Trading Binary Options Strategies and Tactics

Binary options trading is not a gamble or a guessing game. By using both fundamental and technical market analysis, you are able to get a better understanding of the future price movements of an asset, enabling you to trade with greater accuracy and profitability. In order to increase the rewards and reduce the risk of trading, you can also use trading strategies and if you apply them to your trading at the right time and within the desirable market conditions, you can boost your trading success.

Be the Master of Your Trading World

There are many trading strategies available in the market today and whether you are a novice trader or seasoned professional, you should open a demo trading account with your broker in order to get the opportunity to practice these strategies within a real live trading environment, without the risk of losing any money.

To get you on the road to trading like a pro, we have handpicked four exciting trading strategies for you:

- ✓ **Risk Reversal Strategy**
- ✓ **Price Channel Trading Strategy**
- ✓ **Martingale Strategy**
- ✓ **End Of Day - Daily Trading Strategy**

So let's get started.

Risk Reversal Strategy

In order to trade in binary options and to execute a trade, you need to invest money. In the most common trade options available on the broker's trading interface, such as binary options and 60 Seconds, you need to either make a Call option trade or a Put option trade based on your prediction of the price movement of the asset within the specified expiry time.

The truth about binary options trading is that it involves risk. That is, if you lose your trade, you lose most of your money.

So the question is, is there a possible way to minimize this risk?

Well of course there is and this is where the Risk Reversal strategy comes in.

The basic idea behind this strategy is to make money or to earn profits without any real investment and in order to do this, you need to buy AND sell Call and Put options simultaneously.

Let us review how this is done.

The first thing you need to understand is that the Risk Reversal strategy is most effective when applied to longer expiry periods such as one hour and more. This strategy would be ineffective for example in the 60 Seconds trade option.

Some broker's offer long term trade options on their trading platform or you can select a longer expiry time using either the binary options trade option or the Option Builder trade option.

The next thing we need to do is to establish if the asset we are trading in will go into a Bull run. That is, will its price increase in the long run. For this strategy to work effectively, we have to be very sure of this so we need to use fundamental analysis and review the market sentiment and the price trend of the asset. This strategy can also be applied to an underlying asset that will move into the bearish market in the near future. That is, its price will decrease in the future. The bottom line is that no matter in which direction the asset price will move, either up or down, we need to be sure of this future movement.

For this explanation though, let us select an underlying asset that will go into a Bull run.

Once we have the targeted this underlying asset, we now need to sell the out-of-the-money Put option to the broker and at the same time, we need to buy a Call option.

When we do this, we need to ensure the following things:

- First, the investment amounts for both the Put option you are selling and the Call option you are buying must be identical. So if you invested 25 Dollars to make a Put option trade, you will make a 25 Dollar investment on the Call option trade.

- The next thing to ensure is that the Call and Put options are on the same asset that you have targeted. So if you are selling a Put option trade based on gold for example, you will purchase a Call option for gold as well.
- And finally, both Call and the Put options must have the same expiry time.

Now, when you sell an out-of-the-money Put option to the broker, you will receive a certain percentage of your initial investment in return. You can use the Sell function on the trading interface in order to do this. On the other hand, when you buy the Call option from the broker, you need to make an investment. Because you are selling and buying options simultaneously, the cost of buying is effectively neutralized by the money you earned from selling.

After this exchange takes place, you now have a Call option for an underlying asset that will soon enter the Bullish market. All you do now is wait. As the price of the underlying asset starts moving up, your Call option moves towards ending in-the-money. If the trade does end in-the-money, then you will be paid out the predefined rate of return. In this way, you have now made a profit without making an investment.

Let us explain this in a simple diagram.

- You purchase a Put option and invest 40 Dollars.
- You then sell this out-of-the-money Put option before the expiry time of the trade and you receive 20 Dollars from the broker.
- You then purchase a Call option trade for 40 Dollars.
- This call option then ends in-the-money and you receive an 80% return from the broker or 26 Dollars.
- And so your make a profit of 12 Dollars.

	Amount Invested	Balance
Purchase Put Option Trade	-$40	-$40
Sell Put Option Trade Before Expiry	+$20	-$20
Purchase Call Option Trade	-$40	-$60
In-The-Money (80% Return)	+$72 ($40 + $32)	+$12
	Net Profit	**$12**

The problem with this strategy is that if you have analyzed the market incorrectly and you sell your Put option trade and you purchase a Call option trade and the asset you are trading in goes into a downward trend, you will lose your money - so accurate market analysis is vital in order for this strategy to succeed.

