TRADE THE ROLLER COASTER: HOW BINARY OPTIONS HELP YOU MANAGE VOLATILITY
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The Market’s Emotionality Can Be Your Secret Weapon
VOLATILITY IS OPPORTUNITY
If a market usually moves about 1% in a day and it suddenly jumps 5%, the volatility has gone up.

When a market is bucking like a roller coaster, it’s good to remember that roller coasters don’t have steering wheels. You don’t get to control where they’re going.

They do, however, have strong safety harnesses so that no matter how scary the ride might feel, you’re actually protected from danger the whole time. You don’t have to worry about whether you’ll survive a roller-coaster ride.

As long as you’re “at least this tall,” your risk is nothing worse than an adrenaline rush (and maybe a touch of nausea from the funnel cakes you ate).

That safety harness makes a roller-coaster ride exciting without being excessively dangerous. Binary options can do the same thing when you’re trading volatile markets.
Volatility is a term for markets that are making bigger moves up and down than they usually do. If a market usually moves about 1% in a day and it suddenly jumps 5%, the volatility has gone up. The opportunity lies in being along for that 5% ride. Big moves can mean greater profits if you are on the right side of the move. They’re also a good opportunity to use a strategy like a binary strangle that works without the need to predict the market’s direction.

The challenge comes when the big move goes against you. You can be right about the overall direction but still get stopped out by a quick, volatile move against your position.

**WHAT YOU NEED IS A WAY TO TRADE THAT:**

1. **WORKS IN BOTH HIGH- AND LOW-VOLATILITY MARKETS**
2. **LIMITS YOUR LOSSES WHEN THE MARKET MOVES AGAINST YOU**
3. **DOESN’T STOP YOU OUT OF THE TRADE, EVER**
4. **LETS YOU CHOOSE YOUR MAXIMUM POSSIBLE LOSS BEFORE YOU ENTER THE TRADE**

That’s the power of trading with Nadex binary options and call spreads.

Nadex offers you strategies for low- and high-volatility markets that you can’t get elsewhere. In other words, you want to ride the roller coaster with a guarantee you won’t get tossed out of the car. That’s not too much to ask.
VOLATILITY IS A GOOD THING
Successful traders know that emotional management, the ability to control fear and greed, is a key to consistent profits. Nadex binary options and call spreads, because of their design, can bolster your emotional toughness.

**WHEN MAJOR EVENTS HAPPEN, ESPECIALLY CATASTROPHES, IT CAN TEST INVESTORS’ RESILIENCE AND SEND SOME OF THEM INTO A PANIC OF BUYING AND SELLING.**

For example, when the UK public voted in a referendum in June 2016 to leave the European Union, it came as a shock to many, even to some who voted Leave. Brexit marked a historic cultural and political shift. And it sent the markets into one tizzy after another, because nobody was sure what it might mean for the economy.

Markets are notorious for not always responding to news the way most people expect them to. They may greet positive economic reports by selling off. At other times, they may rally for no clear reason, leaving analysts scratching their heads.

**NO WONDER TRADERS WONDER IF THERE’S A WAY TO TRADE SUCH VOLATILE, EMOTIONAL MARKETS WITH GREATER CONTROL OVER YOUR RISK EXPOSURE.**

Traders have the same human emotions as anyone. Like office managers, bus drivers, or yoga teachers, they can have trouble focusing during a crisis.

Those same times can be when volatility presents great opportunities, if you can stay focused.
THE MARKET’S EMOTIONALITY CAN BE YOUR SECRET WEAPON
In conventional trading, if you’re on the wrong side of a volatile move, it can be dangerous: heartbeat-racing, sweaty palm, paralyzing scary. You probably knew that already.

But if you can stay calm, you can make better decisions, because you’re no longer part of the stampeding herd. You’re more like the cowboy: you may move with the herd, but you’re not thinking the way they are.

The good side of risk is the opportunity that comes with it. Binary options offer realistic and daily opportunities to risk $20 to make $80. In volatile markets, the kind of price action that moves the binary from 20 to 80 happens more quickly and more often.

