

# TRADING EDUCATORS PRESENTS

## GUARANTEED INCOME WORKSHOP™

by Joe Ross

# THE STRATEGY

## SELL PRICE INSURANCE

# THE SECRET

SELL PRICE INSURANCE...  
AS OFTEN AS YOU CAN!

## More Secrets

- Option Sellers make more money than do Option Buyers.
- Most Options expire worthless.
- The more often you can put your money to work, the more profitable you will be.
- Buy and hold strategies restrict what you can make in the markets.
- Dividends and interest are highly taxed in some countries.

# Our Purpose

- Prepare to sell insurance.
- See how to find appropriate stock options to insure.
- See how to calculate returns.
- See how to place an order.
- See how to roll out and down.
- See how to roll out and up.
- See why we should never take a loss.
- Sell as often as is suitable for your purposes.

# Step-by-Step Underwriting

# Let's Find an Option Price to Insure

Let's go to the Options Clearing house to  
look for a suitable option price to insure:

<http://www.optionsclearing.com/webapps/weekly-options>



Thursday, April 03, 2014 10:56:10 PM CDT

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## Weekly Options

The options exchanges list equity and index options (including ETF options) that have series that are approximately one to five weeks to expiration following their initial listing. These options are called "Weekly Options" or "Weeklys". Because these options have such a short expiry, the options exchanges have the ability to list different series from week to week, but please note that Weeklys are not eligible to be listed for each and every week of a month. For the convenience of market participants, OCC publishes a list of newly added and newly delisted Weekly Option Products that have been processed through OCC's internal series listing application. These series are in the weekly program for the next eligible weekly expiration. This list is compiled from sources believed reliable, but certain Weeklys could be included in the list or omitted from the list in error. Also, changes in listing decisions by the exchanges may not be immediately known or reflected in the list. You should always check with your brokerage firm or an exchange directly if you have any questions about the availability of any particular Weekly Options Series.

### PLEASE NOTE:

The Weekly Options Spreadsheet has been updated to include two weekly option summary lists. The left list is the most current and applies to weekly Option Products that have series expiring with the next eligible expiration date, highlighted at the top of the table. The right list applies to the previous week's active weekly options. They are presented side-by-side for easy comparison.



**CLICK**

List is not necessarily reliable

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### Check each list to subscribe:

- Contract Adjustments
- Intraday Contract Adjustments
- Market Data Updates
- Expiration Notice
- OCC New Listings

[Click here](#) for more information and examples of each mailing list.



Active Weekly Options Summary as of 04/03/2014

A	B	C	D	E	F	G
1	Active Week					
2						
3	Weekly Options Summary for 04/11/2014 Expiration			Weekly Optio		
4	SYMBOL	OPTION NAME	EFFECTIVE DATE	SYMBOL	OPTION NAME	EFFECTIVE DATE
5	AA	ALCOA INC	8/4/11	AA	ALCOA INC	8/4/11
6	AAL	AMERICAN AIRLINES GROUP INC.	12/18/13	AAL	AMERICAN A	12/18/13
7	AAPL	APPLE INC	6/25/10	AAPL	APPLE INC	6/25/10
8	AAPL7	APPLE INC. (10-SHARE MINI OPTION)	3/18/13	AAPL7	APPLE INC. (	3/18/13
9	ABT	ABBOTT LABORATORIES	7/8/13	ABT	ABBOTT LAB	7/8/13
10	ABX	BARRICK GOLD CORP	10/6/11	ABX	BARRICK GO	10/6/11
11	ACN	ACCENTURE PLC	4/16/12	ACN	ACCENTURE	4/16/12
12	ADM	ARCHER DANIELS MIDLAND CO	11/25/13	ADM	ARCHER DAN	11/25/13
13	AET	AETNA INC.	5/29/12	AET	AETNA INC.	5/29/12
14	AFSI	AMTRUST FINANCIAL SERVICES INC.	1/29/14	AFSI	AMTRUST FI	1/29/14
15	AGNC	AMERICAN CAPITAL AGENCY CORPORATION	7/15/13	AGNC	AMERICAN C	7/15/13
16	AGQ	PROSHARES ULTRA SILVER	2/25/13	AGQ	PROSHARES	2/25/13
17	AGU	AGRIUM INC.	9/4/13	AGU	AGRIUM/INC	9/4/13
18	AIG	AMERICAN INTERNATIONAL GROUP	12/23/10	AIG	AMERICAN I	12/23/10
19	AKAM	AKAMAI TECHNOLOGIES INC	12/4/13	AKAM	AKAMAI TEC	12/4/13
20	AKS	AK STEEL HOLDING CORP.	3/26/14	AKS	AK STEEL HO	3/26/14
21	ALXN	ALEXION PHARM	9/4/13	ALXN	ALEXION PHA	9/4/13
22	AMD	ADVANCED MICRO-DEVICES	8/28/13	AMD	ADVANCED M	8/28/13
23	AMGN	AMGEN	9/4/13	AMGN	AMGEN	9/4/13
24	AMRN	AMARIN CORP. PLC	7/25/12	AMRN	AMARIN COP	7/25/12
25	AMT	AMERICAN TOWER CL A	9/4/13	AMT	AMERICAN T	9/4/13
26	AMZN	AMAZON COM	7/15/10	AMZN	AMAZON CO	7/15/10
27	AMZN7	AMAZON.COM INC. (10-SHARE MINI OPTION)	3/18/13	AMZN7	AMAZON.CO	3/18/13
28	ANF	ABERCROMBIE & FITCH CO	12/13/11	ANF	ABERCROMB	12/13/11
29	ANR	ALPHA NATURAL RESOURCES INC	2/13/12	ANR	ALPHA NATU	2/13/12
30	AOL	AOL INC.	3/17/14	AOL	AOL INC.	3/17/14
31	APA	APACHE CORP	12/13/11	APA	APACHE COR	12/13/11
32	APC	ANADARKO PETROLEUM CORPORATION	2/13/12	APC	ANADARKO P	2/13/12
33	APOL	APOLLO EDUCATION GROUP INC. CLASS A COMMON STOCK	1/25/12	APOL	APOLLO EDU	1/25/12
34	ARIA	ARIAD PHARMA	1/7/14	ARIA	ARIAD PHAR	1/7/14
35	ARNA	ARENA PHARMACEUTICALS INC	6/19/12	ARNA	ARENA PHAR	6/19/12
36	ATVI	ACTIVISION BLIZZARD INC.	9/4/13	ATVI	ACTIVISION E	9/4/13
37	AXP	AMERICAN EXPRESS	12/23/10	AXP	AMERICAN E	12/23/10

weeklyoptions (3).csv

## AMD

- Advanced Micro Devices (AMD) looks like it might be a good choice.
- Our plan is to never own shares of a stock.
- We are in the price insurance business.
- But in the event of catastrophe, or our making a mistake, we need to know that the company's underlying stock option pays a dividend.
- Let's find out: <http://www.dividend.com/>

# dividend.com

**Dividend.com**  
The #1 Source For Dividend Investing

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**AMD**

# If You See Your Browser...

## Dividend.com Search Results AMD

About 5 results (0.30 seconds)

Sort by: **Relevance**

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### [Market Wrap-up for Jan. 22 – Guidance Is King - Dividend.com](#)

[www.dividend.com/.../market-wrap-up-for-jan-22-guidance-is-king/](#)

Jan 22, 2014 ... Advanced Micro Devices (**AMD**): Though not a dividend-payer, **AMD** displayed a pretty good example of what can happen when you give ...

### [Intel Corp \(INTC\) Definitive Dividend Information - Dividend.com](#)

[www.dividend.com/dividend-stocks/technology/.../intc-intel-corp/](#)

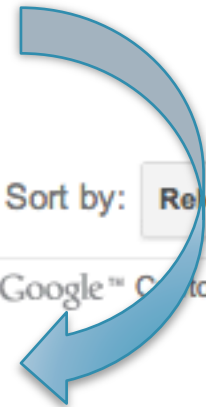
INTC's dividend yield, history, payout ratio, proprietary DARS™ rating & much more!  
Dividend.com: The #1 Source For Dividend Investing...

### [Dividend Reinvestment Plans \(DRIPs\) - Dividend.com](#)

[www.dividend.com/dividend.../dividend\\_reinvestment\\_plans.php](#)



Dividend.com informational page containing facts about Dividend Reinvestment



# Let's Try AXP (American Express)

Active Weekly Options Summary as of 04/03/2014

A	B	C	D	E	F	G
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2						
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13	AET	AETNA INC.	5/29/12	AET	AETNA INC.	5/29/12
14	AFSI	AMTRUST FINANCIAL SERVICES INC.	1/29/14	AFSI	AMTRUST FI	1/29/14
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19	AKAM	AKAMAI TECHNOLOGIES INC	12/4/13	AKAM	AKAMAI TEC	12/4/13
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24	AMRN	AMARIN CORP. PLC	7/25/12	AMRN	AMARIN COP	7/25/12
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29	ANR	ALPHA NATURAL RESOURCES INC	2/13/12	ANR	ALPHA NATU	2/13/12
30	AOL	AOL INC.	3/17/14	AOL	AOL INC.	3/17/14
31	APA	APACHE CORP	12/13/11	APA	APACHE COR	12/13/11
32	APC	ANADARKO PETROLEUM CORPORATION	2/13/12	APC	ANADARKO P	2/13/12
33	APOL	APOLLO EDUCATION GROUP INC. CLASS A COMMON STOCK	1/25/12	APOL	APOLLO EDU	1/25/12
34	ARIA	ARIAD PHARMA	1/7/14	ARIA	ARIAD PHAR	1/7/14
35	ARNA	ARENA PHARMACEUTICALS INC	6/19/12	ARNA	ARENA PHAR	6/19/12
36	ATVI	ACTIVISION BLIZZARD INC.	9/4/13	ATVI	ACTIVISION E	9/4/13
37	AXP	AMERICAN EXPRESS	12/23/10	AXP	AMERICAN E	12/23/10

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**AXP**

# If You See This There Is a Dividend

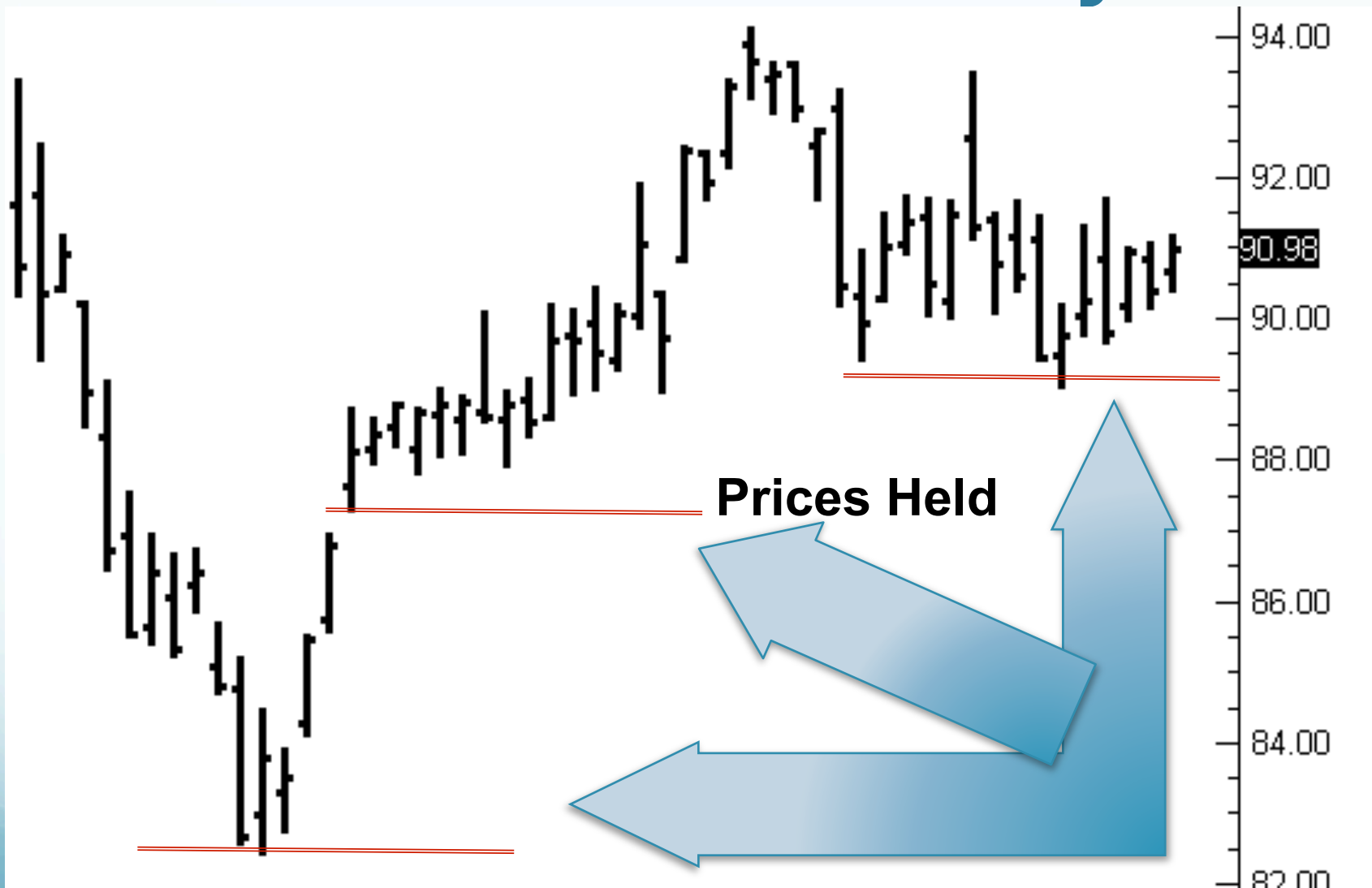


<b>American Express (AXP)</b> Stock Dividend Data		<b>\$90.98</b>	<b>+\$0.58</b>	<b>+0.6%</b>	<a href="#">Add To Watchlist</a> 
<a href="#">Dividend Yield</a>	<a href="#">Annual Payout</a>	<a href="#">Payout Ratio</a>	<a href="#">Dividend Growth</a>		
<b>1.01%</b> <small>Apr 03, 05:23 PM</small>	<b>\$0.92</b> <small>Paid Quarterly</small>	<b>16.8%</b> <small>EPS \$5.48</small>	<b>2 years</b> <small>Since 2012</small>		



# Let's Look at AXP Prices (American Express)

# Prices Are Sideways



# It's Time To Sell Insurance...

**...and we have underwriting  
decisions to make**

# Decision Steps



# Uncovered Put Options

**Which price do we insure?**

[www.yahoofinance.com](http://www.yahoofinance.com)

**Let's look at the  
“option chain” for AXP**

YAHOO! FINANCE

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Yahoo Originals

CNBC

Look Up

Fri, Apr 4, 2014, 2:11AM EDT - US Markets open in 7 hrs and 19 mins

Dow ↓0.00% Nasdaq ↓0.91%

Streaming

- More On AXP
- QUOTES
- Summary

- Order Book
- Options
- Historical Prices
- CHARTS
- Interactive
- Basic Chart
- Basic Tech. Analysis

- NEWS & INFO
- Headlines
- Press Releases
- Company Events
- Message Boards
- Market Pulse

- COMPANY
- Profile
- Key Statistics

Predict **AXP**    



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 S7 Online Trades  
**AXP** Trade Now

