

A background of financial data with numbers and percentages in blue and green, overlaid on a yellow gradient.

**Joe Keane**

A background showing a hand pointing at a world clock on a screen, with a world map visible below. The text is overlaid in red.

**How to Trade  
Binary Options  
Profitably**

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**What you need to  
know before you start**



# How to Trade Binary Options Profitably

What you need to know before you start.

**Joe Keane**

**[BinaryOptions4x4.com](http://BinaryOptions4x4.com)**





## Joe Keane

Joe Keane is a private trader and an enthusiastic student of financial markets. He trades his own money and has successfully developed a winning trading system that has allowed him to give up his job and trade full-time. Joe has worked closely with Steven Harcourt, author of the best-selling *Definitive Guide to Trading Binary Options* in developing the [4x4BOSS](#) Trading System.



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## 1. Introduction and Overview

Binary Options are among the fastest growing retail products for traders. They have many attractive features but many traders have found that they do not always deliver on their promise. Has this been your experience? Where is the problem? The fact that you have downloaded this eBook suggests that you believe that Binary Options are worth examination, but you have questions. That's a good start.

Most of the training materials on trading binary options identify features such as the market selection, the timing of the entry, the amount invested and the payout ratio as the key determinants of performance for traders. This is true, but only up to a point, Because while these factors determine the outcome for any particular trade, profitability in trading means earning consistent positive returns over the longer term, that is, over a large number of trades. Properly managed, the outcome of any particular trade is not what matters but the outcome over a long series of trades.

The concept of risk is central to a trading strategy. People usually avoid risk, that's a natural response. But traders realise they must face risk, indeed, they must seek risk in order to make profits. And once you find risk you must manage it.

The key factors of success when trading binary options are

- Broker selection;
- Money management;
- Market analysis; and

- Trader psychology.

Each item in the list involves risk and its management. With the exception of the need to place additional emphasis on the first in this list, these are pretty much the same for all trading instruments. However, the strategies that must be adopted are subtly different when trading Binary Options.

**Understanding the importance of managing risk is central to trading Binary Options profitably. This is the case in all trading.**

This eBook addresses each of these in turn and this list determines the outline of the book. The next section provides an overview of Binary Options. Any readers familiar with trading these securities can move through this fairly quickly although it is well worth spending time to ensure you understand the key determinants of returns. Chapters 3 to 6 then deal, in order, with broker selection, money management and market analysis.

The structure of the final element of this outline – the market analysis – gives the 4x4 strategy its name. It analyses markets at 4 different time frames, which can vary depending on the overall perspective of the trader but should retain approximate scale proportions. The analysis also seeks to answer 4 questions the trader must ask:

- In what direction should I trade a particular market – up, down or no trade?
- Does my system permit me to trade this market?
- What rules apply to entry?
- When should I enter the trade?

It is only when these questions are answered by the analysis can a trade be entered.

**You cannot control everything with any trade but it is you and what you do that determines if you are profitable over the long run.**

Trader psychology is a huge area in trading and trading according to a plan is essential to ensure you have the discipline to make sure you remain consistent with that plan. Sections 7 and 8 provide a way to do this in practice. This is vital because if you do not trade consistently according to a plan then you will be trading randomly and you will lose all your money. Of that you can be certain given the structure of binary options. The final section then points you towards further sources of information and contains an important offer.

Remember, it's up to you to determine if you are profitable. Binary Options provide a great opportunity to trade financial markets easily, with a small capital fund and with good opportunities for profit. But most traders lose. Binary Options provide you with the opportunity. But there are certain steps you must take if you are to be profitable. If you implement the approach outlined in this eBook correctly then you will be in a good position to avail of the opportunity.

One final point. Not only is it important for you to learn about trading, but it is also important for you to monitor how well you are learning. It's very easy to misinterpret a point or to miss something important. So, to help you further I have written a workbook to go with this eBook.

We are also offering you two free bonus eBooks. The first entitled 'Markets in Mind' is from Andrew Dawson and deals with psychology and mental preparation for trading.

The second deals with a very important issue where you will have to make a decision: Which broker should you choose? There is one clear rule: deal only with a regulated broker.

To get your free copies of the Workbook and the other bonus eBooks just [click here](#) or on the image below. There is no up-sell and no commitment here – they are all free for you to download.



I recommend that you go through the workbook and then move on to the other eBooks. The workbook also contains answers and explanations and you can always come back to this eBook to get further information on the points raised.



## 2. All About Binaries

The essence of binary options is that the outcome of the trade i.e. the return to the trader, is one of two values – either 1, where 1 represents the original amount placed at risk (or some pre-agreed percentage of this amount), or zero. It is this feature that gives the name ‘binary’. So, a trader knows precisely, in advance, the potential loss and the potential gain. The trade is either a win or a loss and the value of both are known in advance.

The trader has 3 decisions to make when considering a trade.

- What market to trade?
- Whether to trade long – a call option – or to trade short – a put option.
- How much to put at risk.

It all sounds very simple and it is this simplicity that may carry the greatest risks for the unwary trader.