Take the time to gain experience in binary options trading and once you feel comfortable with market analysis and the market conditions are right, then apply the Risk Reversal strategy.

Let us move on now to the Price Channel Trading strategy.

Price Channel Trading Strategy

This trading strategy is also referred to as Trend Line trading and it is a very simple yet effective tool when used correctly. This strategy involves the identification of the price channels of an asset using a price channel tool.

Let me explain what this means.

When the price movement of a particular asset is charted on a graph, one can notice troughs and crests. By joining all the trough points with a straight line and all the crest points with a straight line, it will show a pair of lines running parallel to each other. This is called the price channel. The price channels can be of two types – horizontal or diagonal.

In the diagram below is an example of a horizontal price channel – as you can see, once the high points of the price of the asset are joined as well as the low points of the price of the asset, a horizontal price channel is created.

Now here are some examples of a diagonal price channel which are also created by joining the high points of the price of the asset as well as the low points.

These price channels can help you to detect where the peak of the price of the asset is as well as the price floor.

Now that you have a fairly good idea of what price channels look like, let us learn how to use them to your benefit.

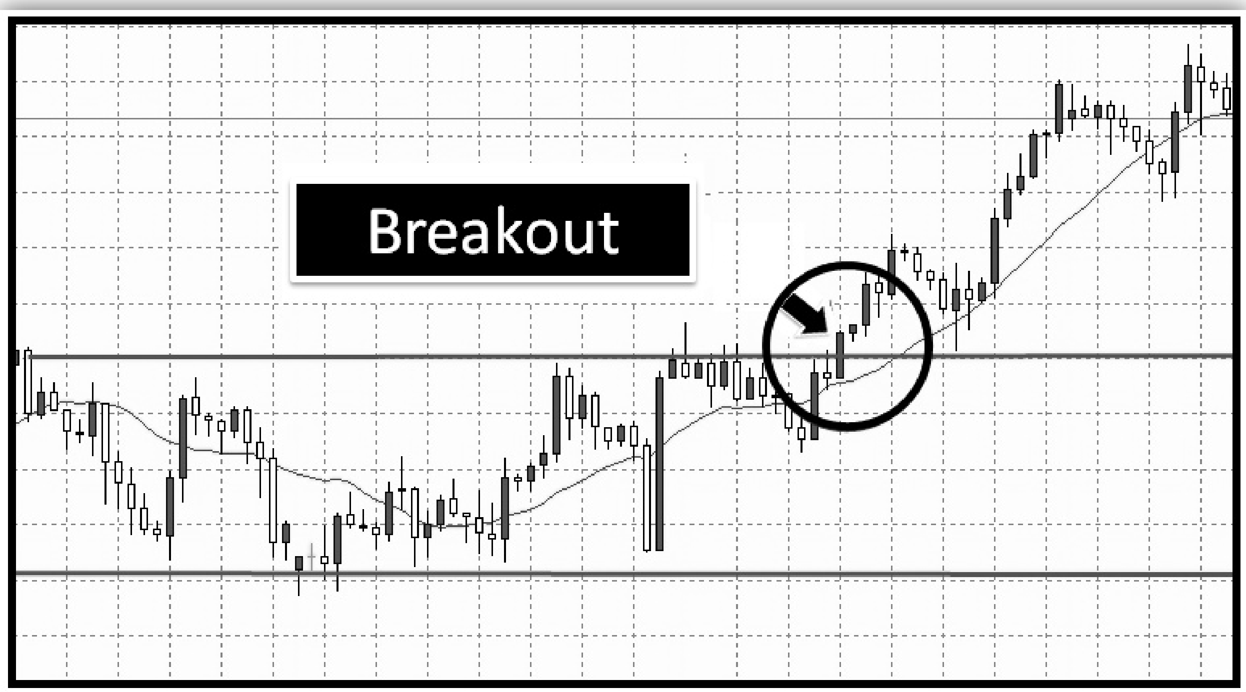
A horizontal price channel usually means that there is a fairly good chance that the price of the asset will continue to move along the horizontal channel in the near future. In other words, the chance of price fluctuations is low and hence, it is wise to use this form of price channel to trade Touch binary options such as the One Touch trading option. If the target price is set within the price channel, there is a good chance that it will touch this goal rate during the life of the trade. If you want to trade the No Touch option, then it is best that the target price is set in a region above the higher trend line or in the region below the lower trend line.

