

A COMPLETE BINARY OPTIONS GUIDE TO SUCCESSFUL TRADING

Vince Stanzione

performance and strategies that have worked in the past may not work in the future. Binary options trading involves a high level of risk and may not be suitable for all customers. The value of any trade, and income derived from it can go down as well as up and your capital is at risk. Although due care has been taken in preparing this document, we disclaim liability for any inaccuracies or omissions.

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By Vince Stanzione

Contents

Introduction

- Breaking down the establishment – Out with the old and in with the new
4

Chapter 1: Getting started

- Starting with the basics 5
- What's the difference between spread betting and binary options trading?
6
- Opening an account 7

Chapter 2: Ways to back the market 10

- Trades offered 10
- What can I trade? 15
- How are trades priced? 24
- How are trades placed? 27

Chapter 3: Becoming A Better Trader

29

- Using Charts 29
- Using a Moving Average 30
- Support and Resistance 32
- Technical Indicators 35
- Money Management 38

Chapter 4: 7 Top Tips for Trading Binary Options 42

- Make the Most of Bullish, Bearish or Stagnant Markets
42
- Use Touch trades 42
- Balance Risk and Reward
43
- Be a disciplined trader not a reckless gambler
43
- Run two trades together, trading a pair
44
- Seasonality – History does repeat itself in many markets 44
- Combine Spread Bets and Binary Options Trades
44

Conclusion

- About Vince Stanzione 45

Introduction

Welcome to “*A Complete Binary Options Guide To Successful Trading*”. My name is Vince Stanzone. For the past 25 years, I have been involved in financial markets. I have worked for various banks and brokers in the City of London, both in Equities and Foreign Exchange.

For the last 20 years I have successfully traded my own money as well as teaching others how to trade. This has given me the freedom to live and “work”, if that’s the right word, from anywhere in the world, with no boss or the usual hassle that normal businesses face.

During my career I have traded millions of dollars both for my previous employers and with my own money, using financial instruments such as futures, options, warrants, swaps, CFDs and in the UK, financial spread betting.

The aim of this book is to give you an introduction to trading with Binary.com

In my view, binary options trading, offers an excellent way to trade markets with small limited stakes yet with big potential gains. Today, thousands of men and women from all over the world use Binary.com to place trades on currencies, stocks, indices and even the price of gold, silver and oil.

Breaking down the establishment – Out with the old and in with the new

Until the last 5 to 10 years, it was very difficult for private clients to start trading as they had to use the same strategies as large banks and financial institutions. Many of these strategies would require you to lodge large deposits and take risks which you or I would not want to take. Most clients would be encouraged to just buy shares or mutual funds and engage in buy and hold type strategies.

Thanks to the internet and Binary.com, the money making “club” is now open to everyone, regardless of where they live, what they do for a living or how much they earn. With nothing more than a Binary.com account and internet access, the financial markets today allow you to take on and beat the financial big boys at their own game. Just think of how you can be sitting on a beach and still be trading, because many PDA’s such as the iPhone and mobile phones are powerful enough to trade from.

Chapter 1

Getting started

Like any new subject, at first it can all seem a bit strange and difficult. My aim is to keep the jargon down to a bare minimum and use as many examples as possible from my own trading experience to help explain the various trades and strategies.

Don't worry if you do not understand it after one read. I encourage you to re-study and use a virtual money account to practice before you trade with real money. This great feature is offered free by Binary.com. So as the old saying goes, "you can eat an elephant if you take one bite at a time." You too can learn how to trade profitably using binary options if you take it step by step.

Starting with the basics

Most investors are conditioned into making money by buying something low and selling it high. This may be well and good in the long term but as traders we need more flexibility.

With Binary.com you can profit from a market going up, down or even sideways, a concept that not even seasoned traders understand.

So let's take a look at the basics and then I will show you the specific trades offered:

1. Higher/Lower Trade

For many, this trade type is the easiest to understand. You're either buying low and selling higher or you're selling first and then buying back later, depending on whether you choose to predict that the market is going to move upwards or downwards over the next few minutes, days or even months.

In the stock market "short selling" is not recommended as it carries risks and, in fact, most brokers will not let you sell short. However, with Binary.com, you can as easily place a higher/lower trade and control your risk. So if your view that the Wall Street Index is going to plummet turns out wrong, then you can walk away with a loss of no more than your stake.

2. In/Out Trade

This is another concept which may sound a little strange but can be very profitable. Again, unless you have access to a traded options account and a hefty bank balance, making money from a range was nearly impossible until now.

The 'In/Out' trade type comes in two varieties: "Stays Between/Goes outside", where the market must stay between or go outside the price targets anytime during the specified period of time; and "Ends Between/Outside", where the market must end between or outside the price targets at the trade's end time.

Let's say you expect the EUR/USD to stay between 1.50 (high) and 1.30 (low) in the next 10 days using a "Stays Between/Goes Outside" trade. If the EUR/USD is within that range when the trade expires, you will be paid out in full.

On the other hand, let's say a market has been consolidating (going sideways) for a while and you want to predict that the market will break out, either up or down. This is possible with an "Ends Between/Outside" trade type. If the market ends between or outside the range you specified, you will be paid out in full.

What's the difference between Spread Betting/Futures and binary options trading?

Some of you may have heard of futures trading or financial spread betting. You may also have heard about the high risks that are involved in these types of trading. Spread betting allows you to profit from a market going up or down. The more correct you are the more you make, the more wrong you are the more you lose. Most spread bets have a stop loss, so if the market moves a certain amount of points against you, you would be stopped out.

This protection makes sense, but what happens to many traders is that they have the right trade, but they are stopped out due to a short term contra movement.

Let's say you think the GBP will strengthen against the USD and use a spread bet with a stop loss of 100 points away. The trade starts off going in your favour, but due to an unfavourable economic release, the GBP drops just below your stop before rebounding.

This means that your trade is over and you have lost.

The main advantage of a binary options trade over a spread bet with a stop loss is that the position cannot be stopped out early (apart from a Touch trade), which means that it could go wrong but then rebound and finish in profit.

Another difference between a binary options trade and a spread bet is that you can still make a big gain with just a small market movement.

Take the example of a Rise/Fall trade on Gold at Binary.com and a similar duration spread bet. The objective in each case is to win GBP100 if the market moves upwards. The binary options position would pay out if the price finishes higher than the entry point plus the spread.

With the market at USD833 and a spread of USD1, this means that a trade costing GBP100 would pay GBP100 as long as Gold ended the day anywhere above USD834.

An equivalent one-day spread bet with a stake of GBP3 per point would require a stop 33 points below the current price to limit the potential loss to GBP100. This runs the risk of being stopped out early and would only make GBP100 profit if the price finishes 33 points higher.

For my own trading I use binary options trading, spread betting, covered warrants, margined FX and options. Like a mechanic with a toolbox that uses different tools for different tasks, we as traders must use different products to back different scenarios. In many cases, I will have a binary options trade and a spread bet running simultaneously.

