Michael Shulman's
Options Income Blueprint

WEEKLY PAYCHECK TRAINING GUIDE

Michael Shulman
Options Income Blueprint

Welcome to my *Weekly Paycheck Training* Guide.

This companion guide is a support document for my "Weekly Paycheck" training program geared to teach you how to trade weekly options… specifically sell weekly "put options" to **generate an "extra pay day" every week.**

I developed my "weekly options selling strategy" from my personal experience … a desire to generate extra cash income every month and every week in my own investment account.

In this training program, the focus is on creating very high returns on your capital in the form of consistent income -- income you spend or put back into your account. It is not about extracting the maximum amount of profit out of every position - that is a recipe for creating losses.

You're going to learn about the "power" of weekly options… how selling weekly put options on stocks and ETFs can help you create a more consistent, predictable, repeatable source of generating weekly cash.

I'm going to take you through the complete picture of selecting a weekly option to sell, when during the week to sell the option, how to execute the trade, how to manage the trade and finally how to close the trade with that extra cash in your account.

I'm also going to walk you through step-by-step how to execute the trade. We'll do a live trade together so that you can see how simple and efficient selling weekly options can be.

I will introduce you to a special strategy that allows you to "Roll and Recover" if and when an option trade goes against you.

Of course knowing how to work with your online broker to sell weekly options is key to the process… the ins and outs of everything from reading your broker option screen correctly to how to track and record your weekly income position will be reviewed so that you will understand how to work with your broker and read the screens to successfully manage the trade.

And finally, I'll reveal my own personal success strategy of selling weekly options for extra income every Friday… it's a simple way for you to construct your own portfolio and determine how much "extra cash" you want to make every week.

This is the first step in wresting control of your portfolio from the market and putting in place an income generation strategy that could yield far more than you are earning now.

Let's get started!

Selling Weekly Options vs. Buying

When you sell an option you are flipping or transferring the risk inherent in any option to the buyer and you collect the cash. It is yours instantly.

More than eighty percent of all options expire worthless, more so with weekly options, putting the seller is in the driver's seat. Selling does not have the thrill of hitting a home run when you "buy an option" that goes up quickly – but there are few if any double plays or disasters when you sell them.

Monthly options are the most commonly trade option contracts. They expire at the close of the market on the third Friday of each month.

Weekly options, however, are short-term trading contracts. They are introduced on Thursday and they expire 8 days later on the following Friday after the market close.

If you are like me and sell regular monthly options to generate premium, then you'll love weekly options because we get 52 paydays every year.

The Advantages of Selling Weekly Options

There are a number of advantages to selling weekly options. The primary advantages are risk management, flexibility, and the ability to generate consistent income.

First, risk management: The key to income investing - any investing actually - is to preserve capital, to live and fight another day. The big advantage weekly's have over monthly options is what we love about selling monthly options… the <u>time decay in an option contract that works on behalf of the seller</u>.

Flexibility:

1. As you can imagine, with a contract being open only 8 days, the time decay on a weekly option is ferocious and plays into the option seller's hand. This gives you the ability to capitalize on short-term plays like a news event, earnings announcement or sudden price movement in a stock.
2. Flexibility - your capital is not tied up in shares that may move the wrong way, shares that need to be managed through up and down markets and create uncertainty about your income next week or next month.
3. You can also turn this around – if you are convinced a company will surprise the Street during earnings announcement, you can sell a put the day before and when the stock rises get a large return in just 24 hours with minimal risk.

Consistency: The open interest and volume of contracts traded on weekly options are large enough to produce reasonable bid-ask spreads, however, the open interest and volume are usually not as high as monthly options expirations.

Perhaps the best advantage of selling weekly options is consistency. Half a percent gain, a typical gain in weekly trading - may be boring to many traders.

But do this fifty times a year and the number is now twenty five percent per year. Not so boring. Selling weekly options can create consistent income -- No other investment tool can do this for you with such a low level of capital risk.

Less Commissions: The typical weekly position expires worthless and that means you pay only commission on the front end. And if you do buy back a put to close a position and that put costs less than a nickel, many online brokers now offer commission free trades for the purchases of puts costing a nickel or less.

Capital Preservation: A strategy of selling weeklies is by far the best choice when capital preservation is priority number one - due to the limited time exposure to the market or other outside events.

Here is How Time Decay Works in Favor of the Option Seller

Why do weekly options work so well for option sellers?

For example, earlier this month we sold a weekly option on biopharmaceutical company Questcor, ticker symbol QCOR. We sold the November, Week One 55 puts for $.75 each and collected $75 per contract.

Two days later I sent an alert to my members recommending that they let the QCOR November, Week One 55 Puts expire worthless on Friday. That means we kept the entire $75 per contract sold… or $450 if you would've sold 5 contracts.

- **Sell Questcor (QCOR) November, Week One 55 Puts**
- **We collected $75 per contract in our account**
- **2 days later… Our QCOR November, Week One 55 Puts expired worthless**

We kept $75 per contract sold or…

$450 if you sold 5 contracts!

