Income Method #4: Roll the Put Up

INCOME METHOD #4 CEGA MODEL -- Plus! CATASTROPHE REPORT

CONDITIONS:

The price of the underlying stock is approaching or has risen above the strike of the protective put. There is no *open* call contract sold against the stock at this time.

EXPECTATION:

Stock will continue trading up or turn flat.

GOALS:

Growth – you want to hold the stock to capitalize on a longer-term move, but want to make your **RPM *bulletproof.*** It can now become a source of ready cash for other trades or investments, while capitalizing on the continued use of IM#1, #2, #5 and #6.

ACTION:

Sell the protective put and buy another one deeper in the money… and maybe further out in time.

CATASTROPHE REPORT … What if the *worst* possible thing(s) happened?

The worst possible outcome is if the stock trades sideways until the put's expiration: unless you use other Income Methods, you end up with the same result as if the stock went down. This is why I encourage folks only to use this one to make an RPM bulletproof. ALSO! The ATM can be combined with other strategies to take out money. Each time this is done, do a new Catastrophe Report.

Income Method #4: What It IS - The 'ATM':

Income Method #4 is applied when you sell your protective put At The Money (ATM) for the maximum time value, and then buy another put at a *higher* strike price. You actually don't receive income at the time of the transaction because the higher strike put costs more money than the put that you're selling. It is, however, a powerful strategy, as we'll see in the following pages.

This Income Method is aptly nicknamed the "ATM" because it resembles an ATM Machine: It is convenient and easy to take money out, but it also requires you to add some first! Setting up Income Method #4 doesn't really give you spendable option premium money to put in your pocket like the other option plays we've looked at so far. What it does do is guarantee your return at expiration to be higher than the total amount of money that you put in, because of the manipulation of time value. You would use Income Method #4 if you thought that a company's stock price will be higher and you don't mind holding, but you

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don't want to give profits back to the market either. You want to lock in a minimum guaranteed profit.

In the meantime, it's possible to take money out a few different ways:

1) Continue using Income Method #1, buying back when there is a pullback in the stock's price and selling if and when it bumps up again
2) Use Income Method #2 if the stock rises past the strike price of your short call
3) Use Income Method #5 or #6, discussed in following Sections
4) You may also withdraw money in the form of a *margin loan* for other investments

Before we go into each of these possibilities, first let's look at some actual Income Method #4 trades. Most recently, I used Income Method #4 to bulletproof PCLN again. PCLN actually has been a winner for me three times now, and with different strategies. This time, I'm holding PCLN to see if it just keeps going up like it has. Here was the entry on June 29, 2007:

Jun 29th, 2007

Buy 100 shares PCLN @	$69.25
BTO 1 Jan 08 $75 put @	+$ 9.60
Total Invested	$78.85
Guaranteed Return	-$75.00
Total AT RISK	**$ 3.85 or 4.88%**

PCLN went up over $75, making the put 100% time value. Here was the put roll we did on August 23, 2007:

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August 23rd, 2007

STC (Sell to Close)	1 Jan $75 put	$ 5.60
BTO (Buy to Open)	1 Jan $85 put	-$10.70
Income Method #4 costs		-$ 5.10

Okay, that looks a lot like a negative number there, doesn't it? Hey, I thought these things were called *Income* Methods. This COST money! What gives here? Simple. We just made a deposit of $510 into our ATM to bring it up from a negative balance. Let's consider the deposits made to this account:

Buy 100 shares PCLN	$69.25	
BTO 1 Jan 08 $75 put	$ 9.60	
Applied Income Method #4	+$ 5.10	cost of put roll up
NEW Total Investment	$83.95	
NEW Guaranteed Return	-$85.00	
NEW **AT RISK** picture	-$ 1.05	"negative" risk:
BULLETPROOF!		

This position is now Bulletproof. We had to invest an additional $5.10, but we have locked in an additional $10.00 with the higher strike price. The position cannot loose money if left alone until expiration, which is 6 months out in time. We are actually guaranteed a small profit:

Profit = $1.05 / $83.95 = 1.25% (plus and dividends)

Although this return is nothing to brag about, we do have 6 months to use other income methods to increase this modest return.

So Now What?

Now for the fun part: Managing for Fun and Profit. I haven't used any other Income Methods yet, but what could be done? Now that we can't lose on PCLN, we'll milk it for income without taking it back out of bulletproof status.

Huh? I thought bulletproof means BULLETPROOF. Well, you're secure against the ravages of the market, but you still can shoot yourself in the foot. Let me explain.

Income Method #1 (and #2, and #5 and #6 for that matter, though we haven't got there yet) can still be applied on this RPM. There are no calls sold against stock just yet. It IS bulletproof, meaning that it simply can't lose money if we leave it alone.

