How to Supersize Your Weekly Options Trading Profits

One of the biggest innovations in the option-trading field over the past decade has been the growth and acceptance of Weekly Options. Most of these are provided by the Chicago Board Options Exchange (CBOE), which is the world's busiest options exchange.

What are Weekly Options and how do they differ from normal Monthly Expiration Options? As you may be aware, normal Monthly Options are issued on a quarterly basis for each stock, ETF or index. There are different cycles of expiration so some, but not all, options are on a January/April/July/October expiration (also known as "JAJO" options). The other 2 main cycles are February, May, August and November as well as March, June, September and December.

But these aren't the only monthly options available, as you may have noticed in your trading. There is always a "front month" expiration option and a "second month" expiration option. In addition, many of the more liquid securities have Long-Term Equity Anticipation Securities (known as LEAPS) that extend out to January of the following year or multiple years into the future.

While there generally will always be a front month and second month option available to trade on any particular security, sometimes the closest expiration will be 20 or more days away. For a shorter-term option trader, this means that there is a great deal of time premium in those options. Time premium is basically made up of time decay (Theta) and implied volatility.

For an option buyer of Calls or Puts, this time premium can often act like a "ticking clock" against the profit potential of their position. Each day that elapses, time decay erodes from the option's value. In addition, there is risk in implied volatility going up or down and changing the option's value.

Therefore, one could look at Weekly Options as an alternative to get more "bang for your buck" in options trading. These options, which have been growing in popularity over the last number of years, are generally issued/listed on a Thursday morning and expire the following Friday. The shorter life cycle of these options means that the time premium in their pricing (and their time decay) is less than a normal monthly option.

See the table below for the typical issuing schedule:

Weeklys Classes by type	New Weekly series listed	Last Trading Day	Expires On	Settles	Exercise Style
Indexes such as:					
S&P 500 Index **SPX**	Thursday A.M.	Thursday	Friday	Friday A.M.	European (cash settled)
Dow Jones Industrial Average **DJX**	Thursday A.M.	Thursday	Friday	Friday A.M.	European (cash settled)
S&P 100 Index (American) **OEX**	Thursday A.M.	Friday	Friday	Friday P.M.	American (cash settled)
S&P 100 European-style **XEO**	Thursday A.M.	Friday	Friday	Friday P.M.	European (cash settled)
Exchange Traded Funds such as: **SPY, IWM, QQQQ, USO, GLD** and others*	Thursday A.M.	Friday	Friday	Friday P.M.	American (Physically settled)
Equities such as: **AAPL, BAC, BP, F, GOOG** and others*	Thursday A.M.	Friday	Friday	Friday P.M.	American (Physically settled)

The growth and ever-increasing availability of Weekly Options has acted as a game-changer for short-term options traders. **At BigTrends.com, we focus on short-term, active, technical analysis-based trading,** a combination of factors that can boost our clients' profits across more trading cycles.

For option buyers of calls and puts, this represents a great way to get the leverage of options without paying as much in time premium. The Delta on these Weekly Options will in many cases be higher than a corresponding Monthly Option, giving us super-charged profit potential on our trade recommendations.

One of the meanings of the Greek "Delta" in terms of options is that it indicates how much an option will move on a $1.00 move in the underlying security. So, if we are trading a Weekly Option with a Delta of 60 and the corresponding Monthly Option has a

Delta of 50, the Weekly Option will gain value quicker when the stock moves in our direction.

Also, the **Weekly Option** will often have a much lower actual dollar cost than the Monthly so in this theoretical example, **a $2 move in the underlying stock means a $1.20 move on a $3.00 Weekly Option, giving us a quick 40% gain.** Let's say the **Monthly Option** was $4.50. **With a $1.00 move in the option, our gain is only 22%.** Of course, this enhanced leverage can work against us too, which is why BigTrends' timing methods are so valuable to active traders.

