ReadySetCrypto
Income Through Options
Masterclass

Module One: What Are Options,
and Why Trade Them?

Module One
What Are Options, and Why Trade Them?

By Doc Severson

• We Are Not Financial Advisors or a Broker/Dealer: Neither ReadySetCrypto® nor any of its officers, employees, representatives, agents, or independent contractors are, in such capacities, licensed financial advisors, registered investment advisers, or registered broker-dealers. ReadySetCrypto ® does not provide investment or financial advice or make investment recommendations, nor is it in the business of transacting trades, nor does it direct client commodity accounts or give commodity trading advice tailored to any particular client's situation. Nothing contained in this communication constitutes a solicitation, recommendation, promotion, endorsement, or offer by ReadySetCrypto ® of any particular security, transaction, or investment.

• Securities Used as Examples: The security used in this example is used for illustrative purposes only. ReadySetCrypto ® is not recommending that you buy or sell this security. Past performance shown in examples may not be indicative of future performance.

• All information provided are for educational purposes only and does not imply, express, or guarantee future returns. Past performance shown in examples may not be indicative of future performance.

• Investing Risk: Trading securities can involve high risk and the loss of any funds invested. Investment information provided may not be appropriate for all investors and is provided without respect to individual investor financial sophistication, financial situation, investing time horizon, or risk tolerance.

•Cryptocurrency Trading Risk: crypto trading is generally more complex than stock trading and may not be suitable for some investors. Margin strategies can result in the loss of more than the original amount invested.

Table of Contents

Introduction to Options

Many of you reading this have only recently transitioned into Crypto trading, so it's likely that you're just getting the hang of trading the spot assets like BTC/USD or ETH/EUR, and then moving them into your hardware wallets. And then someone like me comes along and tells you that you should be learning to trade Options…

Why? What possible benefit could we have for learning something else?

I hope to show you that by the end of this module of the program. Just to give you an idea of the power of this method, everything that you've invested in/traded to this point depended on you predicting the DIRECTION of the price movement correctly in advance. If you bought Bitcoin, (***also known as buying the spot cryptocurrency***) it had to go higher in price over time for your position to gain value, sometimes holding it for years to accomplish this. Even if you got to the next level of trading and went long a futures contract of Bitcoin, the price HAD to go higher in order for you to profit from the trade.

With Options, the game changes. In this program I'll show you a way where the price can go up, sideways, or even down a little bit over the course of the trade and you can still "win" the trade. Instead of walking into a casino every time that you trade and knowing that the dealer has a guaranteed edge over you, we're going to flip the tables and show YOU how to become the "casino."

In this first module of the masterclass, I hope to be able to help you answer the questions:

What are Options? and...why should I trade them?

We will go over the basics of what an Option is, and some of the methods of how we can use them by buying and selling the Options contract. If you have never traded an Option before, this will be a whole new language for you, and we'll do our best to lead you into this slowly so you aren't lost out of the gate. And if you *have* traded Options before, at the very least give this module a quick read. You might have used Options in a very different way than we're presenting here; let's make sure that we don't part ways before we get a chance to walk the road together.

Before we get into defining Options, let me ask a question:

If you were to build a house, could it be done with just a framing hammer and a handsaw?

The answer is YES, it certainly could be done. It might not be easy, nor would these be the best tools for doing finish work, but it is entirely possible to build a finished structure with only these simple hand tools and a lot of effort.

Would you? I wouldn't! Not only can you build the structure much faster, but you can also do a much more precise job of building that house with the application of just a few power tools. I wouldn't even ***think*** of building a house without using mitre saws, circular saws, levels, pneumatic nailers, etc.

What's that?! ***You'd prefer to use just the hand tools?***

Oh, ok. Now I understand. You would prefer to build the house with only the framing hammer and the handsaw because you're afraid of those power tools, and you don't want to hurt yourself. That's a perfectly legitimate reason for not using those power tools....lack of knowledge and experience.

And that's exactly the quandary that most individuals find themselves in when they approach the field of trading Options...they want to do things the HARD way because they're afraid of these financial "tools" called Options. Once you have the knowledge and experience, however, you will never go back to "investing by hand," you will use Options.

But a word of caution, however....just like power tools, Options demand respect. There is no such thing with Options as "learning enough to be dangerous" because that's exactly what you'll be to your own capital - **dangerous**. You must apply yourself to learning every nuance possible with the instruments that you trade. If you don't undertake this on your own behalf, someone will be glad to teach you the lesson at the expense of your own capital.