However, what if we were to follow the Income Method #1 rules on PCLN now, with the stock trading just above $76? You'd probably sell an $80 call option, right? Say you get $1.25 for selling the $80 call, and next thing: PCLN blows up to $100. Then you'd be in an awkward situation: obligated to sell at $80, and holding a nearly worthless $85 put option. Not good when you have $83.95 invested in the trade. This is why I can't emphasize clearly enough why it's important to do the Catastrophe Report. Therefore, selling a call with a strike of $85 or higher would add to the guaranteed return. Lower strikes for the sold call can risk your bulletproof status.

The Value of the Catastrophe Report

Consider the outcome if the worst possible thing happened. Are we still okay? Well, then we're free to take action. But in this case, we might have just taken a bulletproof investment and will end up losing money on it after all.

If it were me, I might just wait. Sit on the bulletproof position and see what else the stock does. But it *is* possible to use IM#1 and the others on a bulletproof arrangement. Just wait until the underlying stock is trading near or above the NEW protective put. Those are the Conditions to look for, and **do** the Catastrophe Report, for goodness sakes.

Next, let's look at a bulletproof RPM on DIA (Diamonds Trust) in which I broke this rule. This little darling actually still made money but I could have done better with more patience. Also, in addition to increasing the strike price, this one gives an illustration of how one might use Income Method #4 to increase the length of time to stay in a RadioActive Profit Machine.

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The Opportunity

Strike	Put Sym	Opt Bid	Opt Ask	Prev. Opt. Vol.	Curr. Opt. Vol.	Open Int.	Implied Volat.	Delta	% Dnsd. Prot.	% If Unch.	Time Value	% Time Value	% In Money	% Prob. Above
DIAMONDS HOLDRs Trust ETF (DIA) $ 115.60					JANUARY	Expiring 1/20/2007	117 days left							Hold
110.00	DIAMF	1.35	1.45	20	61	6143	0.16	-0.13	1.2%	1.2%	1.35	1.2%	-4.8%	79.6%
112.00	DIAMH	1.75	1.85	5	5	1968	0.15	-0.21	1.5%	1.5%	1.75	1.5%	-3.1%	70.1%
113.00	DIAMI	2.00	2.10	335	11	591	0.15	-0.25	1.7%	1.8%	2.00	1.7%	-2.2%	64.8%
114.00	DIAMJ	2.25	2.40	4	35	219	0.15	-0.30	1.9%	2.0%	2.25	2.0%	-1.4%	59.2%
115.00	DIAMK	2.60	2.75	87	36	367	0.15	-0.35	2.2%	2.3%	2.60	2.3%	-0.5%	53.4%
116.00	DAWML	2.95	3.10	38	96	7094	0.14	-0.41	2.6%	2.3%	2.55	2.2%	0.3%	47.6%
117.00	DAWMM	3.30	3.50	0	0	84	0.14	-0.46	2.9%	1.7%	1.90	1.6%	1.2%	42.0%
118.00	DAWMN	3.80	4.00	0	8	766	0.14	-0.52	3.3%	1.3%	1.40	1.2%	2.1%	36.5%
119.00	DAWMO	4.30	4.60	0	0	416	0.14	-0.58	3.7%	0.8%	0.90	0.8%	2.9%	31.3%
120.00	DAWMP	5.00	5.20	58	5	1352	0.14	-0.63	4.3%	0.5%	0.60	0.5%	3.8%	26.6%

Source: PowerOptions Historical Option Chain for September 25, 2006

This was the DIA option chain on September 25, 2006. I began tracking both the trade that follows and another alternative: an RPM that was secured with an OTM (Out of The Money) put. The OTM version was actually suggested by a subscriber. I also showed how I would have set up an RPM with DIA. As of this writing, both RPMs are healthy, or finished with a nice profit. I'll discuss the OTM version later, but I want to show the one I put together here because it's the one that I used Income Method #4 on.

My setup:

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Buy 100 shares of DIA: $115.60
BTO 1 Jan 07 $119 put: $ 4.60
Total Investment: $120.20
Guaranteed till expiry: $119.00
Total AT RISK: $ 1.20 or 1.00%

Along with the very low AT RISK amount, we get a special treat: The fact that DIA pays dividends! The dividend payout totally cancels the AT RISK as well. If you've used the Trade Simulator Tool, you might be excited to see the outcome for doing trades that only risk 1.00%, against the returns that are possible when the upside is unlimited.

Fast forward to October 19, 2006. Now DIA is trading above the strike price of the protective put, satisfying the Conditions stated at the beginning of this Section.

