User Guide

How To Get The Most Out Of Your Subscription
Thank you for subscribing!

As chief options strategist of *Cabot Options Institute Quantitative Trader*, I want to welcome you on board!

Whether you are just getting started with options or have traded them for years, it’s my goal to teach you my statistically driven, mechanical approach to trading options.

Simply stated, I’m a quantitative trader. I use math to make all my trading decisions. Probabilities are a key factor in each and every trading decision, not just with earnings trades, but with all my options trades. And my hope is that by learning my statistical approach to options trading, you will have the ability to use the strategies learned to take advantage of the wide variety of options opportunities the market has to offer.

For *Cabot Options Institute Quantitative Trader* subscribers, this guide will provide both beginner and advanced traders the step-by-step guidance for making the most of the advisory’s abundance of resources.

I hope that through weekly webinars, alerts and updates you will quickly learn from my 25 years of professionally trading options.

At any time, if you have questions or comments, please do not hesitate to email me at Andy@CabotWealth.com.

Once again, it’s great to have you on board. And I hope you find the service helpful in all your trading endeavors. I look forward to a long and profitable relationship.

Kindest,

*Andy Crowder*

Andy Crowder  
Chief Analyst  
*Cabot Options Institute Quantitative Trader*
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**Issues**
Every Monday I will publish a weekly issue that discusses our open trades and how we plan to proceed going forward. Each weekly update will include the companies that I plan to focus on plus several other trade ideas for those that wish to trade a bit more often on their own.

Every month, on the Thursday before the third Friday of the month (options expiration), we will get together for a live webinar. In each webinar we will discuss not only open trades, but potential trades as well. I will also answer any pertinent questions you may have regarding past trades, future trades or just anything options. Each webinar will be recorded and archived just in case you are not able to attend the live webinar.

**Alerts**
You will receive email alerts when market or trade conditions warrant it; during each expiration cycle I will issue between 2-5 alerts using our risk-defined strategies.

**Special Reports**
Our catalog of Special Reports provides further options analysis that provides a deeper dive into trading strategies and tactics. Here you will find all of my step-by-step strategy guides for the strategies we use most frequently during earnings season, plus the statistical approach I use around each and every earnings trade.

**24/7 Archives**
Your subscription gives you access to our vast online library of analysis, including past weekly updates, reports, related webinars, and other educational content published by Cabot Wealth Network.

**Direct Contact**
Outside of our live webinars where you can ask as many questions as you would like, whenever you have an investment-related question, you can also email me directly at Andy@CabotWealth.com. You can also call our Cabot Investor Services desk at 800-326-8826 anytime during business hours to speak with someone about your subscription. Or you can email our subscription support staff at Support@CabotWealth.com.
Below are the three main strategies we use in Cabot Options Institute Quantitative Trader.

I've gone through numerous examples below to help you have a better understanding of not only the strategies I use, but the high-probability approach that is unique to the service.

Focus on the mechanics of each strategy. Timeframes aren’t important without understanding the basic mechanics.

Statistics, probabilities, the Law of Large Numbers, expected range and disciplined risk-management, among several other key factors, define our high-probability approach.

**Bear Call Spreads**

A bear call spread, otherwise known as a short call vertical spread, is one of my favorite risk-defined options strategies and one that you will see me use often.

As the name of the strategy implies, a bear call spread is a bearish-leaning strategy.

But it is important to note that the strategy doesn’t require the security to move lower to make money. Unlike the binary nature of stock strategies (a stock can either go up or down), with a bear call spread you not only have the ability to make a return when a security moves lower, you can also make money if the stock stays flat or pushes slightly higher.

For example, with SPY trading for 449.59 I want to place a bear call spread with a high probability of success.
Let's take a look at the options chain for SPY going out 28-65 days until expiration.

It looks like the April 29, 2022, expiration cycle with 38 days left until expiration falls within the 28-65-day range. As a result, let's take a look at the call strike with an 80% probability OTM (out-of-the-money), otherwise known as the probability of success on the trade.

