

What are They Thinking?

<http://www.binaryoptions4x4.com/what-are-they-thinking/>

As the Binary Options market has grown and brokers have become more competitive, the number offering various educational materials has started to grow also.

Some of these are quite good, but almost all the services provided fall far short of what is provided freely by brokers and other operators in more mainstream established sectors.

This has been led by US stock brokers, but the services provided by Forex or Spread Betting operators are now of a quality that was unthinkable a decade ago.

Almost all that a private trader needs to get going is available for free as an enticement to purchase deeper premium content.

Why Make Valuable Information Available for Free?

This is still not the case in relation to Binary Options but some operators are attempting to provide data, training and educational materials in an attempt to distinguish themselves from the crowd.

The objective is to establish their credibility in the eyes of prospective clients. Given the proportion of unreliable operators that have populated the sector and the reticence of regulators to certify that the good operators are providing a good service then this is not unexpected.

What we are seeing is a market solution to the problem. It is a second best solution and eventually regulation will have to catch up with developments.

So, if you are a service provider who wants to establish credibility, then the last thing you want to do is supply information that lacks credibility or usefulness.

And yet, this is what we are seeing, even from large brokers.

Look at This Example

To illustrate my point, I recently came across an educational blog from a large broker who will remain nameless here. The blog set out what purported to be a trading strategy to increase a trader's potential profits.

On first reading, it was striking that the blog appeared rather complex. This was partly the result of some awkward language and syntax, but the overall effect was to make it look as though there was considerable depth in the discussion.

And, indeed, in some respects, there was a bit of depth. But on closer consideration I realized that the blog was very fundamentally wrong and was little more than a rehash of material from another unstated source.

Let me Explain Further

Consider the following sentence from the blog entry:

- 'The short straddle strategy is of the non-directional variety since the value should remain the same or differ only slightly in order for the strategy to be effective unlike the long strategy where movement is needed.'

It sounds like there may be something here as it appears to be saying that one strategy should be used in preference to another in a market where there is no trend. That's potentially valuable information.

Leaving aside the fact that the sentence is written in a manner that makes a fairly simple insight appear very deep, it is unclear from the full paragraph if long and short refer to a time element or to the idea that you go long when you expect a market to rise and short when it's expected to fall.

But there is a much greater problem. The broker promoting this blog provides European-style Binary Options.

In other words, they provide options where the stake is set by the trader and the payout will be zero or a known percentage of the stake.

The problem with the strategy that is being promoted is that it is a 'straddle' option strategy.

A straddle involves opening a put and a call simultaneously on the same instrument. It is commonly used in mainstream options, particularly in volatile non-trending markets.

These are the markets where uncertainty is the greatest.

The benefit is that there is a high probability that one of the options will expire in the money and the payoff will be sufficient to pay both premiums and still leave a profit.

But you cannot apply this strategy profitably to European-style Binary Options.

This Will Not Work with Binary Options

The very essence of a market is that you don't know which way it will move next. So at any point in time you should adopt the same level of risk irrespective of the direction of the option.

If you apply a straddle then one of the options will be a winner, provided they are opened and closed at the same time.

If they are not simultaneous then both might be winners, or both might be losers, or one might win and one lose. There is no way to know in advance so the expectation is still that there will be one winner.

But if this is the outcome then you are achieving a 50% win rate. And a strategy with a 50% win rate is a guaranteed losing strategy because of the payoff ratio being less than 100%.

The only conclusion I can reach regarding a blog entry such as this is that it is simply a rehash of an article that was written to explain the use of a straddle strategy when trading mainstream options.

The original argument was valid. But once it is applied to Binary Options then it is nothing more than encouragement to a trader to trade more, as the trader is now encouraged to open two trades rather than one.

A Workable Binary Options Strategy

Once risk is controlled, a trader's Binary Options strategy boils down to answering one single question: how can I increase my win rate above 50%?

To be profitable, given average payout ratios, a win rate of around 60% is required.

The strategy must be to develop and follow a trading system that provides this. Complex purchasing 'strategies' will not assist.

Sometimes the old cliché about shooting fish in a barrel comes to mind when examining what is provided on the internet by many in the Binary Options sector attempting to promote their product.

It's often just too easy to show that there is little value in what is being offered. Worse, when the information is unreliable it can cost a trader if the flaws are not spotted.

Be aware that just because a site looks professional and offers some material for free it does not mean that the service or the provider is reliable. This is particularly the case in relation to brokers.

Things are improving but you still need to do your own research. And the first research you must do is in relation to which broker you want to use.

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<http://www.binaryoptions4x4.com>

There are no easy answer here but you can find out more by reading [Steven Harcourt's free eBook](#) from BinaryOptions4x4.com.

It's a comprehensive introduction and while you may not be earning money for every minute you spend reading it, the insights you gain will mean that every minute spent learning will save you a lot in the longer term.

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