

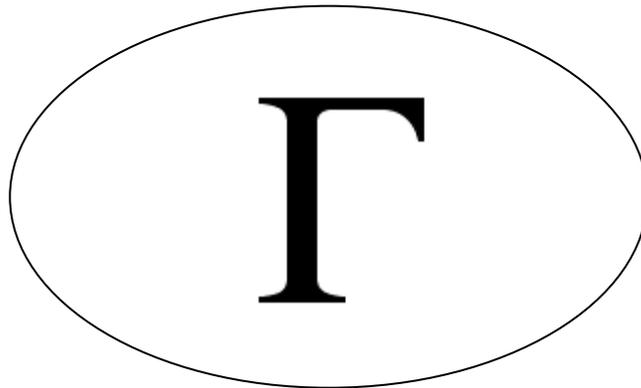
Understanding
Options
Gamma to
Boost Returns

Maximizing Gamma

The Optimum Options for
Accelerated Growth

Enhance Your Option Trading Returns by
Maximizing Gamma

Select the Optimum Options for Accelerated Growth



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Options Shark is one of the flagship recommendation programs at BigTrends.com. Run by Hall-of-Fame trader Price Headley, **Options Shark** offers short-term, aggressive, option trade recommendations with Price utilizing a proven and unique technical analysis method for finding the best breakout opportunities that can last from one day to several weeks.

Just how do we utilize the leverage of options to best garner profits on these big breakout signals? Well, this is achieved using one of Price's classic innovations to the option selection process, namely the Gamma Booster.

What is Gamma?

As you may know, Gamma is one of the "Option Greeks," mathematical functions that are part of the option pricing formula. Specifically, Gamma refers to the rate of change in Delta in the option per each \$1.00 move in the underlying security.

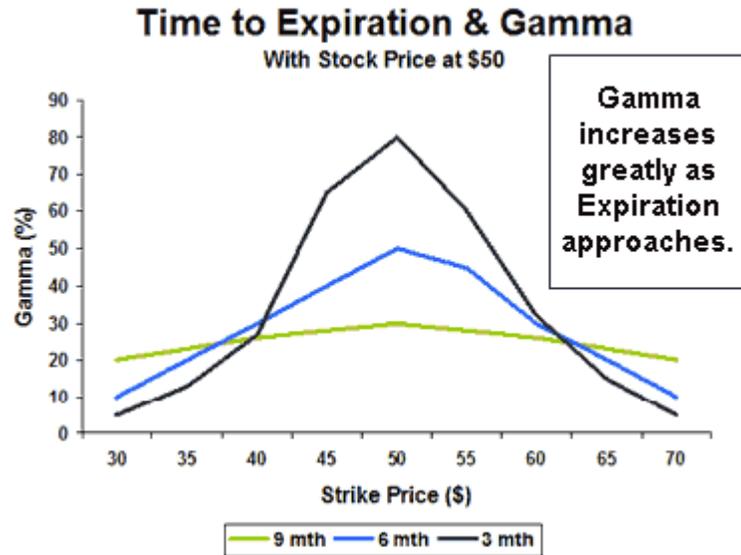
Gamma has many uses outside of options trading. This ancient Greek symbol is used in probability, engineering, physics and many other sciences. The way we utilize Gamma in our option selection is designed to accelerate the leverage with as little cash possible at stake.

And what technique do we utilize in *Options Shark* in order to maximize profits with our aggressive directional trade recommendations?

As mentioned, we're looking for powerful breakouts. The success profiles of the best trade signals indicate that we'll know quickly if we are correct and if we are, we can ride the trade much higher to big profits. If not, we can bail out quickly for a minimal drawdown.

The option selection itself has been tested and tweaked by Price and the BigTrends Team for **Options Shark**. Basically, we're focused on the "high Gamma" options in the 1-month-until-expiration time frame, though we often end up getting in and out quickly, within 2-5 trading days. These high-Gamma options offer the biggest "bang for your

