

Binary options beginners guide: tools, indicators, brokers, strategies

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1. Introduction

Welcome to the thrilling universe of binary options. In this guide, we will provide you with everything you need to start trading binary options. Some content is available on the website, but I wanted to make a complete guide, easy to follow, step by step. I hope you will like it.

Before delving into the matter, I want to start with a warning: trading is risky, it can lead to loss of capital. Contrary to what some people are telling you because they are earning referral commissions when they get you to register, trading is not easy. You won't become a millionaire overnight. You will have to acquire skills, to accumulate experience, to learn to manage your account and your emotions to become successful. You have to trade with a trusted broker. I recommend you to use Spectre (register here :

<https://www.spectre.ai/campaigns/start-trading?ref=PROMO>)

This guide, rather than pushing you to trade blindly to only regret it after, intends to give you a **fair overview** of what binary options trading is, and the way forward to make profits in the long run, while having fun (because trading smart options is definitely fun, as you have probably noticed).

1.1. Binary options in a nutshell

As you probably already know, binary options are a binary form of trading: you have to determine whether the price of an asset will go up or down after a certain timeframe, from 10 seconds to a few hours. If you place a call, you expect the market to go up. A call, to go down. If you are right (ITM, in the money), you win 70/83 % of your stake, if you are wrong (OTM, out the money) you lose it. As per Wikipedia:

"Binary options "are based on a simple 'yes' or 'no' proposition: Will an underlying asset be above a certain price at a certain time?" Traders place wagers as to whether that will or will not happen. If a customer believes the price of an underlying asset will be above a certain price at a set time, the trader buys the binary option, but if he or she believes it will be below that price, they sell the option."

It terms of decision-making, it is easier than day trading FX, stocks or any other asset. Why?

Because when you do so, you have to determine a stop loss and a profit loss, which means when you decide you want to close a losing trade or when you have secured enough profit to exit your position. With binary options, whether the price went up 1 pip or 100 it does not matter, the outcome is the same.

1.2 Most important choice: use the right broker

You are, of course, free to trade with any broker around. But I strongly encourage you to stick to Spectre (<https://www.spectre.ai/campaigns/start-trading?ref=PROMO>). The main reason is not because you are my affiliate if you register via this link (even if I will be glad to get a commission on your trades in exchange for the work need to put up this guide), but because I want to be sure you will trade on a **safe and fair platform**, that you will be able to **withdraw your profits**. You will have to KYC. I know this is an annoying step, we would all rather do without it. Some brokers don't do that, and guess why? Because they don't comply with laws, and they will scam you.

You have probably heard of the horror stories of traders who lost thousands of dollars because **binary options scams**. If for one reason or another you don't want to use Spectre, fine. But I urge you to triple check that the broker you plan to use is reputable. Some will propose you free trades, free money if you deposit x dollars (but you will have to trade those

amounts many, many times before being able to withdraw). Don't fall into those marketing tricks to lure you.

And don't trust blindly whatever people say on the Internet: there are countless fake accounts on social media that just lie to fool around people, whether it is about restaurant reviews (read this, for example: <http://www.dailymail.co.uk/news/article-1393412/Amazon-TripAdvisor-centre-scandal-companies-post-fake-reviews.html>), magic remedies or trading platforms.

Contrary to other people promoting brokers x, y or z (sometimes all of them), I am personally using Spectre.ai. You can see me sometimes as Digital-Options.pro on the platform. So I can vet for them as I use it, and I know other people doing so. If you want to know why Spectre is the best option out there, read my article: <https://digital-options.pro/spectre-ai-binary-trading/spectre-ai-review/>

1.3 Trade for real money or on demo account?

For your very first trades, I advise you to use the **demo account**. [Spectre demo account](#) can be used forever, you never have to deposit to use it. It's great to start, and later on to experiment. When to switch to real money is a question that many student traders ask themselves. I also wondered when to take that step. I don't think there is a definite answer to that, I guess it would depend on your finances, how good you are... Personally, I took the decision to go very quickly for real money. This goes against more prudent advice, but here is the reason why I took that decision. When you trade with fake money, you don't have pressure. And God knows how the way to handle this pressure is an important parameter. However, since I don't want to take risks, my trades range from 1 to 5 dollars, sometimes 10. This is not much, but sufficient to build that financial pressure.