What I am certain of is that many new traders with smaller accounts using spread betting to trade markets such as the Dow Jones Industrials, FTSE100 or S&P500 would be far better off using a binary options trade than a spread bet.

Opening an Account

Before we go into the ins and outs, now would be a good time to open an account with Binary.com if you have not already done so. The process is fairly simple and you can normally get it done within 5 minutes.

Go to the Binary.com website and click on the "Register" link situated at the top right hand corner of the page. You will then be asked to choose between opening a real money account and a virtual money account. I suggest you sign up for both, so you have a virtual account to test ideas on and a real account to do your real money trading.

Account Opening

Open either a Real Money or Virtual Money account and get started.



Real money account

Open a **real money** account and make a deposit using credit card, bank wire, cheque or e-cash. Accounts are available in dollars, pounds and euros. The minimum deposit is (\$/£/€) 5 and the maximum account is (\$/£/€) 150,000.

[OPEN NOW](#)



Virtual money account

Want to practice some trading before you try for real? Open a **virtual money** account now, all you need to provide is your email and password.

[OPEN NOW](#)



Note:

Whilst virtual accounts are good to start with, I advise moving to trade with real money within a few weeks. I have seen many new traders spending months with virtual accounts and never start making real trades.

Here are the top 5 frequently asked questions during account opening:

1. Is my money safe?

In today's financial environment that is a valid question, so let's take a look at whom we are dealing with. Binary.com is owned by the Regent Markets Group which is a multi-million dollar group of companies. Binary.com has been in business since 1999 and has traded over 15 million transactions with over 300,000 clients worldwide. Binary.com has no debt and is cash positive.

The company has won various awards, such as "Best Fixed Odds Firm" in 2008 by Investor Chronicle and "Best Fixed Odds Financial Provider" in 2007, 2008 and 2009 by Shares Magazine. It has also won the eGaming Review award for Financial Betting Operator of the Year in 2009, Trade2Win Members' Choice Silver Award for Best Fixed Odds Broker in 2010 and recently The Best Fixed-Odd Firm in 2012 by Global Banking & Finance Review.

The company is licensed in the Isle Of Man and Malta. Binary.com does not extend credit to clients. All trades must be paid with cash upfront.

2. Will my account be closed down if I make money?

I have made a considerable amount of money with Binary.com and I have never had a problem. What you need to understand is that Binary.com still makes money even if you win by charging a small commission, which is either built into the price of the trade or in the spread.

Clients also off set each other, so one client may trade the Dow Jones to go up and another client may predict that the market will move downwards. In such cases, Binary.com acts as the middle man and makes a small margin on both. Unlike traditional banks and brokers, Binary.com is an internet based platform that runs with far lower

costs. The business is based on high volumes with small profit margins which is good news for us as traders.

3. Do I need a credit card to trade?

No, not at all. A Binary.com account can be funded in various ways that do not require you to use a credit or debit card. For those that do wish to use a credit or debit card, rest assured that the site has the highest level of encryption and anti-fraud measures that protect both the client and Binary.com

4. How do I get my winnings?

When a trade settles you just need to click a button from your account to close the trade and take your winnings. This sum is then credited to your Binary.com account. If you wish to withdraw money, this can be done online via the Cashier section.

5. Currency

You can choose to trade in GBP, EUR, USD or AUD.

Note:



The way you are paid back may depend on how you funded your account.

Chapter 2

Ways to back the market

In this section I will look at specific trades offered by Binary.com. Remember to check the website often as new trade types are added regularly.

Trade Types Offered

There is a wide variety of trade types available at Binary.com. Here are a few examples:

1. Rise/Fall

These are available over short or long durations from 15 seconds up to 365 days and will pay out if the market rises or falls over the specified time. They allow traders to take advantage of very short-term or long-term trends.

Short-term rise/fall trades work well, for instance, on US markets such as the Dow Jones, S&P500 and NASDAQ, especially around market moving news events such as the FOMC interest rate meeting announcements.



2. Higher/Lower

These exposures pay out if the market is either above or below a certain specified level at the end of the trade, which could be hours, days or even months later. They are suitable for taking a directional view of the market or hedging an investment portfolio.



3. In/Out

These trade types may be used to make money when the market finishes either between a high (resistance) and a low (support) barrier or outside this range respectively.







4. Touch/No Touch

A Touch trade pays out if the market hits the specified level within the chosen time frame, while the No Touch is the exact opposite. They can be used in a number of ways, including backing a breakout from support or resistance.





5. No Touch

This can be used to make money from range-bound markets by stipulating that the price will not hit either the specified higher or lower level during the life of the trade.



What can I trade?

New markets are always being added but the main markets are:

1. Currencies, FX or Foreign Exchange

Foreign Exchange (also known as the FX market) is one of the biggest in the world. No trading floor exists. Banks, brokers, companies and governments trade between themselves using hi-tech computer networks such as those offered by Reuters and Bloomberg.

It is hard to comprehend the amount of money that trades in a day, around \$3.2 trillion a day (Bank for International Settlements (BIS) in Basel, Switzerland). Out of this, around 10% are companies trading overseas that need to convert currencies such as import/export businesses. The rest is pure speculation.

So what is trading currencies all about?

Many of us have traded currencies in a small way. If you have been abroad, you would have bought Swiss Francs, Euros, US Dollars, etc.

Now when you are looking to buy a currency, say Euros, you are looking for as many Euros to your Pound (or home currency) as possible, so you would rather have 1.40 to the Pound rather than 1.10, so you are buying HIGH.

When you come back with your un-spent Euros and you want to change them back to Pounds, you are looking for the lowest figure so you are selling LOW.

In the Foreign Exchange markets no actual notes change hands, it's all paper transactions. The actual principal amount of money never changes hands; you are only trading on a small percentage change.

With Binary.com you can trade the FX market 24 hours a day (5 days a week) with very small stakes.

The main currencies are:

- AUD/JPY (Australian Dollar – Japanese Yen)
- AUD/USD (Australian Dollar – US Dollar)
- EUR/AUD (Euro – Australian Dollar)
- EUR/CAD (Euro – Canadian Dollar)
- EUR/GBP (Euro – British Pound)
- EUR/JPY (Euro – Japanese Yen)
- EUR/USD (Euro – US Dollar)

- GBP/AUD (British Pound – Australian Dollar)
- GBP/CAD (British Pound – Canadian Dollar)
- GBP/JPY (British Pound – Japanese Yen)
- GBP/USD (British Pound – US Dollar)
- USD/CAD (US Dollar - Canadian Dollar)
- USD/JPY (US Dollar – Japanese Yen)
- AUD/CAD (Australian Dollar – Canadian Dollar)
- AUD/CHF (Australian Dollar – Swiss Franc)
- AUD/NZD (Australian Dollar – New Zealand Dollar)
- AUD/PLN (Australian Dollar – Polish Zloty)
- EUR/NOK (Euro – Norwegian Kroner)
- EUR/NZD (Euro – New Zealand Dollar)
- GBP/CZK (British Pound – Czech Koruna)
- GBP/NZD (British Pound – New Zealand Dollar)
- NZD/USD (New Zealand Dollar – US Dollar)



Tip:

Currencies are a good place to start. They trade 24 hours a day and because the market is so large you always have buyers and sellers.