**Fidelity**  
 INVESTMENTS  
**TRADE NOW**

American Express Company (AXP) - NYSE ★ Follow

**90.98** ↑0.58(0.64%) Apr 3, 4:00PM EDT

After Hours : **90.98** 0.00 (0.00%) Apr 3, 4:26PM EDT

Prev Close:	90.40	Day's Range:	90.40 - 91.20
Open:	90.67	52wk Range:	63.43 - 94.35
Bid:	89.27 x 1000	Volume:	2,483,562
Ask:	91.88 x 100	Avg Vol (3m):	4,060,120
1y Target Est:	93.88	Market Cap:	96.48B
Beta:	1.1	P/E (ttm):	18.64
Next Earnings Date:	16-Apr-14 	EPS (ttm):	4.88
		Div & Yield:	0.92 (1.00%)

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American Express Company (AXP) - NYSE ★ Follow

**90.98** ↑ 0.58 (0.64%) Apr 3, 4:00PM EDT

After Hours : **90.98** 0.00 (0.00%) Apr 3, 4:26PM EDT

**CHOOSE MONTH  
MAY**



## Options

Get O

View By Expiration: **Apr 14** | May 14 | Jul 14 | Oct 14 | Jan 15 | Jan 16

Call Options		Expire at close Friday, April 25, 2014					
Strike	Symbol	Last	Chg	Bid	Ask	Vol	Open Int
62.50	AXP140419C00062500	28.30	0.00	N/A	N/A	4	1
65.00	AXP140419C00065000	25.71	0.00	N/A	N/A	20	2
67.50	AXP140419C00067500	23.40	0.00	N/A	N/A	64	3
70.00	AXP140419C00070000	20.90	0.00	N/A	N/A	190	28



Put Options



**SCROLL TO PUTS**

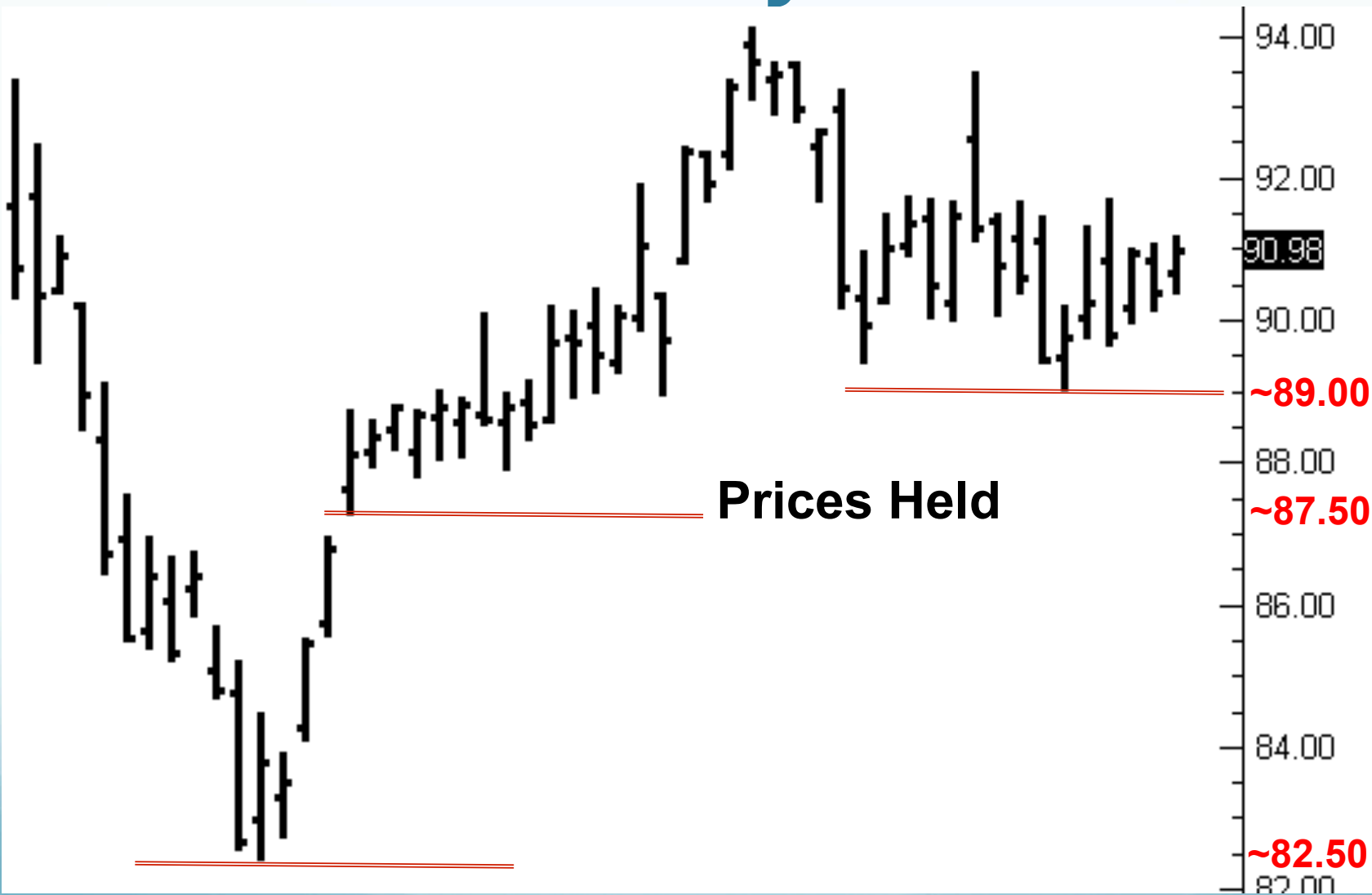
Expire at close Friday, May 2, 2014

Strike	Symbol	Last	Chg	Bid	Ask	Vol	Open Int
70.00	AXP140517P00070000	0.06	0.00	N/A	N/A	6	471
75.00	AXP140502P00075000	0.08	0.00	N/A	N/A	16	48
75.00	AXP140517P00075000	0.10	0.00	N/A	N/A	35	28
76.00	AXP140502P00076000	0.09	0.00	N/A	N/A	18	44
80.00	AXP140502P00080000	0.21	0.00	N/A	N/A	6	6
80.00	AXP140517P00080000	0.26	0.00	N/A	N/A	2	173
82.50	AXP140517P00082500	0.39	↓0.02	N/A	N/A	2	307
83.00	AXP140502P00083000	0.35	0.00	N/A	N/A	5	7
84.00	AXP140502P00084000	0.65	0.00	N/A	N/A	9	8
85.00	AXP140502P00085000	0.42	0.00	N/A	N/A	15	34
85.00	AXP140509P00085000	0.58	↓0.06	N/A	N/A	64	95
85.00	AXP140517P00085000	0.67	↓0.05	N/A	N/A	33	106
86.00	AXP140502P00086000	0.74	0.00	N/A	N/A	1	22
86.00	AXP140509P00086000	0.71	↓0.47	N/A	N/A	4	1
87.00	AXP140502P00087000	0.89	0.00	N/A	N/A	7	271
87.50	AXP140517P00087500	1.17	↓0.12	N/A	N/A	19	1,192
88.00	AXP140502P00088000	1.30	0.00	N/A	N/A	20	23
88.00	AXP140509P00088000	1.25	0.00	N/A	N/A	8	20
89.00	AXP140502P00089000	1.21	↓0.11	N/A	N/A	3	30
89.00	AXP140509P00089000	1.42	↓0.21	N/A	N/A	1,023	110
90.00	AXP140502P00090000	1.55	↓0.25	N/A	N/A	8	46
90.00	AXP140517P00090000	1.95	↓0.26	N/A	N/A	51	2,457
91.00	AXP140502P00091000	1.98	↓0.34	N/A	N/A	3	29
92.00	AXP140502P00092000	2.49	↓0.11	N/A	N/A	6	70
92.50	AXP140517P00092500	3.30	↓0.20	N/A	N/A	168	190
93.00	AXP140502P00093000	3.10	↓0.65	N/A	N/A	1	60



**HIGHLIGHTED PUTS ARE at or IN THE MONEY**

# You May Recall



# We Want to Look at These...

80.00	AXP140517P00080000	0.26	0.00	N/A	N/A	2	173
82.50	AXP140517P00082500	0.39	↓0.02	N/A	N/A	2	307
83.00	AXP140502P00083000	0.35	0.00	N/A	N/A	5	7
84.00	AXP140502P00084000	0.65	0.00	N/A	N/A	9	8
85.00	AXP140502P00085000	0.42	0.00	N/A	N/A	15	34
85.00	AXP140509P00085000	0.58	↓0.06	N/A	N/A	64	95
85.00	AXP140517P00085000	0.67	↓0.05	N/A	N/A	33	106
86.00	AXP140502P00086000	0.74	0.00	N/A	N/A	1	22
86.00	AXP140509P00086000	0.71	↓0.47	N/A	N/A	4	1
87.00	AXP140502P00087000	0.89	0.00	N/A	N/A	7	271
87.50	AXP140517P00087500	1.17	↓0.12	N/A	N/A	19	1,192

# We See the Strikes & Codes

80.00	AXP140517P00080000	0.26	0.00	N/A	N/A	2	173
82.50	AXP140517P00082500	0.39	↓0.02	N/A	N/A	2	307
83.00	AXP140502P00083000	0.35	0.00	N/A	N/A	5	7
84.00	AXP140502P00084000	0.65	0.00	N/A	N/A	9	8
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86.00	AXP140502P00086000	0.74	0.00	N/A	N/A	1	22
86.00	AXP140509P00086000	0.71	↓0.47	N/A	N/A	4	1
87.00	AXP140502P00087000	0.89	0.00	N/A	N/A	7	271
87.50	AXP140517P00087500	1.17	↓0.12	N/A	N/A	19	1,192

# Let's Look at the 85 Strike

80.00	AXP140517P00080000	0.26	0.00	N/A	N/A	2	173
82.50	AXP140517P00082500	0.39	↓0.02	N/A	N/A	2	307
83.00	AXP140502P00083000	0.35	0.00	N/A	N/A	5	7
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86.00	AXP140509P00086000	0.71	↓0.47	N/A	N/A	4	1
87.00	AXP140502P00087000	0.89	0.00	N/A	N/A	7	271
87.50	AXP140517P00087500	1.17	↓0.12	N/A	N/A	19	1,192

## There are 3 of Them

85.00	AXP-140502P00085000	0.42	0.00	N/A	N/A	15	34
85.00	AXP-140509P00085000	0.58	↓0.06	N/A	N/A	64	95
85.00	AXP-140517P00085000	0.67	↓0.05	N/A	N/A	33	106

### HERE'S WHAT THE CODES MEAN

**AXP = STOCK SYMBOL**

14 = THE YEAR-2014

05 = THE MONTH-MAY

02, 09, 17 = THE EXPIRATION DAY OF THE CONTRACT

P = PUT OPTION

00085000 = THE 85 STRIKE PRICE OF THE PUT

## There are 3 of Them

85.00	AXP140502P00085000	0.42	0.00	N/A	N/A	15	34
85.00	AXP140509P00085000	0.58	↓0.06	N/A	N/A	64	95
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**14 = THE YEAR-2014**

05 = THE MONTH-MAY

02, 09, 17 = THE EXPIRATION DAY OF THE CONTRACT

P = PUT OPTION

00085000 = THE 85 STRIKE PRICE OF THE PUT

## There are 3 of Them

85.00	AXP140502P00085000	0.42	0.00	N/A	N/A	15	34
85.00	AXP140509P00085000	0.58	↓0.06	N/A	N/A	64	95
85.00	AXP140517P00085000	0.67	↓0.05	N/A	N/A	33	106

### HERE'S WHAT THE CODES MEAN

**AXP = STOCK SYMBOL**

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**00085000 = THE 85 STRIKE PRICE OF THE PUT**

# Underwriting Procedure

85.00	AXP140502P00085000	0.42	0.00	N/A	N/A	15	34
85.00	AXP140509P00085000	0.58	↓0.06	N/A	N/A	64	95
85.00	AXP140517P00085000	0.67	↓0.05	N/A	N/A	33	106

- We can be paid:
- \$42 premium to insure the May 2, Put option
- \$58 premium to insure the May 9, Put option
- \$67 premium to insure the May 17, Put option

**WHAT IS THE RETURN ON MARGIN FOR EACH?**

# Why Compute Return on Margin?

- Our purpose is to never own shares, therefore we want to see the return on money we actually have to provide.
- Margin is typically 20% of the value of the underlying.
- If you are trading from an IRA, one that requires 100% margin, you will soon see how to calculate your return on principal.
- Still, our goal is to never own shares.

# Computing Margin

## OUR FORMULA

**MARGIN = 20% OF THE CONTRACT PRICE**

$$(\$85 \times 100) \times .20 = \$1,700$$

**We need \$1,700 in our account to cover margin**

**Next we have to know how many days we will be at risk.**

<http://days.to/until/2-may>

# TRADING EDUCATORS SEMINARS

## Days at Risk

Days.To When Is ▾ Holidays ·

How many days until  
**2nd May**

2nd May is on Friday, 2 May 2014

Like 59 Tweet 0 g+1 0

Days.To When Is ▾ Holidays ·

How many days until  
**9th May**

9th May is on Friday, 9 May 2014

Like 150 Tweet 3 g+1 5

Days.To When Is ▾ Holidays ·

How many days until  
**17th May**

17th May is on Saturday, 17 May 2014

Like 94 Tweet 0 g+1 0

**27**

Days

15 38 24

Hours Minutes Seconds

**34**

Days

15 41 13

Hours Minutes Seconds

**42**

Days

15 45 39

Hours Minutes Seconds

# Days at Risk

- Today is April 4
- The number of days until:
  - **May 2 = 27**
  - **May 9 = 34**
  - **May 17 = 42**



# Computing Return on Margin

$(\text{Premium} / \text{Margin} / (\text{days at risk}) \times (365 \times 100))$

$$(\$42 / \$1700) / (27) \times (36500) = 33.39\%$$

$$(\$58 / \$1700) / (34) \times (36500) = 36.62\%$$

$$(\$67 / \$1700) / (42) \times (36500) = 34.25\%$$

**What if you were insuring from an  
IRA and had to put up 100% margin?**

# Computing Return on Principal

**(Premium / Principal) / (days at risk) x (365 x 100)**

$$(\$42 / \$8500) / (27) x (36500) = 6.68\%$$

$$(\$58 / \$8500) / (34) x (36500) = 7.35\%$$

$$(\$67 / \$8500) / (42) x (36500) = 6.85\%$$

**Still better than a bank, a bond, a mutual fund. or the 1.85% S&P average dividend!**

# Let's look at another option to insure.

How about Abbott Laboratories (ABT)?

