WYATT INVESTMENT RESEARCH

3 SIMPLE OPTIONS STRATEGIES

Your Guide to Consistent Profits

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You wouldn't buy a car that didn't go in reverse. But having investments that can profit when the market goes backward is just as important as having a car that can back up.

We've seen this fact play out in the markets lately: **Long-only equity portfolios will not perform well during bearish market cycles**.

Therefore, you have to make certain that your portfolio has access to investments that go backward AND forward. You need to employ strategies that can profit during up markets, down markets and sideways markets.

I use options strategies because they have the potential to make money in any type of market environment.

If used appropriately, options are a powerful investing tool for individual investors. Innovations in technology have allowed the retail trader the ability to trade on an equal playing field with the professional options trader. Individual investors now have the opportunity to participate in one of the most important developments in the field of investments of the last 25 years.

My goal in writing this special report is to provide a practical guide to some of my favorite options strategies that I use in my *Options Advantage* and *High Yield Trader* portfolios.

I will provide a map that will guide you through the construction of these options strategies and will highlight the risk/reward profiles that each strategy carries. These options strategies will work as a complement to your investment objectives.

I do not offer a "get rich quick" strategy – simply because I've seen these strategies fail too many times to risk my money and yours chasing ridiculous gains.

Rather, I employ several sound and statistically-proven options strategies that are designed to produce consistent gains over the long term.

Why Diversify?

Utilizing a variety of options strategies is much like investing in a diverse array of stocks. As we all know, diversification is the key to long-term success. It is not only mathematically logical, but also a financially sound practice. Why fight the likes of Nobel laureates Markowitz, Miller and Sharpe, the fathers of portfolio diversification?

My strategies can easily be integrated into your current investment portfolio even if it is an individual retirement account. I would hope that you would **NEVER "put all your eggs in one basket."** It is too risky; if you drop the basket, you can lose everything. Smart investors would never employ this type of reckless investing, as the risk far outweighs the reward.

I seek to achieve superior risk-adjusted returns through short-term trading, switching between options in highly liquid exchange-traded funds (SPY, DIA, QQQ, IWM, etc.) a few highly-liquid stocks and cash. Each strategy operates in conjunction with buy or sell signals generated by my own proprietary models.

It is my hope that through this report and subsequent use of one of my services you will become familiar with the most important aspects of options so that you can start earning a steady income and boost your portfolio returns using options-based investing each month, regardless of the market's direction.

Why Options?

Trading options is nothing like trading stocks. Most investors make the mistake of bringing their experiences and ideas about stock investing into the field of options. They view options as a leverage investment on a given stock or ETF and nothing else. Whatever direction the market moves decides the fate of your trade. This might be the case when trading stocks, but it doesn't have to be with options.

Options traders do not view the markets as binary (long or short). Rather, an options trader makes an assumption based on his view of the market. He determines how bullish or bearish he is and applies the options strategy that best serves his assumption. Once the options trader chooses an appropriate options strategy he has the ability to choose a specific probability of success and the risk tolerance of his choice for each and every trade.

You simply can't craft such specific and effective investment theses in stock trading.

Stock traders do not have the ability to be partially correct and still make exceptional returns. But, that's the whole point of using options effectively: putting yourself in the position to make money, even if you're only partially correct in your assumptions.

Investing in options can allow you to make money on the randomness of the market – bullish, bearish or neutral, it doesn't matter – as long as you give yourself a margin of error.

I realize this might be a foreign concept to some of you, but I will show you how the aforementioned concept is applied in the strategies below.

Of course, there are risks and tradeoffs associated with options, but it's a mistake to see any asset class as being non-risky.

You can't avoid risk in the financial world.

Even holding cash has risk.

I will go over the risks associated with each type of trade that occurs in my options strategies because it is just important to understand your risk as it is your reward.

I am confident that once you learn how to properly use options, you will immediately find that options are the most powerful tool in the investment arena and are a necessity to outperforming the market.

The Foundation of Options – Puts and Calls

There are only two types of options – calls and puts. It's really very simple.

The textbook definition of an option is as follows:

The right, but not the obligation, to buy or sell a specified asset at a predetermined price over a predetermined time.

While the aforementioned definition is correct, it makes my eyes glaze over each and every time I read it.

My goal is to bring options to the forefront, to dispel the mystery of how they are used and to show you how to use options in an effective and responsible manner. Definitions, like the standard one mentioned above only make options more difficult for the average investor.

Simply stated, options can be bought or sold. An investor who buys an option is long the option. A person who sells an option is short the option. Simple, right?

- Buy = Long
- Sell = Short

There are only two types of options: calls and puts.

Every position that is built using options is composed of either all calls, all puts, or a combination of the two. One thing that smart option traders know is that you can sell options as easily as you buy them. By learning how to incorporate both the buying and selling of options you will be learning the key strategies used heavily by most professional options traders.

So what exactly are call and put options?

Both puts and calls can be either bought or sold, just like stocks. When you "buy to open" an option, thereby paying a debit, you are said to be long that option.

When you "sell to open" an option, thereby collecting a credit, you are said to be short that option.

Most beginners start by just buying calls and puts.

Buy a call (long call)

- Buying a call option – call option buyers hope for higher prices.

The buyer of a call option has the expectation that the underlying security is going to move up.

And when I say "underlying security," I am referring to the stock, ETF or commodity in which you are trading options. In our case, ETFs. A call buyer has the right to control a bullish directional position of long 100 shares of stock per options contract for a specified time (until options expiration) at a certain strike price.

The call buyer essentially pays a fee to the option seller for this right, which is called the "premium." I will discuss premium shortly.

The following are the characteristics of a long call:

- Market sentiment – bullish
- Risk – varies, but has a limited loss potential equal to the price paid for the call option, otherwise known as the premium
- Time in trade – can vary from hours to several years (I typically hold a long call for less than one week)
- Winning trade – the underlying ETF advances in value greater than the amount of time value you paid for the option
- Losing trade – ETF remains stable or declines. If the ETF remains stable you will gradually lose time-value which will cause the price of the option to decline. If the ETF declines you will lose intrinsic value and time value will decline the longer you hold the trade, which will cause the price of the call option to decline.

<u>Buy a put (long put)</u>

- Buying a put option – put option buyers hope for lower prices.

Buying put options is the exact opposite of buying calls. The put option buyer has the expectation that the underlying security is going to move lower in price. A put buyer has the right to control a bearish directional position of short 100 shares of stock for a specified period of time at a certain strike price level. The put option buyer has a limited loss potential equal to the price paid for the option, but also has an unlimited upside gain potential.

Just like call buyers, the put buyer essentially pays a fee to the option seller for this right, which is called the "premium."

The following are the characteristics of a long put:

- Market sentiment – bearish
- Risk – varies, but has a limited loss potential equal to the price paid for the put option, otherwise known as the premium
- Time in trade – can vary from hours to several years (I typically hold a long put for less than one week)
- Winning trade – the underlying ETF declines in value greater than the amount of time value you paid for the option

- Losing trade – ETF remains stable or advances. If the ETF remains stable you will gradually lose time value which will cause the price of the option to decline. If the ETF advances you will lose intrinsic value and time value will decline the longer you hold the trade which will cause the price of the put option to decline.

Now that you know how to buy calls and puts, let's move to something a little more complex, but certainly not difficult.

The sellers of calls and puts have different views and obligations. **Options traders sell options to bring in income.**

The seller of a call has a neutral to bearish view of the underlying security (although I take a different stance, which I will discuss in a future special report).

The seller of a put option has a neutral to bullish view of the underlying security (again, I will discuss how my strategy of selling options works in a future special report).

I do not sell calls or puts by themselves, otherwise known as selling naked calls or naked puts. I sell what is called vertical call spreads and vertical put spreads for reasons I will discuss in my *Options Advantage* strategy report.

So, simply stated:

Sell a call (short call)

- Call option sellers hope for stable or declining prices.

Sell a put (short put)

- Put option sellers hope for stable or advancing prices

So let's review.

- Buy calls (debit) = long calls = bullish on the market
- Buy puts (debit) = long puts = bearish on market
- Sell calls (credit) = short calls = slightly bearish to neutral view
- Sell puts (credit) = short puts = slightly bullish to neutral view

You can't avoid risk in the financial world.

Even holding cash has risk.

Again, I will go over the risks associated with each type of trade that occurs in my options strategies. Because it is just important to understand your risk as it is your reward.

I am confident that once you learn how to properly use options, you will immediately find that options are the most powerful tool in the investment arena and are a necessity to outperforming the market.

Debunking Common Myths About Options

The most common myth about options is that they're risky. As I already explained, every investment is risky.

Your potential for loss in options doesn't have to be any greater than your potential for loss in stocks or bonds or commodities.