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Strike	Put Sym	Opt Bid	Opt Ask	Prev. Opt. Vol.	Curr. Opt. Vol.	Open Int.	Implied Volat.	Delta	% Dnsd. Prot.	% If Unch.	Time Value	% Time Value	% In Money	% Prob. Above
DIAMONDS HOLDRs Trust ETF (DIA) $ 120.15						JANUARY Expiring 1/20/2007 93 days left								Hold
118.00	DAWMN	1.70	1.75	68	130	1526	0.14	-0.26	1.4%	1.4%	1.70	1.4%	-1.8%	64.2%
119.00	DAWMO	2.00	2.10	44	178	2637	0.13	-0.32	1.7%	1.7%	2.00	1.7%	-1.0%	57.7%
120.00	DAWMP	2.35	2.45	294	341	5572	0.13	-0.38	2.0%	2.0%	2.35	2.0%	-0.1%	51.0%
121.00	DAWMQ	2.75	2.85	112	5	178	0.13	-0.44	2.3%	1.6%	1.90	1.6%	0.7%	44.3%
122.00	DAWMR	3.20	3.40	112	83	906	0.13	-0.51	2.7%	1.2%	1.35	1.1%	1.5%	37.8%
123.00	DAWMS	3.80	4.00	110	0	554	0.13	-0.57	3.2%	0.8%	0.95	0.8%	2.4%	31.7%
124.00	DAWMT	4.40	4.60	147	34	537	0.13	-0.64	3.7%	0.5%	0.55	0.5%	3.2%	26.1%
125.00	DAWMU	5.20	5.40	50	1	90	0.14	-0.70	4.3%	0.3%	0.35	0.3%	4.0%	21.1%
128.00	DAWMX	7.90	8.10	0	0	30	0.17	-0.84	6.6%	0.0%	0.05	0.0%	6.5%	10.0%

Source: PowerOptions Historical Option Chain for October 19, 2006

I'm pleased with DIA and think I may want to hold it for the long haul instead of just cashing out. By using Income Method #4, I'll both extend the expiry by one whole year AND make the issue BULLETPROOF. That means a risk-free downside (I cannot possibly take out less than I put in), plus receiving dividends and unlimited upside if DIA continues to rise!

My Expectation at that point was that the market, which was in a confirmed rally, would continue to bolster the price of DIA. However, rather than an astronomical climb, I figured that DIA would edge up slowly because it's so highly capitalized already.

Of course, one can never predict the future. SO my **Goal** was to make the DIA RPM bulletproof and extend its lifetime. While I'm painlessly collecting dividends (monthly!), I'll also be watching for opportunities to pick up a little more cash by using Income Methods #1, #2, and #5.

Check out the following excerpt from the email I sent to ***Fusion'*** Members on October 19, 2006:

> (first, a recap of September 25 email showing the entry…)
>
> …now, today DIA has gone above the strike price of $119, so the put premium is ALL time value.
>
> The part about RadioActive Trading that makes it "RadioActive" is the exponential decay curve...a predictable, mathematical phenomenon. Basically, it shows that the TIME value of a particular issue drops off slowly month by month when the expiration date is far out in time. Then it plummets faster and faster in the last 90 days or so.
>
> That's about how much time there is till this $119 put expires. Right now it's still pretty fat, being close to the money. But it WILL drop, and fast.

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Remember how I always say RadioActive Trading is not about picking stocks and timing trades...it's about picking stops and trading TIME. There's a beautiful opportunity to trade expensive time for cheap time here, and here's how to use it:

Quotes as of 10/19/2006 11:28:08 AM ET

```
Buy  Jan 08 $128 put @ $9.70
Sell Jan 07 $119 put @ $2.05
                       $7.65   new capital added
```

See how that works? Income Method #4 strikes again... Yes, we put more money into the trade, only now it's bulletproof all the way to January 2008. Total invested from before was $120, with a guaranteed $119 back. Now after putting $7.65 more in (cost of Jan 2008 put MINUS the income from the Jan 2007 put we were holding) we are guaranteed to get $128 back out.

What we have on our hands is a genuine, honest-to-goodness BULLETPROOF investment... it can go up, but not down. And if DIA does what I think it will, it'll set us up in the next few months for a real treat: Income Method #5.

