or call, is the option "*buyer*". Conversely, the investor who sells the put or call "to open" is the option "*seller*" or "*writer*".

Options are contracts in which the terms of the contract are standardized and give the buyer the right, but not the obligation, to buy or sell a particular stock/index at a fixed price (the strike price) for a specific period of time (until expiration). All option contracts traded on U.S. securities exchanges are issued, guaranteed and cleared by the Options Clearing Corporation (OCC). OCC is a registered clearing corporation with the SEC and has received 'AAA' credit rating from *Standard & Poor's Corporation*. The 'AAA' credit rating corresponds to OCC's ability to fulfill its obligations as counter-party for options trades.

The options markets provide a mechanism where many different types of investors can achieve their specific investment goals. An options investor may be looking for long term or short term profits, or they may be looking to hedge an existing stock or index position. Whatever your objectives may be, you need a thorough understanding of the markets you will be trading.

Options Share the Following General Characteristics:

- Options give you the right to buy or sell an underlying security or index
- If you buy an option, you are not obligated to buy the underlying security. You simply have the right to exercise the option
- If you sell an option, you are obligated to deliver the underlying security at the strike price at which the option was sold if the buyer exercises his/her right to take delivery
- Options are good for a specified period of time after which they expire and you lose the right to buy or sell the underlying security
- When options are purchased the buyer incurs a debit
- When options are sold short the seller receives a cash credit

- Options are available in various strike prices representing the price of the underlying security

- The cost of an option is referred to as the option premium. The premium is comprised of time value and intrinsic value

- There are two kinds of options: calls and puts. Calls give you the right to buy the underlying security and puts give you the right to sell the underlying security

- Options (put or call) which have the same underlying security are called a class of options. For example, all the calls for General Electric constitute an option class.

- All options which are in one class and have the same strike price are called an option series. For example, all the General Electric options with a strike price of 25 constitute an option series.

- Most options are never exercised and are closed out before option expiration

Buying Options

Any investor can buy options if they have the required account established with their broker. Buying options limits the investor's risk to the amount of capital invested in the option purchase. Therefore the only requirement is that the investor has enough funds in their account to purchase the options. Since the purchase of an option contract results in a long position, a cash debit is subtracted from the buyer's account.

Selling Options

For every option buyer there is a seller or writer. If an option is exercised, the option writer is obligated by the option contract to deliver the specified number of shares of the underlying security at the specific strike price. Anyone can write options if they have the required account established with their broker.

Selling "naked" options can involve large capital loss risk and is not a suitable investment for all investors. Writing an option results in cash being credited to the seller's brokerage account. Since the writing of an option results in a short position, it requires that funds be held in margin to guarantee the writer's obligation. Margin requirements for writing naked options vary for different markets, and sometimes even for different stocks.

Underlying Security

The underlying security in options trading is defined as the financial instrument on which an option contract is based or derived. It is a stock or Exchange Traded Fund (ETF) that you have the right to purchase or sell. The symbol used for the underlying security in options trading is usually the symbol used by the exchange on which the underlying security is traded. For example, GE is used for General Electric and SPY is used for the S&P 500 Index ETF.

Strike Price

The strike price is the actual price at which the option holder may buy or sell the underlying security as defined in the option contract. For example, a GE Mar 20-Strike call gives the buyer of the option the right to buy 100 shares of General Electric at $20 per share between now and the monthly option expiration which is usually the third Friday of the month.

Expiration Date

The expiration date is the actual date that an option contract becomes void. Monthly options normally expire on the third Friday of each month. Be aware that at expiration options that are not closed prior to expiration and are in-the-money will be exercised automatically.

Option Type

There are two types of options - call options and put options.

A call option *purchase* profits when the price of the underlying security moves higher.

A call option *short sale* profits when the price of the underlying security moves lower.

A put option *purchase* profits when the price of the underlying security moves lower.

A put option *short sale* profits when the price of the underlying security moves higher.

How to Read Option Symbols

An option symbol is comprised of several components that define the underlying stock or ETF and information about the specific option contract. A weekly option symbol consists of the stock or ETF trading symbol, year of expiration, month of expiration, expiration date, option type (call or put) and strike-price.

There are many financial websites available today that will give you option quotes. I like to use Yahoo Finance or the Chicago Board Options Exchange website at www.cboe.com to obtain option quotes.

The symbol for the General Electric Jan 2017 25-Strike call option is GE170120C00025000. Let's look at the components of this option symbol.

GE, 17, 01, 20, C, 00025000

GE is the trading symbol for General Electric
17 is the expiration year 2017
01 is the expiration month of January
20 is the expiration date which is Friday January 20th in this example
C designates a call option (put options are designated with a "P")
00025000 designates a 25-Strike price

Stock Option Point Values

Normally, 1 stock option contract covers 100 hundred shares of the underlying stock. Therefore an option with a 3.5 point premium would cost $350 (100 shares x $3.5).

Exercise and Assignment

Exercise is the term used when the buyer of an option uses his/her right to purchase or sell the underlying security at the terms of the option contract. Assignment is the term used when the seller of an option is obligated to deliver the underlying security at the contract specification.

When the option buyer exercises his/her option contract, the seller of that option contract receives a notice of assignment from their broker. The seller of the option contract must then deliver the underlying security at the specified price. Your broker handles the entire option exercise/assignment transaction, and the resulting cash profit/loss or stock position is transferred into or out of your account.

Section 1 Quiz

1. If you buy a Microsoft call option you are obligated to buy Microsoft stock.
   A. True
   B. False

2. If you sell an option, you are obligated to deliver the underlying security at the strike price at which the option was sold if the buyer exercises his/her right to take delivery.
   A. True
   B. False

3. When options are sold short the seller receives a cash credit.
   A. True
   B. False

4. Call options give you the right to sell the underlying security and put options give you the right to buy the underlying security.
   A. True
   B. False

5. Options normally expire on the third Friday of the month.
   A. True
   C. False

6. AAPL is the root symbol for Apple stock options. The symbol for the Apple Dec 2013 560-strike put option is _____.
   A. AAPL131220C00560000
   B. AAPL141220P00560000
   C. AAPL131220P00560000
   D. AAPL120405P00560000

7. The IBM Jan 2015 200-strike weekly call option is quoted at 4.25 points. It would cost _____ to purchase one option contract at the current quote.
   A. $4.25
   B. $425
   C. $42.50
   D. $4,250

8. All listed stocks trade weekly options
   A. True
   B. False

9. Exercise is the term used when the buyer of an option uses his/her right to purchase or sell the underlying security at the terms of the option contract.
   A. True
   B. False

10. Most option contracts are never exercised.
   A. True
   B. False

11. Each stock option contract normally represents 100 shares of the underlying stock.
   A. True
   B. False

Section 1 Quiz Key

1. B, False
2. A, True
3. A, True
4. B, False
5. A, True
6. C, AAPL131220P00560000
7. B, $425
8. B, False
9. A, True
10. A, True
11. A, True

Option Characteristics

There are three major factors that determine the price of an option:

Strike Price in Relation to the Stock Price

The most important factor that determines the price of an option is the price of the underlying stock or ETF relative to the strike price. This determines whether an option is in-the-money or out-of-the-money and quantifies an option's intrinsic and time value. In-the-money options have more intrinsic value and are more expensive than out-of-the-money options. The deeper an option is in-the-money the more intrinsic value it will have and the more expensive it will be. In-the-money options are more expensive than at-the-money and out-of-the-money options.

