SWING TRADING

SMALL, MID & LARGE CAPS - STOCKS & OPTIONS
I’m a full time trader and help run a live trading room where we trade in real time and teach people how to trade stocks.

My primary focus is on Swing Trading, but I day trade as well. Like a good carpenter, a good trader will have more than one or two tools in the tool box. As a trader, you should learn several strategies and be able to apply them in varying market conditions.

My job as the head swing trader is to handle all of the trade due diligence, research, analysis, alerts and follow up commentary. You can subscribe to my TickerTV channel for LIVE watch list building, market analysis, trade review and general Q&A www.ticker.tv/swingtradewarrior
Trading Courses
SWING TRADING

CHAPTER 1. INTRODUCTION TO SWING TRADING AND HOW TO UNDERSTAND AND USE OPTIONS
COURSE SCHEDULE

Day 1 – Chapter 1: Intro to Swing Trading & Options 101
Day 2 – Chapter 2: Options Trading Strategies
Day 3 – Chapter 3: Fundamentals and Technicals
Day 4 – Chapter 4: Risk Management
Day 5 – Chapter 5: Stock Trading Strategies & Watch List Building
HOW DOES SWING TRADING WORK?

The idea behind swing trading is to capitalize on short term moves of stocks, in any direction, over a period of time.

As swing traders, we profit from trends and finding entry opportunities EARLY, before the crowds. (b/o and run vs. scalping)

Swing trading is defined as: “a speculative activity in financial markets where a tradable asset is held for between one to several days in an effort to profit from price changes or 'swings'.”

As traders, it is our job to identify trading opportunities that align with our risk parameters, evaluate trade candidates and execute trades with adherence to our rules and strategy. Be a robot!

Like day trading, swing trades come from catalysts, events, technical setups and speculative opportunities.
SWING TRADING IS SIMPLE

Many people have a tendency of over complicating or over thinking swing trades...don't do it. Don't micromanage, hover, hope, wish, rationalize or think when trading. Be a robot. Stick to your plan (have a plan). More on this later...

Swing Trading is a 3 step process
1) Find a trade idea (scanner, news, etc.)
2) Develop a plan for the trade idea (analyze entry/exit/target,stop)
3) Execute (monitor trade and adjust as needed)
WHAT’S THE DIFFERENCE? BOTH SHOW A BREAKOUT RIGHT?
ONE CHART WAS A DAILY AND THE OTHER WAS A 5M CHART

Which trade would you want to be in? Why?
- It depends on goals, risk, size etc.
WHY DO MOST TRADERS FAIL?

Day trading requires quick decision making and lots of discipline. Many new traders initially lack the ability to make good decisions and maintain composure while under the stress of a losing position, and even winning ones. The deer in the headlights syndrome comes into play!

Skill and Discipline are like muscles that require exercise to grow. Your ability to make quick decisions and follow your trading rules will improve with experience and understanding. This is why we tell people to paper trade! Practice with fake money, not real money.

Swing trading can provide income and profits while one works to develop their day trading ability and build up their mental game. Swing trading can be emotionally “easier” when you are playing by the “rules.” Also, swing trading is great for those looking to trade part time due to other full time commitments. Set your orders and walk away!
# Swing Trading with Warrior Trading

- Watch lists, Alerts, Blotter, Varied Strategies and Trade Updates/Analysis
- [Click for detailed analysis](https://www.warriortrading.com/swing-trade-alerts/)

## Swing Trade Alerts Table

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<th>Entry Price</th>
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## Profit Loss, YTD (%), Avg Win/Loss, Avg Vol, Avg Vol % Change, Number of Trades, # of Open Orders, # of Winning Trades, # of Losing Trades, Total Open Profits, Total Open Losses

- Profit Loss YTD (%): $30,000.00
- Average Win/Loss: $1,000.00
- Average Vol: 500,000.
- Average Vol % Change: 10%
- Number of Trades: 10
- # of Open Orders: 0
- # of Winning Trades: 5
- # of Losing Trades: 5
- Total Open Profits: $15,000.00
- Total Open Losses: $15,000.00
OPTIONS 101

Options can be difficult to understand, but are very effective when used appropriately. They get a lot of hype, good and bad.

People tend to see high % wins on options and fall in love – losses can be high % also. In some cases, losses could technically be infinite!