The other big myth is that some options traders are able to vastly multiply their wealth in short order.

But the same rules apply here as well. If you make big bets on high risk-reward trades, yes, you can make lots of money very quickly. But the same can be said of penny stocks or the roulette wheel.

Options are vastly misunderstood and typically used improperly by inexperienced traders. Oftentimes, new options traders attempt to make inherently greedy decisions by choosing "pie in the sky" strategies rather than a methodical, steadfast approach. They ignore the fact that they are able to increase their chances of success by tenfold through the use of a highly leveraged strategy. They want the chance of striking gold, making the filthy rich trade, which is basically the same as buying a lottery ticket.

If you want lottery-like results, you should play the lottery.

My approach is much different. I allow the statistics to work for me, not against me. I aim to hit singles and doubles with a high rate of success. Of course, from time to time a home run will occur, but this type of trade should be deemed as an anomaly.

Simply stated, I have the ability to create my own odds on each and every trade.

I hope you are not overwhelmed so far. I want to keep it as simple as possible because it is important to me that you understand exactly how I trade options.

High-Probability Options Strategies

"Don't take action with a trade until the market, itself, confirms your opinion. Being a little late in a trade is insurance that your opinion is correct. In other words, don't be an impatient trader." -Jesse Livermore

A question I often receive is, "What do you think about the markets here?"

My typical response is, "I don't care."

OK, that may be a bit harsh, but it is true. For the most part I really don't care about the daily news that flows in and out of the market. I am an options trader. I trade strategies based off probabilities. I create statistical advantages based on my current market assumptions.

We must realize that knowing what is going on in the news and knowing how to make money consistently are two separate things. For successful options investors it's about your strategy, your logic, your process. It doesn't matter what you think the market is going to do tomorrow. I realize it's a difficult concept for the options newbie to understand.

You see, it doesn't pay for me to try to absorb every financial story out there. All I care about is when my indicators hit extremes. I allow probabilities, not the talking heads, to define my options strategies.

And this means that the strategy enters periods of stagnation. Trades should never be forced. A forced trade is not a statistically sound trade. Again, this is a long-term approach to options trading and should be expected if you wish to bring in profits over the long-term.

Boring? Maybe to the aggressive crowd out there. But, I am more interested in the profitable trades – not trying to be the short-term hero who tries to trade every scenario out there. I am confident in trades that consist of short-term extremes that have entered the stock market – **high-probability trades**.

What is a High-Probability Trade?

I am also a realist. I realize there is no holy grail in trading. However, with that being said, one thing I do know for certain is that I have found a unique and concrete opportunity that makes a world of sense to me and I trade it to make money over the long-term.

Furthermore, I realize that the less I trade, the better the strategy will perform over the long term. And the long term is what matters. This likelihood is what makes my High-Probability Strategy unique and successful.

Patience is the key ingredient to the success of the strategy and again I can't emphasize this enough, forcing a trade is detrimental to any long-term options strategy.

The High-Probability Strategy is a short-term directional strategy that utilizes single calls and puts based on overbought/oversold extremes in the market. The strategy requires patience

coupled with a disciplined approach. The strategy will make approximately, on average, 8 to 12 recommendations a month with holding periods of 7 to 56 days.

Again, the key to this strategy is patience. Waiting for the appropriate scenario to recommend trades with a high probability of success is what makes this strategy a success. As I always say, opportunities are made up easier than losses. So if you let a few pass you by, don't dwell on what could have been. There will always be more opportunities around the corner. Remember, trading is a marathon, not a sprint.

What Indicators Do I Use to Successfully Trade High-Probability Strategies?

I learned early on to keep it simple. Pick a few indicators and follow them forever. I can't tell you how many traders that I know that want to follow bull flags, bear flags, candlestick patterns, Fibonacci retracements – the list goes on and on. They will try to teach you about their long list of indicators to make themselves look impressive, but in reality most are horrible traders and unsuccessful over the long term.

Why rely on the barometric pressure, Gulf Stream speed, humidity, ocean temperature and astrological temperament to tell the weather when you can just look out your window?

The High-Probability Strategy uses a few basic RSI models plus my proprietary model to take advantage of sentiment and technical extremes.

Highly liquid ETFs are my underlying instrument of choice when trading options. Basically, I only want to trade ETFs that have a large enough volume to create tight bid/ask spreads. Moreover trading options on ETFs offers huge tax advantages (tax code Section 1256).

Unfortunately, this strategy is partly proprietary so I am unable to give you all the details, but the ones I will mention below are the key facets to the strategy. Again, I keep it very simple … although I am certain if you follow my commentary and any subsequent trades you should gain a firm grasp of the strategy essentials.

So, with that being said, I would like to share with you a few of the technical indicators I use in my proprietary model to give you a head start on learning how I trade the strategy.

One of the most powerful technical indicators I use in my proprietary model is RSI Wilder (2), (3), (5), and (14).

The Relative Strength Index (RSI), developed by J. Welles Wilder, Jr. is an overbought/oversold oscillator that compares an entity's performance to itself over a period of time. It should not be confused with the term "relative strength" which is the comparison of one entity's performance to another.

I prefer to set my time frame at 1 year.

RSI allows me to gauge the probability of a short to intermediate-term reversal. It does not tell me the exact entry or exit point, but it helps me to be aware that a reversal is on the horizon.

Knowing that a short-term top/bottom is near I am able to increase the probability of a potential trade. Conversely, knowing that a reversal is on the horizon I am able to lock in profits on a trade.

Again, I am a contrarian at heart and I prefer to fade an index whether overbought or oversold when the underlying index reaches a "very overbought/very oversold" state. Fading just means to place a short-term trade in the opposite direction of the current short-term trend. We're leaning into the wind a little with the expectation that we'll catch the next big gust going the other way.

Of course, other factors must come into play before I decide to place a trade, but I do know that, in most cases, when an index reaches an extreme state, a short-term reversal is imminent. Again, I will keep all of you abreast of the overbought/oversold condition in the Weekly Report and on the Wyatt Investment Research website.

The following is the baseline for my High-Probability Trades:

- Very overbought - greater than or equal to 85.0
- Overbought - greater than or equal to 75.0
- Neutral - between 30.0 and 75.0
- Oversold - less than or equal to 30.0
- Very oversold - less than or equal to 20.0

I use the RSI over various time frames and the shorter the duration of the RSI the more I want to see an extreme reading.

Again, I keep it simple, very simple. Why would I attempt to create a complex options strategy when the High-Probability Strategy has a win ratio over 85% with an average return of over 8% per month?

Simple often equals boring, and that often does not entice traders. But I am not here for excitement, I am here to provide a sound options strategy that makes people money over the long haul. That is exactly what the High-Probability Strategy has succeeded in doing.

So let's review the benefits of the Options Advantage High-Probability Strategy:

1. Short-term strategy that holds a position 7-56 days on average
2. Can make 5% to 15% a month
3. Uses a diverse group of highly liquid ETFs
4. Only exposed to the market for a limited number of days
5. Section 1256 tax advantage

Options Advantage Credit Spread Strategy

As an options trader I am often asked about my favorite options strategy for producing income. I have been bombarded with questions from investors for years about how to trade small-cap stocks for income using options.

In my opinion, the best way to bring in income from options on a regular basis is by selling vertical call spreads and vertical put spreads otherwise known as credit spreads.

Credit spreads allow you to take advantage of theta (time decay) without having to choose a direction on the underlying stock. This is great when you aren't 100% confident in the mid-term direction of, say, an ETF.

Vertical spreads are simple to apply and analyze. But the greatest asset of a vertical spread is that it allows you to choose your probability of success for each and every trade. And, in every instance vertical spreads have a limited risk, but also limited rewards.

My favorite aspect of selling vertical spreads is that I can be completely wrong on my assumption and still make a profit. Most people are unaware of this advantage that vertical spreads offer.

Stock traders can only take a long or short view on an underlying ETF, but options traders have much more flexibility in the way they invest and take on risk.

So what is a vertical credit spread anyway?

A vertical credit spread is the combination of selling an option and buying an option at different strikes which lasts roughly 7-56 days.

There are two types of vertical credit spreads, bull put credit spreads and bear call credit spreads.

Bull Put Credit Spread

The goal of selling a bull put credit spread or vertical put spread is to have the stock finish **ABOVE** the put you sold at options expiration.

Simply stated, you want the stock to stay above the short strike until it reaches expiration. I typically sell out-of-the-money puts so that I have some room for error if my assumption is incorrect. Yes, I can be incorrect in my assumption on the market and still make the full profit on the trade.

Let me give you a simple example using a specific trade.

Example:

I placed an options trade using the highly liquid **iShares Silver Trust (NYSE: SLV)** as my underlying ETF. I prefer to use various ETFs to make this trade but you need to make sure that the ETFs are liquid – i.e., frequently traded – options on the stock in question.

