

Trading Options with a Day Job

Options trading is a profession for some people. For some people, it is part of an investment program. And for some people, it is a hobby.

Can options trading be a hobby?

The dictionary says a hobby is *an activity or interest pursued for pleasure and not as a main occupation*.

Wikipedia says about hobbies:

- the aim of a hobby is personal fulfillment
- hobbies lead to acquiring new skills, knowledge, and experience
- what is a hobby for some people is often a profession for others

It is often said that that options trading is only for professionals. This makes people believe they cannot succeed with options unless they quit their job and devote full time to it.

To pursue options trading as a hobby means it will not be your main occupation and it will not be a main part of your investment program. When viewed as a hobby, options trading is done for the sake of personal fulfillment. And in doing this, you acquire new skills, knowledge, and experience.

When you consider this possibility, it sheds a different light on things with respect to how you view your money, your time, and your goals.

Money

Earning money is the main idea of an occupation. To trade options "for a living", means you trade options to pay the bills.

Earning money is also the main idea for the serious options investor, meaning that options trading is an important part of your main investment program.

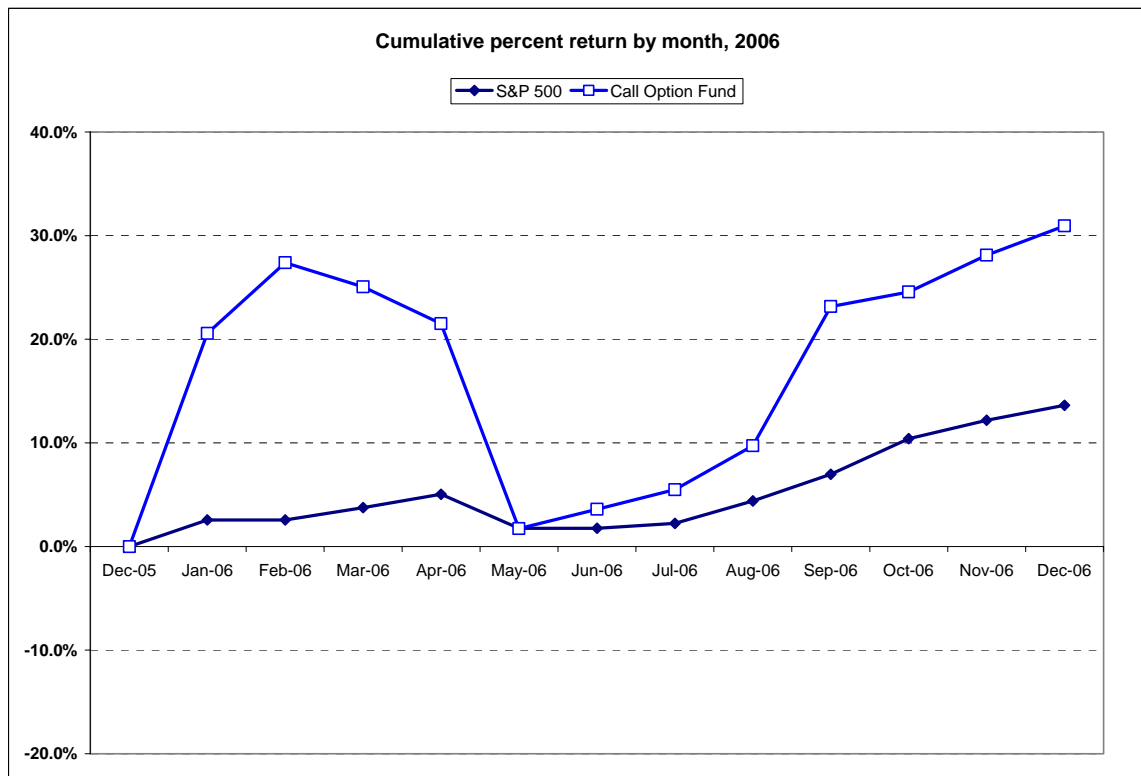
The options hobbyist is also trying to earn money. But the hobbyist views this money differently – it is a way of keeping score. With any hobby, you want to know how well you are doing. With options trading, this part is easy – you just count the money.