What happened?

The Value of Time Decay

As you might guess, **time decay** – the loss in value of the option over time even if the stock does not move – is ferocious on a weekly option on a stock like Questcor.

And that's a very good thing for the seller of options because most weeklies expire worthless.

And you get to keep all the cash. We did!

Do this every week and you can see how this can add up to a regular "extra pay day" every Friday.

Risks in Selling Weekly Options

There are some downsides to selling weekly options that I want you to be aware of.

Because of their short time frame and rapid time decay, it can be more difficult for you to recover or repair a trade that has moved against you after you've sold a weekly option. But don't worry about that now…later in this program I will teach you a simple way to recover and profit from a weekly option trade that may go against you.

Selling weekly options is a great tool to keep in your trading toolbox when it comes to selling premium and generating income.

So now you understand what weekly options are and why selling them works to your advantage.

Lets Learn How to Sell Weekly Put Options

My income-oriented strategy is flexible and works in any market and is all about selling weekly option puts.

Available Weekly Options

Weekly options are not hard to find – more than 450 stocks and ETFs have weekly options. Virtually all broker screens show weekly options inside their option chains. Some public sites do a poor and confusing job presenting weekly options; I strongly recommend you stick with your broker screens.

There are some large, mega cap sticks, such as Apple and Google and Bank of America, where you can find a weekly option listed weeks in advance but this is not the norm. More typical is finding options listed one week in advance.

The universe of weekly options grows, literally, every week.

When I began selling weekly options the universe was less than fifty. These weekly options are available for forty weeks of the year. **The CBOE – the Chicago Board Options Exchange** – updates the list every week and you can download it in spreadsheet form. Check out the list at the CBOE link below.

http://www.cboe.com/micro/weeklys/availableweeklys.aspx

Selling a Weekly Option Put

A put is a contract entitling the buyer of the contract to sell you shares at a fixed price on or before a specific date in the future. **Each option contract controls 100 shares of the stock.**

You will hear the terms puts, cash secured puts and naked puts.

That said, this training program is all about selling 'CASH SECURED PUTS", <u>not naked puts</u>.

Here is the definition a Cash Secured Put according to the **CBOE's Option Institute:**

Cash Secured Put: *An investor who employs a cash-secured put writes a put contract, and at the same time deposits in his brokerage account the full cash amount for a possible purchase of underlying shares. The purpose of depositing this cash is to ensure that it's available should the investor be assigned on the short put position and be obligated to purchase shares at the put's strike price. While the cash is on deposit it may generally be invested in short-term, interest-bearing instruments.*

The term "cash" in cash secured puts means must have collateral … cash … to purchase shares if they are assigned (or put) to you. You are not buying an option and you are not spending capital, but you have to have or leave enough capital it in your account to support the position.

For example, if you sell a weekly put option on **General Motors (GM)** at the **November, Week Four 45 strike**, you will need to have <u>$4,500</u> in your trading account for every contract you sell.

Why?

Because in selling an option contract, the buyer of your option has the right to assign the stock to you the seller… if and when the stock price is falls below the strike price. The buyer of that option doesn't have to assign, but he has the "right" to assign or "put" the stock to you.

In our example above, if you sell that **GM November, Week Four 45 Strik**e on Monday and the price of GM stock declines below $45 to $44.50 or lower by Wednesday, you could be assigned the GM stock at $45 per share or $4,500 for one option contract sold.

If you have a large enough trading account in dollars and qualify for margin, you can use margin instead of cash to support a put. For the purpose of this training program, we will focus on maintaining cash in your account to support the sale of a put.

We will spend more time on this importance difference between spending capital and using it to support a put position later on.

Key to the strategy of selling puts is to remember: you are not buying an option contract; you are not locked into buying shares.

Your cash or margin is sitting in your account supporting a put position. This is very different from owning shares.

Best Time to Sell Weekly Options

Weekly options open on **Thursdays and last for 8 days ending on the following Friday after the market closes.**

You can sell weekly options on any of those 7 market days, including the last day of expiration…Friday.

Weekly options are listed differently then longer term options on your broker option chain.

In this screen shot, you can see the next weekly option contract for GM in red.

Here is how you interpret that line:

NOV 4 **(the 4th week or Friday of November**

(7) **(Seven days until expiration)**
100 **(Number of shares in each contract)**
(Weekly's) **(Also, another indication it is a weekly option contract)**

Also, some weekly option contracts are listed and open in advance of 7 days, a new trend that has started for some of the more popular and widely traded stocks.

VZ VERIZON COMMUNICATIONS COM
UNDERLYING

Last X	Net Chng
50.11 Q	-.16

TRADE GRID
OPTION CHAIN
NOV 13 (0) 100 POS
NOV4 13 (7) 100 (Weeklys)
NOV5 13 (14) 100 (Weeklys)
DEC1 13 (21) 100 (Weeklys)
DEC2 13 (28) 100 (Weeklys)
DEC 13 (35) 100
JAN 14 (63) 100
FEB 14 (98) 100
APR 14 (154) 100
JUL 14 (245) 100
JAN 15 (427) 100
JAN 16 (790) 100
TODAY'S OPTIONS STATISTICS
OPTIONS TIME & SALES
PRODUCT DEPTH

Which day you sell a weekly option depends on a number of factors including the recent stock price movement, external factors like earnings or news, and how much premium is available on the day you want to open the position.