Time Until Expiration

An option premium is comprised of time value and intrinsic value. An option is considered a wasting asset as the time value portion of the option decreases as the option approaches expiration. At option expiration the time value of an option decays to zero. If the underlying security price falls far below or far above the strike price of the option, the underlying security becomes more dominant in determining the price of the option. On the day the option expires its only value is its intrinsic value. Intrinsic value is determined by the price of the underlying security in relation to the option strike price. If an option has no intrinsic value at expiration, it expires worthless.

The passage of time works against the options buyer, as the price of out-of-the-money options decreases at an accelerating rate as the expiration date approaches. This is called "time decay". The opposite is true for the option short seller. The passage of time works for the option short seller as time decay results in profits.

The longer an option has before expiration, the more expensive it will be. More time until expiration means more time value and a higher premium.

Volatility

Volatility is the amount in annual percent terms that the underlying security has moved or is expected to move on an annual basis. This number can help predict short-term price ranges and also helps determine the relative value for an option price.

There are two types of volatility used in option analysis: The first is statistical volatility, which is volatility based on the historical price movement of the underlying security. This is sometimes referred to as historical volatility. This volatility number tells us what has happened in the past.

The second type of volatility is implied volatility, which is an implied value based on the current option prices for an underlying security. This kind of volatility can give insight into potential price movement.

When option prices rise because of increased trading volume or nervousness in the market this can signal a significant market event. When option prices rise, implied volatility rises as well. Therefore, implied volatility can be seen as a measurement of risk. Higher volatility means higher risk for the option seller and increased prices for option premiums.

The more volatile the stock, the more expensive the option will be. Because volatile stocks have larger price moves, there is a higher probability that an out-of-the-money option will become an in-the-money option with intrinsic value.

Option Pricing

Option premiums consist of intrinsic value and time value. At option expiration options lose all time value and consist of only intrinsic value. Intrinsic value is the difference between the option strike price and the current price of the underlying stock or ETF. The intrinsic value of a ***call*** option is calculated by subtracting the strike price of the option from the current stock price. For example, let's assume IBM stock is currently trading at 75.00 and the May 70-Strike call option is priced at 7.00 points. The intrinsic value of this option would be 5.00 points.

Current Stock Price of 75.00 Minus Strike Price of 70.00 = 5.00 Intrinsic Value

The time value of an option is calculated by subtracting the intrinsic value from the total value of the option. In this example the 70-Strike option priced at 7.00 would have 2.00 points of time value.

Option Price of 7.00 Minus Intrinsic Value of 5.00 = Time Value of 2.00

In this example, if the IBM May 80-Strike call option is priced at 3.00 then this call option would have no intrinsic value and would only contain time value.

Current Stock Price of 75.00 Minus Strike Price of 80.00 = 0.00 Intrinsic Value

Option Price of 3.00 Minus Intrinsic Value of 0.00 = Time Value of 3.00

The intrinsic value of a ***put*** option is calculated by subtracting the current price of the stock from the strike price of the put. Let's assume again that IBM stock is trading at 75.00 and the IBM May 80-Strike put option is priced at 8.00 points. The intrinsic value of this option would be 5.00 points and the time value would be 3.00 points.

Strike Price of 80.00 Minus Current Stock Price of 75.00 = 5.00 Intrinsic Value

Option Price of 8.00 Minus Intrinsic Value of 5.00 = Time Value of 3.00

In the above example, if the IBM May 70-Strike put option is priced at 2.00 then this put option would have no intrinsic value and would only contain time value.

Strike Price of 70.00 Minus Stock Price of 75.00 = 0.00 Intrinsic Value

Option Price of 2.00 Minus Intrinsic Value of 0.00 = Time Value of 2.00

When the price of a stock or ETF is below the strike price of a call option that option is said to be out-of-the-money. An option with a strike price that is closest to the price of the underlying security is at-the-money. A call option is in-the-money when the stock price is greater than the strike price. An in-the-money call option has intrinsic value equal to the amount the stock price exceeds the strike price.

A put option is just the opposite of a call option. A put option is out-of-the-money when the stock price is greater than the strike price. A put option is in-the-money when the stock is below the strike price. The intrinsic value of a put equals the amount by which the strike price exceeds the stock price. As with a call, a put will have value at expiration if the option is in-the-money. To clarify this concept, take a closer look at these terms:

	Call	**Put**
In the money	strike price<stock price	strike price>stock price
At the money	strike price=stock price	strike price=stock price
Out of the money	strike price>stock price	strike price<stock price

Time (or days remaining until expiration) and volatility are the main components of time value. Interest rates and stock dividends are smaller factors in the pricing of option premiums. The more time remaining until expiration, or the higher the stock volatility, the greater the risk to the option seller, and therefore the higher the option premium will be.

Dividends

Dividends reduce the value of call options and increase the value of put options. This is due to the fact that paying out a dividend normally reduces the stock price by the amount of the dividend. Dividends increase the attractiveness of holding stock compared to buying call options and holding cash. Conversely, short-sellers must pay out dividends so buying puts is more desirable than shorting stock.

Interest Rates

Rising interest rates increase the value of call premiums and decrease the value of put premiums. Higher rates increase the underlying security's forward price, which is the stock price plus the risk-free interest rate over the life of the option.

Advantages of Options Versus Stocks/Mutual Funds

When you purchase options you commit a limited amount of capital and thus have less total dollars at risk in the market compared to stocks and mutual funds. The surplus dollars can be placed in safe investments like a money market fund. Instead of buying stocks consider "leasing" them with options especially when your market expectations are likely to change more frequently with today's volatile markets. If you set aside a small portion of your portfolio for options to benefit from the frequent market swings it can create big profit opportunities for traders positioned to capitalize on market swings.

Options offer profit potential not only when the market rallies, but also when it declines. With stocks and most mutual funds you can only benefit from bullish markets. If you are bearish on the stock market cash is usually your only alternative. With options you can profit from both bullish and bearish markets.

A Lower Risk Alternative to 'Going Short'

Put options are normally a better choice than selling short a stock or ETF. Option purchases normally do not require a margin account, whereas short selling a stock does require a margin account. In addition, a short stock position has virtually unlimited loss potential if a stock continues to rally in price. Conversely, the maximum loss for a put option purchase is limited to the purchase price of the option.

