

# BINARY OPTION TRADING

## Lesson #1



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## Forward

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Dear Trader,

Thank you for viewing "Binary Option Trading Lesson #1" of OptionBit's e-book series. As a leading binary option broker, we are excited to be opening the gates to the exciting world of exotic option trading.

In the past year, binary options have become one of the fastest growing sectors of the finance industry. While the basics of binary options can be learned within a few minutes, there are numerous advanced strategies that traders and investors can learn in order to increase their chances of receiving a high return payout.

In "Binary Option Trading Lesson #1" we'll provide you with the basic information you need in order to get started trading binary options today. In addition, we'll cover the different types of binary option trading available on the market and go over some analysis methods and strategies to help you get a high return on your investment.

While there are several binary option brokers on the market, we believe that OptionBit is an exceptional trading environment where anyone can trade binary options in a simple, smart way. Our unique trading platform was designed to be easy to use, while still being powerful enough to give traders unique money management features found no where else online.

OptionBit is currently the only binary option broker that offers three types of binary options to trade: Above / Below, Touch and Range. In addition, our platform also has unique money management tools like Close and Extend, which give traders the ability to close their options before the time of expiration or automatically extend the time of expiration after buying the option.

We look forward to seeing you in the trading rooms. Happy Trading!

Sincerely,

The OptionBit Team



**Click here to [start trading on OptionBit](#) today.**

## Introduction to Binary Option

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Binary options are high return, short term investments traded by both professional traders and amateurs. Based on exotic options, which are only traded on private markets, binary options are traded over the counter and available 24 hours a day, 6 days a week.

### Who Trades Binary Options?

#### ★ Binary Option Brokers

Until recently, binary option trading wasn't open to individual investors. The only way individuals could access binary options was to hire a middle man, or a binary option broker. Typically, to hire a binary option broker costs a minimum of \$500 up front, making it extremely difficult for many individuals to enter the market.



While individual investors can still hire a binary option broker, in the past few years it's become extremely easy to directly trade binary options online, saving investors thousands of dollars.

#### ★ Individual Investors



Today some of the most successful binary option traders are individual investors and day traders who have found several ways to successfully trade online. Many individual investors manage multiple accounts and trade different types of options at the same time while others have tended to focus their investments in specific markets.

The flexibility of time and the wide range of options has made binary option trading especially beneficial for investors who can manage their portfolios from the comfort of their home.

## Benefits of Trading Binary Options

There are many benefits to trading binary options when compared to more traditional options trading or other investment vehicles. These benefits range from the potential profits, to the ease of use. While binary option trading is not a perfect fit for everyone, most investors, from absolute beginners to seasoned veterans, find it to be an exciting, profitable way to invest.



### ★ High Return

Binary options are an excellent choice because of their high return. While most traditional stocks and options must mature over time, binary options generally yield 75% – 81% or more in as little as one hour.

### ★ Short Term Investment Option

While traditional options can take years to mature, the majority of binary options expire within one week, one day or one hour or less than an hour. This means that an investor can make between 170% – 181% on a single contract in one hour or less.

If the strategy being used is sound, a trend in the market can continue to be used time and time again as long as it holds true, enabling the investor to double their investment every hour so long as the trend continues.

On the other hand, if an investor would like to refine their strategy and choose another option or direction to purchase, options expire in a relatively short amount of time and on OptionBit, you can even buy your option before the time of expiration to minimize your risk.

### ★ Small Investment Friendly

Binary Option is also extremely accessible to investors who want to invest small amounts of money. With binary option, an investor can follow a market trend and almost double their investment, yielding enormous profits. By diversifying carefully as profits are generated, prolonged profits can be sustained and help build a buffer against potential losses.

### ★ Calculated Risk and Reward

One of the biggest advantages of binary option trading is that the return on initial investment is fixed. From the onset, the amount of potential profit or loss is known. This means that a trader will never lose more than they expected and can calculate their risk as perfectly as possible and that there is a cap on how much can be earned or lost in a single trade. Since the rate of return is quite high, and trade times are short, in the long run the fixed rate of a binary option can be a huge advantage.



#### ★ Advantage in Volatile Markets

Finally, binary option trading has an immense advantage in volatile markets, because it offers a somewhat safe way to continue investing. While traditional investments can be rocked by the volatility of the market, and huge losses can be incurred, the fixed rates of binary options mean that no matter how drastic the swings in the market, the fundamental principles remain the same.

