



How to Hit Huge Weekly Options Gains on FANG Stocks

There are almost limitless vehicles to trade in the markets today but there are few that have the profile or profit-factor of the so-called “FANG” stocks. And if trading these names is exciting in of itself, trading Weekly Options on FANG names is the absolute best way to leverage your capital on these high-dollar names.

Let’s face it, when you’re trading the FANG names, you won’t be in it for the long haul anyway, no matter the options expiration you use. These names move so quickly that a day-to-swing trading approach will give you the most leverage and profit potential. And for this to work, you need to hit your entries and exits at exactly the right time, namely at the beginning and end of a short-term trend. And with this in mind, we’re going to go over numerous FANG case studies because it’s all about modeling success, being able to identify when to trade and, crucially, when to wait for the next opportunity.

When we talk about the FANG stocks, there are actually five names we like to follow. Jim Cramer is credited with coining the “FANG” acronym that defines the original four stocks: Facebook (F), Amazon (A), Netflix (N) and Google (G). However, we felt that Apple had a place with these big hitters since they all occupy that same space of being the big tech “disruptors” in the markets today.

There are lots of ways to ride a good trend on highly-liquid, big-movers like these but it’s crucial to shut down trades that aren’t performing, potentially very quickly. And while our strategy isn’t meant to be a day-trading system, we will exit any trade no matter when it violates our parameters. This may lead to hopping out before hopping back in but it’s all in the name of preserving our capital and keeping relative risk to a minimum.

Directional Movement Index and Average Directional Movement

And our first method of keeping strict tabs on entries is a moving average filter – its main function is to keep us out of trouble and make sure we don't take a short term buy signal in the midst of a broader downtrend or vice versa. But our main method to find the sweet spot for entering trades is to focus on Directional Movement Index (DMI) lines and in particular how they will interact to show us what we call the ADX or Average Directional Movement. And while the ADX really separates the wheat from the chaff, knowing about our moving average filter and DMI lines are crucial to see the full picture.

So, we'll start the DMI lines. They were developed by Welles Wilder (who also invented the RSI indicators) to identify a stock's movement or "True Range." When looking at a typical bar chart, this encompasses not only the high-low daily range of a stock but also any upside gaps the stocks may have had from day to day. And by drawing a dotted line from the prior day's close to the next day's high, you're finding what he called the stock's "True Range." The True Range is by definition either the same or higher than the daily high-low range, since the upside gap precludes it from being lower. And with gaps added to daily ranges, you can take these True Ranges and create an average over time to show how much total movement (including gaps) is happening in a given time period.

From a directional movement perspective, the DMI lines are there to show us that we are making higher highs, with these positive directional movements going up. If we're making higher lows, negative directional movements are going to be moving down. And a channel making higher highs and higher lows is the very definition of an uptrend. This then allows you to clearly define when you're in a trend phase versus when the ADX is not going up, which would signify more uncertain, rangy action. While nothing is certain in the markets, getting a good ADX confirmation signal will increase our edge and thereby allow us to win bigger and lose smaller. And this truly is the secret of the trend trading game, no matter what vehicle you trade.

Now, let's look at some recent examples from the last couple of months on each of our five FANG names so that you can learn to see the patterns to look out for in order to really catch and ride these quick-moving stocks

Facebook (FB)



As you can no doubt discern from the chart above, Facebook (FB) kicked off 2018 with a bang. In the chart, you can see the DMI+ (blue), DMI- (red) and ADX (green) in the bottom panel. You can also see our moving average filter as the black line just below the circled entry point on the top panel of the chart. It's also worth pointing out that everything we do with our FANG trading system is predicated on using a 30-minute chart.