Options offer greater leverage than stocks or mutual funds. A 10% move in a stock can easily translate into a 30 to 60% move in the related option. Purchasing options offers profit leverage if you are correct in your market view but also offers limited risk if your market view is incorrect.

Options can allow for stock or mutual fund portfolios to be hedged without losing long-term capital gain status. This results in a more favorable tax treatment. This can improve the after-tax returns on stock holdings while allowing you to protect those stocks during market volatility.

Risk Management

The first step toward intelligent risk management is to trade options only with that portion of your capital that can be comfortably devoted to speculation. This will permit you to trade rationally and to sleep soundly which is not possible if your 'Safe Money' is at risk. Never trade options with money needed to pay living expenses. Restrict your options trading to funds that can be lost without undue financial hardship.

Once you determine the amount of your available trading capital, try to allocate no more than 10% to any one trade. This should help mitigate losses when losing trades occur. This rule holds regardless of how successful you have been in the past and regardless of how attractive the next trade appears. There will always be losing trades. By compounding your capital after a few profitable trades, you are exposing yourself to potentially painful losses once that losing trade comes along.

Risk and Diversification

There are generally two types of portfolio risk: systematic and unsystematic.

Systematic Risk, also called non-diversifiable risk, is risk that cannot be eliminated. It arises from factors which cause the whole market to move up or down, and cannot be eliminated by diversification because it affects all securities. Examples of systematic risk are political or sociological changes that affect all securities. Some of the most common forms of systematic risk are changes in interest rates or inflation.

Unsystematic Risk, also called diversifiable risk can be reduced or eliminated by diversifying your portfolio. Unsystematic risk is risk that is unique to a certain industry, firm, or company. Examples of unsystematic risk include: a company's financial structure, weather and natural disasters, labor strife and a shortage of raw materials. Since unsystematic risk affects a single company or industry, it can be mitigated by investing in many companies across a broad range of industries.

Option positions should be diversified. A major advantage of option purchases is 'truncated risk', whereby your loss is limited to your initial investment yet your profit is virtually unlimited. Diversification will allow you to use truncated risk to its maximum advantage. While some of your positions will inevitably be unprofitable, each profitable trade can offset several unprofitable trades. Option positions should be established among many underlying stocks and indexes in unrelated industries. This gives you diversification, which can help mitigate sector weakness.

In order to trade options, your broker must first approve your account for option trading. There are various levels of option trading and each level has financial requirements that differ from broker to broker:

Level 1 `Covered call writing`
Level 2 `Call and put purchases and covered put writing`
Level 3 `Spreads (requires margin)`
Level 4 `Uncovered call and put writing (requires margin)`
Level 5 `Index option writing (requires margin)`

Be sure to ask your broker about their requirements for the level of options you plan to trade. Lastly, before you trade options, regulations require that you read *Characteristics and Risks of Standardized Options* prepared by the Options Clearing Corporation (OCC) and available from your broker.

Order Types

Listed below are definitions for a variety of popular orders that may be helpful.

• *Market Order*

A market order is simply an order without restrictions or limits that guarantees execution but not price. Because it lacks restrictions, it takes precedence over all other types of orders. A market order to buy is executed at the best offering price available, which is normally the "ask" price. A market order to sell is executed at the best bid price available which is normally the "bid" price.

• *Limit Order*

A limit order is an order in which an investor has placed a restriction or limit on the acceptable purchase or selling price. There are two types of limit orders: a buy limit order and sell limit order. A buy limit order sets the maximum amount an investor is willing to pay to purchase a security or option contract. A sell limit order sets the minimum price that an investor is willing to accept to sell their security or option contract.

• *Day Orders*

Day orders are only valid for one trading day. If you place the order during market hours, then it will expire at the end of the trading day if it is not executed. If you place a day order after the market close then it will be valid for the next trading day.

• *Good Until Canceled Orders (GTC)*

Normally each brokerage firm will establish time periods for which GTC orders are valid. Once a GTC order is placed, it will remain open until the option expires, the order itself expires, the order is filled, or the order is cancelled.

• *Stop Loss Orders*

A stop-loss order is normally used to protect a profit or prevent a further loss if you own a stock and the price of the stock starts to drop. Example: You purchase 100 shares of Microsoft stock at 25 and enter a GTC stop order to sell at 20. As long as Microsoft trades above 20 then the stop order will not be executed. If it trades at 20 or below, however, then the stop order automatically becomes a market order to sell 100 shares of Microsoft at the market. A stop order does not guarantee that you will be filled at the stop price. Using the above example, if Microsoft closes at 21 and opens the next trading day at 19 the stop order will be executed on the open at the best possible price but below the 20 stop-loss price.

Section 2 Quiz

1. Option premiums consist of intrinsic value and _____ value.
   A. Dividend
   B. Payout
   C. Time
   D. Cash

2. Exxon stock is trading at 70. The Exxon May 65-strike weekly call option is priced at 8 points. The intrinsic value of this call option is ___ points.
   A. 8
   B. 3
   C. 65
   D. 5

3. The time value of the same Exxon 65-strike call option listed above is ___ points.
   A. 8
   B. 3
   C. 65
   D. 5

4. A call option is in-the-money when the strike price is _____ the current stock price.

   A. Less than
   B. Greater than
   C. Equal to

5. A put option is out-of-the-money when the strike price is _____ the current stock price.

   A. Less than
   B. Greater than
   C. Equal to

6. Time premium is normally the dollar amount the writer of an option is charging the buyer to assume the price movement risk of the option.
   A. True
   B. False

7. As an option’s expiration date gets closer, the time value of an option increases.
   A. True
   B. False

8. On option expiration day, the only value an option has is its time value.
   A. True
   B. False

9. The most important factor that determines the price of an option is the price of the underlying security relative to the strike price of the option.
   A. True
   B. False

10. Higher volatility usually means higher risk for the option seller and increased prices for option premiums.
    A. True
    B. False

11. Dividends normally increase the value of call options and decrease the value of put options.
    A. True
    B. False

12. Rising interest rates normally decrease the value of call premiums and increase the value of put premiums.
    A. True
    B. False

13. Buying put options is normally a lower risk strategy than selling short stock.
    A. True
    B. False

14. Options offer greater leverage than buying stocks or mutual funds. A 10% move in a stock can translate into a 50% move in the related option.
    A. True
    B. False

15. One of the biggest differences between purchasing stock and purchasing options is the fact that options are time dependent.
    A. True
    B. False

16. Systematic risk normally can be eliminated with portfolio diversification.
    A. True
    B. False

17. A major advantage of option purchases is truncated risk, which limits your loss to your initial investment but allows for virtually unlimited profits.
    A. True
    B. False