This means that the spread (the difference between the buying and selling price) is extremely tight, which in turn means your breakeven on a trade is low. Also, there is always something going on in the currency market.

2. Indices

Binary.com offers a range of world indices. Due to copyright, the names of the markets may look slightly different but they are based on the same index. For example, the Wall Street Index is the Dow Jones Industrial Average.

Some of the Indices you can trade:

- Australian Index
- Bombay 30 Index
- Hong Kong Index
- India 50 Index
- Japan Index
- Korea Index

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- Shanghai Index
- Shenzhen Index
- Singapore Index
- Euro 50 Index
- French Index
- German Index

- Irish Index
- Italian Index
- Portugal Index
- South Africa Index
- Spanish Index
- Swiss Index
- UK Index
- Canadian 60 Index
- US 500 Index
- Wall Street Index
- Belgian Index
- Dutch Index
- Euro 100 Index
- Euro 150 Index

3. Commodities

Binary.com offers a 24 hour price on Gold and Silver, priced in USD. Trades may also be purchased on Oil.

4. Stocks

A selection of leading UK, German, Australian and Indian stocks. Some of the stocks you can trade are:

UK Stocks

Anglo American plc
 AstraZeneca plc
 Barclays plc
 BG Group plc
 BP plc
 British American Tobacco plc
 Anglo American plc
 AstraZeneca plc
 Barclays plc
 BG Group plc

BP plc
British American Tobacco plc
Diageo plc
GlaxoSmithKline plc
Glencore Xstrat
HSBC Holdings plc
ICAG (British Airways)
Lloyds Banking Group plc
Rio Tinto plc
Royal Dutch Shell plc
SABMiller plc
Standard Chartered plc
Tesco plc
Unilever plc
Vodafone

Australia Stocks

ANZ Banking Group Limited
BHP Billiton Limited
Commonwealth Bank of
Australia
National Australia Bank Limited
Westpac Banking Corporation

Germany Stocks

ADIDAS AG
Allianz SE
Daimler AG
Deutsche Bank AG
Deutsche Lufthansa

India Stocks

HDFC Bank Ltd
ICICI Bank Ltd
Infosys Ltd
ITC Ltd
Reliance Industries Ltd

5. Global Sector Indices

A selection of more than 40 Sector Indices from around the globe, including Agriculture, Energy, Financial and Technology. A few of the Sector Indices that you may trade are:

Global Sector

Global Ecology Index
Global Energy Index
Global Financial Index
Global Health Care Index
Global Industrial Index
Global Info Tech Index
Global Infrastructure Index
Global Materials Index
Global Nuclear Energy Index
Global Telecom Srv Index
Global Timber & Forestry Index
Global Utilities Index
World Index

Agriculture Sector

Bean Oil Index
Cocoa Index
Coffee Index
Corn Index
Cotton Index
Grains Index
Kansas Wheat Index
Soybeans Index
Sugar Index
Wheat Index

Financial Sector

Banking Index
Insurance Index
Mortgage Finance Index

Energy Sector

Biofuel Index
Brent Crude Index
Crude Index
Energy & Metals Index
Gasoil Index
Heating Oil Index
Natural Gas Index
Petroleum Index

Metals Sector

Copper Index

Lead Index
Metals Index
Nickel Index
Zinc Index

Technology Sector

Computer Hardware Index
Computer Software Index
Semiconductors Index

6. Random Indices

If you have never placed a trade on the random index, you need to know that this is a stock index whose price is simulated using random numbers. Unlike real market indices whose prices depend on the prices of the individual stocks listed on the Exchange, the random index only relies on factors like volatility, previous simulated index prices and a random number to determine the price of the index. Due to the use of random numbers, the price or direction of the index cannot be predicted with certainty and as a result the index moves in the same way as a real market index.

There are 4 Random Indices available:

(a) The Random Index 25, The Random Index 50, The Random Index 75 and the Random Index 100.

The numbers, 25, 50, 75 and 100, indicate the percentage volatility used in the calculation of the index price. For instance, for the Random Index 25 a volatility of 25% is used in the calculation of the index price. Likewise, for the Random Index 50 a volatility of 50% is used in the calculation of the index price. This randomly generated index was first introduced on the 16 May 2004 and the starting price for this market was 1000.

Rise/Fall Higher/Lower Touch/No Touch **In/Out**

Stays Between/Goes Outside Ends Between/Outside

All Random 25 Inde ?

Spot: 1734.356

Low barrier: -1.473 ?

High barrier: +1.473 ?

Duration: 5 minutes min: 5

Payout: USD 200

GET PRICES

* The entry spot of the contract will be the **next tick** after your order has been received.

Stays Between

USD 103.01

PURCHASE

USD 200 payout if Random 25 Index **stays strictly between entry spot minus 1.473 and entry spot plus 1.473** before 5 minutes after contract start.

Net profit: USD 96.99 | Return: 94%

Goes Outside

USD 102.99

PURCHASE

USD 200 payout if Random 25 Index **goes outside entry spot minus 1.473 to entry spot plus 1.473** before 5 minutes after contract start.

Net profit: USD 97.01 | Return: 94%

(b) Random Bull & Bear Indices

The Random Bull and the Random Bear (also referred to as Random Quotidians), are markets that reset daily at 00:00GMT. All trades purchased on the Random Bull & Bear will settle before the reset in preparation for a new trading day. As the name implies, the Random Bull simulates an optimistic market where upward movements are prevalent. The Random Bear simulates a pessimistic market that typically trends downwards. With Random Quotidians, you will never have to worry about stagnant markets.

Rise/Fall Higher/Lower Touch/No Touch **In/Out**

Rise/Fall

All Random Bear ?

Spot: 956.8876

Start time: Now* ?

Duration: 15 seconds min: 15

Payout: USD 200

GET PRICES

* The entry spot of the contract will be the **next tick** after your order has been received.

Rises

USD 102.25

PURCHASE

USD 200 payout if Random Bear is strictly **higher than entry spot** at 15 seconds after contract start.

Net profit: USD 97.75 | Return: 96%

Falls

USD 103.75

PURCHASE

USD 200 payout if Random Bear is strictly **lower than entry spot** at 15 seconds after contract start.

Net profit: USD 96.25 | Return: 93%

(c) Random Moon & Sun Indices

The Random Sun and the Random Moon (also referred to as Random Quotidians), are also markets that reset daily at 00:00GMT. Just like the Random Bull & Bear indices, all trades purchased on these indices will settle before the reset in preparation for a new trading day.

