The Binary Options Trading Guide

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The Basics

Advanced Strategies

What are binary options?

Binary options have indeed revolutionized the options trading market and managed to extend trading with options to a very wide range of target groups. If you have ever tried to trade classical options, you know that it's very difficult for an inexperienced person. At broker platforms like flatex, which is for example very suitable for buying and selling of stocks, you can trade options only after you prove that you have the required experience. If you are only a beginner, this is of course a problem. Therefore, there are many brokers which simplify trading with options–namely with binary options.

Peculiarities of binary options

Now we should answer the actual question: what are binary options and how do they differ from simple options. In case of binary options, only two types of payouts are possible which are specified beforehand. That means if you buy a Call option for 1000 Euro, at 70% payout, you get 700 Euro, or you lose all the money you invested or in a few cases, can get only a little percentage, for example 10% as a payout.

In this case, one would earn 100 Euro from 1000 Euro. An alternative to this is to make 1000 Euro to 1700 Euro. So, it's a kind of all or nothing play. It is actually the case for all options, because in the case of a normal option, the option expires as valueless or you can redeem them profitably. The only difference is that in this case the profit is not predetermined, but it depends on the rate on the expiration date. The binary options are also different with respect to runtime. In a standardized online trading, they are fixed to one hour. That means, you buy options at a rate for the next hour.

Advantages of binary options

The advantages of binary options are actually very clear: they are very easily understood and operated. It is practically not possible that you make a false decision, which can happen very easily in case of normal options and this can be really very expensive! With binary options, you cannot risk more than your investment. When you buy an option for 100 Euro, you cannot lose more than 100 Euro. But if you go short with a real option and the market goes in the wrong direction you can really lose a lot of money.

Different Types of binary options

Every broker of binary options offer a wide spectrum of options. As trader you will always wonder what exactly is meant with them and which kinds of binary options are available. Wanting to overtrump other brokers, each broker tries to sell as many options as possible – many different names are in use although they actually mean the same thing. In addition, some brokers think that they must translate their options, which extends the terms jungle even more. This article shows all the common options that one can trade at different brokers in 2012.

Classical binary options: Put/Call and High/Low

This type of options is a worldwide standard and the actual core of binary options trading. Here, you speculate whether the underlying asset will be lower or higher than the predetermined rate at a specific time in future. For example, you can buy an option from which you can make a profit if in 60 minutes the oil price stays over $100. Similarly, you can sell an option and make a profit if the oil price stays under $100. It is as easy as option trading can be. Payouts depend on the broker and amount to for instance 80% and in case of losing 10%. That means that for a $100 Option you receive $180 back if you are right and the option is in the money and only $10 if the option is not in the money.

Although it is a worldwide standard, these options are called differently by different brokers. Some call them Put/Call, some High/Low and there are surely some unusual names as ”up and down”.

Options with price touch: One Touch

The terms for these kinds of options are much more manageable. They are called as One Touch Options by 99% of the brokers and they are just a little bit more complicated than the classical High/Low options. You don’t need to speculate that rate will be lower or greater than a specific price but instead if the option will touch a specific rate or not on the expiry date.

If the rate is higher than the current rate, then it is a Call Option, if it is lower it is a Put Option. If you buy a Call Option you win when the rate touches a predefined rate. If you sell a Call Option, then you can make a profit only when the rate is not touched. If you buy a Put Option you win when the lower rate is touched and lose when it’s not touched. In case of selling, of course just the opposite is the case.

What counts is the fact that One Touch Options can only be traded during weekends. At the weekend it's decided which rate will be valid as the "Touch-Rate" for the coming week. So, you cannot simply obtain a Touch-Option on Wednesday, which should touch a rate in the next 60 Minutes or not.

One Touch Options are becoming more and more popular. They are in demand in volatile markets, since the probability that there are strong fluctuations increases, correspondingly. So that the underlying asset can be well touched to a specific rate.

Buyback of options: Option+

Some brokers also offer options, which can be bought back. It is possible for options which are either in the money or out of the money – but in this respect there are important differences among brokers. At Anyoption, for example, with the so called Option+ you can sell back only those options that are in the money and make 60% profit. Compared to 70% on the expiry date, it is of course less but you should also take into consideration that you don't have to take any risk anymore. At the end of the day, you can take the money immediately; you don't have to wait until the option expires.

There are other brokers which allow you to sell an option back which is out of the money. Of course you don't get all the money back, but compared with the small amount that you get when an option expires out of the money (if you get anything at all), the amount you obtain in this way is by all means acceptable. Such options are however offered only by a few brokers.

Trading with boundaries: Boundary Options

With these options, a lower and an upper boundary is defined, the rate over a specific timeframe can either lie inside or outside of this boundary. With a boundary option, you bet whether the rate will stay between two boundaries and want of course that there is no volatility and there is only a sideward movement. On the other hand, if you speculate that the rate does not fluctuate in the boundary, you will be delighted of course from the price motions in all directions. So, in volatile markets you can be happy if you have the chance to trade with boundary options!

Create your own options

Brokers such as iOption offer the possibility to create your own options. It's a very innovative story that can be very lucrative for all traders. At least, when you know how to construct your options. It is possible to determine different properties such as runtime, underlying asset and payout and calculate even a risk factor at the same time. So, you can have the whole control over trading with binary options!

The Advantages of Trading Binary Options

What are Binary Options?

Binary Options are also referred to as binaries, fixed payout and digital options. Their main attributes provide a more effective and simpler method of trading compared to more traditional investment types, such as stocks, currencies and commodities. Consequently, binary options are deemed to be more suitable for novices and the less experienced trader. This is primarily because trading binary options entails just the evaluation of only two main factors by the investor, which are selecting the market direction and expiry time for the underlying asset of interest.

Simplicity is the essence of trading binary options as they are considered to be the easiest of all forms of investments to use. This is because investors understand precisely, at execution time, their exact potential for maximum profit and loss. They also only have to concentrate on evaluating just the direction in which price will travel and not the size or magnitude of its movement.

In addition, the investor does not need to perform any due diligence on the underlying asset of the option. Binary options offer other significant advantages over other forms of trading such as high payouts and pre-defined limited risk exposure. The investor also requires just a modest initial deposit in order to start trading binary options. Binary options are contracts that pay-out a pre-determined profit for a successful trade whereas they refund a portion of the initial investment for losses.

As the name infers, there can only be two possible results when you trade binary options. You will either win a pre-defined profit or you will lose a pre-determined percentage of your investment. Although binary options are based on underlying securities such as a stock, currency pair or commodity, you do not need to understand their intricacies. To activate a binary option, you must first decide the size of your investment. You then need to assess in which direction you anticipate your binary option will move.

If you evaluate that your binary option will increase in value so that its final price exceeds its opening or strike one by just one trading increment at your selected expiry time, then should open a 'call' binary option. If you are successful, then you can receive payouts as high as 85% of your investment. However, if the final value of your binary options is lower than its opening price at expiry then you will receive a 10% to 15% refund.

Alternatively, if you conclude that price will drop below your opening or strike price within a pre-selected expiry time, then you should initiate a 'put' option. Your broker will pay you precisely the same percentages as listed above for the 'call' option depending on your result.

The Main Advantages of using Binary Options

Pre-determined payout and limited risk exposure – The payouts from your successful binary option trades are always fixed and pre-determined. You will know precisely the potential risks and rewards of all your trades before contract execution. Very importantly, your risk exposure will be clearly defined and restricted.

Simplicity of use – You only need to predict the directional movement of your binary option and not the size of it. Consequently, your primary question is "Will my binary option finish below or above my opening price before my selected expiry time elapses?

Minimum price change required – If your binary options close just one single price tick in the correct direction before your expiry time elapses, then you will be in-the-money and your contract will pay you the full pre-determined profit.

