Arthur Lyle Inspires

Option Cash Machine

Your 6-Week Beginner's Guide Workbook

Prepared By:

By Arthur Lyle III

INTRODUCTION

Welcome to the 6-week workbook designed to help you learn how to trade stock options. Each week, you'll cover specific topics and complete practical exercises to build your understanding and skills. By the end of this course, you should have a solid foundation in stock options trading.

Disclaimer:

I'm not a certified financial planner/advisor nor a certified financial analyst nor an economist nor a CPA nor an accountant nor a lawyer. I'm not a finance professional through formal education. We are people who believe and takes pride in a sense of freedom, satisfaction, fulfillment and empowerment that I get from being financially competent and being conscious managing my family's money. The contents on this workbook are for informational and entertainment purposes only and does not constitute financial, accounting, or legal advice. I can't promise that the information shared on zoom or this workbook is appropriate for you or anyone else. By using this workbook, you agree to hold me harmless from any ramifications, financial or otherwise, that occur to you as a result of acting on information found on this site.

This publication is for educational purposes only. It is designed to provide accurate and authoritative information with regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal or other professional advice. If legal advice or other expert assistance is required, the services of a competent professional should be sought.

TABLE OF CONTENTS

Trading Affirmation

- [ ] My mindset and mental skills are the key to making money in the market.
- [ ] I always use a **Stop Loss** to protect my money".
- [ ] Trading can be simple and easy, I will make it as such.
- [ ] I am a consistently profitable trader
- [ ] I will let the market do the ***'work'***, I will not meddle in my trades unnecessarily
- [ ] I will be a professional trader, not a professional gambler."
- [ ] I am patient. I do not chase trades. I only trade when opportunities present themselves to me.
- [ ] I control my emotions in regard to profits and losses.

Your notes

Trading Rules

- [ ] Only invest what you're willing to lose! Do not invest the money you need to pay next month's bill
- [ ] Trade the charts, not with your heart. Remove your emotions
- [ ] Take your profits and don't be greedy.
- [ ] Understand, the market doesn't owe you **ANYTHING**!!
- [ ] The market doesn't care about how you *feel.* So don't think a stock has to go up or down because you FEEL it should.
- [ ] Do **NOT** revenge trade.
- [ ] Don't be a victim of **FOMO** ***(fear of missing out)***, the market isn't going anywhere.
- [ ] It should never feel like you're gambling, if it does, then you're doing something wrong or you need to work on your mindset.
- [ ] Don't be in a rush to hit a homerun every time. "Base hits are smart trades."
- [ ] Become consistent with making money daily and build your confidence. This is why I recommend paper trading before trading with real money.

Your notes

MONEY MAXTRIX MINDSET FORMULA

This formula will allow you to be able to see, touch, and feel the opportunities available to create money within every opportunity.

MONEY MANTRA -RULES ARE TO SAY IT, FEEL IT, & OWN IT!

- [ ] Make a list of 10 reasons why you deserve more money.
- [ ] Give 10 answers to each one.

1

2

1

2

5

6

7

8

9

10

Make a list of some great things that have happened in this world that requires money.

- [ ] Make a list of things and experiences that money will add to your life.

- [ ] Make a list of how more money will benefit you.

- [ ] Create a list why I must stay committed to this goal.

I am so happy grateful for the money no that ____

Sign: ____

Name: ____

Date: ____

Fill this out with true emotion and conviction & passion.

Once you sign and date it then it becomes real and believe that it can happen and start working on your plan immediately.

To expedite your expectation of your goal write out this affirmation that you have just created 10 times a day believing and expecting that you goal will come at the appointed time. . I am so happy and grateful now that ....

“And the LORD answered me, and said, Write the vision, and make it plain upon tables, that he may run that readeth it. For the vision is yet for an appointed time, but at the end it shall speak, and not lie: though it tarry, wait for it; because it will surely come, it will not tarry.”
Habakkuk 2:2-3

WEEK 1: INTRODUCTION TO STOCK OPTIONS

Topics Covered:

- What are stock options?
- Call vs. Put options
- Basic terminology (strike price, expiration date, premiums)

WHAT ARE STOCK OPTIONS:

Stock options are financial contracts that give the holder the right, but not the obligation, to buy or sell a stock at a predetermined price (strike price) before or on a specific date (expiration date). They are used for various strategies, including hedging and speculation.

Your notes

CALLS:

Call options give the holder the right to buy a stock at a specified strike price before the option expires.