It's a bit like those living encyclopedias who knows everything about everything. But once they go to a quiz TV show they cannot perform. Some might say that it's better to focus first on the technicals by trading on the demo account, and to add the financial part of the equation later on. This is a sound strategy, no question about it. I took a different path, because I wanted to know straightforward if I can handle that pressure. Because at the end of the day, what's the point in learning the technicals if you are not able to apply them with the "real deal"? From my experience the management side is harder than the technical side. Again this is my own decision, you will take yours.

But before making the switch, you will have to learn **binary options 101**. I will give you the basics here, and some external resources you can use to improve. If you are looking for a structured and more advanced training, you can follow BlueSky Binary trading course (from the creators of Spectre.ai). It's even free if you hold some SXUT (see details here <https://digital-options.pro/2018/05/15/how-to-follow-free-binary-options-training-worth-99-a-month/>).

2. How to trade binary options?

Traders take decisions based on 3 factors :

- **Fundamental analysis**: analysis of the underlying factors that affect the price of an asset, whether it is a stock, a currency or a bond.
- **Technical analysis** : analysis of the price movements on charts
- **Sentiment**: how the investment community feel about an asset, what is the trend

When you trade binary options, it does not make much sense to do fundamental analysis. The longest expiry you will probably use is one hour. I personally like five to 15 minutes. Which means that you rely on technical analysis to place your trades. This said, you cannot only rely on this to take your decisions. You also have to follow the news, because they can dramatically impact prices. There are the scheduled news, basically the planned release of economic data and statistics, central bank announcements and press conferences. As a beginner I don't think you should trade during news, as it can be very tricky. There is also unplanned news. We will cover that subject later on, but let's not focus on a more important matter, which is basic technical analysis.

2.1 Binary options technical analysis

As said before, technical analysis is the examination of charts in order to find clues about where the price of an asset is heading. To help them, traders use a set of tools and indicators. They are numerous ; in this guide we will cover the most used and important ones. As you learn and progress, you can start looking at other less known indicators.

2.1.1 Candlesticks

Charts with candlesticks allow you to see how the price of an asset has moved during the chosen timeframe, whether it is 1 minute, 5 minutes, one hour, etc. A green candle means that the price went up, a red candle that the price went down. When the candle is green the lower part of the body indicates how much the price opened, the higher part at how much it closed (the opposite when the candle is red). The thin line up and down, known as the wick, shows how high and how low the price went during the timeframe until closing.

You might wonder why candles instead of a simple line. Well, the reasons are explained above, it allows to show you the volatility, and therefore it provides clues about the actual market psychology. For example, a candlestick with a long body and small or non-existent wick shows strong selling or buying pressure. On the other hand, when the wick is very long and the body very thin, it shows a lot of indecision. According to their look, candlesticks have specific names such as doji, marubozu, shooting stars, etc. Combination of certain types of candlesticks lead to predictive patterns. Entire books are written about candlesticks, so I won't go into much more detail. You can read the following article :

<https://stockcharts.com/school/doku.php?>

[id=chart_school:chart_analysis:introduction_to_candlesticks](https://stockcharts.com/school/doku.php?id=chart_school:chart_analysis:introduction_to_candlesticks) to go deeper into the subject, and Google more specific aspects if you want even more info. The next page shows the most usual candlesticks patterns, and whether they are bearish or bullish.