I prefer to sell weekly options on Wednesday before expiration. That leaves around 2 ½ days for the option to remain open and less of a chance that any bad news or market sell-off may negatively impact the position.

Thursday (7 Days Out): Better for more stable or low volatility stocks

Monday (5 Days Out): Ok for momentum stocks in a bull run

Wednesday (2 Days Out): I like Wednesdays because of the short-time frame for many stocks that you would sell weekly options.

Construct a Weekly Put Trade

Ok, now we've selected one or more stocks or ETFs to sell weekly puts and it's time to check and see if they will make good put selling positions.

There a few factors that we will use to determine if our stock or ETF choices have the right type of option contracts we can sell.

Volume: One of the first things to look at when selecting the right option volume. Option contract volume is important because you don't want to try and sell a put option where there are few and far potential buyers out there.

When we look at volume, there are several terms we use that you should become familiar with:

Open Interest (Open Contracts): Open interest refers to the number of puts that have been written, on that specific position.

Daily Volume: Daily volume is the number of contracts for that specific put that have traded that day.

VOLUME AND OPEN INTEREST

Spread: Single	Layout: Volume, Open Interest		Exchange: Composite	
	PUTS			
Strike	Bid X	Ask X	Volume	Open.Int
				8.03% (±0.10
				25.37% (±1.13
35.5	.01 H	.04 X	0	0
36	.02 I	.03 H	0	1[illegible]
36.5	.04 H	.05 I	70	0
37	.07 H	.09 X	200	160
37.5	.13 I	.15 X	215	205
38	.23 H	.25 I	240	58
38.5	.39 I	.42 I	198	176
39	.64 I	.67 H	52	0
39.5	.93 X	1.00 X	5	0
40	1.35 H	1.39 I	14	0
40.5	1.67 X	1.85 X	0	0
41	2.01 I	2.32 I	0	0
41.5	2.42 I	2.95 X	0	0
42	2.91 I	3.45 X	0	0

Bid/Ask Spread: The "Bid" is what someone is willing to pay for an option put you will sell. The "Ask" is the current asking price by other sellers. The spread, typically something you calculate on your own, is the difference between the two.

In constructing a weekly option position, consider these volume factors:

1. **Current Open Contract Volume**: This is the Volume of Open Put Option Contracts within 5 or 6 strikes of the price of the stock. **If I see 100 or more contracts are open** (see the screen above) on the strike I want to sell, then it passes my volume test. Next, I check the Bid/Ask spread at the strike(s) I'm looking to sell.

2. **Bid/Ask Spread:** The Bid is what someone is willing to buy the option from you since you are the seller. I like the difference between the "Bid" and the **"Ask" to usually be $.01 to $.05**. **My maximum spread in the price would be $.10.**

You may find a interesting stock or ETF with pricing momentum that you think would make a good choice to sell weekly puts but a quick scan of the option chain may show there is not enough volume and/or the spread between the bid and the ask is too far apart.

Time to move and look at the next stock for minimum option volume.