This combination of a high fixed return, relatively transparent risk, and short contracts means that binary option trading can produce very high returns on an initial investment. Even a relatively small investment can, in a short period of time, produce massive profits.

#### ★ One Pip Only

In comparison to other types of day trading, where your profits are determined according to the delta between the price you bought the asset and the price you sell it at, binary options do not require more than one pip in order to be in-the-money. While forex trading and other forms of online trading require that you have three pips just to start trading.



**Click here to [start trading on OptionBit](#) today.**

## Binary Option Basics

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### Understanding the Parameters of a Trade

It is easy to trade binary options once you understand the parameters of the trade. Every binary option is based on three distinct components:

#### ★ The Asset

The first component of a trade, is the asset. Depending on which binary option broker you choose, you'll have a range of assets from different financial markets, like stocks, commodities, currency pairs and indices, that you can trade binary options on. Some traders choose to specialize in one asset, or one market, while others trade a collection of options simultaneously.

#### ★ The Contract / Time of Expiration

The next component to trading is the binary option contract. Most binary option brokers offer contracts that expire in one month, one week, one day, or one hour, but on OptionBit's trading platform you can also trade options as short as 15 minutes or buy an option just five minutes before it expires. It's important that you know just how much time there is before the option expires so that you can make an accurate prediction.

#### ★ The Forecast or Prediction

Your job as a trader is to determine which direction the price of an asset will move before or at the time of expiration. If you believe that the price of underlying asset will increase, then you should choose the Call (Above) option. If you think that the price of the underlying asset is going down you should choose the Put (Below) option.

If you are correct in predicting which direction the price of an underlying asset will move, you'll receive a high return on your investment between 75 - 81% -- nearly doubling your investment.



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## Types of Binary Option

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OptionBit offers traders the ability to trade three types of binary options, Above / Below, Touch and Range. Traders can achieve great flexibility with their trading by exploiting the unique characteristics of each type.

### **Above / Below**

Above / Below is the most popular type of binary option and the one that the majority of traders are familiar with. Based on "cash-or-nothing", Above / Below binary options expire in-the-money when the trader correctly predicts if the price of the underlying asset will move above or below the predetermined strike price by the time of expiration.

Like with all binary options, payouts are known from the onset so that traders know where they stand before buying the contract. When trading with OptionBit, traders can get a high returns between 75 - 81%.

#### ***Trading Example***

You decide to try trading Above / Below options and sign up for a free account. After looking at the assets available, you decided that Gold is the asset you would like to trade.

By quickly looking at the historical graph that day and conducting a technical or fundamental analysis, you notice that Gold is currently trading at a low point for the day. Based on this information, you decided that this low point is a lull rather than a continuing drop and you think that Gold will finish higher than it's current price in one hour.

Since you believe that price of the underlying asset will increase, you buy a Call option that expires in 60 minutes. If you believed that the price of the asset would decrease, you would buy a Put option.

Since it's your first time trading, you decides to start with a small investment of \$100. If when the contract expires the price of Gold has risen, you'll finish in-the-money and take home a high return between 75 - 81% of your initial investment.



## Touch

Touch options are another type of binary option available on OptionBit. Touch options expire in-the-money if the price of the underlying asset touches a predetermined barrier by the time of expiration. Price barriers can be higher or lower than the current price of the underlying when the option is purchased, enabling traders to take advantage of the traditional omnidirectionality offered by binary options.

OptionBit also offers variations on Touch, including "Touch Up" and "Touch Down".

### *Trading Example*

You decide to try touch trading. After looking at the assets available, you decided that you would like to trade a touch option on Microsoft.

In the trading room, you select Microsoft as the asset you would like to trade and see that the option is expiring in 30 minutes. Depending on the current price of the asset, two options are available with predetermined strike prices, "Touch Up" and "Touch Down". You believe that the price of the underlying asset will touch the high strike price until the expiry date, so you select "Touch Up". On the other hand, if you believed that the price of the underlying asset will touch the low strike price, you would select "Touch Down".

If when the contract expires the price of Microsoft has touched the option you selected, you'll finish in-the-money and take home a high return between 75 - 81% of your initial investment.



**Click here to start trading [Touch Options](#) today.**

## Range

Range is the third type of binary option offered by OptionBit. Based on tunnel trading, Range options have a predetermined upper and lower boundary. When buying a range option, the trader must predict whether the price of the underlying asset will stay "In" or go "Out" of a predetermined range at the time of expiration.

