

Day Trading

STOCK OPTIONS

A COMPLETE BEGINNER'S GUIDE

+ Definitive Unknown Causes!



TERRA CHANEL

DAY TRADING STOCK OPTIONS

A Complete Beginner's Playbook

What You Will Learn

What options are and how they work

How to read an options chain

The Greeks: Delta, Theta, Gamma & Vega

Proven beginner strategies with real examples

Risk management that protects your account

How to build and test a trading plan

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Important Disclaimer

!! WARNING

Options trading involves substantial risk of loss and is not appropriate for all investors. The information in this ebook is for educational purposes only and does not constitute financial, investment, or trading advice. Past performance does not guarantee future results. You could lose some or all of your invested capital. Always consult a licensed financial advisor before trading.

Day trading is one of the highest-risk forms of investing. Studies show that the majority of day traders lose money over time. This guide will teach you how options work, but becoming consistently profitable requires significant time, practice, discipline, and continuous learning.

Before risking real money, always practice with a paper trading (simulated) account until you are consistently profitable.

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Chapter 1: What Are Stock Options?

Before you can day trade options, you need to understand exactly what you are buying or selling. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell 100 shares of a stock at a specific price before a specific date.

The Two Types of Options

Feature	CALL Option	PUT Option
What it is	Right to BUY shares	Right to SELL shares
When you profit	Stock price goes UP	Stock price goes DOWN
Analogy	Reservation to buy at today's price	Insurance against price drop
Buyer pays	Premium (upfront cost)	Premium (upfront cost)
Max loss (buyer)	Premium paid	Premium paid
Max gain (buyer)	Unlimited (theoretically)	Strike price minus zero

Key Options Terminology

Every option contract has four critical components you must understand:

Term	Plain English Explanation
Strike Price	The agreed price at which you can buy (call) or sell (put) the shares. Example: A \$150 strike on Apple means you can buy AAPL at \$150 regardless of market price.
Expiration Date	The date the contract expires. After this date, the option is worthless if not exercised. Day traders focus on contracts expiring within days or weeks.
Premium	The price you pay for the option contract. Since each contract covers 100 shares, a \$2.00 premium costs you \$200 total.
In the Money (ITM)	A call is ITM when the stock price is ABOVE the strike. A put is ITM when the stock is BELOW the strike. ITM options have intrinsic value.
Out of the Money (OTM)	A call is OTM when the stock is BELOW the strike. A put is OTM when the stock is ABOVE the strike. OTM options are cheaper but riskier.
At the Money (ATM)	When the stock price is very close to the strike price. ATM options are most sensitive to price movement.

EXAMPLE	<i>Apple (AAPL) is trading at \$175. You buy 1 CALL contract with a \$180 strike expiring in 2 weeks for a \$3.00 premium (\$300 total). If AAPL rises to \$190, your call is worth at least \$10 (\$1,000 total). Your profit: \$700 (233% return). If AAPL stays below \$180 at expiration, you lose your \$300 premium.</i>
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Chapter 2: The Options Chain Explained

The options chain is the table you see in your brokerage platform showing every available option for a stock. Learning to read it quickly is essential for day trading.

How to Read an Options Chain

Options chains display calls on the left side and puts on the right side, organized by strike price in the middle. Here is what each column means:

Column	What It Means
Bid / Ask	Bid is the highest price a buyer will pay. Ask is the lowest price a seller will accept. The spread between them is your instant cost. Tight spreads (under \$0.10) are better for day trading.
Last	The price of the most recent trade. Can be stale. Always use the bid/ask mid-price as the true current value.
Volume	Number of contracts traded today. Higher volume = easier to enter and exit. Minimum 500-1,000 daily volume for day trading.
Open Interest	Total open contracts. Higher OI = more liquid, easier fills. Look for OI above 1,000.
Implied Volatility	Market's expectation of future price movement. High IV means expensive premiums. Low IV means cheaper premiums.
Delta	How much the option price moves per \$1 move in the stock. See Chapter 3 for full explanation.

Choosing the Right Expiration

Expiration date is one of the most important choices you will make as a day trader:

- 0 DTE (Zero Days to Expiration): Expire same day. Extremely risky, very cheap, can produce huge percentage gains or go to zero within hours. Not recommended for beginners.
- 1-7 DTE: Very short-term. Cheap premium but rapid time decay. Used by experienced day traders.
- 7-30 DTE: The sweet spot for most beginner day traders. Enough time to be right, not too expensive.
- 30-60 DTE: More expensive but more forgiving. Better for swing traders than day traders.