Active Weekly Options Summary as of 04/03/2014

A	B	C	D	E	F	G
1	Active Week					
2						
3	Weekly Options Summary for 04/11/2014 Expiration			Weekly Optio		
4	SYMBOL	OPTION NAME	EFFECTIVE DATE	SYMBOL	OPTION NAME	EFFECTIVE DATE
5	AA	ALCOA INC	8/4/11	AA	ALCOA INC	8/4/11
6	AAL	AMERICAN AIRLINES GROUP INC.	12/18/13	AAL	AMERICAN A	12/18/13
7	AAPL	APPLE INC	6/25/10	AAPL	APPLE INC	6/25/10
8	AAPL7	APPLE INC (10-SHARE MINI OPTION)	3/18/13	AAPL7	APPLE INC. (	3/18/13
9	ABT	ABBOTT LABORATORIES	7/8/13	ABT	ABBOTT LAB	7/8/13
10	ABX	BARRICK GOLD CORP	10/6/11	ABX	BARRICK GOI	10/6/11
11	ACN	ACCENTURE PLC	4/16/12	ACN	ACCENTURE	4/16/12
12	ADM	ARCHER DANIELS MIDLAND CO	11/25/13	ADM	ARCHER DAN	11/25/13
13	AET	AETNA INC.	5/29/12	AET	AETNA INC.	5/29/12
14	AFSI	AMTRUST FINANCIAL SERVICES INC.	1/29/14	AFSI	AMTRUST FI	1/29/14
15	AGNC	AMERICAN CAPITAL AGENCY CORPORATION	7/15/13	AGNC	AMERICAN C	7/15/13
16	AGQ	PROSHARES ULTRA SILVER	2/25/13	AGQ	PROSHARES	2/25/13
17	AGU	AGRIUM INC.	9/4/13	AGU	AGRIUM/INC	9/4/13
18	AIG	AMERICAN INTERNATIONAL GROUP	12/23/10	AIG	AMERICAN I	12/23/10
19	AKAM	AKAMAI TECHNOLOGIES INC	12/4/13	AKAM	AKAMAI TEC	12/4/13
20	AKS	AK STEEL HOLDING CORP.	3/26/14	AKS	AK STEEL HO	3/26/14
21	ALXN	ALEXION PHARM	9/4/13	ALXN	ALEXION PHA	9/4/13
22	AMD	ADVANCED MICRO-DEVICES	8/28/13	AMD	ADVANCED M	8/28/13
23	AMGN	AMGEN	9/4/13	AMGN	AMGEN	9/4/13
24	AMRN	AMARIN CORP. PLC	7/25/12	AMRN	AMARIN COP	7/25/12
25	AMT	AMERICAN TOWER CL A	9/4/13	AMT	AMERICAN T	9/4/13
26	AMZN	AMAZON COM	7/15/10	AMZN	AMAZON CO	7/15/10
27	AMZN7	AMAZON.COM INC. (10-SHARE MINI OPTION)	3/18/13	AMZN7	AMAZON.CO	3/18/13
28	ANF	ABERCROMBIE & FITCH CO	12/13/11	ANF	ABERCROMB	12/13/11
29	ANR	ALPHA NATURAL RESOURCES INC	2/13/12	ANR	ALPHA NATU	2/13/12
30	AOL	AOL INC.	3/17/14	AOL	AOL INC.	3/17/14
31	APA	APACHE CORP	12/13/11	APA	APACHE COR	12/13/11
32	APC	ANADARKO PETROLEUM CORPORATION	2/13/12	APC	ANADARKO P	2/13/12
33	APOL	APOLLO EDUCATION GROUP INC. CLASS A COMMON STOCK	1/25/12	APOL	APOLLO EDU	1/25/12
34	ARIA	ARIAD PHARMA	1/7/14	ARIA	ARIAD PHAR	1/7/14
35	ARNA	ARENA PHARMACEUTICALS INC	6/19/12	ARNA	ARENA PHAR	6/19/12
36	ATVI	ACTIVISION BLIZZARD INC.	9/4/13	ATVI	ACTIVISION E	9/4/13
37	AXP	AMERICAN EXPRESS	12/23/10	AXP	AMERICAN E	12/23/10

weeklyoptions (3).csv

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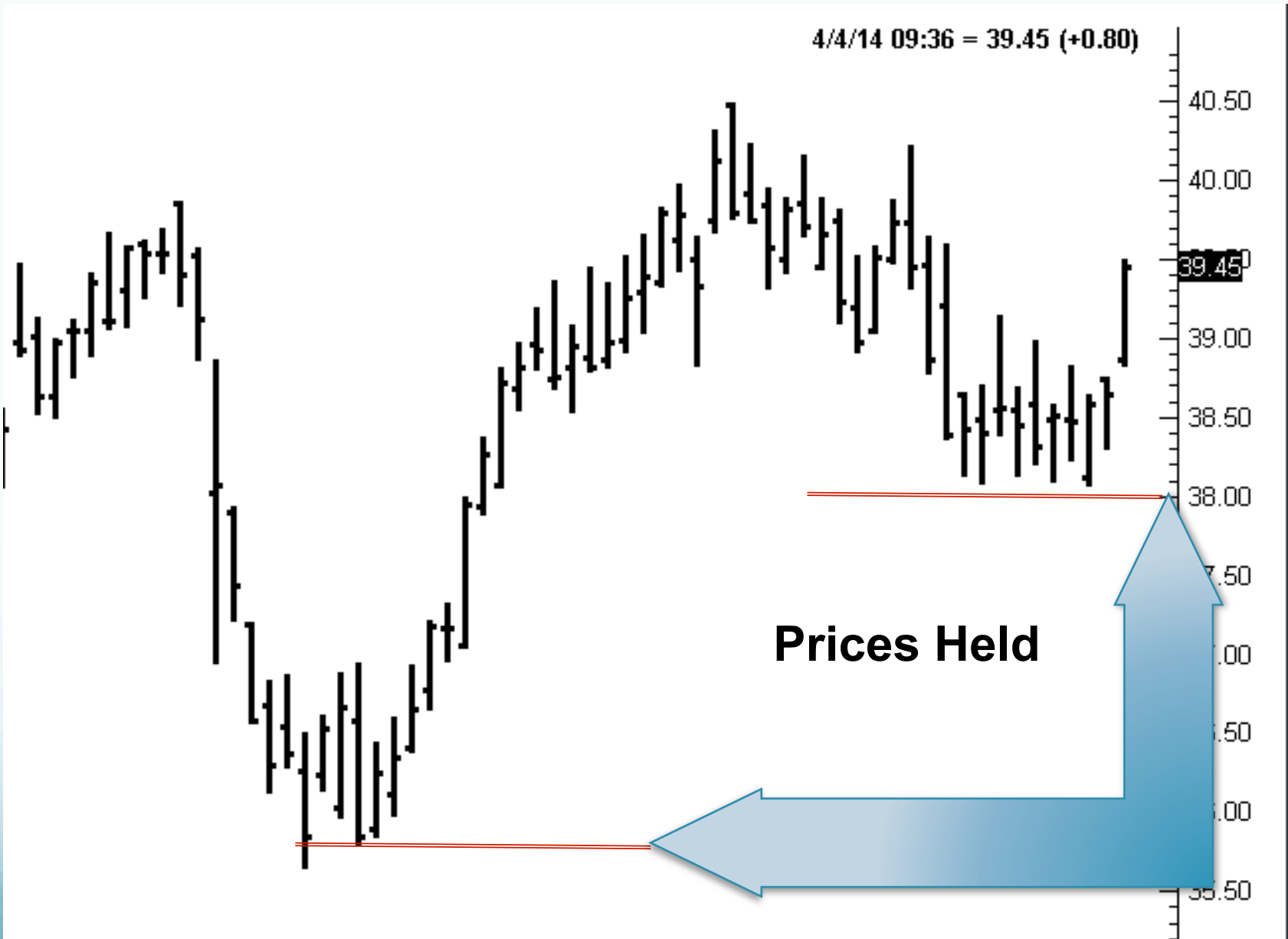
**ABT**

# There Is a Dividend



<b>Abbott Labs (ABT)</b> Stock Dividend Data		\$39.42	+\$0.77	+2.0%	<a href="#">Add To Watchlist</a>
<a href="#">Dividend Yield</a>	<a href="#">Annual Payout</a>	<a href="#">Payout Ratio</a>		<a href="#">Dividend Growth</a>	
2.23%	\$0.88	40.0%		41 years	
Apr 04, 11:06 AM	Paid Quarterly	EPS \$2.20		Since 1973	

# Let's Look at ABT's Chart





# It's Time To Sell Insurance...

**...and we have decisions to make**

# Decision Steps



# Uncovered Put Options

**Which Put do we insure?**

[www.yahoofinance.com](http://www.yahoofinance.com)

YAHOO! FINANCE

Search Finance Search Web



**CLICK**

Search Finance

Search Web

Finance Home

My Portfolio

Market Data

Business & Finance

Personal Finance

Yahoo Originals

Enter Symbol

Look Up

Fri, Apr 4, 2014, 11:03AM EDT - US Markets close in 4 hrs and 15 min

Dow ↑0.16% Nasdaq ↓0.72%

More On ABT

QUOTES

Summary

Order Book

Options

Historical Prices

CHARTS

Interactive

Basic Chart

Basic Tech. Analysis

NEWS & INFO

Headlines

Press Releases

Company Events

Message Boards

Market Pulse

Abbott Laboratories (ABT) - NYSE

**39.45** ↑0.80 (2.07%) 10:58AM EDT - Nasdaq Real Time Price



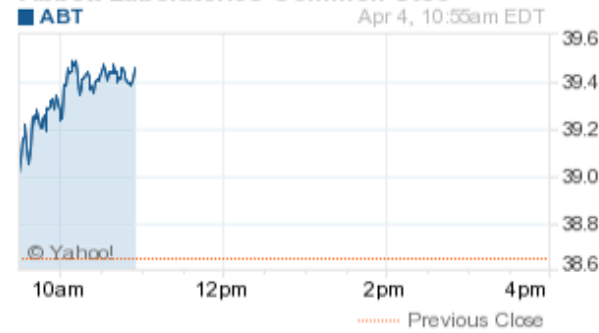
Prev Close:	38.65
Open:	38.87
Bid:	39.38 x 3300
Ask:	39.39 x 900
1y Target Est:	41.75
Beta:	0.72
Next Earnings Date:	16-Apr-14

Day's Range:	38.83 - 39.50
52wk Range:	32.70 - 40.49
Volume:	2,167,627
Avg Vol (3m):	8,353,500
Market Cap:	60.87B
P/E (ttm):	24.32
EPS (ttm):	1.62
Div & Yield:	0.88 (2.30%)

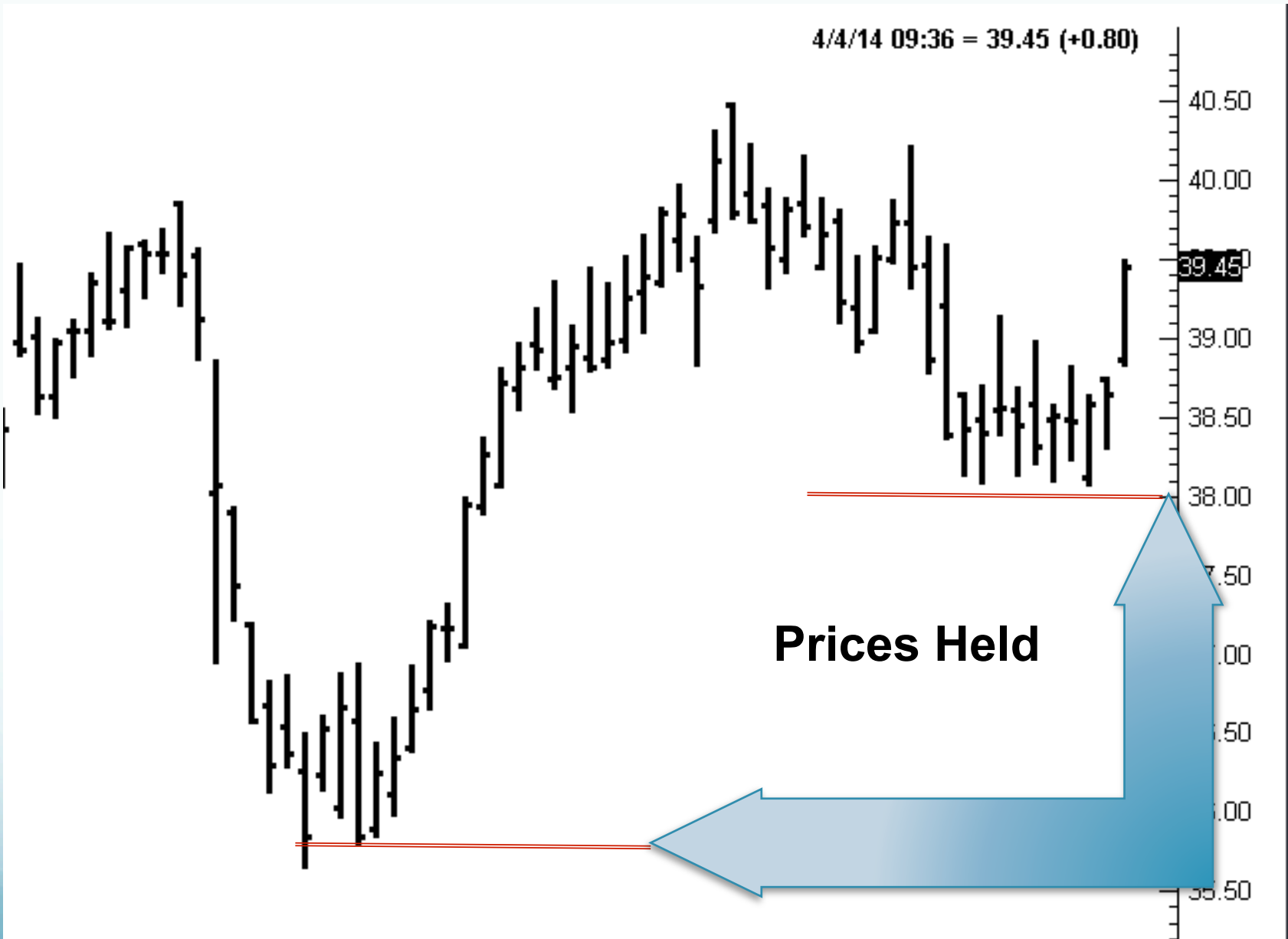
Get the big picture on all your investments.

Sync your Yahoo portfolio now

Abbott Laboratories Common Stock



Quotes delayed, except where indicated otherwise. Currency in USD.



# We decide to insure the 38 put

37.00	ABT140517P00037000	0.49	0.00	0.29	0.31	109	1,895
38.00	ABT140517P00038000	0.53	↓0.23	0.50	0.54	5	3,363
39.00	ABT140517P00039000	0.93	↓0.54	0.86	0.90	304	1,186

## There's Only One

37.00	ABT140517P00037000	0.49	0.00	0.29	0.31	109	1,895
38.00	ABT140517P00038000	0.53	↓0.23	0.50	0.54	5	3,363
39.00	ABT140517P00039000	0.93	↓0.54	0.86	0.90	304	1,186

### HERE'S WHAT THE CODES MEAN

**ABT = STOCK SYMBOL**

**14 = THE YEAR-2014**

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**17 = THE EXPIRATION DAY OF THE CONTRACT**

**P = PUT OPTION**

**00038000 = THE 38 STRIKE PRICE OF THE PUT**



# Underwriting Procedure

37.00	ABT140517P00037000	0.49	0.00	0.29	0.31	109	1,895
38.00	ABT140517P00038000	<b>0.53</b>	↓0.23	0.50	0.54	5	3,363
39.00	ABT140517P00039000	0.93	↓0.54	0.86	0.90	304	1,186

- We can be paid **\$53** premium to insure the May 17 Put

**WHAT IS THE RETURN ON MARGIN?**

# Computing Margin

## THE FORMULA

**MARGIN = 20% OF THE CONTRACT PRICE**

$$(\$38 \times 100) \times .20 = \$760$$

**We need \$760 in our account to cover margin**

**Next we have know how many days we will be at risk.**

<http://days.to/until/17-may>

Days.To When Is ▾ Holidays

How many days until  
**17th May**

17th May is on Saturday, 17 May 2014

Like 94 Tweet 0 g+1 0

**42**  
Days

**15** **45** **39**  
Hours Minutes Seconds

# Days at Risk

- Today is April 4
- The number of days until:

**May 17 = 42**

# Computing Return on Margin

$(\text{Premium} / \text{Margin} / (\text{days at risk}) \times (365 \times 100))$

$$(\$53 / \$760) / (42) \times (365 \times 100) = 60.60\%$$

**What if you were insuring from an  
IRA and had to put up 100% margin?**

# Computing Return on Principal

$(\text{Premium} / \text{Principal}) / (\text{days at risk}) \times (365 \times 100)$

$$(\$53 / \$3800) / (42) \times (365 \times 100) = 12.12\%$$

**Still better than a bank, a bond, a mutual fund. or the 1.85% S&P average dividend!**

# Computing Capital Efficiency (CE)

(Premium) / (Strike x 100)

$$CE = (\$53) / (\$38) = 1.39$$

**Any Efficiency Rating of 1.00 or greater is acceptable, the higher the better.**

## Summary

- Look for stocks with weekly options.
- Make sure they pay a dividend.
- Look to see if they have an earnings report coming up:
  - A stock that is posting earnings today before the open
  - A stock that posted earnings the previous day after the market closed
  - A stock that has recently had an earnings report.
  - A stock that will have an earnings report that will take place after the option expiration date.