This way the trader can trade on the volatility of the asset – If he or she thinks that the asset volatility is high, he or she can buy an "Out" of the range option. On the other hand, if the trader thinks that the option is not volatile, he or she should buy an "In" range option.

### *Trading Example*

You decide to trade a forex option, USD / EUR. In the trading room you see that there are two options available, "In" and "Out". Each option has a predetermined range and you must determine if the asset will be in the upper or lower range at the time of expiration.

You think that the price of the underlying asset will be in the range at the time of expiration so you select an "In" option. If you thought that the price of USD / EUR will be out of the range at the time of expiration, you should have bought a "Out" option.

If when the contract expires the price of USD / EUR stayed in the predetermined range that you selected, you'll get a high return on your investment between 75 - 81%.



**Click here to start trading [Range Options](#) today.**

## Unique OptionBit Features

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To make trading more flexible and exciting, OptionBit offers traders two unique trading room features: **Close Now** and **Extend**.

### ★ Close Now

This unique feature gives traders the ability to sell their options before the time of expiration. This helps traders manage their money and gives them the opportunity to close an option before the time of expiration if it isn't performing as they planned.

### ★ Extend

Extend (Roll Over) enables traders to extend the time of expiration in order to increase their odds of being in-the-money. For example, if a trader purchased an option that is not performing as they expected, they can extend the time of expiration and give themselves the opportunity to be in-the-money by paying a flat one time fee.



## Analyzing Binary Options

There are many factors involved in direction that assets move, a fact which is readily apparent even to new investors. However, successful traders can analyze information and make educated predictions before they choose their options.

There are two main ways to analyze the market, through fundamental analysis and through technical analysis. Both methods may be used independently or in conjunction with the other.



### Technical Analysis

Technical Analysis is the process of analyzing statistics and data about specific options in order to more accurately predict which direction the asset will move. There are many different methodologies used in technical analysis, both objective and subjective, including means reversion, tracking momentum or moving average convergence divergence (MACD), trend following, and pattern recognition.

#### ★ Principles of Technical Analysis

Technical Analysis is the quantitative study of prices and volumes in order to predict the price of an underlying asset like a stock, currency pair, index or commodity. This type of analysis helps traders determine what is likely to happen in the future so that they can make accurate market moves and high returns on their investments.

#### ★ Trend Following

Trend following is a form of technical analysis that looks at historical data on to see if a trend is occurring. A trend is most simply defined as any sustained movement in one direction. By looking at the historical moving average of an asset, one can determine whether or not a trend is developing.

### ***Trading Example***

You are interested in purchasing gold, and want to see if there is an established trend. You look at the 2-day moving average for Gold, as well as the 5-day moving average for Gold. If the 2-day moving average has crossed significantly either above or below the 5-day moving average, you can safely assume that a trend has developed, in either an upwards or downwards direction.

#### ★ Means Reversion

The concept behind means reversion is that assets tend to settle back towards their mean. If a trader can determine the mean of an asset, it will make it much easier to predict the direction accurately and get the high return on the investment.

#### ★ Tracking Momentum

Tracking momentum is a common tool used in technical analysis. By using MACD, an investor can determine whether the momentum of an asset is rising or falling, and place their trade accordingly.

Calculating momentum is a complex affair, but once an MACD indicator is determined, it can be used to track the changes day to day of short-term and long-term averages. If the short-term averages are generally larger than the long-term averages, momentum can be said to be increasing, while if they are smaller, momentum can be said to be decreasing.

#### ★ Pattern Return

Finally, many technical analysts look for patterns in the movement of an asset or sector of the market. Finding these patterns can be somewhat complicated, and false patterns may lead a trader to invest unwisely, but if properly used pattern recognition can lead to long-term profitability.

## Fundamental Analysis

Fundamental analysis is a method of prediction that looks at available facts to come up with an idea of how the market will move. These facts may come from public statements, news reports, current events, and virtually anything else that might impact the value of an asset. The fundamental analyst then examines that collected data to try to predict new trends in the market.



For example, an analyst looking at currency pairs might watch for a public report from a country on their GDP, or an announcement from their central bank. An equity analyst might look at what a company's quarterly reports show about their performance, or listen to announcements from a CEO to gain some insight into the direction a stock might take. It's important for a fundamental analyst to keep both a broad view and a specific view, noting what is happening in the world at large, as well as what is happening on the micro scale in regards to their specific assets.