Example: If you buy a call option with a strike price of $50, you have the right to buy the stock at $50 even if its market price goes up to $60. You profit by buying at $50 and potentially selling at the higher market price.

Your notes

PUTS:

Put options give the holder the right to sell a stock at a specified strike price before the option expires

Example: If you buy a put option with a strike price of $50, you have the right to sell the stock at $50 even if its market price drops to $40. You profit by selling at $50 and potentially buying at the lower market price.

Your notes

These basics form the foundation of options trading, helping traders manage risk and capitalize on market movements.

- **Options:** Financial instruments that give the holder the right, but not the obligation, to buy or sell an underlying asset at a specified price within a specified time frame.
- **Call Option:** A type of option that gives the holder the right to buy the underlying asset at the strike price before the option expires.
- **Put Option:** A type of option that gives the holder the right to sell the underlying asset at the strike price before the option expires.

Your notes

PRICING TERMS

- Strike Price: The price at which the holder of an option can buy (call) or sell (put) the underlying asset.
- Premium: The price paid by the buyer to the seller to acquire the option. It is determined by factors such as the underlying asset's price, time to expiration, volatility, and interest rates.

Your notes

WEEK 1 : EXERCISES

Define Key Terms:

Write down the definitions of the following:

- Call Options
- Put Options
- Strike Price
- Expiration Date
- Premiums

Identify Options:

Find three different stock options for any major stock (e.g., AAPL, MSFT). Note their strike prices, expiration dates, and premiums.

Quiz:

Take a short quiz on the basic terminology to reinforce your learning.

WEEK 2: UNDERSTANDING THE WHY & HOW THE MARKET MOVES

- How options are priced
- The concept of intrinsic and extrinsic value
- The Greeks: Delta, Gamma, Theta, Vega

CONCEPT OF INTRINSIC AND EXTRINSIC VALUE:

Intrinsic Value: The real value of an option if it were exercised right now. For call options, it's the amount the stock price is above the strike price. For put options, it's the amount the stock price is below the strike price.

- The intrinsic value of an option is the actual value of the option if it were exercised right now.
- For a call option, it's calculated as the difference between the stock price and the strike price, if the stock price is above the strike price.
- For a put option, it's calculated as the difference between the strike price and the stock price, if the stock price is below the strike price.

- **Example:** If a call option has a strike price of $50 and the current stock price is $55, the intrinsic value is $5 ($55 - $50).

Extrinsic Value: The additional value of an option beyond its intrinsic value, representing the potential for the option to gain more value before it expires. It includes factors like time until expiration and stock volatility.

- The extrinsic value of an option, also known as the time value, is any value beyond the intrinsic value. This includes the potential for the option to gain more intrinsic value before expiration.
- It’s influenced by factors like the time until expiration, volatility of the stock, and interest rates.

- **Example:** If the premium of the call option is $7 and the intrinsic value is $5, then the extrinsic value is $2 ($7 - $5).

Your notes

WEEK 2: UNDERSTANDING THE WHY & HOW THE MARKET MOVES

THE GREEKS

Delta: Measures how much the option's price changes with a $1 change in the stock price. A delta of 0.5 means the option price moves $0.50 for each $1 move in the stock.

- Delta measures the sensitivity of an option's price to changes in the price of the underlying asset.
- It ranges from 0 to 1 for call options and 0 to -1 for put options.

- **Example:** A delta of 0.5 means that for every $1 increase in the stock price, the option's price will increase by $0.50.

Your notes

Gamma: Measures the rate of change of delta with respect to changes in the stock price. It shows how much delta will change when the stock price moves by $1.

- Gamma measures the rate of change of delta for a $1 change in the stock price.
- It helps assess the stability of delta over time and is highest for at-the-money options.

- **Example:** If a call option has a gamma of 0.05, and the stock price increases by $1, the delta will increase by 0.05.

Your notes

Theta: Measures how much the option's price decreases as it gets closer to expiration. It represents the effect of time decay on the option's price.

- Theta measures the sensitivity of the option's price to the passage of time, also known as time decay.
- It indicates how much the option's price will decrease as it gets closer to expiration.

- **Example:** A theta of -0.10 means that the option's price will decrease by $0.10 every day, assuming all other factors remain constant.

Your notes

Vega: Measures how much the option's price changes with a 1% change in the volatility of the stock. Higher volatility usually increases the option's price.

- Vega measures the sensitivity of an option's price to changes in the volatility of the underlying asset.
- Higher volatility increases the option's price, as there's a greater chance the option will end up in-the-money.

