OUTLIERINVESTOR

Outlier Fortunes

How to Turbocharge Your Profits With Options

BROWNSTONE RESEARCH SPECIAL REPORT

BY **JASON BODNER**

SPECIAL REPORT

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How to Turbocharge Your Profits With Options

Dear Reader,

In *Outlier Investor*, we target the highest-quality companies with little debt and lots of cash. Most importantly, we look for the ones seeing big-money buying.

I spent nearly two decades and hundreds of thousands of dollars to develop my data-driven big-money system. It follows Wall Street's big-money movements – in individual stocks *and* the broad market.

And I used my experience of nearly two decades on Wall Street – routinely trading more than $1 billion worth of stock for major clients – to make sure it's highly accurate, comprehensive, and effective.

So the stocks my system flags for us to buy are the best of the best. They're the outliers – part of the 4% of stocks that account for nearly all the stock market's gains every year over the past 100 years.

Now, our typical holding period for these outliers is nine months. My system has determined that it's the sweet spot for capturing their gains. And this longer-term approach has served us well.

For example, we've enjoyed triple-digit gains on The Trade Desk (TTD), Paycom Software (PAYC), and SolarEdge Technologies (SEDG). Keep in mind, we also took our original investments in those three stocks off the table. So we're riding the remaining profits risk-free.

But today, I want to introduce you to another special strategy that can help us lock in short-term explosive gains on these stocks… on top of profiting from owning them outright.

It all has to do with buying call options.

In fact, if we'd taken advantage of buying calls on TTD, PAYC, and SEDG, we could've made an additional 3,207%, 2,170%, and 1,331%, respectively, in an average of two months.

Now, we might not use this strategy with every recommendation. I'll only issue this type of "Special Situation" trade when the conditions are right. But I wanted you to be prepared to strike when the opportunity arises.

That's why I put together this options manual. I know some of you may be new to options. So I wanted to show you how they work.

I encourage you to read the entire manual. Once you finish, you'll be ready to buy options like the pros.

And I'd love to hear your feedback. Let me know right here if this manual is helpful or if you have any additional questions.

Let's get to it…

WHAT ARE OPTIONS?

An option is a contract between a buyer and seller. It gives the option buyer the right – *but not the obligation* – to buy or sell a security at a later date (called the expiration date) at an agreed upon price.

Each options contract covers 100 shares of the underlying security. And there are two types of contracts: call options and put options.

In *Outlier Investor*, we'll focus specifically on call options…

A call option gives the owner the right, *but not the obligation*, to buy a share of stock at a set price. This set price is called a "strike price."

We buy calls to benefit from a rise in a stock's price. Since my system is targeting the outliers the big money is lifting higher, calls are the perfect way to speculate on their short-term moves.

Now, there are distinct benefits to buying calls. We like it for its simplicity. You see, buying calls gives you the ability to predefine the amount of money you're willing to risk on a trade. You can't lose more money than what you use to buy a call option.

Options provide you with leverage. That means you can control a large number of shares – specifically, 100 shares per contract – with a small capital outlay. So we can make even bigger gains than we do by simply buying outlier stocks. Plus, we can get in and out of trades quickly.

Buying options is as easy as buying the underlying stocks. Once you get approval from your broker, you just enter the options symbol in your brokerage trading account like you'd enter a stock ticker.

And when the option hits our price target, you'll just go into your account and sell it. It's that simple.

WHAT MAKES UP AN OPTIONS CONTRACT?

A typical options contract will have specific components...

- **Action:** We will "Buy to open" our call option to initiate a position. And then we will "Sell to close" once we decide to exit the position.
- **Underlying Asset:** In our case, the underlying asset is the stock. And remember, each contract covers 100 shares of the stock.
- **Expiration Date:** This is the last date on which the option holder can either sell the option, or "exercise" the option, meaning purchase the shares of the underlying stock at a fixed price (it is unlikely that we will exercise options in *Outlier Investor*). If no action is taken, the option expires worthless.
- **Strike Price:** This is the fixed price at which the call holder can exercise the option, meaning buy 100 shares of the underlying stock.
- **Options Type:** In *Outlier Investor*, our recommendations will always be for call options.