There are several observations to be noted from the above position mentioned in the e-mail:

- The Jan 07 $119 put was sold when the time premium was at a high (ATM). This method sells time and buys intrinsic value
- We could have alternatively liquidated on 10/19/06 for a 1.7% return in 36 days
- Instead we decided to roll the profit into buying more insured time for a bulletproof no risk position in anticipation of further growth
- In retrospect the DIA's peaked at 140 in July and October of 2007, which would have afforded many opportunities to apply Method #4 several more times and ratchet up an ever greater guaranteed profit.
- Investors often complain about the cost of insurance. However, the cost of insurance for an index like this is less than 1% per year, which is small compared to the possible DIA price movement in a year

Remember the ATM Bell Curve from the Power of Math Section? The option may have lost value, but it has actually GAINED value in terms of its time component. When the January 2007 $119 put cost $5.00 on September 25th, four dollars of that was intrinsic value, and only one dollar was time value. That's because we bought an option on the far left side of the curve: deep In The Money (ITM). The time value portion there was cheap, in this case only 20% of the total cost of the option.

The intrinsic value of the put went away because the stock went up, right? SO there's no real loss there. The stock's rise offsets the fall in the intrinsic portion of the put. This is the same situation we saw in the IM#3 Section: No net gain or loss in the stock plus intrinsic value portion of the RPM, but there's dramatic rise in the time *value*:

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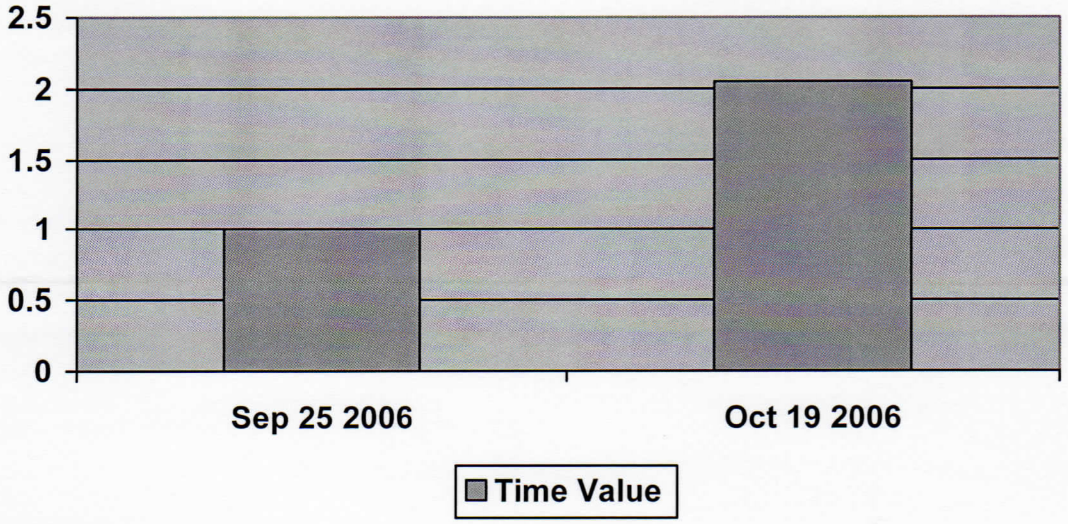