Binary Options trading has only been around as commonly used trading vehicles in the sense in which they are described in this eBook for a few years but the size of trading in the market has grown rapidly<sup>1</sup>. It’s not difficult to see why as there are a number of benefits from the point of view of a private trader, particularly a trader with limited experience in the financial markets.

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<sup>1</sup> Binary Options are classed as ‘exotic options’ and are very different from traditional options that have been bought and sold for decades although similar terminology such as ‘put’ and ‘call’ is often used. While different variations are sometimes available, this eBook will concentrate solely on hi/lo options i.e. those where the trader is offered a price at the market and must decide if this price will be higher or lower at the time the option expires.

- The trading process is very simple. It is only necessary to decide if the market is likely to rise or fall within a period.
- Most markets are suitable most of the time as even in very quiet conditions market will move and it is only necessary to trade in the correct direction by even 1 pip in order to win the full amount. This is very different from other instruments.
- Pricing is very simple – the trader is provided with a single price at all times. This is usually termed the strike price at the time the trade is opened and the expiry price when it is closed.
- It is possible to trade over very short time frames and the rules are always the same. The timeframe refers to the period between the strike price when the trade is entered and the expiry. Many brokers offer timeframes as low as 30 seconds with multiple other timeframes up to long periods measured in weeks.

**As a trading instrument, Binary Options offer private traders some very attractive advantages.**

- It is possible to open an account and trade in a very short period of time with small amounts of money. Brokers will typically open an account for just \$200, some will do so for just \$100. However, I consider that the trading fund should be at least \$500 minimum, although not all of this need be actually lodged into the broker account.
- Many brokers allow minimum stakes of just \$10 per trade. So it's possible to learn to trade while keeping the amount of money at risk low. Occasionally it's \$5, but many brokers have a \$25 minimum.
- Because of this simplicity, broker platforms are usually very clear and simple to use with familiar drop-down menus, pilot

buttons and text boxes. It's easy to learn and difficult to make a mistake.

- Because you are only interested in where the market closes the trade will generally not be affected by unforeseen markets spikes due to temporary bouts of volatility.
- Slippage i.e. not getting an order filled at the price that is displayed, is not usually a problem and there are no commissions.
- You know in advance how much you are risking. Your loss will never be greater than this amount.
- Intense competition in the sector is reducing the costs of trading, improving the offering that is provided by brokers and resulting in additional services such as charts, training and news services.

It all sounds like Binary Options are a very attractive way to trade, and they can be. However, there are drawbacks.

The first is that the sector has been subject to some unscrupulous operators who, because of the simplicity of the trading, have been able to con inexperienced traders out of their money. This is the first risk a trader faces – broker risk. There are many ways of doing this and we discuss this in more detail in Chapter 3, but it is up to each trader to choose a broker carefully. There are also legitimate differences between brokers that need to be considered and we discuss these below.

The second issue also arises from the simplicity and accessibility of the markets using binary options. This is that new traders can be lulled into over-trading i.e. placing too much of their fund at risk at any time. This may arise from opening too many trades or from

placing too high an amount at risk. This is financial risk and, unlike broker risk, this is wholly addressable. Indeed, controlling financial risk through good money management is one of the few aspects of trading, along with deciding what market to trade and in what direction, that is fully under the control of a trader at all times. Therefore, since a trader cannot control most of the factors that will determine results it is vital that he does manage what is under his control. This important area is addressed in Chapter 4 below.

**There are some important potential drawbacks. But with the correct approach you can avoid problems and even use turn these to your**

The third drawback arises from the way in which brokers offering over-the-counter (OTC) Binary Options, a very popular and rapidly growing section of the market, earn their profits. Unlike most financial instruments, there are no commissions, no bid-offer spreads and few administration costs associated with these Binary Options. Brokers earn money by means of the payout ratio. This is typically in the range of 70% to 82% depending on the broker and the underlying market being traded. What this means is that when a trader is correct about a market and places a trade, the broker retains this percentage of the winnings as payment for the service. Usually, if the trade loses then the broker retains all the stake, although there can be exceptions. This has important implications for traders as discussed below.

### *Types of Binary Options*

There are three different kinds of products that are marketed and traded as Binary Options. The differences have arisen primarily in response to regulations and traders need to be aware of what they are dealing with. All types have an outcome that is one of two

possibilities and all require that the trader correctly predicts the movement of the market. However, there are important differences.

The first, and best established type, are described as exchange traded options and sometimes as US-style Binary Options. A key feature of these options is that they are regulated by the US Securities and Exchange Commission (SEC) and so they can be traded legally by US residents.

Assuming you hold to expiry, if you buy an option, the outcome is one of two events – you either win \$100 or you lose your stake. If you sell the option, you could earn the price at which it is sold at or lose up to \$100. However, you can also cash out early to take some profit or cut losses. These Binary Options have many similarities with more mainstream instruments. A trader can purchase an option, sometimes described as a contract, with a future expiry time at a price that is determined on an exchange. This price will always be in the range of zero to \$100 and there is a bid-ask spread.