With silver trading at new lows and consolidating I decided to place the following trade:

- Sell to open Aug SLV 28 puts
- Buy to open Aug SLV 26 puts

This spread created a total credit (that's cash in hand) of $0.24 (or higher) for a return of 12% if SLV closes above $28 at August options expiration.

At the time, silver was trading for roughly $33. While I was bullish on silver, I still wanted some downside protection, which is why I sold the Aug SLV 28/26 vertical put spread. Again, this is how I typically trade bull put credit spreads. I like to sell out-of-the-money puts, in this case the SLV 28 puts to give me some room for error.

The SLV credit spread allowed for a 15% decline in the underlying issue (in this case SLV) before the trade was in jeopardy of becoming a loser.

Again, as long as SLV closed above $28 at August expiration, I would make 12% on the trade.

Amazing, right? Nice upside, with limited downside. This is why options and more importantly credit spreads are a necessity in any portfolio. If used correctly, they can be a powerful tool to enhance returns in your overall portfolio -- even if the market slips significantly lower.

With July options expiration behind us and August expiration 32 days away, the credit spread that I placed was only worth $0.03. Remember, we sold a vertical put spread for $0.24, so if we want to take the trade off the table we would need to buy it back, in this case for $0.03. So we made the difference between the price for $0.21. Given the limited upside remaining, I decided to take all risk off the table and buy back the spread.

Here is the trade I placed to do this:

- Buy to close Aug SLV 28 puts
- Sell to close Aug SLV 26 puts for $0.03

Some of you might be asking why would we not just let the spread expire worthless, which would allow us to reap the entire $0.24?

The answer is that upside from here is very limited. While I did not think SLV would move 28% lower over the next 32 days, I was not willing to take a chance on silver breaking to new lows just to make an additional $0.03.

Trading, particularly options trading, is about taking profits when it makes sense; and being prudent, staying disciplined and most importantly, looking at the long-term picture.

Trying to squeeze $0.03 out of a trade just isn't worth the risk. The trade was successful, making 11% in just over three weeks. It was time to move on to the next opportunity.

While I adore my High-Probability Strategy, my favorite options strategy is the vertical bull and bear credit spread. Essentially, the strategy allows you make money even if a security goes nowhere. Most securities tend to stay in a price channel over short-term periods, so using this strategy lets you make a high-probability investment that nothing extremely bad or good will happen to the underlying investment over the short term.

Bear Call Credit Spread

Here is another example of how I use credit spreads to bring in income on a monthly and sometimes weekly basis. This time I am using a bear call credit spread.

Example:

Fear is in the market. Look no further than the Volatility Index, or the VIX (otherwise known as the investor's fear gauge) to see that the fear is palpable. However, opportunities are plentiful with the VIX trading at 35 – especially for those of us who use credit spreads for income.

Why?

Remember, a credit spread is a type of options trade that creates income by selling options.

And in a bearish atmosphere, fear makes the volatility index rise. And, with increased volatility brings higher options premium. And higher options premium means that options traders who sell options can bring in more income on a monthly basis.

So, I sell credit spreads.

As we all know, the market fell sharply in the beginning of August and the small cap ETF **iShares Russell 2000 (NYSE: IWM)** traded roughly 18% below its high one month prior.

So how can a bull put allow me to take advantage of this type of market, and specifically an ETF, that has declined this sharply?

Well, knowing that the volatility had increased dramatically causing options premiums to go up, I should be able to create a trade that allows me to have a profit range of 10% to 15% while creating a larger buffer than normal to be wrong.

Sure, I could swing for the fences and go for an even bigger payday, but I prefer to use volatility to increase my margin of safety instead of my income.

Think about that … Most investors would go for the bigger piece of the pie, instead of going for the sure thing. But as they say, a bird in the hand is worth two in the bush. Take the sure thing every time. Don’t extend yourself. Keep it simple and small and you’ll grow rich reliably.

Back to the trade…

Basically, IWM could have moved 9.8% higher and the trade would still be profitable. This margin is the true power of options

So, let's take a look at the trade I suggested to subscribers using IWM. IWM was trading for $70.86:

- Sell IWM Sep 78 call
- Buy IWM Sep 80 call for a total net credit of $0.24

The trade allowed IWM to move lower, sideways or even 9.8% higher over the next 32 days. As long as IWM closed below $78 at options expiration the trade would make approximately 12.0%

It's a great strategy, because a highly liquid ETF like IWM almost never makes big moves and even if it does, increased volatility allowed me to create a larger than normal cushion or margin or error just in case I am wrong about the direction of the trade. So, selling and buying these two calls essentially gave me a high probability of success – because I am betting that IWM would not rise over 10% over the next 32 days.

However, I did not have to wait. IWM collapsed further and helped the trade to reap 10% of the 12% max return on the trade. With only 2% left of value in the trade it was time to lock in the 10% profit and move on to another trade.

I am always looking to lock in a profit and to take unneeded risk off the table especially if better opportunities are available.

I bought back the credit spread by doing the following:

- Buy to close IWM Sep 78 call
- Sell to close IWM Sep 80 call for a limit price of $0.04

I was able to lock in 20 cents in profit on every $2 invested for a 10% gain in less than five days. Not too shabby.

Can We Make Money in Range-Bound Markets with Credit Spreads?

We, as options traders, have the ultimate advantage over other investors.

Unlike most investors, we have the ability to structure our positions in a way that generates profits regardless of the direction of the underlying stock or ETF.

Take for instance, the iron condor: an options strategy that thrives when the market goes nowhere. It generates above average profits when the underlying security remains range-bound

for the duration of the trade, which in our case is typically 30-45 days.

The best part is, we have the ability to choose our return. Just keep in mind, the higher your expected return, the higher the risk.

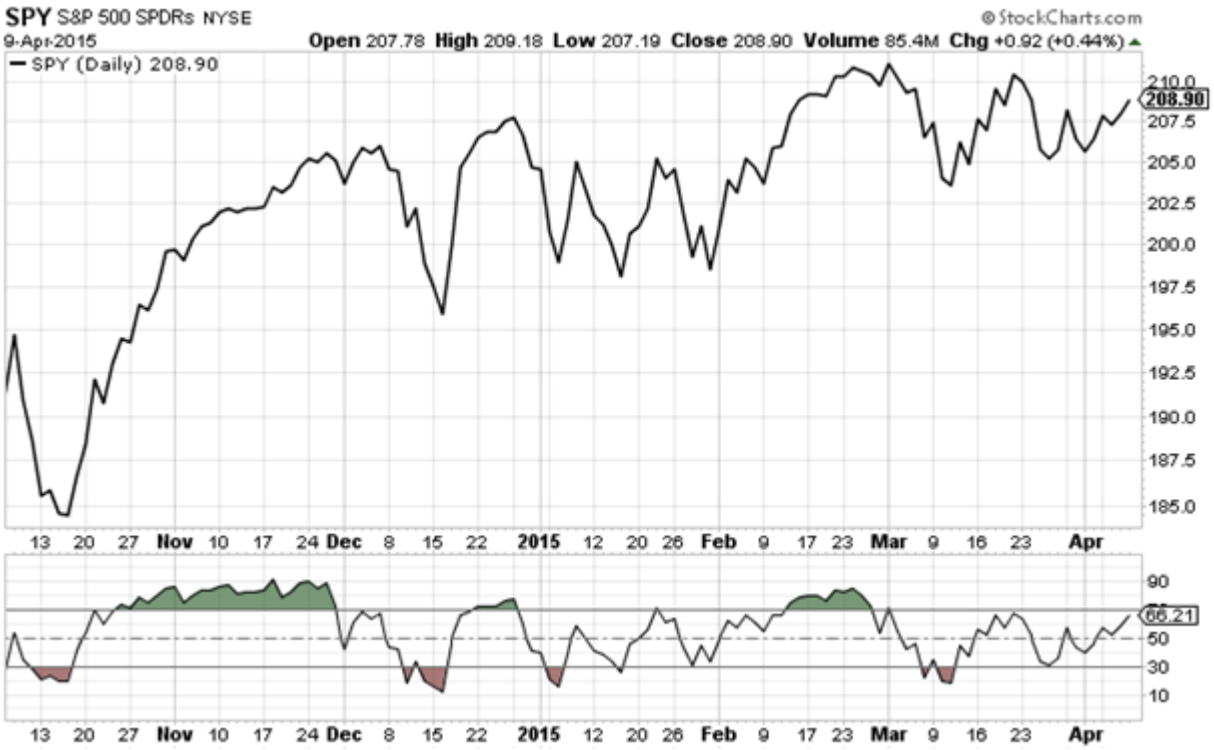
The Iron Condor

Okay, let's get started.