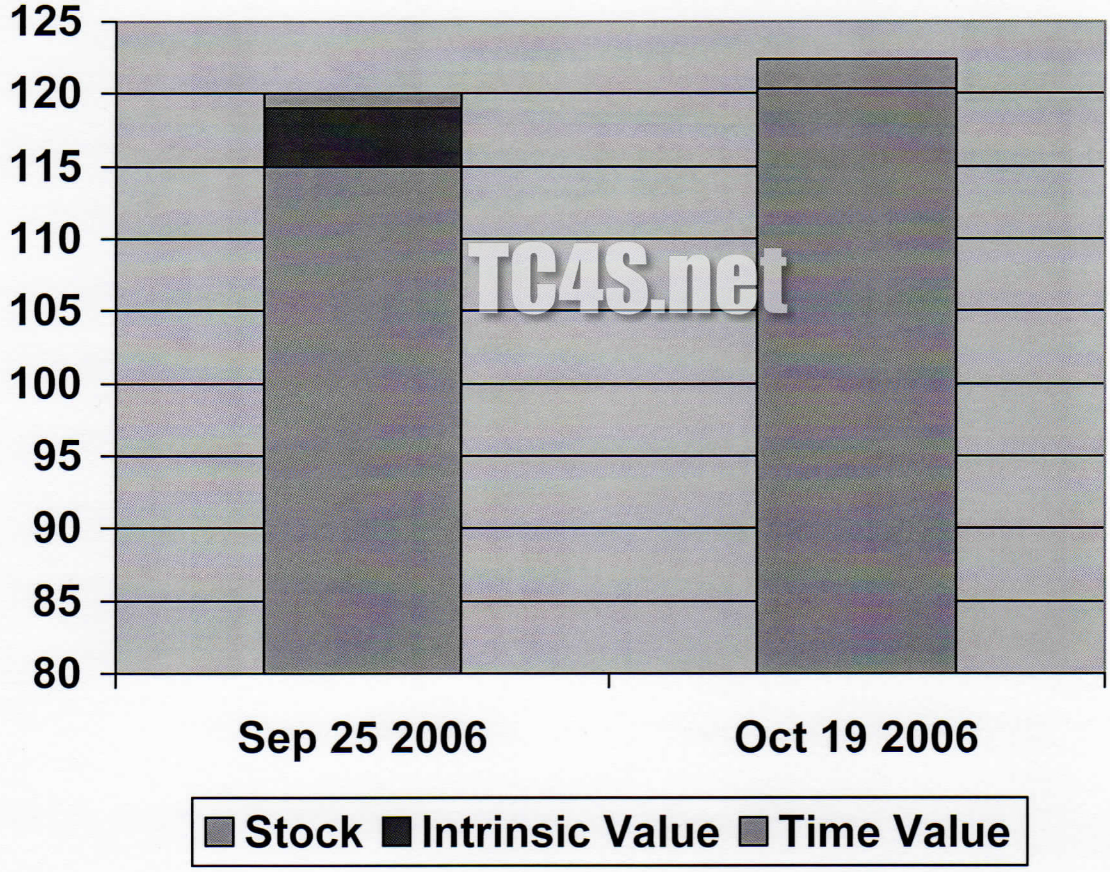

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Now that DIA has risen past the strike price, the strike has climbed the ATM Bell Curve to its peak. Even though some time has passed, the time value component has actually risen from $1.00 to $2.05, which we want to SELL because it has nowhere to go but down. The put is highly RadioActive at this time: at the highest price it will ever be if DIA continues up. And it did.

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By selling the January 2007 $119 put for $2.05, we've brought money into the account but our insurance policy is missing. By using this money to purchase another put more than a whole year away, we'll be using the money that would have been lost anyway to buy better insurance at a better price. Let's break it down again, this time in more detail:

September 25, 2006 DIA RPM SETUP

1)	Buy DIA:	$115.00
2)	Buy Jan 07 $119 put:	$ 5.00
3)	Total Investment:	$120.00
4)	Guaranteed til expiry:	$119.00
5)	**Total AT RISK:**	**$ 1.00 or 0.833%**

October 19, 2006 DIA RPM Income Method #4: Roll the put up

6)	Buy Jan 08 $128 put @	$9.70
7)	Sell Jan 07 $119 put @	$2.05
8)	Debit for Spread	$7.65

New Picture:

9)	Total Investment:	$127.65 (from lines 3 + 8)
10)	Guaranteed till expiry:	$128.00
11)	**Total AT RISK:**	**-$ 0.35 …BULLETPROOF!**

Now, it's important to realize that the $35 difference is NOT income realized now… it's in the future when we either exercise the option or sell it and the stock separately. Point is, we can't lose money on this RPM anymore! It's ***bulletproof***.

The Worst Thing That Could Happen

Now here's the bad news… I actually gave back a lot of potential profit with this one by doing something I say NOT to… I sold a call against DIA that was At The Money but below the strike of the protective put.

It could be okay to sell a call below the strike price of the protective put IF you do the Catastrophe Report first and are okay with the results. The Catastrophe Report is where you mentally project yourself into the future and the WORST POSSIBLE THING has actually happened. Remember, the Profit/Loss chart on PowerOptions is a convenient way to run your Catastrophe Report. I did, and the result was okay. In fact, I did exit this particular RPM at a profit, but a very slim one compared to what was available.

Let's say that today is Friday, January 05, 2007. DIA is trading at $123.75. Here's an excerpt from an email I sent ***Fusion'*** Members:

> It's near the market close right now, and the Feb $124 calls are trading around $2.00. I almost hate to take that instead of the Feb $126 call I could have sold for almost the same, but here's the deal: I can't tell you the future. I

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want to juice up the return on this RPM and I know I can do it by selling calls ATM… (hey, what a great name for this Income Method!)

The ATM call is the $124 strike price. If DIA tanks and never comes back, I'll still have the income I just captured (market closed 1 minute ago, just after I sent out my briefest email ever). In it I recorded selling the February $124 call for $2.05.

Now for the catastrophe report, which I actually did BEFORE the trade: What is the worst thing that could happen? If I were called out at $124, that's $124 into the account, plus the $2.05 just now, equals $126.05. Subtract that from the investment of $127.65 and we still have a disparity of $1.60. Hey, let's look at that in kind of a tabular format:

Assets:

100 shares DIA Stock
1 Jan 2008 $128 put option

Total Invested: $127.65

Now, if we're assigned (called out), the 100 shares of DIA will be gone and we'll still have the put option. This will be our new story:

Proceeds from Assignment:	$124.00
Income from Feb 2007 $124 call	$ 2.05
Total IN	$126.05
OUT:	$127.65
IN:	$126.05
Loss of:	$ 1.60

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Would I be happy with that? I guess so… after all, while this grand panoply has been unfolding, I've been receiving dividends. Plus, I'm still long the put and I'm pretty sure it would be worth more than $1.60 even if DIA went up big time.