Excellent Hedging Tool – You can use binary options as an effective tool to hedge your existing trading positions as well as your investment portfolio. In addition, they are compatible with most of the popular trading strategies and techniques.

Selection of Expiry Times –Binary options provide a greater selection of short-term contract expiration periods then other forms of trading. This important feature provides you with the opportunity to trade more frequently.

24/7 trading – Most binary option brokers permit you to trade binary options around the clock, 7 days a week. In addition, by using your broker's sophisticated trading platform, you will find that trading binary options is quite a simple task.

Maximizing the Use of a Demo Trading Account

Many experts emphatically advise that you should trade in demo mode for some considerable time before risking your own money by going live. You can do this by opening a demo account with a selected broker who will then allow you to access its trading platform that contains extensive free demo facilities and tools. Once you achieved this objective, you will also be provided with a generous dummy balance that can be in the region of $50,000 plus.

However, although this concept sounds great and definitely is a good step to take, you must understand that there are substantial differences between utilizing a demo account and trading a live one. For example, you will not experience the same emotional and psychological trauma whilst demo-trading because, as your own money is not at risk, you can adopt a more cavalier approach and attitude. In contrast, you will discover that live trading can generate serious nerve-racking situations especially if you start suffering real and substantial financial losses.

Nevertheless, you can utilize demo trading to perform a number of important tasks but you must do so in the correct way. For example, you can use it to evaluate the performance of your trading strategies, but in doing so you must strive to stimulate live conditions as closely as possible. You can achieve this objective by using all the features of your trading strategy in exactly the same way as you intend to do when you go live. In contrast, should you just trade your demo account in a lackadaisical way then you could well experience severe financial and emotional difficulties when you progress onto real trading.

This is because you will not enjoy any demo luxuries when you start to trade live. For example, you will now be totally responsible for protecting your own limited budget which you will not be able to squander so readily. Should you do so, then it is you who will have to make all the efforts to replace it, otherwise you will have to cease trading altogether. Consequently, you must realize that demo trading can foster a sense of over-confidence in your trading abilities that will be extremely dangerous to transfer onto live conditions.

Experts will also advise that you must learn how to control your emotions before going live but you will discover that this is difficult skill to master in demo mode. Your top priority when you are live trading is to provide the maximum protection for your own limited finances at all costs.

You will also only be exposed to weak psychological influences during demo trading because you will be under minimum financial stress. For example, you will not experience the levels of fear and greed that you will do when live. In essence, demo trading will invoke very few of these critical emotions unless you can stimulate live trading as accurately as possible.

Consequently, a gung-ho approach to demo trading can cause you to develop potentially poor trading habits such as trying to keep your positions open indefinitely. You will discover that such practices would not be a very good idea to transfer to live trading situations as you could expose your equity to high levels of risk.

You must combat these problems by trying to ensure that your demo trading conditions simulate those of live trading as closely as possible. For example, using a dummy balance of $50,000 when you are demo-trading could distort your trading performance if this amount does not match the amount you plan to use when going live. Instead, you should choose a sum that is more indicative of the size of equity that you will be able to provide yourself. By doing so, you will then be able to simulate live trading conditions much better.

You can also attempt to overcome these problems by selecting a broker who will allow you to open a micro account with just $25. You will then be able to live trade, but risking a minimum of 10 cents a pip. Consequently, this solution would enable you to endure the emotions and psychological influences of full live-trading but only by deploying minimum capital risk.

The Power of Technical Analysis

You can use technical analysis to assist you in predicting future price movements by studying the historical data records of an asset, i.e. stock, commodity, currency pair or index. By doing so, you will be attempting to obtain a full picture of the trading history of the asset. You will discover that, even those individuals, who prefer to base their trading styles on fundamental analysis, will still utilize technical analysis as a verification method.

When using this type of study, you need to understand that it is based on a number of key theoretical ideas. For instance, technical analysis tracks price movement and its related data and certainly does not involve the opinions or attitudes of traders in any way whatsoever. This analysis is also structured on the fact that history has a strong tendency to repeat itself by producing price patterns that possess predictable characteristics.

As such, your main objective when applying technical analysis is to identify new quality trading opportunities which you can attempt to do by studying these predictable patterns. As many experts consider that the price actions of most assets move in trends, they do not think that the resultant oscillations are just chaotic in nature without any order. For instance, if they detect that price has been moving in a certain direction for some extended time then they normally assume that it will continue to do so unless a major event or stimulus intervenes.

You will find that if you incorporate technical analysis into your trading strategy, it will help you trade in a more scientific and business-like manner. Although this type of analysis is by no means flawless, it can assist you in making better objective and quality trading decisions. In particular, you should pay close attention to the trading maxim that states that ‘trends are your friends” as well as appreciating that major shifts in trading sentiment predict and predate trend changes. This means that you will discover that price movements are frequently driven by investors’ emotional responses which then generate recognizable price chart patterns.

Technical analysis focuses on the study and interpretation of trading charts in order to identify new trading positions that possess optimum profit potential with minimum risks. Fundamentally, the quality of the statistics associated with price movements increases as the time-frame gets longer. This is especially so during less volatile times when price is following well defined patterns. This is why the hourly and daily timeframes are so popular.

However, longer time frames have the disadvantage of not responding quickly to rapid price reversals and spikes.

One of your prime objectives when you start trading is to develop a technique that will supply you with reliable signals which are capable of identifying new quality trading opportunities. Many traders use technical analysis to fulfill this function and, in particular, utilize one or more of the many technical indicators that are available to identify entry and exit points. You will discover that there are a large number of such tools accessible by performing a suitable internet search.

Technical indicators can help you detect new trading prospects as well as assisting you in analyzing trading charts. Some of the more popular indicators are the MACD, Moving Averages, Bollinger Bands, Stochastic and RSI although there are many more. Please note, however, that as not one of them can guarantee success just on its own, you will need to fully integrate your favorites into your trading strategies in order to optimize their performances and maximize your profit potential.

During volatile times, the effectiveness of technical analysis is reduced substantially because of the significant increase in rapid price movements, such as spikes, and the creation of more complex and irregular trading patterns. A prime example of such a condition is the release of very important economic data. Technical analysis simply cannot cope very well with these events because the statistical techniques that it depends on become ineffective by the sheer volatility that can be produced at these times. As such, experts strongly advise not to try and identify major price formations during these occasions but instead wait until the volatility diminishes after which improved and more reliable statistics will prevail.

Fundamental Analysis Can Increase Your Trading Profits

In order to optimize your trading profits, expert consensus advises that the best way to achieve this objective is to devise a trading strategy. Many traders utilize fundamental analysis to help them perform this task. This type of analysis attempts to predict the future price movements of assets, i.e. stocks, commodities, currency pairs and indices, by studying the political, environmental, and economic developments that will influence their basic supply and demand.

As such, you will need to learn how to identify and then evaluate the background of all relevant attributes as well as the release of important news and data in order to assess their impacts on your assets of interest. For instance, your studies may include political developments, new economic policies, economic growth forecasts, inflation and interest rate changes, etc. You will also need to track the relevant statements and data provided in speeches made by prominent economists and politicians.

In particular, you should focus on all important announcements relating to the USA economy and politics because they can have the most influential impact on asset values. For example, you will discover that speeches made by the Chairman of the USA Federal Reserve Bank and the US Secretary of Treasury can create dramatic price movements.

You no doubt know that the value of an asset will appreciate in response to good news whilst it will decline in the case of adverse developments. Consequently, you will need to study a wide range of information pertaining to the health of relevant attributes in order to predict their effect on the value of the associated asset. Depending on your choice, you may, for example, need to analyze government policies and future plans as well as track important economic indicators such as international trade, CPI, durable goods orders, gross domestic product (GDP), PPI, PMI, and industrial production, etc.