## Summary Ctd.

- Look for a Capital Efficiency (CE) of 1.00 or greater. A good CE insures a good return on margin or principal.
- To the greatest extent possible I want the option to be in the sweet spot, 45 or fewer days, and at the very most 60 days.
- I don't always get it perfect, but I come close. If the stock meets these criteria, I sell the option.

# Rolling Out and Down



*What if a trade goes against us? Will we lose?*

**We have a decision to make.**

MSFT: 03/13/1986 - 04/04/2014 (Daily bars) Microsoft Corporation @ NASDAQ

Fri 04/04/2014: O=41.25 H=41.39 L=39.69 C=39.79 TDofM=4 TDofY=65

4/4/14 11:55 = 39.79 (-1.22)



© GenesisFT

I originally insured the May 17 MSFT \$40 put for a premium of \$1.25—a return at the time of 85% on margin. On April 4, MSFT dropped below \$40, and I needed to roll out and down. To accomplish that I bought back the May 17 \$40 put at a cost of \$1.47. At that point I was losing \$0.22 per share, or \$22 per insured option.

Option Chains - MSFT

Strikes  Expiries  Exchange

Call					Description	Put						
Implied Vol.	% Open Interest	Volume	Last	Bid		Ask	Implied Vol.	% Open Interest	Volume	Last	Bid	Ask
▼ MAY 16 '14												
6.16K		686	1.81	1.83	1.84	39 SMART	7.90K		2.05K	1.02	1.00	1.01
25.1K		2.00K	1.29	1.26	1.27	40 SMART	9.81K		1.41K	1.48	1.46	1.47
18.4K		1.72K	0.82	0.82	0.83	41 SMART	5.79K		676	2.17	2.05	2.06
▼ JUN 20 '14												
4.42K		182	2.04	2.04	2.05	39 SMART	1.34K		191	1.26	1.28	1.30
9.11K		296	1.51	1.49	1.51	40 SMART	2.77K		170	1.84	1.75	1.76
5.46K		298	0.99	1.05	1.06	41 SMART	3.04K		203	2.45	2.32	2.33
▼ JUL 18 '14												
19.5K		60	2.30	2.27	2.30	39 SMART	9.79K		179	1.45	1.53	1.55
75.5K		242	1.72	1.74	1.76	40 SMART	5.80K		420	2.10	2.01	2.02
6.99K		176	1.20	1.30	1.31	41 SMART	2.12K		32	2.56	2.56	2.58

Looking at the option chain, I saw that I could sell a June \$39 put for \$1.28 if I rolled out to June and moved down one strike from \$40 to \$39. Or, I could sell a July \$39 put for \$1.53. Let's do the math.

Option Chains - MSFT

Strikes  Expiries  Exchange

Call					Description	Put						
Implied Vol.	% Open Interest	Volume	Last	Bid		Ask	Implied Vol.	% Open Interest	Volume	Last	Bid	Ask
▼ MAY 16 '14												
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6.99K		176	1.20	1.30	1.31	41 SMART	2.12K		32	2.56	2.56	2.58

Buy back the May \$40 put for \$1.47 and sell the **June** \$39 put.  
 (Previously sold) \$1.25 - \$1.47 = **-.22** + \$1.28 (June put) = \$1.06

Buy back the May \$40 put for \$1.47 and sell the **July** \$39 put.  
 (Previously sold) \$1.25 - \$1.47 = **-.22** + \$1.53 (July put) = \$1.31

Option Chains - MSFT

Strikes  Expiries  Exchange

Call						Description	Put					
Implied Vol.	% Open Interest	Volume	Last	Bid	Ask		Implied Vol.	% Open Interest	Volume	Last	Bid	Ask
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						▼ JUL 18 '14						
	19.5K	60	2.30	2.27	2.30	39 SMART	9.79K	179	1.45	1.53	1.55	
	75.5K	242	1.72	1.74	1.76	40 SMART	5.80K	420	2.10	2.01	2.02	
	6.99K	176	1.20	1.30	1.31	41 SMART	2.12K	32	2.56	2.56	2.58	

*We can accept the lesser amount  
or go for the greater amount.*

**We have another  
decision to make.**



# Let's look at it from the point of return on margin.

**June 39 put return on margin:**

$$(\$106/\$780) / (76 \text{ days at risk}) \times (365 \times 100) = 65.27\%$$

**June 39 put return on principal:**

$$(\$106/\$3900) / (76 \text{ days at risk}) \times (365 \times 100) = 13.05\%$$

**July 39 put return on margin:**

$$(\$131/\$780) / (103 \text{ days at risk}) \times (365 \times 100) = 59.51\%$$

**July 39 put return on principal:**

$$(\$131/\$3900) / (103 \text{ days at risk}) \times (365 \times 100) = 11.90\%$$

**I think the June option is better - holding an extra month doesn't offer much.**

# Let's look at it from the point of opportunity costs.

**June 39 put return on margin: 65.27%**

June 39 put return on principal: 13.05%

**July 39 put return on margin: 69.51%**

July 39 put return on principal: 13.90%

**We would have to hold another 28 days to pick up an extra 4.24% on our money. That doesn't make sense.**

**OUR GOAL IS TO SELL INSURANCE  
AS OFTEN AS WE CAN!**

# Remember the **SECRET!**

**OUR GOAL IS TO SELL PRICE INSURANCE  
AS OFTEN AS WE CAN!**

*BUT WHY?*

# BECAUSE!

**WE WANT TO TURN OUR MARGIN MONEY AS MANY TIMES AS WE CAN DURING THE YEAR**

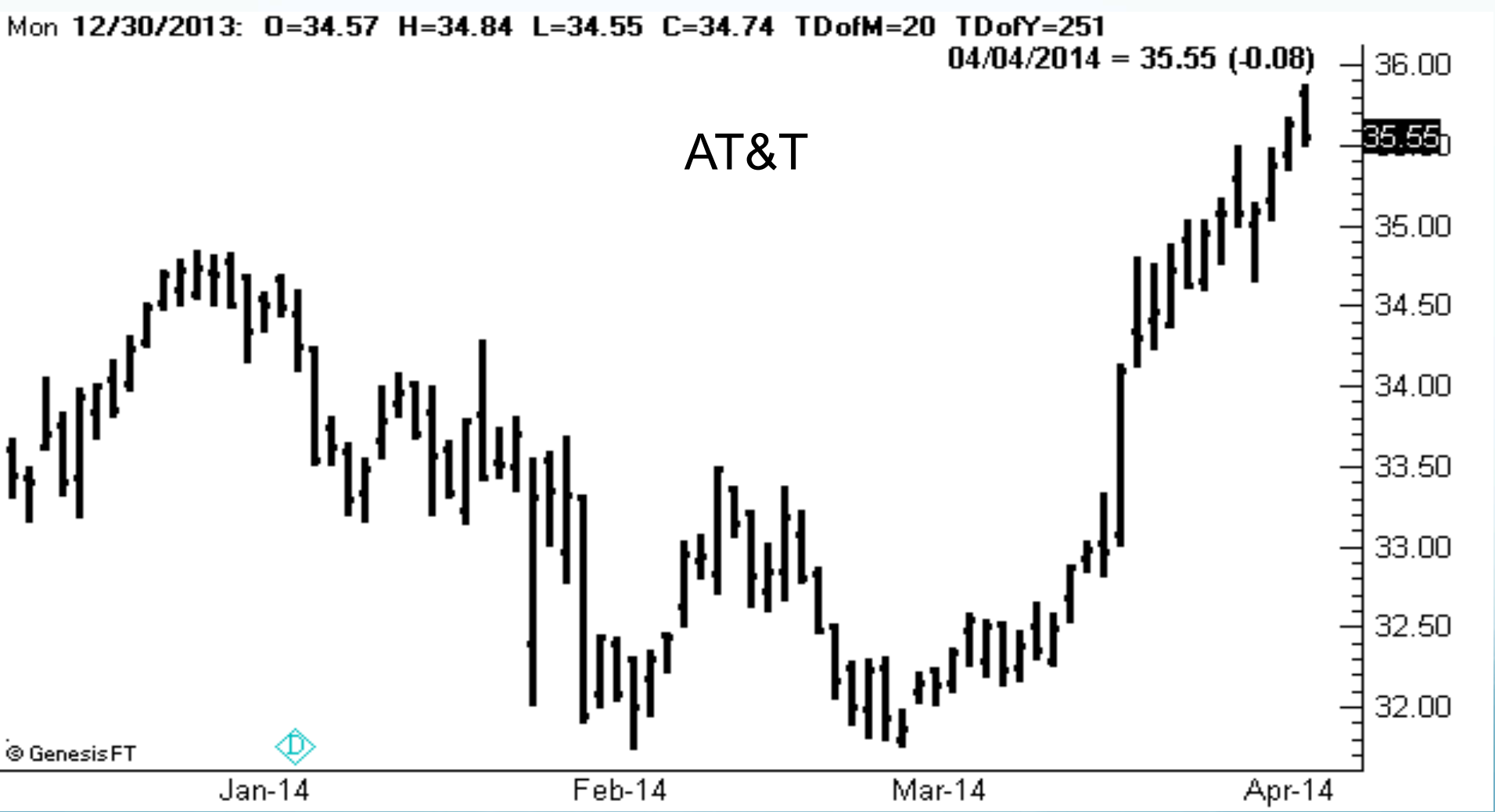
**10% return 4 times/year = 40%**

**10% return 8 times/year = 80%**

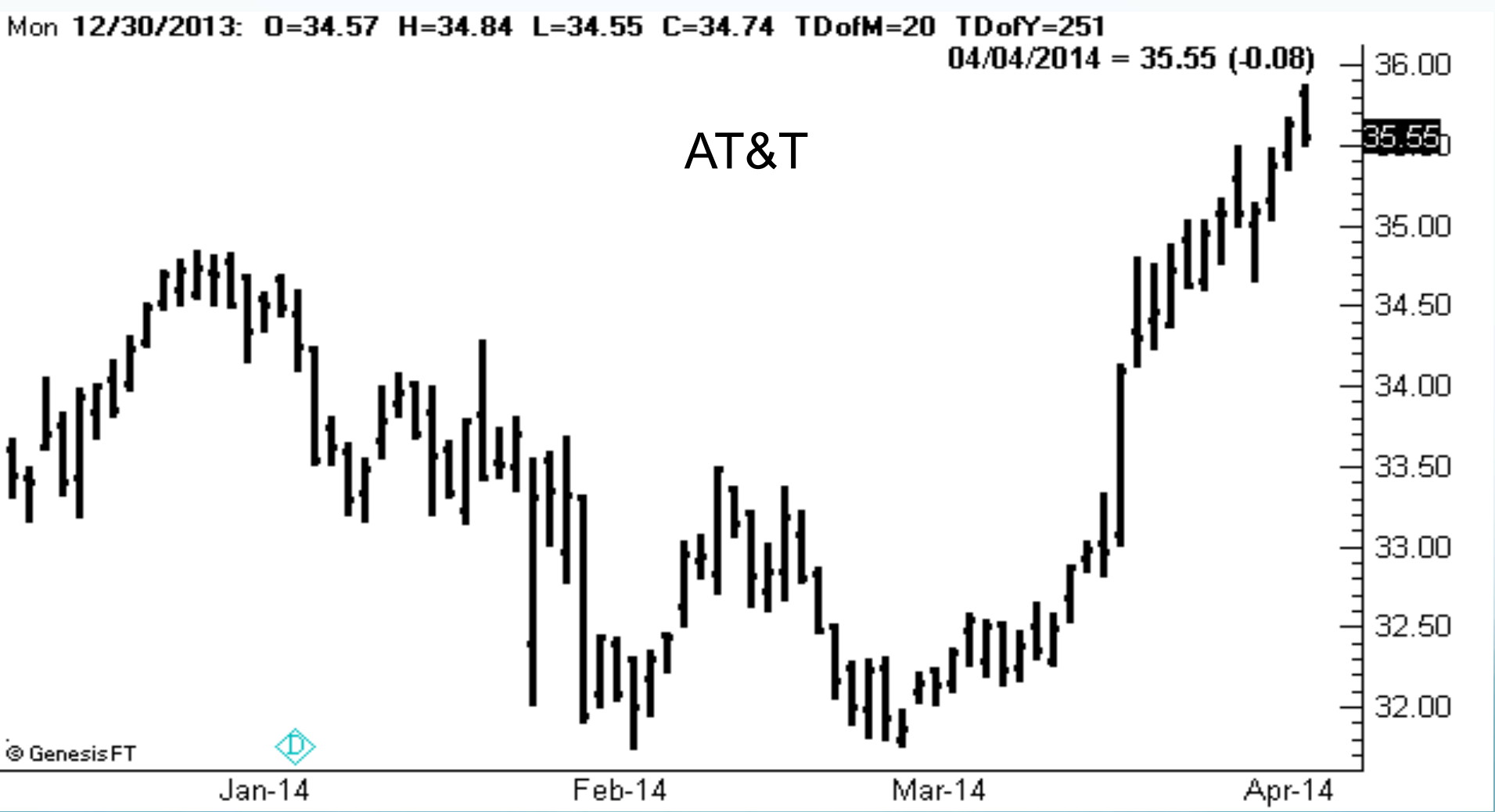
# Rolling Out and Up



On February 13, I insured the 'T' May 16, \$30 put for a premium of \$0.30 — a return at the time of 20.27% on margin: CE = 1.00



By April 4, T had risen to over \$35. I decided to roll out and up. To accomplish that I bought back the May \$30 put for a price of \$0.05, pocketing a profit of \$0.25.



