

Introduction to Binary Trading

Part 3 in a Series

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Topics

- A quick recap from last month
- Value revisited
- The volatility play
- Supportive research
- Making the trade
- Trade management
- Summary

This Series of Presentations

- Purpose – to open your eyes to the world of possibilities that Binary Trading can offer.
- Method – build a usable trading system framework using common tools and free data sources that can be the building blocks for your own system.
- Goal – instill a sense of curiosity and promote good practice. Build confidence and own your system and profit.
- Share – with other traders.
- *Standard Disclaimer – these opinions are my own and do not constitute financial advice. Information is for educational purposes only.*

What is a Binary Trade Anyway?

- Speculating on an event in terms of true or false. Will the event occur? Yes or no?
- For example —
 - Will the FTSE finish up today?
 - Will the Dow stay within a +/- 100 point range today?
 - Will the EURUSD be down at the end of the week?
- Change in mindset from traditional spread betting
- FTSE Tunnels — the maximum or minimum value that the FTSE Index (not futures) moves in a given day from the previous close.

FTSE Tunnels



Value Revisited

- Q. What is value in the context of pricing a binary option?
 - A. The quote for a binary option represents good value if the probability of the outcome exceeds the quoted price expressed as a percentage although time must always be taken into account.
 - Example:
 - The probability of the FTSE +/- 55 tunnel being exceeded on any given day is 57%. This has occurred 126 times this trading year.
- Q. Does this represent good value?
 - A. Maybe. Time is critical. If this event happens early in the day then it is more likely to occur.
 - Example: If the FTSE +/- 55 binary tunnel is quoted at 5 (5%) at 4:29pm it is very unlikely to move 55 in the last minute of trading.

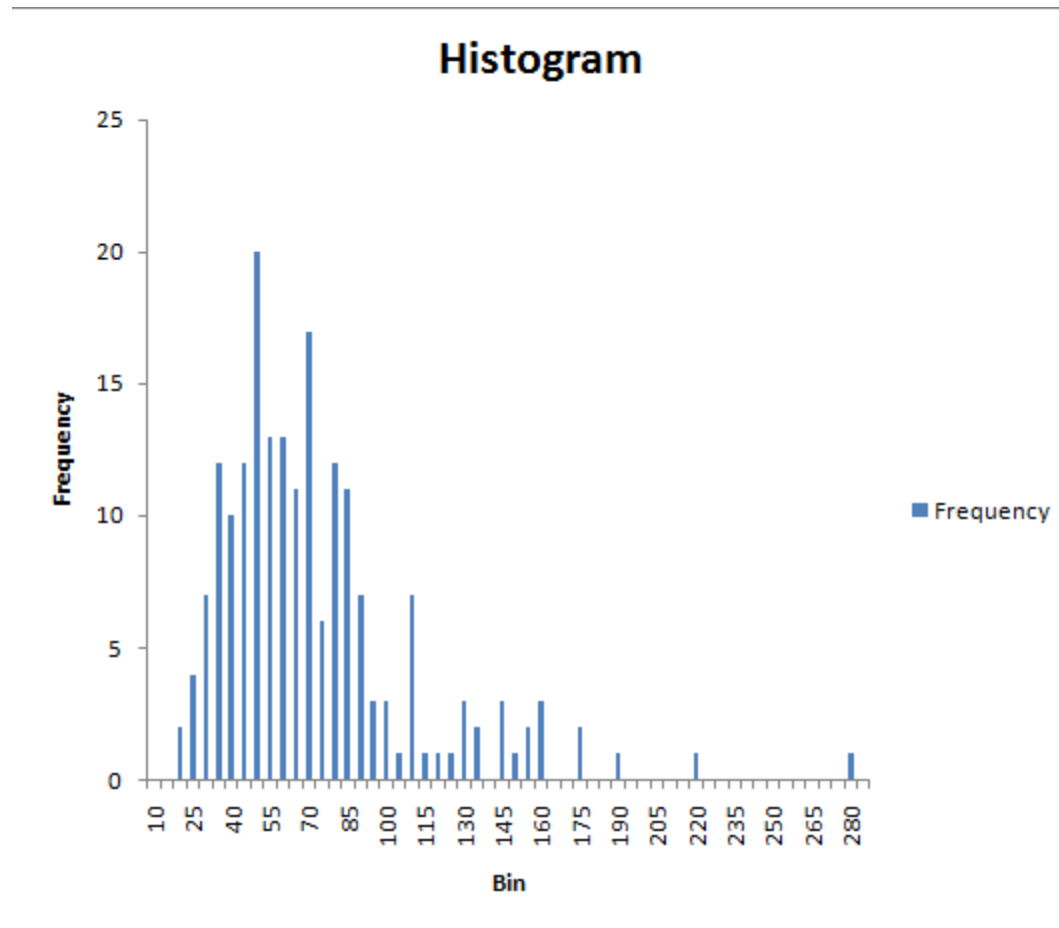
Value Revisited

- Other important information
 - Tunnels are the best value when the underlying is in the middle. Seeing that this is based on the previous close (in the case of the FTSE tunnel) the best time to trade is at this level.
 - Large overnight moves effectively take the trade away.
 - Example: FTSE moves 70 points on open – the 55 tunnel will not be available as it has already been breached.