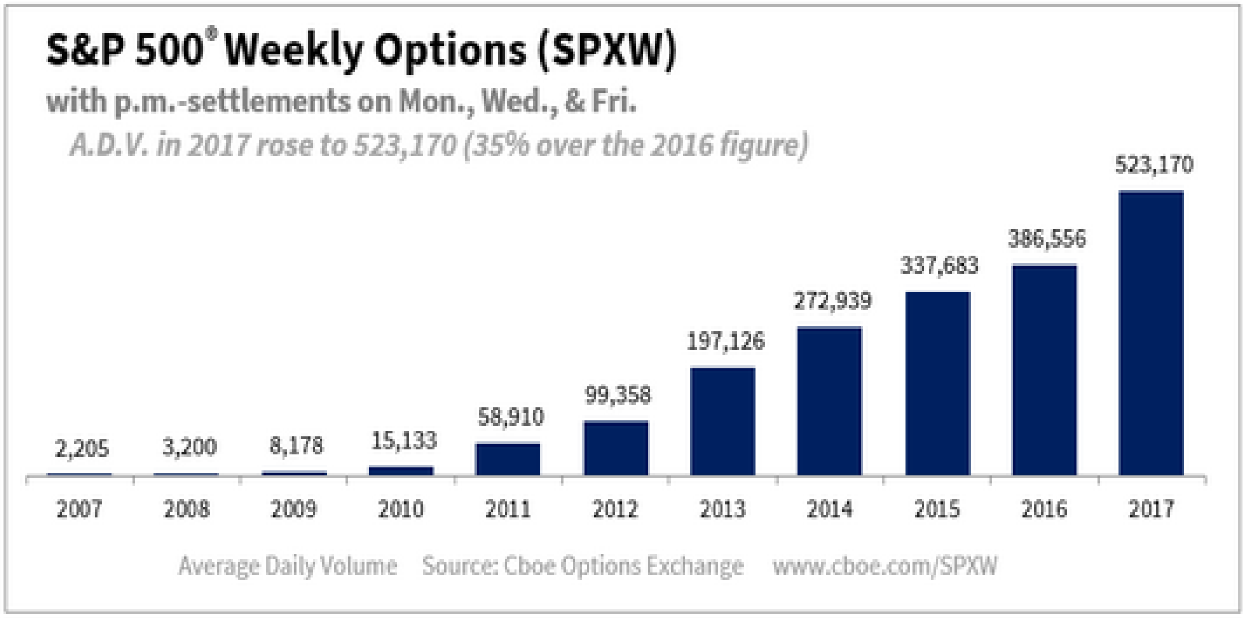
With this big decrease in Theta and time premium on the Weekly Option, the leverage of these short-term vehicles becomes even more significant when compared to outright stock buying. **This means less out-of-pocket cash to you as an option trader while still providing the potential for big gains.**

We love how Weekly Options can capture quick-fire profits in this volatile market. With our state-of-the-art technical analysis indicators, we can catch big in-and-out moves in a very short time frame. And that's not to mention the volatility around earnings reports, news announcements, Fed meetings, takeovers and other market-moving events!

Weekly Options also offer a premium-selling, income-generation element that many traders find attractive. Out-of-the-money options have a very rapid time decay, which many traders prefer for option-selling strategies such as credit spreads and other options combinations.

Click here to view the current Weekly Option offerings from the CBOE; new ones are added all the time and even event-specific options can be added. You can see that many of the biggest, most popular names are already actively trading and more are added all the time.