18. Portfolio diversification will allow you to use truncated risk to its maximum advantage.
    A. True
    B. False

19. A market order is an order which an investor has placed a restriction or limit.
    A. True
    B. False

20. A limit order guarantees execution but not price.
    A. True
    B. False

21. A good until cancelled order remains in effect until the option expires, the order itself expires, the order is filled, or the order is cancelled.
    A. True
    B. False

22. A stop loss order guarantees that you will limit your loss to the stop loss price.
    A. True
    B. False

Section 2 Quiz Key

1. C, Time
2. D, 5
3. B, 3
4. A, Less than
5. A, Less than
6. A, True
7. B, False
8. B, False
9. A, True
10. A, True
11. B, False
12. B, False
13. A, True
14. A, True
15. A, True
16. B, False
17. A, True
18. A, True
19. B, False
20. B, False
21. A, True
22. B, False

Buying and Selling Calls and Puts

There are two ways to invest in options:

- **Buying options**
- **Selling short options**

Buying Options

The goal of buying an option is to 'Buy Low and Sell High'. Buying a call option is a bullish strategy as the value of a call option will increase as the price of the underlying stock increases. Conversely, if the price of the underlying stock decreases then the value of a call option also decreases. Buying calls is a strategy that can be used as an alternative to the outright purchase of the underlying security, giving the purchaser the added benefits of limited risk and increased leverage.

Buying a put option is a bearish strategy as the value of a put option will increase as the price of the underlying stock decreases. Conversely, if the price of the underlying stock increases then the value of a put option will decrease.

The risk for call or put option purchases is limited to the premium paid for the option. The profit potential is not limited.

The price you pay for an option is called the premium. When you buy an option, cash is deducted from your brokerage account to pay for the option premium. One option contract normally controls one hundred shares of the underlying stock. Purchasing an option with a 4.00 point premium would result in $400 being deducted from your brokerage account to pay for the premium (4.00 x 100 shares = $400). If you later sold this option for 6.00 points you would realize a $200 profit.

Buy at 4.00 and sell at 6.00 = 2.00 Profit

Conversely, if you later sell this option for 3.00 points you would realize a $100 loss.

Buy at 4.00 and sell at 3.00 = 1.00 Loss

Buyers of call options profit if the underlying stock increases in price

Buyers of put options profit if the underlying stock decreases in price

Selling Short Options

The goal of short selling or selling to open an option is to 'Sell High and Buy Low'. When you sell (to open) an option, cash is credited to your brokerage account. For example, if you sell an option for 6.00 points, $600 will be credited to your account ($6.00 x 100 shares = $600). This is just the opposite of purchasing an option. As noted previously, buying an option for 6.00 points would result in $600 being deducted from your account.

Selling (to open) a call option is a bearish strategy. An investor who sells a call option is also known as the 'writer'. Selling a call is also known as being 'short' a call. The value of a call option declines as the underlying stock decreases in price. Being 'short' a call option generates profits as the call option decreases in value.

If you sell (to open) a call option and the call option subsequently decreases in price then you can 'buy back' to close the short call at a lower price which will result in a profit for the call writer (Sell high and buy low). For example, if you sell (to open) a call option for 5.00 points and then later buy the call back to close for 3.00 points you would realize a 2.00 point profit.

Sell call at 5.00 and then buy back at 3.00 = 2.00 profit

This is a similar concept to 'shorting' a stock. If you short a stock that drops in price and then subsequently buy the stock back at a lower price to close you would realize a profit. For example, if you short IBM stock at 74.25 and subsequently buy the stock back to close at 70.00 you would realize a 4.25 point profit.

Short IBM stock at 74.25 and buy back at 70.00 = 4.25 profit

If you sell (to open) a call option for 5.00 points and then later buy the call back to close at a higher price let's say 7.00 points you would realize a 2.00 point loss.

Sell call at 5.00 and then buy back to close at 7.00 = 2.00 loss

Selling (to open) a put option is a bullish strategy. An investor who sells a put option is also known as the 'writer'. Selling a put is also known as being 'short' a put. The value of a put option declines as the underlying stock increases in price. If you sell (to open) a put option and the underlying stock subsequently increases in price then you can 'buy back' to close the short put at a lower price which will result in a profit for the put writer. For example, if you sell a put option for 5.00 points and then later buy the put back to close for 3.00 points you would realize a 2.00 point profit.

Sell put at 5.00 and then buy back to close at 3.00 = 2.00 profit.

If you sell (to open) a put option for 5.00 points and then later buy the put back to close at a higher price let's say 7.00 points you would realize a 2.00 point loss.

Sell put at 5.00 and then buy back to close at 7.00 = 2.00 loss

Selling a call option to open profits if the underlying stock decreases in price

Selling a put option to open profits if the underlying stock increases in price

Note: When you buy an option, you can sell the option any time prior to option expiration. When you sell to open an option you can buy to close the option any time prior to option expiration.

Let's review the types of option orders that you would give to your broker (or online) to make sure you understand this important concept.

Order		Result
Buy Call to Open		Establishes Long Call Position
Buy Put to Open		Establishes Long Put Position
Sell Call to Close		Closes Out Long Call Position
Sell Put to Close		Closes Out Long Put Position
Sell Call to Open		Establishes Short Call Position
Sell Put to Open		Establishes Short Put Position
Buy Call to Close		Closes Out Short Call Position
Buy Put to Close		Closes Out Short Put Position

Call Options versus Stock Ownership

It is important to understand the distinction between buying call options and owning stock. Unlike stocks, options have a limited life. If an investor purchases stock and the expected move does not occur with the stock he/she can continue to hold the stock indefinitely. This is not true with options as every option has an expiration date. At expiration a call option has only intrinsic value, which is the difference between its strike price and the current stock price. At expiration a call option is worthless if the stock closes at or below the strike price. Profiting from option purchases depends on your ability to predict both the direction and timing of a move in the price of the underlying stock.

Purchasing an in-the-money call has a higher probability of success than an out-of-the-money call, as there is a reduced requirement for the underlying stock to move in the right direction and a lower breakeven price. Sometimes new option traders will be tempted to buy weekly call options that are out-of-the-money because of the low cost. Everyone loves a bargain but these options are cheap for a reason: the option has little time left until expiration and the strike price and stock price are so far apart that it is highly unlikely that the option will be in the money before expiration day.

At-the-money and out-of-the-money calls have no intrinsic value; their entire price consists of time premium. At expiration, call buyers will lose their entire investment if the stock price is equal to or below the strike price.

If you choose to buy the cheapest options, you must be very precise in timing the move and calling the direction. You can also expect to have a higher percentage of losing trades when purchasing out-of-the money options.

In-the-Money Calls

Buying deep in-the-money call options offers a relatively conservative approach to options investing by giving an options trader more control over the time value and intrinsic value components of the option compared to at-the money and out-of-the-money options.

