How To Trade Options For Shares & Income

The core strategy is to convert synthetic longs into equity, financed by selling calls and puts, creating a self-sustaining feedback loop of growth and reinvestment.

Rules

- Trade up to 20% of my portfolio, expanding to 30% only in high-conviction opportunities.
- Think inversion: buy low, sell high. As 90% options expire worthless, be in the 10%.

Build a Trading Thesis

1. MACRO: C19 Travel Dead
2. Catalyst: Nov 6 news Vaccine 90% successful
3. MICRO: Travel will come back
4. PLAY: Airlines
5. TARGET: JETS ETF
6. TA: Examine chart
7. QUANT: Examine Options using Black Scholes Models to identify market pricing inefficiencies

Strategy: Synthetic Longs For Equity

A synthetic long is a long call option and short a put option with the same strike and expiration. The net result simulates a comparable long stock position's risk and reward. The principal differences are the smaller capital outlay, the time limitation imposed by the term of the options, and the absence of a stock owner's rights: voting and dividends.

1. When to buy… (pending TA metrics)
    a. Strike Price:
    b. Date:
        i. Avoid August
2. Sell the put for immediate cash to finance the call premium, unless doing a custom 2 leg. The cash required is… (pending Schwab conversation)
3. Buy the call.

Custom Two Leg						
Strategy	Action	Years	Strike Price	Order Type	Limit Price	Timing
Put	Sell to open	1 - 2	ATM/OTM	Net credit	Put Bid - Call Ask	Day
Call	Buy to open	1 - 2	ATM//OTM			

How to Adjust Your Limit Price

- **If Market is Liquid (Tight Spreads):**
  - Set a limit at or slightly below the midpoint.
  - Example: **$6.50 - $6.80**
- **If Market is Volatile (Wider Spreads):**
  - Start near the **bid price for better execution**.
  - Example: **$5.50 - $6.00**
- **If You Need Immediate Execution:**
  - Adjust closer to the **natural price (bid for credit, ask for debit)**.

Start with a Midpoint Limit Price (E.g., $5.85 in your case).
Wait for Execution (10-15 minutes).
Adjust if Needed:

- If no fill, **move toward the market price in small increments** (e.g., from $5.85 → $5.75).
- If the spread is wide, split the difference.

If Still No Fill, cancel and reevaluate market conditions.

Actual investment, even if net credit, is the margin the brokerage is holding.

Chat GPT Prompt
[Add screenshots]
Given the following data from Scwab, what is likely the most profitable synthetic long option for a bullish scenario? The data shows calls and puts for 1 different date. Show your work.
The first step should have table extracting call and put prices from the data with a net cost.
The second step should identifying the best synthetic long position from a risk-reward balance.
Include graph of net cost vs strike price for synthetic long.
The third step should be a conclusion.

Strategy: Calls & Puts For Income

(Premiums/Equity/Lifestyle)
In covered call, sell OTM or close to ATM, but never ITM. Risk of loss is share price