And what about the downside? With binary options, you know precisely what it is, before you place the trade. In the above example, your maximum possible loss would be the $20 you paid upfront, plus the $1 fee to enter the trade. If the option expires at zero, we won’t charge you a settlement fee. You can’t lose more.

The key is being calm enough to take advantage of the opportunities the market presents you.

Nadex facilitates that calm by giving you an edge.
KNOW YOUR MAXIMUM RISK AND PROFIT UP FRONT

The Nadex Trader's Edge

Example: Risk to Reward Ratios

Choose Your Risk and Reward Targets
THE NADEX TRADER’S EDGE
But it’s more accurate to say that risk IS our business. We might think we’re buying and selling gold or crude oil or the Dow or soybeans or even Bitcoin, but in fact, what we’re buying and selling in every trade is risk.

We trade the risk of uncertainty for time to be proven right. When we buy or sell a binary option two hours before expiration, we’re taking on uncertainty. We don’t know where the price will be two hours from now.

And what we get in return for taking on that uncertainty is time. We’re buying time for the market to move towards our profit zone and prove us right.
EXAMPLE: RISK TO REWARD RATIOS
IT’S OBVIOUSLY IN AN UPTREND.
The question is, how much further will this uptrend continue? And will we see a return of the morning’s volatility, or even another big drop?

THIS WALL ST 30 CHART SHOWS A DRAMATIC DROP IN THE MORNING, FOLLOWED BY A STEADY RECOVERY.
Even if it continued up as you expected, it could take some big swings downward along the way.

VOLATILE MARKETS MEAN BIGGER SWINGS AND THEREFORE, MORE RISK NEEDED TO GET THE REWARD.
Sometimes a sure thing can turn into a bad situation. Suppose, for example, that you bought a stock whose price was in a strong, clear uptrend. With conventional ETFs or futures, you have some choices, but none seems particularly inviting. If you went long with Dow index futures at this point, it might continue up and give you a modest profit. A classic trade with the trend.

However, what if it suddenly drops? How far down do you set your stop? If it’s going to be another drop like the morning, you want to get out with a small loss.

On the other hand, if it just takes a quick dip before resuming the uptrend, you want to stay in the trend without getting stopped out.

Again, how far down do you set your stop? What if you think this may be the top and you want to get short? Setting your buy stop above the previous drop would expose you to a lot of risk.
THAT’S WHY
THE 1-TO-2
BINARY TRADE
MAKES SENSE.

You know for sure that your maximum risk is $37.50. The market only needs to move a small distance for a relatively large potential profit. That same move might be more in absolute dollars if you used futures. But you’d take on much more risk to do the trade.

It’s better to think in ratios of risk to reward. If you want more in absolute dollar returns, all you need to do is trade more contracts per order, while maintaining the same risk-reward ratio.

THINK IN
TERMS OF
RISK TO
REWARD.

YOUR MAXIMUM RISK IS $37.50.

IF IT EXPIRES ABOVE THIS LINE, YOUR $37.50 TURNS INTO $100.
CHOOSE YOUR RISK AND REWARD TARGETS
When you can choose your maximum risk, when you know you can’t lose more than that, suddenly volatility has a different meaning for you. The level of danger isn’t vague and unpredictable. It’s a precise number you choose.

And the upside? It’s also predefined, that’s true. Nadex binary options can’t go above $100 per contract in value. Nadex call spreads have a ceiling. You have to give up the notion of “unlimited profit potential” in a trade.

But in return, you get a clear profit target that helps you know when to exit. You’re less likely to hang on to a position, wishing and hoping for more.

For example, if you’ve already made 90% of the maximum and there’s another hour left before expiration, you might choose to just take profits rather than live in uncertainty for another hour only to make a few more bucks.
In a volatile market, a defined target is especially important. Every trader has had the experience of turning a profitable trade into a loser because he held out for more and suddenly found the market turning against him. It’s not just the financial hit that hurts. You also get to feel really stupid afterwards.

After experiences like that, many Nadex traders come to prefer the different environment that binary option and spread trading gives them. When you lose money—let’s not forget that losses are part of successful trading—you still retain a feeling of control.