Now before I scare you off permanently, it'll be worth this effort, and we'll show you why by the end of this material.....but most firms teach Options from the bottom-up using a very confusing and technical approach that leaves investors lost from the get-go. At every opportunity we will try to cut through the jargon by using familiar themes to describe the characteristics and risks of these instruments. We absolutely have to still treat them with respect, however I think the best thing that you can do to protect yourself and earn consistent income at the same time....is to quickly get up to speed on how they work.

Before we start to define what an Option is, however, we need to have a chat about "Derivatives."

Derivatives

Well THERE is a bad word, isn't it? Let's just get that out in the air right up front. The term "Derivatives" has earned a terrible connotation ever since the 2008 financial meltdown, specifically because of the leverage of Derivatives is generally attributed with causing the chain reaction of events that led to a massive redistribution of wealth.

But you've been using Derivatives your entire adult life.

As defined, a Derivative is "a financial instrument (or more simply, an agreement between the two parties) that has a value, based on the expected future price movements of the asset to which it is linked - called the **underlying asset.**"

Still don't believe me that you've used them? OK, let's assume that you have a Term Life Insurance policy in place. If you (heaven forbid) "expire" while the policy is in force, your beneficiary receives the settlement. Most people that own a policy like that and die while under the policy....have paid nowhere near the amount of the settlement through their monthly premiums over the years.

In that case, the underlying asset is YOU and the insurance company has set up a derivative contract between yourself and them.

And this is just one simple example...so it should not surprise you to learn that there are Derivatives contracts available through the major Stock Markets of the world that have shares of common stock as their "Underlying Asset." **These are similar to the Options that we'll be discussing in this program.** Now these are not the Collateralized Debt Obligations (CDOs) or other Mortgage-Backed Securities that helped cause the 2008 crash. These are well-defined, regulated, exchange-traded instruments that generally have a very open and liquid "market" behind them, unlike the shady, packaged CDO Derivatives that were a ticking time bomb waiting for the real estate market to tank.

And there are still other types of Options available to the advanced trader, establishing a derivative relationship to a commodity such as a barrel of oil, with a Futures contract being the actual "underlying" instrument. These are called "Futures Options" and are well beyond the scope and the purpose of this program. We're simply going to focus on the derivatives that are Options written against major cryptocurrencies (such as Bitcoin or Ethereum) with those coins being the "Underlying Asset."

So now that we understand that an Option is a Crypto Market Derivative, let's understand more about these Options.

What About Options?

Now that we've established that an Option is a derivative instrument of the "underlying asset," let's further define what an Option is. Let's start out with the written definition:

An Option is a contract that gives the owner the right to buy or sell an asset at a set price on or before a set date, when the contract expires.

So there it is....Options are tied at the hip to the price of the asset, which in most cases for us will be the "spot" price of Bitcoin or Ethereum.

Believe it or not, even if you've never traded before, you've already used Options Contracts in your daily life. If you've ever received a coupon in the mail, it generally provides you with the Option to buy a specific product for a set price on or before an expiration date. And those of you who have dabbled in Gift Cards understand that there's an entire Market out there dealing with the buying and selling of that form of Option contract through a card. This is analogous to a "Call Option" which we'll define in an upcoming module.

Have you ever bought an insurance policy? If you've owned a home or a car, then you have bought an insurance policy, which is just like a different type of Option. Your insurance company will charge you a premium to take the risk of replacement off of your hands, and onto theirs. At the end of the policy if you've not made any claims, then you simply renew it and buy another policy. Most people create annual policies that they pay for a month at a time. Surely you're already familiar with this concept, which you probably exercise without thinking. Guess what? You've already bought Put Options before.

So by now, if you're confused about what an Option is with respect to the Crypto markets, don't worry. The term "contract" is not something that you normally think of when you envision trading something in the Crypto market. Think of this, though: many of you are just as comfortable buying and selling fractions of Bitcoin, as you were trading marbles on your childhood playground. Buying Bitcoin somehow feels "tangible" as if you were actually buying and selling a minute piece of the coin. We don't think about the actual address space on the Blockchain that we are occupying, it's easier to imagine that we are buying something tangible like the gold coin seen in so many images that refers to Bitcoin.

The point here is that many of us are comfortable buying and selling Crypto "spot" coins, and you'll soon see that buying and selling Options contracts is quite similar.

Buying vs. Selling Options

If you have traded Crypto on margin before, did you ever "Short" or "Sell Short" a coin? It's a somewhat convoluted process where you actually have to borrow assets from your broker in order to sell them at what you hope is a "high" price, in order to "buy to cover" the assets later for a profit. Sell high, buy low. But there's more to it than that....sometimes you might not be able to borrow the necessary coins to sell short.