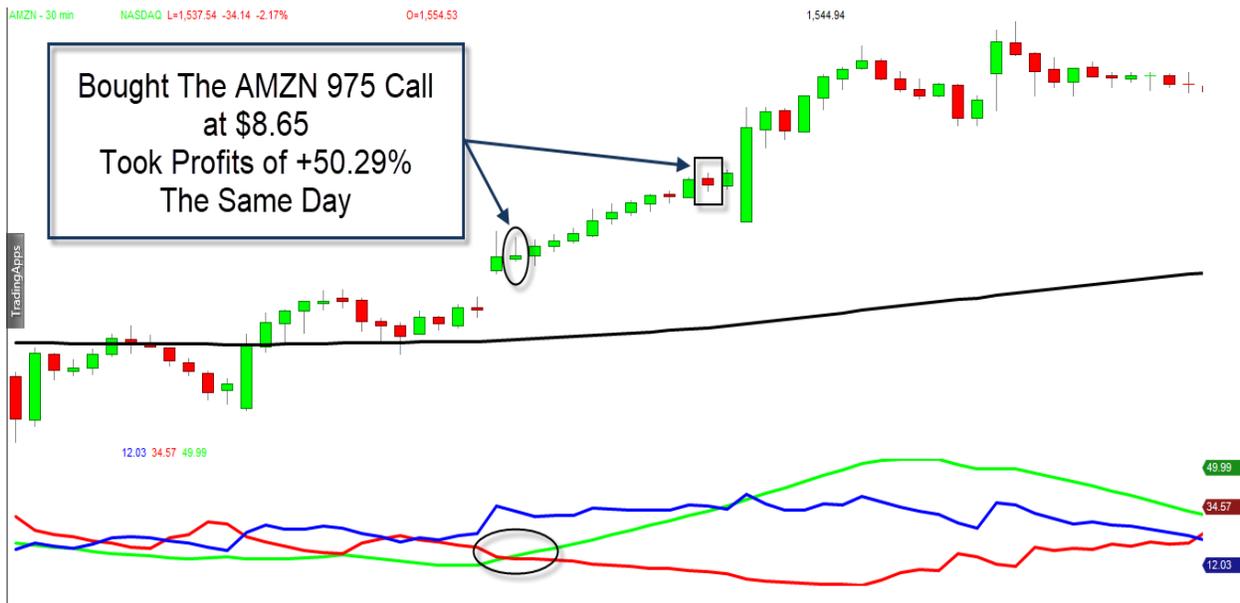
From the chart, you can see the DMI- line moving down and the DMI+ moving up, which is a clear indication of an uptrend. However, the green ADX line is most important. While it may make sense to wait for the ADX to get high to enter a trend trade, we've found that waiting for ADX to surge before entering will mean missing a huge chunk of the move. What's worse is that you not only miss the majority of the move, you run the risk of getting hit on a gap when the trend reverses later.

What we want to see is a low ADX. You can see that before the big move it was hovering below both of the DMI lines. And what we are watching for is that moment when it starts to turn up. However, you can't buy every little upturn on ADX – you need to wait until the green line crosses above whichever DMI line is declining. And we get our buy signal at the circle point above. While it may look like we've missed a portion of the move before entering, this confirmation gives us the confidence to catch the larger part of the uptrend. As the old adage goes, "for a stock to go from 1 to 100, it has to go from 1 to 10 first."

And in our analysis, we think this ADX cross is the trend proving itself as a launch point at the start of a larger move rather than an ending point. Once this style of move gets going, it can almost coast on its own momentum and FB continues upwards after our entry with the ADX continuing to drift higher.

But all good things must come to an end and our exit occurs when the ADX rolls over, which we have outlined in a box on the chart. While you might think that exiting when the blue DMI+ line crosses below the ADX, you can see that doing that would cost you a decent chunk of upside. By waiting, we get out of the 175 Call with the stock at about 184. It rallied almost 4 points or (roughly 2%) but due to the leverage of using Weekly Options, we turned our \$6.35 entry (\$635 to control 100 shares) into a 57.6% gain by exiting at \$10.01. And that shows you the power of using Weekly Options as a stock substitute – FB only went up a couple of percentage points yet we made 58%. Now that's some serious leverage!

Amazon (AMZN)