- **Example:** If vega is 0.20, and the volatility increases by 1%, the option's price will increase by $0.20.

Your notes

These concepts are fundamental in understanding how options are priced and how their value changes in response to various factors. They help traders make informed decisions and manage risk effectively.

WEEK 2 : EXERCISES

Price Calculation:

Choose a stock option and break down its premium into intrinsic and extrinsic value.

Greek Practice:

For the same option, identify and explain its Delta, Gamma, Theta, and Vega.

Quiz:

Test your understanding of options pricing and the Greeks.

WEEK 3: STRATEGIES FOR ENTRIES

Topics A1 Setup:

- Basic strategies: Entries and Exits
- Finding Uptrends and Downtrends

ENTRIES

Entries are the points where you decide to buy a stock or start a trade. They are chosen based on signals or patterns that suggest a good time to enter the market.

Your notes

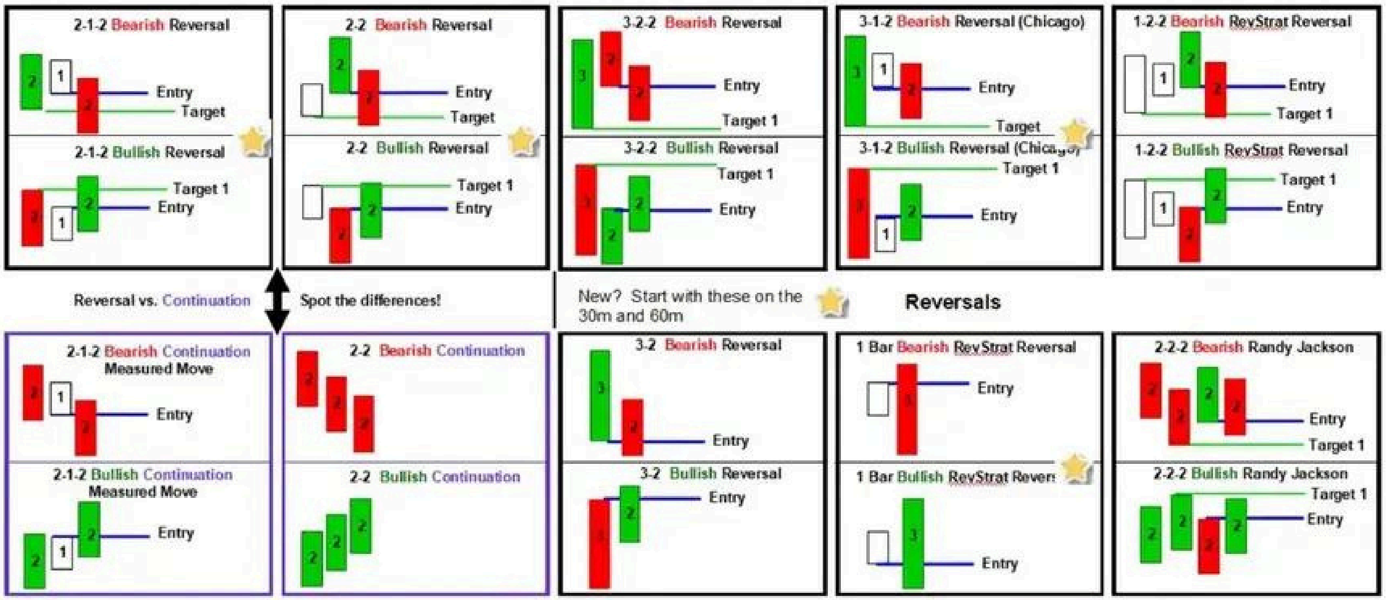
EXITS

Exits are the points where you decide to sell a stock or end a trade. They are chosen based on signals or patterns that suggest a good time to leave the market and take your profit or cut your losses

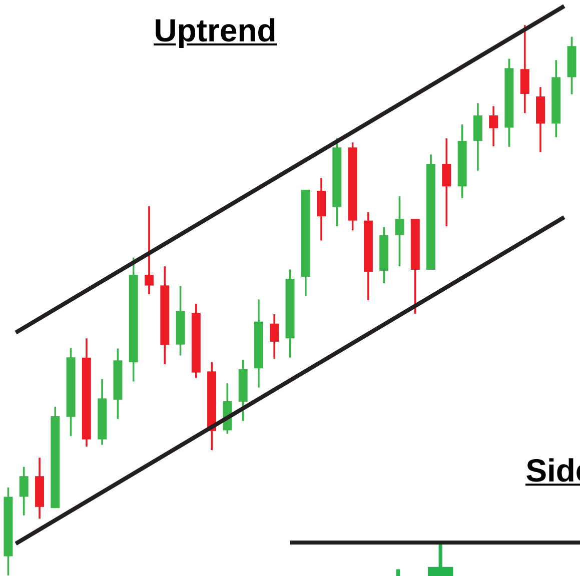
Your notes

WEEK 3: STRATEGIES FOR ENTRIES

UNDERSTANDING WHERE PRICE AND THE TREND IS AT...