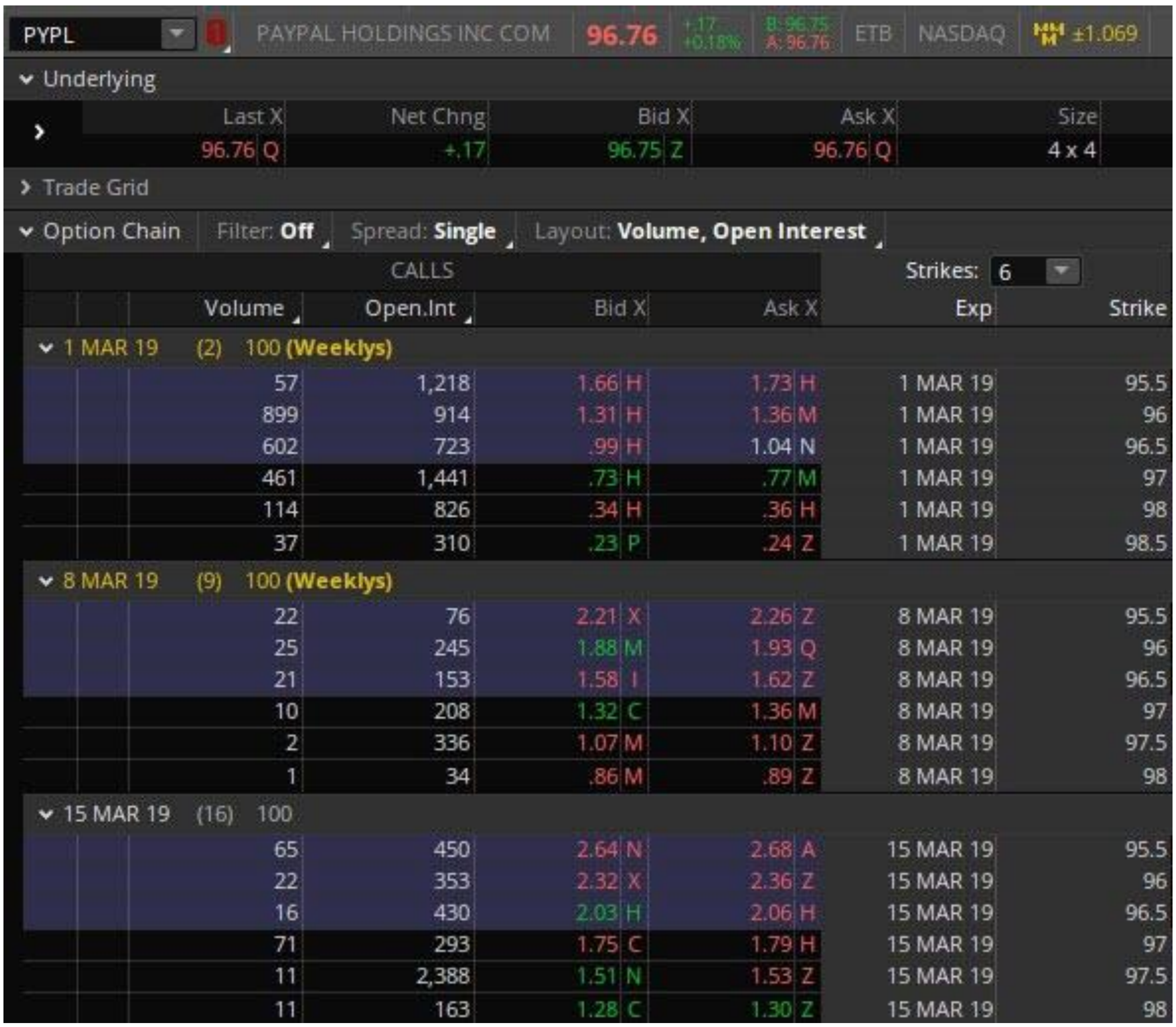
What about liquidity? While it was once the case that Monthly Option volume dwarfed that of Weekly Options, the growing popularity of Weeklies has leveled the playing field in terms of liquidity. Take a look at the CBOE's table of Weekly Option Volume on the S&P 500 Index (SPX):



This is an upward trajectory that is similar to the growth of options trading volume itself over a longer time frame.

And the availability of quotes and trading on Weekly Options is simple and quick. The option brokerage specialists that we use for our auto-trading clients have easy access to trade these options. **Check the PayPal (PYPL) option matrix from thinkorswim below, which combines the Weekly and Monthly Options on one easy-to-read screen.**

Note the big volume and the narrow bid/ask spreads on the Weekly Options – the spread on the bid/ask is already the same as the Monthlys, so we don't give any unnecessary edge to the market makers!