The Random Sun simulates a market that gets more volatile as the day progresses (and then more quiet at night). The Random Moon simulates a market that is quiet during the day (but becomes more volatile at night).

The screenshot shows a trading interface with the following elements:

- Navigation tabs: Rise/Fall, Higher/Lower, Touch/No Touch, In/Out.
- Contract selection: Quotidians dropdown set to 'Random Moon', with a sub-menu showing 'Random Bear', 'Random Bull', 'Random Moon' (highlighted), and 'Random Sun'.
- Start time: Blank field.
- Duration: min: 15.
- Spot: 28218.86 with a small line chart.
- Payout: USD 100.
- Button: GET PRICES.
- Footnote: * The entry spot of the contract will be the next tick after your order has been received.

Two pricing cards are shown on the right:

- Rises**: USD 51.49. USD 100 payout if Random 100 Index is strictly higher than entry spot at 15 seconds after contract start. Net profit: USD 48.51 | Return: 94% | Resale: USD 48.49.
- Falls**: USD 51.51. USD 100 payout if Random 100 Index is strictly lower than entry spot at 15 seconds after contract start. Net profit: USD 48.49 | Return: 94% | Resale: USD 48.51.

(d) Random Yin & Yang Indices

The Random Yin and the Random Yang (also referred to as Random Nocturnes), are markets that reset daily at 12:00pm. These indices are particularly appealing to Asian and Oceania residents because they reset around the time that the Asian and Oceania markets open.

The Random Yin simulates a pessimistic market where downward movements are prevalent. The Random Yang simulates an optimistic market that typically trends upwards.

Rise/Fall
Higher/Lower
Touch/No Touch
In/Out

Nocturnes ▼ Random Yang ▼ ?

Start time: Random Yang

Random Yin

Duration: 15 seconds min: 15

Spot: 1045.9365

Payout: USD 100

GET PRICES

* The entry spot of the contract will be the **next tick** after your order has been received.

Rises

USD 52⁻⁰³

PURCHASE

USD 100 payout if Random Yang is strictly **higher** than **entry spot** at 15 seconds after contract start.

Net profit: USD 47.97 | Return: 92% | Resale: USD 49.03

Falls

USD 50⁻⁹⁷

PURCHASE

USD 100 payout if Random Yang is strictly **lower** than **entry spot** at 15 seconds after contract start.

Net profit: USD 49.03 | Return: 96% | Resale: USD 47.97

How are trades priced?

The aim of this book is not to go into advanced mathematics so I will keep this as simple as possible. Earlier, we mentioned financial spread betting. Spread betting would live in the Financial Futures family.

Binary trades live in the Options family and many of the pricing models used come from traded options.

When a binary options trade expires, the position will either succeed and payout the preset winnings, or fail and pay nothing. Some Binary.com trades may be sold back before expiry just as a traded option may be bought or sold before expiration.

Binary trades are all based on options pricing models. The most important inputs into these complex formulae are the type of trade, predicted volatility, time to expiry, and the price of the underlying market compared with the boundary condition.

In simple terms: the greater the likelihood of a trade succeeding, the higher the price that Binary.com will charge for a given level of winnings. This also means that the potential profit as a percentage of the cost is correspondingly lower. Before placing the trade you can price different scenarios and see the effect on the odds, all in real time.

If you ask for a trade to be priced and the return is 900% you have to wonder why Binary.com is being so generous. What it means is that the chance of a payout is very unlikely.

On the other hand if you ask for a trade to be priced that is so predictable, the Binary.com system may not give you odds or the odds may be just a few percent.

Binary.com includes the purchase price of the trade in the winnings figure, so the potential profit is actually the payout minus the cost. For example, if a trade to win GBP100 costs GBP25, the potential profit is actually GBP75, which represents a potential gain of 300%.

One of the secrets of being a profitable trader is balancing the risks and rewards. Take too much risk (outside chances of a payout) and you will end up with very few successful trades. If you take too little risk (high chances of a payout) you will end up with more winning trades but with lower returns.

The odds that Binary.com are offering can be inferred from the cost of the trade relative to the potential winnings. For example, a trade priced at GBP38.50 to win GBP100 implies that the probability of success is 38.5%. A higher cost would mean a greater chance of success, hence the lower potential return. This same information can also be presented as fractional odds, decimal odds, or a binary price.

Fractional odds such as 3/1 mean that, for every GBP1 staked, GBP3 in addition to the one being risked will be returned if you win the trade.

Take the previous example of a trade of GBP38.50 that would win GBP100 including the return of the stake. The fractional odds in this case would be 8/5, as multiplying the stake by the odds gives the net winnings of GBP61.50.

These same odds can also be expressed in decimal format, which in this case would be 2.60. This is worked out by converting the fraction to decimals ($8/5=1.6$) and adding one to the result. Multiplying the decimal odds and the stake thus produces the total payout of GBP100.

1. Pricing a Trade

Rise/Fall Higher/Lower **Touch/No Touch** In/Out

Touch/No Touch


All

Barrier:

Duration: days min:

Payout:

GET PRICES


 **Touches**

USD 161.60

PURCHASE

USD 250 payout if UK Index touches 6680.00 before close on 24-Sep-13.

Net profit: USD 88.40 | Return: 55%

 **Does Not Touch**

USD 145.41

PURCHASE

USD 250 payout if UK Index does not touch 6680.00 before close on 24-Sep-13.

Net profit: USD 104.59 | Return: 72%

The example above shows a Touch trade.

Select the market, in this case the UK Index, also known as the FTSE100.
 Set the barrier level, in this case 6680
 Select the amount you wish to win, in this case USD250.
 Click "Get Prices"

At this stage you are not committed to purchase the trade, so you can price a trade but you do not have to take it. You may wish to go back and change one or more of the parameters and see how this affects the odds.

The price of this trade is USD161.60. If I wish to place this trade I would require this amount in my account. The profit on the trade is USD88.40 which represents a 55% return.

As this is a Touch trade, the price only has to touch 6680 once and the trade will be paid out. Of course if it does not touch my target, in this case 6680, within 7 days then my trade will expire at 0.

2. Selling back a trade

With Binary.com it is possible to sell back most trades before expiration. So if I see a trade is not going my way, I could look to sell the trade and salvage some of my stake. I can also make a profit if I sell the trade before it has paid out. If the trade has moved in my favour, it is possible that my sell back price is higher than my purchase price.

Whilst a good feature to have on the whole, trade should be run to expiration to obtain maximum returns.

Warning:



There may be instances where Binary.com cannot determine an accurate price for you to be able to sell the trade prior to its expiry. This is often correlated with high volatility and low granularity in certain markets.

While they will always provide you with an indicative price (in your portfolio) to help you gauge progress on your trade, they will be unable to provide you with the opportunity to sell your trade when an accurate price cannot be determined. In such cases, you may wish to consider placing another trade which hedges all or part of your risk.

How are trades placed?

A Rise/Fall trade is used when you think a market will either go up or down. The market has to move by a predetermined number of points before one of your trades makes a profit. This represents the company's commission.