It looks like the 469 call strike with an 81.53% probability of success is where I want to start. The short call strike defines my probability of success on the trade. It also helps to define my overall premium or return on the trade.

Once I've chosen my short call strike, in this case the 469 call, I then proceed to look at a 3- strike-wide, 4-strike-wide and 5-strike-wide spread to buy.

The spread width of our bear call helps to define our risk on the trade. The smaller the width of the spread the less capital required. When defining your position size, knowing the overall defined risk per trade is essential. Basically, my total risk and my premium increase as my chosen spread width increases.

For example, let's take a look at the 5-strike-wide, 469/474 bear call spread.

**The Trade: 469/474 Bear Call Spread**

Simultaneously:

Sell to open SPY April 29, 2022, 469 strike

Buy to open SPY April 29, 2022, 474 strike for a total net credit of roughly $0.95 or $95 per bear call spread

- Probability of Success: 81.53%
- Total net credit: $0.95, or $95 per bear call spread
- Total risk per spread: $4.05, or $405 per bear call spread
- Max Potential Return: 23.5%
As long as SPY stays below our 469 strike (orange line below) at expiration in 38 days, I have the potential to make 23.5% on the trade.

In most cases, I will make slightly less, as the prudent move is to buy back the bear call spread prior to expiration. Typically, I look to buy back the spread when I can lock in 50% to 75% of the original credit. Since we sold the spread for $0.95, I want to buy it back when the price of my spread hits roughly $0.40 to $0.20. Of course, there are a variety of factors to consider with each trade. And we allow the probabilities and time to expiration to lead the way for our decisions. But, taking off risk by locking in profits is never a bad decision, and by doing so, we have the ability to take advantage of other opportunities the market has to offer.

**Risk Management**

Since we know how much we stand to make and lose prior to order entry we have the ability to precisely define our position size on every trade we place. Position size is the most important factor when managing risk, so keeping each trade at a reasonable level (I use 1% to 5% per trade) allows not only the Law of Large Numbers to work in your favor … it also allows you to sleep well at night.

I also tend to set a stop-loss that sits 2 to 3 times my original credit. In my example, I sold the 469/474 bear call spread for $0.95. As a result, if my spread reaches $1.90 to $2.85 I will exit the trade.

**Bull Put Spread**

A bull put spread, otherwise known as short put vertical spread, is another one of my favorite risk-defined options strategies and a strategy I will use often.

As the name of the strategy implies, a bull put spread is, well, a bullish-leaning strategy.

But it is important to note that the strategy doesn’t require the security to move higher to make money. With bull put spreads you not only have the ability to make a return when a security moves higher, you can also make money if the stock stays flat or even if the stock pushes slightly lower.
The first step in placing a bull put spread, or any trade, is making sure the security we are interested in is highly liquid. We always want to use the most efficient products possible. It just doesn't make sense to have to make 5% to 15%, possibly more, to get back to breakeven.

**iShares Trust Russell 2000 ETF (IWM)**

IWM is a highly liquid product, as a result, we can move forward with a potential bull put trade.

With IWM trading for 211.71 I want to place a bull put spread with a high probability of success.

Let’s take a look at the options chain for IWM going out 28-65 days until expiration.

![Options Chain](chart.png)

It looks like the April 29, 2022, expiration cycle with 31 days left until expiration fits the bill. As a result, let’s take a look at the put strike with approximately an 80% probability OTM (out-of-the-money), otherwise known as the probability of success on the trade.

It looks like the 197 put strike with an 80.31% probability of success is where I want to start. The short put strike defines my probability of success on the trade. It also helps to define my overall premium or return on the trade.
Once I've chosen my short put strike, in this case the 197 put I then proceed to look at a 3-strike-wide, 4-strike-wide and 5-strike-wide bull put spread to buy.

The spread width of our bull put helps to define our risk on the trade. The smaller the width of the spread the less capital required. When defining your position size knowing the overall defined risk per trade is essential. Basically, my capital requirement and my premium increase as my chosen spread width increases.