First, a disclaimer of sorts. Again, if you don't understand the terminology, don't be discouraged. Focus on the concept. Pay attention to the numbers, you'll learn the terms with repetition.

The first requirement when trading iron condors is making sure you are using a highly liquid security, in most cases an ETF. Highly liquid, in the options world, just means that the bid-ask spread is tight, say within $0.01 to $0.10, at least in most of the ETFs I trade.

For instance, take the heavily-traded **SPDR S&P 500 ETF (NYSE: SPY)**.



SPY is just one of 50-60 ETFs that is considered "highly liquid" among most options traders. I focus my attention on roughly 30 of those ETFs.

I then move on to my mean-reversion indicator, otherwise known as RSI.

RSI can be seen below the SPY chart above. You'll notice peaks (overbought) in green and valleys (oversold) in red. I want to place a trade when the indicator is in between those areas. It's called being in a neutral state.

But, just being in a neutral state isn't necessarily enough to warrant a trade.

An appropriate implied volatility rank and implied volatility percentile is also needed.

Without going into great detail, the IV rank and IV percentile simply tells us if the implied volatility is high or low in the highly liquid stock or ETF that we want to trade.

If it's normal to high … we want to trade it. Of course, there are a few exceptions, but I'm not going into the details here. I'll save that for another time.

A normal to high IV rank and percentile just means we can sell options for fair to inflated prices, and as anyone who sells anything for a living, your preference is to always sell your product for inflated prices. Options are no different.

Typically this type of set-up occurs when a security moves from an oversold state back into a neutral state. When a security is oversold, it has trended lower, and as a result, fear has increased. The increase in fear inflates the price of the option, because more investors are buying options for protection. And that's the reason why prices are skewed slightly higher for put options.

So, assuming SPY's implied volatility is at least slightly above historic volatility, we can proceed to the next step … choosing your return.

Let's say SPY is trading for roughly $209.

I typically like to start with a trade that has a probability of success around 80%, if not higher. But I use 80% as my starting point.

First I look at the call side of the iron condor, also known as a bear call spread. I want to find the short strike with an 80% probability of success.

	CALLS				Strikes: ALL	
	Prob.OTM	Delta	Bid X	Ask X	Exp	Strike
MAY4 15 (43) 100 (Weeklys)						
	84.37%	.37	2.08 X	2.18 N	MAY4 15	211.5
	66.86%	.35	1.83 X	1.93 N	MAY4 15	212
	69.31%	.32	1.62 X	1.70 N	MAY4 15	212.5
	71.83%	.30	1.41 X	1.48 N	MAY4 15	213
	74.36%	.27	1.20 X	1.29 X	MAY4 15	213.5
	76.76%	.24	1.05 N	1.10 N	MAY4 15	214
	81.55%	.19	.74 Q	.79 X	MAY4 15	215
	83.74%	.17	.62 N	.66 X	MAY4 15	215.5
	86.11%	.15	.48 X	.54 X	MAY4 15	216
	87.84%	.13	.41 N	.45 A	MAY4 15	216.5
	91.24%	.09	.26 N	.30 X	MAY4 15	217.5
	96.28%	.04	.08 W	.12 X	MAY4 15	220

The May 215 calls fit the bill, as it has an 81.55% probability of success.

Next I take a look at the put side with the same goal in mind, a probability of success of 80% or higher.

Strikes: ALL		PUTS			
Exp	Strike	Bid X	Ask X	Prob.OTM	Delta
					13.64% (±7.838)
MAY4 15	194	.65 N	.70 X	87.93%	-.11
MAY4 15	194.5	.68 N	.73 X	87.38%	-.11
MAY4 15	195	.73 N	.78 X	86.62%	-.12
MAY4 15	195.5	.77 N	.82 X	85.95%	-.13
MAY4 15	196	.81 N	.87 X	85.21%	-.13
MAY4 15	196.5	.86 N	.91 X	84.47%	-.14
MAY4 15	197	.91 A	.96 X	83.66%	-.15
MAY4 15	197.5	.97 N	1.03 N	82.70%	-.16
MAY4 15	198	1.02 C	1.09 X	81.82%	-.17
MAY4 15	198.5	1.08 N	1.14 X	80.92%	-.18
MAY4 15	199	1.14 N	1.20 N	79.96%	-.19
MAY4 15	199.5	1.21 N	1.28 X	78.86%	-.20
MAY4 15	200	1.27 N	1.32 N	77.93%	-.20

At 80.92%, the May 198.5 puts work.

So, right now I have my starting range established. Obviously, I can alter it as needed, but first I want a good base for my iron condor trade.

My Approach to Weekly Options

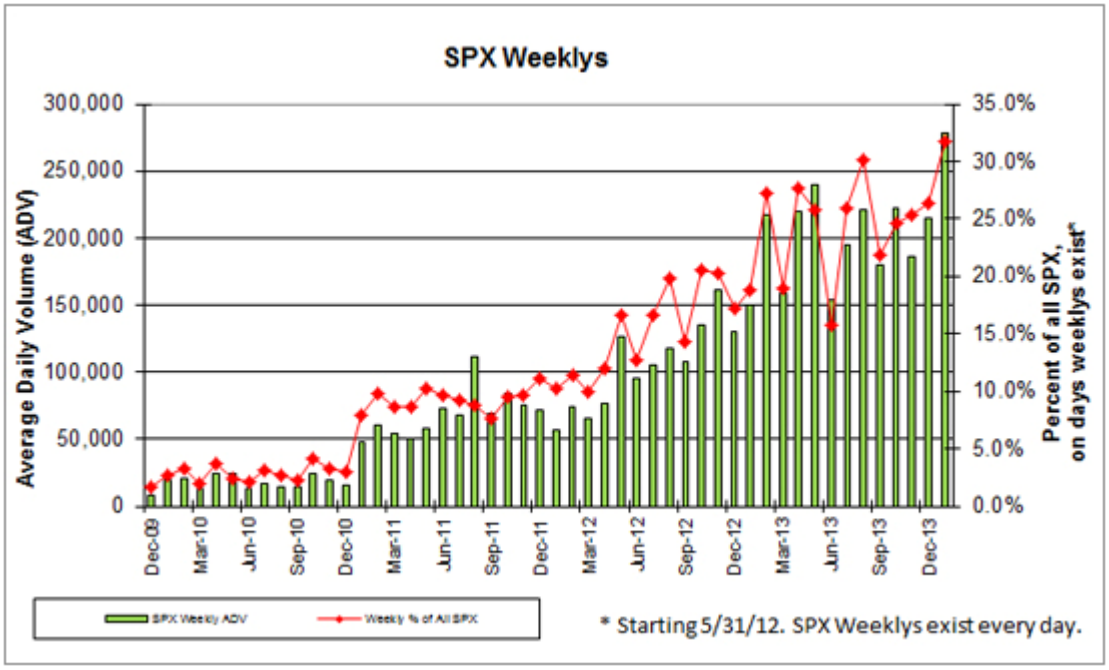
Weekly options have become a stalwart among options traders. Unfortunately, but predictable, most traders use them for pure speculation.

But that's OK.

As most of you know, I mostly deal with high-probability options selling strategies. So, the benefit of having a new and growing market of speculators is that we have the ability to take the other side of their trade. I like to use the casino analogy. The speculators (buyers of options) are the gamblers and we (sellers of options) are the casino. And as well all know, over the long-term, the casino always wins.

Why? Because probabilities are overwhelmingly on our side.

So far, my statistical approach to weekly options has worked well. I introduced a new portfolio (we currently have four) for *Options Advantage* subscribers in late February and so far the return on capital has been slightly over 175%.



I'm sure some of you may be asking, what are weekly options? Well, in 2005, the Chicago Board Options Exchange introduced "Weeklys" to the public. But as you can see from the chart above, it wasn't until 2009 that the volume of the burgeoning product took off. Now Weeklys have become one the most popular trading products the market has to offer.

So how do I use weekly options?

I start out by defining my basket of stocks. Fortunately, the search doesn't take too long considering Weeklys are limited to the more highly-liquid products like SPY, QQQ, DIA and the like.

My preference is to use the S&P 500 ETF, SPY. It's a highly-liquid product and I'm completely comfortable with the risk/return SPY offers. More importantly, I'm not exposed to volatility caused by unforeseen news events that can be detrimental to an individual stocks' price and in turn, my options position.

Once I've decided on my underlying security, in my case SPY, I start to take the same steps I use when selling monthly options.

I monitor on a daily basis the overbought/oversold reading of SPY using a simple indicator known as RSI. And I use it over various timeframes (2), (3) and (5). This gives me a more accurate picture as to just how overbought or oversold SPY is during the short-term.