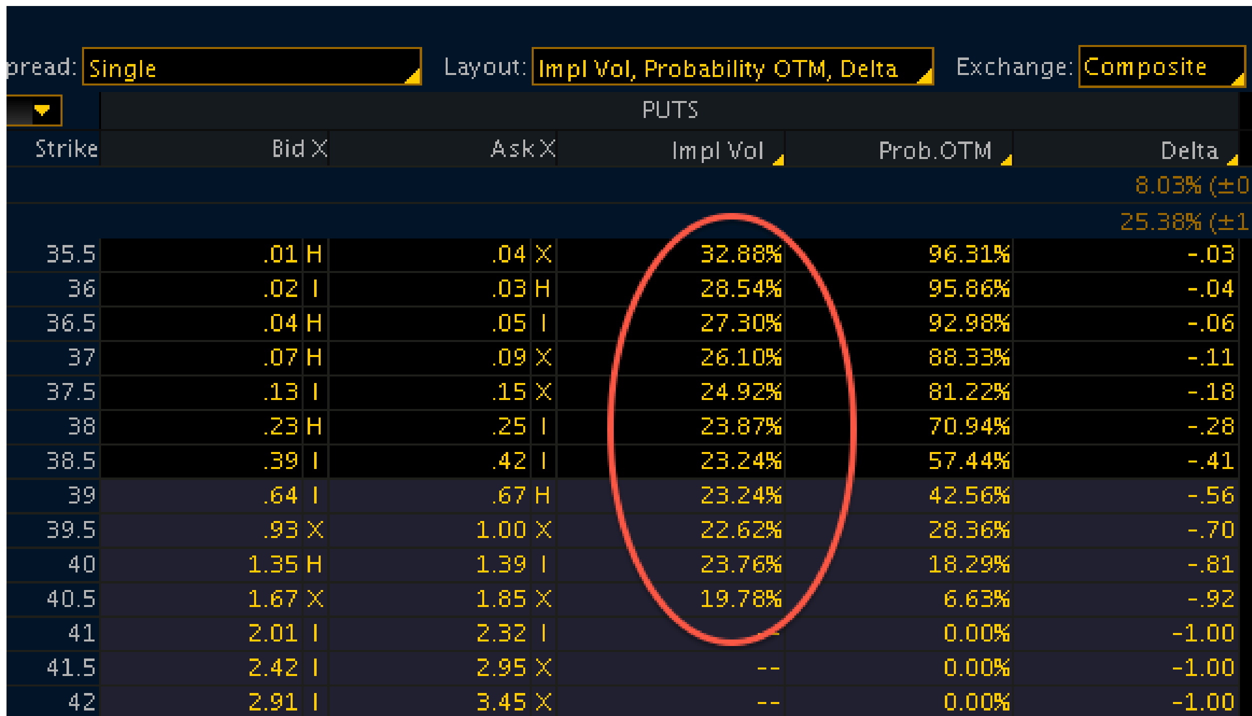
Using Volatility to Construct a Trade

You've found a stock or ETF with sufficient option volume and a small bid/ask spread, now it's time to check on volatility within the option you want to sell.

Volatility is the friend of the "option seller" and most online broker screens will calculate and provide the Implied Volatility in the option chain for each specific strike price.

When it comes to selling weekly puts, ideally look for an option strike price with **Implied Volatility** of around 25. Anything 25 to 34 is ok. 50 or more and it gets too hairy and too volatile to work when you're selling a weekly option.

IMPLIED VOLATILITY



pread: Single Layout: Impl Vol, Probability OTM, Delta Exchange: Composite

PUTS

Strike	Bid X	Ask X	Impl Vol	Prob.OTM	Delta
					8.03% (±0.
					25.38% (±1.
35.5	.01 H	.04 X	32.88%	96.31%	-.03
36	.02 I	.03 H	28.54%	95.86%	-.04
36.5	.04 H	.05 I	27.30%	92.98%	-.06
37	.07 H	.09 X	26.10%	88.33%	-.11
37.5	.13 I	.15 X	24.92%	81.22%	-.18
38	.23 H	.25 I	23.87%	70.94%	-.28
38.5	.39 I	.42 I	23.24%	57.44%	-.41
39	.64 I	.67 H	23.24%	42.56%	-.56
39.5	.93 X	1.00 X	22.62%	28.36%	-.70
40	1.35 H	1.39 I	23.76%	18.29%	-.81
40.5	1.67 X	1.85 X	19.78%	6.63%	-.92
41	2.01 I	2.32 I	--	0.00%	-1.00
41.5	2.42 I	2.95 X	--	0.00%	-1.00
42	2.91 I	3.45 X	--	0.00%	-1.00

Premium: The Cash You Collect From Selling the Weekly Put Option

When it comes to selling options, we try to look for rich premiums…the range could be anywhere from $.20 per share or $20 per contract sold and some

weekly's can generate premium $.50, $1.00 or even more. Stocks like Apple, Google and Amazon can have weekly option premium that runs anywhere from $2 to $6.

Because of the shorter time period to expiration, weekly options tend to carry less premium, depending on how far out of the money you go and how many days you will be in the position.

When we sell weekly options on stocks like **Ford (F)**, **Bank of America (BAC)** or other stocks under $30, the premiums are going to run less than $.30 and maybe even under $.20, or less depending on what day of the week you trade.

If we sell Ford weekly puts on a Monday with 5 days to go, depending on the strike price, we might get anywhere from $.25 to $.30. Wait until Wednesday (a day I like to sell weekly options), and you may only get $.15 or $.20.

The good news is that you are only in the trade for 2 ½ days with a better chance of having the put expire worthless. However, depending on which online broker you use, option-trading commissions could eat up half of your capital.

PREMIUM AND THE STRIKE

Spread: Single Layout: Position, Intrinsic, Extrinsic Exchange: Composite

PUTS

Strike	Bid X		Ask X		Position	Intrinsic	Extrinsic
							27.06% (±1
35.5	.01	H	.04	X		0	.025
36	.02	I	.03	H		0	.025
36.5	.04	H	.05	I		0	.045
37	.07	H	.09	X		0	.08
37.5	.13	I	.15	X		0	.14
38	.23	H	.25	I		0	.24
38.5	.39	I	.42	I		0	.405
39	.64	I	.67	H		.23	.425
39.5	.93	X	1.00	X		.73	.235
40	1.35	H	1.39	I		1.23	.14
40.5	1.67	X	1.85	X		1.73	.03
41	2.01	I	2.32	I		2.23	-.065
41.5	2.42	I	2.95	X		2.73	-.045
42	2.91	I	3.45	X		3.23	-.05

However, when we sell a weekly put option on a stock like **Western Digital (WDC)** (around $85) or even **General Motors (GM)** (around $45), we could collect premiums of anywhere from $.25, $.50, $.65 or more for selling a position for just 2 ½ days. Even after option trading commissions of $4.95 to $6.95, you are still going to collect sufficient cash from one of these positions.