Unlike objectively-based methods of analysis, fundamental analysis is largely subjective. People may have different interpretations of what a CEO's announcement means about the health of the company, or how an earthquake will affect the price of oil. Since there are no rules set in stone, fundamental traders are generally referred to as discretionary traders – they use their own judgment to decide what course of action to take, after analyzing all the data they have available.

Because it is subjective, most fundamental analysts find their ability to predict things like market direction improves as they get more practice. Fundamental analysts become experts at reading between the lines, to understand what exactly a data point might mean, and they also learn to connect the dots, combining many discrete data points into a comprehensive overall picture.

OptionBit offer their clients a real times news and announcement of economic events.

## Basic Strategies

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After you've picked up the basics of binary option trading, you'll want to further your opportunity to be in-the-money by learning some basic binary option strategies.

In addition to using the technical and fundamental analysis outlined above, there are several strategies that binary option traders can learn and employ in order to improve their chances of being in-the-money and making a high return on their investment.

Each of the strategies outlined below applies to the most popular type of binary option trading, Above / Below.

To learn more see OptionBit's Binary Option Trading E-Book "Advanced Binary Option Strategies for Binary Options Traders, Lesson #3".

### **Bullish Strategy**

A bullish strategy is employed when a trader believes that the price of a specific asset will follow an upward trend and gain value.

#### ***Trading Example***

It's 12:00 PM and the market has just had a significant rally. However, you think that within the next half hour the price of Gold will go below its current price of 1120 and follow the bearish trend.

You choose a Put contract that expires in 30 minutes and invest \$1,000 , speculating that the Gold will be below 1120 by the time of expiration. If you are correct, you will receive \$1,750, realizing a \$750 profit (\$750 = \$1,750 - \$1,000 of the investment).



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## Bearish Strategy

A bearish strategy is employed when a trader believes that the price of a specific asset will follow a downward trend and lose value.

### *Trading Example*

It is now 12:00 PM and the market has just had a significant sell off. You have been following Gold today and think that within the next few minutes the price of Gold will go above its current price of 1120, and follow a bullish trend.

You go and view which options are open and decide to buy a Call contract that expires in 30 minutes with an initial investment of \$1,000. If you are correct, and the price of Gold rises in 30 minutes, you will be in-the-money and realize a profit of \$750 (\$750 profit = \$1,750 less \$1,000 of the investment).

As you become more familiar with binary option trading strategies, you can start to incorporate more advanced insider strategies into your trading in order to increase your chances of making a high return investment.

## Range / Volatility Trading

Range trading, or volatility trading as it's sometimes called, gives traders the ability to trade on a range of prices. For example, if a trader believes that the price of Gold is fairly stable, he or she can purchase an option that is "In" the range. On the other hand, if the option appears to be volatile, the trader can buy an "Out" of the range option.

### *Trading Example*

You decide to trade a range option on Google and think that the Google stock will be stable in the next hour and stay in the target prices that the broker provides so you invest \$1,000 on a "In" range option. If you are correct, you will be in-the-money and receive \$1,800 at the time of expiration.



## Fence Trading

Fence trading gives traders the opportunity to win no matter what direction an option moves.

### Trading Example

You believe that the price of Gold will go up in the next hour. Trading on a Above / Below binary option, you decide to buy a Call option at a strike price of 1120. The market goes up as you expected and the price of Gold is currently at 1160. However, after a few minutes you start to think that the price of Gold is going to go back down. In order to cover both outcomes, you buy a second option, on Put, at the current rate of 1160. This way if Gold expires with a price between 1120 and 1160, you will win both of the options.

**Scenario 1:** If you had invested \$1,000 on Call and \$1,000 on Put (Total: \$2000), you would receive up to \$3,600 (with an 80% payout), realizing a \$1,600 profit (\$1,600 = \$3,600 less \$2,000 of the investment).