For example, let's take a look at the 4-strike, 197/193 bull put spread.

**The Trade: IWM 197/193 Bull Put Spread**

Simultaneously:

Sell to open IWM April 29, 2022, 197 strike
Buy to open IWM April 29, 2022, 193 strike for a total net credit of roughly $0.46 or $46 per bear call spread

- Probability of Success: 80.31%
- Total net credit: $0.46, or $46 per bull put spread
- Total risk per spread: $3.54, or $354 per bull put spread
- Max Potential Return: 13.0%

As long as IWM stays above our 197 strike at expiration in 31 days, I have the potential to make 13.0% on the trade.

In most cases, I will make slightly less, as the prudent move (and all research backs this up) is to buy back the bull put spread prior to expiration. Typically, I look to buy back the spread when I can lock in 50% to 75% of the original credit. Since we sold the spread for $0.46, I want to buy it back when the price of my spread hits roughly $0.23 to $0.12.

Of course, there are a variety of factors to consider with each trade. And we allow the probabilities and time to expiration to lead the way for our decisions. But, taking off risk by locking in profits is never a bad decision and by doing so, we have the ability to take advantage of other opportunities the market has to offer.

**Risk Management**

Since we know how much we stand to make and lose prior to order entry we have the ability to precisely define our position size on every trade we place. Position size is the most important factor when managing risk, so keeping each trade at a reasonable level (I use 1% to 5% per trade) allows not only the Law of Large Numbers to work in your favor … it also allows you to sleep well at night.

I also tend to set a stop-loss that sits 2 to 3 times my original credit. In my example, I sold the 197/193 bear call spread for $0.46. As a result, if my spread reaches $0.92 to $1.38 I will exit the trade.
The third strategy that we use in *Cabot Options Institute Quantitative Trader* is the non-directional options strategies known as the **iron condor**.

Yep, weird name, I know. But the name makes perfect sense when you look at the profit/loss chart for the strategy.

An iron condor is not only one of the most powerful options strategies, it’s also one of the best all-around investments strategies that we, as investors, have at our disposal.

The strategy consists of a short call vertical spread (bear call spread) and short put vertical spread (bull put spread).

If all the aforementioned seems like a foreign language, no worries. This is a strategy I want all investors to learn, so I’m going to go through the strategy and my approach in a step-by-step process.

### Step One – Liquidity

Liquidity is king. The first step when trading iron condors, or any options strategy for that matter, is to make sure you are choosing a highly liquid stock or ETF. Some of the best ways to find out if an underlying security is liquid is to take a look at the open interest, volume and bid-ask spread for the at-the-money options.

I have created a list of highly liquid stocks and ETFs that I like to trade, and I rarely stray from that list. Why would I want to trade an underlying security that requires me to make back 5% to 15% on average just to get back to breakeven? It doesn’t make sense. Remember, we want to use efficient products that allow us to get in and out of the trade with ease. Don't overlook the importance of using highly liquid securities.
Step Two – Expected Move

Let’s say we decide to place a trade in the highly liquid SPDR S&P 500 (SPY) going out roughly 30 days until expiration.

As you can see below, the expected move, also known as the expected range, is from 445 to 478.

In most cases, my goal is to place my iron condor outside of the expected move. Moreover, I prefer to have my probability OTM or probability of success around 75%, if not higher, on both the call and put side.
Step Three – Choosing Expiration Cycle and Strike Prices

Since I know the expected range, as seen above, for the S&P 500 (SPY) for the April 29, 2022, expiration cycle is from 445 to 478, I can then begin the process of choosing my strike prices.