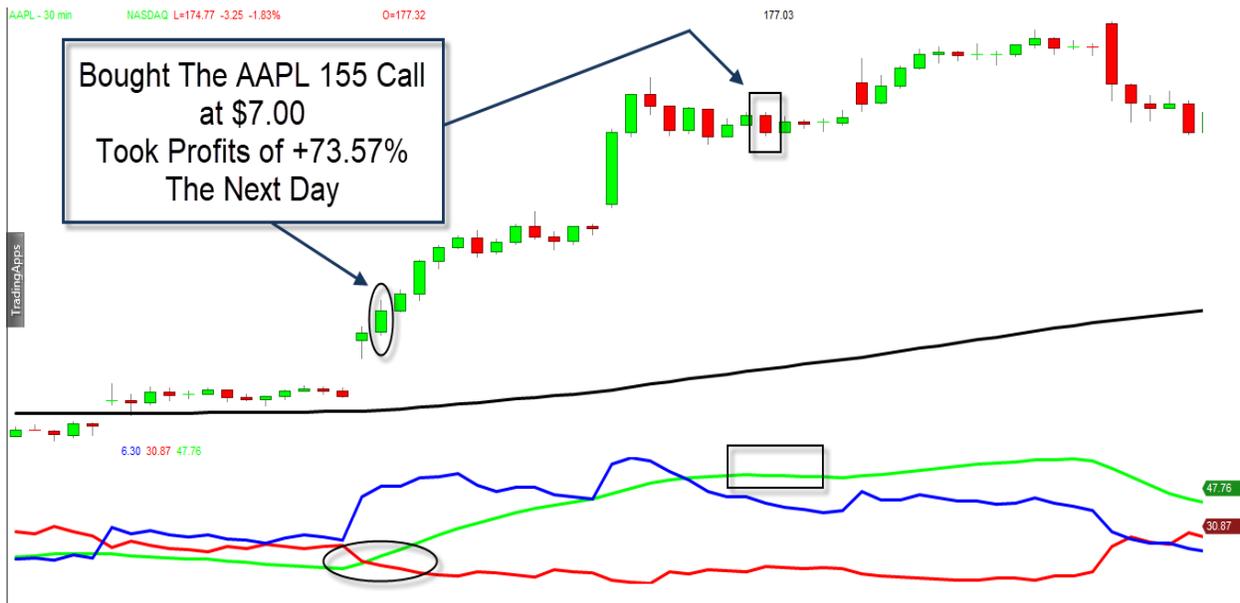


Now how about Amazon (AMZN)? As you're no doubt aware, AMZN has been on an absolute tear over the last year. With any big mover, you'll see times where the ADX gets close to a signal before backing off again. And that's why the DMI/ADX cross is so important for keeping you away from the fake-outs.

But when ADX did finally clear the DMI- line, it was all systems go with this one surging straight up! AMZN closed that day at 980 but gapped down to 975 the following morning. While you might think that this looks like a reversal, this is why we use the 30-minute chart for entries and exits as this will give you a better idea of the true trend. And this 30-minute approach for exits can save you from having to place a stop and having it hit right at the open before flipping back in the direction you thought it was going. We've all experienced that sensation and there's nothing more aggravating in trading!

The 30-minute close is a solution to this issue and while there is always the potential for things to deteriorate further by the close of the 30-minute bar, we think it's worth that risk to stay on that horse. And in this scenario, we ended up getting out of the trade with the stock at 990 rather than 975. That's a huge difference on any position and would be the difference between breakeven and the better-than-50% profit we ended up booking. Suffice it to say, these 30-minute closes give you that little bit of breathing room but also keeps you from being at the mercy of the market makers if there's a brief drop in the stock price.

Apple (AAPL)



In the above chart on Apple (AAPL), you'll see a case where ADX had been low before a quick upturn got us into the trade. While I had mentioned on the AMZN example that you can't just buy every little jump on the ADX, the red DMI- dropped sharply with the blue DMI+ surging upwards and before we knew it, AAPL was off to the races!

In this instance, our signal fired on the second bar of the session with AAPL trading right round \$160. We bought the 155 Call at \$7 which gave us \$5 of intrinsic value allied to just a couple of bucks of time value. And after AAPL made the move from 160 all the way up to 166, a small rollover in the ADX, as you can see in the box above, got us out. But that quick move of roughly 4% on the stock price resulted in a 73.57% gain in just one day – not bad for 24 hours' work!

Netflix (NFLX)



And if the AAPL example showed you how much leverage a \$7 Weekly Option on a FANG name can do, what until you see what Netflix (NFLX) recently did for us!

With NFLX, ADX had been chopping sideways on the left side of the chart with the red DMI- line staying above the blue DMI+ line, something which usually suggests a bearish trend. But NFLX shares were clearly above our black moving average filter, which would preclude us from taking a put trade.

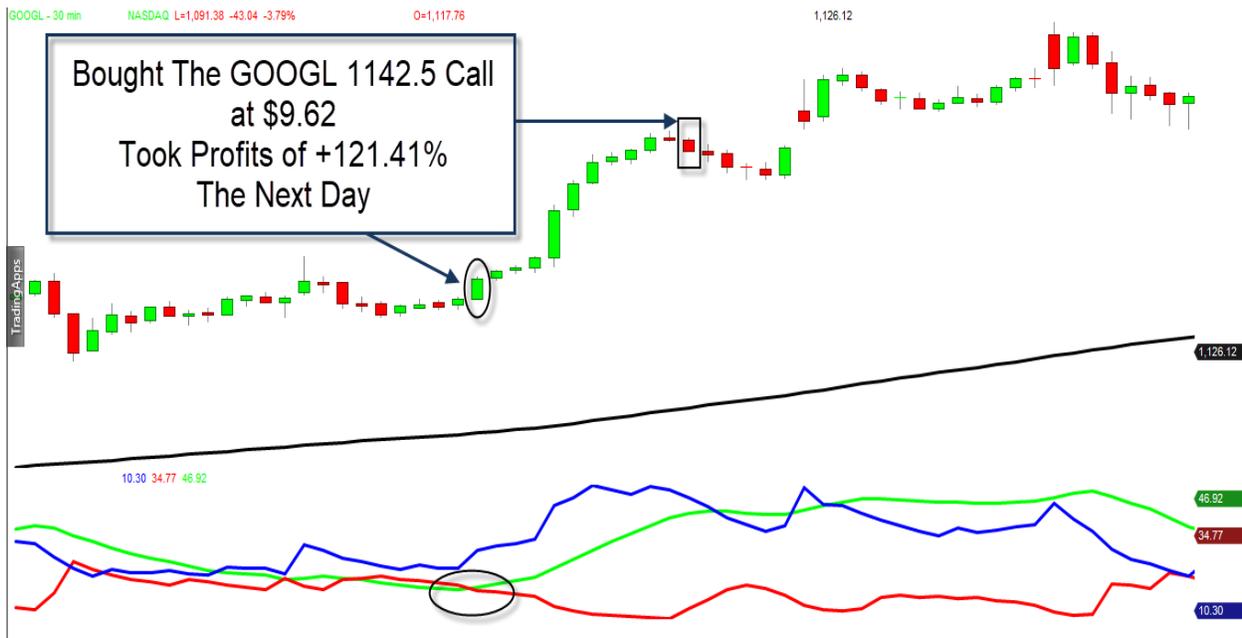
And almost out of nowhere, NFLX burst to a new high and, more importantly for our **FANG Options Trader** system, the ADX turned up above the declining DMI- line to confirm the official beginning of an uptrend. With the upturn occurring near the start of the day, we recommended the 307.5 Calls expiring the following Friday, with NFLX shares trading slightly north of 300.