Simply stated, RSI measures how overbought or oversold a stock or ETF is on a daily basis. A reading above 80 means the asset is overbought, below 20 means the asset is oversold.

Again, I watch RSI on a daily basis and patiently wait for SPY to move into an extreme overbought/oversold state.

Once an extreme reading hits I make a trade.

It must be pointed out that just because the options I use are called Weeklys, doesn't mean I trade them on a weekly basis. Just like my other high-probability strategies I will only make trades that make sense.

As always, I allow trades to come to me and not force a trade just for the sake of making a trade. I know this may sound obvious, but other services offer trades because they promise a specific number of trades on a weekly or monthly basis. This doesn't make sense, nor is it a sustainable and more importantly, profitable approach.

Okay, so let's say SPY pushes into an overbought state like the ETF did on the 2nd of April, as shown in the chart below:

Once, we see a confirmation that an extreme reading has occurred we want to fade the current short-term trend because history tells us when a short-term extreme hits a short-term reprieve is right around the corner.

In our case, we would use a bear call spread. A bear call spread works best when the market moves lower, but also works in a flat to slightly higher market.

And this is where the casino analogy really comes into play.

Remember, most of the traders using Weeklys are speculators aiming for the fences. They want to take a small investment and make exponential returns.

Take a look at the options chain below.

	CALLS					Strikes: ALL	
	Prob.OTM	Option Code	Bid X		Ask X	Exp	Strike
APR4 14 (14) 100 **(Weeklys)**							
	39.99%	SPY140425C180.5	3.29	M	3.31 I	APR4 14	180.5
	43.09%	SPY140425C181	2.95	I	2.97 N	APR4 14	181
	46.33%	SPY140425C181.5	2.62	I	2.64 N	APR4 14	181.5
	49.75%	SPY140425C182	2.32	Z	2.33 Q	APR4 14	182
	53.32%	SPY140425C182.5	2.02	I	2.03 N	APR4 14	182.5
	57.02%	SPY140425C183	1.74	X	1.76 X	APR4 14	183
	60.82%	SPY140425C183.5	1.49	...	1.50 X	APR4 14	183.5
	64.69%	SPY140425C184	1.25	...	1.27 N	APR4 14	184
	68.60%	SPY140425C184.5	1.04	...	1.05 Z	APR4 14	184.5
	72.46%	SPY140425C185	.85	X	.86 Z	APR4 14	185
	76.13%	SPY140425C185.5	.69	N	.70 I	APR4 14	185.5
	79.65%	SPY140425C186	.55	N	.56 N	APR4 14	186
	82.94%	SPY140425C186.5	.43	N	.44 ...	APR4 14	186.5
	85.97%	SPY140425C187	.33	X	.34 Z	APR4 14	187
	88.37%	SPY140425C187.5	.26	Q	.27 ...	APR4 14	187.5
	90.83%	SPY140425C188	.19	I	.20 Q	APR4 14	188
	92.46%	SPY140425C188.5	.15	N	.16 ...	APR4 14	188.5

I want to focus on the percentages in the far left column.

Knowing that SPY is trading for roughly $182 I can sell options with a probability of success in excess of 85% and bring in a return of 6.9%. If I lower my probability of success I can bring in even more premium, thereby increasing my return. It truly depends on how much risk you are willing to take. I prefer 80% or above.

Take the Apr14 187 strike. It has a probability of success (Prob.OTM) of 85.97%. Those are incredible odds when you consider the speculator (the gambler) has less than a 15% chance of success. It's a simple concept that for some reason, not many investors are aware of.

Let's review the benefits of the Options Advantage Credit Spread Strategy.

Inherently, credit spreads mean time decay is your friend. Most options traders lose value as the underlying index moves closer to expirations. This is not the case with the credit spread strategy, as the underlying ETF moves closer to expiration and remains below/above the short strike of the spread, the strategy makes money.

1. The strategy is a one to two month trade that does not require constant monitoring of the market.
2. The strategy works in all market conditions (bull, bear, directionless).
3. Can make 5% to 15% a month.
4. Uses a diverse group of highly liquid ETFs
5. Enables you to determine your rate of success and the potential profit/loss and risk/reward before the trade is placed.
6. Section 1256 tax advantage

Selling Puts

In this section I am going to detail everything you need to know to start making safe, consistent income selling puts, another strategy we use in the Options Advantage portfolio. Consider this the "white paper" for a strategy that will forever change your life as an income investor … and allow you to regularly collect extra income on the kinds of safe stocks you want to own for the long haul.

Let's get started…

As you may know, you collect this extra income using stocks you own with a simple transaction involving options.

Most people get to this step and freeze. They read "options" … and begin to back away slowly. They stop in their tracks before even getting started.

And they inevitably miss out on some of the easiest and safest income the market provides.

I understand the hesitation. But if you can get through the next few pages of this report, I promise that you'll feel much more confident and even optimistic about this specific options strategy.

I've been trading options professionally for the past 15 years, but most of what I do is to help individual investors forget everything they know about options.

Most people use options incorrectly – making big, risky bets on the riskiest stocks.

Given what we know about options traders, we can make safe income just by doing the opposite: We collect statistically advantageous income from the world's safest stocks.

Intelligent and conservative investors know that, used correctly, options can reduce the risk of their portfolio while simultaneously achieving their income goals.

But before I get to the details of the strategy, I want to discuss an important element of how I invest. That's because I do not adhere to the same insane tactics that you'll see in any other options newsletter or trading service.

There's a huge and thriving market for options traders who want constant trade ideas. They want three to five risky trades each day! It's essentially the same type of person who buys lottery tickets every day. They get some kind of thrill over the idea of "hitting it big."

But I'm not running an "options trading service" that swings for the fences. And I'm certainly not claiming that you'll get rich off any single investment idea I publish.

I provide very straightforward, realistic ways to receive more income from the market's safest stocks.

So if you have those same expectations of constant "trading" ideas and dozens of "big winner" trades every week, I urge you to cancel now. This service isn't for you.

While we expect to present two to four opportunities each month, the trades will not be fixed to some sort of arbitrary investment schedule. The market will present us with the best opportunities to collect income from the safe stocks we own; not the other way around.

Investment success comes from process … period.

It's Not Risky

The idea that selling puts is the single most dangerous financial transaction in the investment world is simply not true.

In fact, selling puts is exactly as safe as selling covered calls – something that most investors believe is extremely safe.

It's true; selling puts is safe. You might think I'm crazy or simply wrong…

But in the options world, these two types of investments are known as "synthetics." That means they're identical in terms of risk, upside, downside – everything. They're the same as far as the actual math is concerned.

The difference is purely psychological. It's a fiction created by the mind.

OK – let me back up. I should clarify one thing.

Here's the "catch."

Selling puts and selling covered calls is EXACTLY the same in every regard except for one.

Selling puts is better!

That's because of a bias in the options market that allows put sellers to go further out of the money for the same amount of income. That creates a bigger margin for safety.

Let's back up again – why is selling a covered call EXACTLY the same as selling a put?

That's because in both cases, you have a set amount of cash at risk. With a covered call, it's the price of the shares you own that you may have to sell. With a put, it's the price of the shares you have to buy.

In both cases, the amount of capital at risk is the same – and the premiums are about the same, too.

So if the risk is the same, and the payout is the same… *why do people believe put selling is risky, but covered call selling isn't risky?*

The reason people believe puts are risky is that they frequently sell puts on stocks they don't want to own and/or they sell too many contracts. Remember, one options contract controls 100 shares. For a stock that sells for $25, that comes to $2,500 of stock you control for each contract you sell.

You should never sell puts against shares you don't own or don't want to own.

This strategy works perfectly with stocks you want to own.

You simply sell a put against shares of a company you want to own at the price you wish to pay. If you get "put" to the shares – great. If you don't, then you can sell the put again and again until you do get put.

So Why Aren't More Investors Selling Puts?

Well, probably for the same reason that you feel uncomfortable about the thought of selling puts right now.

But I know that if you just try it once, you'll never buy stocks the same way again.

Once you learn how to use this strategy, you'll begin to see the world of finance differently. Instead of "paying" people to invest your money, you get paid to invest.

As a professional options trader, I have discovered that most options strategies are best within certain types of market environments. However, selling puts – known as a favorite among options professionals – works well in any market environment – bullish, bearish or neutral.

Selling puts is the best way to obtain the stock or ETF you have been eyeing for a much lower price than where it's currently trading.

When a stock or ETF's price is inflated, most investors enter a limit-buy order for the underlying at a lower price. Yes, they sit and wait and wait . . . and wait some more. In most cases this goes on for months with nothing happening other than lost opportunity costs. In fact, it's been shown that more than 99% of all investors do it this way.

But by selling puts on a stock that you wish to hold in your portfolio, you could be collecting income, thereby lowering the cost basis of the stock even further.

