User Guide
How to Get The Most Out of Your Subscription
Thank you for subscribing!

As chief analyst of the *Cabot Options Trader* and *Cabot Options Trader Pro* advisories, I want to welcome you on board. Simply put, we are here to help you make money ... hopefully big money when the market environment is right.

I hope you will benefit from my advice and experience in many ways. It will be my goal to enrich your investing knowledge base, and at the same time, your brokerage account.

I believe all investors should use options in some form in their investing. Options can be used to hedge a portfolio, create yield or gain significant market exposure and returns with little capital risk.

For *Cabot Options Trader* subscribers, this guide will provide beginner option traders the guidance for making the most of the advisory's resources. If you are new to this type of investing, make sure to read this section on how to get started. It will make a big difference.

For *Cabot Options Trader Pro* subscribers, this guide will explain the more advanced options trading strategies and tactics we employ there. With all the various strikes and expirations, there are countless ways to trade options, and we will occasionally use more of these sophisticated strategies to gain an edge.

I hope that you will also learn from my experience trading options for over 20 years. I look forward to continuing that tradition by providing you the best and most profitable advice as possible.

If you ever have any questions about our recommendations, the markets or other trades that interest you, I'm always available by email. My address is Jacob@CabotWealth.com.

Once again, welcome. I look forward to a long and profitable relationship.

Your guide to successful options trading,

Jacob Mintz
Chief Analyst,
* Cabot Options Trader
and * Cabot Options Trader Pro
What’s in this guide...

Here’s What You Get
– All the Benefits of Your Subscription

Our Investment Strategies
– How We’ll Make You Money

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**Make sure to visit**<br>the *Cabot Options Trader* or *Cabot Options Trader Pro hubs* and bookmark the page!
How We’ll Make You Money

My fundamental philosophy of options trading is to understand the risk and reward of every trade. When buying or selling options, I break down the best- and worst-case scenarios, and determine if the odds are in our favor, and if the trade fits our objectives.

What makes options so potentially lucrative is that you can make tremendous profits with little capital at risk. When I buy options, I risk pennies to make dollars.

When I recommend selling options, I will always do so in a way that has defined risk. This way, we’re never exposed to catastrophic risk.

In the options world, there are many ways to take advantage of opportunities. There will be times when I recommend strategies to hit singles, and other times when I will go for the home run.

If a trade I recommended is making money faster than I had anticipated, I will often recommend taking off half the trade. As the old trading saying goes, “bulls make money, bears make money, and pigs get slaughtered.”

That said, each Cabot Options Trader subscriber has a unique mix of investment style, objectives, risk profile and assets. It is up to you to decide which trades fit your objectives and risk profile and what size positions you will take.

Trade Alerts

When I believe that an opportunity for a trade has presented itself, I will send a detailed alert to you via your email or text message. You can always check up on recent Alerts at any time by logging onto the Cabot Wealth Network website (www.cabotwealth.com).

When the trade is executed in my trading account, the website will be updated to reflect the new open position, and I will continue to keep you updated in weekly email and website Updates.

When I decide that the trade should be closed, you will once again receive an email or text message Alert. All Closed Positions are also logged on the Cabot website.

Note: These alerts will go to the mobile number and email you provided when you signed up. You can change where the alerts are sent by updating your account.

Options Trading Strategies

Call Purchase

A call purchase is used when a rise in the price of the underlying asset is expected. This strategy is the purchase of a call at a specific strike price with unlimited potential for profits. The maximum loss on this trade is the amount of premium paid.

For example, the purchase of the XYZ 100 strike call for $1 would only risk the $1 paid. If the stock were to close at $100 or below at expiration, that call purchase would be worthless. If the stock were to go above $101, the holder of this call would make $100 per contract purchased per point above $101.
Put Purchase
A put purchase is used when a decline in the price of the underlying asset is expected. This strategy is the purchase of a put at a specific strike price with unlimited potential for profits. The maximum loss on this trade is the amount of premium paid.

For example, the purchase of the XYZ 100 put for $1 would only risk the $1 paid. If the stock were to close at $100 or above at expiration, the put would expire worthless. If the stock were to go below $99, the holder of this put would make $100 per contract purchased per point below $99.