Call side of the iron condor:

<table>
<thead>
<tr>
<th>CALLS</th>
<th>Delta</th>
<th>Prob.OTM</th>
<th>Prob.Touch</th>
<th>Bid X</th>
<th>Ask X</th>
</tr>
</thead>
<tbody>
<tr>
<td>29 APR 22 (31) 100 (Weekly)</td>
<td>.14</td>
<td>86.92%</td>
<td>26.69%</td>
<td>1.18 H</td>
<td>1.20 W</td>
</tr>
<tr>
<td></td>
<td>.11</td>
<td>89.29%</td>
<td>21.84%</td>
<td>.92 Q</td>
<td>.94 W</td>
</tr>
<tr>
<td></td>
<td>.09</td>
<td>91.26%</td>
<td>17.81%</td>
<td>.72 Q</td>
<td>.74 W</td>
</tr>
</tbody>
</table>

The high side of the expected range is again 478 for the April 29, 2022, expiration cycle, so I want to sell the short call strike just above the 478 strike, possibly higher.

As you can see above, the 480 call strike with an 86.92% probability of success fits the bill.

Once I’ve chosen my short call strike, I then begin the process of choosing my long call strike. Remember, buying the long strike defines my risk on the upside of my iron condor. For this example, I am going with a 4-strike wide iron condor, so I’m going to buy the 484 strike.

As a result, I am going to sell the 480/484 bear call spread for roughly $0.46. But, before I place the trade I want to choose the bull put portion of my iron condor.

Put side of the iron condor:

<table>
<thead>
<tr>
<th>PUTS</th>
<th>Delta</th>
<th>Prob.OTM</th>
<th>Prob.Touch</th>
</tr>
</thead>
<tbody>
<tr>
<td>29 APR 22</td>
<td>-.12</td>
<td>86.38%</td>
<td>26.64%</td>
</tr>
<tr>
<td>29 APR 22</td>
<td>-.13</td>
<td>85.84%</td>
<td>27.69%</td>
</tr>
<tr>
<td>29 APR 22</td>
<td>-.13</td>
<td>85.29%</td>
<td>28.76%</td>
</tr>
<tr>
<td>29 APR 22</td>
<td>-.14</td>
<td>84.70%</td>
<td>29.91%</td>
</tr>
<tr>
<td>29 APR 22</td>
<td>-.14</td>
<td>84.10%</td>
<td>31.08%</td>
</tr>
</tbody>
</table>

The low side of the range is, again, 445 for the April 29, 2022, expiration cycle, so I want to sell my short put strike just below the 445 strike, possibly lower.

As you can see above, the 431 strike with an 84.10% probability of success fits the bill.

Once I’ve chosen my short put strike, I then begin the process of choosing my long put strike. Remember, the long put strike defines my risk on the downside. For this example, I am going with a 4-strike-wide iron condor, so I’m going to buy the 427 strike.

Again, it’s all about the probabilities when using options selling strategies. The higher the probability of success, the less premium you should expect to bring in. But as long as I can bring in a reasonable amount of premium, I always side with the higher probability of success, as opposed to taking on more risk for a greater return.

So, with a range of $49 (480 - 431) and SPY trading for roughly 461.55, the underlying ETF can move higher 4.0% or lower 6.6% over the next 31 days before the trade is in jeopardy of taking a loss.
Here is the theoretical trade:

Simultaneously...

- Sell to open SPY April 29, 2022, 480 calls
- Buy to open SPY April 29, 2022, 484 calls
- Sell to open SPY April 29, 2022, 431 puts
- Buy to open SPY April 29, 2022, 427 puts

We can sell this iron condor for roughly $0.80. This means our max potential profit sits at approximately 25.0%.

Again, I wanted to choose an iron condor that was outside of the expected move and has a high probability of success. This is why I sold the 480 calls and the 431 puts.

Remember, when approaching the market from a purely quantitative approach, it's all about the probabilities. The higher the probability of success on the trade, the less premium I'm able to bring in, but again, the tradeoff is a higher win rate. And when I couple a consistent and disciplined high-probability approach on each and every trade I place, I allow the Law of Large Numbers to take over. Ultimately, that is the true path to success.

**Step Four – Managing the Trade**

I typically close out my trade for a profit when I can lock in 50% to 75% of the original premium sold. So, if I sold an iron condor for $0.80, I would look to buy it back when the iron condor reaches $0.40 to $0.20. This way I’m pocketing $0.40 to $0.60 on the trade.