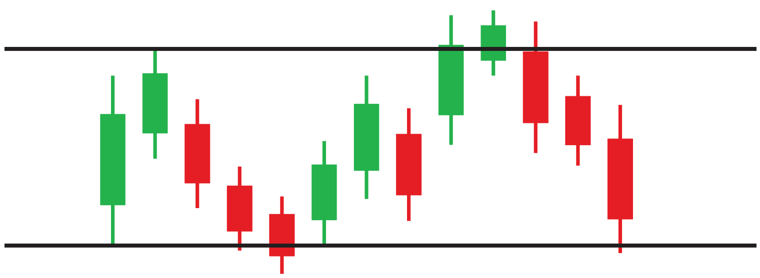


Uptrend



Downtrend

Sideways Trend



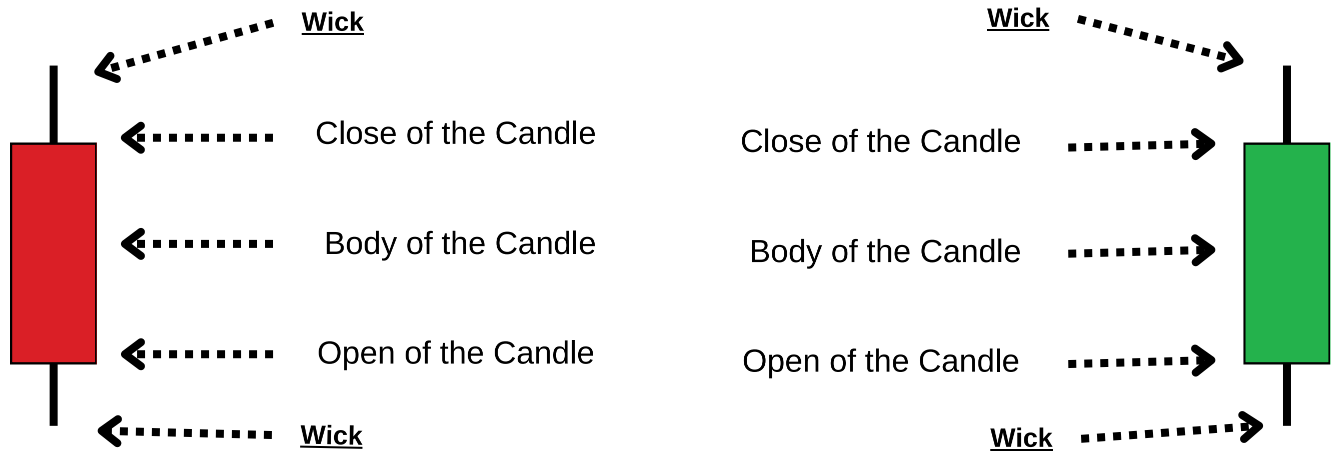
Your notes

WEEK 3: STRATEGIES FOR ENTRIES

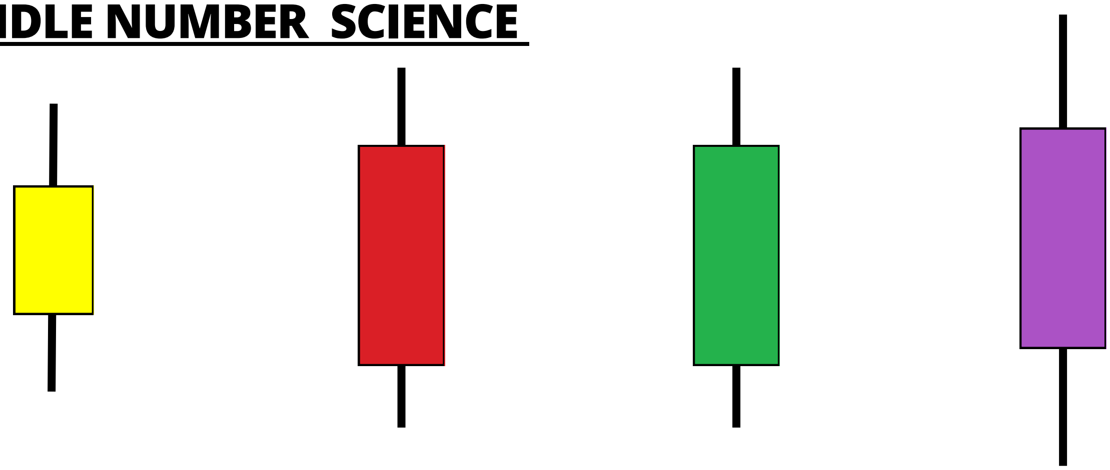
CANDLE SCIENCE

Bearish

Bullish



CANDLE NUMBER SCIENCE



1 Bar	2 Bar	2 Bar	3 Bar
Indecisive	Directional	Directional	Reversal
Failed to take out high and low of previous candle	Confirm direction of the current	Confirm direction of the current	Takes out highs and lows of previous candle

Your notes

WEEK 3 : EXERCISES

Strategy Identification:

Explain when you might use a Entries and Exits

Simulated Trade:

Choose a stock and simulate a Long Call and Put option. Track their performance for the week.

Quiz:

Review basic strategies and their appropriate use cases.

WEEK 4: ADVANCED STRATEGIES

Topics Covered:

- Price Action
- Risk management 3:1 or better
- Supply and Demand

PRICE ACTION

Price action is the study of how the price of a stock moves over time. It involves analyzing patterns, trends, and chart formations to make trading decisions.