The basic decision is whether the value of the underlying security will be above or below a stated level at the time of expiry. So, if you are buying a call and the current market price is moving up towards the target price then the price of the option will move closer to \$100 and will continue to do so as the expiry time moves closer. This is a straightforward reflection of market demand and supply – the price is reflecting the risks. The reverse will also be the case.

Brokers are only allowed to market exchange traded Binary Options to US residents, although there have been many reports of this regulation being flouted. Until relatively recently, exchange traded Binary Options were provided to US residents by the NADEX platform

only. However, competition has emerged with the Cantor platform and a number of companies that had previously existed only as providers of OTC options are now using this platform to provide SEC regulated options in the US. Regulators in other countries, most notably Japan, have also begun to adopt this approach in recent years and so the use of this type of Binary Options is likely to grow.

The second type of Binary Options is described as over-the-counter (OTC), or sometimes European-style, Binary Options. These have been growing rapidly in recent years since they are very customer friendly. Many consider them to be a form of gambling but a growing number of countries have begun to regulate them as financial products. The most important source of such regulation have been the Cyprus SEC (CySEC). Since Cyprus is a member of the EU, this means that these products are thereby regulated in every EU country and can be marketed throughout the EU. They have also proven popular in countries such as Australia and Canada with varying levels of regulation.

With OTC options, the broker provides a price, which is considered to be the market price, and will be the price at entry – or strike price – if a trader buys an option. There is no option ‘price’ as such but instead the trader decides how much money to put at risk. If the trade wins then the trader is returned the stake plus a stated percentage of the stake. If it loses then the stake is lost.

It’s easy to see why these are proving to be so popular among new traders since the risk is tightly limited and easy to understand, and there are no further decisions in relation to exiting the trade or stop losses. The trade is held to expiry and it either wins or loses. Many have raised concerns about the lack of transparency in the underlying

pricing and the potential for brokers to manipulate the stated prices. However, there is no definitive proof that this is being done or even that it could be done as a profitable strategy. Despite this, the attractiveness of these products to new traders allied, to some very aggressive marketing and a lot of nonsense on the internet about the potential to earn big profits, has meant that concerns remain that people can effectively treat this type of instrument as gambling.

Traders need to consider the implications of this structure. If you trade randomly then you should expect to be right 50% of the time. After all, you are only required to identify if the market will rise or fall. If we ignore the occasional times when a market will end exactly flat there are no other possibilities.

So, if you always risk \$10 and trade an instrument with a payout ratio of 75% then over a number of trades you will win \$7.50 per trade on half of them, and lose \$10 per trade on the other half. Your expectation is that you will lose money and if you keep it up you will lose all your money.

So you need to shift the odds in favour so that you win in excess of 50%. This is trading risk and shifting these odds and trading accordingly is effectively the sole requirement of a trader.

The third type of Binary Options is exactly the same as the OTC options discussed above except in one important respect. This is that they are offered by brokers that are not regulated. This is a big concern. The relative ease of accessing the required technology and ease of marketing what appear to be attractive opportunities for profit has meant that a lot of unregulated firms have begun to offer OTC products. Usually these are fraudulent operations and traders

have found that it is impossible to withdraw funds, even if the trader appears to have been trading profitably. More commonly, the funds are traded by a 'robot' or 'expert' and lost or some other restriction, often allied to a bonus, means that the funds cannot be withdrawn. Traders should be aware that these actions are not necessarily illegal and may be undertaken by regulated brokers but the trader must be clearly informed in that case. With an unregulated broker there is no such protection.

No matter what type of option is traded, the trader need a strategy. The strategy in relation to unregulated brokers is very simple. Have nothing to do with them. They will take your money. You will lose. So ensure that the broker is regulated. More on this later.

### *Placing a Trade*

When you go to put on a trade, you will need to decide the following:

- Which broker to use?
- Which market to trade?
- How much to trade?
- In what direction to trade?
- Over what time period to trade?

OTC Binary Options are unlike other products and so it is worth outlining how they are traded. Let's assume you have made some decisions so that you are going to

- Trade with Banc de Binary;
- Trade the EURUSD i.e. the exchange rate of the Euro expressed in US\$; and
- Trade a stake size of \$10.



We will not concern ourselves here with how we arrived at these decisions nor how we might decide on the direction or time period, these are questions covered in later chapters.

You will need to enter an amount of money representing the stake in the appropriate place on the broker's platform. The screen grab below is one example of a brokers platform and you can familiarize yourself with others by looking around<sup>2</sup>. In this example a value of \$10 has been entered. When you open an account this will often be displayed in your own home currency so there is no additional risk involved.



The question asked is 'will EUR/USD go up or down?' When you answer this, your answer relates to a specific point in time, usually in the near future, although you can vary this length of time. This time is known as the expiry time or date. In this example it is 10:50. This is 10:50 am today since the platforms generally adopt the military style 24-hour clock and would give a different date if the expiry was not today but at some future date.

<sup>2</sup> While Banc de Binary ([www.bancdebinary.com](http://www.bancdebinary.com)) is used in this example, this is for illustrative purposes only and I could have used graphics any one of many brokers. My use of this particular broker here should not necessarily be taken to be a recommendation.

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