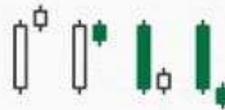
FOREX CANDLESTICK PATTERNS — CHEAT SHEET —

BASIC

Doji



Star

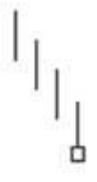


BULLISH

Hammer



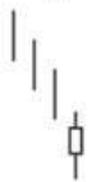
Inverted Hammer



Dragonfly Doji

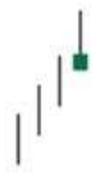


Bullish Spinning Top



BEARISH

Shooting Star



Hanging Man



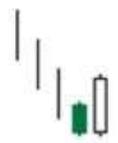
Gravestone Doji



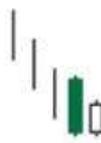
Bearish Spinning Top



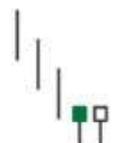
Bullish Engulfing



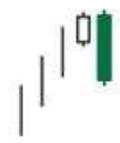
Bullish Harami



Tweezers Bottom



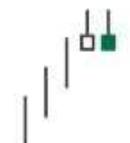
Bearish Engulfing



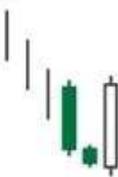
Bearish Harami



Tweezers Top



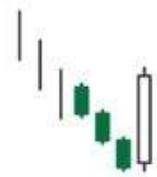
Morning Star



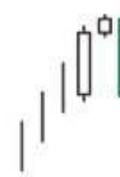
Three White Soldiers



Bullish Three Line Strike



Evening Star



Three Black Crows



Bearish Three Line Strike

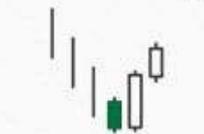


CONFIRMATIONS

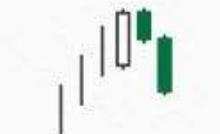
Three Inside Up



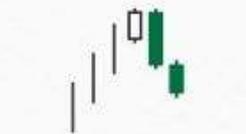
Three Outside Up



Three Inside Down



Three Outside Down





2.1.2 Bollinger bands

The most important trading indicator is the Bollinger bands. They consist of 3 lines that appear around the candlesticks. They show us how volatile the market is, the power of a trend, etc.

The middle Bollinger band represents an average price (white line above). When markets are quiet the price tends to stay close to it. The upper (red) and lower (blue) Bollinger bands, that represent an « accepted deviation » of the average price, are pretty narrow.

In theory, prices tend to bounce on those Bollinger bands, that's why it's important to display them on your charts. As you can see on the example above, price action is confined most of

the time within those bands, and when it goes up the upper band or down the lower band, it is usually temporary.

This said, sometimes the trend continues, it is called a breakout. Many binary options strategies revolve around Bollinger bands.

Bollinger bands can be configured. The default setting is period 20, standard deviation 2.

Some people recommend 25/2. Both settings are perfectly valid, it's just a question of habit.

2.1.3 Other useful indicators

I believe that those indicators, alone, can be used to trade successfully binary options using the Bollinger bounce strategy. But there are other ones that will provide you with additional information. Here are the ones I use, that you can see on the chart above.

2.1.3.1 MACD

MACD, acronym of moving average convergence divergence, is a very simple yet pretty reliable momentum indicator. One line is a moving average, the other one is called the signal line. When a crossing occurs, it usually signals a reversal of trend. You will quickly find out correlations by yourself, but for a detailed explanation of MACD I suggest you read this article : https://stockcharts.com/school/doku.php?id=chart_school:technical_indicators:moving_average_convergence_divergence_macd

[id=chart_school:technical_indicators:moving_average_convergence_divergence_macd](https://stockcharts.com/school/doku.php?id=chart_school:technical_indicators:moving_average_convergence_divergence_macd)

2.1.3.2 RSI

RSI, acronym of relative strength index, is simply put an indicator used to determine whether an asset is in overbought or oversold territory. Simply put, the price has gone up or down way too much and way too fast, so it should correct itself. You can see on the chart above that

the RSI indicated the pair USD/JPY was oversold just before 11 AM, as it appears grayed out (more than 80, oversold territory is below 20). And as you can see the RSI predicted the retracement, as the price went quickly down after that. It was therefore a perfect moment to place a five-minute put.

2.1.3.3 Stochastic Momentum Indicator

As you can see it is the first indicator that appears under my chart. The reason is simple : it's my favorite one. The SMI is similar to the MACD indicator, but as you can see on the chart it can predict MACD trend reversal a bit before. It is more sensitive, so it gives information before MACD does. I use it a lot for my trades, I will explain below, in the strategies section, how to use it.