- **Patterns:** Watching how prices go in a pattern, like up and down.
- **Trends:** Seeing if prices keep going up or down over time.
- **Decisions:** Using what you see to decide if you should buy or sell something.

Your notes

RISK MANAGEMENT: (PREFERED 3:1 OR BETTER)

Risk management is the process of making plans, identifying, and controlling potential risks that could affect your investments or trading activities. It involves strategies to minimize losses and protect your capital.

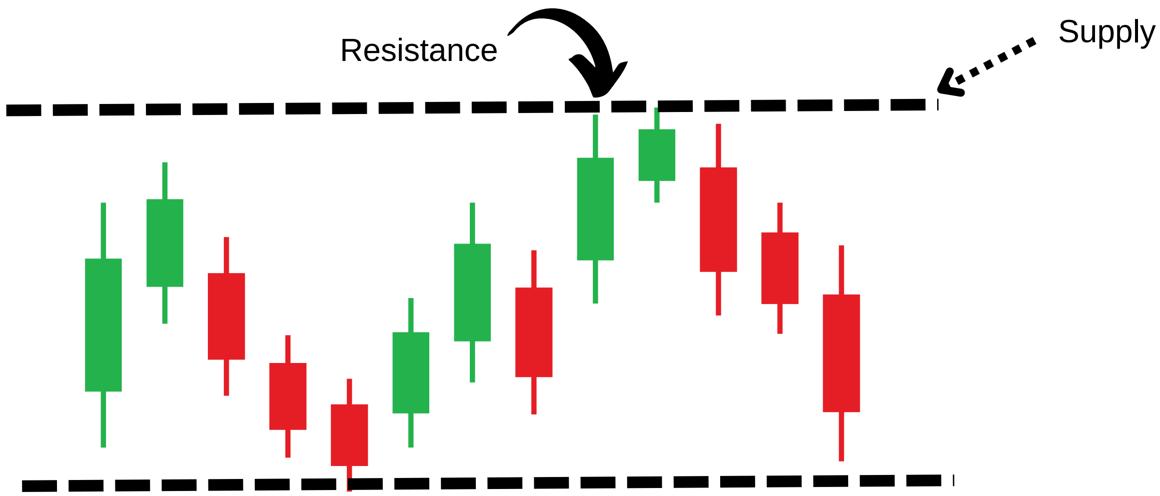
- **Planning Ahead:** Think about what could go wrong and how to avoid it.
- **Using Rules**: Set rules to make sure you don't lose too much money.
- **Staying Safe**: Make smart choices to protect your money from bad things that could happen.

Your notes

SUPPLY

Supply refers to the quantity of goods or services that producers are willing and able to offer for sale at various prices within a specific market and period. It represents the amount of products available for purchase by consumers or businesses.