If the underlying moves against my position, I typically adjust the untested side. Most roll the tested side, but all research states that rolling the untested side higher/lower allows me to bring in more premium and thereby decrease my overall risk on the trade. Moreover, I look to get out of the trade when it reaches 1 to 2 times my original premium. So, in our case when the iron condor hits $1.60 to $2.40.

Ultimately, position size is the best way to truly manage an iron condor. We know prior to placing a trade what we stand to make and lose on the trade, therefore we can adjust our position size to fit our own personal guidelines. Iron condors are risk-defined, so it’s important to take advantage of their risk-defined nature by staying consistent with your position size for each and every trade you place. Remember, it’s all about the Law of Large Numbers.

**Calculating an Iron Condor Max Loss and Max Profit**

Let’s use SPY for our example.

As stated in our example above, the major-market ETF is currently trading for 461.55.

**Call Side of the Iron Condor**

We decided to go with a 4-strike-wide spread on both the call and put side of the trade.

Again, we chose the 480/484 bear call spread. Our credit on the call side of the iron condor was $0.46.
Put Side of the Iron Condor

Staying consistent with our spread width of $4, we chose the 431/427 bull put spread. Our credit for the spread was $0.34.

Our total credit for both spreads, as stated in our iron condor example above was $0.80 ($0.46 + $0.34). This is our max profit on the trade.

Once we have our total credit, in this case $0.80, we then take that amount and subtract it from our spread width of $4 to obtain the iron condor max loss.

Max Loss: $4 – $0.80 = $3.20 per iron condor

Max Profit: $0.80

Knowing the max loss ahead of time gives us the ability to manage our risk through proper position size. For instance, if we typically allocate $2,500 per trade, we know, through the calculations above, that we can trade seven iron condors to stay within our position-size parameters. Our total risk would be $2,240 ($320 x 7) for the trade.

Again, iron condors are risk-defined, so it's important to take advantage of their risk-defined nature by staying consistent with your position size for every trade you place. Knowing how to calculate an iron condor max loss is the first major step in understanding how much money you have at risk. And understanding your risk prior to placing a trade is one of the most important aspects of trading successfully over the long term.
Frequently Asked Questions

Can you recommend options brokers?

I use Tastyworks and Thinkorswim, although you will find that there is a plethora of good brokers out there that offer excellent platforms, I have found these to be the best in the business. That said, I have no additional relationship with them, nor is this an endorsement. Whatever broker you choose, make sure you are paying a competitive rate on commissions. You also want a broker that offers a good trading platform and the ability to speak with someone on the trading desk. All of this will be helpful in your future trading endeavors.

How much capital should I start with?

The beautiful thing about options is it doesn’t take much capital to gain large market leverage. You certainly don't need more than $500 to put on many of the trades I suggest, though many of my readers trade much higher amounts.

I missed your recommended price. Should I trade at the current price?

With each trade recommendation, I lay out my strategy of choice and the mechanics behind it. It’s then up to you to decide if it’s a good enough idea for you to make the trade. And if you like the trade, you need to decide how much capital to allocate to the trade, and at what price, based on your feel for the market and your investment goals.

As always, there will be trades where you get a better price and some where the price isn’t as good as stated in the alert. That is the nature of trading. Ultimately, it is up to you to decide what price you are willing to take. This is something that we will go over each month in our live webinar.

How much should I allocate to each trade?

This is an incredibly important question and one that I must take some time to answer. Please don’t take position size lightly if you plan on being a successful trader over the long term.

It doesn’t matter if you are just starting or have an advanced grasp of all things options, if you don’t think of yourself as a risk manager first, you will fail, it’s just a matter of time.

Proper risk management is what separates those that succeed from those that continually struggle or simply just give up.

What people continue to struggle with is trying to find the latest and greatest strategy, constantly hopping from one strategy to the next. Strategy is far less important than proper risk management.