2.1.4 Resistance and support levels

When trading, assets are subject to resistance and support levels. As the name suggests, those are levels to which an asset get support when they go down, or hit a ceiling when they go up. Usually there is indecision around those support and resistance levels, something that is perfect to make profitable binary options trades.

Several reasons are behind resistance and support levels :

- **Psychological level** : round figures such as, let's say, 1300 dollars for gold or 1.2 for the EURUSD pair, tend to form psychological resistance and support levels
- **Technical level** : Fibonacci retracements and moving averages can define support and retracement levels, or natural patterns appearing on the chart under the form of horizontal lines, or oblique lines. Here is a very simple example :



Some websites provide main resistance and support levels for your convenience, for

example : <https://www.dailyfx.com/support-resistance?ref=SubNav>

Bollinger bands are, of course, support and resistance levels. Moving averages also act as support and resistance levels. On the one minute chart, the moving average (DMA) with a period of 5 (yellow line on the charts) is usually the most important. You can read about moving average on this website : <https://www.babypips.com/learn/forex/silky-smooth-moving-averages>

Please note that once a resistance level is broken convincingly, it can become a support level and vice versa.

2.2 Beware the news

As we said, fundamental analysis is not really relevant when you trade, let's say, 5 minutes expiry binary options. This is true unless some important news completely disrupts the fundamental analysis that prevailed until then. In FX, that news is driven by :

- The performance of the underlying economy of a currency, that can be measured with economic data such as the unemployment rate, households and business confidence,

inflation...

- Decisions of central banks regarding monetary policy, mainly interest rates, but also hints and comments about future policy (markets like to anticipate) that are known as "forward guidance".
- Unexpected political decisions or geopolitical events, such as President Trump announcing new tariffs or threats of a conflict.

So even if you trade five minutes expiries, you must stay in touch with the news to avoid an apparently completely sound trade on a technical point of view ending up in a nightmare, let's say because the Bank of England has unexpectedly hiked rates, as it happened on 2 August 2, 2018.

Spectre has a « Calendar » tab, so you can always check scheduled news before taking a trade. Usually low and medium news has little to none impact. You have to be careful with the red ones. It can lead to very solid trends, or some indecision. It can be very tricky.

Country	Time	Event	Impact	A	F	P
GBP	03-Aug-2018 11:30:00	Services PMI (Jul)	H	53.5	54.7	55.1
EUR	03-Aug-2018 12:00:00	Retail Sales (YoY) (Jun)	L		1.3%	1.4%
EUR	03-Aug-2018 12:00:00	Retail Sales (MoM) (Jun)	M		0.3%	0.0%
NOK	03-Aug-2018 12:00:00	House Price Index (YoY) (Jul)	L			1.50%
EUR	03-Aug-2018 12:00:00	Italian Retail Sales (MoM) (Jun)	L			0.8%
EUR	03-Aug-2018 12:00:00	Italian Retail Sales (YoY) (Jun)	L			0.4%
INR	1 hour and 2 minute to go	FX Reserves, USD	L			

A: Actual F: Forecast P: Previous

2.2.1 Trading the news

This said, does it mean that you should completely avoid trading the news? No. In rare instances, you can take advantage of a complete meltdown of a currency, Bitcoin style.

Below is the hourly chart of EURUSD. On the 14th of June the euro completely collapsed after

the ECB announced a more cautious than predicted approach to rolling back its easy money policies. This is a good example of what words of a central banker can do... and in this case something you can use at your advantage by piling on puts on rather short expiries.



But be careful, sometimes the market changes very quickly its mind. Let's take the example of what happened yesterday, when the Bank of England announced it would hike rates in a unanimous decision, something that was not anticipated by the market. The British pound jumped immediately after the announcement, as expected. But then it retraced and even went down.

2.3 End of hour effect

Another thing to bear in mind when trading is the end of hour effect. During the last minutes of each hour, price tends to be subjected to strong movements. Sometimes a retracement of the price, sometimes an acceleration. For short expiries such as five minutes it is therefore a very tricky period.