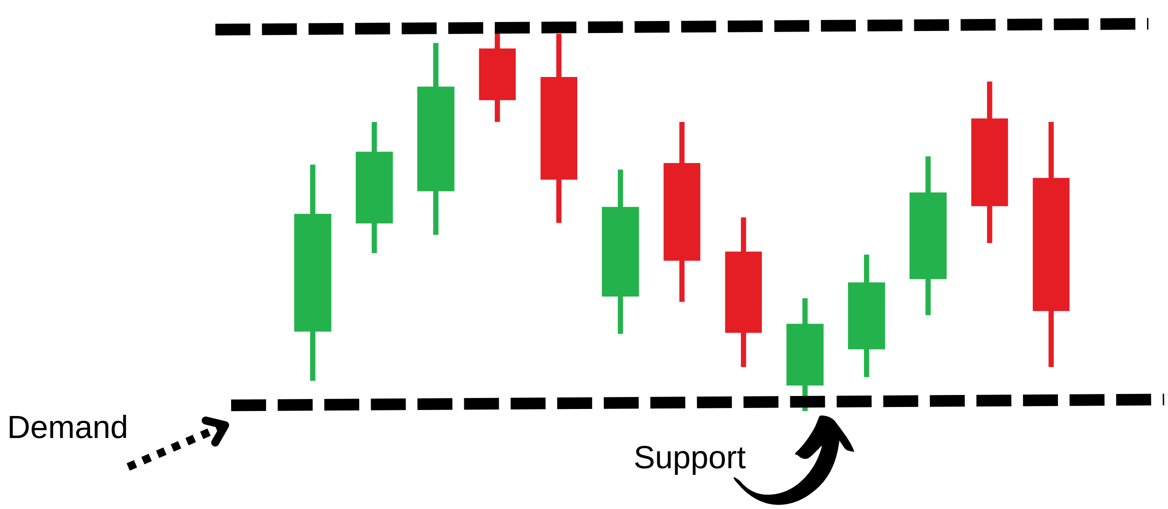
- **How Much is There:** Shows how many things are ready to be sold.
- **More Supply, Lower Price:** When there's a lot of something, its **price usually goes down**.
- **Less Supply, Higher Price:** When there's not much of something, its price usually goes up.



DEMAND

Demand is how much of a product or service consumers are willing and able to buy at various prices. It indicates the quantity of goods or services that people want and can afford in the market.

- **How Much People Want:** Shows how many people like or need something.
- **More Demand, Higher Price:** When a lot of people want something, its **price usually goes up.**
- **Less Demand, Lower Price:** When fewer people want something, its price usually goes down.



WEEK 4 : EXERCISES

Scenario Planning:

Describe a market scenario where each of the intermediate strategies would be beneficial.

Simulated Trade:

Set up a simulated trade using one of the intermediate strategies and track its performance.

Risk Management Plan:

Create a simple risk management plan for your trades.

WEEK 5: TECHNICAL ANALYSIS

Topics Covered:

- Basics of technical analysis
- Key indicators: Moving Averages, RSI, MACD
- Chart patterns: Head and Shoulders, Double Top/Bottom

BASICS OF TECHNICAL ANALYSIS

Technical analysis is a method used to evaluate and predict future price movements of a stock based on historical price data and trading volume. By studying charts and using various indicators, traders can identify patterns and make informed trading decisions

- **Chart Patterns**: Identify patterns like head and shoulders, double tops and or others to predict price movements.
- **Indicators**: Use tools like moving averages, RSI, and MACD to study market trends and momentum.
- **Historical Data:** Analyze past prices to predict future movements and make smart trades.

Your notes

KEY INDICATORS

Moving Averages: A moving average is a line that shows the average price of the stock, over a period of time. It helps us see if the price is going up, down, or staying about the same.

- **Trend Identification:** Shows if prices are mostly going up, down, or staying the same.
- **Noise Reduction:** Makes the price line smoother to see the main trend better.
- **Support and Resistance:** Acts like a floor or ceiling where prices often stop and change direction.

Your notes

WEEK 5: TECHNICAL ANALYSIS

RSI: (RELATIVE STRENGHT INDEX)

Shows us if a stock is oversold or overbought. (based on whatever timeframe you're in) helps traders figure out if a stock is likely to go up or down.

- **Number Scale:** Shows how strong a stock is.
- **Overbought and Oversold:** Tells if a stock might be too high or too low.
- "**Ranges** from 0-100 with **30** being ***oversold*** and **70** being ***overbought***."

Your notes

MACD: (MOVING AVERAGE CONVERGENCE DIVERGENCE)

A tool that helps traders understand changes in the price of a stock.