Due to the higher-dollar value of each of the FANG stocks, we sometimes have to purchase slightly out-of-the-money options to keep our initial investment per contract manageable. In this case, we only paid \$700 per contract to control 100 shares of NFLX stock. With that much stock worth over \$30,000 at the time, that was a leverage of over 40:1!

And then the exciting part happened. With the 307.5 Call going from out-of-the-money to in-the-money as the stock cleared 320 the following morning, we got a truly huge bang for our back in a short two-day holding period. Note that our exit came the morning after that, as NFLX shares gapped up then retraced in the first 30 minutes of trading. That hit our trailing stop to book a +118.5% gain, despite the ADX continuing to rise.

Since FANG stocks can move quickly, we believe it's wise to protect our profits with this intraday trailing stop rule. With the stock up about 6% in this period, we were achieving nearly 20:1 leverage in this trade. If the worst thing that happens to your trade is getting a mere 20:1 leverage rather than 40:1, having a system that can spot these movers regularly is going to be hugely profitable over time.

Alphabet (GOOGL)



And finally, what about the G, namely Google (GOOGL)? In the above example, you can see that as we got our ADX buy signal as it crossed above the declining DMI- line, GOOGL shares were trading near 1140, with a couple of recent highs overhead around 1145 that could act as resistance. This is a case where we follow the market structure, which says GOOGL is now starting a new uptrend. If we wait to buy when GOOGL shares have one intraday bar's close over 1145, we'd be buying GOOGL calls the next morning around 1152. And we clearly don't want to leave 12 points on the table.

With our signal clear, we bought the slightly out-of-the-money 1142.5 Calls that would expire 7 days later, knowing that we typically only hold these FANG trades for 2 or 3 trading sessions. We were filled at a price of \$962 per contract on average. Remember that 1 contract controls 100 GOOGL shares, which were worth a whopping \$114,000 at the time. That's some serious leverage potential!

We managed to exit the next day for +121.4% when GOOGL shares started to roll over around 1160 and the ADX followed closely behind that price turn. This meant that a less-than-2% move up in GOOGL shares led to a 60-times leveraged gain for **FANG Options Trader** subscribers. Note that just because the ADX turns down after these trend moves, that does not mean that the stock has to reverse and head the other direction. It just means the strongest and most predictable phase of the uptrend is ending. GOOGL did manage to go higher eventually (with some erratic price action) so we really just want to focus on the sweet spot when the ADX is rising for the best short-term trends.

All things considered, you've seen that when you buy strongly uptrending stocks (as evidenced by our ADX pattern with the positive the DMI line above the negative), you have a systematically undervalued call that you're buying. And if you tried to fight that trend, you would actually be buying a systematically overvalued put in an uptrend.

However, I always say to stay away from super high-volatility situations, so do not use this strategy when we're coming right into earnings. Trading any of these names right before earnings will result in much higher time premium in the stock due to the expected earnings move, something which crushes your potential leverage. To avoid this, we try to either get into the Weekly Options expiring the week before earnings or we'll just wait for that earnings to be out of the way and for the stocks to return to their regular levels of volatility. You basically want to focus on strong trends, use in-the-money options where possible (or at-the-money on AMZN and GOOGL) and give yourself enough time to make sure that we don't get crushed by time erosion. These simple rules allied to the catalyst that is our ADX cross and you've got the ultimate system to trade these big-moving, high-dollar FANG names.

For more information on the **FANG Options Trader** alert service, call us toll-free at 1-800-BIGTRENDS (800-244-8736) or email us at clientcare@bigtrends.com