PRO TIP

As a beginner, focus on options with 14-21 days to expiration and strikes that are ATM or 1-2 strikes OTM. This gives you a balance of affordability and reasonable probability of profit.

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Chapter 3: The Greeks - Your Most Important Tools

The Greeks are measurements that describe how an option's price will change under different conditions. Understanding them is the difference between informed trading and gambling.

Delta: The Most Important Greek

Delta measures how much the option price moves for every \$1 move in the underlying stock price.

Delta Range	What It Means	Best For
0.70 - 1.00	Deep ITM. Moves almost like owning the stock. Expensive.	Conservative beginners who want stock-like exposure
0.40 - 0.70	Near ATM. Good balance of cost and movement.	Most beginner day trades. Best risk/reward
0.20 - 0.40	OTM. Cheaper but needs bigger move to profit.	Experienced traders expecting big catalyst
Under 0.20	Far OTM. Often called 'lottery tickets.' Usually expire worthless.	Avoid as a beginner - near 0% probability

Theta: Time is Your Enemy

Theta measures how much value an option LOSES each day due to time passing. This is called time decay.

- Every single day, your option loses value even if the stock does not move
- Theta decay accelerates dramatically in the final 30 days before expiration
- ATM options experience the most theta decay

- As a buyer of options, theta works against you. You must make a directional move quickly.

DANGER	If you buy an option and the stock does not move for several days, theta decay can cause your option to lose 10-30% of its value even without any price movement. This is why day traders close positions the same day or within a few days.
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Gamma: Rate of Change

Gamma measures how fast Delta changes when the stock price moves. High gamma means your option's Delta is very sensitive to price moves. ATM options near expiration have the highest gamma, which is why 0-DTE options can be explosive.

Vega: Volatility Sensitivity

Vega measures how much the option price changes when implied volatility (IV) changes by 1%.

- When IV increases, option prices go UP (good if you own them)
- When IV decreases (after earnings announcements, for example), prices drop sharply - this is called an 'IV crush'
- Avoid buying options right before earnings if you do not understand IV crush - many beginners lose money this way even when they correctly predict the direction

KEY INSIGHT	<i>IV Crush: A stock jumps 5% after earnings. Your call option still loses value because implied volatility collapses after the event. Always check IV before buying options around major events.</i>
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Chapter 4: Setting Up Your Trading Account

Before placing your first trade, you need the right brokerage account and platform. Choosing correctly saves you money and frustration.

Choosing a Brokerage

The best brokers for options day trading offer commission-free or low-cost options trading, fast execution, and real-time data. Here are the top choices:

Broker	Options Cost	Best Feature
Tastytrade	\$1.00/contract	Built specifically for options traders. Excellent tools and education.
TD Ameritrade / thinkorswim	\$0.65/contract	Industry-leading thinkorswim platform. Best charting for active traders.
Webull	\$0/contract	Zero commission options. Good for beginners on a tight budget.
Interactive Brokers	\$0.65/contract	Best for advanced traders. Lowest margin rates. Powerful tools.
Robinhood	\$0/contract	Easiest to use but limited tools. Not ideal for serious day trading.

Pattern Day Trader (PDT) Rule

This is a critical rule every US options day trader must know:

PDT RULE

If you make 4 or more day trades (open and close same day) in a 5-business-day period in a margin account with under \$25,000, your account will be flagged as a Pattern Day Trader and restricted. To avoid this: keep your account above \$25,000, use a cash account (trades settle in 1 day), or trade in an IRA (but no margin).

Must-Have Tools & Setup

- Level 2 Quotes: Shows bid/ask depth and market maker activity. Available on most platforms.
- Real-time options chain: Do not trade with delayed data. Ensure your platform has real-time quotes.
- Charting software: TradingView (free tier is sufficient to start) alongside your broker.
- Options scanner: Unusual options activity scanners like Market Chameleon or Barchart can surface trading opportunities.
- News feed: Benzinga Pro or free alternatives like FinViz for real-time news alerts.