Buy-Write (Covered Call)
The term buy-write is used to describe an options strategy in which the investor buys stocks and writes or sells call options against the stock position. The writing of the call option provides extra income for an investor who is willing to forgo some upside potential.

My example shows the purchase of 100 shares of stock XYZ, which is trading at 100, and the sale of the XYZ 105 strike call for $5. If the stock were to close at 100 on expiration, the trader will collect $5 on the expiring call. If the stock were to close at 105, the trader would make $500 on his stock appreciation and $500 on his call. If the stock were to fall to 95, the trader would lose $500 on his stock, but make $500 on the call, which would leave him at breakeven.

New to this type of investing?
Here’s how to get started
Options trading can seem complicated at times, confusing, and a bit overwhelming. But Cabot Options Trader tries to prevent that by doing the research and analysis for you. But if you are new to this type of investing, taking this beginners approach will ensure a solid start and enable you to ease into the daily, weekly, and monthly rhythms of options trading.

First, read this user guide from start to finish. It breaks down the various definitions and strategies that we use.

Start by reading about calls, then move on to puts. Once you understand the fundamentals, you’ll find that options are not that complicated.

When you’re ready to start, trade one contract and track how the option moves.

When you’re more comfortable, execute two contracts.

My Buy Alerts, Sell Alerts and Updates tell you exactly what to do.

Then proceed at your own pace and risk tolerance based on your larger portfolio and personal lifestyle. Follow my guidance and I will make sure you have all the resources you need to make sound investing decisions.
For Cabot Options Trader Pro subscribers, when I make a trade recommendation, I will often reference this “playbook” so that you will understand my rationale in recommending the trade—and thus be better able to decide if my proposed trade meets your trading and investing objectives.

Order Flow Reading
One way to get exposure to the smartest traders and hedge funds in the world is to watch what they are trading. By using market scans, we can follow large institutions or hedge funds into their trades. For example, if I see a very large buyer of calls or puts, we’ll look to put on the same or a similar trade to gain similar market exposure.

High Risk/High Reward Plays
These are trades with lower probability of success but potential for enormous profits. Think of intending to hit a home run instead of a single, with the risk of striking out. We will gain this type of exposure through outright call and put purchases. Often, there will be limited time for success, but the price will provide great risk/reward opportunity.

Earnings Plays
These trades are put on shortly before earnings announcements and taken off afterwards. We take advantage of possible elevated option volatility or potential stock movement based on historical price movement and risk/reward.

Volatility Plays
Using proprietary scans, I seek to find volatility trading opportunities to buy and sell volatility.

Momentum Trades
These are strategies to follow the momentum in the market or individual stocks. If the market or a specific stock is consistently trending up or down, I will design a trade to take advantage of the trend.

Contrarian Plays
If I believe the market has gone too far in one direction, I will seek option trades to take a contrarian position to the momentum in case there’s a sentiment change.

Portfolio Protection
These trades are designed to protect your portfolio. If I’m fearful of a market turn to the downside, I’ll use the sale of calls to “hedge” our portfolios.

Trades Tied to Other Cabot Analyst Picks
These trades will use options on stocks that other Cabot Wealth analysts are recommending, to either benefit from the same trends, or to insure against downside movement in those stocks.
How To Read Your Weekly Alerts

Your advisory includes weekly issues, ongoing updates, and special reports when necessary. Alerts are sent every Monday except for major holidays.

Here's a brief tour of a typical weekly update.

1. **Recent Alerts**
   This first section provides the most sensitive information pertaining to our options trades.

2. **Individual Recommendations**
   Click on any link and view the current recommendation and position of that particular trade.

3. **Market Update**
   This is the latest weekly update that note the current market developments, how they impact our portfolio, and our recommendations to best react. Past updates are also available here.

4. **Open Positions**
   In this section, we list out all our current open positions, give you concise instructions on what action to take.
5. **Watch List**

These are key trade we're keeping our eye on. We also provide new covered call ideas to enhance your options trading.

6. **Closed Positions**

These are all the trades we've closed.