You could have two (or more) trades running at the same time on different markets. For example, you could purchase a Rise/Fall trade on Gold and on the EUR/USD predicting that both markets are going to move upwards. As the EUR strengthens against the USD, Gold normally goes up as Gold is priced in USD and that makes it cheaper for those holding EUR to buy Gold.


So let's look at an example on Gold


Rise/Fall Higher/Lower Touch/No Touch In/Out

Rise/Fall

All Gold/USD

Spot: 1321.17 

Start time: Now* 

Duration: 7 days 

min: 1

Payout: USD 200

GET PRICES

* The entry spot of the contract will be the next tick after your order has been received.

Rises

USD 113.³⁹

PURCHASE

USD 200 payout if Gold/USD is strictly **higher** than **entry spot** at close (23:59:59) on 24-Sep-13.

Net profit: USD 86.61 | Return: 76%

Falls

USD 97.⁹⁴

PURCHASE

USD 200 payout if Gold/USD is strictly **lower** than **entry spot** at close (23:59:59) on 24-Sep-13.

Net profit: USD 102.06 | Return: 104%

I select "rises" (up), the other option being "falls" (down), and then I select the amount I wish to win. The USD200 is how much I wish to win. I can change this from USD10 to USD100,000. Then I press on "Get Prices" to price this trade. The price is USD113.39 so my return is 76%. The current spot price is 1321.17. The market must move upwards for me to win this trade.

So, just to be clear

This is a Rise/Fall trade (predicting that the market will rise). It will settle at the close of trading on the given expiry date and will pay the stake if the market price is higher (by a specified number of points) at expiry than at purchase time.



Now for the opposite trade:



This is a Rise/Fall trade (predicting that the market will fall). It will settle at the close of trading on the given expiry date and will pay the stake if the market price is lower at expiry than at purchase time.

Short term Trades

You may wish to trade in shorter intervals than 1 day. This is also possible with a Rise/Fall trade. In fact, you can also place trades with a minimum duration of 15 seconds or a duration between 1 to 5 minutes, 10 minute intervals or even hours.

Chapter 3

Becoming A Better Trader

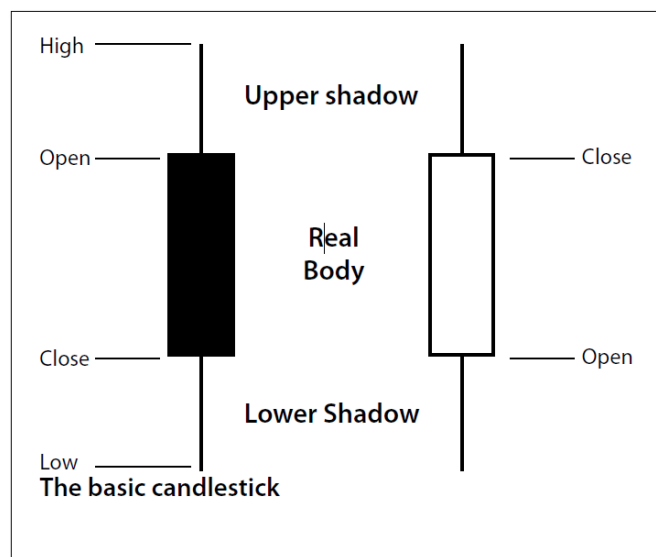
In this section I will cover some very simple trading systems and strategies that are easy to apply and effective when trading binary options on Binary.com

Using Charts

One of the main tools I use are price charts. Charts offer a visual representation of where the price of a market has been in the past. Binary.com offers excellent free charts on all the markets they trade. Additional charts and news can be found free on various internet sites.

There are various types of charts but to keep it simple, I will concentrate on one well known format called candlestick charts. I will not go into the details of the various patterns. I will just concentrate on the basics.

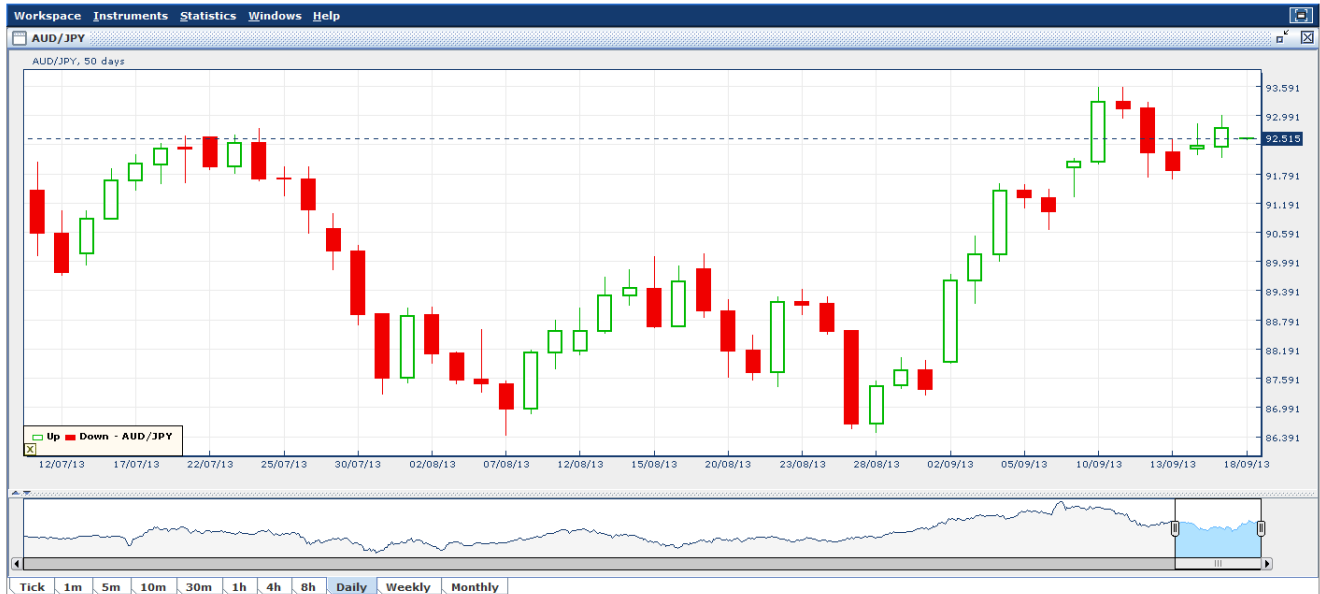
Candlestick charts are said to have been developed in the 18th century by the legendary Japanese rice trader Homma Munehisa. The charts gave Homma and others an overview of open, high, low, and close market prices over a certain period. This method of charting prices proved to be particularly interesting, due to the ability to display five data points instead of one. The method was picked up by Charles Dow in circa 1900 and remains in common use by today's financial market traders.