The point here is that Selling Short is different than Buying Long. And this is certainly the case when it comes to buying and selling Options. You can open an Options position by buying one, or you can open an Options position by selling one. There are fundamental differences between the two, which we will cover in great detail through the subsequent modules of this program.

We're going to use a couple of new terms through the rest of this program that we don't normally use in everyday life, "right" and "obligation:"

- **Right** - a legal principle of entitlement.
- **Obligation** - a legally-bound requirement to take some course of action.

They're quite different, aren't they? We don't have to be attorneys to recognize the difference between the two. And it matters tremendously in the world of Options trading, so we'll need to get used to using those terms.

Here are some of the initial differences between buying and selling Options:

Buying Options

- Buying an Option gives you the **right**, and not the **obligation**, to "exercise" an Option. When you buy an Option your risk is limited to what you paid for the Option.

Selling Options

- Selling an Option creates an **obligation** to complete the terms of the contract at the exercise price specified. When you sell an Option your risk could be **unlimited**.

Whoa! Sounds like there is a huge disadvantage to selling an Option, yes? If you don't understand how to trade Options, the answer would be a huge YES. If you have the knowledge and experience to sell Options, there can be a huge ADVANTAGE to learning how to sell Options.

The main point that I want to leave you with in this section is that Buying an Option gives you Rights but with no Obligations, and Selling an Option gives you Obligations and not a lot of Rights.

And one of the obligations that you have as an Options trader is to fully understand all of your rights and obligations. Prior to buying or selling an Option, ALL investors MUST read the contract specifications that are defined with every exchange/broker.

We will also do our best to highlight these as we cover each online broker's offering.

Module Checkpoint

- Options are a Derivative that changes in value with the movement of the underlying asset, which is the spot price.
- Options have a defined expiration date.
- We can buy or sell Options to open the position.
- Buying an Option gives the buyer rights to exercise.
- Selling an Option requires an obligation of the seller.

Try to take a moment before you move on and check that you understand the concepts in the "Module Checkpoint" bubble above. We're introducing a lot of new concepts at this point in the program and your ability to absorb the more difficult material will depend on the foundation that you lay in these early modules. Slow down and don't rush through this before you understand those concepts.

Make sure that you take advantage of the other materials in this module, such as the Video and online Quiz. Topics will be presented in a completely different manner depending on the media format, and might help explain something better that cannot be grasped through an initial read of this text.

The Leverage of Options

Something that we'll discuss throughout this program is how Options provide **Financial Leverage**. Most likely you have already used this kind of leverage in your life....let's go over the following example:

You buy a $200,000 house with 10% down, which is a $20,000 down payment with a $180,000 loan. You sell the house one year later for $220,000. The house has appreciated 10% in price, but you walk away with $40,000 in cash after the closing. You have made a 100% return on your initial investment of $20,000. You used LEVERAGE to earn that great return.

One thing that you never hear when you read these great advertisements about the power of leverage in investments....is the dark side to leverage. What were to happen if your house lost $20,000 in a year? This obviously happens to homeowners that experience a housing "bust" as well. Leverage cuts both ways.

So let's define leverage as it related to Crypto Options:

One Options contract controls one "unit" of the underlying asset. (i.e. one BTC, one ETH, etc)

To see how this works, let's use a real-world example without using too many of the technical terms:

Let's say that we are bullish on Bitcoin, and let's say that it's hypothetically trading at about $10,000 per unit or coin. If I buy 1 BTC of the spot currency at $10,000/coin, then my initial investment is $10,000. Five days after I buy the coin, it jumps up to $12,000/coin and I sell my position for proceeds of $12,000, giving me a $2000 profit, or 20% return on capital.

Instead of buying the outright currency for Bitcoin, if I used an Option that gave me the right to purchase BTC for that $10,000 price, sometime between now and the Option Expiration date in a couple of months. For this "right to purchase" option, I will pay a premium of .19 BTC per coin, or about $1900 since Options are written as a contract for 1BTC. In this case, my total cash outlay is about $1900 instead of $10,000 with owning the spot currency, however I don't own anything yet and I have to do something with this Option between now and the Expiration date in two months.

As in the real estate example, the price of the "underlying asset" (Bitcoin) rises to $12,000/coin. Your purchased Option will gain value alongside the price of the spot currency, and you are astounded to learn that the Option that you paid $1900 for....is now worth about .3BTC or $3600!

You sell the Option for $1700 profit, or an 89% return on investment. You earned almost as much of a gross return as you did by owning the spot currency, but you used only 19% as much capital to earn that return.