How to Generate Income by Selling Puts

Selling a put option means that you are obligated to buy the 100 shares at the strike price if the buyer so chooses prior to the expiration date. This, of course, won't happen until the stock price drops below the strike price.

This is where you — the put options seller — come in. Since you want to own the shares (albeit at a lower price), you sell a put option and just wait until options expiration. Or maybe, you just wish to use a stock you like to bring in steady, reliable income without taking on the capital associated with owning the stock.

Either way, if the underlying issue closes above your chosen price (the strike price), the put expires worthless and you get to keep the entire premium collected at the outset.

If the underlying issue closes below the strike price, you will be put (assigned) the stock or ETF that you wanted. In other words, you will be obligated to buy the shares at the strike price. You now own the stock you wanted … at the lower price you were willing to pay.

Just think how much you could reduce your cost basis if you did this for months.

Everyone knows you're supposed to buy low and sell high. This advice is so common and so basic.

And yet, almost no one talks about how to buy low – let alone how to sell high.

Here's how selling puts works (in very basic terms) – and we've used this strategy to collect 52.05% in income on an ETF that has fallen 13.3%.

Back in April we were eyeing **Market Vectors Gold Miners ETF (NYSE: GDX)**, but at more than $28, the ETF was outside of what we wanted to pay. Our price was $20. We wanted to own 100 shares of the ETF at $20 for a total cost of $2,000.

Under normal circumstances, while we waited to hopefully get in at $20, our capital would sit idly on the sidelines making next to nothing. But if we sold puts at the strike price ($20 in this case) of our choosing – we get paid while we wait.

So we did just that. We sold a put option with a strike price of $20 that expired in one month for $0.33, or $33 per contract (one option contract = 100 shares), or a 6.04% return for 30 days.

As I stated before, we've done a similar transaction seven additional times over the past year for a total return of 52.05%.

And you can do this into perpetuity, assuming that the stock price remains above your strike price. Of course, if you end up buying the shares at the strike price, you own the ETF, which is what you wanted in the first place.

This is why professionals prefer to sell puts. They know if done correctly, the strategy has the potential to own a stock for next to nothing.

In the section below I will go over three trades in even greater detail. Hopefully, by the end you will feel extremely comfortable using the strategy.

The Trades – Selling Puts for Income

Here are a few sample trades.

Gold Miners (GDX)

We've been selling puts on GDX for almost one year and so far we've managed to make 52.05% on capital required. Over that same time frame, the underlying ETF is down over 13%, a difference of roughly 65%.

The ETF is currently trading for $24.25.

So our first step is to see at what expiration cycle and strike price we want to sell puts on GDX.

The July expiration has 30 days left until expiration.

The implied volatility for the July options currently stand at 25.84% (as seen in the top right corner)….decent.

The only problem is that I like to sell puts with an 80%-plus chance of success. The 23 strike falls slightly short of the 80%-plus category with a probability of success of 75.48% and the options premium is low for the 22.5 strike with an 83.21% probability of success.

Strikes: 30		PUTS				
Exp	Strike	Bid X	Ask X	Delta	Delta	Prob.O...
						25.84% (±
JUL 14	21	.02 A	.05 A	-.04	-.04	95.09%
JUL 14	21.5	.05 N	.06 I	-.06	-.06	92.63%
JUL 14	22	.08 N	.09 Q	-.09	-.09	89.11%
JUL 14	22.5	.14 N	.15 N	-.15	-.15	83.21%
JUL 14	23	.23 N	.24 H	-.22	-.22	75.48%
JUL 14	23.5	.36 N	.37 Q	-.31	-.31	65.87%
JUL 14	24	.55 Z	.56 Z	-.42	-.42	54.64%
JUL 14	24.5	.80 N	.82 C	-.54	-.54	43.04%
JUL 14	25	1.11 N	1.14 A	-.65	-.65	32.31%
JUL 14	25.5	1.47 N	1.54 A	-.74	-.74	23.69%
JUL 14	26	1.88 N	1.96 A	-.81	-.81	17.01%
JUL 14	26.5	2.31 A	2.42 A	-.86	-.86	12.26%
JUL 14	27	2.77 A	2.87 A	-.90	-.90	8.43%

So let's move to the August (Weeklys) expiration cycle with 44 days left until expiration to see if it has better income opportunities.

If you notice the same 23 strike now offers an options premium of roughly $0.37 (difference in bid/ask spread of $0.35 - $0.40), but the probability of success isn't as high as I would prefer to see. However, the 22.5 strike offers $0.26 worth of options premium and the margin of error is lower.

As you can see there are a few decisions that need to be made with each and every trade . . . how much premium, probability of success, etc. But, that's why I'm here...to help you along the way.

Strikes: 30		PUTS				
Exp	Strike	Bid X	Ask X	Delta	Delta	Prob.O...
						26.78% (±1
AUG1 14	21	.06 A	.10 X	-.07	-.07	91.59%
AUG1 14	21.5	.10 A	.14 A	-.10	-.10	88.15%
AUG1 14	22	.16 H	.18 C	-.14	-.14	84.01%
AUG1 14	22.5	.24 C	.29 A	-.20	-.20	77.61%
AUG1 14	23	.35 A	.40 A	-.26	-.26	70.68%
AUG1 14	23.5	.50 A	.56 A	-.34	-.34	62.40%
AUG1 14	24	.71 Q	.76 A	-.43	-.43	53.31%
AUG1 14	24.5	.96 Z	1.04 A	-.52	-.52	44.11%
AUG1 14	25	1.26 Z	1.33 A	-.61	-.61	35.34%
AUG1 14	25.5	1.59 A	1.72 X	-.69	-.69	27.80%
AUG1 14	26	1.98 A	2.11 X	-.76	-.76	21.41%
AUG1 14	26.5	2.40 Z	2.52 A	-.82	-.82	16.14%
AUG1 14	27	2.84 Z	2.95 A	-.86	-.86	11.87%

I prefer to sell the 22.5 strike in August. Yes, the probability of success is slightly lower than the typical 80%, but if you factor in commissions selling the 23 strike in July just doesn't make sense.

Here is the trade:

Sell to Open Gold Miners ETF (GDX) August 22.5 puts for around $0.26 with the stock trading around $24.00.

The put obligates you to buy 100 GDX shares for $22.50 a share, should the stock fall below that price by option expiration day (Aug. 1). Selling these puts gives you about $26 in your account per option contract.

It might not seem like a lot, but it adds up (I'll get to the returns in a sec)….and if you want to own GDX it's a great way to collect income while you are waiting for your price to hit…in this case $22.50. If not, you just keep selling premium.

Buying 100 shares at $22.50 represents a potential obligation of $2,250. To put on this trade, your broker will require you to deposit "margin" – essentially, it's a security deposit that assures the broker you can cover your potential obligation. It usually runs 20% for put sales. (In this case, 20% of $2,250 is $450.)

Here's the math…

Sell one GDX August 22.5 put for $0.26, or $26 per contract.
Place 20% of the capital at risk in your option account, or $450.
Total outlay: $424 ($450– $26).

If the markets remain unchanged and GDX trades above $22.5 at August expiration, you won't have to buy the stock. You keep the $26 premium (and the $450 margin). That's a 5.8% return on margin in days. That's a 34.8% in income over the course of the next year, without actually owning GDX6

If GDX trades below $22.50 on Aug. 1, you'll still keep the $25. But you'll have to buy GDX at $22.50 per share. You'll own GDX at $22.24 (the 22.5 strike minus the $0.26-per-share premium). Here's how that scenario works out for each option contract you sell …

Initial income from sold put premium - $26.
Purchase 100 shares of GDX at $22.5 - $2,150.
Total outlay: $2,124 ($2,150 – $26).

The price ($21.24) is 12.8% below GDX's current market price of $24.36. This gives us very good downside protection.

Microsoft (MSFT)

If you recall, an increase in implied volatility has a direct impact on the price of options. As implied volatility moves higher in MSFT the options price or premium increases which means we can sell MSFT options to speculators for higher prices.

I know some of you aren't able to sell puts (at least you think so) because you are using the High Yield Trader strategy in an IRA. In most cases, you can sell puts in an IRA if they are cash-secured. This only means you must back the entire amount rather than the 20% it typically takes with a non-IRA account.

Much like GDX, the June options chain for MSFT just isn't offering the type of premium we would like to see. That makes perfect sense if you consider that the implied volatility of MSFT (20.75%) is less than GDX (26.74%). If the IV was higher in MSFT then July might be a viable option, but it's not, so we take what the market offers. And selling the August 38 puts options with a 80.85% probability of success seems to be the choice.