An important component of a deep in-the-money option is its substantial intrinsic value, which can comprise up to 90 to 95% or more of the total option premium. A major advantage of deep in-the-money options is the significantly lower level of time erosion of your option. We like to limit the time value portion of an option to 1% of the stock price. If you do this then the stock price only has to increase 1% for the option trade to breakeven and start profiting.

As options move deeper into the money, the amount by which an option's price will change for a one point move in the price of the underlying stock approaches 1.00 or 100% for a call option. This relationship between the price movement for an option compared to the price movement in the underlying security is referred to as an option's Delta. A deep in-the-money option behaves like the underlying stock by making nearly a point-for-point move with the price change in the underlying security. Therefore, these options are similar to owning the stock but with the advantages options provide:

- leverage resulting from a lower capital requirement
- limited risk
- higher percentage profit potential

Put Purchases

A put option purchase also known as being long a put is a bearish position. It gives the purchaser the right but not the obligation to sell the underlying security at a fixed price on or before the expiration. The risk for the purchaser is limited to the premium paid for the put option. The profit potential is not limited. The put purchase strategy benefits from a decrease in the price of the underlying security. Buying puts is a strategy that can be used as an alternative to short selling a stock, giving the purchaser the added benefits of limited risk and increased leverage.

Put Buying Advantages

- A put purchase is a limited risk alternative to shorting a stock which is a high-risk strategy

- Put purchases provide leverage without having to use margin

- Put purchases are limited risk but the profit potential is not limited

- Put purchasers do not have to pay dividends on the underlying stock, which is required of short sellers

Summary of Variables for Call and Put Purchases

Variable	Effect on a Call	Effect on a Put
Increase in Stock Price	Increases Call Value	Decreases Put Value
Decrease in Stock Price	Decreases Call Value	Increases Put Value
Higher Strike Price	Decreases Call Value	Increases Put Value
Lower Strike Price	Increases Call Value	Decreases Put Value
Longer Expiration	Increases Call Value	Increases Put Value
Shorter Expiration	Decreases Call Value	Decreases Put Value
Higher Interest Rate	Increases Call Value	Decreases Put Value
Lower Interest Rates	Decreases Call Value	Increases Put Value
Increased Dividends	Decreases Call Value	Increases Put Value
Decreased Dividends	Increases Call Value	Decreases Put Value
Increase in Volatility	Increases Call Value	Increases Put Value
Decrease in Volatility	Decreases Call Value	Decreases Put Value

Section 3 Quiz

1. Buying calls is a strategy that can be used as an alternative to the outright purchase of stock, giving the purchaser the added benefits of limited risk and increased leverage.
   A. True
   B. False

2. At expiration, call buyers will lose their entire investment if the underlying stock closes below the strike price of the call purchased.
   A. True
   B. False

3. The IBM 70-strike call option was purchased for 3 points. IBM stock would have to close at ___ at option expiration for this call purchase to breakeven.
   A. 67
   B. 70
   C. 73
   D. 76

4. In the above example if IBM stock closes at 80 at option expiration, a ___ point net profit (before commissions) would be realized on the call purchase.
   A. 7
   B. 3
   C. 10
   D. 8

5. Using the same IBM example, the maximum risk for purchasing the 70-strike call option for 3 points would be ___ points.
   A. 7
   B. 10
   C. 3
   D. 73

6. One advantage of purchasing deep in-the-money call options is the significantly lower level of time decay, as most of the option premium is composed of intrinsic value.

   A. True
   B. False

7. IBM stock is currently trading at 77. The IBM 55-strike in-the-money call option is priced at 22.75 points. This call option has ___ points of time value.
   A. 22
   B. .75
   C. 22.75
   D. 21.25

8. Purchasing an in-the-money call option has a lower probability of profit than an out-of-the-money call as there is an increased requirement for the underlying stock to move in the right direction.
   A. True
   B. False

9. As options move deeper in-the-money, the amount by which an option's price will change for a one point move in the price of the underlying stock approaches 1.00 or 100%. This is referred to as an option's Delta.
   A. True
   B. False

10. Buying put options is strategy that can be used as an alternative to short selling a stock, giving the buyer the added benefits of limited risk and increased leverage.

   A. True
   B. False

11. The Mastercard 120-strike weekly put option was purchased for 5 points. Mastercard stock would have to close at ___ at option expiration for this put purchase to breakeven.

   A. 120
   B. 125
   C. 130
   D. 115

12. In the above example Mastercard stock closes at 130 at option expiration. This would result in a ____ point ______ for the put purchase.

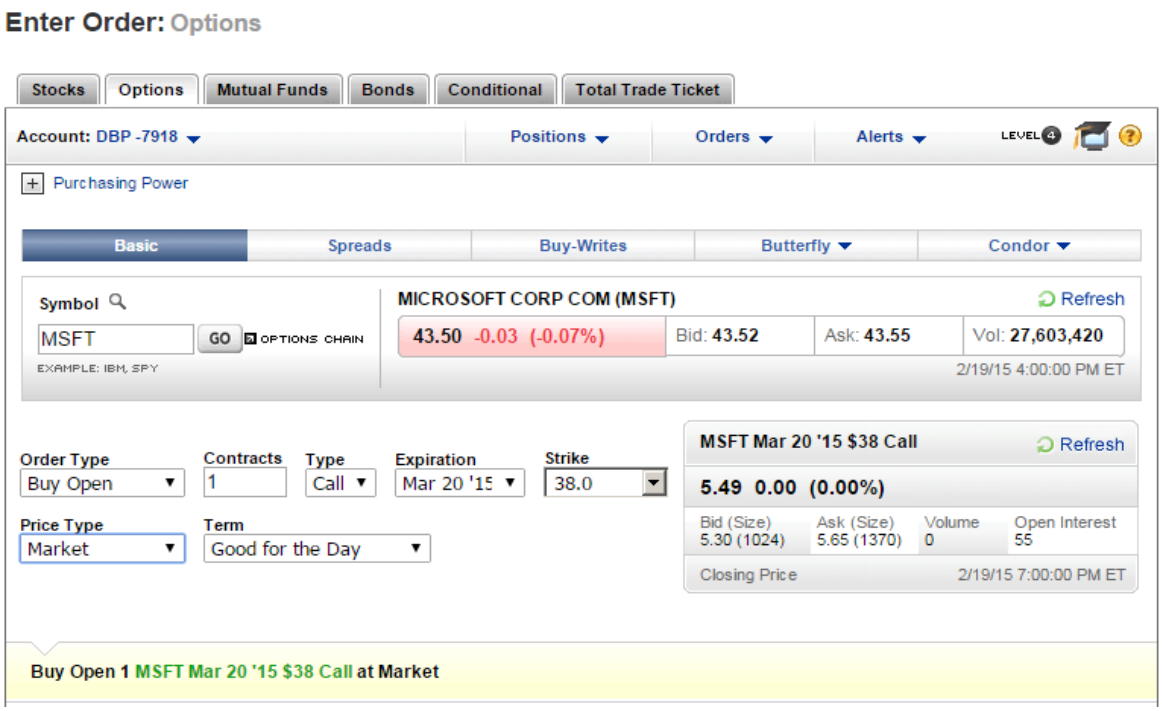
   A. 10, profit
   B. 10, loss
   C. 5, profit
   D. 5, loss