Let us now look at how we can use a diagonal price channel.

In the first diagonal price channel graph we showed above, there is a downward trend in the price movement as reflected by the downward slope. This means, there are high chances that the prices will continue to move downwards and therefore, after using fundamental and technical analysis, you could make a Put option trade.

In the second graph we showed above, there is an upward trend in the price movement as reflected by the upward slope. This indicates that the price will probably move up or increase in the near future and, therefore, you could make a Call option trade.

It is important to be aware of channel breakouts. A wide variety of factors can lead to sudden price fluctuations causing the price of the asset to move out of the price channel.



This can impact the success of your trade but you CAN use the channel break to your advantage. For example, if a horizontal channel breaks and takes an upward sloping trend, then this implies that price will move up in the near future and hence, you could make a Call option trade or if an upward trending channel breaks and takes a downward sloping trend, this implies that the price will move down and you could make a Put option trade. If a downward sloping or an upward sloping price channel gradually changes to a horizontal price channel, this means that price is becoming stable and the chances of price fluctuations in the near future are low. Here you can actually change your focus from the Call and Put option trades to the Touch and No Touch options.

The price channel trading strategy is not always accurate but it can definitely point you in the right direction when you are making a trade.

Let us move on now to the Martingale Strategy.

Martingale Strategy

This strategy originated in France during the 18th century and it was originally intended for betting and gambling. The basic idea was that when a coin was tossed, if the outcome was heads, the gambler won and if the outcome was tails, the gambler lost. In the event of a loss, the gambler doubled his bet and the coin was tossed again. If the gambler lost again, he would double his bet again and go for a third round and this would continue until the outcome of the coin toss was heads and the gambler won. This probable win not only covered the previous losses, but it also added profits. The idea that drove this strategy was that the outcome of a tossed coin has a 50-50 probability and that is why this strategy is often referred to as the Probability Strategy. The Martingale Strategy has also been applied to roulette since the probability of hitting either red or black is also 50-50.

This strategy can be applied in binary options. This means that every time you lose a trade, double your investment. So, if your first investment was $5 and you lost, make another investment of $10 and if you lose again, make a third investment of $20 and then $40 and then $80 and so on. Eventually there is a probability that you will win at least once and all your losses will be covered and you will make some additional profits.

This strategy can be risky because you can eventually run out of funds before you win a trade.

If we look at this chart below, you can clearly see how the Martingale strategy can lead to excessive losses if you are on a losing streak.

Bets	Bet Size	Total Losses
1	$10	-$10
2	$20	-$30
3	$40	-$70
4	$80	-$150
5	$160	-$310
6	$320	-$630
7	$640	-$1270
8	$1280	-$2550
9	$2560	-$5110
10	$5120	-$10230

In just 10 bets starting with $10, you can lose $10,230 dollars.

So you might be asking yourself the question – should I use the Martingale Strategy?

And the answer is yes.

When trading Call and Put options, the most effective way to use this strategy is to combine it with the price channel trading strategy, especially during a channel breakout. You may lose a few trades but you will quickly recover because of the trending prices.

The advantage of the Martingale strategy is that if you have the money power, you might hit that one winning trade that will make you a huge profit. So for as long as your wallet has an infinite flow of cash, this strategy can be applied to any trade option.

Ready to learn another strategy and make some money trading binary options? Well let's go.

End of Day-Daily Trading Strategy

End of Day-Daily Trading or simply End of Day Trading is a very simple and effective trading strategy and tactic that can be used to enhance your trading success.

For this strategy, you need to analyze the price movement chart of an asset for the entire day or the last two days and once you have identified a trading opportunity on these charts, you can place a trade during the next business day based on your analysis of the daily price charts. The end of day strategy does not limit you to only entering the market at a specific point. So if for example you enter the market at noon, you should look at the price charts of the previous day as well as the chart of the same day you wish to trade in order to analyze the price movements of the asset. The idea is to look at the long term historical price action of an asset as trading signals are a lot cleaner and clearer in these charts. This means that the fluctuations of the short-term price movements have been smoothed out giving us a clearer picture of the trend and momentum of the asset price.