After you have examined all the necessary data, you will then need to develop a model that will help you determine their effects on the present and future values of the applicable asset. If you can achieve these objectives, you will subsequently be in a strong position to evaluate whether your asset will appreciate in value or not. Consequently, if you plan to utilize fundamental analysis then you will need to focus on assessing how all important political and economic developments will influence the price movements of those assets of interest.

You will also need to acquire an intimate feel and understanding of fundamental analysis in order to deploy it well. Many experts advise that you can achieve this objective by combining this study with that of technical analysis to some degree or other in order to help you create a trading strategy.

One of the most dynamic features of fundamental analysis, which is capable of influencing many assets concurrently, is the release of important global economic data that is capable of generating significant price movements. Prime examples of these events, which are classified by experts as essential monitoring, are the USA non-farm payroll, national interest rate changes, US unemployment claims, and the US trade balance, etc.

Such publications can generate rapid price surges or spikes, which is especially so if the data released pertains to the USA economy. You must also realize that substantially large price movements are produced if the released figures differ substantially from market expectations. In contrast, if the published values match those predicted by prominent market analysts, then the resultant influence tends to be muted.

Consequently, if you can learn to accurately forecast the reactions generated by key economic data releases, then you will certainly improve your ability to trade successfully. However, you must understand that this task is not so easy to accomplish consistently until you have mastered the concepts of fundamental analysis.

This is because the price movements of an asset are influenced by a huge number of trading participants, all of whom possess their own agenda and objectives. This attribute of fundamental analysis surfaces especially during the publication of economic data that is classified as of high importance. However, a thorough understanding of fundamental analysis is capable of providing you with the necessary insights to formulate profitable solutions.

Stock Trading using Binary Options

Many investors prefer to trade stocks using binary options as an alternative to trading this asset type directly. This is because they can utilize binary options to speculate on the price movements of stocks in a similar way as if they traded the actual stock of companies directly. However, there are significant differences between trading stocks directly and using a binary option to do so.

One of the main variances is that, in the first case, you will own part of a company after you purchase a stock whereas in the latter you will just acquire the 'rights' to buy or sell the stock of your chosen company at a selected price. Fundamentally, stocks are distributed by their parent firms whereas stock options are independently guaranteed by market makers and are not linked directly to their underlying companies.

You can either activate 'put' or 'call' binary options using underlying assets based on the stocks of companies. A 'call' selection allows you to buy stocks while you must use a 'put' one to sell them. The price of a stock option is called a premium. There are many benefits associated with trading in stock options instead of the stocks directly.

For example, you just need to calculate the direction in which the price of a stock will proceed before an expiry time and not its size. This attribute alone removes a significant amount of uncertainty out of your trading and seriously reduces the amount of research you will need to do per trade. This is because the actual stocks of companies can produce the most complex price patterns because of the large number of influencing factors. When you trade stocks directly you need to study these attributes in depth whereas you do not have to perform such research when dealing with options.

In addition, you will always have a full knowledge of your exact risk and profit potential whenever you activate stock options. You will know that you will receive a pre-determined profit if you are in-the-money at expiry time, which can be as high as 78% of your initial deposit. Alternatively, you will know that you will receive a refund between 10% and 15% of your investment if you are out-of-the-money at expiry time.

You therefore benefit from a pre-calculated money management strategy when you trade stocks options. This is a significant advantage compared to trading stocks directly when you will have to devise your own protections in order to minimize your risk exposure.

You will profit by using 'call' binary options if the price of your selected stock finishes just one point above its opening value at expiry time. Conversely, you need your 'put' binary options to terminate at expiry time just one point below their opening prices in order to receive a pay-out. You can improve your profitability at trading stock options substantially if you learn to master trading strategies. Here are a few common ones which have provided many investors with success.

1. You can combine 'put' and 'call' binary options to provide yourself with windows of opportunity to double your profits whilst minimizing your risks.For example, imagine that you have opened a 'call' stock option with a strike price of $20 and you are now in-the-money because it has appreciated in value to $24. However, you are worried that a price reversal could happen before your expiry time elapses.You can safe-guard your profit by initiating a 'put' stock option at this stage. As a result, you would have generated a window of opportunity between $20 and $24 whereby if both options close within it, you would receive a double payout.
2. You can also utilize strategies that will assist you in hedging our investments. For instance, assume that you that determined that the shares of Apple will appreciate because of the launch of a new product. In addition, you conclude that this event could adversely influence the market share of rivals, such as Microsoft. Consequently, you could hedge a 'call' Apple option with a 'put' Microsoft one.

As the above examples demonstrate, stock binary options enable the use of strategies that can boost your profits at minimum risk.

Forex Trading using Binary Options

Trading currency pairs on Forex is a very popular form of investment speculation these days. One of the main reasons for this is that many novices are attracted to Forex because of its enormous daily turnover which is reputed to be in the region of $3 trillion. They believe that with such a large pot of money available that they should readily be able to grab a slice of it.

However, reality presents a different picture by revealing that only a small proportion of traders are successful. This is because many influences exist that can significantly affect the creation of the price formations of currency pairs making them difficult to predict and hard to trade successfully.

Consequently, beginners are confronted with a steep learning curve that they need to overcome in order to acquire consistent profits. One of the biggest difficulties that they encounter is that they always have to determine not only the direction in which the price of a currency pair will advance but also its size or magnitude. This can be quite a daunting task for the inexperienced.

As an alternative, many traders have started to use binary options as a method to trade Forex because of the many simplifying benefits that they offer. For example, by undertaking such an action you will then be able to just focus on predicting the price direction of a currency pair without the necessity to evaluate its size. This means that, for a 'call' binary option, if price finishes by just one pip higher than its opening price before its expiry time elapses then you will be in-the-money. In contrast, you need price to finish at least 1 pip lower than its opening or strike price for a 'put' binary option in order to register a profit.

Another vital procedure that you must perform in order to directly trade Forex successfully is to devise a powerful risk and money management strategy so that you can restrict your risk exposure per trade. However, if you trade Forex using binary options you will not be required to undertake this complicated task so stringently. This is because you will always understand precisely what your pre-determined profits and losses will be even before your contracts are activated.

By studying a simple sample, you can verify the increased simplicity that you will experience by trading currency pairs using binary options as opposed to opening positions directly on Forex. For example, imagine that your Forex trading system notified you that you should open a new short AUDUSD position.

As you will also know that your maximum potential loss would be about 85% of your investment, you could determine easily the size of your deposit in order that it complied with your 2% maximum risk per trade money management strategy. Let us assume that this figure is $1,000. In addition, as the recommendation from your trading system was based on using the daily time-frame, you could safely select an expiry time of 1 hour.

So now, all you would have to do is activate a 'put' binary option using the AUDUSD currency pair as the underlying asset with an expiry time of one hour. Assume that the opening or striking value of your option is 1.3281. After the expiry time of one hour elapsed, if the value of the AUDUSD had been just one pip below its opening price at 1.3280 then you would be in-the-money and would receive a payout of $800. Not bad for one hour's work. If you had traded the Forex directly, you would have needed to capture about 228 pips in order to generate the same return using a $1,000 deposit.

The above sample illustrates that you would have had to undertake some complex trading decisions if you had activated the trade directly on Forex. For example, you would have had to place accurate stop-losses and profit-targets. You would also have had to determine your deposit size accurately in accordance with your money management strategy. You may have subsequently suffered significant stress while waiting for price to hit your target. In contrast, if you utilized binary options then you would have found this process much simpler.