You will also receive a free lifetime demo account to practice on. Free mobile and web trading platforms. Free real-time market price data. Plus tons of free education and a personal new account representative for the first 60 days.

WANT TO PRACTICE FIRST? OPEN A FREE DEMO ACCOUNT.
DIVERSIFICATION

Diversification: Up, Down, and Sideways

Multiple Asset Classes: Go Where the Opportunity Is
DIVERSIFICATION: UP, DOWN, AND SIDEWAYS
Some traders focus on one or two markets or asset classes. Some take pride in being energy or bond traders. Some investors like to stay with tech or emerging market stocks.

However, the advice most people hear from financial experts is to “diversify.” For stock investors, it means dividing your portfolio among multiple companies. If one does badly, the others offset the loss.

However, if one of your stocks takes off, it’s still only a fraction of your portfolio. Diversification is usually a defensive strategy, not one for maximum growth.

Short-term trading is different from investing and requires a different kind of diversification.

If you want to have a wide range to choose from, including forex, stock indexes, and commodity futures, it used to be you had to open three different accounts with three brokers, each with a substantial balance. And if you wanted to trade Bitcoin? You had to mess with encrypted “wallets,” cold storage, keys. Or you could fill your basement with computers to “mine” it. It was expensive and risky. Trading multiple asset classes and going wherever the opportunity lies in the world’s markets was not always easy or affordable for many people. Until Nadex came along, that is.
MULTIPLE ASSET CLASSES: GO WHERE THE OPPORTUNITY IS
The Nasdaq, EUR/USD, Crude Oil, Soybeans, Bitcoin, even the government’s weekly Jobless Claims number: Nadex lets you trade all of the above from one account. From one screen on your PC or mobile device, you can trade most major asset classes.

You trade them as a direct member of the exchange, without having to go through a broker (or pay broker commissions).

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**WHY SO MANY DIFFERENT MARKETS?**

1. **DIFFERENT PREFERENCES**
   First of all, different traders have different preferences. A lot of new Nadex members start with the market they’re most familiar with. People with stock experience might trade the Wall Street 30 (based on the Dow). A world traveler might start with the euro. A truck driver who always knows the price of gas might start with crude oil. And a banker might start with the Fed Funds rate or weekly jobless claims.

2. **CREATIVE STRATEGIES**
   Second, you can trade some creative strategies across asset classes. If a rise in crude oil prices appears to cause a drop in the EUR/USD, you might hedge your long position in crude by selling the euro FX pair. You could trade both the unemployment report number and the stock market’s reaction to that report.

3. **MORE CHOICE**
   Finally, you may just want to expand your trading horizons. When Nadex members asked about trading Bitcoin, we responded by creating Bitcoin Call Spreads, an innovative way to take short-term positions that is different from the limited “buy and hold” choices available elsewhere. If the price of Bitcoin drops, you can sell the spread to access profit opportunities. Talk about turning volatility into opportunity—Bitcoin can be as volatile as it gets.

We believe you shouldn’t have to settle for a small range of choices. We believe the future of trading lies in empowering traders to go wherever the best opportunities lie. That might be crude oil on Wednesday when the Dept. of Energy releases its weekly report, followed by the British Pound on Thursday when the Bank of England makes an announcement. Or yes, shorting the price of Bitcoin when a rally seems overextended. You can trade them all at once or one after another during the course of the day.
UP AND DOWN

Find Opportunity Up & Down

Example: Wednesday Mornings in Crude Oil

At Home in the Range: Low Volatility is Great for Binaries

From Problem to Advantage: Making Volatility Your Edge
FIND OPPORTUNITY UP & DOWN

Trading on Nadex involves financial risk and may not be appropriate for all investors.
“Going where the opportunity is” also means opportunities to profit on the way down. Short-selling is a powerful strategy, but many traders shy away from it. With stocks, it involves trading on margin and even in futures and forex; many traders don’t short the markets, because they just don’t quite “get” the concept.

As for Bitcoin, selling is a challenge in the cryptocurrency. Many Bitcoin “traders” are more like buy-and-hold investors because it’s simply not that easy to trade the downtrends.