- **Signal Line:** Shows if the price might go up or down.
- **Histogram:** Helps see how fast the price is changing.
- **Crossovers:** When lines meet, it might show a change in price direction.

Your notes

WEEK 5: TECHNICAL ANALYSIS

Indicators: Indicators are mathematical calculations that can help you predict the price movements of an asset. Th calculations evaluate an asset from multiple angles and can become an extremely powerful tool that provides valuable insights.

.

"There are dozens of indicators you can use and each of them provide different types of information."

The 4 main types are Trend indicators, Volume indicators, Volatility indicators, and Momentum indicators.

- Trend indicators can help with determining the direction the market will take.
- Volume indicators help identify whether or not the trend is likely to last, it's a direct indication of the asset's supply and demand.
- Momentum indicators measure the speed of the price change, which can be helpful to see an upcoming trend change.
- Volatility indicators measure the price range of an asset and help to catch the moments of high volatility.

Your notes

WEEK 5 : EXERCISES

Indicator Analysis:

Choose a stock and analyze its Moving Averages, RSI, and MACD.

Pattern Identification:

Identify chart patterns in historical stock charts.

Simulated Trade:

Make a simulated options trade based on your technical analysis.

WEEK 6: DEVELOPING A TRADING PLAN

Topics Covered:

- Building a Trading Plan
- Backtesting Strategies
- Paper Trading

BUILDING A TRADING PLAN

A trading plan is a comprehensive blueprint that outlines your trading strategy, goals, risk management, and rules for entering and exiting trades. It helps you stay disciplined and make informed decisions, ensuring consistency and reducing emotional trading

- **Clear Goals**: Define your financial objectives and what you aim to achieve with your trades.
- **Risk Management**: Establish guidelines to limit losses and protect your capital.
- **Consistent Strategy**: Outline specific criteria for entering and exiting trades to maintain a structured approach.

Your notes

BACKTESTING STRATEGIES

Backtesting is a method used to test a trading strategy using historical market data. By applying the strategy to past data, traders can see how it would have performed and identify potential strengths and weaknesses. This helps in refining and improving the strategy before using it in real trading.

- **Performance Evaluation:** Assess how well a strategy would have worked in the past to estimate its potential future success.
- **Risk Management:** Identify potential risks and losses to improve the strategy's risk management components.
- **Strategy Refinement:** Fine-tune the strategy based on historical results to enhance its effectiveness before real-world application.

Your notes

WEEK 6: DEVELOPING A TRADING PLAN

THE DIFFERENT TYPES OF TRADERS

There are several different types of traders. When deciding which type of trader you want to be, you have to think about what fits your lifestyle

There are several different types of traders.

- **Scalper:** This style of trading is sometimes referred to as day trading of stocks or futures, focusing on fast profits. Instead of attempting to optimize the results of a positive trade, scalping tries to realize quick and small wins while only being in a trade for a short amount of time (typically just a few minutes).
- **Day Trader:** Day trading is the buying and selling of stocks or futures on the same day, so that all positions are closed before the market closes for the trading day to avoid unmanageable risks and negative price gaps between one day's close and the next day's price at open.
- **Holds/Swinger**: Swing trading is another short-term strategy for traders. Swing trading can involve holding a position for days, weeks, or months, if necessary. It is usually less stressful and typically incorporates less strategy and slower decision making.
- **Overnight holds:** This type of trading requires you to buy contracts one day and hold it over to the next day, typically getting out at market open.

Test your Strategy with paper trades first to learn and master your trading plan.

Your notes

WEEK 6: EXERCISES

Testing Your Trading Plan

Trading Plan:

Write a detailed trading plan including your goals, strategies, risk management, and analysis methods.

Backtesting:

Backtest one of your strategies using historical data.

Paper Trading

Use a paper trading platform to practice your trading plan without real money.

Write Out Your Trading Plan:

1. WHAT IS YOUR TRADING STYLE?
2. WHICH FITS YOUR LIFESTYLE AND OR SCHEDULE?
3. HOW WILL YOU SHOW UP IN THE MARKET?

ADDITIONAL RESOURCES

Where To Get Stock News & Information:

Websites: Investopedia, The Options Industry Council (OIC)
Tools: Thinkorswim by TD Ameritrade, Optionstrat, Robinhood,Tradingview, Charles Swabb

- Yahoo Finance
- Benzinga
- Barchart
- Flowalgo
- Stockcharts
- CNBC
- Investopedi
- Seeking Alpha App
- Bloomberg
- Market Watch
- Barron's

Good luck on your journey to becoming proficient in trading stock options!