Trading Commodities using Binary Options

By trading binary options using commodities as their underlying assets, you have the exciting opportunity to speculate on products such as oil, gold, silver and copper, etc. There are many advantages to trade commodities using binary options as opposed to doing so directly. For example, when you trade commodities directly, you have to evaluate the magnitude of their price movements. In contrast, using commodity options is simpler because you just need to focus on determining in which direction price will advance without worrying about the size of the movement.

However, despite this attractive simplification you must still adopt caution because commodity trading involves much higher levels of volatility compared to other asset types, such as stocks and currencies. For example, the oscillations of gold prices can exceed twenty times the size of the equivalent ones of the EURUSD currency pair generated within the same time-period. This attribute presents you with a great potential for large profits but with a significantly increased risk exposure.

Consequently, the key to success when trading commodities using binary options still depends on careful analysis and research. For example, if you are assured that the price of gold will rise constantly over the next few months then you could confidently open a 'call' binary option using gold as the underlying asset. Similarly, if you deduce that a new surge in the global production of industrial and electrical products is imminent involving a large increase in the usage of electrical copper wiring, then you should activate a 'call' binary option utilizing this metal as the underlying asset.

The importance of keeping up-to-date with all the new developments influencing commodities is prominent if you want to be successful at trading binary options using them as underlying assets. Basically, you must develop an appreciation about when to expect the prices of commodities to shift either downwards or upwards. You will have to undertake extensive research in the global demands and trends of all commodities that interest you, albeit if they are precious metals, petrol or natural gas, etc.

Fundamentally, the actions required to trade binary options based on commodities are exactly the same as all other asset types. The only major difference is that you will need to undertake more extensive research so that you can take advantage of the higher levels of volatility produced by this type of asset class in order to optimize your profits and minimize your risks.

However, although there are increased risks involved, there are also significant opportunities to gain worthwhile and consistent profits by using binary options to trade commodities as opposed to trading this asset class directly. This is because your call options just need to finish at least one point higher than their opening prices at expiry time for you to be in-the-money. Similarly, your 'put' options only have to be at least one point below their strike price for you to receive a payout.

In addition, binary option brokers provide a comprehensive selection of expiry times ranging from as low as a minute to in excess of a week. Consequently, if you are confident that a commodity will appreciate in value over an extended period, then you have the prospect of executing a series of very profitable 'call' binary options. You can also increase your ability to make even greater profits by mastering binary option strategies such as the following one.

Commodity stock affect trade is considered by many experts to be a very powerful and effective binary options strategy. Fundamentally, the concept is to exploit the impacts of the price variances of commodities on the share values of companies that trade them. For example, significant changes in the price of aviation fuel can seriously influence the share values of airline companies.

Consequently, if you know that an increase in the price of aviation fuel will occur soon then you could initiate a 'call' binary option with this commodity as its underlying option. You could also hedge this bet by activating a 'put' binary option using the shares of an appropriate airline as its underlying asset since you are expecting them to fall in value. By doing so, you would provide yourself with the opportunity for a double payout.

Fraud and manipulation at binary options brokers

Fraud is a serious subject, which also concerns binary options trading. Because no one wants to be deceived and no one wants to take an unnecessary risk. If you choose the wrong broker you will undergo such a risk on the other hand. We cannot deny that there are brokers who are deceivers – no matter what kind of. Contrary to them, there is a handful of reliable brokers at which you can trade without any worries.

Types of fraud at binary options trading

You certainly are asking yourself how you would be deceived at binary options trading – we will reveal it to you in detail.

Unreliable payment process – The international finance traffic is very complicated and new payment methods like eWallets challenge many providers. In order to be able to offer a payment method like Mastercard you have to fulfill many criteria as a provider. This requires among others, that the provider knows its customer and is able to define his/her identity. The result is that one needs to be tortured with a lot of forms before a payout takes place. Such hurdles do not exist while depositing. Depositing works mostly without a problem in a few minutes. An unreliable broker has then the possibility to refuse the payouts due to unrealistic reasons. It can ask for verifications and documents which you cannot have at all. Normally a copy of your identity card and a bill (such as an electricity bill) which proves the address are enough. At least, at reliable brokers it is the case and a payout takes place faultless if you cooperate. Also, you need to have these documents ready before making a deposit to assure that you can make a fast withdrawal.

Faulty Platform – Some platforms are supposed to exist which bring the provider additional advantage by manipulating the rates slightly. These small manipulations are not noticeable for traders or at least they are not provable. Only a direct comparison with the Real-Time rates can be helpful which is not possible to achieve for an ordinary trader. Imagine you have an option, which is in the money starting from 1,8375. Shortly before the expiry date, the rate is at 1,8375. As a trader you wouldn't perceive a small jump to 1,8373. But this small jump means that the money is now out of the money. The trader does not obtain anything then, although the actual and not manipulated rate was 1,8375. What can a trader undertake to avoid this? Trade only at the big platforms, which are used by the brokers introduced at [Binaryoptionstradors.com](). These platforms work all the same way and without any problem. Do not trade at unknown platforms.

Which brokers are cheating?

First of all, it should be mentioned that there are only a few brokers that really deceive. The reason is very clear: because of the way binary options trading works, brokers earn already good money in an absolutely legal way, without any cheating. Why should a broker take the risk of getting out of business only to earn a little bit more? It makes indeed no sense and therefore the motivation to deceive is little. Therefore there is not (yet) a list of brokers that deceive their traders contrary to the cases of Forex- or CFD, for instance.

Benefiting from commodity trends with binary options

Those investors being interested in trading on the commodity markets must usually use certain instruments. Access to the commodity markets themselves mostly is only possible for institutional investors. By means of special financial vehicles such as binary options it is, however, also possible for private investors to benefit from trends on these markets.

At the moment, the prospects for rising prices of commodities are not everywhere very good. But those who have a good nose for binary options can also benefit strongly from falling prices. Over the past few weeks, especially gold and silver have disappointed many investors since on average, there was a slight downward trend with these prices. An important reason for that is the clear upward movement these precious metals had shown over the past months and years during the worldwide financial and economic crisis. As a consequence, it was only a matter of time until the next downward movement.

Prices for agricultural goods show particular trend

The development on the commodity markets of agriculture are particularly difficult to understand for many investors. A large number of binary option brokers however also provide underlying assets from this spectrum. For example, you can use the price of wheat or soya as an underlying asset.

In the middle and long term, the trends on these markets are determined by very many various aspects. For example, long term trends in the field of import and export such as political decisions, especially around subsidies, play an important role.

Apart from that, it is worth for investors who want to invest in binary options with agricultural goods as underlying assets to take a gander at the weather forecast. After all, it is not really rare that special events such as storms or long periods of drought lead to the fact that the harvest in a producer region turns out to be clearly lower. Such developments quickly affect the prices which thus can significantly increase within a very short time.

Diversification of supply by investing in commodities

Another reason speaking for buying binary options with commodities as underlying assets is the diversification of one's own portfolio. By means of the widest possible diversification of the invested capital you can clearly reduce the risk as an investor. After all, negative developments on a market do not necessarily have to affect other markets as well. Moreover, prices which are generally falling on the share market do not necessarily mean that the prices for commodities or other investment classes fall, too.

With diversification especially the correlation of different investment classes matters. With a high correlation, the price movements of different investments are strongly linked with each other. Whereas, in case of a low correlation, the price movements of an investment class do not have an effect on the other one at all.

According to a study of the US-Investment bank JP Morgan Chase, the correlation of different investment classes is significantly decreasing at the moment worldwide. Currently, it is on the lowest level since March 2009. For investors, this means that with investing in binary options based on commodity prices, they have a good chance of diversifying their portfolio and to add a large number of further possible profit instruments. Hereby, you do not only need to rely on very short options but you can trade securities that have a runtime of a few days or even a few weeks.