Options trades are generally for more speculative ideas as they rely on volatility in most cases, but not always. You can use them to play the trends.

For swing trading, I prefer the simpler uses for options. Basic puts and calls, vertical spreads and iron condors for earnings plays make up my playbook for options.

This section is just to give you a basic understanding of the options types that I use when swing trading, how and why. We will discuss the right time to use which option, depending on our goals and application.

There are MANY complicated explanations for options, I will try to keep it as simple and relevant as possible. Most analogies attempt to explain exercise/assignment, which we will almost never do when swing trading, but we still have to be mindful of that risk.
Options provide financial leverage without needing to use borrowed capital. By investing in options, you can control a larger number of shares for the same initial investment, than if you purchased the shares themselves.

Options contracts control 100 share lots of a stock. Cannot be purchased on margin! Cash only. T+1 settlement

For example, if you wish to invest $1,000, you could purchase 10 shares of ABC stock (hypothetically) valued at $100 per share. Alternatively, the option contracts may realistically be valued at $200 for lots of 100 shares ($2.00 per option). For your investment of $1,000, you could buy five options contracts, increasing your financial leverage by allowing you to control 500 shares instead of just 10.

Like with anything, too much leverage can be bad and often gets new traders into big trouble!
The price (or cost) of an option is an amount of money known as the premium. An option buyer pays this premium to an option seller in exchange for the right granted by the option. Which is, the choice (the "option") to exercise the option or allow it to expire worthless.

An option’s contract is like any other contract, with rights and conditions. They also have expiration dates.

The same concepts are at work here as when buying stock...for every buyer, there must be a seller and therefore, liquidity.

Two common ways to trade options:
- Exercise vs. Assignment (Want to own stock/sell the stock you own)
- Flipping them for premium (Want to profit in price changes/trade)
The two types of options are calls and puts (both control 100 shares of an underlying stock)

A **call** gives the holder the right to buy an asset at a certain price within a specific period of time. Calls are similar to having a **long position** on a stock. Buyers of calls hope that the stock will increase substantially before the option expires.

A **put** gives the holder the right to sell an asset at a certain price within a specific period of time. Puts are very similar to having a **short position** on a stock. Buyers of puts hope that the price of the stock will fall before the option expires.
Participants in the Options Market

There are four types of participants in options markets depending on the position they take:

**Buyers of calls** (long/bullish on the stock)

**Sellers of calls** (long stock – covered calls, bearish on the stock)

**Buyers of puts** (short/bearish on the stock/insurance/hedge)

**Sellers of puts** (bullish on the stock/want to own stock below a certain price)
OPTIONS 101 CONTINUED

Story time!

BUY CALLS
The right to buy or "call away" (from someone)
(Speculating)

BUY PUTS
The right to sell or "put" a stock (to someone)
(Buying Insurance)

SELL CALLS
The obligation to "sell" a stock that may be called away
(from you)
(Naked vs. Covered Call)

SELL PUTS
The obligation to "buy" a stock that was "put to you"
(Insurance Company)

Just like in stock trading, for every buyer, there MUST be a seller!
Options 101 Continued

**Strike Price** - The pre-agreed price per share at which stock may be bought or sold under the terms of an option contract. Some people refer to the strike price as the “exercise price”.

**In-The-Money (ITM)** - For call options, this means the stock price is above the strike price. So if a call has a strike price of $50 and the stock is trading at $55, that option is in-the-money.

For put options, it means the stock price is below the strike price (remember, puts are bearish). So if a put has a strike price of $50 and the stock is trading at $45, that option is in-the-money.

**Out-of-The-Money (OTM)** - For call options, this means the stock price is below the strike price. For put options, this means the stock price is above the strike price. The price of out-of-the-money options consists entirely of “time value.”
At-The-Money (ATM) - An option is “at-the-money” when the stock price is equal to the strike price. (Since the two values are rarely exactly equal, when purchasing options the strike price closest to the stock price is typically called the “ATM strike.”)

Intrinsic Value - The amount an option is in-the-money. Obviously, only in-the-money options have intrinsic value.

Time Value - The part of an option price that is based on its time to expiration. If you subtract the amount of intrinsic value from an option price, you’re left with the time value. If an option has no intrinsic value (i.e., it’s out-of-the-money) its ENTIRE worth is based on time value (makes out of the money options more speculative).