On Nadex it’s even simpler. When you think a market is headed down, just click the Sell button on your order ticket. The amount you pay to enter the trade is your maximum risk. It works the same as if you hit the Buy button. We don’t even use the word “short.”

Markets spend about half their time moving downwards. If you’re not taking advantage of the downside moves, you’re basically saying “No, thank you” to half of the possible profit opportunities the markets are offering you.

A SIMPLE WAY TO UNDERSTAND SHORT-SELLING:

Imagine you know someone in your town (let’s say Chicago since Nadex is in Chicago) who wants to sell his used Toyota. And you know someone in Detroit who wants to buy a used Toyota.

You make a deal with your friend in Detroit to sell him a used Toyota next week for $20,000. You then buy your Chicago friend’s car for $18,000.

You keep the $2,000 difference as your profit (minus gas). You made the sale first, then bought it for a lower price.

Notice that you still followed the basic rule of “buy low, sell high.” You just reversed the order: sell higher, then buy back lower. Short-selling is really just that simple.

YOU DRIVE IT TO DETROIT.

= $2,000 PROFIT
EXAMPLE: WEDNESDAY MORNINGS IN CRUDE OIL
Let's put everything we've discussed together in one example.

Every Wednesday, at 10:30 AM Eastern Time, the US Department of Energy issues its report of global crude oil inventory: how many millions of barrels are in various strategic reserves, in refineries being turned into gasoline and other products, or floating in the hulls of massive supertankers.

Many factors affect the price of crude oil, including supply and demand. Demand is largely determined by how active the global economy is—people burn more fuel when they’re doing and making more stuff. Supply is determined by how much oil is getting pumped out of the ground, which is affected by government and oil company policies.

In late 2016, OPEC announced a plan to pump less oil, which caused prices to top $50 a barrel for the first time in over a year. At the start of 2017, with a new US president about to take office and much global uncertainty, the global supply numbers were among the few tangible numbers that oil traders could use in their decision-making.

So the January 11, 2017, report was highly anticipated and (although unsurprising) caused prices to move both down and up across a one-dollar range in just over ten minutes. That’s a lot of volatility.

If you’re a billion-dollar fund or even an individual with $10 million or more to work with, then a price swing of $0.50 a barrel may not be a problem. But that 0.50 point move translates to $500 in the crude oil futures contract or $50 in the mini contract. Those are substantial amounts for most individual traders.

**AT 10:00 AM, BEFORE THE REPORT, A TYPICAL FUTURES TRADER WOULD HAVE TO CONSIDER NOT JUST ONE BUT TWO PROBLEMS:**

1. **WOULD THE REPORT BE BULLISH OR BEARISH (OR NEITHER)?**
2. **WOULD THE REACTION BE SO VOLATILE THAT EVEN IF YOU PREDICTED CORRECTLY, YOU COULD GET STOPPED OUT BY THE BIG PRICE SWINGS?**
What if you didn’t want to predict the direction at all, but instead wanted to take a position that could profit (with a little care and attention) from a move in either direction or no direction? That could solve problem #1.

What about the $50 or $500 risk? Is that the only way to trade crude oil, by taking a go-big-or-go-home attitude? Maybe it’s the Texas connection, but crude oil traders sometimes have a reputation as wild cowboys—one that many enjoy. It certainly makes a good conversation starter at parties.

Fortunately, there’s a way to trade crude with lower risk and still impress people at parties. Twenty or thirty dollars of total risk for a potential profit of twice that amount is straightforward and simple with binary option strangles. A “strangle” means you buy one contract with a strike price above the market price (an out-of-the-money binary option) and sell one with a strike price below the market, i.e. also out-of-the-money. You try to buy both out-of-the-money binaries for a small amount, to minimize your risk.

Strangles in futures and other markets can seem complex, because you try to pay for the contract you bought with the income from the one you sold. With binary options, it’s much simpler.

The cost of the strangle is simply how much you paid upfront. That’s your total risk. You don’t end up paying any more or incurring any unplanned losses. You know your maximum risk upfront, just as you do with individual binary options.
Trading on Nadex involves financial risk and may not be appropriate for all investors.