Binaries at the Chicago Board of Options Exchange

The Chicago Board of Options Exchange,"CBOE", offers two binary option products. These binaries are an easy way to trade the us market based on your opinion of which direct the market will be headed over a certain period of time. They are contracts that, at expiration, pay out a pre-determined, fixed amount or nothing at all. The payout amount for CBOE binary options is $100. As with regular options, binary Options are based on an underlying security, havevarious strike prices, and different expiration dates. The CBOE lists both call and put binary options which are european-style options that can only be exercised on the expiration date. A closing price that is in-the-money prior to expiration does not trigger the maximum payout.

The binaries also expire and settle on the same dates as the standard option on the same underlying index. So for example if, at expiration, the price of the underlying security closes at or above your selected strike price, the trader of a call binary option receives $100 per contract. If the underlying index closes at a price that is below the strike price on the expiration date, the option's trader receives nothing. With put binary options, the trader receives $100 per contract if the underlying index closes below the strike price at expiration, but $0 payout if the underlying index closes at or above the strike price at expiration. The strike prices are initially, in-, at- and out-of-the-money strike prices with new strikes may added as the underlying index moves up or down or upon request.The minimum interval is 5 points. Just like regular options, a binary position may be liquidated (bought or sold to close) prior to expiration. The price of a call binary option traded at the CBOE should reflect the perceived probability that the underlying index will reach or exceed the index strike price, or with put binaries will fail to reach or exceed the selected strike price at expiration. The cost of binaries will normally be quoted at a price quote in pennies, between zero and $1, and the $1 equals $100 per contract. Buyers of binaries pay for the contract at the time of purchase. For the usual trader, binaries must be paid for in full. However , the CBOE will allow a margin of 75% for bianries which maturing greater than 9 months out.

The CBOE presently offers binary options on the S&P 500 Index (SPX), ticker symbol BSZ, and the CBOE Volatility Index (VIX), ticker symbol BVZ. The expiration dates and settlement values are the same as for traditional options. Like standard options, the last trading day for SPX binaries usually will be the Thursday before the third Friday of the expiration month.

Settlement of BSZ options are morning A.M. settled. The settlement value is calculated using opening prices, usually on the third Friday of the expiration month. The exercise-settlement value will be the same as the settlement value (“SET”) for S&P 500 Index (SPX) options. The BSZ binary options expire on the Saturday following the third Friday of the expiration month. With the VIX index, the binaries BVZ will, like VIX standard options, stop trading usually on the Tuesday before the expiration date of each month. BVZ options are also morning A.M. settled. The settlement value is calculated using opening prices, usually on Wednesdays that are 30 days prior to the next month’s third Friday. The settlement value will be the same as the e-settlement value (“VRO”) for CBOE “VIX” options. The actual expiration of BVZ options usually will be the Wednesday that is 30 days prior to the third Friday of the following month.

These CBOE binary options are cleared through the Options Clearing Corporation (OCC) and can be traded in a regular securities account with American brokers or any other international securities broker that is approved to trade American options. The trading hours on the exchange are from 8:30 a.m. to 15:15 Chicago USA Central Time zone. The CBOE has established position limits of 1,500,000 contracts on the same side of the market. Here is an example of a trading strategies:

Bullish Strategy

You, the trader, think the S&P 500 Index will be at or above 1500 by the third week of February 2013. You think that within the next few weeks it will continue trading up. The S&P 500 Index is approximately 1400. Purchasing one February 1475 Binary (BSZ) contract for .38 (cost of $38), speculating that the S&P 500 Index will be at or above 1500 by February 15th. If you are correct, you will receive $100, realizing a $62 profit ($62 = $100 less $38 paid up front).Also maybe you will be lucky sooner, and the February 1475 binary contract increases in value to .73 ($73) in January, so you decide to sell your contract earlier and pocket just a .35 ($35) profit ($35 = $73 less $38 paid up front). One the other hand, if you could hold on to your contract until the expiration date (usually the third Friday of the month for BSZ) and receive $100 cash payout if the S&P 500 Index settlement price is at or above 1475. However, you will receive nothing and have a net loss of $38 if the S&P 500 Index settles at a value less than 1475.

Remember that binary contracts can be bought or sold to open. If you have a portfolio of stocks, you might consider selling BSZ options and collecting the premium to enhance returns. This is a possible alternative to the traditional “buywrite” strategy of selling SPX options, where the upside profit potential is capped at the strike price. Because CBOE Binary contracts have a maximum payout of $100, your maximum loss on the short BSZ Binary is limited to $100 too.

Binary options and the development on the currency markets

Foreign exchange rates represent a popular underlying asset for binary options. Over the last few months, the development on the international currency markets has offered great chances for investors and also in the near future, the exchange rates are likely to stay volatile. This applies to the currency rate from euro to US-dollar as well as to euro and British pound or dollar and yen. Also less popular currencies offer interesting opportunities, for example the Australian or the Canadian dollar as well as the Swedish crown or the South African rand.

Many investors investing in binary options bank on the development of certain currency pairs. This investment method is especially profitable because -compared to forex-trading- you know from the very beginning how high the possible return is. The losses are limited to the purchase price of the respective option, too. That means that beyond this price, there is no risk. Another advantage is the fact that you only have to keep your eye on the development of two particular currency pairs. In order to successfully operate with binary options in this case there is no high analysis effort required.

Euro wins thanks to positive news

With regard to the euro in the recent past especially the less dramatic situation of the debt-ridden states of the euro zone has been responsible for relief. After the successful debt buyback of Greece and after positive news from Ireland and Portugal a few weeks before, the euro -compared to the US-dollar- has been developing to its highest level in the last eight months in the middle of December.

Another reason for increasing euro rates are the sales in the foreign exchange trade that are relatively low shortly before Christmas. Many speculators having banked on a decreasing euro rate now have to stock up on this currency. Due to the generally low sales this leads fast to a relatively high increase of the currency. In addition, the positive development of the euro is not only notable towards the dollar. Also towards the Japanese yen the euro has increased over the past few months.

Politics play an important role for currency markets

Another very important currency for many investors is the British pound. The development of this currency is closely connected with the politics in the euro zone since the British economy strongly depends on the exports to the continent. However, the very bad economic data has not lead to a sustainable weakening of the pound over the last few years, quite the contrary. Compared to the euro, the pound has lately developed very well and also compared to the US-dollar, the British pound recorded the highest level since three months in the middle of December.

In Japan, the elections where the conservative LDP scored a landslide victory caused a possibly aggressive growth policy. The financial restructuring of the budget thereby takes a back seat although the deficit is already extremely high now. For this reason, the monetary policy of the Japanese central bank is more likely to become more expansive what could lead to a clear weakening of the yen in the medium term. Already a short time after the elections, the devaluation trend towards the euro and the US-dollar continued.

Binary Options and The Fibonacci Tool

The Fibonacci retracement tool is regarded by some as a lesser used technical trading tool. It is used to analyze market moves because markets have a tendency to retrace their previous movements. These retracements are normal trading activity. The trader should understand retracements and use them to their advantage. One tool to use is the Fibonacci retracement tool which places five horizontal lines on charts. These correspond to 5 possible spots to where prices may retrace with the intervals calculated by percentage from the original move: 100%, 61.8%, 50%, 38.2%, 0%. Prices can revert to any of these levels. So how would you use this retracement concept with binary options?

First remember that "Fibonacci" levels are used to point out possible points of support or resistance. The Fibonacci level is determined by a basic sequence of numbers. The first digit in the sequence is 0, the second digit is 1, and each subsequent number is determined by adding the two previous numbers together, so that here is sequence in action: 0, 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233, 377

While some posit that this sequence was first found by Indian mathematicians approximately in 450BC, the general consensus is that the sequence was popularized by Leonardo of Pisa, aka Fibonacci, who published his results in the 13th century.