Time Decay – Also known as “theta,” is the ratio of the change in an options premium price compared to the decrease in time to expiration. As options approach expiration, the time value declines. This is good for sellers/writers, but bad for buyers. Credit vs Debit trades (more on this later).
**OPTIONS 101 CONTINUED**

**Exercise** - This occurs when the owner of an option invokes the right embedded in the option contract. In layman’s terms, it means the option owner buys or sells the underlying stock at the strike price, and requires the option seller to take the other side of the trade (enforcing the contract). We will rarely ever exercise options or hold them until expiration. In most cases, we want to use options to profit quickly from short, volatile moves by flipping the premium (buy low/sell high).

**Assignment** - When you buy an option (a call or a put), you cannot be assigned stock unless you choose to exercise your option. Plain and simple, the purchaser of an option contract will always have the choice to exercise the option, but not the obligation to do so. When you sell an option (a call or a put), you will be assigned stock if your option is in the money at expiration. As the option seller, you have no control over assignment, and it is impossible to know exactly when this could happen. Generally, assignment risk becomes greater closer to expiration. With that said, assignment can still happen at any time.

**Open Interest** – Open interest will tell you the total number of option contracts that are currently open. These are contracts that have been traded, but not yet liquidated by either an offsetting trade or exercise/assignment. When you buy or sell an option, the transaction needs to be entered as either an opening or a closing transaction. If you buy 10 of the NFLX August $100 calls, you are buying the calls to "open". That purchase will add 10 to the open interest figure. If you wanted to get out of the position, you would sell those same options contract to "close," and open interest would then fall by 10. Selling options as a writer will also add to the open interest. There is no way to determine if the open interest is reflecting bought or sold (written) calls. OI is used to help determine liquidity and interest in a particular stock.
**Implied Volatility (IV)** - The estimated volatility of a security's price. In general, implied volatility increases when the market is bearish and decreases when the market is bullish. This is due to the common belief that bearish markets are more risky than bullish markets. Implied volatility is sometimes referred to as "volts." IV will increase in the weeks before earnings, causing premiums to be more expensive than if the stock were trading at the same price during non-earnings seasons. This is the basis for the iron condor strategy. More on this later.

Implied volatility plays a big role in our options strategies. Remember, as options traders, the general rule to follow is, **buy low IV** and **sell high IV.** Implied volatility is a measure of the expected volatility of an underlying asset.

Volatility measures uncertainty. A higher volatility stock will have a greater potential price range than a lower volatility stock.

**Historical Volatility (HV)** - is the realized volatility of a security over a known period of time. Generally, HV is calculated by determining the average deviation of a security from the average price in the given period of time. Using the standard deviation is the most common way to calculate HV.

**Put to Call Ratio** - When looking at options liquidity, this measurement can help us determine market sentiment in an underlying security. As the ratio grows larger, this tells us there are more put buyers than call buyers, and therefore, a more bearish sentiment. Conversely, when the ratio nears 0.50 or less, it implies a bullish sentiment as call buyers are in charge. This ratio, combined with large "sweeps" or relative volume in the puts or calls, can help to determine institutional sentiment in an underlying security. Retail traders don't generally buy 5,000 calls on the ask for $1.00. So, what is going on there? Is big money moving in? Is there pending news expected? Are they hedging a short? Maybe the put to call ratio can help us determine.
The two main components of options premium pricing are Intrinsic Value & Time Value

Intrinsic Value refers to the portion of the premium that is IN THE MONEY.

Note: The ONLY options with intrinsic value, are those ITM

**Intrinsic Value (calls) = Underlying Price – Strike Price**

**Intrinsic Value (puts) = Strike Price – Underlying Price**

Any premium in excess of the intrinsic value (ITM) is called “time value” or Theta (one of the Greeks).
Assume a call option has a total premium of $10 (buyer pays $10, seller receives $10 for each share of the stock. Remember, this would be $1000, since options contracts control 100 shares) If this option has an intrinsic value of $8, that means that its time value would be $2 ($10 - $8 = $2)

Option Premium = Intrinsic Value + Time Value

Time Value = Option Premium − Intrinsic Value

Why do you need to know this? It is important to understand how premium pricing works, so you understand what you are really paying for. Assume it is January, and that a call contract for an ATM strike price on a stock costs us $5 ($500 = $5 x 100 shares) for a February monthly expiration. That same strike price for the same stock could cost us $7 ($700) for a March expiration. And $9 ($900) for an April expiration, etc. This is the effect time value has on options. In those cases, we are paying for time, the ability to hold the contract longer costs us more, because the potential for profit is greater over a longer period of time.
OPTIONS 101 CONTINUED

ITM, ATM, OTM, Strikes, Volume, OI, Premiums
Choosing the right strike using Volume, OI, time/expiry, and basic analytics is critical. Use your tools!