Trading Example:

**BUY @ $10**
**LIMIT $45**
**PROFIT $35**
**BUY RISK: $10**
Since a binary is between 0 and 100.

**SELL @ $90**
**LIMIT $55**
**PROFIT $35**
**SELL RISK: $10**
Because 100 - 90 = 10.

**TOTAL PROFIT=$70**
($35+$35)
**TOTAL RISK=$20**
($10+ $10)

**THIS IS A HYPOTHETICAL EXAMPLE OF A STRANGLE.**
In a real trade, the prices may vary, as may your decision about how long to hold onto each binary.

Before 10:30 AM, crude oil prices were in a sideways channel. This is typical; traders are waiting for the report. The ups and downs are typically due to funds adjusting their positions. Much of it is done by algorithms. This calm before the storm can be a good time to place limit orders to buy and sell out-of-the-money binary options with favorable prices.
In this strategy, you would place a limit order to buy an out-of-the-money binary option, one with a strike price above the current indicative market price. With the market in a sideways channel around $51.45, you might pay $10 for a strike price of $52 or higher.

You may have to wait a while, but the low volatility in the channel can make your chances of getting filled better.

At 10:30 AM, when the report hit the news, the market dropped about 50 cents in about 50 seconds. The reaction often has little to do with the details; it’s just a lot of orders getting filled, with some taking profits and others trying to buy at a cheaper price.

When the market dropped, the binary option you bought lost money. But because it was a Nadex binary option, it only lost the amount you paid: $10.

That, plus fees, is the most you can possibly lose. If the price of crude oil had crashed, you still would have lost only $10.

**AT THE SAME TIME, YOU PLACE ANOTHER LIMIT ORDER TO SELL A STRIKE PRICE BELOW THE CURRENT INDICATIVE MARKET PRICE. ONCE YOU GET FILLED ON EACH ORDER, YOU PLACE A SECOND SET OF LIMIT ORDERS FOR YOUR EXITS:**

1. For the binary you bought at 10, you place a limit order to exit (sell) at 45. That would mean a profit of $35.

2. For the binary you sold at 90, you place a limit order to exit (buy back) at 55. That would mean a profit of $35, too (90-55).
On the upside, the binary you sold at 90 also dropped in price. That’s good—when you sell, you make money when the price drops. In this example, the price dropped to your target of 55 and you exited with a $35 profit.

At this point, your profit/loss column would show $35 minus $10 or $25 total. If you wanted to, you could exit the other trade for less than the $10 you paid and still have a profit between $15 and $25. Not a bad trade for five minutes. And you even got a little adrenaline excitement (if you like that sort of thing).

Or you could wait and see what happens to that binary option you bought, the one that is worth less than ten bucks at the moment but has a hidden value: time. After all, it can’t lose much more. You literally have virtually nothing more to lose.

If it moved just a few dollars above $10, you might want to take that small profit. Or if you let it run for another five or six minutes, on this particular Wednesday you’d have seen the market reverse its losses and make new highs.

Your binary option would have hit your limit order price of $45, for an additional profit of $35.

**In other words, your total profit was $35 plus $35 or $70 minus fees. Your total risk—your possible loss—was $20.**

20:70

_is a good risk-to-reward ratio, to say the least._
TO RECAP, THE KEY DECISIONS IN THIS BINARY STRANGLE STRATEGY ARE:

1. Look for a market that is likely to experience some volatile price swings. They don’t have to be huge.

2. Buy a strike price above the current indicative market price for as little as possible (well below 50).

3. Sell a strike price below the current indicative market price for as much as possible. You’ll pay the difference between 100 and that amount.

4. Once those orders are filled, place another pair of limit orders that would give you a profit, but still be on the same side of 50. Sell the one you bought for a little less than 50, buy back the one you sold for a little more than 50. (That’s for this particular strategy. Of course, you can adapt these numbers.)

5. Take profits on whichever binary goes up first, usually by letting it hit your limit order. Just make sure that your profit on this first exit is more than the potential loss on the other binary.

6. Exit the other binary option trade to close out the strangle. If you have time until expiration, it’s worth letting the second binary have a chance to gain value so that you end up profiting on both binary options.