I was able to sell a \$34 option for \$0.34. That was a return on margin of 44.51%, or a return on principal of 8.90%. CE = 1.00

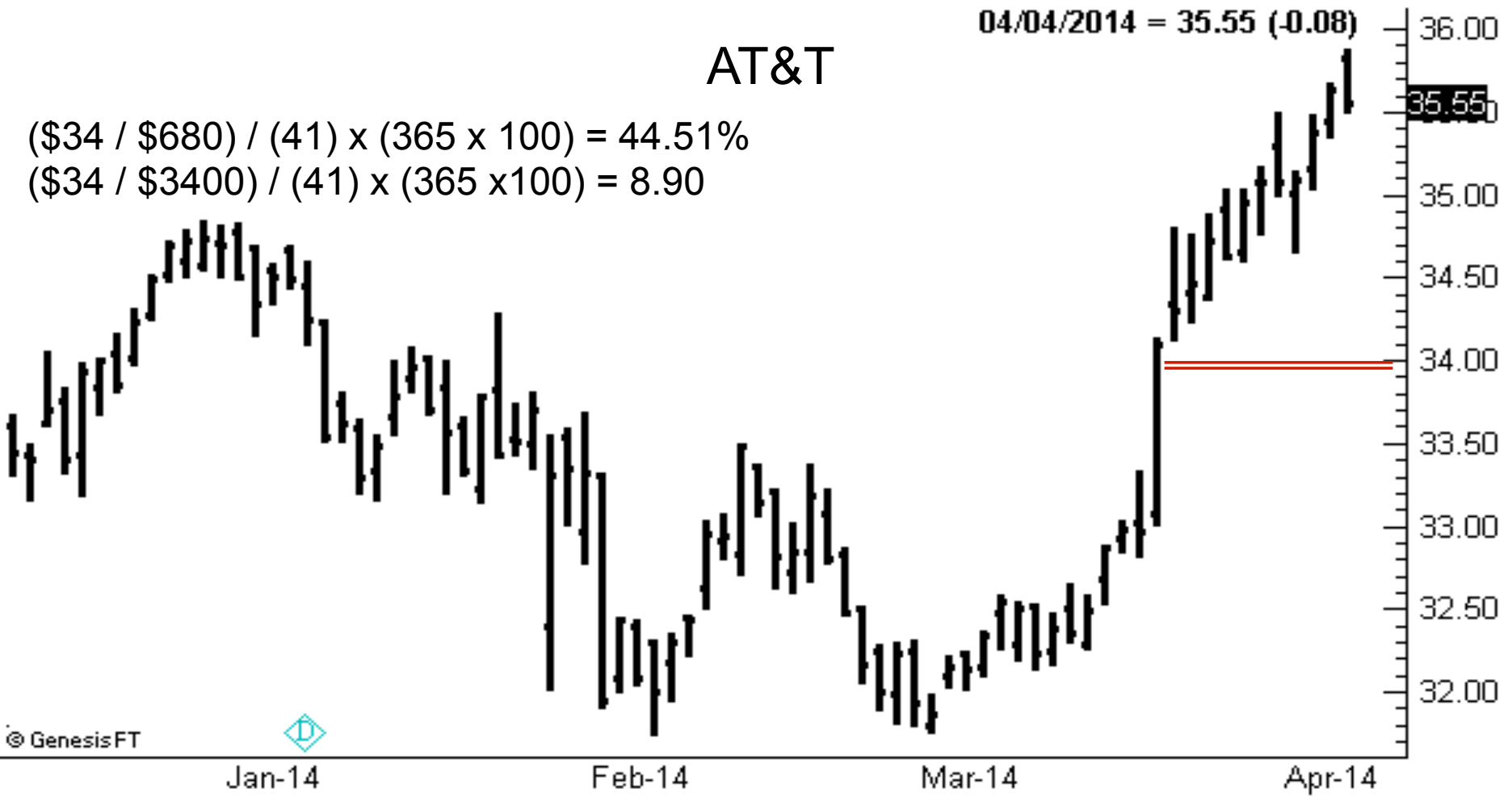
Mon 12/30/2013: O=34.57 H=34.84 L=34.55 C=34.74 TDofM=20 TDofY=251

04/04/2014 = 35.55 (-0.08)

### AT&T

$$(\$34 / \$680) / (41) \times (365 \times 100) = 44.51\%$$

$$(\$34 / \$3400) / (41) \times (365 \times 100) = 8.90$$



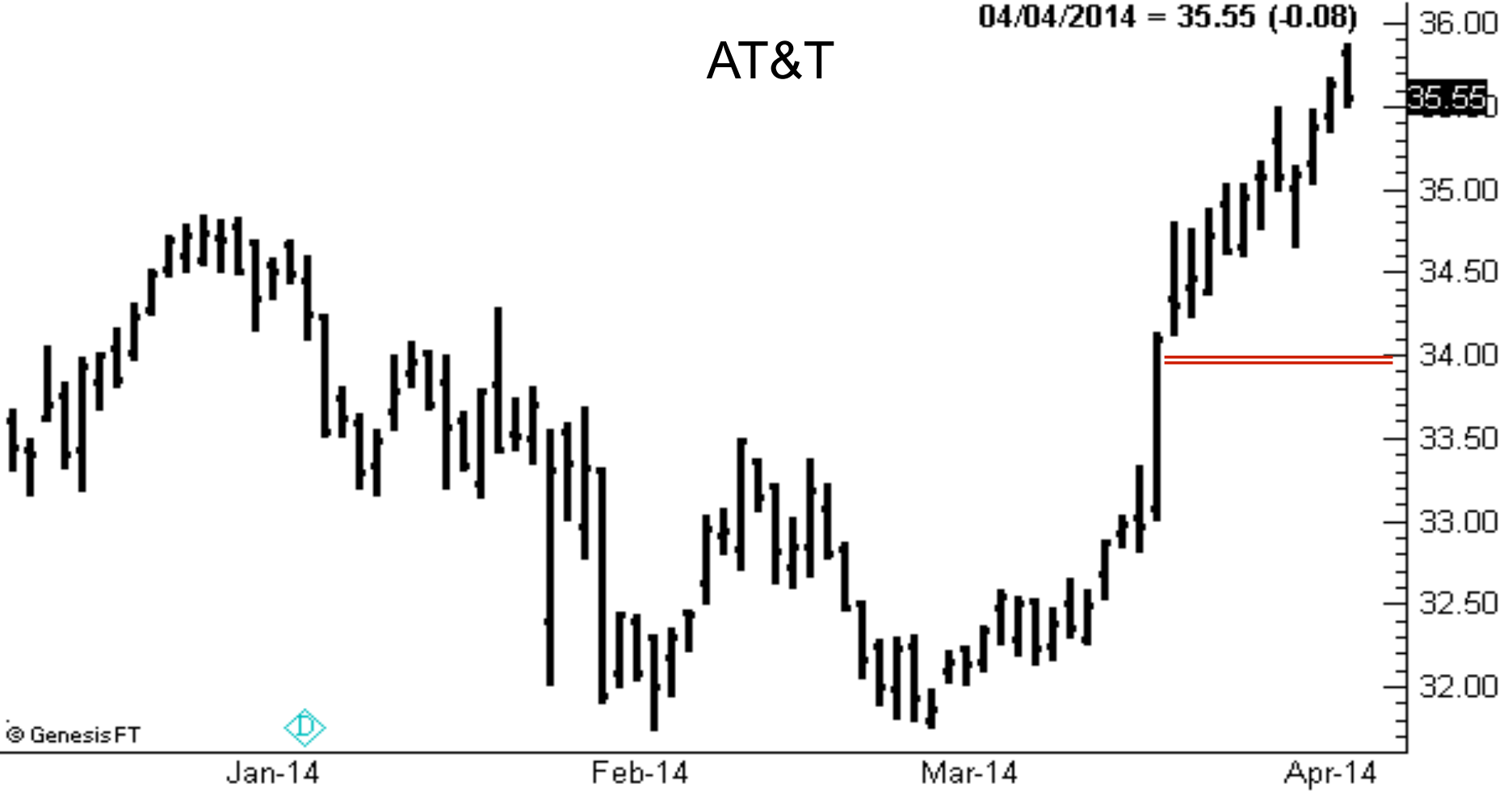


If the \$34 option were to ever get into trouble, I could simply roll out and down, covering my loss by selling a lower strike at a premium that would bring a profitable situation.

Mon 12/30/2013: O=34.57 H=34.84 L=34.55 C=34.74 TDofM=20 TDofY=251

04/04/2014 = 35.55 (-0.08)

## AT&T



## Knowing When to Roll Out and Down

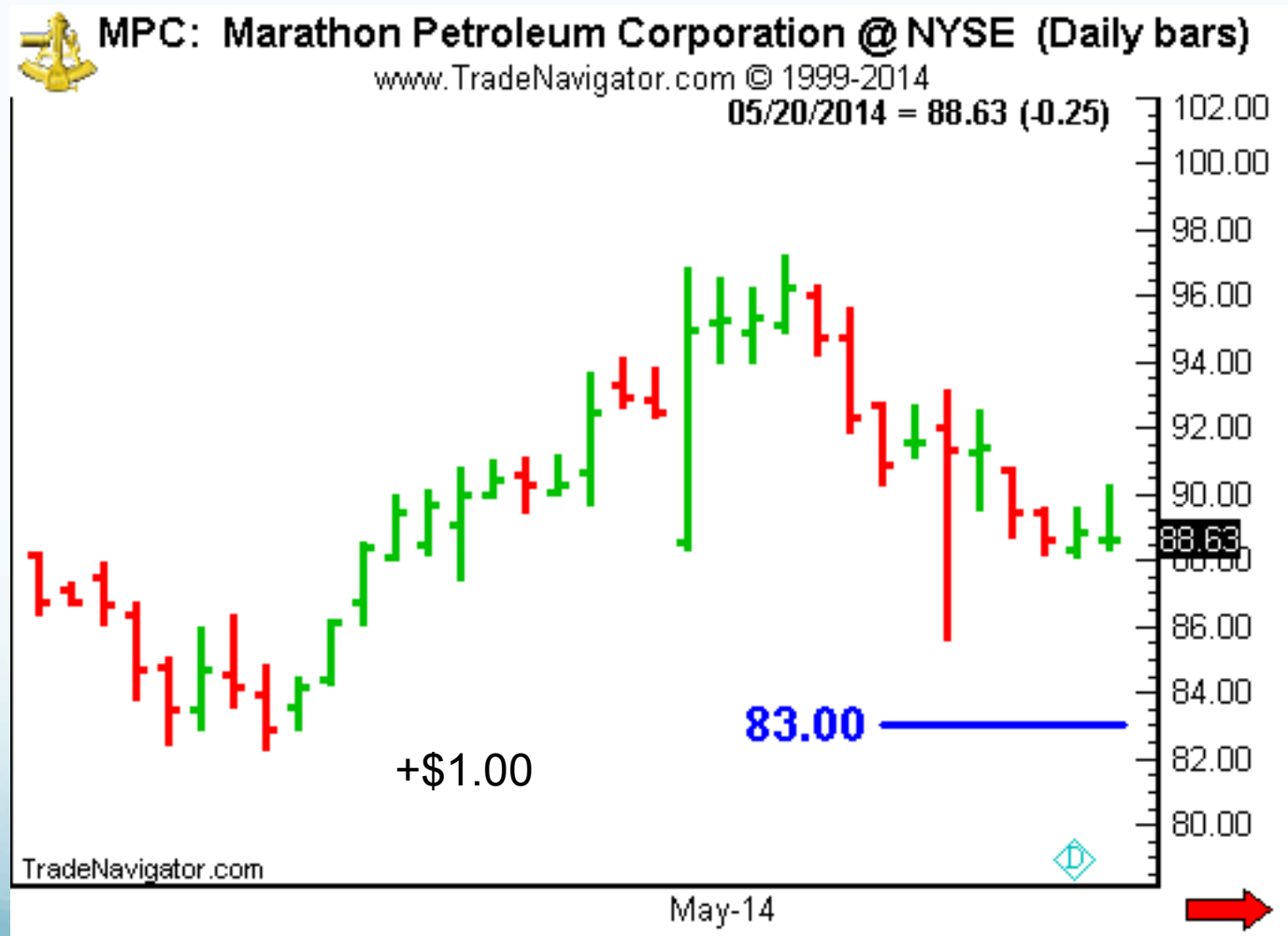
- You roll an option out and down the moment **YOU** feel the option is threatened. I often roll an option when it gets as close at two strikes above where I sold it. “Close” is going to be a matter of how many strikes there are, how much premium you have to spend to buy the option back, how much premium is available for you to receive, and how far out in time you have to go to still be profitable.
- Certainly, you want to roll out and down if prices touch or go through the strike price. I try to never allow an option to get that close, but as we saw in the MSFT example, it can happen.

## Knowing When to Roll Out and Up

- Any time you can buy an option back at a profit, and see that you can “comfortably” move to a higher strike price in the same or an even less distant month, you should consider buying back and rolling up.
- This will happen most often when stock prices are rising.
- But be sure you don’t get too close to the price action.
- The level of “comfort” you require is entirely up to you.

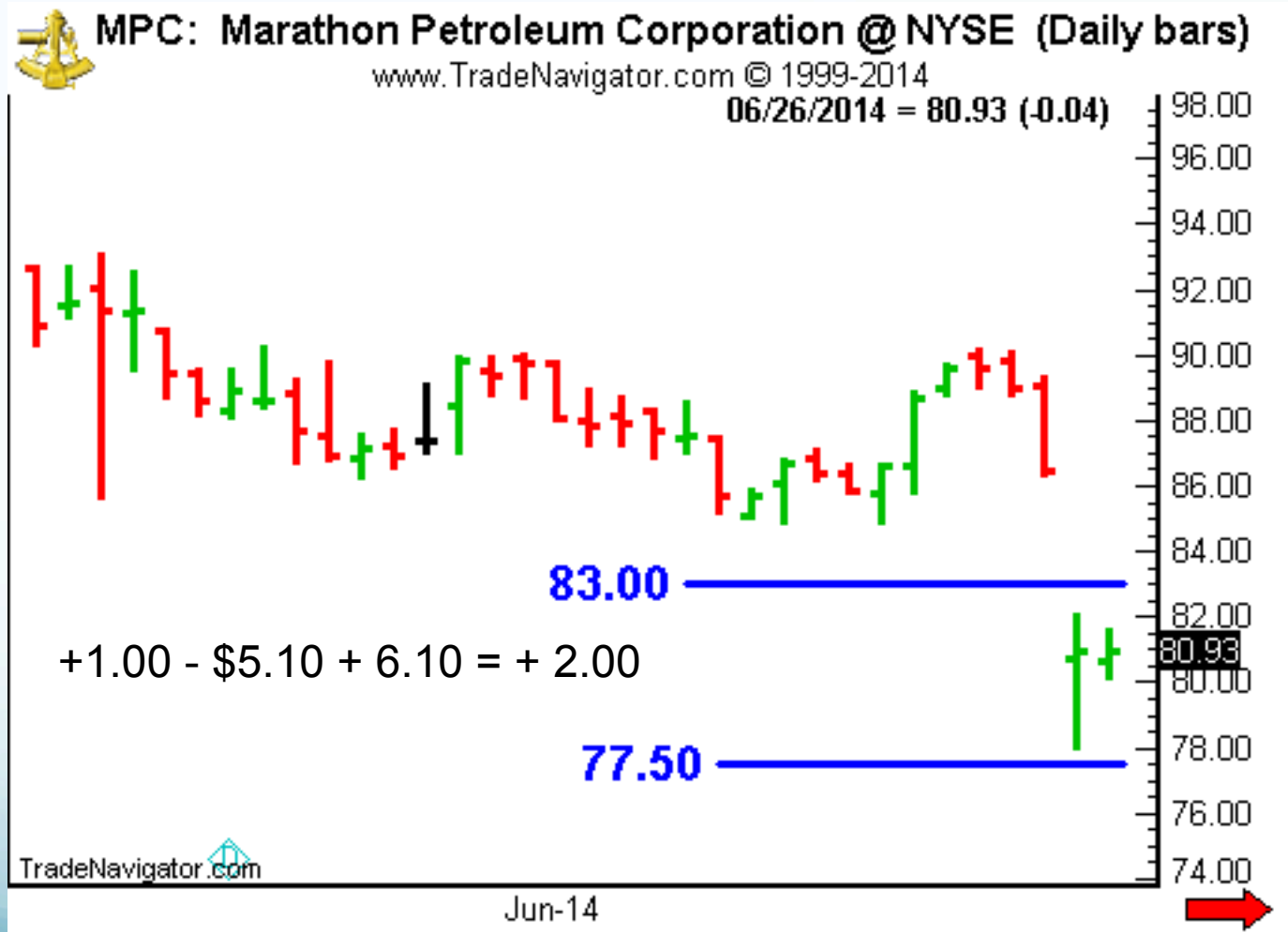
# Multiple Roll Example

- On May 20, 2014, I sold 10 August 1, Marathon Oil (MPC) \$83 puts for \$1.00.