Candlestick layout

Candlesticks are usually composed of the body (black or white), and an upper and a lower shadow (wick). The wick illustrates the highest and lowest traded prices of a stock during the time interval represented. The body illustrates

the opening and closing trades. If the stock closed higher than it opened, the body is white, with the opening price at the bottom of the body and the closing price at the top. If the stock closed lower than it opened, the body is black, with the opening price at the top and the closing price at the bottom. A candlestick need not have either a body or a wick.



This is a daily chart, so each candle represents one day. Other charts can be selected and ranging from 1 minute to 1 month. Tick-by-Tick data is also available for Forex.

The green candle represents an up day and the red candle a down day.

Using a Moving Average

This one tool has saved me more money than any other. It's hard to trace the origins, however, one of the pioneers was Richard Donchian who was a great pioneer of systematic trading in the 1950's and 60's. The systems he created over 40 years ago are still common in today's trading world and are the basis for many of the complex systems used by the world's best traders.

The dictionary quotes an average as "the quotient of any sum divided by the number of its terms" so if you were working out a 10 day moving average of the following numbers: 10, 20, 30, 40, 50, 60,70, 80, 90, 100, you would add them together and divide them by 10, so the average would be 55.

Now when tomorrow's price comes in, let's say 105, you remove the oldest number and 105 is added, so the average is 64.5.

Every charting software package carries moving averages as it is the grandfather of trading. You will also find it on the various charts on internet sites. You don't need to worry about working it out.

There are five popular types of moving averages:

- simple (also referred to as arithmetic)
- exponential
- triangular
- variable
- weighted

Moving averages can be calculated on any data series including a security's open, high, low, close, volume, or another indicator.

My favourite is the Simple Moving Average. While some have tried to be clever by changing the calculations, it is best to stick to simple. In software or on the internet, it is often abbreviated to (SMA).

If the price is below its Moving average, then it's seen as being weak; if it's above, it's strong. The choice of days you select when using a moving average makes a difference to the results. If you use a short term moving average (I call short term anything less than 10 days) you will get a lot of signals. If you use a long term moving average, your signals will lag.

Some good moving averages to start with are the 20 day and 50 day moving averages.



This is a chart of the USD/JPY with a 50 day Simple Moving Average.

When the price breaks below this, it triggers a sell signal. Some traders also allow some leeway. They wait for 3 or 4 days after the MA breaks before making the trade. If the price moves above, you would be looking to place bullish trades and if it breaks below, you would place bearish trades.

Moving averages do have their limitations; however, they can be a good place to start in your quest to build a winning system. Using a technical system also takes the emotions out of your trading decisions; rather than basing your trades on what you think should happen, your trades are based on what is actually happening with the price.

A moving average can also stop you from making stupid mistakes such as trading against a trend.

Support and Resistance

- Support levels occur when the consensus is that the price will not move lower. It is the point where buyers outnumber sellers.
- Resistance levels occur when the consensus is that the price will not move higher. It is the point where sellers outnumber buyers.
- The penetration of a support or resistance level indicates a change in investor expectations and a shift in the supply/demand lines.



Here we see the EUR/GBP in 2007 staying within a range of 0.6679 and 6880. This lasted for around 5 months and was an ideal time to trade using an In/Out trade. Nothing stays in a range forever and towards the end of August 2007 we see the price breakout of the range. The break means that investor's expectations have changed.

Tip:



W

When a market breakouts of a range the previous resistance (top) now becomes support (floor)

Examples of an In/Out Trade

As explained previously, the In/Out trade comes in two varieties: “Stays Between/Goes Outside”, where the market must stay between or go outside the price targets anytime during the specified period of time; and “Ends Between/Outside”, where the market must end between or outside the price targets at the trade's end time.

With a “Stays Between/Goes Outside” trade the market will stay within or outside a specified range at **ALL** times during the specified duration. So, if the market just touches the higher or lower target, then your trade will close out at a total loss.

The following is an example of an In/Out trade (Goes Outside) on the UK Index for 7 days with a range of 6400 to 6700 which is a 300 point range and is paying a return of 78%.

Rise/Fall Higher/Lower Touch/No Touch **In/Out**

Stays Between/Goes Outside Ends Between/Outside

All

Low barrier:

High barrier:

Duration: days

Payout:

GET PRICES

Stays Between

USD 68^{.76} **PURCHASE**

USD 100 payout if UK Index **stays strictly between 6400.00 and 6700.00** before close on 25-Sep-13.

Net profit: USD 31.24 | Return: 45%

Goes Outside

USD 56^{.04} **PURCHASE**

USD 100 payout if UK Index **goes outside 6400.00 to 6700.00** before close on 25-Sep-13.

Net profit: USD 43.96 | Return: 78%

The following is an example of an In/out (Ends Outside) trade on the UK Index.

Rise/Fall Higher/Lower Touch/No Touch **In/Out**

Stays Between/Goes Outside **Ends Between/Outside**

All

Low barrier:

High barrier:

Duration: days

Payout:

GET PRICES

Ends Between

USD 85^{.16} **PURCHASE**

USD 200 payout if UK Index **ends strictly between 6507.43 and 6621.00** at close on 25-Sep-13.

Net profit: USD 114.84 | Return: 135%

Ends Outside

USD 130^{.55} **PURCHASE**

USD 200 payout if UK Index **ends outside 6507.43 to 6621.00** at close on 25-Sep-13.