I'll specify all of these components for you in each Special Situation trade – including our buy-up-to price for each option and when to sell it. All you have to do is follow the instructions in my alerts. Now, let's go over how to place an options trade in a brokerage account...

OPTIONS TRADE EXAMPLE

In this example, we'll walk you through a previous outlier my system flagged in 2019. (**Please note:** This trade is not actionable. It is for instructional purposes only.)

On July 25, 2019, my system identified **Zebra Technologies (ZBRA)**. In addition to owning the stock and profiting over the long term, here is a hypothetical example of how we could have made short-term profits by buying call options on ZBRA.

In this case, we would've issued the following trade below. And you'll see a similar Action to Take in each of our alerts...

> **Action to Take:** Buy to open the ZBRA August 16, 2019 $210 calls for up to $2.65.

Using this hypothetical example, we would have bought the options for about $2.58 on July 25 and sold them for $11.20 on July 30 – a 334% gain in five days. Below, we'll show you a more in-depth example of how to make a similar trade using **options on SPDR Gold Shares (GLD)**. Remember, these examples are for training purposes only. Here is the example trade:

> **Action to Take:** Buy to open the GLD January 17, 2020 $139 calls for up to $1.60.

Let's break down the components of this trade:

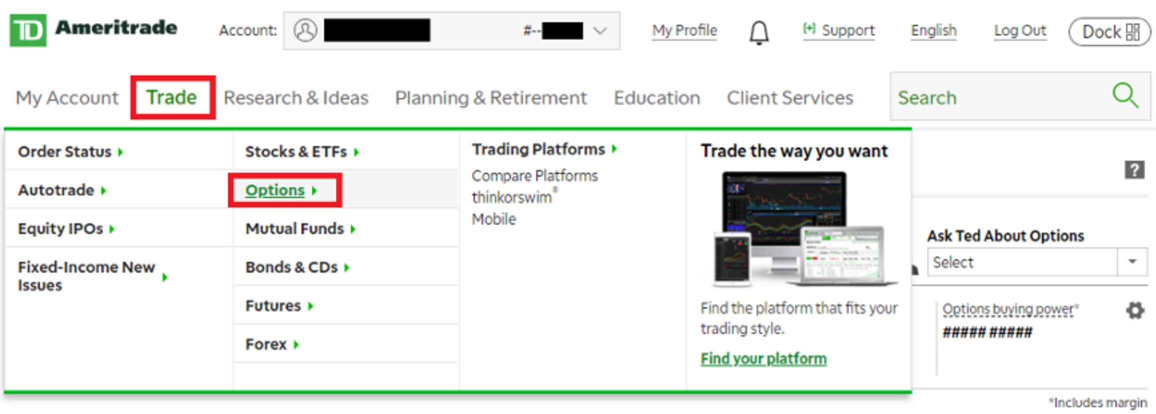
- **Action:** Buy to open
- **Underlying Stock Symbol:** GLD
- **Expiration Date:** January 17, 2020
- **Strike Price:** $139
- **Options Type:** Calls
- **Buy-up-to Price:** $1.60