Section 3 Quiz Key

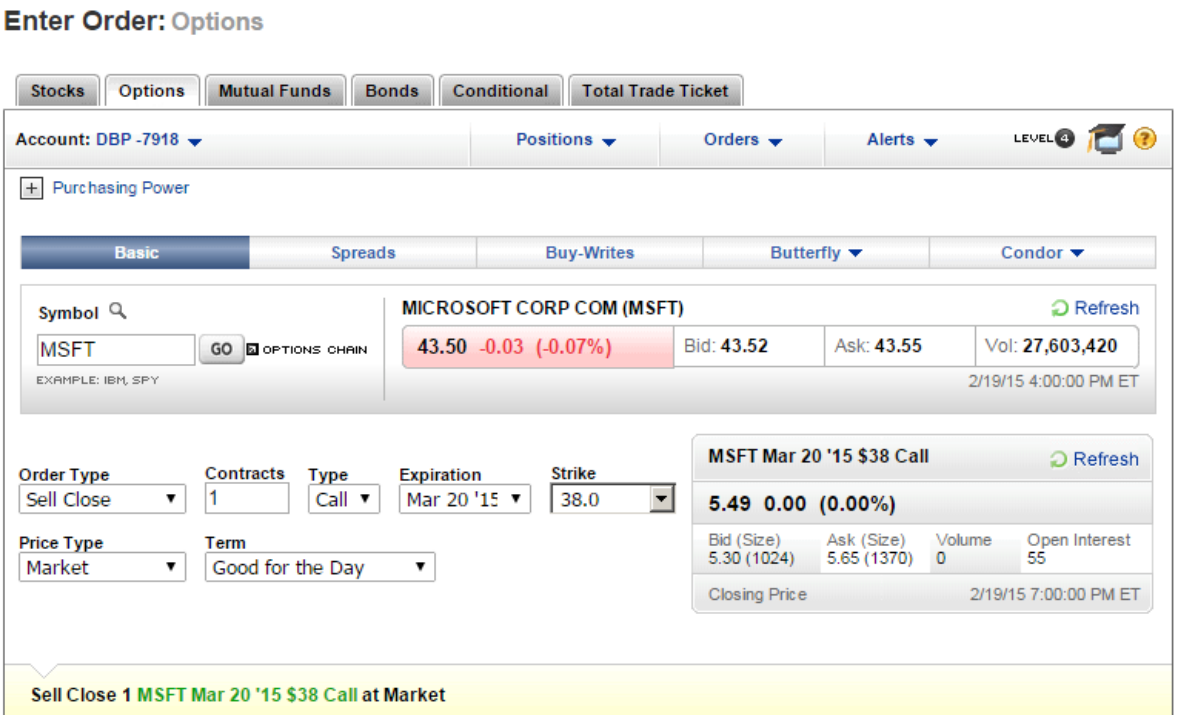
1. A, True
2. A, True
3. C, 73
4. A, 7 (10 point value – 3 point cost = 7 point profit)
5. C, 3
6. A, True
7. B, .75
8. B, False
9. A, True
10. A, True
11. D, 115
12. D, 5, loss

Examples of Online Option Orders

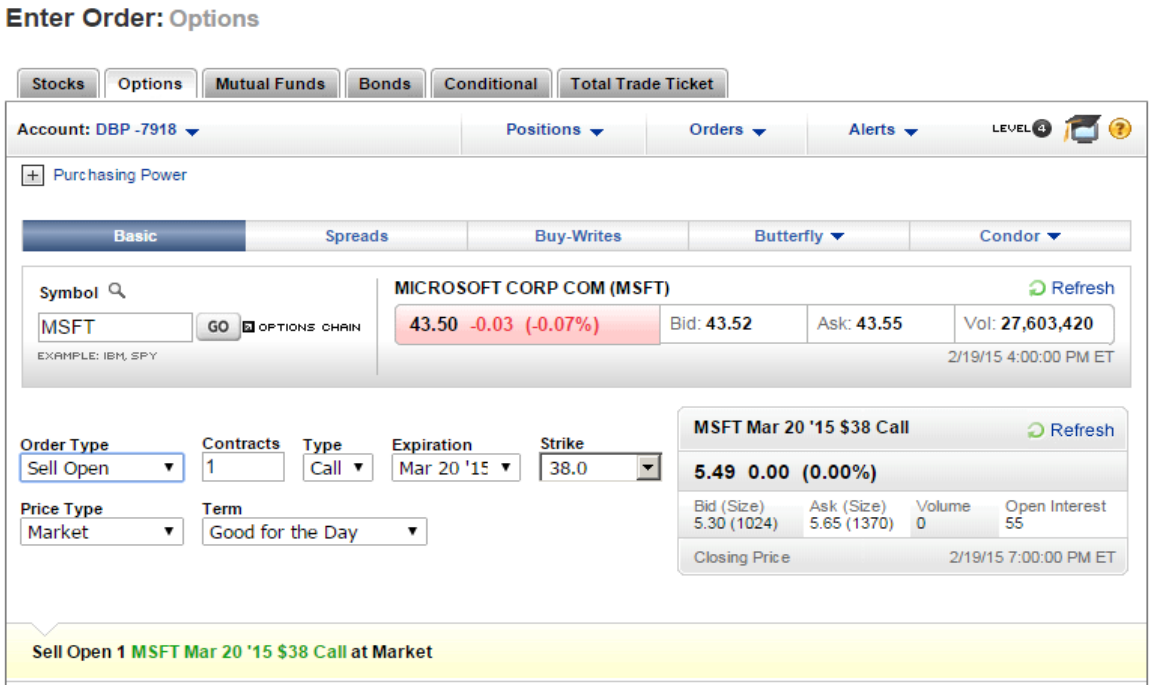
Examples of online brokerage account option orders follow. The first example is a 'buy to open' order to purchase the Microsoft Mar 38-strike call option at the market. This would result in buying the call option.