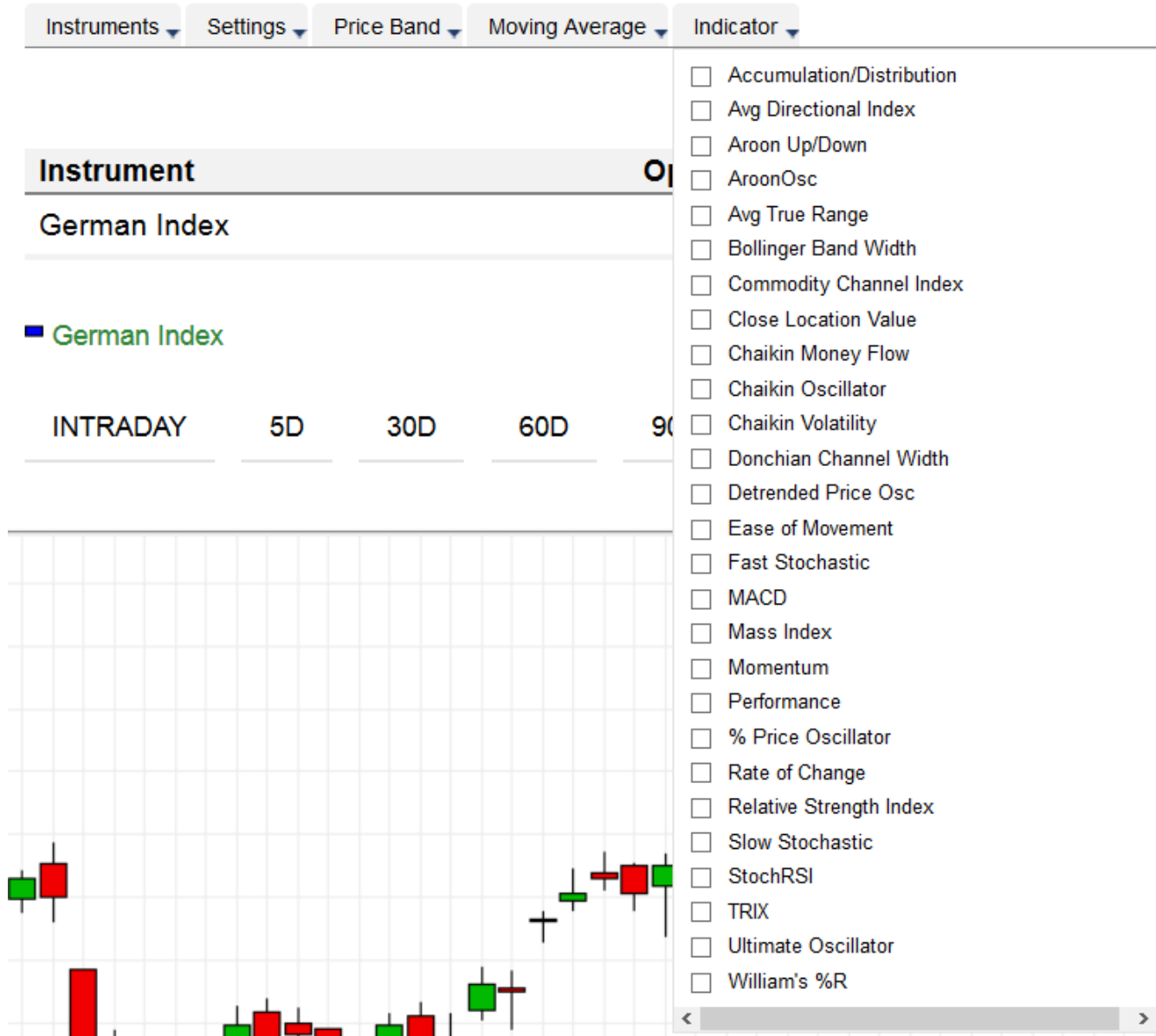
Net profit: USD 69.45 | Return: 53%

With this kind of trade, the market must end outside a low barrier level of 6507.43 and a high barrier level of 6621 at the trade's end time for you to win the trade.

The return has come down to 53%, because the risk is now much lower. The higher the risk, the higher the return would be.

Technical Indicators

The Binary.com charting software offers more than 20 different indicators. Whilst technical indicators can offer some value, I would warn against over complicating matters and trying to use too many indicators.



This example shows a list of the indicators available on the “Light Charts” provided by Binary.com

MACD - Moving Average Convergence Divergence

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MACD is an oscillator that is calculated by taking the difference between two exponential moving averages. You can set the time periods for these yourself. A signal line is also plotted to help with the interpretation.

Traditionally, when the MACD is below the origin, the market is considered to be oversold and when it's above the origin, the market is considered to be overbought. A MACD below the origin (i.e. the market is oversold) crossing above the signal graph is generally believed to be a signal to buy.

A MACD above the origin (i.e. the market is overbought) crossing below the signal graph is generally considered to be a signal to sell. The further from the origin, the stronger the signal. Typical settings are 9, 12 and 26 days.

An example of the EUR/GBP chart with the MACD:



Relative Strength Index (RSI)

The RSI indicator measures a share's performance against itself. It is often used to identify buy opportunities in market dips and sell opportunities in market rallies. The value of the RSI is always a number between 0 and 100.

A low number indicates a more oversold market (30), while a high value indicates a more overbought market (70). The higher and lower horizontal lines on the graph are at 30 and 70 – the levels at which markets are often regarded as oversold or overbought.

An example of the Gold/USD chart with the RSI:

INTRADAY 5D 30D 60D 90D 120D 150D 180D 250D 365D 500D



How to trade the RSI with binary options

As you can see from the chart, Gold's RSI does not stay below 30 or above 70 very long. When the RSI is below 30, look to buy bull trades, when the RSI is above 70, look to buy bear trades.

Using Price Channels - Dochan Channels

INTRADAY 5D 30D 60D 90D 120D 150D 180D 250D 365D 500D



The charts on Binary.com allow you to add price channels. In this example I am showing a Donchian Channel with a period of 20 days.

The aim here is to trade with trending markets. If you see a break of the 20 day low, then you would be looking to purchase bearish trades. If the price breaks the 20 day high you would be looking to purchase bullish trades. You can select other periods such as 10, 50 or even 100.

Warning:



This introduction is to get you thinking about using a technical trading system rather than just relying on news, fundamentals, or even worse, trading on hunches. Most people trade on emotions or what they read in the newspapers or see on a business channel; that's not the way to trade. Having a systematic way to enter and exit a market may sound a bit boring but that's the idea; you need to take away the human emotions from your trading decisions.

Money Management

Whilst most new traders start with good intentions, just as people making New Year resolutions, most end up breaking them fairly quickly.

Money management does not have to be complicated; in simple terms it means that we have to decide the amount of money we wish to risk on a given trade.

***Risk too much and a few bad trades will make you lose your trading bank.
Risk too little and it's going to be a long time before you see any decent profits.***

The good news is that binary options trading has strictly limited risk, so if you risk GBP50, then that's the most you can ever lose on the trade.

Whilst the ultimate choice of risk and reward is your decision, for accounts of less than 10,000 (depending on your home currency USD, EUR, GBP, AUD) I would go for around 3% maximum risk per trade. For accounts above that, I recommend 2%.

If your account is USD3000 or below, then go for 4%. So let's say your account has USD5000, then you can place USD150 per trade. As the account goes up or down, the trade size will vary accordingly.

The Power of Compounding

A Grain of Rice

The daughter of the Chinese Emperor was ill, and he promised riches beyond compare to whoever could cure her. A young peasant named Pong Lo entered the palace. With his wit and bravery he restored the Princess' health and won her heart. As a reward, Pong Lo asked for her hand in marriage. The emperor refused and asked the peasant to think of anything else he would like.

After several moments of thought, Pong Lo asked a grain of rice. "A grain of rice! That's nonsense! Ask me for fine silks, the grandest room in the place, a stable full of wild stallions - they shall be yours!"

"A grain of rice will do" said Pong Lo, "But if his Majesty insists, he may double the amount every day for a hundred days."

So on the first day a grain of rice was delivered to Pong Lo. On the second, 2 grains of rice were delivered, on the third day 4 grains, and on the fourth day 8 grains. On the fifth day 16 grains, on the sixth day 32 grains, on the seventh day 64 grains, on the eighth day 128 grains.

By the twelfth day the grains of rice numbered 2,048. By the twentieth day 524,288 grains were delivered. And by the thirtieth day 536,870,912 grains - requiring 40 servants to carry them to Pong Lo.