Through this example, we've shown that Options can be used as a leveraged "proxy" instead of buying the actual coin itself. A word of warning is warranted here, however....many of the things that you have heard about Options before this point involve the use of this leverage, usually in improper ways:

"*Double your money in a week on a $2000 account!*"
"*Options are Risky! You can lose your entire account overnight!*"

The first quote comes from those volumes of junk-mail ads that you'll soon receive, all promising effortless wealth through the leverage of Options. They'll show how a very small account can be made to grow by incredible amounts. Is it possible? With the leverage of Options and a very talented trader, yes. Is it probable? NO, and unfortunately it's the method that most Options courses teach to their beginning students. We prefer to use the leverage in a much more conservative manner that provides an edge out of the gate. More on that later.

The second quote comes from, well....any financial advisor or institution who will discourage you from doing anything on your own, especially something that they do not understand. There are very, very few managed brokers who understand anything at all about how Options can dramatically cut portfolio risks as well as provide steady cash flow. Those that do not understand something will invariably be frightened of it, thus the old "Options are Risky" phrase gets hauled out of the closet yet again.

I'm probably overstating this case, as few traditional investment firms will have anything to do with Crypto, however it's only a matter of time before you're bombarded by these negative messages.

The confusion that many Traders have that come into Options.... is that an Option is usually defined by the language "giving you the right to exercise at the agreed-upon price by the Expiration date." What we'll find is that FEW traders actually EXERCISE their right to take delivery of the coin. Options are bought and sold well before the Expiration date just like tickets to a concert. Once the concert date is past, however, the ticket is worthless....and so are Options after their Expiration date if you don't do something with them first.

Components of Options

Trading the spot currency is easy. Generally you buy them to open the position, and sell to close. Buy low, sell high. Or even sell high, buy low to close the position if you want to use margin trading and short the currency.

And Futures aren't that difficult either; in some ways they are easier than trading the spot currency since it's just as easy to "sell to open" a position as it is to go long a contract. Certainly there is more leverage that you must account for, as well as understanding external forces and margin and maintenance windows. In general, however, trading Futures is a relatively simple trade to execute and master, at least from the mechanical process of opening and closing a position.

Options are not simple. There are many, many moving parts and lots of traps and pitfalls that you will find out on your own if you're not adequately coached. Our job is to show you the path to get to the end without stepping on those land mines. (Options STRATEGIES can be simple, but we have to earn the right to get to that point!)

Because Options are not simple, the typical retail trader learns just enough about them to take the easy trades...the ones that are just like trading leveraged spot currency that we illustrated in the previous section. And these are very, very difficult trades to consistently win over time....because you have to be RIGHT about so many things, beyond just the direction. After you get through this program a whole new world will open up to you as you see the power of these instruments. With greater power comes increased risk, so we will turn you into your own Risk Manager.

So now let's look at the pieces and parts that make up an Option:

Underlying Asset

All Options are based on the price movements of the underlying asset, whether that is Stock, a cryptocurrency, or a commodity futures contract. Most of the trades that we will focus on will use one of the top Crypto coins' spot price as the "underlying asset," however these same principles that we teach can/are used in different markets. (that are beyond the scope of this program!)

Expiration Date

All Options have an Expiration date. In most cases it will be on a Friday at a specific time related to the time zone of that exchange/broker. After the closing "bell" on this date, the Option can no longer be traded and is said to have "expired".

Some expiration dates will be just a few days out; others will be months out or perhaps even into the next year. We'll show how this alters the trade soon enough.

Strike Price

All Options have a “strike price”; recall that buying an Option gives you the right to exercise the asset at that agreed-upon price, known as the “Strike.” All of these different Strike Prices are listed in order in what is known as the “Options Chain,” shown below in Figure 1.

Puts and Calls

These are the two different types of Options that we’ll use. We need to be ambidextrous with both of them so that we can stay fluid with the Market.

- **Calls** - a Call is an Option to Buy.
- **Puts** - a Put is an Option to Sell.

How we use these two different types of Options will be made as clear as an un-mudded lake in subsequent modules. These are all new terms for many of you and it won’t make sense until you begin to apply them as tools. For now, focus on retaining the names of the Options components.

The Options Chain

The Options Chain is where we bring all of the different Options together for a particular underlying spot cryptocurrency, complete with all of the components that we just discussed.

In Figure 1 below, we can see a standard Options “Chain” for BTC 2AUG Options series.

What are all of those numbers and rows?

First of all, this chain shows the available Options that you can trade on Bitcoin Options for the 2August Expiration cycle. These Options will expire after the 2nd of August and can no longer be traded after that point. Most instruments have Options available anywhere from the current, or “front” month, out for several months....or in some cases, years.

Note the “Strike” column in the very center; these represent the “Strike Prices” that each Option can be bought or sold at.