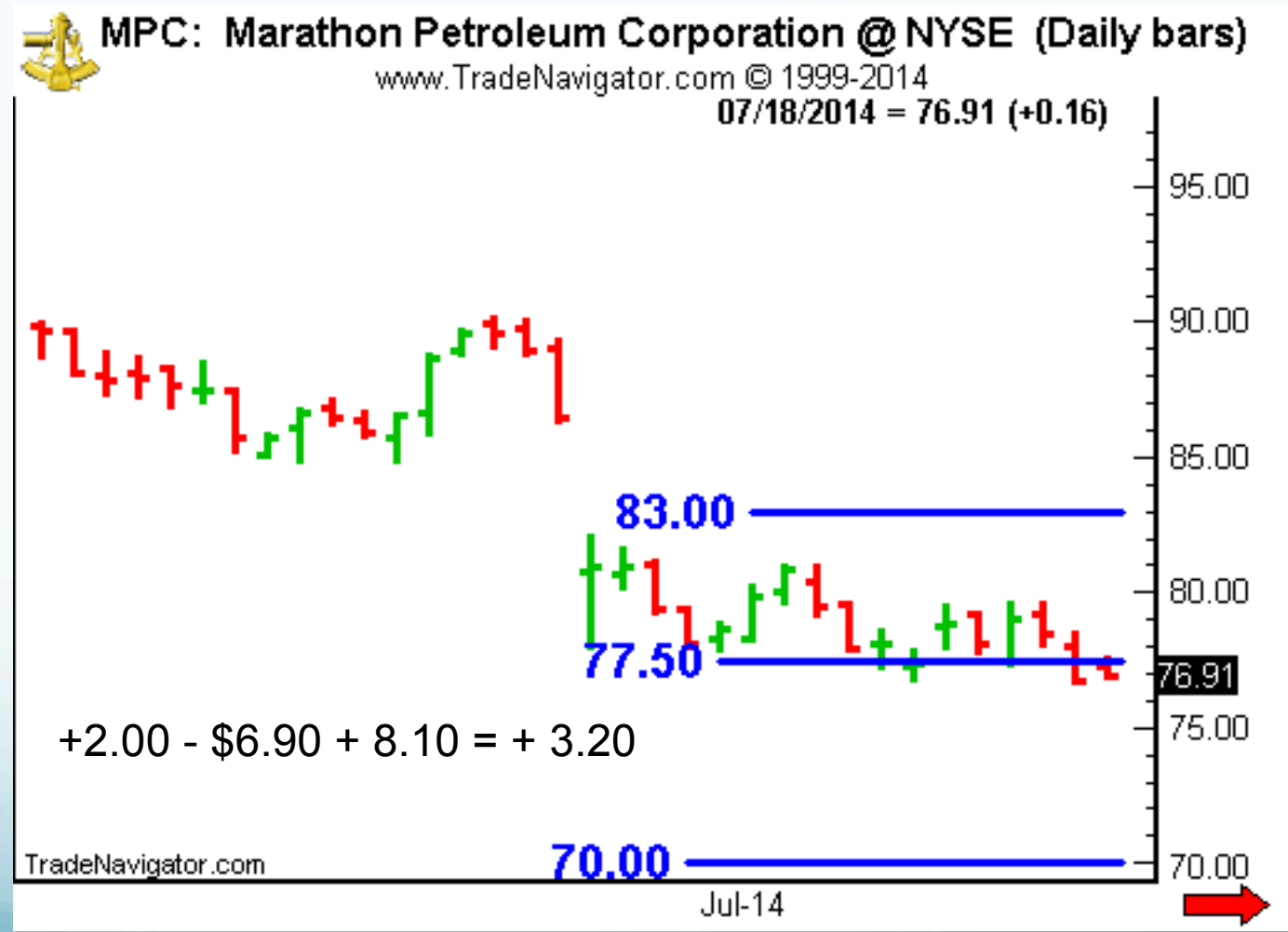
# Multiple Roll Example

- On June 26, 2014, I bought back the 10 \$83 puts for \$5.10 and rolled down to 10 January 16, 2015 \$77.50 (MPC) puts for \$6.10



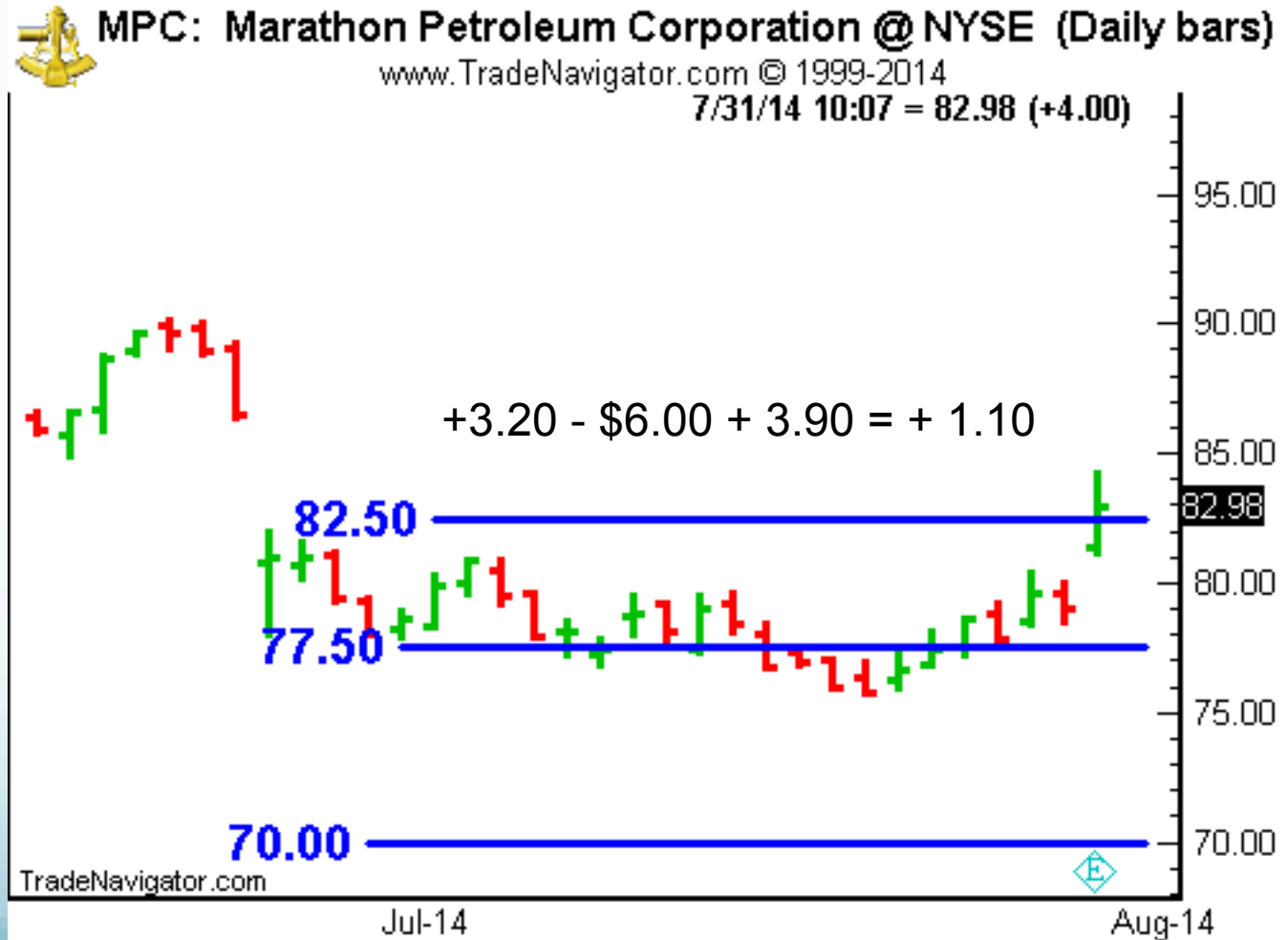
# Multiple Roll Example

- On July 18, 2014 I bought back the 10 \$77.50 puts for \$6.90, and rolled down to 10 \$70 (MPC) puts January 15, 2016 puts for \$8.10



# Multiple Roll Example

- On July 31, 2014 I bought back the 10 \$70 puts for \$6.00, and rolled up to ten \$82.50 (MPC) October 17, 2014 puts for \$3.90



# Multiple Roll Example

- In this one example you can see both a roll out and down and a roll out and up.
- Because MPC had a great Earnings per Share report (earnings surprise), along with an increase in revenue, prices moved up sharply, and will probably continue to move as follow-through to the good report. As I write this intraday prices reached as high as \$84.31.
- I ended up with \$1.10 compared with the original \$1.00, however, I was able to move up from January 2016, to October 2014. It's entirely possible that I may be able to move up again, if MPC continues to rise.

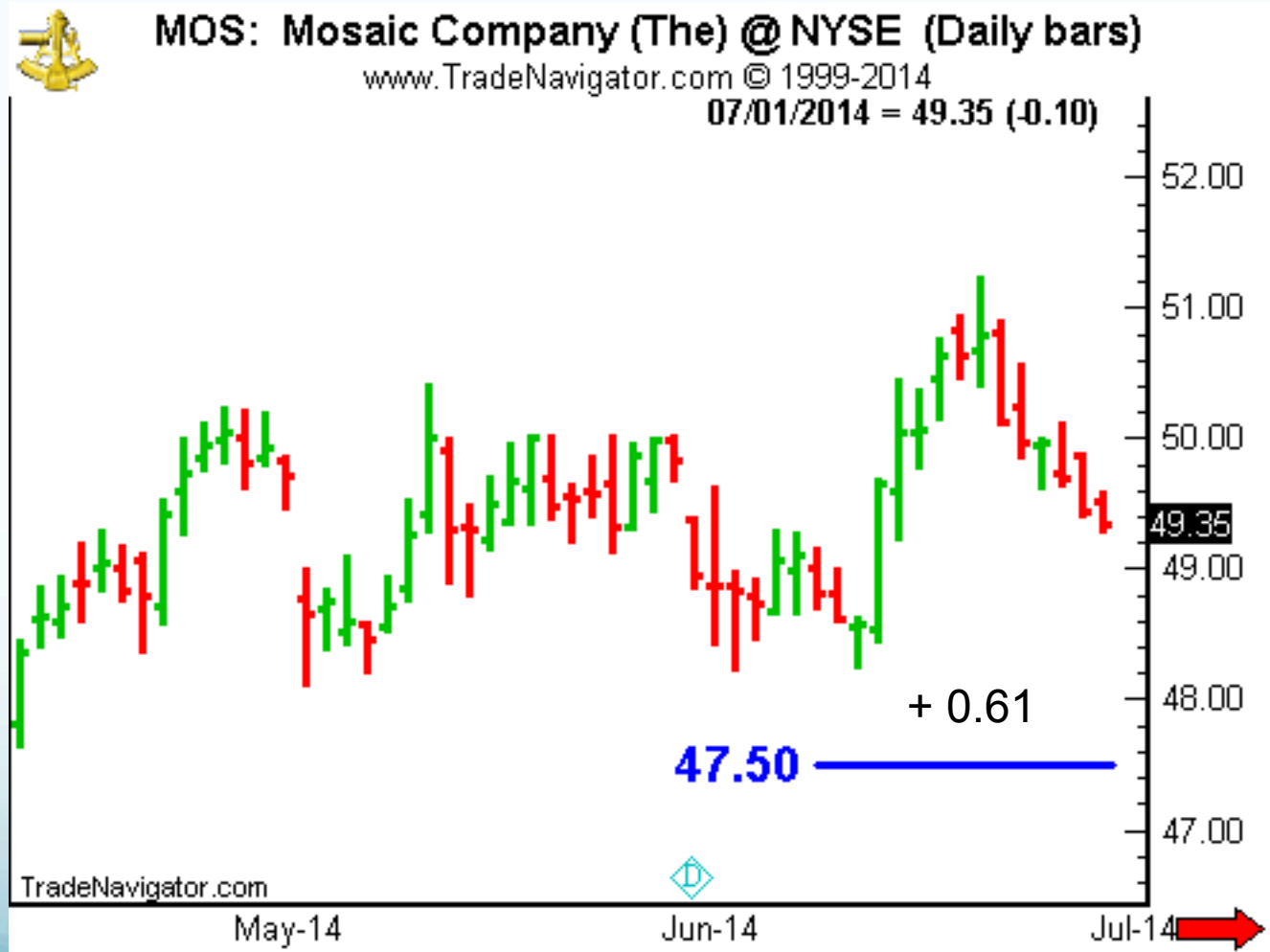


## Multiple Roll Example

- Sometimes it is necessary to give up a little in order to gain a better position.
- The following example will demonstrate a credit roll out and down followed by a debit roll out and up in order to gain a better market position.

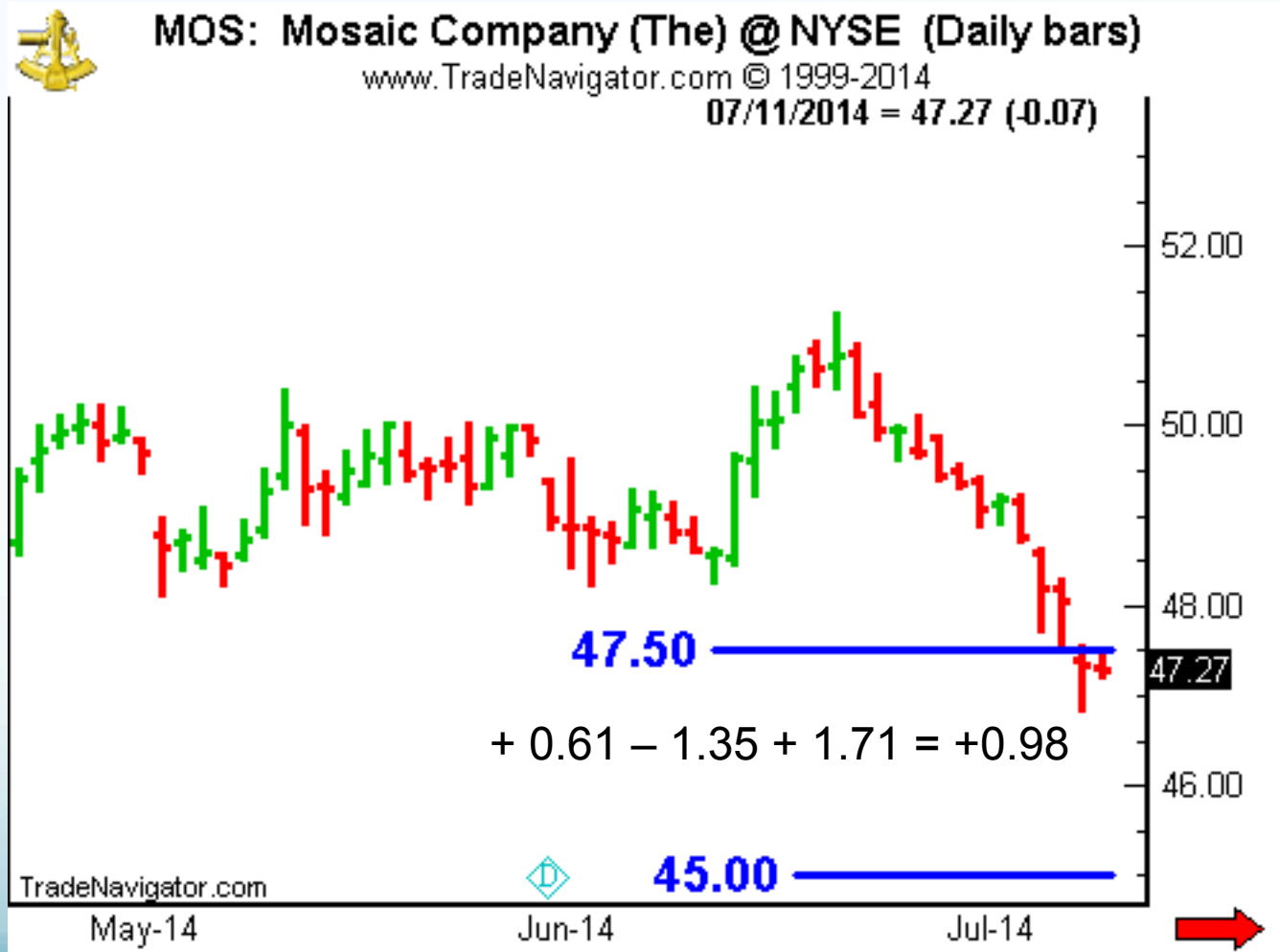
# Multiple Roll Example

On July 1, 2014 I sold 15 47.50 puts on Mosaic (MOS), for 0.61, with an expiration date of August 15, 2014.