Here's how to place the trade…

1. Find the options trading section.

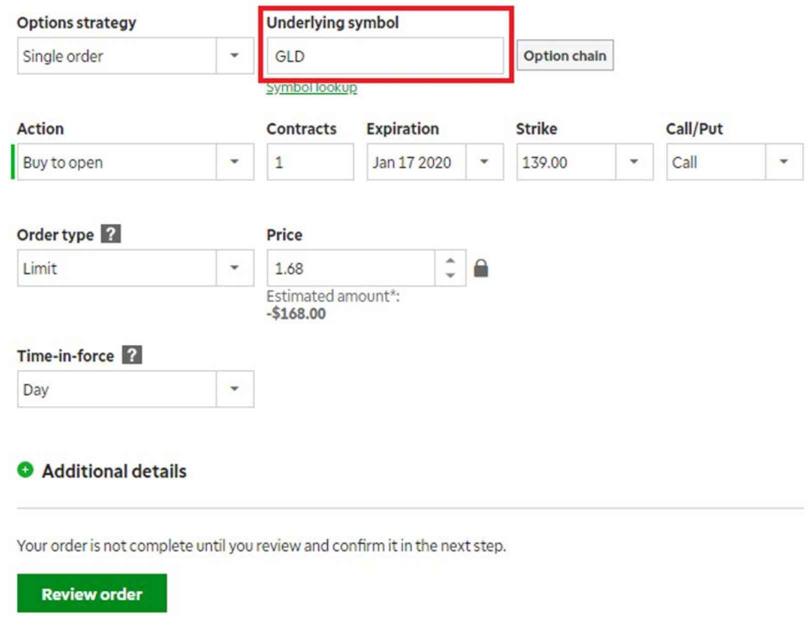
- Log in to your brokerage account and look for the "Options" section. In some services, it can be found under the "Trade" section. See the image below.

- Other services will have similar setups. If you have trouble finding the options section, contact your broker's support team.

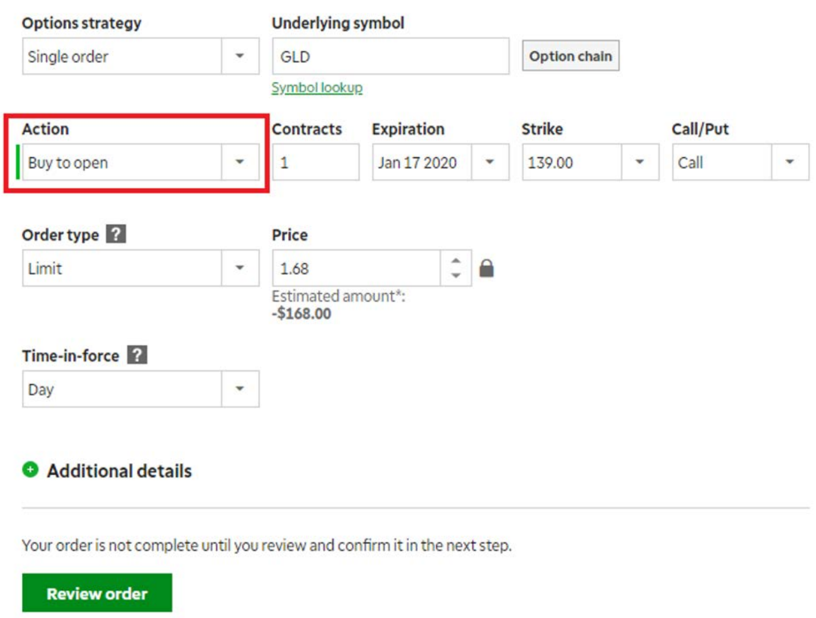


2. Search for the specific option to buy.

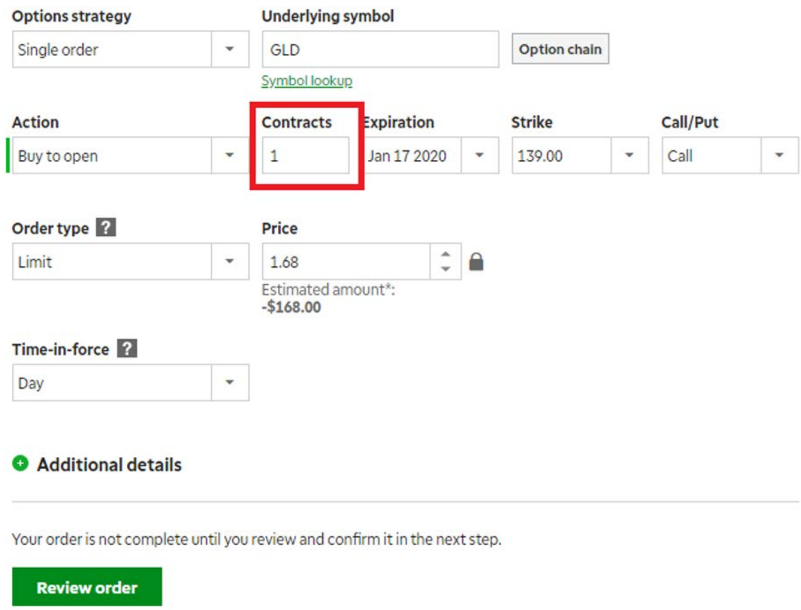
- Find the section for "Underlying symbol."
- Type in the underlying stock symbol. In our example, it's "GLD." See the picture below.



