



"The OEX (S and P 100 index) trading that I teach is that really you are not playing whether the market moves up or not, you are really looking at the normal ebb and flow of the market, the fact that the market breathes. **So I am using a method to identify whether the market is at the end of inhalation or exhalation and use the option or stock that will move enough with the inhalation and exhalation to take advantage of it to make a profit.** It really doesn't matter if the market is in an up trend, down trend or sideways trend. Traders typically never really trade the trend, and are trading contrarian, and it's why most lose. We are not. We are just making money on the respirations of the market, no matter what the overall direction." This may actually seem contrarian
 Floyd at www.oexoptions.com
www.bluechipoptions.com

What Really Happens to "Joe the Trader" (and what to do about it)

When traders enter a market here's what they do:

1. Buy after S/R is breached

Your entry orders are placed above or below a S/R and you are asking the market to prove you right before entering. This is "buying" a signal at a discount to prior day close.

This works best when there is either a trend, or in "whipsaw" uncertainty.

How to Trade:

- a. Identify the bias
- b. Identify the S/R you want to "breach"
- c. Put the buy order in at a price outside of the range
- d. Watch the S/R on the reverse of your trade and consider a stop loss at the reversing S/R line. Watch the highs and lows of the competing S/R level, or the 5 day moving average, and place your stop loss orders just outside this range.

2. Buy after S/R has been proven to hold

- a. This occurs when the trend is clearly established.
- b. When the market honors the resistance, traders here actually buy into the trend, and look for tighter profits as the range becomes more extended, and close to reversal. It is both higher risk, and with less reward, and is often how most traders actually invest...why 80% lose.

3. Buy before anticipating S/R holding, or not

- a. Identify the bias and place entry to the trend, best at just above/below the 5-day moving average of the index. You are anticipating the trend to continue.
- b. If the resistance then is breached, buy again below the support line of the direction that is being breached.
- c. Have reversal stop loss above or below the range of the 5 day moving average

4. Anticipate Support/Resistance

This limits risk exposure. The goal is to buy the index as close to the first Support or Resistance line as possible, anticipating the struggle at the line, and the slight reversal.

With this technique you are buying against the trend, anticipating reversal.

- a. Enter the market close to Support or Resistance, and immediately have your sell orders in place for a tight reversal to the S or R line.
- b. Set tight stop loss mentally if the market continues to trend to the bias, and beyond the specific S or R line.
- c. A reversal of this technique is to “buy the trend” as the index approaches the first S or R line, sell at the second, and have a stop loss at the first S or R line reversing.
- d. To enter a trade:
 1. Entry above/below 5 day moving average for call/put
 2. Average closing price for last 3 days, divide by 3, and buy only at this price or below.
 3. Buy only at up to 7% above prior day close for a call, and down to 7% below prior day close for a put.

5. Be ready to invest in a position if you “pick” wrong. Selling options for dual income; the selling of the option, and the actual buying of the ETF or index if the position moves against you.

- a. Sell slightly OTM puts two months out. If the stock or index rises the put expires worthless. Remember, this must be an **index on the stock, not on options.**

If the index/ETF does not rise you'll own the index itself/ETF

- b. Conversely one would sell slight OTM calls at the same strike or higher. With this core income strategy be sure to not over invest. First calculate the number of actual shares you would plan to own (if having to buy) as the unit size for these trades should equal the number of shares of the underlying stock that you are willing to own.

Ex: If you are willing to invest in 500 shares of the OEX the corresponding symbol is the OEF. You would sell 5 naked puts on the OEF.

CORE STRATEGIC APPROACHES

There are really only 7 core buy/sell methodologies that can be used in index option trading. No matter what the “system” or approach, simply take a “logic” flow chart as we created in the above trend system chart and map it. If there is not logic to the approach, or if it too “complex” it will not flow chart. These are established methods that floor traders use:

1. **Bull Market-buy on support, and above resistance**
2. **Bear market-Sell on resistance and below support**
3. **Large Trading Range-Buy Support/Sell Resistance**
4. **Small Trading Range-Buy above Resistance/Sell Below Support**
5. **Contrarian- Buy or sell against the prevailing trend**
6. **Buy at discount to prior day close. Sell to just above prior day close for profits.**
7. **Buy first signal at discount to prior day close. Buy second position at up to 33% less than first buy. Average costs. Sell at tight profits.**



TRADER TIPS

- With any index or commodity there is a form of a seasonal cycle. This is where S/R can be a leading indicator because reversal can be anticipated, and support and resistance lines predetermined before the move.
- If a market has been trading one direction, with a major correction, for approximately 100 trading days a 50% reversal is likely.
- Simple trend review like this can show larger moves. Each index or commodity also has clear and established S/R lines that move it in stages. With the OEX, for example, it's a typical 350 range during “whipsaw”.
- The best traders are “mechanical” and use discretionary rules. The rules are there, and market conditions should be monitored, and “reads” by the trader established.
- Utilizing the Moving Averages of the Index: Take the pivot point for a defined period of time and create a pivot point moving average.

- **RISK: Entry Price minus Exit Price. Multiply by point value of index. This equals the dollar amount of your risk.**
- Using moving averages can be key to the study of supply and demand, and support/resistance. Exponential averages vs. simple have more validity with less complexity. Moving averages can be great profit targets around S/R, because there will likely be reaction from the general marketplace.

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