T3 LIVE

# Strategic Swing Trader

## Options Supplement


By Sami Abusaad

Director of Education & Professional Trader

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# About Sami Abusaad

Sami Abusaad is a professional trader and T3 Live's Director of Education.

Sami graduated Summa Cum Laude from St. Mary's College of California with a B.S. in accounting. He then served as a Senior Associate for KPMG, performing audits for Fortune 500 companies.

In 2007, Sami joined Pristine Trading and quickly became an expert in all Pristine strategies, including the groundbreaking Trading the Pristine Method.
After T3 Live's merger with Pristine in 2015, Sami was named Director of Education.

Today, Sami remains a successful professional day and swing trader, specializing in gap, climactic, and reversal strategies.

He also heads up the following T3 Live programs:

- Earnings Engine
- Strategic Day Trader Room (formerly known as the Black Room)
- Strategic Swing Trader Newsletter & Training
- Elite Private Mentorship

If you are interested in a special offer on any of Sami's programs, call our team at 1-888-998-3548 or email info@t3live.com.

# Welcome to the Strategic Swing Trader Options Supplement

Strategic Swing Trader was created  specifically for stock trading.

However, we have received a growing number of requests for options trades from our audience.

Since Sami does not suggest specific options trades, we created this supplement to help traders turn Sami's stock picks into options trades.

But before we get started, we will issue a warning:

**Options trading can be very risky. Should you decide to trade options using Sami's picks, consider starting with paper trading or very small amounts of capital.**

One of the unique aspects of Strategic Swing Trader is Sami's focus on underfollowed names with smaller market capitalizations.

Most of the time, he is not trading the biggest names in the market like **Apple** (AAPL), **Amazon** (AMZN, and **Facebook** (FB).

Sami likes smaller stocks because they move faster.

And these names are liquid enough for stock trading on multi-day to multi-week .

However, the options are often another story.

It is not unusual to see fairly wide bid-ask spreads and very low volumes, which may make it difficult to get in and out of trades at reasonable prices.

Many traders are excited about the profit potential of options, but they rarely take into account practical aspects of trading like getting fills.

That said, let's turn the page and get into the details.

# Liquidity Considerations

Since Sami typically does not trade big names like **JP Morgan** (JPM) and **Intel** (INTC), traders must be careful when choosing options on the stocks Sami selects.

Options on small or mid-cap stocks sometimes have very wide bid-ask spreads and low open interest.

For example, on January 16, 2020, Sami presented a possible long trade on the stock **Karuna Therapeutics** (KRTX), which was trading at about $87.

This is what the March 20, 2020 call options chain looked like:

| Strike Price | Open Interest | Bid | Ask |
|---|---|---|---|
| $80 | 1 | $13.00 | $17.80 |
| $85 | 11 | $12.90 | $15.20 |
| $90 | 1 | $8.50 | $13.20 |

As you can see, these options are barely trading at all, and the bid-ask spreads are very wide.

The $85 calls have a spread of about $2.30! Meanwhile, options on a stock like JPM will have spreads in the pennies.

With stocks like this, market makers typically underprice the bid and overprice the ask, hoping you'll take them. So if you see a very wide spread, be very conservative with your entry prices, and avoid paying the ask. And remember, getting in a trade is just one part of the equation. Do not count on being able to exit the options at a favorable price.

When an option is not actively traded, the market makers can float out unfavorable prices because they know traders don't have much choice.

Ultimately, only consider trading options on a stock if you have very high conviction in the trade.

# Simple Strategies for Sami's Morning Update Picks 1

We'll start with the picks listed in Sami's Morning Update newsletter before we get into Earnings Plays.

In all cases, we suggest starting with paper trading and to only trade real capital when you are comfortable with the risk.

For example, if you went long a stock that subsequently declined by 15%, you would lose 15%. But if you went long call options, you could lose 100%. So consider that when sizing your trades.

Sami is almost always looking for a rapid move in the stocks he's watching. Therefore, it makes sense to stick with simple, risk-defined, directional strategies, instead of more complex neutral direction strategies like strangles and butterflies.

But before we get into specific strategies, let's address trade sizing.

## Trade Sizing

Traders often dream of buying a couple thousand dollars' worth of options and netting a 6-figure payday.

Plenty of traders blow out entire accounts going for that one trade that can changes their lives.

But as with any trading strategy, high potential rewards means taking high risks.

There is absolutely nothing wrong with trading a single contract -- especially if you have a small account.

Only scale up after you see consistent success.

Now turn the page and let's talk strategies.

## Long Trades

For long trades, we suggest looking at at-the-money calls expiring in 2-3 months.

In most cases, this is enough time to let the trade play out without the risk of significant time decay. Alternately, for a more conservative approach, consider going long vertical call spreads with a spread of 1-3 strikes.

For example, if Sami was looking at a $50 stock on the long side, we suggest looking at a trade structure like this:

- Long a $50 call expiring in 2-3 months
- Short a $52.50 or $55 call with the same expiration

By using a spread, you reduce your upside profit potential, but you also risk less capital. The trade can be entered when the underlying stock hits Sami's listed entry price. Your stop should reflect your personal risk tolerance, which can be very different for each trader.

## Short Trades

For short trades, we suggest looking at at-the-money puts expiring in 2-3 months.

As with the long trades, this is typically enough time to let the trade play out without the risk of significant time decay. More conservative traders can consider put spreads with a spread of 1-3 strikes.

For example, if Sami was looking at a $100 stock on the shortside, we suggest looking at a trade structure like this:

- Long a $100 put expiring in 2-3 months
- Short a $90 or $95 put with the same expiration

As with call spreads, you are reducing your upside profit potential, but you also risk less capital.

The trades can be entered when Sami's entry trigger price is hit, with a stop set upon your personal risk tolerance.

# Earnings Plays and Options

Trading options into earnings can be even more risky than typical options trading, so read this section carefully.

When a company has an earnings report coming, implied volatility on its options goes up.

So options prices are sky high before earnings.  And immediately after the report, implied volatility collapses.

(**click here** for more information on this topic)

There is a very real risk of buying high and selling low. In fact, implied volatility can fall so much that you can be right on direction, and still lose money. You need a very big move in your favor to earn a profit. So only consider options on names that you think will put in a very large gap.

Also keep in mind that exiting options positions after earnings reports can be very tricky.

Immediately after the open, bid-ask spreads tend to be very wide, and executions may not go through at all. You may be technically in the green after the open -- but remember that the profit isn't real until you're out of the trade.

But overall, we would use the same strategies presented earlier in this report.

By using longer-dated options and spreads, you reduce the impact of the drop in implied volatility.

So if you choose to use options with Sami's Earnings Plays, keep these points in mind:

1) Start with paper trading
2) Only trade real capital once you are 100% sure you are comfortable with the risk
3) Be aware that you need a big move in your favor to win
4) Be careful after the open, because options liquidity is often poor

# About T3 Live

T3 Live was founded to help investors like you generate income and build wealth.

Our approach includes a mix of trading, training, and technology to help you succeed in all market conditions.

T3 was founded by traders, not marketers.

We know what works because we've been in the trenches, trading for a living.

If you have any questions about this report, your account, or any of our services, please email us at **info@t3live.com,** or call us at **1-888-998-3548.**