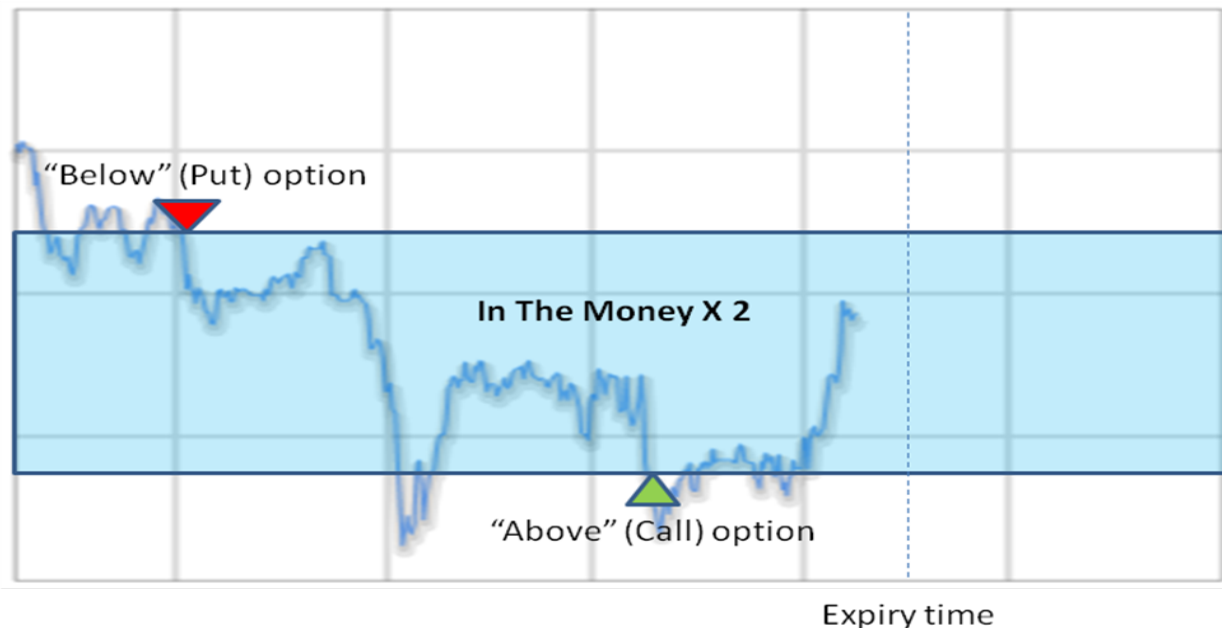
**Scenario 2:** You can also win one contract and loose the other, cutting their losses. For example, if Gold expired higher than 1160 than you would win the "Call" and loose the "Put". On the other hand, if Gold expires lower than 1120, you will win the "Put" and loose the "Call".

**Scenario 3:** In the worst case scenario, you will have invested \$2,000 and get only \$1,800, loosing \$200 (10% of their initial investment).

Scenario	"Call" Payout	"Put" Payout	Total Payout	P&L
SET above 1160	\$1,800	-	\$1,850	-\$200
SET between 1120 and 1160	\$1,800	\$1,800	\$3,600	\$1,600
SET below 1120	-	\$1,750	\$1,850	-\$200

Using this strategy, a trader can trade up to eight times and be out-of-the-money seven times and still cover their losses and make a profit from one win.

$$7 \times (\$200) + 1 \times 1,600 = \$200$$



## Unpredictable Market Movement

While conducting a technical and fundamental analysis is key to predicting market movement, sometimes there are unexpected events that you must respond to quickly in order to minimize your risk and make a profit on your investment.

For example, a trader has done his or her research and knows that an unexpected economic event is going to happen at 12 PM on Monday morning, the United States Employment Agency is going to report the unemployment statistics for the past quarter. The trader knows that the retail market will be effected, but has no idea in which direction the market will move.

In order to cover both possibilities, the trader invests \$1,000 on a Call option and \$1,000 on a Put option at the same time. During this hour, the unemployment statistics are announced and unemployment has gone down 3% sending the price of retail options up.