While originally proposed for animal breeding, the Fibonacci numbers and their affiliated outcomes are extraordinary and very apparent. For example, plants have their buds aligned with the Fibonacci number's pattern. In arts, music has been arranged by Fibonacci numbers, and the painter Debussy arranged a work in part by Fibonacci numbers. In the UK, a structure called the "Eden Project" in Cornwall, England has its construction built on Fibonacci numbers.

In addition to Fibonacci numbers, the Fibonacci phenomenon also has Fibonacci "ratios" which are the results from dividing certain numbers in the Fibonacci sequence with identified other numbers from the sequence. As an example, if you divide each number in the sequence by the number that follows it, your results are a number approximately of 62. The further you proceed down the sequence, you will discover that the calculated ratio number is a constant near 61.8 mark. Thus 61.8% is almost the ratio of each Fibonacci number to the next. As another example, if you divide each Fibonacci number by the one after the next number, the results are a ratio of approximately 38.2%. The major ratios that come from various divisions include: 23.6%, 38.2%, 61.8% and 76.4%. These ratios plus 50% (not a Fibonacci number) are thus applied to the markets.

So when viewing your charts, this is how the Fibonacci numbers may work, e.g. you may expect resistance when the market re-traces 38.2% of a previous down-move, or conversely, you may see support when the market retraces 61.8% of its last up-move. Strange as it may seem, the markets actually coalesce around these ratios, and they serve as general reference points with which the trader can expect some kind of support or resistance. The fact that markets seem to migrate to these points is in a way also self reinforcing because many traders also expect the ratios and "push" the markets to these ratios. So the ratios become self fulfilling.

Therefore let's take a better closer look at Fibonacci retracements and the process of their actions in the market place – 23.6% – 38.2% – 50% – 61.8%- 76.4% Thus while trading binary options, keep in mind these ratios. Also seek an asset that has a tendency to trend like gold, EURJPY, GBPJPY or EURUSD. Then consider a time frame like daily price action visible through charts in which you should be able to view a retracement. As you consider trades, choose the "Touch" option in the Touch/No Touch trade and choose a target price between current prices and the 23.6% retracement point.

If you examine the daily chart for the EURUSD which is the most actively traded currency pair based on its volume in both Europe and the USA, the EURUSD trends well. Choosing the ratio 23.6%, you as the trader want to choose a strike price at a point along the course of the price retracement, between the market price and the 23.6% level. For this strategy to work, the trader has to certain that a retracement is actually occurring. One way to do so is to use the Fibonacci tool supplied by the trading platform of your broker. Usually you can point and drag onto the chart the target price for your "Touch" trade.

The Fibonacci tool is very helpful is very helpful in letting the trader calculate the range of price movement. However to really understand potential price direction, a trader needs to be able to utilize candlesticks and chart patterns. These signals tell the trader price direction, and with Fibonacci you then can calculate via the ratio the possible price targets. Happy Trading!

Binary options as complements to long lasting assets

Investors who are looking for a type of asset that offers them an alternative to middle-term and long-term products, should extensively deal with binary options. This investment form, also referred to as digital options or fixed-return options, have multiple advantages which make them interesting for many traders. Furthermore, you do not have to risk high investments to start trading with binary options. With many brokers it is possible to practice trading with a free demo account at the beginning. Moreover, the minimum investments for a real trade -depending on the broker- are just between 10 and 20 €.

Many advantages of binary options

There are several reasons to engage oneself in trading with binary options. Traders in the traditional finance markets for example need to consider many aspects that may make the purchase of foreign exchanges or resources a very high risk. In addition, you need to rely on an interference-free internet connection, especially when making such trades, since even small breaks may have a strong impact on the trading account. In contrast, with binary options there aren't any of these so called margin calls. Moreover the expiry time is certain and you just need to observe the market.

Beyond that, most of the brokers of binary options offer to their clients a huge choice of different underlying assets out of different asset categories.

By doing so, even traders who do not want to engage in the foreign exchange-market or the resource bourse are able to bank on the course development of gold, oil or specific currency pairs.

With binary options the exact return quote at a certain expiry time is stated from the very beginning.

So, as a trader you do not have to observe the development of the market the whole time. Instead, you can lean back after trading.

Other focus compared to stock or investment funds

Of course, as an investor, you should not use your whole asset for the trade with binary options.

Simultaneously to other types of investment it also applies here that the diffusion of the risk is what matters. As a complement to other investments, binary options definitely pay out, since the time period is particularly short and on the other hand there do not arise any transaction costs for trading. When buying such an option you rather know how high the possible return and how high the maximum loss is.

With regard to possible returns of course payout rates that when winning a trade mostly vary from 60 60 to 85 percent, depending on the broker, are attractive. Certainly, not even the best traders are capable of successfully predicting the fluctuations of the underlying assets with every trade. On average, due to the very short expiry time of binary options , relatively high profits are possible anyway.

At the same time, binary options even offer opportunities when other investments like stock or investment funds do not earn profits.

Compared to trades with these commercial papers trades with binary options even can earn profit when the courses are moving sidewards or when they are falling. Like this, you can schedule your time the way that you can concentrate on the investment vehicle that is currently most likely to succeed . So, as an investor going through hard times at the bourses you do not have to await the right entry time.

Binary Options on Tech Stocks

On many binary option platforms, traders can try and play the technology sector of US markets. The impact of American companies on world markets is huge and companies like Apple, Google, and Intel have global impact on technological trends. Likewise, the NASDAQ index contains a large number of American technological companies, and, as such, binary options traders can play the technology sector using these proxies since these assets have a global reach with options tradable in North America, Europe and Asia. The impact of these assets is across market sectors including telecommunications, computing, software, and manufacturing.

The technology sector is constantly changing, with announcements of new products, projected financial results, and finally, earnings announcements which provide investors exciting opportunities to trade. Traders can play the technology sector by focusing on these assets. For example, Intel is an American firm founded in 1968, and is the world's largest semiconductor chip maker. Intel is best known for inventing the x86 microprocessor back in the late 1970's. The company's market position grew in the 1990s when its Pentium microprocessors were utilized into practically all personal computers. Today Intel is positioning itself to be the dominant chipmaker for mobile phones. Apple is a technology company making revolutionary impacts in the computer field. They have rolled out their own line of computers and mobile phones.

The mobile phones are expanding the horizons of what is a cell phone. Google since it introduced the browser with powerful backlinking software has gone on to create very popular email, advertising and broadcasting applications which users have utilized to increase the usefulness of the internet The company's stock prices has grown significantly as it introduced new internet tools. All of the above stocks, in the process, have experienced highs and lows along with continued growth in the computing market place.

Trading any of these assets gives the binary options player the exposure to the technology sector. If you stay current on new product announcements and other financial information, traders can place positions to take advantage of the fluctuations in price. Monitoring the price activity of these assets will help the trader determine which option strategy to pursue. The attractive aspect is that traders can look at either individual stocks or use the NASDAQ index as a proxy.

Then the trader can choose either CALLS or PUTS or combinations and to either buy or sell the option as the strategy. Depending on the news, traders may only want to place trades for extremely short periods of time, e.g. 60 seconds, or try position trades for longer time durations. The ease that you can trade coupled with the large information flow on these well know assets brings liquidity to the marketplace. The simple dynamic of binary options trading coupled with the possibility of fast returns and limited risk is at the heart of the binary options trading. The excitement of following these technology giants with other investors worldwide gives you, the trader, the opportunity to trade and profit.