Note also that the left hand side of the Options chain is dedicated to Call Options, and the right hand side of the chain is for Put Options.

Recall your experience trading spot Crypto; there was a “bid” price and an “ask” price for the coin. The Bid price is normally what you could sell the coin for, and the Ask price is what you normally paid for the coin. Note how the Options chain has a “bid” and an “ask” for each Option!

Figure 1

Calls | Underlying: SYN.BTC-2AUG19($9487.04) | **2 Aug 2019** | Expires In **4 days 19 hours 41 minutes** | Puts

Size	Bid	Ask	Size	Strike	Size	Bid	Ask	Size
10.0	0.0100 $94.89	- -	-	**6500**	-	- -	0.0005 $4.74	48.9
10.0	0.0100 $94.89	- -	-	**7000**	-	- -	0.0010 $9.49	29.8
10.0	0.0100 $94.89	- -	-	**7500**	50.6	0.0005 $4.74	0.0025 $23.72	30.8
10.0	0.0100 $94.89	- -	-	**8000**	0.1	0.0040 $37.95	0.0060 $56.93	30.0
0.5	0.1130 $1072.23	0.1175 $1114.93	0.5	**8500**	0.1	0.0115 $109.12	0.0130 $123.35	0.2
0.5	0.0745 $706.90	0.0785 $744.85	0.5	**9000**	5.9	0.0260 $246.71	0.0265 $251.45	0.2
0.4	0.0450 $426.93	0.0480 $455.39	0.5	**9500**	1.3	0.0475 $450.71	0.0500 $474.43	0.2
0.1	0.0255 $241.92	0.0265 $251.40	2.0	**10000**	0.7	0.0810 $768.42	0.0825 $782.65	0.2
24.5	0.0130 $123.35	0.0160 $151.82	0.1	**10500**	0.5	0.1205 $1143.39	0.1250 $1186.09	0.5
14.0	0.0070 $66.42	0.0090 $85.40	0.1	**11000**	50.0	0.0250 $237.17	- -	-
38.8	0.0030 $28.47	0.0045 $42.70	0.1	**11500**	2.0	0.2075 $1968.54	- -	-
30.6	0.0010 $9.49	0.0030 $28.47	0.1	**12000**	-	- -	- -	-
4.0	0.0005 $4.74	0.0015 $14.23	1.0	**12500**	10.0	0.0100 $94.89	- -	-
-	- -	0.0020 $18.98	30.1	**13000**	10.0	0.0100 $94.89	- -	-

The price of the Call Options and the Put Options at a specific Strike price are different, because each Option has its own “Market” to buy and sell. We will see how to use different strike prices to design our trading strategy, in a subsequent module.

Where are Options Traded?

At the present time, Options on Crypto assets are only traded at specific proprietary exchanges, and there is a specific client interface directly to that exchange. In other words, if you want to trade Options at that exchange, you must have a valid client account and login for that exchange.

This is quite different from other forms of Options, such as Stock Options, where a single login to your all-purpose online broker allows you to steer your order to one of several Options exchanges, where they all compete fiercely for your business…or you may also allow the online broker to determine the "Best Bid and Offer" available from the list of exchanges and then submit the order there.

Alas, no such depth yet for Options in the Crypto market, however this will only get better in time as Crypto becomes more established and mainstream. Yes, this will be a "good thing" because more exposure will lead to higher volumes and tighter bid/ask spreads.