Catastrophe Report says, okay. I can handle a teeny loss or maybe even a small gain if I get assigned. So from here I'm looking to buy to close the $124 call option. Either I'm buying to close because I have to roll out, or I'm buying to close because DIA went down, or traded sideways til the day before expiry, and I'm buying to close for a nickel. Either way, I'd say this trade is RadioActive in all the right ways. I wish I'd have done it two days ago, though!

See, that's when DIA traded at $125.68, the new 52-week high. I SHOULDA sent you an email when the February 2007 $126 calls were bidding at $1.90. I wanted to wait until they hit $2.00 and that's where I missed the opportunity. Here was my reasoning: $126 plus $2 equals $128! In the case of DIA suddenly picking up a huge amount of steam, and some guy out there

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exercising his call option instead of holding or selling it, I still would not be up a tree. I'd get out at $128 and still have the put option, which I could then sell or do spreads against.

By holding out for the $2.00 premium on the February 2007 $126 calls, I missed an opportunity to buy them back today at a discount and lock in a happy, happy income. I remember looking at that $1.90 for what seemed like forever, thinking I should just go for it. Oh well… they say that there are more regrets from postponed decisions than from BAD decisions. Maybe that's so. Seems like it today because I'm happy to get only $0.15 more for a strike that's two dollars less. Go figure.

There will be plenty of opportunities in the near future for me to ride DIA up and down if experience serves. We've looked at the idea of buying back with IM#1 and rolling out with IM#2…

As it turns out, this RPM did okay, even though I sold a call against it that was lower than the strike price of the protective put. But I'm putting it in here as an example of something to consider NOT doing… because of mixed expectations. After all, if I did IM#4 in the first place because I was looking for further growth, why did I get all impatient for Income and sell a call against it?

By the way, what do you think is the way to manage this kind of position in case the stock price does move up above the strike of your short call? You probably guessed that it would be time to use Income Method #2: Roll UP and OUT.

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And if you guessed that, you guessed right. Of course, that means staying in and managing the trade. You could also sell the put and exit the whole position for a profit. In the case of this RPM, that's what I should have done, because I found that selling calls just didn't keep up with how fast DIA was growing. It would have been better to NOT to sell a call at all, or at least wait until DIA was trading at or above $128 before selling calls against it.

Oh well. That's what I get for trading in front of everybody: the opportunity to make mistakes for others to learn from. I chose this RPM to illustrate two points: The marvelous way that time value grows in a far out ITM put when the stock rises, and the opportunity that presents for buying both a higher up (in strike price) and further out (in expiry) put option to make the arrangement bulletproof. IN the next Sections we'll look at alternatives to IM#1 when running a bulletproof RPM whose Conditions include trading below the protective put strike price.

Keeping my Promise

You might have noticed a pattern developing here: with each Income Method we not only show a trade that was successful, I also try to show one that could have been done differently. It's my intent not only to show winning trades with the RadioActive Trading System, but also to illustrate the lessons I've learned along the way. SO along with the genius ;-) move with PCLN I wanted to show how to mess up a perfectly good bulletproof position by selling calls at a low strike price like I did with DIA.

In the last Section, I also promised to show a hypothetical example of LMT. I used IM#3 on it, but the correct choice would have been IM#4. Had I done that, today I'd still be in the stock and it would be very profitable too. Here's the IM#3 setup again:

August 2nd, 2006 - Lockheed Martin (LMT) RPM Setup:

```
LMT stock:              $81.66
Jan 2008 $90 put:      +$10.40
Total Investment:       $92.06
Guaranteed Return:     -$90.00
Total AT RISK:          $ 2.06
```

And then on August 24, 2006, this is what I did do:

```
STC 1 Jan 08  $90 put    $9.20
BTO 1 Oct 06  $90 put   -$7.00
Income Method #3         $2.20
```

That income of $220 canceled the **AT RISK** amount of $206, but didn't do much more for me. I was expecting LMT to do a *sudden* upward move, but was skittish about the market because of recent volatility.