Placing trades, well, it’s the easiest part of the trading process. Anyone can place a trade. It’s how you handle the trade that allows you to be profitable over the long term.

Which is why you MUST think of yourself as a risk manager first, especially if you are taking a truly quant-based approach. The law of large numbers is your foundation but managing sequence risk is the obstacle that most traders just can’t overcome.

Sequence risk is the inherent risk that a trader could suffer multiple losses in a row. The best way to combat sequence risk is through proper position sizing. Position sizing mitigates the impact of consecutive losses. The lower the capital risked per trade, the lower the probability that a sequence of losing trades will cause a significant drawdown.
The table below shows how sequence risk can impact your overall account and why it is imperative that you use proper position size when investing/trading.

<table>
<thead>
<tr>
<th>Probability of Success</th>
<th>Consecutive Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>50%</td>
<td>1:2</td>
</tr>
<tr>
<td>60%</td>
<td>1:3</td>
</tr>
<tr>
<td>70%</td>
<td>1:4</td>
</tr>
<tr>
<td>80%</td>
<td>1:5</td>
</tr>
<tr>
<td>90%</td>
<td>1:10</td>
</tr>
</tbody>
</table>

Again, we know losing trades are going to occur. It's a hard fact that we must accept. So, trades must be managed appropriately. And the first step is proper position size.

The most important decision you will make as a successful options trader is **how much to allocate per trade**. From a risk-management standpoint, maintaining a consistent position size among your trades is of the utmost importance. We want to limit the havoc that one trade could have on our portfolio.

For simplicity's sake, let's say our trading account stands at $10,000 in this example.

In one case, we have allocated 50% per trade. In the other, we have allocated 5% per trade.

**$10,000 Account (50% allocated per trade):**

One position, equally weighted at $5,000. So, with each trade, a 10% drop will cause a 5% drop in our overall portfolio. A 20% drop will cause a 10% drop, 30% would be 15% ... you get the picture.

Just knowing this gives every options trader the insight necessary to shape a position size and stop-loss strategy for maximum effectiveness.

Let's say with each trade we set our stop-loss order at 50% of our allocated amount. For example, with 50% allocated to each trade, out stop loss would be set at $2,500.

This would only allow us to diversify among two positions with 50% of our overall portfolio value at risk.
**$10,000 Account (5% allocated per trade):**

One position, equally weighted at $500. So, with each trade, a 10% drop will cause a 0.5% drop in our overall portfolio. A 20% drop will cause a 1% drop, 30% would be 1.5% . . . again, you get the picture.

Our stop-loss with 5% allocated per trade is $250.

For example, if we had four iron condor trades open simultaneously, we would have $2,000 in play with only $1,000 or 10% of our overall portfolio at risk.

**Worst-Case Scenario**

If we assume our position size of $500 per trade and had four trades going at one time, our maximum loss is 10% or $1,000 of our overall portfolio (barring a catastrophic gap up or down that bypasses stop-loss levels).

A 10% loss in the portfolio would need an 11.11% overall gain to make up for the loss.

**Summary**

I realize the prior exercise is fairly simplistic. Again, it only begins the important discussion of risk management. Without some form of risk management, emotions take over.

And emotions are the enemy. Hindsight never exists in the present. We must realize that we will be wrong on occasion.

Being privy to this allows us to prepare accordingly. We know over the long term that having a defined stop-loss will only serve to benefit the performance of our respective portfolios. More importantly, we always know when to sell. Of course, all of the above assumes that we prefer the straight percentage stop-loss.

If you want to be a successful trader/investor over the long term, then taking the time to figure out an appropriate position-sizing plan is imperative. Please, please, please do not overlook this important concept.

You will not regret it.
Options jargon and terminology can sometimes sound like a foreign language. Here are a few terms that are commonly used in the investment methods discussed in *Cabot Options Institute Quantitative Trader*.

**Call Option**
A call option gives its holder the right to buy 100 shares of the underlying security at the strike price, any time prior to the option's expiration date. The seller of the option has the obligation to sell the shares.