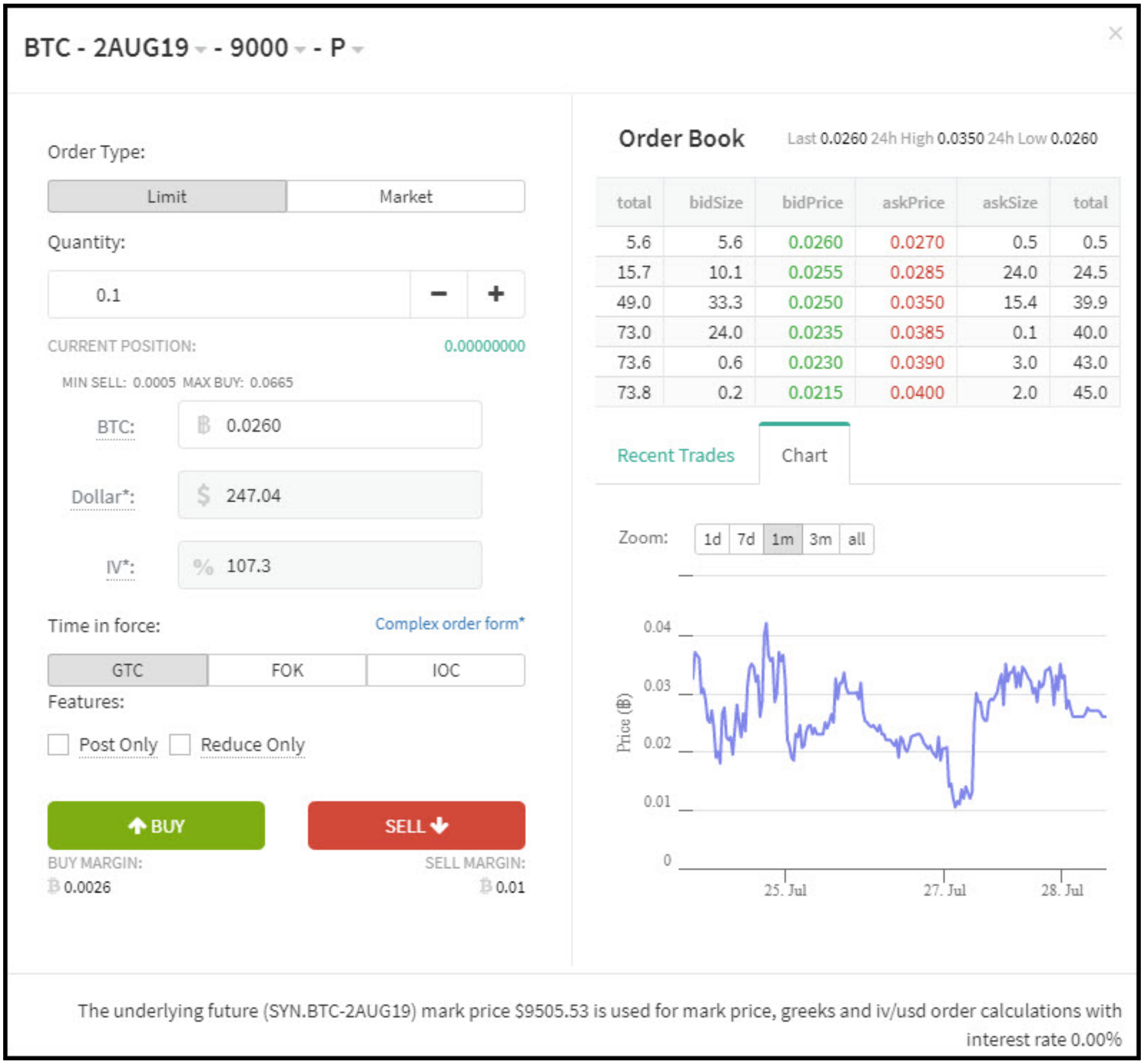
As of this writing, there are two Options exchanges that trade Options on at least the Bitcoin underlying asset; LedgerX and Deribit. Both of these are combination online brokers/exchanges; in other words, the Options that you see on their interface are actually traded at the same company exchange. We will go into much more detail on the differences between these brokers/exchanges in later modules.

How Do You Execute Options Trades?

Trading Options on Crypto assets is a relatively laid-back process once you understand WHAT and HOW to trade them.

You will determine ahead of time which Option to buy or sell, and then execute that order somewhere between the Bid and Ask price, just as if you were buying the spot coin. We'll go into much more detail later in the program on WHAT strike price and WHICH Option.

Figure 2



Why Trade Options?

Now that we've begun the process of defining "What is an Option?" the next question on your mind that we need to answer is "Why Trade Options?"

Most of you are already familiar with trading "long" assets like Stocks or Spot Crypto coins, or at the very least have learned to make mutual fund selections for your 401k retirement fund. After all, long trades like this are pretty simple to understand....buy low and sell high, right?

And some of you have come into this program understanding the Futures or Forex world, where it's even easier to trade long or short at all hours of the day or night.

So why do we trade Options?

There are many reasons, but I'll give you one of the main ones:

You don't have to be right about your forecast if you trade Options.

If you buy a spot coin and your forecast is that the price will rise, you'd better be right. If you go long a Futures contract of that coin, the price must rise. If you short a coin by selling to open, the price must fall.

You have to be right.

Yes, when I traded insanely bullish Markets where the rising tide lifted everything in sight, it was a lot of fun and you could make a ton of money. Without a balanced approach, however, I found that it was just as easy to give it all back on the first pullback in price.

Not "having to be right" with part of your portfolio gives you freedom and a more objective way to view the Market. Sure, there's nothing wrong with making a bundle on a perfectly-executed long Spot or Futures play....but how often are you going to be able to repeat that performance?