We want liquidity because liquidity breeds competition for the best price, and that is when we find tighter spreads. It is easier to get in and out of positions where we know other people are actively trading.

Not all stocks have options, and not all stocks with options are going to be liquid enough to trade reasonably.

Generally, we want to find options at LEAST a month out to give the trade time to work, this will be more expensive b/c we are paying for time value. This does NOT apply to our Iron Condor earnings strategy.

We want a strike that will give us an optimal delta for making profits as soon as possible (higher delta, means the options premium increases in value faster as the stock moves in our favor, more on this in a bit), but we don’t want such a high delta, that we take on unnecessary risk.

We also may need to consider adding a short leg to a long trade, to help neutralize the effect of theta and vega. (spreads) More on this in a bit as well.
Options 101 Continued

Basic analytics can tell us about market sentiment. We can learn to leverage technology to help us increase the probability of profitability. What are other people seeing and doing and where is the smart money going?

- Max Profit vs. Probability
- Real time vs projected
- Risk/Reward
- Important events that can impact trade
Options types:

Monthly Options – Expire the third Friday of each month. (Not all stocks trade options, not all stocks that trade options are liquid enough to trade)

Weekly Options – Expire every Friday at the close. (Not all stocks that trade options, trade weekly options)

Note: Some ETFs now trade Wednesday Weeklys and Extended Weeklys. In this course, we will only be working with and examining regular Friday expiration weeklys.
The Greeks, which ones do we care about and what are they?

- **Δ(Delta)** represents the rate of change between the option's price and the underlying asset's price - in other words, price sensitivity.
  
  Delta is the rate of change of the option premium for every $1.00 move in the stock price. Delta of .60 means that when ABC moves from $10 to $11, the options premium will increase from $1.00 to $1.60 or a rate of change of 60%.

- **Θ(Theta)** represents the rate of change between an option portfolio and time, or time sensitivity (aka “The Silent Killer” for longs). Theta value is always negative for options b/c they are always losing time value. At time of expiration, all options will have 0 time value or extrinsic value. Theta represents the loss in premium value in options every day. Theta increases as expiration nears.
  
  If XYZ May $50 calls cost $3.50 and had a theta of -.20, for every day you own the XYZ May $50 calls, they will lose -.20 in value. Day 2, $3.30, Day 3, $3.10, etc.

- **Γ(Gamma)** represents the rate of change between an option portfolio's delta and the underlying asset's price - in other words, second-order time price sensitivity. This one is easy and we don’t use it often. It tells how much delta will change when the stock price changes. Basically, how sensitive delta is to the stock prices movements.
OPTIONS 101 CONTINUED

- \( \gamma \) (Vega) represents the rate of change between an option portfolio's value and the underlying asset's volatility - in other words, sensitivity to volatility. Implied and historical volatility are more important when trading spreads, however, we need to be aware that Vega \textit{will} influence our premium value.

Have you ever bought a call option and had it lose money even though the stock price was moving in your favor? This is a result of the effects of volatility or Vega priced into the premiums. This is why we love using options on gap fills trades, earnings plays, and reversals.

This is also why buying options on volatile movers is all about timing. If we buy after a sharp move, we are buying inflated Vega and it will become harder to profit without a continued sharp move in our favor. Wait for the pullbacks!

- \( \rho \) (Rho) represents the rate of change between an option portfolio's value and the interest rate, or sensitivity to the interest rate. Important to know it exists, but for our swing strategies, and most options strategies, we don't really need to know much about Rho.
The Greeks are necessary guides and can usually be helpful, but they are NOT ABSOLUTE.

They are constantly changing from one moment to the next as price, implied volatility, time and other factors affect the premium pricing.
OPTIONS 101

Questions, comments, concerns?
Email me: jeff@warriortrading.com