Just think, when you buy a stock you have a 50/50 chance of success … essentially a coin flip. Through selling puts we have a probability (or chance) of success of almost 80%. Now you can begin to see why professionals sell puts…because statistically it makes perfect sense.

If you went to a casino, would you want to play the game with a 50% probability of success or a game with an 80% probability of success?

Strikes: 30		PUTS				
Exp	Strike	Bid X	Ask X	Delta	Delta	Prob.O...
						20.75% (±2.755)
AUG 14	36	.12 N	.13 I	-.07	-.07	91.04%
AUG 14	37	.18 A	.20 A	-.10	-.10	87.02%
AUG 14	38	.30 H	.31 H	-.16	-.16	80.85%
AUG 14	39	.47 A	.49 C	-.23	-.23	72.63%
AUG 14	40	.74 N	.75 Z	-.33	-.33	62.23%
AUG 14	41	1.12 N	1.13 N	-.44	-.44	50.26%
AUG 14	42	1.63 Z	1.64 H	-.57	-.57	37.95%
AUG 14	43	2.26 N	2.28 C	-.69	-.69	26.59%
AUG 14	44	3.00 A	3.05 C	-.79	-.79	17.37%
AUG 14	45	3.75 A	3.95 A	-.87	-.87	9.99%

Here is the trade:

Sell to Open Microsoft (MSFT) August 38 puts for around $0.30 with the stock trading around $41.31.

The put obligates you to buy 100 MSFT shares for $38 a share should the stock fall below that price by option expiration day (Aug. 15). Selling these puts gives you $30 in your account per option contract.

Buying 100 shares at $38 represents a potential obligation of $3,800. To put on this trade, your broker will require you to deposit margin. It usually runs 20% for put sales. (In this case, 20% of $3,800 is $760.)

Here's the math...

Sell one MSFT August 38 put for $0.30, or $30 per contract.
Place 20% of the capital at risk in your option account, or $760.
Total outlay: $730 ($760 – $30)

If the markets remain unchanged and MSFT trades above $38 at August expiration, you won't have to buy the stock. You keep the $30 premium (and the $760 margin). That's a 3.9% return on margin in 58 days.

And don't forget, you will continue to lower your cost basis on MSFT each and every time you sell a put.

If MSFT trades below $38 on Aug.15, you'll still keep the $30. But you'll have to buy MSFT at $38 per share. You'll own MSFT at $37.70 (the $38 strike minus the $0.30-per-share premium).

Here's how that scenario works out for each option contract you sell ...

Initial income from sold put premium - $30.
Purchase 100 shares of MSFT at $38 - $3,800.
Total outlay: $3,770 ($3,800 – ($30).

The price ($3,770) is 8.8% below MSFT's current market price of $41.34 or $4,134. This gives us very good downside protection.

Plus, if you become a shareholder, you'll also receive MSFT's 2.83% per-share annual dividend. And you begin to sell covered calls on the stock, thereby collecting more income. It's called the income cycle and it's the income secret professionals have been using for years.

Wells Fargo (WFC)

Just like our prior two trades in the GDX and MSFT, July expiration is too close and will not work.

The August 49 with 44 days left until expiration (Weeklys) strike looks like it offers the best premium to probability. We can sell puts at the 49 strike for $0.31 with a 79.13% probability of success.

Strikes: 30		PUTS				
Exp	Strike	Bid X	Ask X	Delta	Delta	Prob.O...
						16.24% (±2
AUG1 14	49	.26 A	.37 A	-.18	-.18	79.13%
AUG1 14	49.5	.32 A	.39 A	-.21	-.21	75.89%
AUG1 14	50	.38 A	.47 A	-.25	-.25	71.34%
AUG1 14	50.5	.51 A	.60 A	-.31	-.31	65.07%
AUG1 14	51	.71 N	.74 A	-.37	-.37	58.08%
AUG1 14	51.5	.85 A	.93 A	-.44	-.44	50.84%
AUG1 14	52	1.09 A	1.15 A	-.52	-.52	43.06%
AUG1 14	52.5	1.32 A	1.44 A	-.60	-.60	35.16%
AUG1 14	53	1.62 A	1.76 A	-.68	-.68	27.64%
AUG1 14	53.5	1.97 A	2.12 A	-.75	-.75	20.95%
AUG1 14	54	2.36 A	2.51 A	-.82	-.82	15.22%

Here is the trade:

Sell to Open Wells Fargo (WFC) August 49 puts for around $0.31 with the stock trading around $51.78.

The put obligates you to buy 100 WFC shares for $49 a share should the stock fall below that price by option expiration day (Aug. 1). Selling these puts gives you $31 in your account per option contract.

Buying 100 shares at $49 represents a potential obligation of $4,900. To put on this trade, your broker will require you to deposit margin. It usually runs 20% for put sales. (In this case, 20% of $4,900 is $980.)

Here's the math...

Sell one WFC August 49 put for $0.31, or $31 per contract
Place 20% of the capital at risk in your option account, or $980.
Total outlay: $949 ($980 – $31)

If the markets remain unchanged and WFC trades above $49 at August expiration, you won't have to buy the stock. You keep the $31 premium (and the $980 margin). That's a simple 3.2% return on margin in 44 days which would bring a return of 25.6% in pure income over the course of one year.

If WFC trades below $49 on Aug. 1, you'll still keep the $31. But you'll have to buy WFC at $49 per share. You'll own WFC at $48.69 (the $49 strike minus the $0.31-per-share premium). If you've been selling puts with us over the past several months your cost basis would be far less.

Here's how that scenario works out for each option contract you sell ...

Initial income from sold put premium - $31.
Purchase 100 shares of WFC at $49 - $4,900.
Total outlay: $4,869 ($4,900 – $31).

The price ($48.69) is 6.0% below WFC's current market price of $51.78. This gives us very good downside protection.

Plus, if you become a shareholder, you'll also receive WFC's $1.20 or 2.85% per-share annual dividend.

Apple (AAPL)

It's a company that most of us feel comfortable owning for the long haul mostly due to its unwavering quest to please shareholders. Apple continually makes strides to please shareholders and it pays a decent dividend of 2%.

The stock is currently trading for roughly $91.69.

Let's say we think the price is a little inflated. We prefer to pay $85, 7.9% less than where Apple is currently trading.

Remember when I said we want to get paid to be investors? Well, given our desire to own Apple at $85 – we can get paid. Think about that: we can get PAID to agree to buy a stock at a lower price that we prefer.

We can sell one put contract that gives us the ability to buy 100 shares of Apple at $85 a share – and collect an immediate $125.

Strikes: 30		PUTS				
Exp	Strike	Bid X	Ask X	Delta	Delta	Prob.O...
						25.96% (±7
AUG 14	81.43	.58 I	.61 C	-.12	-.12	85.60%
AUG 14	82.14	.68 I	.71 C	-.14	-.14	83.73%
AUG 14	82.86	.80 I	.83 C	-.16	-.16	81.62%
AUG 14	83.57	.93 I	.96 C	-.18	-.18	79.42%
AUG 14	84.29	1.08 C	1.11 C	-.20	-.20	77.03%
AUG 14	85	1.25 H	1.27 Q	-.22	-.22	74.53%
AUG 14	85.71	1.43 I	1.46 A	-.25	-.25	71.88%
AUG 14	86.43	1.64 I	1.68 C	-.27	-.27	69.03%
AUG 14	87.14	1.87 I	1.89 N	-.30	-.30	66.21%
AUG 14	87.86	2.12 I	2.15 Q	-.33	-.33	63.20%
AUG 14	88.57	2.39 N	2.42 Z	-.36	-.36	60.18%
AUG 14	89.29	2.68 C	2.72 Z	-.39	-.39	57.09%
AUG 14	90	3.00 C	3.05 C	-.42	-.42	53.99%

And no matter what happens, we get to keep that $125. If Apple stays above $85 – the $125 we collected is ours. We can either use it is as a steady income stream or apply the $125 to our cost basis by $1.25 each and every time we sell puts on Apple.

But for the sake of understanding, we should examine the alternative – Apple closing below $85 by option expiration.

In that case we'd keep the $85 and be forced to buy Apple stock at $85 per share.

In this case, we'd actually own the stock for $83.75 per share – that's the $85 strike price minus the $1.25 premium. That is 8.6% less than Apple's current market price.

Here's that math:

Initial income from sold put premium: $125
Purchase 100 shares of Apple at $85: $8,900
Initial outlay: $8,375

The important thing to remember is that if the stock trades below $85 by option expiration, you become a shareholder just like everyone else ... but at an 8.9% discount.

Plus, you'd get the dividend going forward of at least $47 per 100 shares, as each share pays a $0.47 annual dividend.

Another way to think about it is that you'd receive $125 on an $8,500 investment. This works out to 1.5% return each and every time you decide to sell puts.

