The Horse Race Trade

The Horse Race trade is designed around the 08:30 a.m. CT open of the NYSE, NASDAQ, and AMEX stock exchanges. Many stocks have a tendency to be very volatile and have large moves between 08:30 and 09:00. This trade is designed to take advantage of those moves through the use of the option market.

If the stock is moving higher, we will look to buy at the money calls, and if the stock is moving lower, we will look to buy at the money puts. In either case, we will be trading weekly options unless the stock does not have the weekly options, and therefore, we will trade the monthly options.

In trading weekly options, trade the current weekly option Monday through Wednesday, and use the next week’s option on Thursday and Friday.

PICK YOUR HORSES

Find stocks that move around the 08:30 a.m. CT open. These stocks will usually be NASDAQ stocks. My favorites are Apple (AAPL), Netflix (NFLX), Amazon (AMZN), Tesla (TSLA) and Alphabet (GOOG).

Each of these are market-leading companies with a highly liquid option market, an average daily range of at least $3.00, a share price of $100 or more, and a tendency to make large moves at the open.

I find it easiest to set up five, 1-minute charts like this:
Again, we only need to watch the first 30 minutes of trading from 8:30 to 9:00am Central time. At the end of this period, you need to answer two questions:

1) What direction are the stocks moving?
2) And which one is being the most decisive?

Notice that 4 of them have moved down and only Apple is up. Clearly, the momentum is down and the market is telling me to go short. Question #1 is therefore answered.

Second, I have to decide which stock I want to trade.

Since I’ve decided that I want to be short, Apple is off the table. Out of the other 4, Google appears to be the most bearish. The price action has been straight down all morning, and it also made the largest down move at $8.51.

With my stock and direction chosen, I now have to choose an option.

As I mentioned earlier, I’m going to use at-the-money weekly options. So at 9:00 am CT, after I have chosen a stock and direction, I’ll look at the option chain and find the weekly option closest to the current price of Google.

In this example, Google was trading for $721 so I would buy the GOOG 720 weekly put option.
I know WHAT stock and option I'm going to trade, and I know WHEN I'm going to trade it. The only thing left, and maybe the most important, is to identify when to take profits and where to place a stop.

**Structuring the Trade**

When structuring the Horse Race Trade, we need to determine entry, target 1, target 2, and the risk of the trade. In any trade, the first thing we need to look at is risk.

For the Horse Race trade, we will use 25 percent of the option value for the stop. In addition to this, I like to keep the stop below the $0.00 and $0.50 price levels. This means that if the option costs $4.80, 25 percent below this is $3.60. I'll move below the $0.50 mark and place the stop at $3.40.

If I'm wrong and Google reverses direction, my risk is limited to $140 per contract.
If the option were $10.00, the stop would be at $7.40 (below the $0.50).

Profit targets are straight forward. If the option is less than $10.00, sell the first unit (depending on the number of contracts you are trading) at $1.00 profit, and sell the second unit at $2.00 profit. If the option is greater than $10.00, we will double the profit targets ($2.00 for the first unit and $4.00 for the second unit).

**Example:** Let’s look at *Alphabet (GOOG)*

<table>
<thead>
<tr>
<th>Open</th>
<th>$725.42</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>$725.77</td>
</tr>
<tr>
<td>Low</td>
<td>$720.86</td>
</tr>
<tr>
<td>Closed</td>
<td>$721.50</td>
</tr>
</tbody>
</table>

The strategy is to buy the $720 weekly put because *Alphabet* is below its open and has moved down more than it has moved up. Since *Alphabet* is weaker than it is stronger, then we will look to buy an at the money put – in this case, the 720 put.

If you bought two options at $5.00, your exposure would be $1,000. If you sold one at $6.00, you have reduced your exposure to $400 ($100 profit, minus the $500 risk on the last contract). If you sold the last contract at $7.00, you have a total profit of $300 on the $1,000 you had to risk. This is a 30 percent return.

**Horse Race Checklist**

1) Pick your horse  
2) Set your risk to approximately 25% of the option's value  
3) Target 1 – 1 point or $1 profit  
4) Target 2 – 2 point or $2 profit

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Horse Race Trade Worksheet

Goal - make money trading options at the open

Pick your stocks

1) Apple (AAPL)
2) Amazon (AMZN)
3) Alphabet (GOOG)
4) Netflix (NFLX)
5) Tesla (TSLA)

Set up Horse Race (1-minute charts starting at the 8:30am CT open)

Look for the right picture

Open_______ Current Price_______
Open_______ Current Price_______
Open_______ Current Price_______
Open_______ Current Price_______
Open_______ Current Price_______

Establish target, risk, and entry

Entry Price_______ Stop_______ Profit Target_______
Entry Price_______ Stop_______ Profit Target_______
Entry Price_______ Stop_______ Profit Target_______
Entry Price_______ Stop_______ Profit Target_______
Entry Price_______ Stop_______ Profit Target_______
Entry Price_______ Stop_______ Profit Target_______