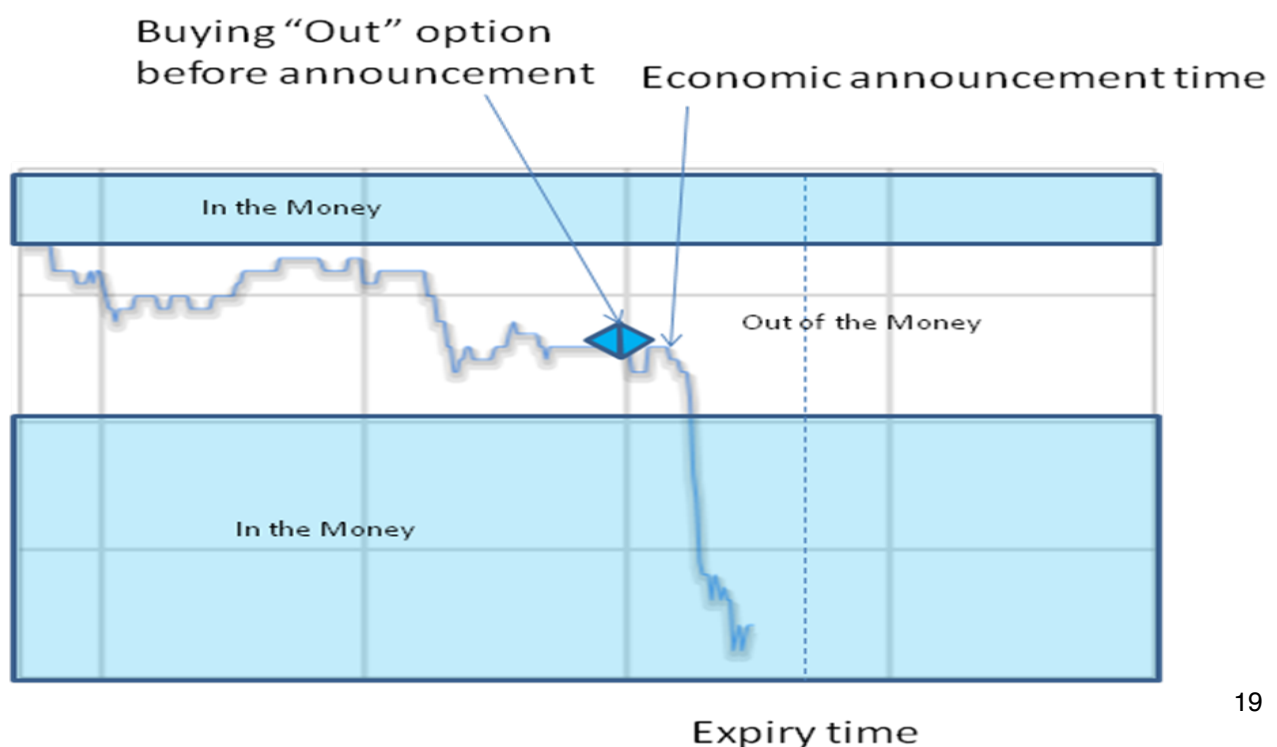
Now that the trader has seen these statistics, they know that their Call option is going to be in-the-money and their Put option is going to be out-of-the-money. In order to minimize their risk, they use the Close Now feature and are able to recover \$250 of the initial \$1,000 they invested on the "Put" option. Since the "Call" option is in the money, the trader will get a return of \$1,800 and have broken even with their investments.

*Warning: If there after closing the "Put", the Gold decreased and went below the strike price, the Close Now option would only give the trader \$150 back from their out-of-the-money trade.*

## Making Profit from an Unpredictable Market

While this might not sound like the high profit strategy that you were looking for, at OptionBit you can trade Range Options, which give traders increased flexibility in volatile, unpredictable markets.

For example, if a trader decided to use Range Options and they think that the US employment statistics will have a huge effect on the market, and the price of EUR/USD is going to change greatly when the statistics are announced, they could buy an "Out" option.



## Money Management

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Money management is an essential but often overlooked prerequisite to successful trading. Traders that generate substantial profits over their lifetime can lose it quickly in just one or two bad trades if you don't manage your money properly.

No strategy can increase your odds several times, however they just can increase your winning chances by informing you how to trade effectively. To help you increase your trading profits we've derived these simple strategies:

- ★ **Binary Options and Roulette** - Binary Options trading isn't related to roulette and there is no roulette strategy for binary options.
- ★ **Never Risk More Than 8.5% on One Trade** - This will give you the opportunity to be wrong 11 times have money to keep trading. For example, if you are trading with \$10,000, you shouldn't risk more than \$850 on one trade. That way if you do not get a high return on your investment, you'll still have enough money to keep trading.
- ★ **Confidence is Key** - Trade only when you are confident that you have researched and analyzed thoroughly. If you're are not sure about trade wait out for a while until you feel confident about your options.
- ★ **Diversify** - Never put all your eggs in the same basket. Trade options on a number of different assets, markets (e.g. Forex and Indices), dividend industries (e.g. Google and JP Morgan) and expiration times.
- ★ **Watch for Financial Announcements** - Usually you'll need to wait before a large economic announcement is announced and then predict the direction you would like to trade on. You can also anticipate financial announcements and use binary options to trade on the volatility.
- ★ **Follow Trends** - Always keep your eye out for developing trends. For example, if Microsoft's stocks appear to be increasing, perhaps Apple's stocks will too.
- ★ **Expect Losses** - If you're a real winner, you'll accept losses as a part of winning.