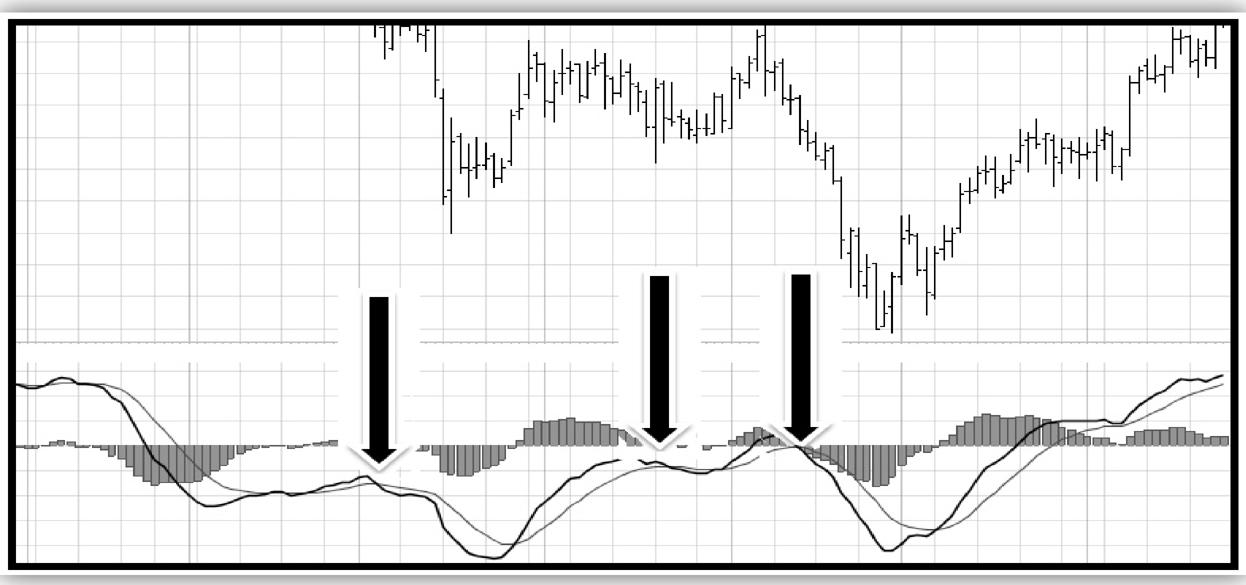
Let us explore what you need to be looking out for when analyzing the end of day chart of an asset and how you would trade based on this information on the following day.

A popular end of day strategy is trading inside days. This occurs when the range of the current day's price is contained within the prior day's range. For example, if an asset trades from a low of 20.475 to a high of 23 on the day, to qualify as an inside day, the prior day's range must be from a low of at least 20.35 to a high of 23.125 or greater. If you want to try and profit from an inside day, you need to wait until the price breaks above or below the prior day's range and you will then make a trade based on the direction of the breakout. That is, if the price of the asset starts to move upwards from the range, you will make a Call option trade and if the price starts to move downwards from the range, you will make a Put option call on a long term position such as a few hours.

In this example in the diagram below, you can see that the price of the asset started to move downwards after the inside days pricing and this would have been an indication to make a Put option trade.

There are times when the price of an asset undergoes an unexpected surge in value either upwards or downwards. This can cause a gap in the chart and when this appears, it is a good time to implement the end of day strategy. A gap will appear when an asset's lowest price on the day is higher than the previous day's highest price. For example, if yesterday's high was 30 and today's low was 31, there is a gap of one point on the chart. These gaps occur for many reasons, often due to news that comes out after the closing of the market. Based on this, when the market starts trading the next day, the price of the asset may open above the prior day's high. Under such circumstances, the price of the asset will then normally perform a corrective action by reverting back to its original pre-gap value, as displayed in this example below. At the opening of trading the following day, you must wait until you can clearly identify a candlestick confirming that the price of the asset is now moving back in the original direction of the gap. If the price of the asset starts to retrace to fill the gap, this is the time to make a Put option trade.

Another popular end of day strategy is placing a trade after one moving average line crosses over another on a price chart. This strategy uses the Moving Average Convergence Divergence indicator. For example, you will enter a trade when the market opens after the previous day showed that the MACD line crossed the 9-day EMA line from above and moved down, indicating a downward trend. In this case, you will make a Put option trade when the market opens as shown in the diagram below.



Time to Trade

We have covered four exciting trading strategies and tactics and while each one has its own advantages and disadvantages, with some practice, you should be able to use them effectively when trading binary options. Take the time to get to know the market and the factors that influence its movement and once you see the ideal market conditions to implement your strategy, step in with confidence and make your trade.

To learn more about binary options and advanced trading strategies visit:
www.10binaryoptions.com