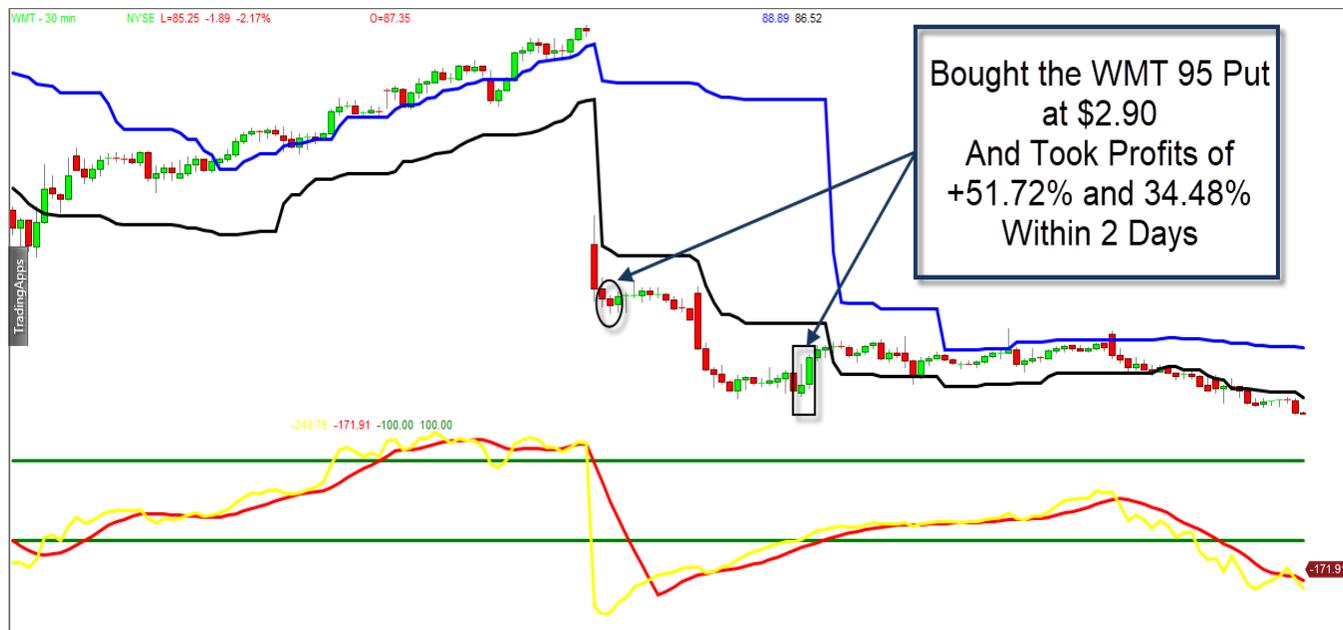
buck” with a relatively small cash outlay, something which provides a great risk/reward package for our *Options Shark* subscribers.



Normally, the Gamma Booster options that we choose are near-the-money, usually a bit out-of-the-money (OTM), although they can also be at-the-money (ATM) or even in-the-money (ITM). But for the optimal ‘sweet spot’ between Delta, Gamma, Theta and Vega, we like to use one strike price OTM in the front-month options.

Let’s take a look at a couple of recent trades in our *Options Shark* service to show you how the theory bears out in real-time markets!

WMT March 95 Puts



One of the definitions of the word "catalyst" in Merriam-Webster's dictionary is "an agent that provokes or speeds significant change or action." One of the best catalysts for a stock's future performance is a significant earnings surprise, which causes a major shift among investors who focus on the company's fundamentals.

Wal-Mart (WMT) shares began such a shift on February 20th, 2018, when the stock gapped down nearly 7% on an earnings miss tied to the company's holiday season sales. The key question for us as technical analysts is: will the stock go still lower after the initial gap or is this viewed as a buying opportunity by the bigger institutions?

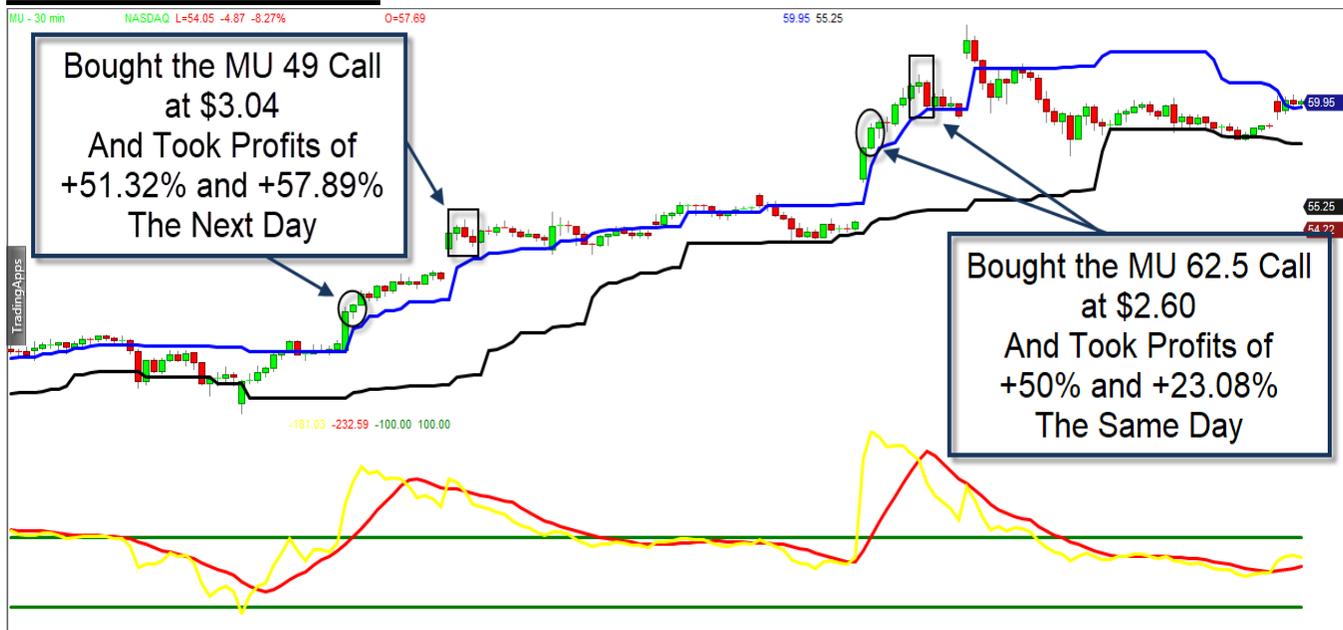
In the 30-minute chart above, we've plotted the Commodity Channel Index (CCI) indicator (in yellow), which shows the stock going oversold on that first gap down. We've circled where we bought the 95 puts, an hour later, once the stock saw a close under that first bar's low after the gap down. This told us that WMT shares would likely see more quick selling pressure with the potential for the stock to drop from 95 to 92 in that same week.