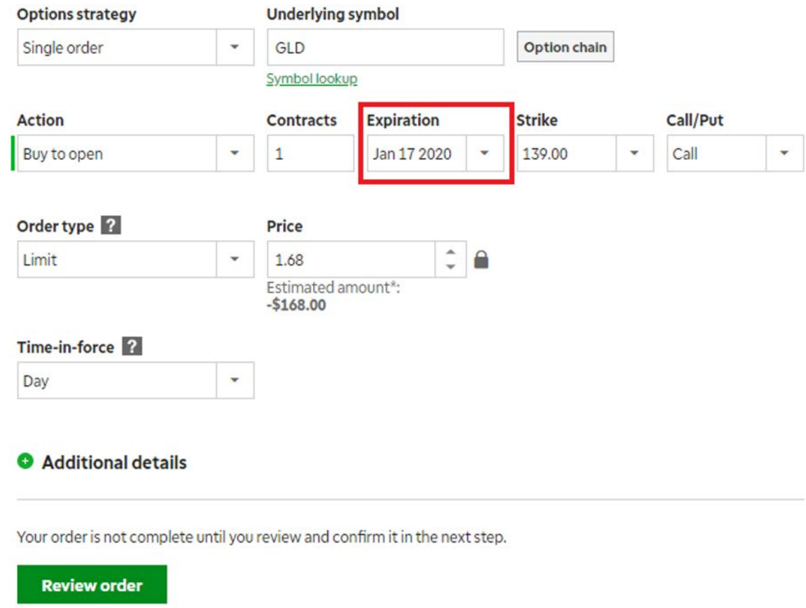
- Find the section for "Action."
- Select the action. In our example, it's "Buy to open." See the picture below.



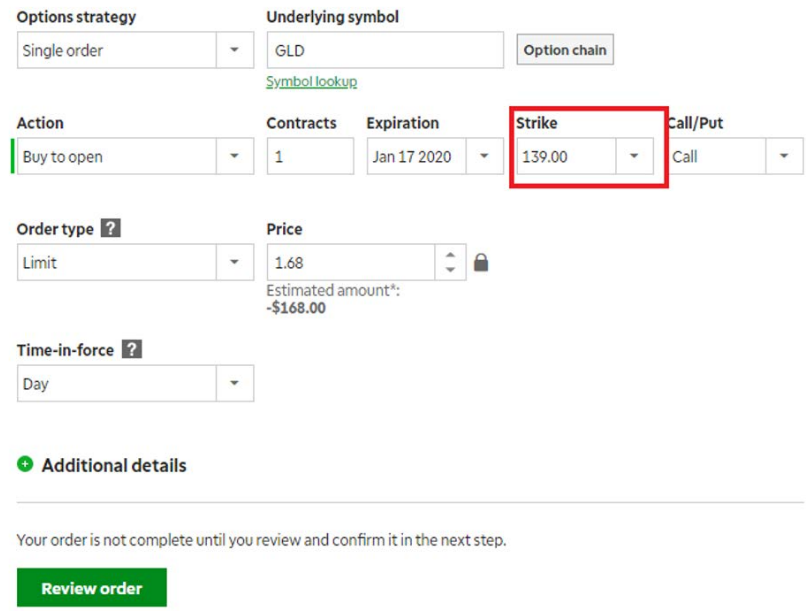
- Find the section for “Contracts.” See the picture below.
- You’ll need to specify how many contracts we want to buy. Again, each contract covers 100 shares.
- In our example, our buy-up-to price is $1.60. So one contract would require $160 in capital to exercise the option ($1.60 buy-up-to price x 100 shares = $160).
- Let’s say our position size is $200. In that case, we would buy one contract. ($200 position size / $160 per contract = one contract. Contracts must be whole numbers.)
- **Note:** We recommend you put no more than 1% of your portfolio value in each option trade. And never put more money into any trade than you can comfortably afford to lose.