**Exercise**
Exercise is the process by which an option holder invokes the terms of the option contract. If exercising a call, the holder will buy the underlying stock, while the put owner will sell the stock under the terms set by the option contract. All option contracts that are in-the-money by at least one cent at expiration will be automatically exercised.

**Expected Move or Expected Range**
The expected move, otherwise known as the expected range, is the amount a stock is predicted to advance or decline from its current share price, based on the security's current level of implied volatility and days to expiration. Additionally, the expected move fluctuates, in real time, based on changes in a security's price and its implied volatility.

Simply stated, the expected move shows us the future expected range of a security over a specific time frame.

**Expiration Date**
The expiration date is the last day an option exists. Monthly options cease trading on the third Friday of each month and expire the next day. Weekly options cease trading on the Friday of the week they are due to expire.

**IV Percentile**
IV Percentile tells us the percentage of days that implied volatility (IV) has been below the current level of IV over the past 12 months. IV percentile is a ranking system from 0-100. For example, if a stock has a current IV percentile of 80%, it simply means that the current level of IV is higher than 80% of all IV readings over the past 12 months.

**IV Rank**
IV Rank tells us if current implied volatility (IV) is considered high or low on an underlying security in comparison to all other IV readings over the past 12 months. IV rank is calculated by taking the highest IV reading and lowest IV reading over the past 12 months.

**Law of Large Numbers**
The foundation of all quantitative or statistically-based options traders rests on one statistical law – The Law of Large Numbers. The Law of Large Numbers states that as you increase your sample size, in our case number of trades, our expected value or probability of success will come to fruition. This is because the Central Limit Theorem shows us that actual values will converge on expected values. But, in order for the Central Limit Theorem to work, we need a large enough sample size or number of observations—in our case, trades. This is where the Law of Large Numbers comes in.
Option

An option is a contract that conveys to its holder the right, but not the obligation, to buy (in the case of a call) or sell (in the case of a put) shares of the underlying security at a specified price (the strike price) on or before a given date (expiration day). After this given date, the option ceases to exist. Equity option contracts usually represent 100 shares of the underlying stock.

Options Premium

An options price is called the “premium.” The potential loss for the holder of an option is limited to the initial premium paid for the contract. On the other hand, the seller of the option has unlimited potential loss that is somewhat offset by the initial premium received for the contract.

Put Option

A put option gives its holder the right to sell 100 shares of the underlying security at the strike price, at any time prior to the option’s expiration date. The seller of the option has the obligation to buy the shares.

Strike Prices

Strike Prices (or exercise prices) are the stated price per share for which the underlying security may be purchased (in the case of a call) or sold (in the case of a put) by the option holder upon exercise of the option contract.

Time Decay

All options are a wasting asset whose time value erodes to zero by expiration. This erosion is known as time decay. Generally, the longer the time remaining until an option’s expiration, the higher the premium will be. This is because the longer an option’s lifetime, the greater the possibility that the underlying share price might move so as to make the option in-the-money. This time decay increases rapidly in the last several weeks of an option’s life as the likelihood of it finishing in the money declines.
Andy Crowder is a professional options trader, researcher and chief options strategist of Cabot Options Institute Quantitative Trader. Formerly with Oppenheimer & Co. in New York, Andy has leveraged his investment experience to develop his statistically based options trading strategy which applies probability theory to option valuations in order to execute risk-controlled trades.

His proprietary strategies have been refined through two decades of research and real-world experience and has been featured in the Wall Street Journal, Seeking Alpha, and numerous other financial publications.

As a professional options trader, Andy has helped thousands of option traders learn and implement his meticulous rules-driven options trading strategies through highly attended conferences, one-on-one coaching, webinars, and his work as a financial columnist.

He currently resides in Bolton Valley, Vermont and when he’s not trading, teaching and writing about options, he enjoys spending time with his wife and two daughters, backcountry skiing, biking, running and enjoying all things outdoors.
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