To me, this safe 1.5% return is a superb way to collect income on arguably one the best stocks the market has to offer.

Covered Calls

In this section I am going to detail everything you need to know to start making safe, consistent income using covered calls. Consider this report the "White Paper" for a strategy that will forever change your life as an income investor … and allow you to regularly collect extra income on the kinds of safe stocks you want to own for the long haul.

Let's get started…

As you may know, you collect this extra income using stocks you own with a simple transaction involving options.

Most people get to this step and freeze. They read "options" … and begin to back away slowly. They stop in their tracks before even getting started.

And they inevitably miss out on some of the easiest and safest income the market provides.

I understand the hesitation. But if you can get through the next page of this report, I promise that you'll feel much more confident and even optimistic about this specific options strategy.

I've been trading options professionally for the past 15 years, but most of what I do is to help individual investors forget everything they know about options.

Most people use options incorrectly – making big, risky bets on the riskiest stocks.

Given what we know about options traders, we can make safe income just by doing the opposite: I collect statistically advantageous income from the world's safest stocks.

Intelligent and conservative investors know that, used correctly, options can reduce the risk of their portfolio while simultaneously achieving their income goals.

But before I get to the details of the strategy, I want to discuss an important element of how I invest. That's because I do not adhere to the same insane tactics that you'll see in any other options newsletter or trading service.

There's a huge and thriving market for options traders who want constant trade ideas. They want five to 10 risky trades each day! It's the same type of person who buys $100 worth of lottery tickets every day. They get some kind of thrill over the idea of "hitting it big."

But I'm not running an "options trading service." And I'm not claiming that you'll get rich from any single investment idea I publish.

I provide very straightforward, sober and realistic ways to get more income from your safest stocks.

Investment success comes from process … period.

As most of us know, it's been extremely difficult to earn a decent rate of interest. But in spite of a low interest rate environment, you can collect substantial amounts of income of 8% to 30%.

Simply put, low interest rates shouldn't stop you from safely earning high rates of interest from your investments.

So how do you get to 8% … or even close to 30%?

All you have to do is learn one simple transaction - which thousands of investors use every day – to collect extra income from dividend stocks you already own.

All you need do to produce this income is sell call options on shares you already own.

The strategy is known as a "covered call" strategy.

I wholeheartedly believe all investors should use a covered-call strategy, particularly for those that seek safe, reliable income. There's a reason it's one of the most favored strategies among professional options traders. Now you can take advantage of what the professionals have been using for years.

That wasn't always the case – even a decade ago it was expensive and somewhat difficult to sell covered calls. … And it's part of the reason why so few people still don't use this income secret for themselves. It was just too expensive for most investors.

So what is a covered call?

First, let's define a call option. A call gives the buyer the right to buy a certain amount of stock for a fixed price (the strike price) up until a fixed date (expiration date). The seller of a call is selling the right to buy shares and in return gets an upfront payment (premium).

A covered call is a conservative options strategy whereby an investor holds a long position in an asset and sells call options on that same asset to generate increased income. The call is considered "covered" by the long asset.

Unlike buying options outright, this strategy allows you to take a conservative stance so you can sleep well at night.

All you need to initiate the strategy is 100 shares of stock and a highly liquid options market. By highly liquid, I mean heavily traded options that that have narrow bid-ask spreads.

If you own at least 100 shares of stock (one call contract equals 100 shares), then you have the ability to "sell a call" against your stock (assuming it has options, which most do). In general terms, a covered-call strategy consists of buying shares of a stock and then selling call options on that stock to traders. Selling a call option gives the buyer the right to buy your shares at the strike price up until the option expires, no matter how high the stock price may go.

I realize this might be an unusual transaction for many of you, but in fact it's something that occurs millions of times each and every trading day.

You see, the market tends to attract gamblers … and their favorite game happens to be options.

Remember, people who **BUY** options tend to be gamblers. Buying an option is a lot like buying a lottery ticket. The odds are always stacked against you. Sure, if you play enough - and get lucky - you might win every now and then.

The buyer is betting on the stock to hit a specified price over a specific time frame. And the odds of their success are low … very low.

This is why I love to sell options. I always want to act like the casino. I want to **SELL** investors options with a low probability of success. Typically, I sell options with a 15% to 20% chance of success. This gives me an 80% to 85% chance of winning on each and every trade. I challenge any self-directed investor to find a better strategy when investing in stocks, ETFs or mutual funds.

At Least Doubling the Microsoft Dividend

My goal with is to at least triple the dividend with each and every stock added to the portfolio.

Since I started the service back in late April 2013, I've been able to not only double the dividend of each and every stock added to the portfolio, I've been able to conservatively make 2x, 3x, 4x, 5x and even upwards of 10x the 2.56% Microsoft dividend. **Since I added Microsoft to the portfolio, the covered call strategy we use has managed to lock in profits of over 28%.**

Again, my primary goal is to generate more income from stocks we already own. But we also want to follow our conservative investing strategy that limits downside risk. We can accomplish this goal by simply sticking with less volatile stocks like those found in the Dow, S&P 500 and Nasdaq 100**.**

A simple covered call transaction will allow us to achieve our goals.

Here is exactly what we will be doing:

Buy 100 shares of Microsoft for roughly $48.50, and

Sell a MSFT February $50.5 call option (MSFT150123C50.5) for $0.55 or more.

This represents a total outlay (or "net debit") of $47.95 ($48.50 stock price minus the $0.55 we receive in call premium).

Remember, you are buying 100 shares of stock for every call option you sell against the stock. Here's how the math works:

Income from sold call premium: +$55
Purchase of 100 shares of MSFT at $48.50: -$4,850
Initial Outlay: $4,795

By selling a covered call-contract against 100 shares of Microsoft stock, you can earn an extra $55 every 45 days.

So about every 45 days, you are able to potentially collect $55 against your 100 shares. Annually that equates to approximately $440 of extra income per 100 shares of Microsoft stock.

As I stated before, Microsoft currently pays an annual dividend of $1.24, or $124 per 100 shares. This translates into a dividend yield of 2.56%. While this is a healthy dividend for a blue-chip stock, the income is less than desired by most income investors.

Using a covered call strategy, an investor could easily capture an additional $440 per 100 shares in one year. It may not sound like a lot, but the $440 translates into a 9.1% yield based on the current stock price, which more than doubles the income from the investment.

Using this simple strategy, I can expect to increase my total income yield from Microsoft to 9.1%. Every income investor knows that this is a very healthy level of income … and one you'll be hard-pressed to find anywhere else with a low-risk stock like Microsoft.

As long as Microsoft stock remains below the 50.5 call strike price through January options expiration (Jan. 23, the fourth Friday of the month), the option will expire worthless and we get to keep the premium of $55.

What if Microsoft stock trades above $50.5 at January expiration? The shares will be "called away" from you. In other words, you will be obligated to sell 100 shares for each call you sold for $50.5 per share, regardless of the market price.

If this occurs, it's no big deal. You still keep the $55 call premium in addition to receiving $5,050 for your 100 shares. That's a quick 4.1% in roughly 45 days.

While I don't expect to receive those types of gains, we are guaranteed to make an additional 9.1% from the premium we sell over the course of the year and that doesn't include the automatic 2.56% dividend Microsoft pays in its dividend. More importantly, this is ours to keep … forever.

To reiterate…

When selling a put, **you get paid to make a promise to buy a stock you want to own … *at the price you want to pay*.**

I have to urge caution – and point out the obvious. You would never sell puts on a stock that you didn't want to own at that strike price. That's how most people get in trouble – they only pay

attention to the income. They forget that they **CAN** … and eventually will … get assigned the shares.

Now … knowing that you are able to lower the cost basis of a stock that you want to own anyway, why would you choose to do things differently?

Here's how the pros do it …

Most professionals use the following sequence of events to purchase stock.

- **Sell puts** on the stock they wish to own, at the price they want.
- The stock moves lower and they are put the stock at their price.
- Now that they own shares, they begin to **sell calls** on the stock (covered call strategy).
- Once the stock exceeds the sold call strike, the stock is called away.
- If they wish to continue owning the stock … rinse and repeat.

As you can see, the pros constantly sell options to bring in income on a stock they wish to own. It's a powerful strategy and it takes a little more work than just buying a stock, but the benefits are great. Professionals understand this, which is why they do it over and over and over.

As I noted at the beginning of this report – this subject matter may appear to be difficult to understand. But please do not let it get you down or discouraged about options investing. If you have any questions or concerns, I'm available to help explain anything that I've discussed in this special report.

You can reach me at customerservice@wyattresearch.com. In the meantime, print this report and keep it handy. Put it on the desktop of your computer, and have it at the ready whenever you're making your trades.

Andy Crowder
Chief Options Strategist and Editor
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