# Multiple Roll Example

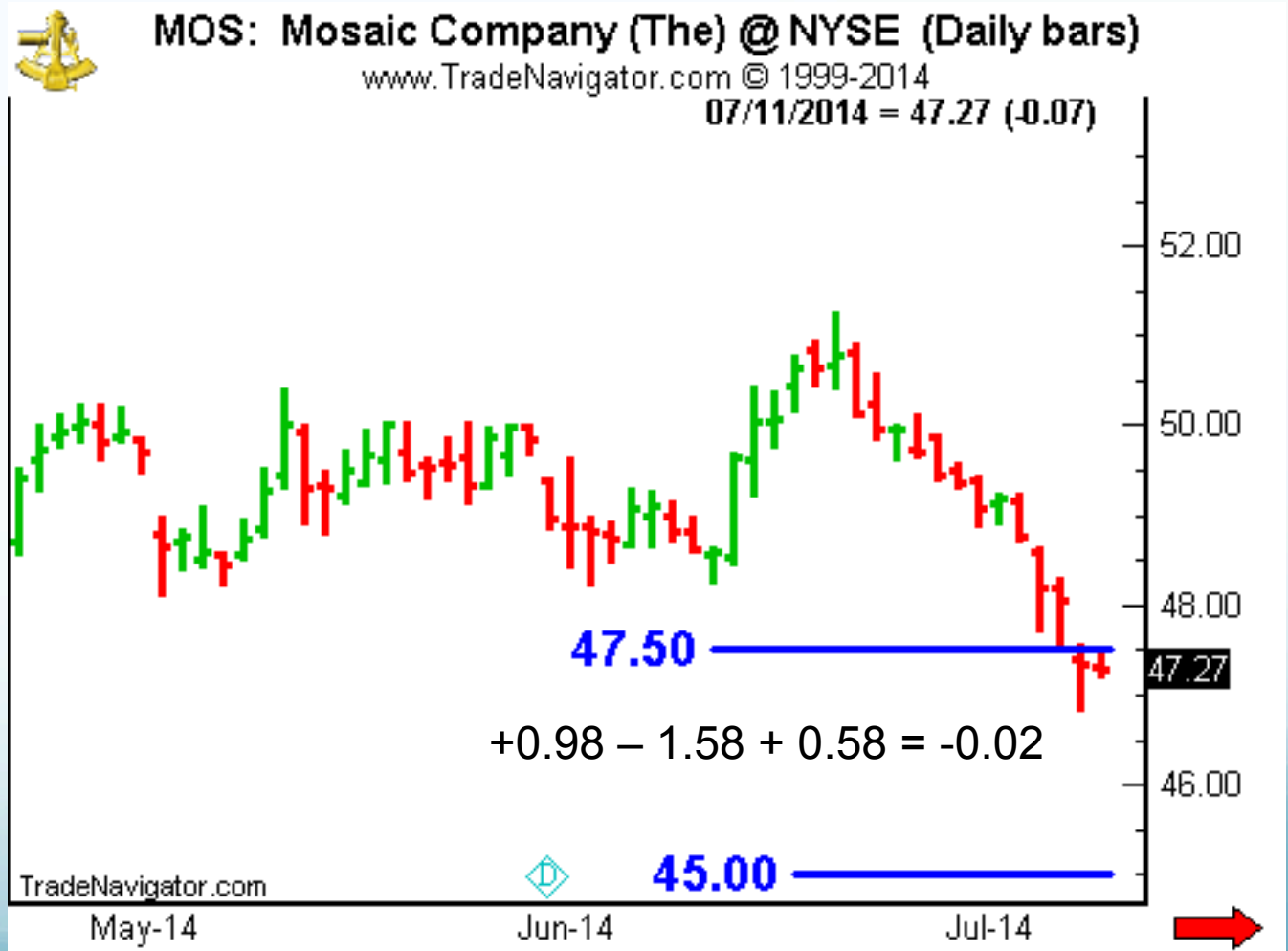
On July 11, 2014 I bought back the 15 \$47.50 MOS puts for \$1.35, and sold 15 \$45 MOS puts for \$1.71 with an expiration date of December 20, 2014.



# Multiple Roll Example

On July 30, 2014 I bought back the 15 \$45 MOS puts for \$1.58, and sold 15 \$45 MOS puts for \$0.58 with an expiration date of September 19, 2014.

Why would I do that?



## Multiple Roll Example

On July 30, with an earnings report due out before the open on July 31, I did not want to take a chance that might have to roll out and down from December, 2014 to January or February of 2015, although those months were available.

It cost me \$0.02 to place myself in a better position. If a roll out and down would be needed, I could roll from September to December. The earnings report was bad, and prices fell. But at the time I am writing this they have not reached \$45, and may not reach \$45, in which case the options could expire worthless, or be bought back at a profit.

## Why Weekly Options?

- The reason I like to select options from stocks that have weekly options is that:
- Weeklys are the most active and popular options
- There are more option expiration dates from which to choose.
- The strikes are closer together because these options are more heavily traded. Often the strikes are only \$0.50 apart

## Why Weekly Options?

- I don't usually sell the options from week to week. Because there is very little time value.
- From one week to the next the difference in premiums can be very small.
- However, there are often more strikes available for weeklys, which means I would not have a lot of difficulty turning my margin money as often as I would like.

# Volume and Open Interest

- I am not at all interested in Volume and minimally interested in Open Interest.
- If there's no open interest on a specific option strike I don't care. That means no one else has yet traded that option. I'm happy to be the first one! The option market makers are obligated to always give a bid/ask quote on any option strike that's listed by the exchange. So you don't have to worry about not being able to participate. Yes, it's true that an option with lots of open interest means that you can get in and out of the trade quickly at a fair price, with lots of participants involved. But just because an option has no open interest yet, doesn't mean it's a bad option to choose. Over time the Interest will grow.



# I Circled Volume and Open Interest for the May 30 **Weekly** at-the-money Option

T May 30, 2014													
T 20140530 C27.5	0.00	7.45	7.90	0	0	<b>27.5</b>	T 20140530 P27.5	0.00	0.02	0.05	0	0	0
T 20140530 C28	0.00	6.95	7.40	0	0	<b>28</b>	T 20140530 P28	0.00	0.02	0.05	0	0	0
T 20140530 C28.5	0.00	6.45	6.90	0	0	<b>28.5</b>	T 20140530 P28.5	0.00	0.02	0.06	0	0	0
T 20140530 C29	0.00	5.95	6.40	0	0	<b>29</b>	T 20140530 P29	0.00	0.03	0.07	0	0	0
T 20140530 C29.5	0.00	5.50	5.90	0	0	<b>29.5</b>	T 20140530 P29.5	0.00	0.03	0.08	0	0	0
T 20140530 C30	0.00	5.00	5.40	0	0	<b>30</b>	T 20140530 P30	0.00	0.04	0.09	0	0	0
T 20140530 C30.5	0.00	4.60	4.90	0	0	<b>30.5</b>	T 20140530 P30.5	0.00	0.04	0.10	0	0	0
T 20140530 C31	0.00	4.10	4.40	0	0	<b>31</b>	T 20140530 P31	0.00	0.06	0.11	0	0	0
T 20140530 C31.5	0.00	3.65	3.95	0	0	<b>31.5</b>	T 20140530 P31.5	0.00	0.08	0.13	0	0	0
T 20140530 C32	0.00	3.15	3.45	0	0	<b>32</b>	T 20140530 P32	0.00	0.11	0.15	0	0	0
T 20140530 C32.5	0.00	2.72	2.98	0	0	<b>32.5</b>	T 20140530 P32.5	0.14	0.15	0.17	15	15	15
T 20140530 C33	0.00	2.28	2.52	0	0	<b>33</b>	T 20140530 P33	0.00	0.20	0.23	0	0	0
T 20140530 C33.5	0.00	1.86	2.02	0	0	<b>33.5</b>	T 20140530 P33.5	0.25	0.27	0.30	17	24	24
T 20140530 C34	0.00	1.48	1.61	0	0	<b>34</b>	T 20140530 P34	0.00	0.37	0.39	0	0	0
T 20140530 C34.5	1.30	1.17	1.25	5	5	<b>34.5</b>	T 20140530 P34.5	0.00	0.50	0.53	5	5	5
T 20140530 C35	0.00	0.85	0.92	0	0	<b>35</b>	T 20140530 P35	0.00	0.69	0.75	0	0	0
T 20140530 C35.5	0.00	0.60	0.67	0	0	<b>35.5</b>	T 20140530 P35.5	0.00	0.93	1.01	0	0	0
T 20140530 C36	0.45	0.40	0.46	3	0	<b>36</b>	T 20140530 P36	0.00	1.22	1.32	0	0	0
T 20140530 C36.5	0.30	0.25	0.30	7	7	<b>36.5</b>	T 20140530 P36.5	0.00	1.56	1.69	0	0	0

I sold the 35.50 put and had no problem being filled opening or closing the trade.

## Other Considerations

- Avoid stocks with options that are \$5 apart. Stick with options that have strikes at every \$0.50, \$1 or at most at \$2.50.
- Be sure to look at which months and strikes are available in the event you need to roll out and down. You don't want to be surprised to find out you have nowhere to run, or that you will have to tie up your money for as much as a year or two.

## Earnings Reports

- Experts say it's a good idea to stay away from selling price insurance on stocks that are due to have earnings reports within the next two weeks.
- However, if you sell price insurance for strikes that are a “healthy” distance away from current prices, you usually do not have to be worried about earnings reports. In those situations you have plenty of time and space to roll out and down. Remember, we are looking at stocks that as a rule will not fall a huge amount all at once.
- I have been able to get excellent premiums on strikes that were as much as \$6 to \$10 distant from current prices.

## Earnings Reports

- If you look for stocks that meet all the requirements, and then want to include earning dates, it can be a great way to trade. It means more work, but the results can be sensational.
- Earnings dates are given before the open, and after the close.
- I consider them to be of the utmost importance, and believe they are a prime filter for underwriting price insurance.

# Earnings Reports

- When they are given after the close, you have to wait for the next open before you can see the result. But whether they are given before or after the close, the results may be dramatic. If earnings were better than expected, prices may shoot up enabling you to receive premium close to the previous day's action.
- If earnings were worse than expected, prices may shoot down, allowing you to sell puts at good premium further away than before the report.
- In either case, prices may make huge moves, giving you opportunities that were not previously available.

# Earnings Reports

CL: Colgate-Palmolive Company @ NYSE (Daily bars)  
www.TradeNavigator.com © 1999-2014

**CL issued an earnings report after the close on April 25 (arrow). The following Monday, prices shot higher giving an opportunity to sell the 65 put 0.45 bid/0.49 ask. Once prices exploded higher selling insurance close to the price action became possible. One interesting point is that earnings of 0.68 were exactly what the experts had predicted. There was no *earnings surprise*.**

04/28/2014 = 67.86 (+1.62)



# Earnings Reports

GLW: Corning Incorporated @ NYSE (Daily bars)  
www.TradeNavigator.com © 1999-2014



Here's a trade I had hoped to give: GLW, but as you can see earnings, which came out before the open on the 28<sup>th</sup> brought with it mixed emotions. Prices could break either way depending on how much is read into the report. Interestingly, earnings for GLW came in 0.01 higher than expected. I have seen prices soar on earnings reports that came in only 1 cent higher than expected. This could still happen with GLW.



# Earnings Reports

MPC: Marathon Petroleum Corporation @ NYSE (Daily bars)

www.TradeNavigator.com © 1999-2014



This trade in MPC had remarkable results after an earnings announcement on May 1.

I was in this trade with \$80 puts. Priced gapped open and moved to 88.73; reached as high as \$97.28, and closed at 95.44. An \$8.55 move in one day.





# No Need to Take a Loss

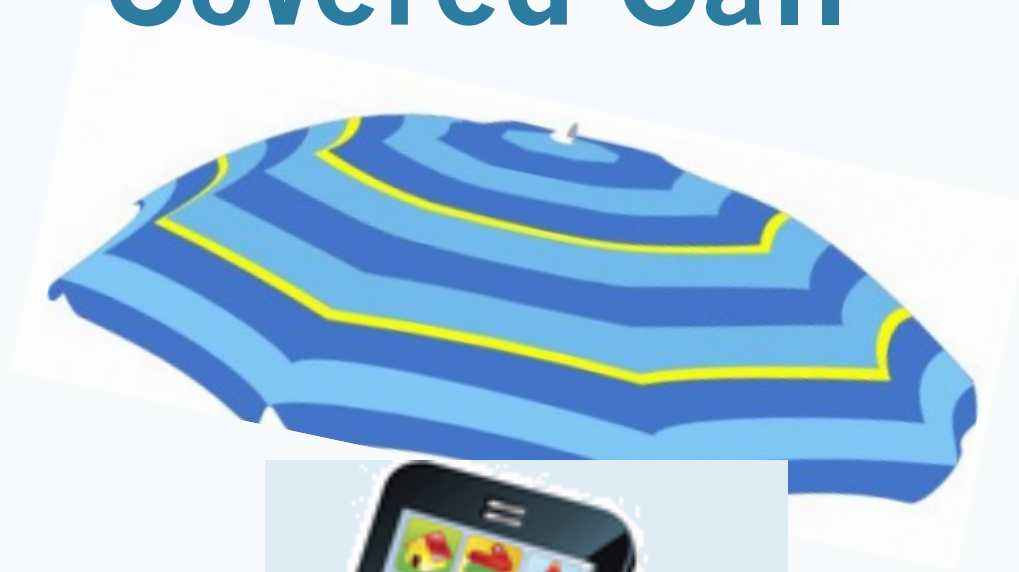
- Can you see that by rolling out and down there is no need to ever lose money selling insurance on uncovered put options?
  - We are talking about proper underwriting.
  - Initially we want to underwrite options that have 6 weeks or less until expiration — often longer. That gives us time and space to roll out and down.
  - However, we don't want to underwrite options that have expirations too far away, or we can be trapped into a situation where we have no place in which to roll out or down.
  - Additionally, we don't want to tie up our money for great lengths of time.

# No Need to Take a Loss

- Initially we want to underwrite options that are at least a couple of price strikes out of the money, but it's difficult to know how many strikes, as you will see during the guidance. It's important that we choose strikes that have plenty of room to roll out and down.
- If share prices rise, we can pocket profits and roll out and up, or simply take profits and look for another trade..
- We benefit from an extremely safe strategy.
- If we ever make a mistake, or if there is a crash so great that we are forced to buy the shares, we will own shares in strong companies that pay dividends. We still earn something on our money while we wait for better opportunities.