Starting Capital Recommendations

How much money do you need to start? Here is a realistic framework:

Account Size	Recommendation
Under \$500	Paper trade only. Not enough to trade real options meaningfully.
\$500 - \$2,000	Can trade 1 contract at a time. Very limited but possible to learn. Use a cash account.
\$2,000 - \$10,000	Workable starting range. 1-2 contracts per trade. Use strict risk management.
\$25,000+	Ideal minimum for day trading. Avoids PDT rule in margin accounts. More flexibility.

Chapter 5: Beginner Options Strategies

As a beginner, you should master 2-3 strategies before adding complexity. These four strategies are the best starting points for day traders.

Strategy 1: Long Call (Bullish)

Buy a call option when you believe a stock's price will rise. This is the simplest and most common beginner strategy.

LONG CALL - Quick Reference	
Market Outlook	Bullish - you expect the stock to go UP
Max Loss	The premium you paid (100% of your investment)
Max Profit	Theoretically unlimited as stock rises
Break Even	Strike Price + Premium Paid
Best When	Strong momentum, technical breakout, or positive catalyst

REAL EXAMPLE	<i>SPY is at \$520. You buy 1 ATM call with \$520 strike, 14 DTE, for \$4.00 (\$400). SPY rises to \$527 (+1.3%) the same day. Your option is now worth \$7.50 (\$750). Profit: \$350 (87.5% return in one day). You sell to close your position.</i>
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Strategy 2: Long Put (Bearish)

Buy a put option when you believe a stock's price will fall. This is the inverse of a long call and lets you profit from declining markets.

LONG PUT - Quick Reference

Market Outlook	Bearish - you expect the stock to go DOWN
Max Loss	The premium you paid
Max Profit	Strike price minus zero (stock cannot go below \$0)
Break Even	Strike Price - Premium Paid
Best When	Negative news, technical breakdown, or market weakness

Strategy 3: Bull Call Spread (Defined Risk Bullish)

Buy a call at a lower strike and sell a call at a higher strike, same expiration. This reduces your cost but caps your maximum profit. Excellent for beginners because risk is strictly limited.

- Buy 1 call at \$520 strike for \$4.00 (\$400)
- Sell 1 call at \$525 strike for \$2.00 (\$200)
- Net cost: \$200 (maximum loss)
- Maximum profit: \$300 (if stock is above \$525 at expiration)
- Break even: \$522 (\$520 + \$2.00 net premium paid)

WHY USE SPREADS?

Spreads cost significantly less than buying a single call or put. They are a more capital-efficient way to express a directional view, making them ideal when starting with a smaller account.

Strategy 4: Bear Put Spread (Defined Risk Bearish)

Buy a put at a higher strike and sell a put at a lower strike. Same concept as a bull call spread but for bearish trades. Limits both your max loss and your max profit.

These four strategies cover 90% of what beginner options day traders need. Master these before learning more complex strategies like iron condors, straddles, or calendars.

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Chapter 6: Technical Analysis for Options Traders

Options day traders use charts to time entries and exits. You do not need to master every indicator - just a handful of reliable ones.

Key Chart Patterns to Know

1. Support and Resistance Levels

Support is a price level where buying has historically stopped a decline. Resistance is where selling has historically stopped a rally. These levels are your primary map for entries and exits.

- Buy calls when price bounces off a clear support level
- Buy puts when price is rejected at a clear resistance level
- The more times a level has been tested, the more significant it is

2. Moving Averages

Moving averages smooth price data to show trend direction. The most useful for day trading:

- 9 EMA (Exponential Moving Average): Ultra short-term momentum. Price above = bullish momentum. Price below = bearish.
- 21 EMA: Short-term trend direction. Great for entry timing.
- 200 SMA (Simple Moving Average): The major trend indicator. Price above 200 SMA = overall bull market. Price below = bear market.

3. VWAP (Volume Weighted Average Price)

VWAP is the average price weighted by volume for the current trading day. It is the most important intraday indicator for options day traders.

- Price above VWAP: Bullish intraday bias - favor call options
- Price below VWAP: Bearish intraday bias - favor put options
- Price reclaiming VWAP after being below: Strong buy signal for calls

4. RSI (Relative Strength Index)

RSI measures momentum on a 0-100 scale. Below 30 = oversold (potential bounce up). Above 70 = overbought (potential pullback). Use RSI to confirm entries, not as a standalone signal.

