

Learn all following things in Option Trading Practice:-

Trends :-(Uptrend, Downtrend, and Sideways Trend)



Uptrend

An uptrend has successively higher peaks and higher troughs.



Downtrend

A downtrend has successively lower peaks and lower troughs.



Sideways trend

A sideways trend is a period with no clear direction in prices.

Use of Trends:-

Use trend to form your price outlook for options trades



If the underlying is in an **uptrend**

Consider bullish options strategies i.e., buy calls or sell puts.



If the underlying is in a **downtrend**

Consider bearish options strategies i.e., buy puts or sell calls.



If the underlying is trading **sideways**

Consider options strategies that favor range-bound securities i.e., condors, butterflies, strangles, or straddles.

Support and Resistance:-

Support

Horizontal line drawn through troughs at the same price level

Resistance

Horizontal line drawn through peaks at the same price level

Support and resistance can be horizontal, diagonal, or even curved lines



Use Support and Resistance for Options Trades:-

Use trend to form your price outlook for options trades

- Choose strike prices for calls and puts.
- Determine an entry point for a directional trade.
- Determine the legs of multi-leg trades.
- Identify a range-bound security, and determine where the range has been.
- Support and resistance levels can be stronger or weaker depending on the time period they're based on.

Simple Moving Average :-



Simple moving average (SMA)

An SMA is the easiest MA to construct. It is calculated as the average price over the specified period. The average is called "moving" because it is plotted on the chart bar by bar, forming a line that moves along the chart as the average value changes.

How It Works

DETERMINE TREND DIRECTION

- If the SMA is positively sloping, the trend is up.
- If the SMA is negatively sloping, the trend is down.

DETERMINE TREND DURATION

- 200-bar SMAs are common proxies for long-term trends.
- 50-bar SMAs are typically used to gauge intermediate trends.
- Shorter-period SMAs can be used to determine short-term trends.

DETERMINE TRADING SIGNALS VIA PRICE CROSSES

- When prices cross above the SMA, you may want to go long or cover short.
- When prices cross below the SMA, you may want to go short or exit long.

Using moving average crossovers:-

Using moving average crossovers to generate trading signals

When a more sensitive (faster) SMA crosses above a less sensitive (slower) SMA from below, it is considered bullish.

When a more sensitive (faster) SMA crosses below a less sensitive (slower) SMA from above, it is considered bearish.



Use moving average for option Trading:-

- MAs do not anticipate reversals. They merely confirm that a reversal has taken place.
- Shorter-term MAs are more sensitive to changes in price and indicate trend reversals more quickly. They can generate more false signals.
- Technical analysis traders often use combinations of MAs to help manage false signals and to confirm reversals through one or more crossovers.
- Consider matching the time frame for your options trade with your MA.



What is Breakout:-

- A breakout occurs when a trend line or support or resistance, level or zone, is exceeded up or down.
- Trend line breakouts usually signal trend endings.
- Support or resistance breakouts usually signal trend beginnings.

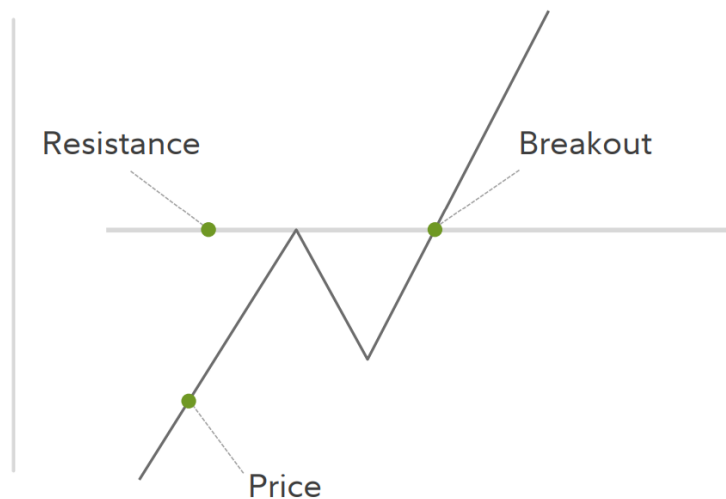
Remember

Many successful trading systems depend on a breakout strategy.

Breakout example:-

Violation of trend line, support or resistance, or previous reversal point

A violation signifies a change in buyer and seller behavior and signals the beginning or end of a trend.



Why use of breakouts in option Trading ?

Why use breakouts in options trades?

Trading options with breakouts is no different from trading stock ETF breakouts.

Traders will look for a confirmed breakout and use an appropriate options strategy for the direction of the break.

BREAKOUT TO THE UPSIDE?

Consider a bullish strategy, such as buying calls or selling puts.

BREAKOUT TO THE DOWNSIDE?

Consider a bearish strategy, such as buying puts or selling calls.

Bollinger Bands :-



Bollinger Bands

Bollinger Bands are a type of price envelope plotted at a standard deviation level above and below an SMA of the price. Bollinger Bands help determine whether prices are high or low on a relative basis.

How It Works

DETERMINE RELATIVE PRICE

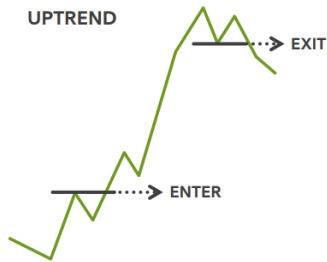
- When the bands tighten during a period of low volatility, it raises the likelihood of a sharp price move in either direction.
- When the bands separate by an unusually large amount, volatility increases, and any existing trend may be ending.
- Use swings within the band's envelopes to help identify potential profit targets.

Then, depending on where the stock finds support, you can enter a short position with three target exit areas: (1) the upper band, (2) the middle band, or (3) the lower band



Strategies for trend investor :-

Strategies for Trend Investors



Entry and Exit Strategies

ENTRY STRATEGY

Consider entering strategy based on outlooks on price, volatility, and time

EXIT STRATEGY

Consider closing when trader gets pre-determined technical signal to exit the trade or desired profit target hit

When investors using technical analysis execute these two strategies successfully, they may make a profit. The entry and exit should be decided prior to entering the trade.