Your only risk is tying up a little more capital.

The Strike Price

The strike (or exercise) price of an option is the specified price per share at which underlying stock will change hands after a call or put is exercised by its owner.

In the chart below, the strike prices are listed to the far left of the screen.

When you are "buying" a put option, the **STRIKE PRIC**E is said to be "in-the-money" if the price of the security is below the strike price.

BUT, when you "SELL" a put option, a put option **STRIKE** is **"IN-THE-MONEY"** if the price of the security is above the strike price.

When you "SELL" a weekly put option, we usually look to select a "**STRIKE PRICE**" that is "**OUT-OF-THE-MONE**Y"...where the strike price is less than the price of the underlying security or index.

STRIKE PRICE

Spread: Single | Layout: Position, Intrinsic, Extrinsic | Exchange: Composite

Strike	PUTS Bid X	Ask X	Position	Intrinsic	Extrinsic
					27.06% (±1
35.5	.01 H	.04 X		0	.025
36	.02 I	.03 H		0	.025
36.5	.04 H	.05 H		0	.045
37	.07 H	.09 X		0	.08
37.5	.13 I	.15 X		0	.14
38	.23 H	.25 I		0	.24
38.5	.39 I	.42 I		0	.405
39	.64 I	.67 H		.23	.425
39.5	.93 X	1.00 X		.73	.235
40	1.35 H	1.39 I		1.23	.14
40.5	1.67 X	1.85 X		1.73	.03
41	2.01 I	2.32 I		2.23	-.065
41.5	2.42 I	2.95 X		2.73	-.045
42	2.91 I	3.45 X		3.23	-.05

OUT-OF-THE MONEY

IN-THE-MONEY

Entering Your Weekly Option Position

Now we're ready to enter our trade. We have the stock and the strike price we want to sell.

Select the Strike Price from the Option Chain and then you will be presented with different "prompts" to execute your trade.

ACTION: **Sell To Open**

When you look at the action to take you will see the following on your broker screen:

Buy to Open
Buy to Close
Sell to Open

Sell to Close

The most important action to follow when we are selling weekly puts, is the "Action" or the order should always be **"Sell to Open"** a contract.

CONTRACTS: Number of Contracts

How many contracts you are going to sell (100 shares per contract).

ORDER TYPE: Limit or Market

Just like when you buy a stock, a market order will fill at the price in the market at the time of your trade. A limit order, allows you to specify the premium price you will accept for selling your weekly option contract.

Monitoring and Managing Your Weekly Option Position

Remember, our goal selling weekly put options is to place the trade with the expectation that the option contract will expire worthless and we keep the entire amount of cash premium we collected at Friday after the close.

And that ties into the benefit of selling weekly put options. With weekly options, there is a limited amount of time for your trade to be open and exposed to outside events or bad markets, and a better chance that the options contract will expire worthless (and you keep all of the premium) on Friday.

Compared to a monthly option, there is far less time (only 1 to 7 days) to watch and monitor your weekly option position, which reduces risk and doesn't take all of your time to track your position(s).

Monitoring Your Position

The stock market is unpredictable and full of surprises. You should not sell a weekly option and totally forget about it. You will have to do monitor your trade position for however short of duration you are in the trade.

Here are a few of key indicators you should remember when it comes to monitoring the weekly put option positions you've sold:

1. **An Overall Market Sell-Off in One Day:** If the broad market is selling off anytime during a given trading day, then you will want to check in to see what the sell-off is doing to your position and your stock price. If the stock price is down but still well above your option strike price, you're probably ok for the remainder of that day.
2. **Market Sells Off for Multiple Days:** Market sell-offs over multiple days in a week can impact your position, even if you've sold deep out of the money puts. If you get into two or more days of broad market selling, then you may have to take action with your position, and you'll certainly need to monitor it more closely.
3. **Sector Movement:** If the general market is flat or up, but the sector of the stock you are selling the weekly put is down, then you will need to check to see how your position is doing once or twice during the day.
4. **Stock Sell-Off:** If your stock is selling off independent of the market or the sector, then you may need to check the headlines around the stock to see what is causing this. If it's down slightly, it may be normal selling and you can ignore it.
5. **News on Your Sector or Stock:** Again, many times stocks rise and fall based on rumors, news and stories. If bad news comes out on your stock or sector, then you may have to check in to see if it's working against your trade. If your stock is down by 2% or more, then most likely some negative news around your stock is affecting the price.
6. **Earnings or Upgrade/Downgrades:** If the stock you are selling puts against is announcing earnings that week, it could and probably will impact the price of the stock and your weekly put position. I usually don't recommend selling weekly puts during the week of an earnings announcement for the company.