It turned out that WMT went to 91.24 the next day, allowing us to book a +51.72% gain on the first half of our position and then we exited the remainder at +34.48% the following morning as the stock stopped dropping and hit our trailing stop to protect the majority of our gains.

One analyst said on the day of the gap down that "we would view weakness in the stock due to [fiscal fourth-quarter] e-commerce results as a particularly good buying opportunity as we expect ecommerce sales to reaccelerate and WMT remains a 'discount store decade' top pick." However, since the gap down, the stock continued to decline to near 85. The lesson is clear: always align your trades in the direction of the catalyst, not against it.

In the above example, we entered this trade for just \$2.90 per contract. **Low-priced options** are yet another reason we like our Gamma Booster strategy for options selection. This equates to less cash outlay for you (or more contracts if you choose) and, in effect, less maximum risk because the most you can lose on an option purchase is your initial investment.

MU March 49 Calls



In a good trend, you need to have a re-entry strategy to get back aboard when the next trading opportunity is signaled – you can't worry about where you last bought and sold. We're all about helping fellow **Option Sharks** find the sweet spot on a typically 2-4 day holding period and in the case of Micron Technology (MU), you can see we went back to the bullish well the very next week for a second profit after our first MU gainer.

MU first gave us a Commodity Channel Index (CCI) upside breakout as the stock cleared the critical 50 level, and with the stock at around 51, we bought the 49 call several weeks before expiration for \$3.04 (that's \$304 per contract to control 100 shares of MU stock worth \$5,100). The trend was steady the first day and then the next morning the stock rallied over 2 points to allow us to reach our first target of +51.32% and then we exited the remainder soon thereafter at +57.89%.

The following Monday, MU shares were showing yet another 30-minute chart breakout on the CCI indicator, this time with MU shares just under 59. On the second trade, we bought more than 1 month of time until expiration and thus decided to buy the out-of-

the-money 62.5 strike price for our call. That same day, the option hit its +50% first target and then reversed to exit the remainder at +23%. After that, the stock was up down and sideways for the next week before reversing back to 50 just two weeks later.

The lesson in this instance is also clear: ride the trend during the "sweet spot" and when that ride has ended, never hold and hope. It's best to move out and then wait for the next fresh opportunity once the trend ends.

With the powerful breakouts our system finds, we can outpace the potential time decay and find the super-charged Gamma options to get the best risk/reward ratio. As we mentioned, the **Options Shark** system will exit the non-producing trades quickly, thereby minimizing losses.

Check out this table for the type of leverage **Options Shark** has generated in the course of late 2017 and early 2018:

	<u>Option Gain</u>	<u>Stock Gain</u>	<u>Leveraged Ratio</u>
General Motors Call	+54%	+2.7%	20-to-1
Halliburton Call	+101%	+3.6%	28-to-1
Home Depot Call	+53%	+1.5%	35-to-1
Japanese Yen ETF Call	+54%	+1.9%	28-to-1
Kansas City Southern Put	+53%	-1.3%	40-to-1
Micron Call	+58%	+5.6%	10-to-1
Proctor & Gamble Put	+100%	-1.5%	67-to-1
Skyworks Put	+51%	-2.5%	20-to-1
Wal-Mart Put	+52%	-1.75%	29-to-1
Weight Watchers Call	+100%	+5%	20-to-1

Option Market Makers clearly recognize the value and importance of Gamma – they often have a large ‘long’ or ‘short’ Gamma position based on customer and institutional order flow. When they are long Gamma, they are looking for big moves in the underlying stock/index/ETF/commodity in order to ‘scalp’ profits at a faster rate than time decay occurs. The effect of Gamma can magnify as an expiration approaches for strikes near the money, hence why some say “expiration week is Gamma week”.

Similarly, in our **Options Shark** Gamma Booster strategy, we get 'long Gamma' by purchasing Calls and Puts that are best positioned to get the maximum profits on a quick, strong directional move in the underlying. This is a fairly aggressive strategy on the risk/reward spectrum but this is where the biggest gains can often be found. Keep in mind that, on a real dollar basis, we're buying relatively "cheap" options. So, the cash out of pocket (and maximum risk) can be lower than with other option strategies.

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Please visit www.BigTrends.com for up-to-date market information, trader education and trade alert services to suit every active trader. Send questions to ClientCare@BigTrends.com or call (800)244-8736 (800-BIGTRENDS). We're here to assist you in reaching your trading goals.

Trade well,

Price Headley and the BigTrends Team