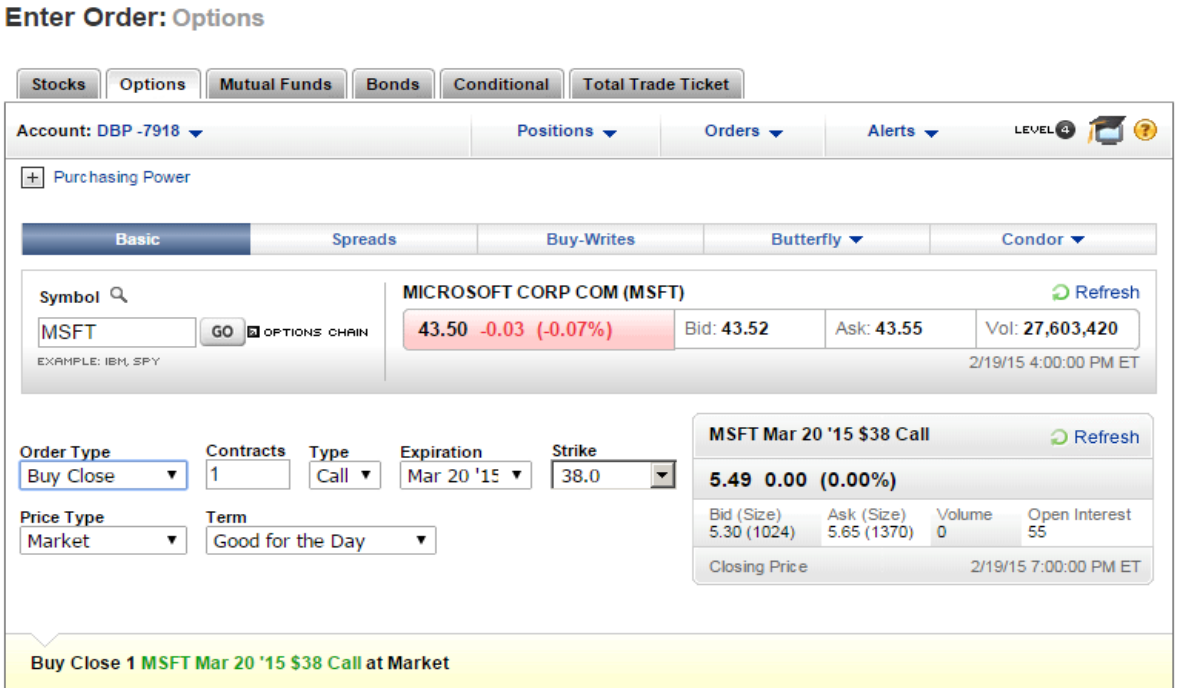
The order below is a 'sell to close' order to close out the Microsoft Mar 38-strike call option at the market. This would result in closing out the call option.



We short sell or sell to open call options with the *Optioneering*™ Covered Call and Option Debit Spread Strategies. Both of these strategies are limited risk strategies as the short calls are 'covered' by the ownership of the underlying stock or a call option with a lower strike price. The example below is a 'sell to open' order to sell short the Microsoft Mar 38-strike call option at the market. This would result in being short the call option.



The example below is a 'buy to close' order to buy back the short Microsoft Mar 38-strike call option at the market. This would result in closing out the short call option.



High Accuracy Option Trading

The *Hughes Optioneering™ Team* has over 40 years of option trading experience. Over the years we have developed a high accuracy option trading program that has produced consistent profits in every type of market condition including the severe 2002 and 2008 bear markets.

The first part of the High Accuracy Option Trading Program is to select a stock for an option trade. There are three simple rules that use indicators that can be easily downloaded from the internet.

High Accuracy Option Trading Part 1

STEP 1: Determine price trend of stock using the 50/100-Day EMA System

STEP 2: Select a low risk entry point using the Keltner Channels

STEP 3: Use the '1% rule' to Select an Option Strike Price with a high probability of success

The second part of the High Accuracy Option Trading Program manages your option trade.

High Accuracy Option Trading Part 2

STEP 1: Use the 30% Rule For 'Walking Away'

STEP 2: Use the 30% Rule For 'Protecting Profits' by establishing an option spread which can guarantee a profit for your option trade regardless of the price movement of the underlying stock

STEP 3: Rollover at Option Expiration if the stock is still on a 50/100-Day EMA System 'buy signal' and the trade is profitable

Rolling over profitable option trades can reduce your risk and allow you to compound your returns.

Copies of our brokerage account statements that follow show that we currently have more than $1.7 in actual profits using the High Accuracy Option Trading Strategy.

High Accuracy Option Trading Strategy Produces $1.7 Million in Actual Profits With An Average Return of 223.5%

Copies of our brokerage account Profit/Loss Reports for our two option trading accounts that follow show that we currently have $1,756,533.72 in open trade profits. There are 18 winning trades and no losing trades resulting in 100% accuracy. The average return per trade is 223.5%.