3. Effective and simple binary options strategies

Below are the simplest yet effective strategies that you can experiment with as a binary options rookie trader. I just want to stress out that there is no magic strategy that will make you win 90% of the time, like some people claim on the Internet... The good strategies are known, they are simple to understand. What is hard to master is when is the right moment to use them. The reason is simple : strategies are adapted to certain market conditions. Timing is also crucial, especially if you trade short expiries. You might hesitate to take a trade, then decide to enter it while most of the price action already happened. You end up OTM at the expiry because of this indecision. You will learn this timing with time and with the experience you accumulate, there is no magic trick.

3.1 Bollinger bounce

If you read carefully the chapter about Bollinger bands, you already have understood the strategy : when the price hits the lower Bollinger band you place a call, when it hits the upper Bollinger band you place a put. Adjust the expiry according to the time span of the waves (how much time it takes for the price to go from the low to the high). This strategy works better when markets are flat (Bollinger bands are more or less parallel). Here is an example :



On this chart if you place a call or put when the price goes beyond respectively the lower or the higher Bollinger band with an expiry of five minutes, you win all of them.

3.2 Trend surfing

Trend surfing is the same concept as the above strategy, but when the price is clearly going up or down. You have to identify the support and resistance levels, whether it is the Bollinger bands (in such markets, the middle Bollinger band can act as support level), a channel such as defined by the 2 oblique lines below or a combination of both (in the middle of the chart you can see that the channel and the Bollinger bands converge, which makes the support level even stronger).

You can place puts and calls at the appropriate moment, but when I use the strategy I prefer to focus on calls when it reaches the resistance level when the price goes up and vice versa. This prevents to be taken off guard by a breakout... although the trend can be broken in the opposite direction, as the below chart illustrates.

Even if it is a very comfortable win, the way the chart looks is not fantastic to apply such strategy. A problem with this strategy, as it is often the case in BO, is to know when the crossing is confirmed. Because on a historical chart everything is clear, but when you trade live those lines move constantly with the price, as they are moving averages. I like to take a put when I'm comfortable that the price will stay below the 5 days moving average (yellow line), or above for a call. The fact that we are bouncing from the upper Bollinger band is also a positive factor. The chart below is perfect to apply such strategy :



As you can see, the waves made by the red and white lines of the stochastic are pretty regular and ample, every signal is winning. You will have to identify the right market conditions to use this strategy.

3.4 Overbought/oversold reversal

When the RSI reaches 80 or 20, we are respectively in overbought or oversold territory, which means that a retracement quite is probable... if the sudden move has not been initiated by news, which is sometimes hard to determine as we don't have access to the same tools professional traders and institutions use (not to mention high-frequency trading algos,

taking decision at the millisecond). It is a very valid and simple strategy, but somehow not my favorite. Maybe because I've been unlucky with it. Here are 2 examples (when RSI reaches 80 or SMI is grayed out) :



This concludes our tips about how to trade binary options once you have to take decisions in front of your screen. You should know enough to start trading while continuing the learning process, but there are other aspects that are also very important. So please continue reading.

4. Account management

Once you start trading with real money, the question that might come to your mind is : how much should I put on a trade ? I'm not going to talk about your starting amount, because it would depend on your experience, how much money you have, how much you are ready to put at risk. But whatever the amount is, you will have to limit each trade to a certain percentage of your balance, to avoid blowing off your account because of a streak of bad luck.

The safest allocation for each trade is around the 3 % of your balance. You can go up to 5 %. More, it becomes risky. Because if sometimes you can win five trades in a row, or even more (my record is 14), the opposite is true. If you allocate 10% of your balance for every trade, you will drain 50% of your balance after five lost trades, which can be disturbing. You might even start to panic, which does not really help to place good trades...

You will realize that, sometimes, and especially when you are new, binary options can be strange, even frustrating. One day you will get 75%, 90% or even 100% win rate. The day after, it will collapse to 40 %, sometimes even more. Whatever you do it goes against you... You do trend surfing, you get caught in a reversal. You play a reversal, the trend accelerates.