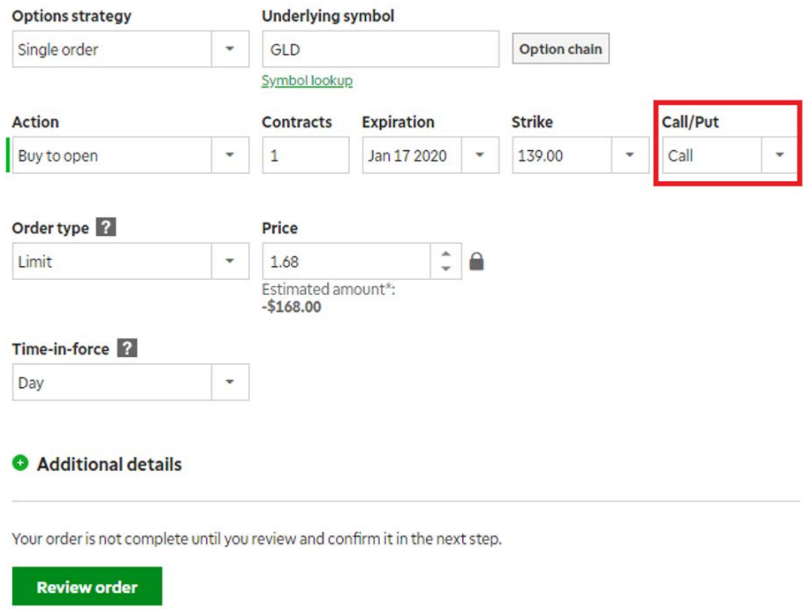
- Find the section for “Expiration.”
- Select the expiration date. In our example, it’s “January 17, 2020.” See the picture on next page.



- Find the section for "Strike."
- Select the strike price. In our example, it's "$139." See the picture below.



- Find the section for "Call/Put."
- Select the option type. In *Outlier Investor*, this will always be "Call." See the picture on the next page.



A NOTE ON OPTIONS TICKERS

The typical options ticker includes the following: Symbol, Expiration Date, Option Type, and Strike Price.

Using the same example above, the ticker would look like this:

GLD200117C00139000

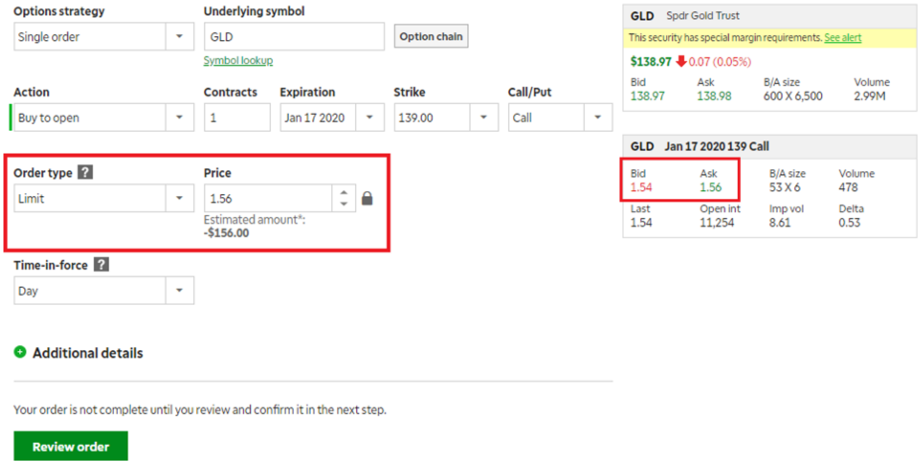
Let's break it down, in order...