Chances of return with binary forex-options

Traders who have already dealt with forex-trading but who are looking for another alternative should start dealing with binary forex-options. For newcomers, trading with these specific options is definitely interesting. In general, binary options offer the possibility of gaining high returns within a very short period of time. Though, potential losses limit themselves to the purchase price of an option- in contrast to ordinary forex-trading.

As a trader you should consider that with binary options primarily fast decisions are required. You have to predict the development of a price correctly in order to obtain the relatively high returns. It depends on each option and broker how high these returns are going to be, usually the returns are between 60 and 80 percent. It is not important how high the price gain or loss is; with classic binary options, it is just important to predict the direction of the price correctly. With regard to this aspect, binary options clearly differ from ordinary forex-trading.

Binary options as a new alternative on the market

In general, when trading with binary forex-options, the same things as with forex-trading are important. It is about the trend of two currencies related to each other, that means the analysis of the currency rate. With some brokers, only relatively few currency pairs are offered, others provide very many alternatives and even have exotic currency pairs such as Australian dollars and the Japanese yen on offer.

Compared to binary options – being on the market for a short time – forex-trading is clearly more popular with investors. For more than 10 years now, it is possible to profit of the development on the international currency market via Internet. Whereas, binary options were introduced to the market not before 2008 for the first time which explains why many investors still are relatively sceptical about them. However, this image is changing more and more.

Advantages compared to ordinary forex-trading

Unlike normal forex-trading, when trading with binary forex-options the risk is limited a priori.

Since you only invest and leverage a certain amount when buying foreign currencies it can happen that when there are unexpectedly high exchange losses you need to pay call liabilities and as a result, extreme financial losses can occur.

The functionality of binary option differs from that. Here, the buyer's investment is not leveraged, instead you know at the purchasing point how high the possible return is. In case your own prediction of the currency pair's price trend is wrong your invested amount is lost but at the same time, the loss is limited to this amount. In plain language, that means as an investor you should only invest amounts whose loss is tolerable if the worst comes to the worst.

On the other hand, there definitely exist analogies between ordinary forex-trading and binary forex-options. Both trading ways are possible around the clock. For binary options there is an underlying asset required that is constantly being updated on the currency markets worldwide.

Moreover, for the buyer it is important in both cases to have detailed knowledge about the market. Besides economic data, you should also follow the political development and the general newsflow because completely various parameters can affect the development of two different currencies.

Charts and Signaling

When you begin your trading pursuits, one of the most fundamental tools that you will learn to use is a technical chart. It is one of the most needed guides to give you as the trader a sense of market direction and emotion. For short term analysis in which market sentiment is greatly evident, the charts and other technical analysis tools are vital in helping you determine future movement. It is best that you work out sources for charts. Some maybe provided by your broker, and others may be provided from independent signal providers or web sites.

While looking for charting possibilities with regards to binary options, you may want to consider charts showing the underlying asset. Charts can vary in information flow. They may be simple as in a basic line chart showing points highlighted at every point in time. The time intervals can vary. Other charts can show more detailed information like bar and candlestick chart. These charts have vertical lines showing opening and closing prices with highs and lows too. These charts are more information intense. There are no plotted points, but the vertical bars connected together show the trend line. Many times also colors are used for the time period if the price movement was up (green) or down (red). Good technical analysis charting software will then allow you to integrate or super impose additional mathematical tools such as moving average indicators or stochastic indicators to help you determine if the underlying asset is overbought or oversold.

As a trader, be prepared to invest not only money but also time into learning the aspects of technical trading. There are all kinds of charting tools available. You will have to search for the ones that can help you. Since all binary options are a class of derivatives, then perhaps you should focus on charts showing the underlying asset. You may be able to make better trading decisions not by just viewing a binary option chart, but by viewing the price action of the underlying. Every time the underlying asset is traded, that trade is recorded and charted. There are plenty of free internet sites showing this information. There are websites that have information like stock charts, day trading charts, undervalued stocks, only indices, best stock market picks, etc. The list of what is available is quite extensive. Just a good internet search will supply you with all kinds of information.

Now there may also be a situation in which you are vexed as to how to read a chart and what should you do? Then consider supplementing your charts with a binary option's signaling service. You can enroll as a subscriber to a signaling service, and they will broadcast to you when you should enter or leave the market. As you receive your signal via internet or phone, you can cross reference against a chart to see why the signal provider sent you their buy/sell recommendation. Again a good search of the internet will supply you with many possibilities. There are some signal providers who only specialize in certain assets like gold and there are others that focus only on geographical markets, e.g. Europe only.

There are a myriad of sources in the market place to assist you in your trading. With all the information available, tools can help the decision process. However, ultimately you will need to develop your own trader instinct to ultimately guide you when to buy and sell your binary options. That is when you will really see the profits flow into your bank account.

How To Trade With Binaries Expecting a Big “Exploding” Market Move

Financial professionals will tell you that the market is a forward looking huge discounting mechanism. Analysts and economists are analyzing data about either companies or economies and are publishing information which the market takes into consideration in setting the market price of assets. In the case of individual stocks, the market has a perception about earnings and usually the market buys a stock, pushing the price upwards up until the earnings’ announcement by the corporation. If the earnings come in as expected, the stock, after the announcement, usually sells off with traders taking profits. You, as the trader of options, can buy a call option before earnings, watch it increase in value as the stock increases in value, and sell it right before the earnings’ announcement because the day before announcements the market usually is trading the stock at its’ highest relative value.

However, there are situations in which the market does not receive all information, and thus you as the investor/trader may want to trade with the intuition that something really big new wise is about to hit the market and cause the underlying to either dramatically trade up or down depending on the news. The simultaneous buying of both a call and put on the same investment with the same expiration and strike price is called a straddle.

This trade is neither a bullish nor a bearish strategy, but instead a combination of the two. On the upside, the profit potential of the long call will be your maximum payout as established by the broker, e..85%. as the level of the underlying asset increases above the position’s upside break-even point. On the downside, the profit potential of the long put at expiration can be also the full payout of 85% as the underlying falls in price. Again, profit potential for the long straddle depends only on the degree of change in the underlying asset, not on the direction in the market.

So in the case of this trade, the investor can make money under these two possible scenarios: If the earnings announcement is far better than the market anticipated, the stock should rise after the announcement because investors realize that the price of the stock in the market is too cheap. A buying frenzy can take place causing the underlying stock to go up, and you, the trader, with the binary call will see the value of your call increase. There should then be a solid trend in place to allow you to see a continued price rise, and then hopefully you can sell your put, recovering value better than the maximum payback loss set by the broker for an out of the money put. If the announcement comes in far worse than the market expected, there will be a dramatic and hard selloff of the stock in the market. Your put should explode in value as well.

You should then sell off your call to save on the "wreckage" value and reduce its' loss. The maximum loss for the long straddle is limited to the total call and put premium paid, but this will only take place if you misjudged, and the stock makes no major move only trading sideways until you close the position or the option expires. This scenario should only work with Options+ from "Anyoption" or similar features at other brokers. Anyoption will allow you to sell an out of the money option back; you won't, however, get all your money back , yet compared with the miniscule amount that you get when an option expires out of the money, the amount your account is credited helps makes the move on the other trade leg profitable.

The market is usually filled with all kinds of information which reflects itself in the value of the asset being traded. Most of the time, the market is correct, but we know from the vagaries of life that even the best made calculations and assumptions can turn out to be surprisingly incorrect, and then you as the trader can be ready to profit handsomely.

How To Use Support And Resistance Numbers

For unexplainable reasons, assets develop a trend, and then reverse. For some traders, they view price movement as a random walk, while others view an asset's price movement as going through a channel to a critical point at which the price movement reverses. These critical resistance points are known as support and resistance numbers. The movement of the preceding trend will probably continue once the price of the asset has retraced to one ratio number. The use of these numbers is widely known as "Fibonacci retracement".