Volume	Open.Int	Bid X	Ask X	Exp	Strike
1 MAR 19 (2) 100 (Weeklys)					
57	1,218	1.66 H	1.73 H	1 MAR 19	95.5
899	914	1.31 H	1.36 M	1 MAR 19	96
602	723	.99 H	1.04 N	1 MAR 19	96.5
461	1,441	.73 H	.77 M	1 MAR 19	97
114	826	.34 H	.36 H	1 MAR 19	98
37	310	.23 P	.24 Z	1 MAR 19	98.5
8 MAR 19 (9) 100 (Weeklys)					
22	76	2.21 X	2.26 Z	8 MAR 19	95.5
25	245	1.88 M	1.93 Q	8 MAR 19	96
21	153	1.58 I	1.62 Z	8 MAR 19	96.5
10	208	1.32 C	1.36 M	8 MAR 19	97
2	336	1.07 M	1.10 Z	8 MAR 19	97.5
1	34	.86 M	.89 Z	8 MAR 19	98
15 MAR 19 (16) 100					
65	450	2.64 N	2.68 A	15 MAR 19	95.5
22	353	2.32 X	2.36 Z	15 MAR 19	96
16	430	2.03 H	2.06 H	15 MAR 19	96.5
71	293	1.75 C	1.79 H	15 MAR 19	97
11	2,388	1.51 N	1.53 Z	15 MAR 19	97.5
11	163	1.28 C	1.30 Z	15 MAR 19	98

The Weekly Options Accelerator Trade Alert Service

There are many ways to trade options and at BigTrends, we prefer to keep it simple and effective to capture short-term trends in quick-moving stocks with the leverage of Weekly Options. We send real-time trade alerts to buy options on any of **our favorite 6 stock names (M, CGC, PYPL, WTW, NVDA and GOOS)**, typically at the end of a given 30-minute time period during stock market hours, between 10:00am to 4:00pm Wall Street time.

Let's look at a couple of case studies to show you the potential of these quick trends with weeklies but first, it's time for a quick lesson on one of our favorite trend following indicators.

Directional Movement Index and Average Directional Movement

Our main method to find the sweet spot for entering ***Weekly Options Accelerator*** trades is to focus on Directional Movement Index (DMI) lines and, in particular, how they will interact to show us the Average Directional Movement (ADX). And while the ADX really separates the wheat from the chaff, knowing about DMI lines and adding a moving average to filter out the noise is crucial to see the full picture.

We'll start with the DMI lines. They were developed by Welles Wilder (who also invented the RSI indicator) 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 won't allow it to be 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 positive directional movement increasing. If we're making higher lows, negative directional movement is 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, range-bound 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 a recent bull and bear example so that you can learn to see the patterns to look out for in order to really catch and ride these quick-moving stocks

Canopy Growth (CGC)

As you can see from the chart above, **cannabis leader Canopy Growth (CGC)** is no stranger to making new highs. CGC gapped to the upside on the morning of January 25th, 2019 and it's often these starting gaps that create a strong pull in the ADX to start trending up.

This is especially powerful when coming from a period of no trend (that is, a very low ADX) right before the gap. 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 below the circled entry point on the top panel of the chart. It's also worth pointing out that everything we do with our ***Weekly Options Accelerator*** 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 typically means 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 in the wrong direction if the trend reverses later.