# If Tragedy Strikes

# Covered Call



## Covered Call

- In the rare case in which we end up buying shares, we find ourselves in possession of heavily traded stocks. We are owners of shares of companies we have already qualified as being dividend payers.
- Experience has shown that if we have to buy shares, we can use those positions to generate an extra 12% to 20% a year in income. To do that, we use another trading strategy called "selling covered calls."

# Covered Call

- Like a put, a call is an option. Let's compare them.
- When someone buys a **put option**, he's buying the right (but not the obligation) to **sell** a stock at a set price (called the "**strike price**") by an agreed-upon future date.
- When someone buys a **call option**, he's buying the right (but not the obligation) to **buy** a stock at a set price by an agreed-upon future date.

# Covered Call

- We're usually not interested in buying calls. We're interested only in selling them, and then, only in the rare case that we have to buy shares. We are selling someone else the right to buy our shares at a set price in the future. We're taking cash up front, then agreeing to sell the shares we own at the same price or more than we paid for it.
- "Covered" simply means we own enough shares to **cover** the liability should the call option be exercised and we're forced to sell our shares. (That's known as having our shares "called away.")

## Covered Call

- There are two basic outcomes when selling covered calls. The first is that, at expiration, the shares close at or below the strike price.
- In that case, you keep your shares and the premium. And you can sell another round of calls to generate more income.



## Covered Call

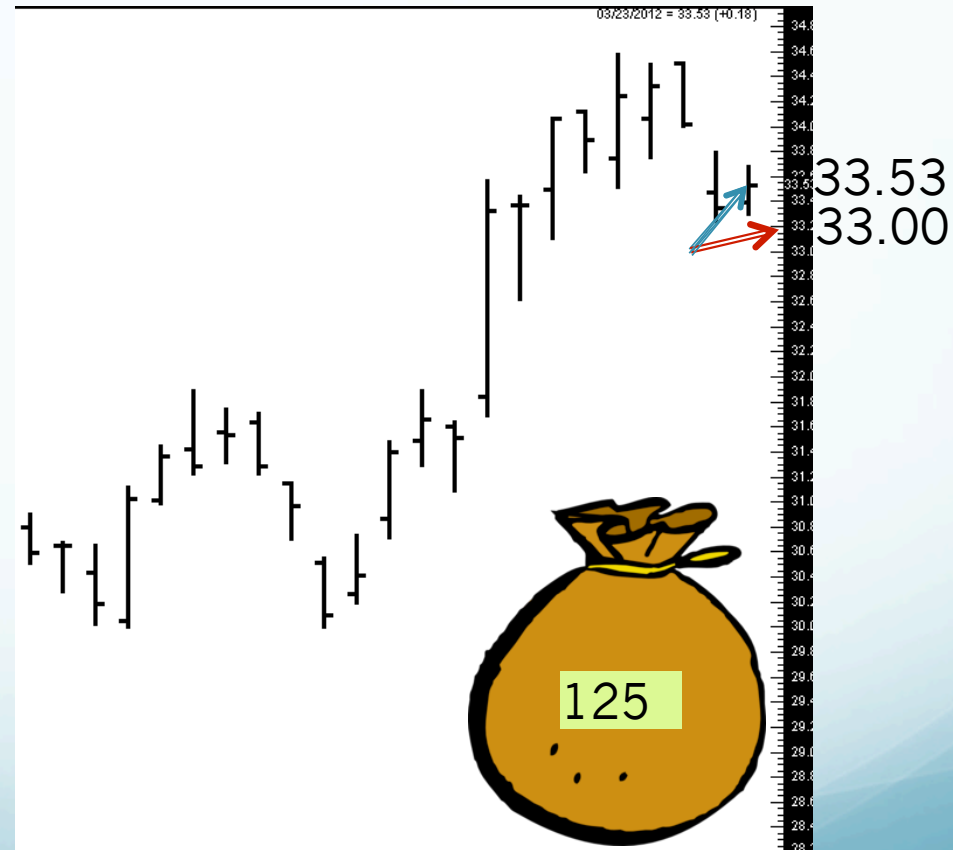
- The second outcome is that your shares are “called away”. The stock closes above the strike price at expiration. You keep the premium, and sell your shares for the strike price.
- In this case, your profit is equal to the premium received plus the difference between the prices at which you bought and sold shares. That difference is a "capital gain".

## Covered Call

To better help you grasp the concept, I'm going to walk through an actual trade in which I was put the stock and then sold a covered call.

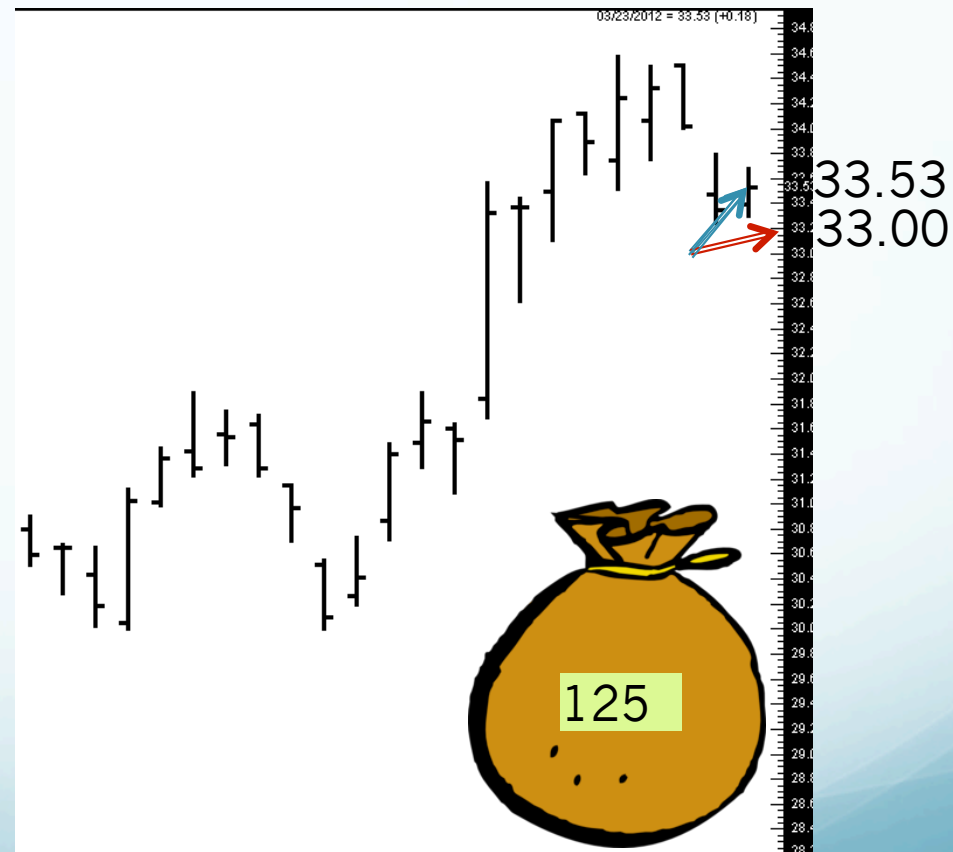
# Covered Call

- On March 23, 2013 I sold May \$33 puts on Wells Fargo. At the time, shares of Wells Fargo were trading for \$33.53, and I collected \$125 in premium for each put contract I sold.



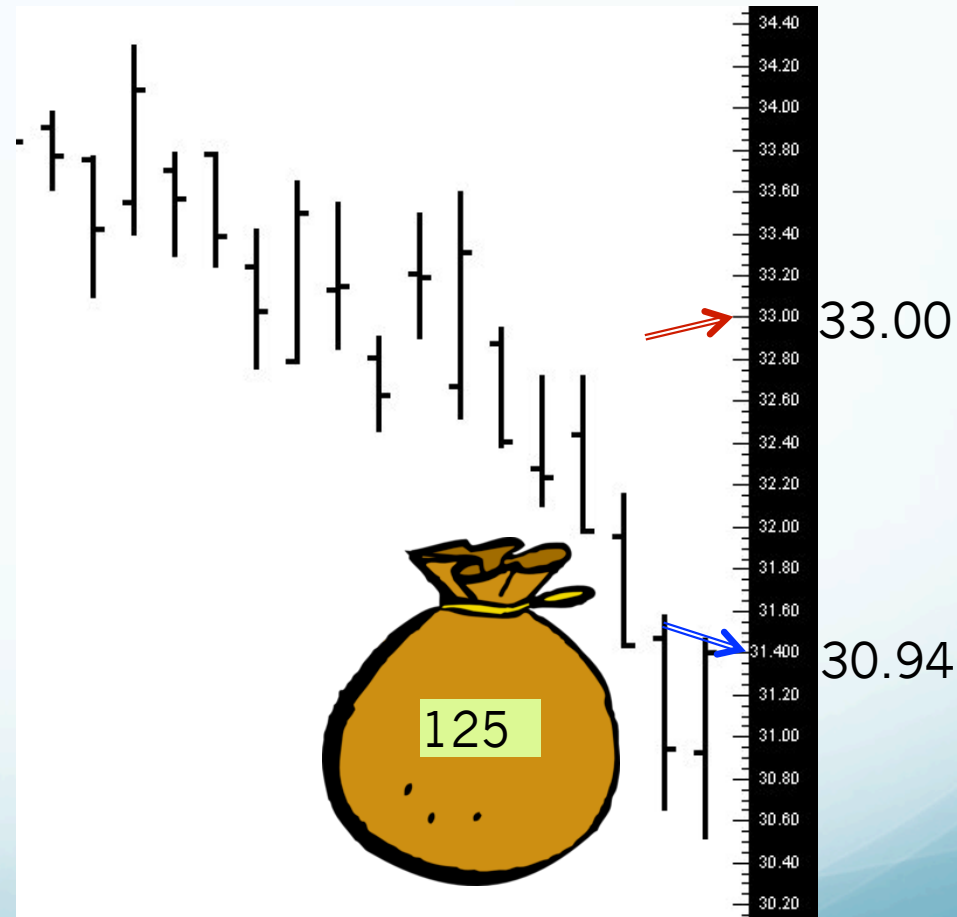
# Covered Call

- In this example, \$33 is the strike price. As long as shares of Wells Fargo traded at or above \$33 by the expiration date of Friday, May 18, I would book the entire premium with no obligation to buy shares.



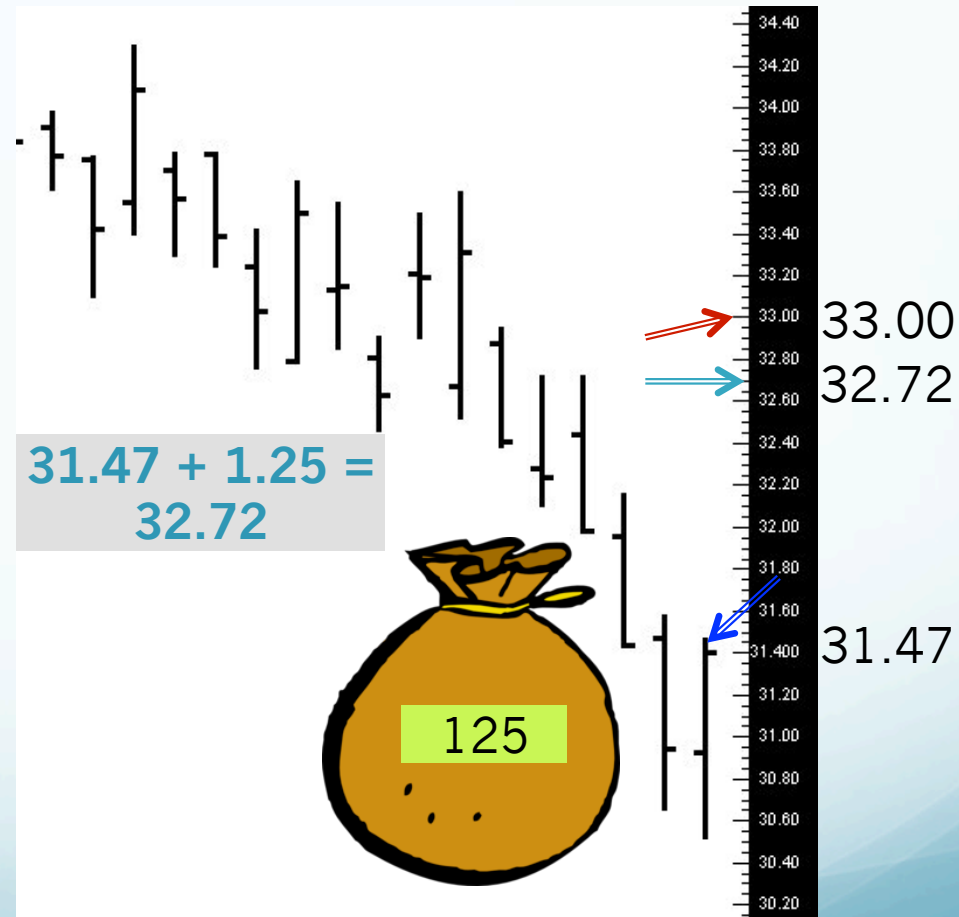
# Covered Call

- However, due to the need to travel I was unable to monitor the trade, and when the options expired shares of Wells Fargo were trading for \$30.94, well below the strike price. So I was "put" shares of Wells Fargo.



# Covered Call

- During that same day, Wells Fargo traded as high as \$31.47 in the market.
- Even had I taken the highest possible price I could have received for Wells Fargo shares that day, \$31.47, and added the \$1.25/share premium collected for selling the puts, I would have had "just" \$32.72.



# Covered Call

- \$32.72 was \$0.28 below the strike price, meaning that, at best, I was down \$28 on the position.
- If I had sold my Wells Fargo shares that day, I would have taken a loss. But I didn't do that. Instead....



# Covered Call

- On the same day that I purchased the stock (Monday, May 21), I sold July \$33 call options on Wells Fargo, collecting \$86 for every call contract I sold.





# Covered Call

- When the calls expired on July 20, Wells Fargo was trading at \$33.81. Because the stock was above the strike price, the July calls were exercised and my shares were "called away." In other words, I sold my stock for \$33 a share, the same price I had paid for it.



# Covered Call

- But because I collected the extra \$86 in premium from selling covered calls, I turned what could have been a \$28-per contract loss into a gain, and booked a 20.4% annualized gain on the trade in less than four months.



# Covered Call

- Thanks to selling covered calls, the trade can end up a winner even when we are put a stock. That's why it's so important to sell puts on only heavily traded companies that pay dividends, and which you wouldn't mind owning.



## Expectations

There will be times when the price of the put option you sold will move higher than what you sold it for—thereby giving you a temporary “paper” loss.

Do not panic. Option prices fluctuate just like stock prices. Sometimes they move in your favor, and sometimes they don't.

## Expectations

Things to remember when selling put options:

- The price of the stock can move lower, and ultimately still give you a profit.
- As long as the stock price doesn't move below your strike price by expiration, you will still have a profit.
- Remember, we attempt to use strikes that are as far as practical below the current price of the stock in order to give room for normal stock movement.
- If threatened, we will always attempt to alter the trade by "rolling" the option out and down to a different strike in a more distant week or month.
- The owner of the put has a decaying asset, which will waste away to zero. At times, we simply have to wait it out.

## Daily Guidance

- There's not much left to tell. The best way for us to proceed now is to learn by doing. Unfortunately, I cannot manufacture a bear market for you.
- Concern yourself with learning, not trading.
- Until you feel comfortable with selling price insurance, I suggest you do the trades on a simulator. Follow along to see how they work, and what happens over time.
- Please send in your questions via e-mail because we want to build an FAQ for those who follow, to save having to repeatedly answer the same questions. I will answer your questions in the daily podcast, and also post them in the FAQ.

# Remember the Option Secret



**SELL PRICE INSURANCE  
AS OFTEN AS YOU CAN**

**We're done!  
Let's make some money!**