- **Symbol:** This is our underlying stock, in this case GLD.
- **Expiration Date:** 200117. Please note the YYMMDD format.
- **Option Type:** This will be C for call.
- **Strike Price:** 00139000. Please note the format.

Options tickers for *Outlier Investor* trades can be found on our portfolio page.

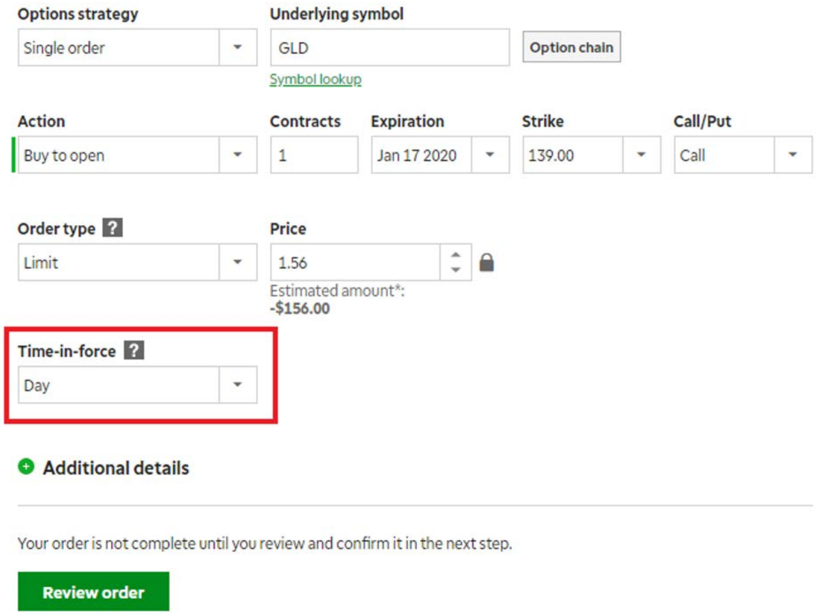
3. Select the order type.

- Find the section for "Order type."
- Select the order type. In *Outlier Investor*, we recommend a limit order, which places a "bid" in the market. And the "spread" is the difference between the highest bid and lowest ask. See the picture below.
- In our example, the bid/ask spread is below our buy-up-to price of $1.60. So we can place a limit order at the lowest asking price of $1.56. Remember, don't chase prices.



4. Select the "time-in-force."

- Find the section for "Time-in-force." This is just a limit on when to cancel the order in the event that the trade doesn't execute within the day.
- Select the time-in-force. In *Outlier Investor*, we recommend a "good 'til the end of the day" order. The order will be canceled automatically at the end of the day if it hasn't been executed by that time. See the picture below.



5. Place your order.

Congratulations! You should now be able to place an options order.

(Selling an options contract works the same way. You can follow the same steps. The only differences are the action and the price. The action will be "Sell, to close" and the price will be our target price listed in our alerts.)

RISK MANAGEMENT

Options are a terrific way to boost your portfolio with short-term gains. One reason traders like options is that the underlying stock doesn't have to move much for you to score fabulous profits. But here's the thing about options: You can lose 100% of your trading dollars with them.

This is because options have an expiration date. They decay in value as time passes. So if the underlying stock doesn't move in the direction of your option by the time it expires, the option becomes worthless. The good news is, there's a simple solution to this problem: position-sized risk management.

Put simply, you should never put more money into any options trade than you can comfortably afford to lose. Again, we recommend you put no more than 1% of your portfolio value into each options trade.

And remember, we want to hear from you. Was this primer helpful? Reach out to us right here if you have any feedback or additional questions.

Talk soon,

Jason Bodner
Editor, *Outlier Investor*

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