7. **Investing and Education Materials**

Along the right column you'll find links to our latest Special Reports, Options Investment Strategy guides, and Jacob's library of options trading educational material.
Frequently Asked Questions

**Can you recommend options brokers?**

For a broker, you should look around for the best commissions. There are many online brokers, so competition has forced commissions down significantly in the last few years. I use Interactive Brokers. I find that its commission structure is extremely competitive, and the system is relatively easy to use. As a reference point, I pay around $1 a contract. 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!

**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 $1,000 to put on many of the trades I suggest, though many of my readers trade much higher amounts.

**How much should I allocate to each trade?**

There is nothing that I am surer of than the fact that I will get some trades wrong. My expectation is that I want to get six or seven out of 10 trades right. If I get on a hot streak, I might get eight out of 10 trades right. Assuming I get six or seven out of 10 right, and I cut my losers fast and let my winners run, we should end up way ahead. To do this properly, you need to have a balanced allocation of capital in each trade. That way, you aren't overexposed to the losers and underexposed to the winners. As an example, let’s assume you have $10,000 in a brokerage account allocated to options trades. I recommend allocating 2% to 5% of the capital to each trade. When you receive a trade alert, read my thesis and decide if you want to put on the trade. And if you like the thesis and risk/reward, decide how much of your 2% to 5% to risk on the trade. (Never go all in!)

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

With each trade recommendation, I lay out my thesis. 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 thesis, 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.

**Should we add to our positions when the trade is going against us?**

No, I don’t recommend adding to trades when they’re going against you. In my 20 years of trading, I’ve learned not to double down when a trade is going against me. Sometimes it works, and you can get to break even when the double down works; but when it doesn’t work, you’re stuck with twice the loser. It’s perhaps the toughest lesson for traders/investors: letting winners run and cutting losers off.

**What is “Order Flow Reading”?**

I categorize some trades as “order flow reading,” which is a strategy I use to follow the biggest hedge funds or traders into their trades. Often the big traders place very large bets based on insider information. A scanner tool that I created helps me find these large trades. If I like the risk/reward, I might recommend a similar trade.
Glossary

Stock investing 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 Trader* and *Cabot Options Trader Pro*.

**What is an 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.

**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.

**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.

**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.

**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.

**The 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.

**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.
Hedging
Hedging is a conservative strategy used to reduce investment risk by implementing a transaction that offsets an existing position.

The VIX
VIX is the ticker symbol for the Chicago Board of Options Exchange Market Volatility Index, a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Often referred to as the fear index, the VIX represents the market's expectation of stock market volatility over the next 30 days.

Historical Volatility
Historical volatility is the realized stock volatility over a given period of time, often expressed in time periods of 10 days, 30 days and 60 days.

Implied Volatility
Implied volatility is an important input in pricing options. If the market becomes volatile, or is expecting more volatility, implied volatility will rise, thereby increasing the price of options. On the other hand, if the market expects lower volatility, the implied volatility will fall, thereby lowering the price of options. Traders often use historical volatility to price implied volatility.
About the Expert

Jacob Mintz is a professional options trader and chief analyst of Cabot Profit Booster, Cabot Options Trader, and Cabot Options Trader Pro. Using his proprietary options scans, he creates and manages positions in equities based on unusual option activity and risk/reward.

Jacob developed his system during his years as an options market maker on the floor of the Chicago Board of Options Exchange, where he ran several trading crowds for nearly 10 years. After a successful career on the trading floor, Jacob was tasked with setting up a trading desk at a top-tier options trading company, trading against the most sophisticated hedge funds and institutions in the world.

Today Jacob trades for himself, coaches and teaches about options trading, and runs Cabot Wealth’s options trading advisories. He lives in North Carolina with his wife and two kids who keep him very busy with their sports and social calendars.

About Cabot Wealth Network

Cabot Wealth Network, established in 1970, is a trusted independent source of advice for individuals striving to take control of their investments and find the best stocks. Its 20 investment advisory services and annual Summit event deliver high-quality advice to more than 200,000 individual investors and investment professionals in 141 countries. Headquartered in historic Salem, Mass., in a converted 1934 public library Cabot Wealth employees take great pride in providing intelligent investment advice and timely, personal service without the hype and fabricated claims. Cabot is a member of the American Association of Individual Investors, Better Business Bureau, Specialized Information Publishers Association, and the Salem Chamber of Commerce.

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