Trading Account #1 $1,356,052.06 Profit

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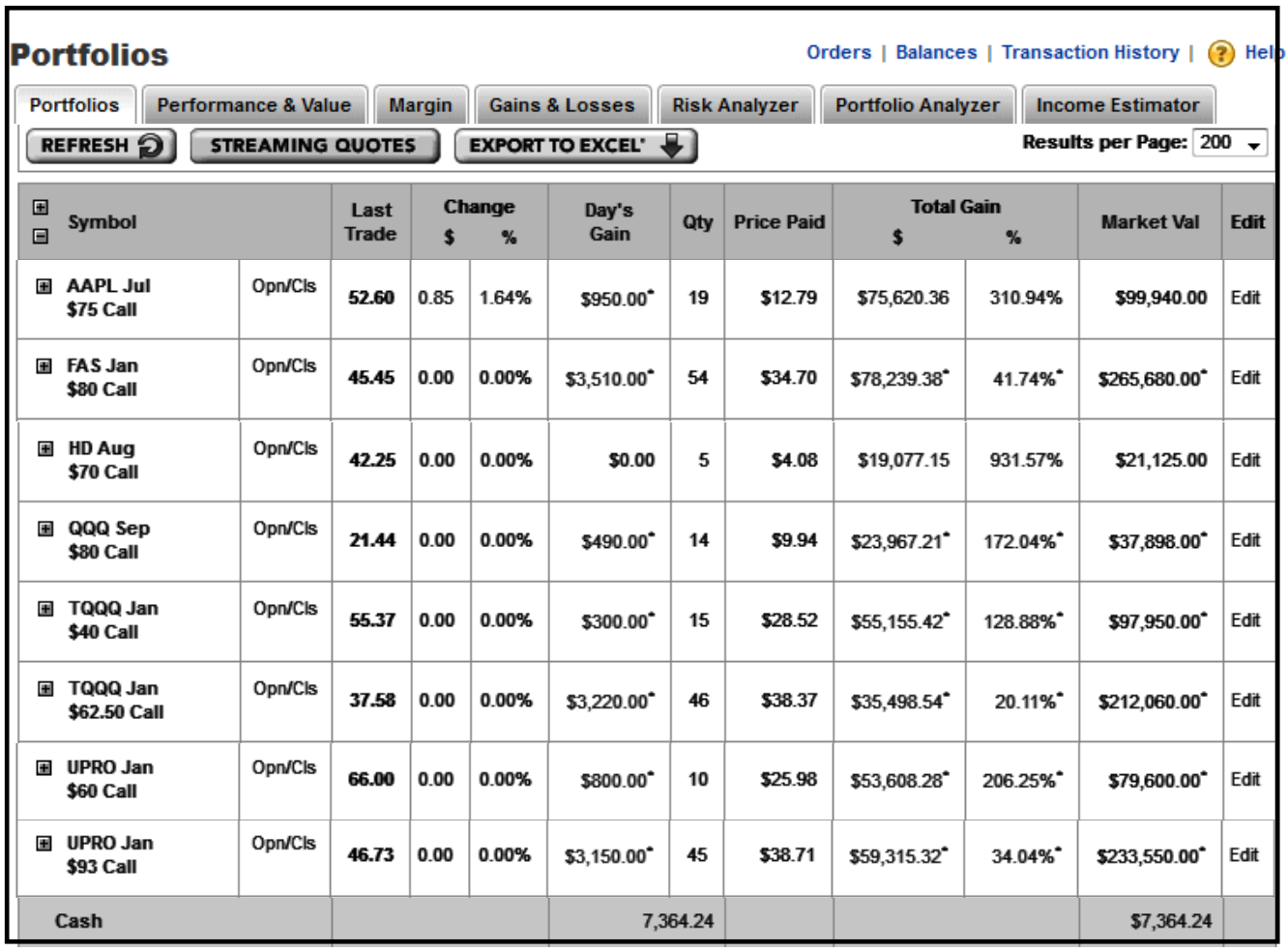
Symbol		Last Trade	Change $	Change %	Day's Gain	Qty	Price Paid	Total Gain $	Total Gain %	Market Val	Edit
AAPL Jul $75 Call	Opn/Cls	52.60	0.85	1.64%	$2,500.00	50	$14.37	$191,107.45	265.82%	$263,000.00	Edit
FAS Jan $50 Call	Opn/Cls	71.00	0.00	0.00%	$8,250.00	50	$16.20	$297,176.31	366.55%	$378,250.00	Edit
FAS Jan $80 Call	Opn/Cls	45.45	0.00	0.00%	$2,600.00	40	$28.42	$83,085.16	73.06%	$196,800.00	Edit
HD Aug $70 Call	Opn/Cls	42.25	0.00	0.00%	$0.00	18	$5.03	$66,978.13	738.31%	$76,050.00	Edit
TQQQ Jan $40 Call	Opn/Cls	55.37	0.00	0.00%	$1,200.00	60	$32.56	$196,363.69	100.47%	$391,800.00	Edit
TQQQ Jan $57.50 Call	Opn/Cls	38.80	0.00	0.00%	$8,400.00	84	$33.37	$148,023.23	52.79%	$428,400.00	Edit
UPRO Jan $60 Call	Opn/Cls	66.00	0.00	0.00%	$960.00	12	$41.82	$45,322.73	90.29%	$95,520.00	Edit
UPRO Jan $65 Call	Opn/Cls	74.90	0.00	0.00%	$1,440.00	24	$43.62	$76,497.47	73.06%	$181,200.00	Edit
UPRO Jan $93 Call	Opn/Cls	46.73	0.00	0.00%	$7,000.00	100	$34.00	$178,914.90	52.61%	$519,000.00	Edit
XLV Jun $50 Call	Opn/Cls	19.55	0.00	0.00%	$2,400.00	48	$4.92	$72,582.99	306.81%	$96,240.00	Edit
Cash						24,039.52				$24,039.52	

Trading Account #2 $400,481.66 Profit



Portfolios

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REFRESH | STREAMING QUOTES | EXPORT TO EXCEL | Results per Page: 200

Symbol		Last Trade	Change $	Change %	Day's Gain	Qty	Price Paid	Total Gain $	Total Gain %	Market Val	Edit
AAPL Jul $75 Call	Opn/Cls	52.60	0.85	1.64%	$950.00*	19	$12.79	$75,620.36	310.94%	$99,940.00	Edit
FAS Jan $80 Call	Opn/Cls	45.45	0.00	0.00%	$3,510.00*	54	$34.70	$78,239.38*	41.74%*	$265,680.00*	Edit
HD Aug $70 Call	Opn/Cls	42.25	0.00	0.00%	$0.00	5	$4.08	$19,077.15	931.57%	$21,125.00	Edit
QQQ Sep $80 Call	Opn/Cls	21.44	0.00	0.00%	$490.00*	14	$9.94	$23,967.21*	172.04%*	$37,898.00*	Edit
TQQQ Jan $40 Call	Opn/Cls	55.37	0.00	0.00%	$300.00*	15	$28.52	$55,155.42*	128.88%*	$97,950.00*	Edit
TQQQ Jan $62.50 Call	Opn/Cls	37.58	0.00	0.00%	$3,220.00*	46	$38.37	$35,498.54*	20.11%*	$212,060.00*	Edit
UPRO Jan $60 Call	Opn/Cls	66.00	0.00	0.00%	$800.00*	10	$25.98	$53,608.28*	206.25%*	$79,600.00*	Edit
UPRO Jan $93 Call	Opn/Cls	46.73	0.00	0.00%	$3,150.00*	45	$38.71	$59,315.32*	34.04%*	$233,550.00*	Edit
Cash					7,364.24					$7,364.24	

Optioneering™ Advisory Service

The *Hughes Optioneering™ Team* makes trade recommendations for the *Optioneering™ Trading Strategies* through the *Weekly Option Advisory Service*. Advisory members receive access to an exclusive 'Members Only' proprietary web page enabling members to benefit from the continued success of the *Hughes Optioneering™ Trading Strategies*. Email alerts are sent to members with specific instructions whenever there is a new trade recommendation or if an existing trade is closed out.

Portfolios of the trade recommendations are maintained and prices are updated real time so members can track the profit performance of every trade recommendation. A closed trade record of all closed trades is also maintained so that a full accounting of all trade recommendations is always available.

Membership Benefits:

- Personal consultations with the *Hughes Optioneering™ Team* by phone or email
- Full support from the *Hughes Optioneering™ Team* to help you implement the trade recommendations
- Receive clear and concise ‘buy’, ‘sell’ or ‘hold’ signals that eliminate guesswork
- Frees up your time spent on research
- Receive access to actual open trade and closed trade profit results that give you an instant ‘picture’ of how a strategy is performing

If you would like to learn more about becoming a member of the *Hughes Optioneering™ Advisory Service* then log on to www.WeeklyOptionAlert.com or call our sales partner Brad toll free at (866)-661-5664 or (310)-647-5664. Click the 'Trade Results' link for updated profit performance for the *Hughes Optioneering™ Trading Strategies*.

Log On to www.WeeklyOptionAlert.com or

Call Brad toll free (866)-661-5664 or (310)-647-5664

Click Trade Results for Updated Profit Performance