I try to avoid watching "Financial TV" during the day because it's apt to give me a bias....but I've noted that the "experts" are wrong about as often as they are right about the Market forecast. If they've been at it for 20 - 30 years and they're consistently wrong, will you have a better chance?

The key is to FIND AN EDGE and consistently use that in the Markets to earn income. Let's see how trading Options gives us a unique and consistent edge....

Building a Trading Edge

Quick, what is the difference between Trading and Gambling?

<crickets>

Well if you don't know, you'd better find out fast before more folks take your money. The biggest difference between Trading and Gambling is that you're ALLOWED to build and maintain an edge in Trading. If you build an edge in Gambling they'll quickly escort you from the casino.

So how does one build a trading edge? Do you even know what your trading edge is? What gives you the advantage over a firm like Goldman Sachs, that spends billions of dollars a year on research? If your "research" is reading news events in the Wall Street Journal or "tips" from CNBC, then you are far too late to have an edge, my friend.

Now some of you will maintain that your excellent proprietary indicators will give you an edge, that you have a "window into the future" with your special Market TimerForecaster Super Oscillator. What I found over time....and what you will find out as well if you trade long enough....is that no one Technical Analysis "system" works forever. Markets change character all the time, and they typically change at the precise moment that you think you have it all figured out. All of your exhaustive back-testing produces a perfect signal, an edge that has not failed over the past 24 months. The moment that you put it into play with live capital it will start to fail. I'm not being defeatist here, there are specific reasons why this phenomenon exists and it relates specifically to the similar actions of groups of people that react in the same way at the same time.

We need to begin with a reliable, statistical edge. Let's see how we can utilize Options to create that statistical edge.

Creating a Statistical Edge

Let's go over a quick example that shows the power and flexibility of Options.

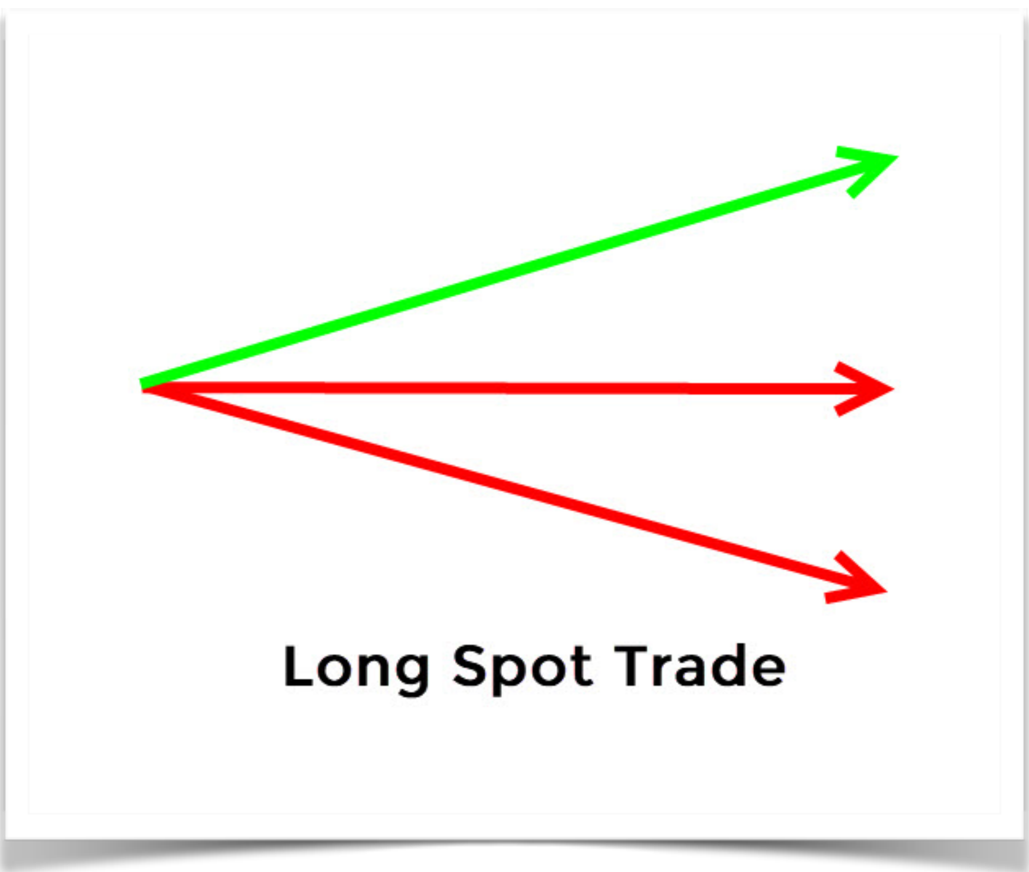
Probability of a Long Spot Trade

If you were to use your trading capital to enter a long Spot Crypto trade, let's consider the possible outcomes for that trade:

- **Price goes up** - a winning trade!
- **Price goes sideways** - a losing trade...not only do you lose from transaction costs, but there is also the "Opportunity Cost" of using that capital, which is currently dead weight.
- **Price goes down** - a losing trade.