General Rules of Thumb for Monitoring Your Weekly Put Position:

If you sell a weekly put option 7 to 8 days out, you should check in each market day to see what is happening to your position.

If you sell a weekly put 2 days out on Wednesday (one of my favorite days to sell puts), then Thursday will be a key day to watch your position for any significant price movement.

Friday Monitoring: Many Friday's tend to be slower trading days and the market may not be as volatile as earlier in the week. If the market opens flat to slightly up or down, and your stock is trading well above your put option price, then your position will most likely expire worthless.

Friday Caveats: On rare occasions, bad news or rumors can hit a stock, a sector or even the broad market on Friday anytime. It's not a bad habit to check your position at noon on Friday.

Automated Trade Management

Today with computing power and high-speed Internet connections, there are a number of ways you can automate the management of your weekly option trade positions. Almost all online brokers who offer stock and options trading are able to accommodate automated trade management.

For many experienced stock and option traders, the most efficient way is to automate their trade and **place a conditional order** when they are executing their weekly option trade:

Conditional Orders: Conditional orders let you combine two or three individual orders that will, if filled, either cancel or trigger additional orders.

An OTA Conditional Order (one triggers another): Here, you submit an order to sell a weekly put option and if that order is filled, it will automatically submit another order—a "Buy Order" or "Buy back that option" at a pre-determined price. That order will be in place for the duration of the trade or "good until cancelled."

Example: If you place an order to sell XYZ Stock November, Week Four 30 put option for $.35 or $35 a contract, at the same time you place an "OTA" order to

"Buy Back Your" XYZ Stock November, Week Four 30 put option when it reaches $.20 or $20 per contract.

If XYZ stock at the time of the order was trading at $31 but sold off closer to expiration and was trading closer to $30, your OTA order would trigger a "buy" when XYZ November, Week Four 30 option reached $.20 or $20 per contract. The "buy back" trade is automatically executed for you and you spend $20 to buy the option back, but you keep $15 per contract (less your trading commissions).

If you set your trade with the expectation of the position expiring worthless on Friday or you would rather make the decision to "buy back" one of your weekly option positions, instead of letting it automatically trade, there are other alternative ways to do this with your online broker.

Setting Trade Alerts: One of the easiest ways to monitor your weekly put position is to use your online broker's alert system. These days, almost every online broker who offers options trading has an alert system that can send you an alert when a stock or option trade reaches a certain price level.

These alerts can be sent via email, text or automatically to your smart phone or tablet application to alert you of a stock price movement.

At the same time you execute your trade you should set an alert to be sent to you. The alert should be triggered to send when the stock price of the option you are selling is within 2 to 4% being "in the money" of the strike price.

When you receive the alert, you can then make a decision about how and when you will take action to manage your position.

Managing Your Trade

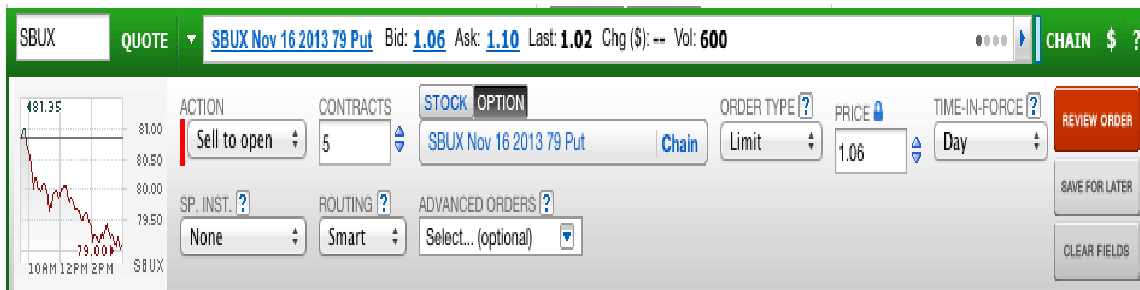
As we discussed above, selling weekly put options are a relatively "low maintenance" process.

Let me show you.

Earlier this year, I recommended to my *Options Income Blueprint* subscribers to open a position on Starbucks, ticker symbol SBUX. We sold the **Starbucks**

(SBUX) November Week Two 79 puts (weekly option) for $1.10 or $110 per contract sold. It would've taken one of my members five minutes or less to enter the trade and watch it fill.

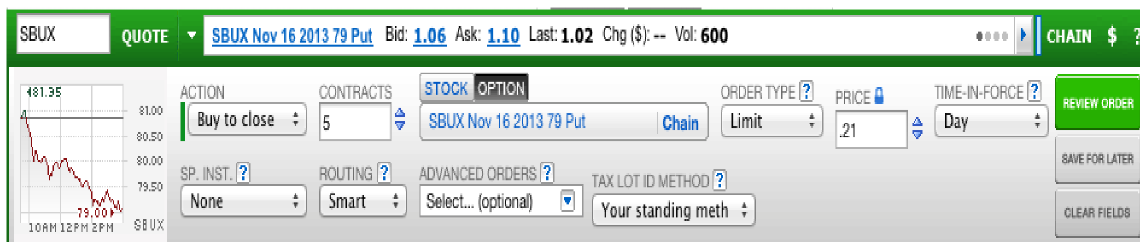
- **Sell Starbucks (SBUX) November Week Two 79 Puts**
- **Collect $106 per contract sold**
- **Less then 5 minutes to enter this trade**



The stock price on Starbucks began to move the next day ahead of their earnings announcement. I sent out an alert recommending that my members close the position, spending $21 to buy the contract back and we ended up with $89 per contract gain… in less than 24 hours.