Even if you lose money on the second binary, you can still profit as long as the profit on the first one is larger than the loss on the second. That’s the beauty of the strangle strategy: you can get this outcome without having to predict the direction of the market.

Binary strangles are just one of many strategies for turning volatility into opportunity using Nadex binary options and call spreads.

JOIN US FOR A LIVE WEBINAR OR WATCH ONE OF OUR MANY EDUCATIONAL VIDEOS TO LEARN ABOUT MORE STRATEGIES.
AT HOME IN THE RANGE: LOW VOLATILITY IS GREAT FOR BINARIES
Okay, so we have ways to trade volatile markets with predefined risk, but what about markets with low volatility?

Sometimes a market can spend hours or days in a sideways range. It can be like watching paint dry.

Most traders yawn and start looking elsewhere. Others try to scalp small moves and scrape a few dollars here and there.

A binary option only needs to be one tick (the minimum price unit) above the strike price at expiration for you to receive the full $100 payout.
Trading on Nadex involves financial risk and may not be appropriate for all investors.

A Futures Option is based on the question “How many ticks did the market move,” whereas a Binary Option is based on a different question, “Yes or No?”

Picture a market that only moves from a few ticks below the strike price to one tick above during the course of the day’s trading.

Let’s say, for example, that you’re trading the DAX (the German stock index). If you bought the DAX futures contract and sold it a few hours later at a slightly higher price, you might not make enough to cover your commissions.

But on that exact same day, buy the Nadex Germany 30 binary for $48 and get $100 at expiration, for the exact same price movement. The difference?

The futures contract is based on the question: “How many ticks did the market move?”

The binary is based on a different question: “Did the market finish above this price, yes or no?”
It’s an all-or-nothing question with an all-or-nothing outcome. With binary options, you can get a return of 100% or more in a sideways market, because the deciding factor is not how far it moved, but which side of the strike price it’s on.

And remember you can always exit early. If your binary is profiting and expiration is still a few hours away, you can, as the song says, “Take the Money and Run.” And if your binary is declining in value, you can follow a different song, like...“I Will Survive.” The point is, you can exit early to take a smaller loss than your maximum.

DON’T TAKE OUR WORD FOR IT. THE BEST WAY TO MASTER THIS IS TO OPEN A FREE PRACTICE ACCOUNT AND TRY IT YOURSELF.

With a wide range of markets to choose from, you’re bound to find one that’s doing practically nothing. Buy or sell a binary for a relatively low cost (less than $50 a contract) and see what happens.
FROM PROBLEM TO ADVANTAGE: MAKING VOLATILITY YOUR EDGE
The reason volatility equals anxiety for many traders is that it can make what would have been a small loss become devastating.

Nadex lets you choose your maximum possible loss and caps your risk, guaranteed. That changes the possible loss into a fixed quantity, a number you choose.

Imagine the freedom of knowing you will never take on more risk than you can handle.

And the upside of volatility still works in your favor. Faster, larger price movements can offer more opportunities to profit. Plus, you’ll find more of those opportunities, since opportunities you might have considered too risky before, are now available in a way that lets you predefine your maximum possible loss and profit, before you enter the trade.

You don’t need to take every trade. You can patiently wait for the ones that fit your strategy and style, knowing another opportunity, perhaps in another asset class or market, will be along in a few minutes.

Clarity, control, opportunity: that’s why so many people call Nadex the future of trading.

Instead of focusing on how much you might lose, you can focus on the trade itself.
OPEN A NADEX ACCOUNT TODAY

You will also receive a free lifetime demo account to practice on. Free mobile and web trading platforms. Free real-time market price data. Plus tons of free education and a personal new account representative for the first 60 days.

WANT TO PRACTICE FIRST? OPEN A FREE DEMO ACCOUNT.

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Nadex contracts are based on underlying instruments in these asset classes: forex, stock indexes, commodity futures, cryptocurrencies, and economic events. Nadex binary options and call spreads can be volatile and investors risk losing their investment on any given transaction. However, the design of Nadex contracts ensures investors cannot lose more than the cost to enter the transaction. Nadex is subject to U.S. regulatory oversight by the CFTC.

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