In desperation the Emperor did the only honourable thing he could do, and consented to the marriage. Out of consideration for the Emperor's feelings, no rice was served at the wedding banquet!

(Retold from a grain of Rice by Helena Pittman)

I think that this is a great story and I hope you understand the relevance to financial trading and investing.

With binary options trading we can increase or reduce our risk as our bank goes up or down. Using the same grain of rice principle, a modest account can grow very quickly.

Remember:



If you could just achieve 1% return a day on your capital, taking that there are approximately 250 trading days a year, your return would be 250% a year, but your compounded returns would be much higher.

Many of my Binary.com trades last around 7 days, so the capital and profits can be rolled over from one trade to another.

Chapter 4

7 Top Tips for Trading Binary Options

Make the most of bullish, bearish or stagnant markets

With Binary.com you can trade when the markets are moving up, moving down or staying in a sideways range, a concept that even professional traders find hard to grasp. Even after the big falls in the markets in 2008, most traders still want to buy low and sell high.

Remember that markets fall faster than they rise, so down trades could potentially make quick profits. With fixed odds you can back currencies, shares and indices to fall, all with limited risk and the most you can lose is your stake which can be as low as GBP10.

Sideways markets can be backed using an 'In/Out' trade. Until Binary.com introduced these, it was very complicated to trade range bound markets and you would have had to use options strategies such as selling options. Now you can do it with a simple trade and with strictly limited risk.

You would be surprised how often a currency, share or index actually stays in a range!

Use Touch Trades

Markets tend to be like lightning; they look for the path of least resistance. When a market breaks above a resistance (ceiling) level, you tend to find that the market carries on in the same direction for at least a few more days. The other way around, when a market breaks below a support (floor) level, the market carries on falling until its next support.

Using a 'Touch' trade, traders can back these events. Remember that you're saying that the market just needs to touch the given level, and that would be enough to payout.

So let's use a recent Gold example. Gold started to build up momentum and broke through the USD1280/oz level. Looking at the chart I could see USD1300 was the next potential target, so I placed a 'Touch' trade that Gold would touch USD1300 within the next 14 days. Gold went on to hit USD1300 within a few days, so the trade paid out. Of course, if Gold would not have touched USD1300 during these 14 days, then my trade would have expired worthlessly.



Tip:

Markets have a tendency to move to round numbers both on the upside and downside. You often see this happen in currencies, indices and individual shares. Always look for possible moves to next levels, especially on falling markets.

Balance Risk and Reward

Everyone likes big payouts; however, you have to remember there is a reason why you're being offered a 300% return; that's because there is a fairly slim chance that the trade will payout. On the opposite end, a 1% return is hardly going to make you rich and should the trade go wrong, you could lose a large stake.

The simple answer is to look for a balance and mix and match trades. In my own trading I am looking for returns between 40% and 100%.



Tip:

Look to tweak your trades. Before you accept the trade you will be shown the odds and asked to confirm whether you're happy or not. You can adjust the levels and dates and see how this affects your payout.

Be a disciplined trader not a reckless gambler

After a good run, many become over confident and start taking stupid risks. After a poor run, many try to play catch up and want to make their losses back fast; both actions are the easiest way to lose your trading capital. Many books have been written on money management with complicated formulas. The key should be that no one trade should ever cause you so much damage financially or emotionally. Irrespective of how sure you are that the market is going to rocket, only a percentage of your trading bank should be risked.

Run two trades together, trading a pair

Another strategy is to trade two different markets that have a negative correlation such as Gold and the USD. Gold is priced in USD so if the dollar weakens then Gold tends to rise. Gold is also used as a hedge against falling currency values, so you could look to have a bear trade on the USD/EUR and a bull trade on Gold.

The Japanese Yen (JPY) and the US stock markets are another pair that can be traded. You may have heard of the Carry Trade, where the JPY is sold, as money is borrowed in JPY, and then the JPY is converted and invested in higher yielding currencies such as the New Zealand Dollar.

If you look at the EUR/JPY and say the S&P500 you will see that as the EUR/JPY weakens (so money is flowing back to the JPY which is the funding currency) as does the S&P500. If you see a funding currency strengthen such as the JPY, it means traders are taking less risk, which is not good for equity markets.

Seasonality – History does repeat itself in many markets

My trading style uses technical analysis with seasonality. Most know what technical analysis is. Seasonality however, is not as well known. Seasonality involves the usage of the calendar and past results to forecast the likelihood of the same event happening again. For example, Gold tends to be strong in September whereas stock markets tend to be weak. Periods around market holidays such as Christmas, Thanksgiving, Independence Day and the first few days of the month tend to be stronger. The well-known saying, “Sell in May and go away,” whilst not perfect, has worked as a good base to a trading system. You will also find seasonality in commodities and some currencies. Watch the JPY strengthen around March, as large Japanese companies close their financial books and tend to put Yen back on their balance sheet.

Combine Spread Bets and Binary Options Trades

Let's say you have a core view that the FTSE100 is going down and you have placed a spread bet to back this idea. After a week or so the FTSE100 starts going up or sideways. You could of course close your spread bet, or you could leave it open and look to place a binary options trade to run alongside it; maybe an 'In/Out' range trade, so whilst the market is going sideways your spread bet will not be making money, but at least your binary options trade will make a profit.

Conclusion

About Vince Stanzione

Vince Stanzione is a UK born self-made multi-millionaire, active in telecommunications, publishing and financial trading. He ran his first software business from school at the age of 14 and landed his first city job as a junior in the FX dealing room for Nat West at the age of 16. In 1989 after losing his savings in the 1987 stock market crash, he set up a car phone business and in 1991 he sold it for over £1.3 million.

He then returned to his love of trading and investing and built up a sizable fortune from trading and financial spread trading. In 1997 he wrote the best-selling book *How To Stop Existing & Start Living* and the first course on financial spread trading, *Making Money From Financial Spread Trading*.

He has been featured favourably and quoted in over 200 newspapers, media outlets and websites including CNBC, Yahoo Finance, Marketwatch, Reuters.com, Independent, Sunday Independent, Observer, Guardian, The Times, Sunday Times, Daily Express, What Investments, Growth Company Investor, New York Times, Bullbearings, City Magazine, Canary Wharf, Institutional Investor China and Shares Magazine.

In 2004 he set up TV Commerce Holdings Plc which was floated on the UK London Stock Exchange AIM market in 2005. The company is now known as Edenville Energy Plc (LSE:EDL) and has secured six prospecting licences in Southern Tanzania covering prospective coal areas. Vince Stanzione remains a significant shareholder and continues to invest in both listed and private companies.

As well as his own investing, Vince Stanzione continues to teach and mentor a small group of private individuals to trade. In 2013 he published a new book aimed to help people learn how to take control of their life, how to make more money and how to manage their own success. The book, entitled "*The Millionaire Dropout, Fire Your Boss, Do What You Love. Reclaim Your Life,*" is a New York Times best seller and has sold out on Amazon within the first few days of its launch.