FTSE Volatility System

- Trade idea
 - How can I take advantage of days with lots of news?
 - FTSE Index regularly exceeds the +/- 55 tunnel.
 - Sell the binary option to catch any spikes or price volatility – we use sell as the binary is described as FTSE to keep in range -55 to +55 on IG Index.
 - Sell cheap options keeping risk low.
 - Define a sell price above 85 as value.
 - Return will be 85 as binary finishes at 0 if the event occurs. Remember, we are selling this binary option.
 - Return = $100/15$ or 6.67R

Supportive Research



Supportive Research

	A	E	G	H	I	J	K	L	M	R	S	V	W	X	Y	Z
									True	Days Close		Max				
1	Date	Day	Open	High	Low	Close	Volume	Adj Close	Range	From Previous	MAE	Tunnel Value	Over 100	Over 75	Over 65	Over 55
2	15/11/2010	Mon	5,796.9	5,832.9	5,755.7	5,820.4	620,872,800	5,820.4	77.2	Up	41.2	41				
3	12/11/2010	Fri	5,815.2	5,831.8	5,711.7	5,796.9	986,021,400	5,796.9	120.1	Down	16.6	104	TRUE	TRUE	TRUE	TRUE
4	11/11/2010	Thu	5,816.9	5,846.5	5,792.6	5,815.2	1,091,041,600	5,815.2	53.9	Down	29.6	30				
5	10/11/2010	Wed	5,875.2	5,877.0	5,796.2	5,816.9	942,150,400	5,816.9	80.8	Down	1.8	79		TRUE	TRUE	TRUE
6	09/11/2010	Tue	5,850.0	5,902.1	5,847.4	5,875.2	951,025,300	5,875.2	54.7	Up	2.6	52				
7	08/11/2010	Mon	5,875.4	5,881.0	5,841.3	5,850.0	772,608,500	5,850.0	39.7	Down	5.6	34				
8	05/11/2010	Fri	5,862.8	5,899.4	5,834.0	5,875.4	1,106,801,300	5,875.4	65.4	Up	28.8	37				
9	04/11/2010	Thu	5,749.0	5,876.0	5,749.0	5,862.8	1,079,789,800	5,862.8	127	Up	0.0	127	TRUE	TRUE	TRUE	TRUE
10	03/11/2010	Wed	5,757.4	5,773.7	5,730.5	5,749.0	825,699,200	5,749.0	43.2	Down	16.3	27				
11	02/11/2010	Tue	5,694.6	5,771.6	5,690.4	5,757.4	805,488,100	5,757.4	81.2	Up	4.2	77		TRUE	TRUE	TRUE
12	01/11/2010	Mon	5,675.2	5,733.0	5,667.4	5,694.6	641,818,600	5,694.6	65.6	Up	7.8	58				TRUE
13	29/10/2010	Fri	5,677.9	5,699.2	5,647.0	5,675.2	836,504,100	5,675.2	52.2	Down	21.3	31				
14	28/10/2010	Thu	5,646.0	5,711.8	5,646.0	5,677.9	767,340,900	5,677.9	65.8	Up	0.0	66			TRUE	TRUE
15	27/10/2010	Wed	5,707.3	5,707.3	5,630.9	5,646.0	787,759,800	5,646.0	76.4	Down	0.0	76		TRUE	TRUE	TRUE
16	26/10/2010	Tue	5,752.0	5,754.2	5,677.2	5,707.3	812,461,700	5,707.3	77	Down	2.2	75			TRUE	TRUE

Making the Trade

- Key points:
 - Know where the value is. When is the binary option a bargain?
 - Don't trade too small.
 - Be aware of the where the market opens.
 - Set an alarm to signal when parity is reached.
 - Know your session times.
 - Don't take a trade late in the day. Always be aware that time is an important factor.
 - If you don't see a trade — walk away. Plenty of opportunities coming.
 - This is a volatility system so if there is a day where price movement is low it may not work out.

Trade Management

- Key points:
 - Try not to use the smallest bet size
 - If £1 per point is used choices will be limited. Makes things tougher than they should be.
 - Remove risk if possible
 - Close a portion of the trade to reduce risk.

Summary

- Consider trading binary options as part of your trading arsenal.
- Understand risk.
- Get to grips with probability.
- Use a spreadsheet to run your research and to show the likelihood of your trading ideas before you trade.
- Always keep a journal and review it regularly.
- Track your progress and always be assessing.

Useful Resources

- Web Sites
 - Finance.yahoo.com – free data
 - Forexfactory.com – for economic news
 - IGIndex.co.uk, IGMarkets.co.uk, Betonmarkets.com – binary trading sites
- Books
 - Binary Betting – John Piper - Introduction
 - Binary Trading – John Piper – More about financial markets.

Final Thoughts

- I hope you have enjoyed this series of presentations.
- Got any good ideas, thoughts, feedback or general rants?
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