That took all of about ten minutes of time to sell … and then buy back the option!

- **Starbucks price surge before earnings**
- **Buy back the contract for $21 per share**
- **Keep $89 per contract of profit in less than 24 hours**
- **Took all of about 10 minutes time**



With some modest planning, you should only need to spend about 30 minutes per week monitoring and managing your weekly option positions.

Managing a Position That Goes Against You

There will be times when weekly option put positions move against you and you will have several choices to make. I covered a number of scenarios above in monitoring your position and now it's time help you with managing a position that goes against you.

If the stock you have written weekly put options is selling off and the stock price is going to finish expiration Friday below your strike price, two things could happen to your position.

1. If the price of the stock finishes under but close to your position strike price, your option position may still expire worthless and you keep the entire premium. The buyer of your option contracts has decided not to "exercise" his right to assign or "put" the shares to you.

   Or…

2. The buyer of your weekly option could decide to exercise his contractual right and assign the shares of stock that your capital is maintaining.

With the second scenario, you have several choices of action to take.

1. Close the position early with a smaller profit or even at break-even. If you are monitoring your open weekly position, and see that the stock is selling off, you can decide to close the position early, at less profit or at just break-even.

2. You could decide to accept the assignment of stock and you will receive a notice from your broker letting you know that the buyer of your option contract has decided to assign you the shares. The cost of those shares will be paid for by the capital you have maintained in your account. You will now own at least 100 shares of the stock (or more if you sold more contracts).

NOTE: Being assigned the shares is not necessarily a bad outcome. You may like the stock you've sold a weekly option contract and you don't mind owning the shares at the strike price you sold the original option. In some cases, experienced traders will use a put selling strategy to "acquire stock", rather than outright buying the stock. If they can set the price they will acquire the stock through a target strike price on the put, they don't mind if they get assigned the stock.

However, there is a third outcome for your trade and it's a relatively simple strategy that allows you, the option seller to avoid taking a loss or being assigned the stock.

It's "Roll and Recovery" and it's worth the time for every investor to learn about how to "roll and recover" when you are new to selling options.

Rolling and Recovery

Rolling your weekly option position is a critical tactic to learn and employ to help you avoid taking a loss or being put a stock.

To avoid assignment on a short put, we roll the position to a new strike price further out.

When you roll a position, you are taking a net loss on the first (or front week) put you sold and generating more cash than that loss through the sale of a second position (back week).

Here is how you roll a weekly put position:

For example, let's say you've sold a 7-day cash-secured weekly put on stock XYZ with a strike price of $39. And let's say you received $0.35 for the put when the stock was trading at $40. Now, close to expiration, the stock has dropped and it's trading at $38.50.

The only way to avoid assignment for sure is to buy back the 39-strike put before it is assigned, and cancel your obligation. The problem is, the 7-day put you originally sold for $0.35 is now trading at $.65.

You enter a buy-to-close order for the front-week 39-strike put. In the same trade, you sell to open a back-week 39-strike put, 7 days from expiration (rolling out) which is trading for $.75. By doing this, you'll receive a net credit of $0.10 ($.75 back-week sale price - $.65 front-week purchase price) or $10 total.

THE ANATOMY OF A ROLL

Existing Position: 5-Day 39-Strike Put Premium Received	**$0.35**
Premium paid to Close 39-Strike Put……………………….	**-$0.65**
Premium Receive to Sell 7-Day 39-Strike…………………….	**$0.75**
Net Credit From the Roll………	**$0.10**
Initial $.35 Premium + $.10 Credit from Roll = +$.45 Net Total or $45 per contract	

If the new 39-strike put expires worthless in 7 days, you'll net $.45.

Here's the math: You lost a total of $0.30 on the front weekly put ($.65 paid to close - $0.35 received to open). However, you received a premium of $.75 for the new 39-strike put, so you netted $.45 ($.75 back week premium - $0.30 front-month loss) or $45 total.

Rolling a Position Trade Example

Here is a sample weekly option put trade selling 3 contracts:

On Monday, the price of GM stock was $44.95.