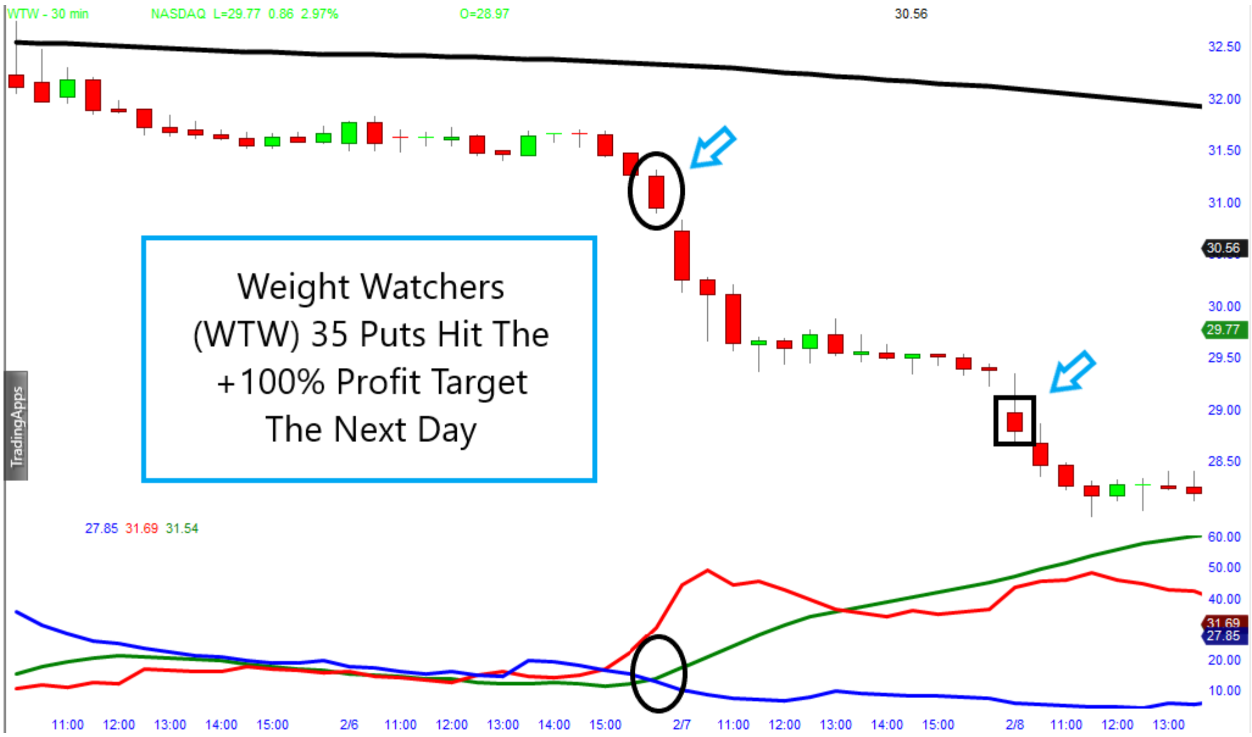
What we want to see in the setup is a low ADX. You can see that before the big move the ADX line was hovering below both of the DMI lines. And what we are watching for is that moment when it starts to turn up. However, you can't buy every little upturn on ADX – you need to wait until the green line crosses above whichever DMI line is declining.

And we get our buy signal at the circled 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 CGC 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 42.5 Call with the stock at about 48.50. It rallied almost 2.50 points or (roughly 5%) **but due to the leverage of using Weekly Options, we turned it into a +43% gain. And that shows you the power of using Weekly Options as a stock substitute, with a healthy leverage ratio of more than 8-to-1.**

Weight Watchers (WTW)



Ever since Oprah Winfrey bought a big stake in Weight Watchers (WTW), the stock has been cast into the high-growth spotlight. But with higher-growth stocks, you often see not just big upside potential but also a steady run for the exits when the trend goes the other direction.

In the chart above you'll notice WTW shares were already starting to drop with the breakdown below the moving average filter in black before our official bearish entry signal. But with options buying, your bigger successes will come from catching the increasing speed of movement in the trend.

Here, WTW shares started to break down harder late in the session on February 6th, 2019, and the ***Weekly Options Accelerator*** alert recommendation went out to buy the 35 puts when the stock was already trading near 31. Remember, a put gives you the right to sell the stock, in this case at 35, when the stock is already at 31. That's called 4 points "in the money." The focus on in-the-money options gives us more of a true stock substitute, which creates more stability in how the option premium will perform for even relatively small moves in the stock.

You can see that WTW kept dropping the next day, though the second half of our second day in the trade is relatively flat. But since the green ADX line was still going higher, it said that the downtrend was still in place for WTW. So **we held it and then cashed out the next morning when the option hit our 100% profit target.**

Sometimes the trade could go even further in our favor but we've found that it's generally a good idea to book the 100% target profit than to keep riding the trade as the risk of a reversal increases. We'd rather lock down the doubles whenever we can and move on to find the next low- risk ADX trend getting started elsewhere.

Another point to note is that **we always stay away from super high-volatility situations**, so we do not use this strategy when we're coming right into earnings. Trading any stock 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 those 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 and give yourself enough time to make sure that you 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 Weekly Options on active stocks!

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