Bollinger bands become as hermetic as the Maginot line. During those days you will hate binary options, you will get frustrated, maybe angry. Then comes the danger.

4.1 Martingale does not work

Martingale system, or Martin Gale as I like to call it, does not work in the long run. I see some YouTubers recommending such technique. It is the same as those magic softwares that will help you make you millions : it is, of course, total BS. I tried it myself, sometimes it works and

it saves the day, sometimes it won't and you blow your account. How I know? Because this is exactly how I lost 400 EUR.

This said, it is perfectly fine to be flexible with your stake. You can, let's say, usually place trades of 10 dollars then decide to try 20 on a particular one. But you should not do that because you just got frustrated to lose a 10 dollar trade and you want to recoup immediately your loss.

5. Emotions management

One of the hardest part in being successful at binary options is to control your emotions.

Whether it is about trying to recoup a loss or not being satisfied with your profits, being able to stop at the right moment is not easy. It is your emotions that will push you to deviate from sound account management rules, and put your account at risk.

To solve this issue, some people recommend following strict rules, such as the 5/2 rule.

Basically you have to stop once you win 5 trades, or once you lose 2.

Even if that rule perfectly makes sense, it is rigid and does not take into account other factors. If you start trading digital options with real money, you will experience some periods when you literally walk on water, it's like you are able to anticipate where the price will go. I made streaks up to 14 wins in a row. So why stopping when you are in perfect conditions to win? You can also be unlucky, for example starting with 2 lost trades that made perfectly sense on a technical point of view, that you lost of a very small margin.

For the compulsive gambler sticking to the 5/2 rules is probably the way to go. If you are a bit wiser than that, you can be more flexible, take into consideration other factors, such as : do I feel calm? Was I completely wrong when I lost those trades? When to stop when you win is a

bit the same. Did I win convincingly my trades until now, or I have been lucky? If my strategy is working during actual market conditions, that I always win easily, I might continue. If I win 2 or 3 trades with some luck, I will stop for the day. This is my choice, you might go for a strict rule.

How to make sure you will stick to the 5/2 rules? Spectre has a risk management system that allows you to block any trade when flexible rules that you define are triggered. You can implement that 5/2 rule in your account. And even if you want to "rage trade", the system will prevent you to do so!

The main reason why I lost money until now is because of emotions management. I think you will find out very soon how important is it.

6. Volumes vs profits

Here is another very important factor to take into consideration when trading binary options: how volumes I trade will impact my net profit. As you probably know, you need to exceed a win rate of 57 % to make money. This mean more or less to get 3 winning trades out of five, 6 out of 10, etc. Let's assume that you bet \$10 per put or call, and that you trade pairs that offers a 75 % ROI. See the chart below:

Wins/Trades	Profit in \$	Winning %
2/2	15	100
3/3	22.5	100
3/4	12.5	75
4/5	20	80
3/5	2.5	60
6/10	5	60
4/6	10	66.6
7/10	22.5	70
4/7	0	57

This chart hopefully explains why I often stop after 3, or even 2 wins in a row when I start to trade. As you can see, once you lose a trade your profit goes down dramatically, then you

have to work a lot to get back from where you come from. I prefer to protect my profits... to make some reserve for a bad day. Sometimes I might decide to continue, but I decrease my stake to protect my profits in case things go wrong.

This said, you make more money with a 60% win rate on 10 trades rather than five.

7. Good luck!

Here is the end of this binary options beginners guide. I have tried to keep it short and complete. Of course there is much more things to learn about trading, this is only the beginning of a skills acquisition journey that will last for months and years.

Don't expect to make money immediately, unless you're a natural. There will be ups and downs, and at the beginning more downs than ups. Don't let this discourage you if you are really interested in trading: becoming a good casual trader takes time. It is, however, important that you don't lose (too much) money in the process, so be very strict with your account management strategy. Never trade more than you can afford to lose, a warning that applies to every kind of investment, whether it is stocks, cryptocurrencies, debt instruments, etc.

I wish you good luck, and do not hesitate to send feedback in order to improve this guide over time.