This technical trading tool is based on a sequence of digits identified by mathematician Leonardo Fibonacci in the thirteenth century. His sequence of numbers is as follows: 0, 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, etc. Each number in the sequence is merely the sum of the two preceding numbers and this sequence continues infinitely. A significant feature of this sequence is that each number is approximately 1.618 times greater than the previous number. This unifying feature between the numbers is the basis of the common ratios utilized in retracement calculations. The trader, using this tool, will take two extreme points, a major peak and trough, on the stock chart and divide the vertical distance by the key Fibonacci ratios of 23.6%, 38.2%, 50%, 61.8% and 100%. Usually, the trader will use the key Fibonacci ratio of 61.8%, also referred to as "the golden mean," which is found by dividing one number in the series by the number that follows it. For example: 8/13 = 0.6153, and 55/89 = 0.6179. This then allows the trader to identify possible zones of support and resistance by drawing horizontal lines.

Since the market is fluctuating all day, the trader looks for these support and resistance points to make binary option trading as profitable as can be. When the market is trending upwards, this trend is also called a "Bull Market." Yet as the market advances, assets reach a point of resistance and drop, forming a peak known as the "resistance point." The opposite exists when the market is in a downward trend, known as a "Bear Market." The price of the asset reaches a lower level, and then retreats. This low trough is called the support trough.

An important point to remember is that when the trader calculates numbers, they are in reality estimations of a zone which have proven themselves many times to be accurate. These zone calculations will allow you to trade profitably binary options. However, remember the trader does not see the market perform as an exact science, but as a forum of probabilities. The experienced trader sees a level of support, but suddenly the asset falls further. Yet within the next moment, there is a retreat, and indeed, the price returns to the expected support level. The movement was only a simple reflex or false alert from the market.

So how does one know if the supports and resistances are accurate enough to establish your binary option trade? Many traders think that the support or resistance is broken once the price of your binary option asset has surpassed it, but unfortunately this is not always the case. In the situation where an asset drops past support, remember to view that point as an indicator of a zone and not a specific number. Charts are especially helpful in identifying zones, and focus on the overall picture and not on individual peaks and troughs. Extreme fluctuations may be merely reflexes of the market with no real significance or impacts on the price of your binary option trade.

By studying the support or resistance numbers, don't focus on the market's reflexes, but seek its' true intentions. When you examine a chart, seek the binary option asset's lines of support and resistance. Yet, the true intentions can suddenly change due to news, and the resistance price turns into the support price during the next "bull run" upward. If the market tests the support or resistance levels many times without breaking them, it strengthens the trend. Trading is an "art" and not a "science."With enough experience, you will be able to find the "true" support and resistance zones intrinsically by yourself. View charts over 15 minutes, ½ hour, and one hour. Each has their own features, and different features highlighting support and resistance zones of the binary option assets you will be trading.

Range Trade the DAX 30 Binary Call Spreads

An investor believes that this market will be range bound during a set period of time. The index will bounce between a high and low level. One way to trade that opinion is to execute, for example, a Binary Call Option spread; that is, simultaneously buy a Binary Call Option and sell a second Binary Call with a higher strike price.

Let us assume that the investor wants to trade the DAX 30 Index on January 1, 2013 with a value of 7,350; the investor buys 7,325 strike price DAX 30 Binary Call Option expiring on February 15, 2013 and sells a February 7,425 Binary Call. The price of the call is 100 Euros and the payout is 85% or 85 Euros, and your losses are limited to 85% of your initial investment.

At expiration, DAX 30 Binary Options have only two possible payoffs: 1) 85 Euro if the Opening Settlement Value for the DAX 30 is equal to or greater than the Binary Option strike price; or 2) 0 Euro if the DAX 30 is less than the strike price.

For the long Binary Call Option, the investor would receive 85 Euros per contract if the DAX 30's value was 7,325 or higher at expiration. For the short Binary Call Option, the investor would have to pay the 85 Euro per contract if the index value is 7,425 or higher at expiration.

There are three possible outcomes and let us examine each of them: 1) DAX 30 is below 7,325; 2) DAX 30 is at or above 7,325, but below 7,425; and 3) DAX 30 is at or above 7,425.

First, let us analyze the two outcomes at which the DAX 30 settles outside of the investor's anticipated trading range. If the DAX 30 is less than 7,325 on February 15, then both spread sides or "legs" settle out-of-the-money and have a value of 0 Euro at expiration. The investor takes a 85 Euro loss on the long Binary Call position, which is offset by a gain of 85 Euro on the short Binary position so the net loss on the spread position is 0 Euro.

If DAX 30 is at or above 7,425 at expiration, then both "legs" settle in-the-money and have a value of 185 Euro per contract. The long position would have a gain of 85 Euro, but the loss on the short position would be 85 Euro, a net loss of 0 Euro.

Scenario	**Long Value**	**Short Value**	**Spread Value**	**Long P&L**	**Short P&L**	**Spread P&L**
DAX 30 below 7,325	0	0	0	(85)	85	0
DAX 30 at or above 7,325, but below 7,425	185	185	370	85	85	170
DAX 30 at or above 7,425	185	15	200	85	(85)	0

However, if DAX 30 is between 7,325 and 7,425, the Binary Calls would have values of 185 Euros. The investor would realize a 85 Euros gain from the long Binary Option position, plus an 85 Euro gain from the short Binary Option position. The net P&L would be 170 Euros.

Remember that the investor should expect that the cost of a Binary Call spread covering a wider range of index prices will generally be higher than a narrow ranged Binary Call spread. Logically, this makes sense because the wider the index range the higher the probability of settling within a specified range.

Selling “Naked” Index Puts

The practice of selling index binary option puts is a strategy in which the trader gets credit at the open of the trade. The trader receives the premium and hopes that this strategy will work if the index rises in value from the strike price written. After all why sell at an index value of 13500 when the index is at 14000. The reason the trader is getting premium is that someone else has the right to sell and will assign that right to the binary option writer if the index value falls below the strike price. Thus this is the reason why the trader is going “naked’ as they are giving someone else an assignment right without any hedge if the market does indeed drop. The trader exposed themselves to an assignment. Selling index binary option puts is a strategy which from open generates cash for the trader. The amount of cash credited is a known amount which is the option premium.

On the other hand, if the index drops then losses can be large and conceivable unlimited because the amount that an index drops is likewise unlimited.

In summary here are the main points of naked put options

Maximum profit attained = premium received – commission paid

Maximum loss occurred = unlimited as no one knows how low is low in the markets. Despite these apparent risks, here are the advantages of selling binary index put options:

a) The trader can enter the market without paying any cash.

b) The trader can gain experience of the binary option market implementing this basic option trading strategy.

c) While covered calls also utilize selling binary options, there is a capital outlay because the position is hedged or “covered” with owning the underlying asset. In the case of an index, the trader could “own” the index by buying exchange traded funds or ETFs. Thus covered calls is more capital intensive.

d) The trade can be extremely profitable if successful.

e) The trader issues in effect an “IOU” hoping that it will expire valueless.

The risks associated with this trade are summarized accordingly:

a) The maximum profit earned is limited by the premium collected from the market

b) If the index level falls drastically, there will be huge losses

c) Applying this trade is not “free money” which some traders believe.

d) Traders who excessively sell puts without applying basic risk management place their portfolios of trading capital at risk of total loss.

Selling binary option puts can be a profitable strategy. As with any trading strategy, the profits will come if the market goes in the direction that the writer anticipates. Before writing the option, the trader needs to know the trend and needs to calculate if the premium to be collected is worth the risk incurred.

That's it!

Happy Trading Guys!

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