A previous Options Trader article, "Speculating with stock options" describes a sensible way to get started trading options as a hobby. To start, set up an account in which you will use call options to play your hunches on products, companies, or trends that you believe in. To keep things simple, you can just buy call options and hold them along with cash until the options reach a pre-defined profit target, or their expiration dates.

You can track how you are doing by comparing your account value, month by month, to a benchmark. A chart of these month to month values is your scoreboard, showing how well you did considering the investment environment you faced.

As an example, Figure 1 shows the scoreboard from a call option account from 2006:

Figure 1: Scoreboard for a call option account



This account was invested in a mix of equity call options and cash. You can see the month-to-month value moved with the general direction of the stock market and with much more volatility.

Unlike most hobbies, options trading might *make* money. But the hobbyist does not use these profits to pay the bills. They are tracked, analyzed and reinvested as a measure of progress over a period of years.

If you do well, earnings will grow. If you do poorly, then this hobby, like most others, will cost money.

Time

As an options trader with a day job, you do not watch your trades play out tick by tick. There are other things to do during the day – like your job!

Not watching investments tick-by-tick often helps performance. Options provide fast action, which is attractive to the hobbyist. But performance is often enhanced by exercising patience, and the best way to be patient with something is to do something else in the meantime – like your job. Watching your investments tick by tick can lead to unwise, emotional decisions. It is easy to avoid this pitfall when you don't know what is happening.

You can make options trading something that requires no attention at all during the trading day. In the account represented in Figure 1, the call option positions were all long positions with expiration dates 5 months out or more. Each option had a pre-set selling target, and was held until it either hit its target or came to its expiration week. No single position was greater than 7 % of the account value, and the account always held a cash balance of at least 40%.

With this kind of strategy, your time and attention can be focused exclusively on finding good options to buy. This is best done when the market is closed – on weekends, in the evening, or whenever you choose to devote time to your hobby. Everything else is on autopilot.

Many option strategies can be managed with only occasional attention – once a week, or even once a month, no more time than you would put into any serious hobbies.

Learning

One of the ideas of a hobby is that you will learn something. On this factor, options trading offers an abundance of opportunities. For people interested in finance, options are worth learning about. In fact, they are among the most important financial innovations of our lifetime.

The pricing of options is an especially interesting topic. When you learn about options pricing, you are learning about something that "laid the foundation for the rapid growth of markets for derivatives in the last ten years, and . . . created new areas of research - inside as well as outside of financial economics" . . . this quote is from the press release for the 1997 Nobel Prize in Economics, awarded to Robert Merton and Myron Scholes for the development of a pricing formula for stock options.

The options trader is drawn to learn about the underlying assets. When you own an option, your attention gets focused on that asset. You learn more about it, and you follow that field more closely. Your strategy may focus on buying options in an industry you understand especially well, a country that you are interested in, a new product, or world events that interest you. Whatever it is, you will learn more about it when you put your insights to the test and take a financial stake in it.

This hobby can also become a focal point for developing new skills. Modern investment accounts and websites provide access to a wealth of research tools that are easy to learn. In many cases, you just need a reason to use them, and options trading can fill that need.

Options brokers provide easy access to account data which you can link to your financial software. For example, figure 2 shows a page of data from an Options Xpress account. You can select a range of dates and push the button to download your trades to the software of your choice.

Figure 2 Example of Options Xpress account data

Show Commissions & Reg. Fees**

Download this activity to Direct-Connect with [Quicken](#), [Microsoft Money](#), or [Option Money](#)

Action	Qty	Symbol	Description	Price	Net Amount
Sell To Close	5	MICDF	MIC APR 2007 30 Call	\$4.80	\$2,384.97
Buy To Open	5	EMRFI	EMR JUN 2007 45 Call - Pos Split: Qty Adj	\$0.00	\$0.00
Buy To Open	10	MRUGD	MDTL JUL 2007 20 Call	\$3.40	(\$3,415.00)
Sell To Close	5	GPNEI	GPN MAY 2007 45 Call	\$5.00	\$2,484.97
Buy To Open	5	JFQGE	FOXH JUL 2007 25 Call	\$4.60	(\$2,314.95)
Sell To Close	5	WYDM	WY APR 2007 65 Call	\$6.00	\$2,984.95

