

RiskDoctor's 'Foundations of Options' Video Syllabus

Intro – Brief BIO of Charles M Cottle

“Hello, my name is Charles Cottle, The Risk Doctor. I made my first option trade about 30 years ago and after training my own trading staff of traders, and trading millions of options contracts on the trading floors of the 3 Chicago exchanges, my traders and friends convinced me that there is something very unique to my approach and that my calling was not just for trading for myself.

With the International Trading Institute, Tony Saliba and I travelled to help set up trading operations for institutions and train many successful traders on the new exchanges sprouting up around the world.

I wrote my first book, “Option: Perception and Deception” in 1996 and began coaching Market Makers. When I co-founded thinkorswim with Tom Sosnoff in 1999, my work evolved to educating, retail investors and since then to Hedge Fund managers. This Course “Foundations of Options”, is an entry level course designed for someone who is just beginning to trade options and wants to create a prosperous offensive plan built upon a solid defensive foundation. This course can be followed up with intermediate and advanced level trading courses with The Risk Doctor.”

Topics to be Covered Include:

Trading, hedging, investing, and speculating with options on any underlying instrument: options on equities, meaning stocks or shares, indexes, futures, currencies, grains, oil, gold or other commodities.

Why would anyone want to trade options?

People trade to speculate and hedge. Obviously, people trade options to make money or save money. With options you can protect investments or be assured of participating in a move in almost any underlying asset class.

What you want to achieve by taking this course is to understand the language of options, and some basic concepts in order to go on and then learn about how to use options to make money. So by no means will you be ready to trade options. You'll be ready to learn more about options. I have no agenda to show you the best ways to make money or the magic Holy Grail. There is no Holy Grail for trading Options. Everybody is different and everybody has their own approach to making money. And just like anything else: You have to understand how something works before you can start to create the opportunity for yourself to benefit from that knowledge.

Jargon is terminology which is especially defined in relationship to a specific activity. Some words in the options universe have many meanings. Other words that we know in the English language have different meanings for trading options. We have to be very mindful of the different uses of options language.

“Options are to Stocks and Futures as 3D Chess is to Checkers”.

Jack Bouroudjian from CNBC and BizRadio

RiskDoctor's greatest wish is that if options are not for you, that you move on and do not spend any more time or money on wasted education, and more importantly, you can avoid losing a bigger amount of money down the market drain.

Key Concepts: Capital, Confidence and Consistency.

What are options?

What is a call and what is a put?

Moneyness

(ITM) In-the-money. (OTM) Out-of-the-money. (ATM) At-the-money.

The Optionable Quantity and Contract Size.

Exercise and Assignment.

American-style options and European-style options.

Cash Settlement Options

Liquidity, Volume and Open Interest;

The concept of bid and ask prices.

The concept of premium.

Pricing factors of an option and components of time value.

The price of the underlying

Interest rates

Volatility.

Historical volatility

Implied volatility.

Margin:

Margin requirement

Basic properties of an options order.

Reversing a trade.

Section Two: The Strategies and Hockey Stick Graphs that Convey the Risk/Reward Profiles.

Expiration Shaped, Risk/Reward, Profit and Loss, Profile Hockey-Stick Graphs show blue lines, red lines and a black-dashed line. There is also a number, or two or more at the bottom of each hockey stick graph that represent the strike(s) and underlying prices on the 'x-axis', that is the horizontal or left-right axis. In each profile, the lower underlying prices are toward the left side of the graph and the higher prices are toward the right side of the graph.

Break-Even

Long Underlying

Short Underlying

Long Call

Short Call

Long Put

Short Put

Doing Spreads.

Combining options into strategies.

Straddles and Strangles

Many novices to options are encouraged by the possibility of profiting if the underlying goes in either direction. This can be achieved with a long straddle or a long strangle, if the move is big enough to exceed the premium paid. Both involve buying a call and a put. Often a large enough move does not occur before expiration, and therefore leads to losses. Learning about straddles will eventually help you understand the "Greeks" better; Delta, Gamma, Theta and Vega; about curvature and how leverage plays a role in the options landscape.

(Buying Premium).

Long Straddle

Long Strangle.

(Naked Short Premium)

Short Straddle.

Short Strangle.

Verticals, also known as bull spreads and bear spreads, debit spreads and credit spreads.

Collars

Wingspreads (long the wings). Include butterflies, condors, broken-wing butterflies, iron butterflies, iron condors, and some others with exotic names like albatrosses, pterodactyls, Tennessee Butterflies and Turbo-Butterflies, etc. The names are less important than what they are designed to achieve. What can get confusing is the concept of long vs. short irons.

Condors and stretched out condors.

Calendars or time spreads,

Diagonals and Double Diagonals

Ratio spreads, that is back spreads and front spreads, where you have long an amount of one strike that differs from the amount of the short strike. I call them LongMore and ShortMore spreads.

Summary: Each strategy has its own personality.

Considerations before you put on an options position;

Potential Risk

Potential Profitability

Market Trend

Timing

Synthetics:

Flat positions, or arbitrage positions, are ones such as boxes, reversals, conversions, and jelly rolls. These are not necessarily positions that you will trade as a retail investor or speculator or hedger, but these are tricks, that a retail investor can use, in order to help him or her to see the nature of his or her position in a different light and assist with the decision-making process. So this part is called "A Cup Full of Synthetics", the gateway to higher options consciousness. Here, like most books or websites, I will introduce synthetics, but note, that mistakenly, novices get the impression that they ought to trade synthetics. The RiskDoctor approach is much different and does not teach synthetics so that you trade them. Traditionally, understanding synthetics required memorization or taking time to work out the relationships.

Intro to Position Dissection

Intro to "The Options Metamorphosis" covered in my book and another video course. The Options Metamorphosis helps demonstrate how a long underlying position can evolve into 4 separate strategies via different hedges. It then shows how these 4 hedged positions can be morphed into 32 further variations. The information gleaned from this study gives the student a giant leap to higher options consciousness.