The Best Stocks and ETFs for Options Day Trading

Not all stocks have liquid enough options for day trading. Focus on these high-liquidity instruments:

Ticker	Name	Why It Is Good for Day Trading
SPY	S&P 500 ETF	Highest options volume in the world. Extremely liquid. Tight spreads.
QQQ	Nasdaq 100 ETF	Tech-heavy index. High volatility and volume. Great for trends.
AAPL	Apple Inc.	Massive option volume. Predictable technical levels.
TSLA	Tesla Inc.	High volatility = big moves. More risk but bigger potential gains.
NVDA	Nvidia Corp.	AI sector leader. Extremely active options market.

BEGINNER TIP

Start with SPY and QQQ options only. They are the most liquid, have the tightest spreads, and behave more predictably than individual stocks. Master these before trading single-stock options.

Chapter 7: Risk Management - Protecting Your Account

Risk management is not optional. It is the single most important skill in day trading. Most beginners who lose money do so not because of bad strategy, but because of poor risk management.

The Golden Rules of Options Risk Management

1. Never risk more than 1-2% of your account on a single trade.

If you have a \$10,000 account, your maximum loss per trade should be \$100-\$200. This keeps you in the game long enough to learn and improve.

1. Set a maximum daily loss limit.

Decide before you start each day: if you lose X dollars, you stop trading. Many professionals use 3-5% of account equity as a daily max loss. Example: \$10,000 account = stop at \$300-\$500 daily loss.

1. Always have an exit plan before you enter.

Know your profit target and your stop loss BEFORE you place the trade. Decide: 'I will exit if the option drops 50% in value' or 'I will exit if it gains 100%.'

1. Never let a winner turn into a loser.

Consider using a trailing stop. Once a trade is up 50%, raise your stop to breakeven. This ensures you never lose on a trade that was once profitable.

1. Never average down on a losing options trade.

Adding to a losing options position (called averaging down) is one of the fastest ways to blow up an account. Options can go to zero. If you are wrong, accept the loss and move on.

Position Sizing Calculator

Use this simple formula to determine how many contracts to buy:

$$\text{Contracts} = (\text{Account Size} \times \text{Risk \%}) / (\text{Option Premium} \times 100 \times \text{Stop \%})$$

Example: \$10,000 account, 2% risk, \$3.00 option, 50% stop loss

$$= (\$10,000 \times 0.02) / (\$3.00 \times 100 \times 0.50) = \$200 / \$150 = 1.3 \text{ contracts} = 1 \text{ contract}$$

Common Beginner Mistakes to Avoid

MISTAKE 1	Buying OTM 'lottery ticket' options with very low premiums (under \$0.50). These are seductive because they are cheap, but they expire worthless the vast majority of the time. Stick to ATM or slightly OTM options.
MISTAKE 2	Holding options through earnings without understanding IV crush. The stock can move in your direction and your option still loses value. Close options before earnings unless you are specifically trading the event.
MISTAKE 3	Overtrading. More trades do not equal more profits. Quality over quantity. 1-2 high-conviction trades per day is better than 10 mediocre ones. Each trade has transaction costs and emotional energy.
MISTAKE 4	Not taking profits. Options can reverse quickly. If you are up 50-100% on the day, strongly consider booking the profit. Many beginners give back gains by holding for more.

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Chapter 8: Building Your Trading Plan

A trading plan is your written rulebook. Trading without one is like driving without GPS in an unfamiliar city. It keeps you disciplined and removes emotion from decisions.

Your Trading Plan Template

Complete each section in writing before you trade real money:

Section 1: Your Setup & Watchlist

- Which stocks/ETFs will you trade? (Start with 2-3 maximum)
- What time will you trade? (First hour 9:30-10:30 AM ET is often most active)
- What news or catalysts will you watch for each morning?

Section 2: Your Entry Criteria

- What technical pattern or signal triggers your entry? Be specific.
- Example: 'I will buy a SPY call when price reclaims VWAP with RSI above 50 and 9 EMA crossing above 21 EMA on the 5-minute chart'
- Do NOT enter a trade unless all your criteria are met

Section 3: Your Exit Rules

- Profit target: 50%, 75%, or 100% gain? Define it in advance.
- Stop loss: 25%, 40%, or 50% loss? Define it in advance.
- Time stop: Will you close all positions by a specific time? (Many traders close by 3:45 PM ET)

Section 4: Risk Rules

- Maximum risk per trade: 1-2% of account
- Maximum daily loss: 3-5% of account
- Maximum number of trades per day