Figure 3 Excel spreadsheet with options trade data

Execution Date	action_descri	Quantity	Symbol	Description	Price	Commission	Reg Fees	Total Cost
12/14/2006 10:00	Sell To Close	5	.MICDF	MIC APR 200	4.8	14.95	0.08	2384.97
12/12/2006 6:43	Buy To Open	5	.EMRFI	EMR JUN 200	0	0	0	0
12/8/2006 14:35	Buy To Open	10	.MRUGD	MDTL JUL 20	3.4	15	0	-3415
12/8/2006 14:20	Sell To Close	5	.GPNEI	GPN MAY 20	5	14.95	0.08	2484.97
12/7/2006 10:50	Buy To Open	5	.JFQGE	FOXH JUL 20	4.6	14.95	0	-2314.95
12/6/2006 10:14	Sell To Close	5	.WYDM	WY APR 200	6	14.95	0.1	2984.95

Do you want to develop spreadsheet skills? Just choose to download the data to Excel and a spreadsheet (Figure 3) pops up. This is now a good starting point for someone looking to learn about spreadsheets. Buy a book on Excel that fits your skill level, and start using it to help your analysis and option selection. Whether you are a beginner or expert, you will learn something new about spreadsheets when you set about doing serious analysis of your own options trading! A beginner can quickly learn to format the data, do calculations, and make charts like Figure 1. More advanced users can learn to:

- import live quote data
- update tables and charts
- do statistical analyses
- automate links to account data
- build your own option pricing calculator
- back-test trading strategies

There is really no limit to what you can do with a spreadsheet if you want to learn. An option trading hobby can be the reason to learn these skills.

Fulfillment

The dictionary says people pursue hobbies for personal fulfillment. *Fulfillment? What is that?*

One thing we know about fulfillment is that passionate investors find fulfillment in profits. You might have an idea that a new product will become very successful. You might have a hunch about how something is going to play out in the world. Options trading can bring focus to these ideas. When you make a financial commitment to an idea, it takes you beyond casual interest. You dig deeper, learn more, and create opportunities to be rewarded for your insights.

Fulfillment also comes from self-improvement. Many of us have self-improvement lists that include discipline and patience as areas for improvement. Discipline and patience are useful virtues in investing. They are also useful in hobbies. Trading options as a hobby can test your patience and discipline!

Here is a simple exercise in discipline for the options trader with a day job: Don't check the markets or your investments during the work day. Wait until the end of the day or the end of the week. Do your analysis and make your decisions at home, not at work. Ignore the market when it is open. This is good practice in discipline and will probably improve your trading results.

Risk

Many hobbies are risky. Options trading can be very risky. You must understand and control the risks.

Before you begin options trading, you must study the Options Clearing Corporation Prospectus and set up your account for the appropriate types of trades. Your broker is required to help lead you through this when you set up your options account.

An options hobbyist also requires trading controls to help you ride out cold streaks and to maintain your "amateur" status. Here are some suggested rules:

- 1) No uncovered positions – it is unwise for the hobbyist to take any position that has unlimited risk exposure. Such positions require more than hobby-level attention.
- 2) Maximum loss per position – for the hobbyist, 5% of account value is a reasonable maximum loss per position. You can easily control this by limiting yourself to long option positions of not more than 5% of account value.
- 3) Minimum cash reserve – One bad market move can wipe out an entire portfolio of options. You should keep some cash to avoid disaster, and spread your positions over time. A 50% cash reserve is a good target level for a directional strategy. A hedged strategy can keep a smaller cash reserve.
- 4) Maximum account size. By definition, a hobby account is small enough that losing 100% of it will not hurt your lifestyle.

Options trading passes the tests for being a hobby. You need not be a professional and you need not quit your job.

As a hobbyist, you can apply your speculative instincts in a way that doesn't interfere with your job or hurt your long-term investments. Options will challenge your skills, patience, and discipline. You will learn a lot. And, unlike most hobbies, this one might *make* you money.

George Hoekstra