Income Method #3 *did* bulletproof the stock, but it stayed below the $90 strike until after the October 06 expiration. Result? I got out of LMT with a $14 profit, which actually didn't even cover the commissions. This is what I should have done instead:

```
STC 1 Jan 08  $90 put  $ 9.20
BTO 1 Jan 08 $100 put -$16.90
Income Method #4      -$ 7.70
```

That means I would have deposited $770 to the position, but that would increase the guaranteed return by $1000. Result? BULLETPROOF. Now the new position would be:

```
Bought 100 shares LMT       $81.66
BTO 1 Jan 08 $90 put        $10.40
Applied Income Method #4   +$ 7.70
NEW Total Investment       $ 99.76
NEW Guaranteed Return     -$100.00
NEW AT RISK picture        -$  .24 "negative" risk:
BULLETPROOF
```

LMT eventually hit $103.50, with several months left in the put before expiration. If this had been my choice instead of Income Method #3, I would have had numerous opportunities to buy and sell calls against it (above the new PSP), and it would still be worth quite a bit as of this writing.

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Moral of the story: Remember the saying of Jesse Livermore: Sometimes I make the most money by *sitting*. Now for a novel idea! Once you bulletproof your RPM with Income Method #4, there's another way to take money out of this arrangement in case of emergency. It is, after all, *your* ATM!

Real Estate Applications…Be your own Hard Money Lender

An interesting thing about investors is that I find that, as Robert Kiyosaki put it, wealth is a team sport. Many times, it takes more than simply a buyer and a seller to put together a profitable real estate deal. In my days working for Richard Roop, the Colorado real estate investor that bought and sold over 200 properties in ten years, I saw a number of instances wherein Richard and his students would need ready cash, when all of their money was tied up doing other investment projects. The saying is, you find the deal, and the money will find you.

The money will find you… hmm. "The money" may mean taking on a partner. Or it may mean getting a loan on your credit card or HELOC (Home Equity Line Of Credit). There are even folks out there willing to lend thousands of dollars without even a credit check, if the interest rate and collateral is good enough. These animals are known as "hard money" lenders. Hard money is the last route to go, but if you find a deal and are cash poor, it's better than sharing half of your profits with a partner whose only contribution is a little cash.

A hard money lender will typically charge 18% interest, a loan origination fee, and an interest in the property he's helping you finance as collateral. I've seen hard money lenders charge $1,000 origination on the front end, rolled into the loan, and then charge three months interest minimum for a measly $5,000 advance. These guys typically don't find the sellers or the buyers, they just provide the money. And as expensive as dealing with one may be, they can be an essential part of making a profitable deal happen.

Say you've got the time and MOST of the money you'll need to buy and sell a house. You need about six weeks to paint it, put new carpet in, and begin marketing. You're about $5,000 short, but after priming the pump you stand to flip this property for a $25,000 profit. You might call a hard money lender, but I'm having a thought here:

Why not call your broker instead? With DIA or some other stock in your account *bulletproofed*, you know you could answer ANY margin call. Some brokers will wire you money, some will write a check. Some will even let YOU write a check against the marginable stock in your account. In the case of DIA, a short-term loan of $5,000-6,000 is easily done and incurs **no** origination fee, requires **no** collateral beyond the investment you've already made, and charges a **great deal less interest**.

If you take out money by way of margin, can you still collect dividends? Yes you can! How about selling and rolling calls for income? Mmmm-hmmm. With Income Method #4 you can two-step your money, having it in both places at once, if you're willing to pay the interest on a margin loan.

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This is what I meant earlier in The Blueprint when I said it's important to use margin responsibly. "Leverage" is a two-edged sword; any lever you can use can also be used against you. Better to buy in WITHOUT margin, then use margin after making your investment sure.

Another thought: Hate fixing toilets? Me too. I think it might be nice to keep my money active, trading issues that I can fix up with Income Method #4, then feel free to BE the hard money lender when a real estate investor comes along with a deal. I don't mind paying 11% interest when I'm getting 18% plus origination fees!

But, we are not done yet! During my *FREE* webinars that I host twice a week, I like to point out that one of the great things about the RadioActive Method (aside, of course from the benefits of trading stocks with limited risk) is that using options give us…well…Options!

Here is an alternative Income Method #4 adjustment that can really help you be a hard money lender:

Alternative to IM #4:

One of my Fusion subscribers, JS, wrote to me in April 2010 with a novel idea after he had a free Coaching Session with Mike Chupka at PowerOptions. JS had opened an RPM on CMG on February 19th, 2010:

CMG RPM – 02/19/2010

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```
Buy CMG 100 Shares         $104.65
BTO 1 Sep 2010 $110 put   +$ 13.78
Total Invested:            $118.43
Guaranteed Exit:          -$110.00
Total AT RISK:             $  8.43 or 7.11%
```

During the free Coaching Session, Mike showed JS the Roll Out Opportunities created in the PowerOptions Portfolio tools. See, CMG had moved up to $123.10 and a Bulletproof Income Method #4 opportunity appeared:

```
STC Sep 110 put            $   4.80
BTO Sep 130 put            $  14.30
Total Debit:               $   9.50
Adjusted Cost Basis:       $127.93 ($118.43 + $9.50)
Guaranteed Exit:           $130.00
Adjusted Max Risk:         $ -2.07…Negative risk = Bulletproof!
```

But, JS noticed something quite unique…applying this Income Method #4 would result in a locked in profit of $2.07. Unlimited upside profit, guaranteed return of $2.07 even if CMG dropped to $0.01 per share…he could not lose! But, there would still be a large amount of capital tied up in the position. JS thought…"since I am Bulletproof if I use IM #4, what would happen if I liquidated the RPM and bought the Sep 130 call instead?"

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CMG @ $123.10

Sell to Close 100 shares CMG	$123.10
Sell to Close Sep 2010 $110 Put	$ 4.80
Total Liquidation Value	$127.90
Initial Total Investment	$118.43
Total Liquidation Profit	$ 9.47, or 8.0%

Alternative to IM #4

Buy to Open 1 Sep 130 Call	$ 7.80
Liquidation Profit	$ 9.47
Cost to Purchase Call	$-1.67

Hey, did you catch that! Rather than rolling to the September $130 put, JS was able to generate an extra $30.00 of *Guaranteed* profit by liquidating the RPM and purchasing the Sep $130 call! Where does this leave his CMG position…? Well, essentially in the same place he would have been by applying IM #4: Unlimited upside profit, guaranteed return of $1.67 even if CMG drops to $0.01 per share. How's that for a little extra kick in the RPM?

What else was gained? Well, there is literally no capital now invested in the position. JS holds a long call free of charge…he essentially was paid to own the Sep $130 call. He liquidated his 100 shares, 1 contract RPM for $128.60 per share. That's $12,790 of cash sitting in his account. JS then took $780 of that to purchase 1 Sep $130 call…leaving $12,010 in available funds from an initial investment of $11,843. Hmmmm, what to do, what to do…enter a new RPM perhaps?

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Income Method Number Four Summary

Sometimes a stock that we own in an RPM shoots up past the protective put's strike price. This is always a happy thing! Trouble is, we have a dramatically altered situation: right now the protective put is ALL TIME VALUE. If we hold our stock, and it continues to rise, our put's price is the *highest it will ever be*, <u>today</u>.

Income Method #4 uses this fact by selling the fatter, At The Money put and exchanging it for another one that's higher up, and maybe even further out. If the underlying stock crashes the RPM's value is protected but at a strike price that's higher than all the money we've put in so far.

When the stock in an RPM shoots up *to* or *past* the strike price of the protective put, the value of that put may well be the highest it will ever be. It can be used to "put" money in your pocket. Missing this opportunity can put the trader right back where he started if the stock comes back down.

The best part about Income Method #4 is that it can make your RPM bulletproof. Your underlying stock can go up, adding to the value of the machine, but if it crashes you lose

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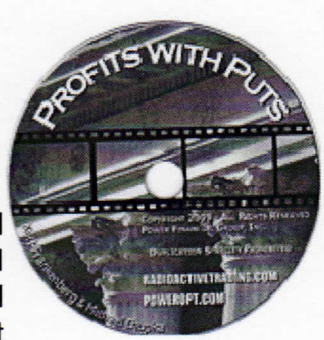
less. In the meantime, it is possible to use other Income Methods, collect dividends, withdraw money in the form of a margin loan, or all of the above. We always use the Catastrophe Report of course, but the nickname “ATM” means more than At The Money. It means you can take out money anytime. Anytime, that is, *after* you put some in to buy the new, higher up strike put option.

If you’re considering doing IM#4, remember the CEGA model. If the “Goals” part of your CEGA is to hold for growth, then IM#4 is a good choice. If you decide to apply other Income Methods along with it, the reminder below goes double:

REMINDER: With _all_ the Income Methods, we want to use our CEGA model and Catastrophe Report. Make sure that your Actions are appropriate to the Conditions, Expectation, your individual Goals, and that you’re okay doing them in light of the worst possible outcome.

Wasn't that unique?

In the first few chapters you saw how powerful using a put option can be to limit your losses...but how do you like Income Methods #3 and #4? When you made the smart choice to pick up The Blueprint, I betchya didn't realize that you could use your 'insurance policy' to 'put' money in your pocket or guarantee yourself a higher payout.



Would you like to see more examples of Income Method #3 and Income Method #4? I thought you might! Now would be a good time to watch the Profits with Puts compliment CD. This will reinforce the CEGA model and Catastrophe Report for the Bullet Proof Vest and ATM Machine. Then...on to the Money Nets!