Section 5: Review Process

- Log every trade: entry, exit, P&L, and what you learned
- Review your trading journal weekly to identify patterns
- Track your win rate and average winner vs. average loser

PAPER TRADE FIRST	<i>Before risking real money, trade your plan using a paper (simulated) account for at least 30-60 days. Most brokers offer paper trading. If you cannot be consistently profitable in simulation, you will not be profitable with real money where emotions run higher.</i>
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The 30-Day Beginner Roadmap

Timeframe	Focus
Days 1-7	Study Chapters 1-3 thoroughly. Open a brokerage account. Set up paper trading. Watch options chains on SPY and QQQ without trading.
Days 8-14	Study Chapters 4-6. Practice reading charts. Start paper trading long calls and puts on SPY only. Log every paper trade.
Days 15-21	Write your trading plan. Paper trade 2-3 times daily. Review your trades nightly. Identify what is working.
Days 22-30	Continue paper trading. Track your stats: win rate, average gain, average loss. Only move to real money if you are profitable.

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Chapter 9: A Sample Trading Day

Walk through a typical day to understand how all of these concepts come together in practice.

Pre-Market Routine (8:00 - 9:30 AM ET)

1. Check overnight futures: Are US futures up or down? This sets the tone.
2. Check major news: Any Fed speeches, economic data releases, or earnings reports today?
3. Review your watchlist: What are the top stocks moving in pre-market?
4. Mark key levels: On your chart, mark yesterday's high/low, key support/resistance, and pre-market high/low.
5. Check IV levels: Is implied volatility elevated? If so, options are expensive.

Market Open (9:30 - 10:30 AM ET)

This is the most volatile and often most profitable hour. Be careful - it can also be the most chaotic for beginners.

- Watch but do not trade in the first 5-15 minutes. Let the market establish direction.
- Look for your setup criteria to form on the 5-minute chart.
- If your setup appears, check that your entry criteria are all met.
- Enter with your predetermined position size.

Mid-Day (10:30 AM - 2:00 PM ET)

Often the slowest and most choppy part of the day. Many experienced traders take fewer trades during this time. As a beginner, consider stepping back and reviewing your open positions rather than adding new ones.

Power Hour (3:00 - 4:00 PM ET)

Volume and volatility pick back up in the final hour. Strong trends often continue or reverse. Many day traders look for one final trade during this window.

RULE

Close ALL positions before 4:00 PM market close. Do not hold options overnight as a day trader. Overnight gaps and news can cause huge losses, and time decay erodes value while markets are closed.

Post-Market Journal (4:00 - 4:30 PM ET)

1. Log every trade with entry price, exit price, P&L, and notes.
2. Screenshot your charts showing your entries and exits.
3. Write what went well and what you would do differently.
4. Review your stats and compare against your trading plan.

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Chapter 10: Your Next Steps

You have now learned the foundational knowledge needed to begin your options trading education. Here is a clear action plan:

Immediate Action Steps

1. Open a brokerage account with paper trading. Recommended: Tastytrade or thinkorswim.
2. Set up TradingView with SPY and QQQ charts. Add 9 EMA, 21 EMA, 200 SMA, and VWAP.
3. Spend 2 weeks watching without trading. Observe how options prices move intraday.
4. Write your trading plan using the template in Chapter 8.
5. Paper trade for 30-60 days before using real money.
6. Keep a trading journal from day one.

Recommended Further Learning

- Books: 'Options as a Strategic Investment' by Lawrence McMillan (advanced reference), 'The Options Playbook' by Brian Overby (beginner friendly)
- YouTube: Tastytrade channel, projectoption, Options with Davis - all excellent free resources
- Practice: Paper trade consistently for 60+ days before going live
- Community: Join options trading communities on Reddit (r/options) or Discord groups to learn from others

Final Words

Day trading options is genuinely one of the most challenging ways to grow wealth. The traders who succeed are not necessarily the smartest - they are the most disciplined. They follow their plan, manage risk obsessively, and treat losses as tuition rather than failures.

Take your time. Paper trade until you are consistently profitable. Protect your capital. And remember - the goal of your first year is not to make money. It is to still have money at the end of the year while you develop your skills.

"The market is a device for transferring money from the impatient to the patient."

- Warren Buffett

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Always consult a licensed financial professional before making investment decisions.

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