NOTES:

Consistency: Review your notes and exercises regularly to reinforce learning.
Community: Join online forums or groups to discuss and learn with peers.
Patience: Trading options can be complex; give yourself time to learn and practice

Your notes

ADDITIONAL RESOURCES

RECOMMENDED STOCKS TRADING BOOK LIST:

- The Daily Trading Coach
- Trading in the Zone
- The Discipline Trader
- Millionaire Traders
- How To Day Trade For A Living
- Charting and technical analysis
- The Little Red Book Common Sense of Investing
- The Power of Numeral Plasticity
- How I Made Over 2,000,000 in the Stock Market
- The Power Of Full Engagement
- Zero to One
- 100 Bagger
- The Candlestick Bible

KEY TERMINOLOGY FOR TRADING STOCK OPTIONS

To successfully trade stock options, it is crucial to understand the key terms and concepts used in the options market. Below is a comprehensive glossary of terminology that every aspiring options trader should know:

1.BASIC TERMS

- **Options:** Financial instruments that give the holder the right, but not the obligation, to buy or sell an underlying asset at a specified price within a specified time frame.
- **Call Option:** A type of option that gives the holder the right to buy the underlying asset at the strike price before the option expires.
- **Put Option:** A type of option that gives the holder the right to sell the underlying asset at the strike price before the option expires.

2. PRICING TERMS

- **Strike Price (Exercise Price):** The price at which the holder of an option can buy (call) or sell (put) the underlying asset.
- **Premium:** The price paid by the buyer to the seller to acquire the option. It is determined by factors such as the underlying asset's price, time to expiration, volatility, and interest rates.

3. EXPIRATION AND EXERCISE

- **Expiration Date:** The date on which the option contract expires. After this date, the option becomes worthless if not exercised.
- **American Option:** An option that can be exercised at any time before its expiration date.
- **Exercise:** The act of utilizing the right to buy (call) or sell (put) the underlying asset at the strike price.

4. MARKET PARTICIPANTS

- **Option Holder:** The buyer of the option who pays the premium and holds the right to exercise the option.
- **Option Writer (Seller):** The seller of the option who receives the premium and has the obligation to fulfill the terms of the option if it is exercised.
- **Covered Call:** A call option written by an investor who owns the underlying asset, providing some protection against a decline in the asset's price.
- **Naked Option:** An option written without holding the underlying asset, involving higher risk as the writer may have to purchase the asset at the market price.

5. PROFIT AND LOSS

- **In-the-Money (ITM):** A call option is ITM if the underlying asset's price is above the strike price; a put option is ITM if the asset's price is below the strike price.
- **Out-of-the-Money (OTM):** A call option is OTM if the underlying asset's price is below the strike price; a put option is OTM if the asset's price is above the strike price.
- **At-the-Money (ATM):** An option is ATM if the underlying asset's price is equal to the strike price.

6. OPTION STRATEGIES

- **Long Call:** Buying a call option, expecting the price of the underlying asset to rise.
- **Long Put:** Buying a put option, expecting the price of the underlying asset to fall.
- **Short Call:** Selling a call option, typically when expecting the underlying asset's price to remain stable or fall.
- **Short Put:** Selling a put option, typically when expecting the underlying asset's price to remain stable or rise.
- **Spread:** An options strategy involving the simultaneous purchase and sale of options on the same underlying asset with different strike prices or expiration dates.
- **Straddle:** Buying both a call and a put option on the same underlying asset with the same strike price and expiration date, betting on significant price movement in either direction.

7. OPTION PRICING MODELS

- **Black-Scholes Model:** A widely used model for calculating the theoretical price of options, incorporating factors like the underlying asset's price, strike price, time to expiration, volatility, and risk-free interest rate.
- **Implied Volatility:** The market's forecast of a likely movement in the underlying asset's price. High implied volatility increases the option's premium.

8. RISK AND MANAGEMENT

- **Delta:** Measures the sensitivity of the option's price to a $1 change in the price of the underlying asset. Delta ranges from 0 to 1 for calls and -1 to 0 for puts.
- **Gamma:** Measures the rate of change of delta for a $1 change in the price of the underlying asset. Indicates the stability of delta.
- **Theta:** Measures the sensitivity of the option's price to the passage of time. Known as time decay, theta is the amount by which the option's price decreases as time to expiration shortens.
- **Vega:** Measures the sensitivity of the option's price to changes in the implied volatility of the underlying asset.
- **Rho:** Measures the sensitivity of the option's price to changes in interest rates.

Your notes