## Trading Hours

While the most common binary option assets are fairly traditional, like commodities, stocks, indices and forex, one advantage binary option trading has over many other financial exchanges is that option trading is not limited to a specific market, index, or asset. This means that if a specific asset isn't available, you'll be able to choose from variety of assets on open markets around the world--giving you the opportunity to trade 24 hours a day, 6 days a week.



Soon, OptionBit will be expanding the trading hours to include the weekends so that traders that can plan and buy assets with expirations that mature the following week.

### Maximize Your Trading Time

For people who choose to specialize in a handful of assets, it can be helpful to pick assets that overlap in terms of market hours. This way you'll always have an available market to trade in. For example, if a trader is interested in trading one asset, and the only exchanges for trading that asset are open from 9 AM to 5 AM EST, the trader may want to choose a second asset to trade on an exchange on the other side of the world. This way the investor can still focus on two or three assets, but will never have dead trading periods.

Since you can trade binary options on almost any asset, many investors are choose to trade a number of assets simultaneously. By building strategies that read broader market signs and do not depend on a specific asset, these traders are able to use binary option trading to easily give them 24 hours of profitable trading daily.



Click here to [start trading on OptionBit](#) today.

## About OptionBit

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OptionBit is a premier option trading platform that provides investors and traders the ability to trade stocks, currency pairs, commodities and indices on the exotic options market.

We are opening the gates to the exciting world of exotic option trading by creating an exceptional trading environment where anyone can trade binary options in a simple, smart way.

Our unique trading platform was designed to be easy to use, while still being powerful enough to give traders unique money management features found no where else online.

We are currently the only options trading platform on the market that offers traders and investors three unique types of binary option to trade: Above / Below, Touch and Range.

We also offer unique trading tools like Close and Extend, which give traders ability to close their options before the time of expiration or automatically extend the time of expiration after buying the option.

Our trading platform can be accessed from anywhere in the world 24 hours a day, 6 days a week. Our quality customer service professionals are also available to assist you every trading hour of the day to insure that you have the highest quality trading experience with OptionBit.

See you in the trading rooms and enjoy your trades!

Best Wishes,

The OptionBit Team



**Click here to [start trading on OptionBit.](#)**

## Glossary

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### **Asset**

A stock, commodity, index or forex pair.

### **At-the-money**

If the option expiry price is similar to the option buying price than the investment amount is returned fully to the investor.

### **“Call” (Above) Option**

An option that provides the trader with a fixed profit when the underlying asset is higher at the time of expiration than at the time it was purchased.

### **Current Price**

The last price according to real time data unless otherwise is stated.

### **Digital Options**

Another name for binary options, digital options typically refer to binary options that have fixed odds.

### **Expiry Time (Time of Expiration)**

The time and date at which an option expires and the trade is determined to be in-the-money or out-of-the money.

### **Fundamental Analysis**

Traders use fundamental analysis to determine how macro-economic factors will influence the value of an option.

### **In-the-money**

For a Call option (Above / Below), when the strike price is above the market price for the underlying asset.

For a Put option (Above / Below), when the strike price is below the market price for the underlying asset.

## **Out-of-the-money**

For a Call option (Above / Below), when the strike price is higher than the market price for the underlying asset.

For a Put option (Above / Below), when the strike price is lower than the market price for the underlying asset.

## **“Put” (Below) Option**

An option that provides the trader with a fixed profit when the underlying asset price is lower than the price it was purchased at the time of expiration.

## **Range Option**

One of the three types of binary options available in OptionBit’s trading room. With range options the trader must predict if an asset price will be “In” or “Out” of a predetermined range at the time of expiration.

## **Strike Price**

The price that an underlying asset must touch in order to be in-the-money or out-of-the money.

## **Technical Analysis**

Technical analysis is based on charts and statistics. Traders use technical analysis to predict the future movements of options based on their past performance.

## **Touch Option**

One of the three types of binary options available in OptionBit’s trading room. With touch options the trader must predict if an asset price will touch a predetermined strike before the time of expiration.