Figure 3 shows this relationship; the surprise for most people is that a sideways-running spot crypto entry is considered to be a losing trade.

Figure 3



With a long Spot Crypto trade, your chance of winning the trade right out of the gate stands at 33%, based on the three directions that it can run! Doesn't sound very good, does it? Do you believe that the odds are in your favor to begin with?

Yes, if you are a skilled trader that understands supply and demand as well as how to read the tape, plus read fundamentals....then you might have a chance to improve on the 33% figure assuming that you can improve your entry points. For the purpose of this example, however, it's important that you understand that a long Spot trade STARTS OUT with a very poor probability of success, the same as a random dart-throwing monkey would have to pick the future direction of your trade.

Probability of a Bullish Short Options Trade

If this is a new term for you, don't worry about it for right now. This is a bullish Options trade that is constructed by selling an Option. (We'll show how to set these trades up in a subsequent module.)

Let's see how this trade works depending on which way price goes, shown in Figure 4:

- **Price goes up** - a winning trade!
- **Price goes sideways** - a winning trade! Depending on how we design it, most Short Options trades like this will produce a winning trade if the price goes sideways between trade initiation and Options Expiration.
- **Price goes down** - a losing trade.....maybe. Again, this depends on how you set up the trade and how you actively manage it.

With a Short Options trade like this, the probability of success shown in Figure 4 right out of the gate is 67%! That is double the odds of the Long Spot trade outlined above.

Figure 4

This is one of the primary edges of a specific type of Options trade that we'll discuss later in the program....but just because you're using Options doesn't mean that you automatically have that edge. If we used "long" Options as a leveraged substitute for Spot Crypto as in the first example, we'd have a much lower probability of success than 33%, for reasons that we have to get into later.

The Flexibility of Options

Quick, how do you develop regular income from trading long Spot Crypto?

Seriously? Can you do it? You have to have a relatively large account, darting in and out of positions to grab small gains here and there, which hopefully add up. If the Market is trending strongly to the upside, you have a chance. If the Market is choppy or in a consolidation pattern, then you must find different coins to trade that don't mirror Bitcoin. If the Market is in a downtrend, then you either have to trade strong coins against the current, or take the additional risk of shorting Spot Crypto on Margin.

With Options, however, we can design trades that can:

- Make consistent monthly income.
- Manage our risk on Spot Crypto trades.
- Earn income from Spot Crypto that we hold.
- Earn Weekly income.
- Make income during uptrends, downtrends, or sideways consolidations.

We can place a bearish position just as easily....and with no more risk...than placing a bullish position.

We can place an Option trade that might last a few days....and there are different types of Options that allow us to stay in a position for several months.

Options give us much more flexibility regarding the direction, forecast, and timing of the trade vs. instruments like Spot Crypto.

The only downside to this flexibility is that you must apply additional rigor to the risks that this flexibility might incur. And to handle that flexibility requires additional knowledge that trading the regular Spot currencies does not.

Tasks - What/Why Options

Here is your “homework” for this module.

- [ ] Ask yourself if you’ve ever used a type of Option contract before in your personal or professional life, regardless of what that contract was called. Could you freely trade that Option contract before it expired?
- [ ] Pick a friend or a family member and explain to them what an Option is and why you/they should learn about them.
- [ ] What is the initial probability of you winning a long spot crypto trade?
- [ ] What does the Expiration Date of an Option signify?
- [ ] Watch the associated video for this module.
- [ ] Take the online quiz for this module.

Summary - What are Options and Why Trade Them?

Many of you come to this point of the program with different backgrounds. Those who have already traded Options before are rolling their eyes and saying "*getonwithit!*" Those who have not even learned to spell "Options" are bewildered. The Spot Crypto coins were easy to trade....buy low, sell high....why do we need all of this complexity?

The real, underlying answer here is that **there is a cost to not having to be perfectly correct in your price forecast**. And your cost does not have to be monetary, unless you choose that path. Your cost is time and effort to learn the knowledge necessary to gain this edge. It can be done, as have millions before you.

Very soon we'll start to discuss the actual Options instruments that we'll be trading, **Call and Put Options**.....but in the next module we'll discuss how Options prices actually move.