Trade: Sell 3 Contracts of GM Nov, Week 4 44.50 Puts

Premium received: $.35 per share (100 shares x $.35 x 3) +$105

On Thursday, GM stock is trading at $44.05 and the GM Nov, Week 4 44.50 Put is selling for $.65

Roll Trade (one action):

1. **Buy GM Nov, Week 4 44.50 puts for $.65 per share or $195 -$195**
2. **Sell GM, Dec, Week 44.50 puts for $.75 per share or $225 +$225**

Net Cash in Hand after the Roll +$135

On Friday at the close, GM stock is trading at $45.95… and your new contract expires worthless…you keep +$135

SOME RULES OF ROLLING:

One Trade: The best way to roll a position is to execute it as ONE TRADE. Most online brokers offer the ability for you to roll the trade as one transaction on your screen.

Short Time: You should usually roll from a weekly position out the shortest possible time period. That way, you will be faced with less market uncertainty. However, sometimes it may be advantageous to roll to the next monthly option, depending on what is happening with the stock or the market.

Pre-Emptive Roll: You may want to consider a "pre-emptive roll". That is, you can roll before the option gets In-The-Money if you think it's headed that way. This might lower the cost of buying back the front-month option, and could result in a larger net credit for the roll.

The concept of rolling can be a difficult thing to wrap your head around. Execution on the other hand, is a breeze - in part because of broker screens.

With many brokers, all you will see on the screen is the red from the buy back of the first position. Do not let this confuse you - track this on your own if need be with a piece of paper or spreadsheet.

It appears on my broker's screen - on other screens it may say "spread" but in fact you are rolling from one week's position, into another.

Capital Allocation

How much should you allocate to selling weekly option puts as part of a trading or income strategy?

That will depend on your overall goal for this program…

While the cash comes in weekly, you may have set your goals based on income generated per week, month, quarter, or on an annual basis.

Regardless of the timeframe you use, you must measure your performance and your return on capital based on an annualized rate.

This is the only way to compare the results of this strategy against other components of your portfolio.

Remember how we discussed that the return on selling weekly puts tend to run in the range of a half to one percent.

That doesn't sound impressive, unless you take the time to annualize the performance so that you can compare it to other strategies on an 'apples-to-apples' basis.

For example, a .5% return with each trade times 50 trades in a year, comes out to 25% per year. Now that is a much more impressive return on your portfolio.

Create weekly income goals.

Start with your target income from your portfolio for the year.

If you use a conservative number, let's say 18%, that means 1.5% per month or 0.36% a week.

With that number in hand you now can scout out positions -- you know how much premium or cash you need to collect when you sell a put to hit your weekly and annual goals.

It is critical to figure all this out, otherwise you don't know how you are doing with this strategy or any strategy for that matter.

Let's say you have $20,000 to work with as you try out these new tactics. You are an investor with the willingness to sell weekly puts fifty times a year.

Your target is to generate $5,000 for the year, from the $20,000 you are starting with.

You will need to generate $100 a week on average and $100 divided into your capital base of $20,000 is one half of one percent per week.

When you set the yearly goal, you need to keep this in mind not only how much you need to generate each week, but how many weeks you will be trading.

You also have to determine what level of risk you are willing to tolerate or live with. This will only be a choice for you when the option doesn't expire worthless.

The risk at this point is either:

1. Owning shares in the stock or
2. Rolling the position, which means having your capital tied up for another week or longer.

If you have a smaller account, say less than $15,000, you may have no choice but to roll the position.

More Portfolio Allocation

Ideally, you should try to diversify positions.

The risk is not that you will lose money by concentrating on too few positions but rather, if you get tied up in a position for several weeks you may not be able to generate the kind of cash you want each week by being in other trades.

There is nothing worse for managing a portfolio or generating income consistently than unrealistic expectations. You must keep these factors in mind when setting your goal:

- How many weeks a year you can sell weekly puts,
- How much capital you are committing to this strategy,
- What impact commission may have on your profits
- How many times you believe you will need to extend or roll a position, reducing your return on that position.

Below are some conservative guidelines when establishing your income goal:

- You will put positions on forty times a year.
- You will not allocate all your capital to this strategy
- You will not put all your capital in support of one position with a potentially high rate of return – assume you will earn an average return. In my portfolio, these range from 15%-30%
- Assume two to three out of ten positions will need to be extended a week.

One last note - stuff happens, national and international political events, weather, key players in companies come and go.

You must assume that stuff will happen. The good news is you will be able to avoid and exploit unexpected events using a weekly put selling strategy.

But as stuff happens, rates of return can falter. Always build that into your calculation when determining what you want in that weekly paycheck.

Traders Reserve Copyright

All material in this report is, unless otherwise stated, the property of Traders Reserve, LLC. Copyright and other intellectual property laws protect these materials. Reproduction or retransmission of the materials, in whole or in part, in any manner, without the prior written consent of the copyright holder, is a violation of copyright law.

A single copy of the materials available through this course may be made, solely for personal, noncommercial use. Individuals must preserve any copyright or other notices contained in or associated with them. Users may not distribute such copies to others, whether or not in electronic form, whether or not for a charge or other consideration, without prior written consent of the copyright holder of the materials. Contact information for requests for permission to reproduce or distribute materials available through this report is listed below:

www.tradersreserve.com
service@tradersreserve.com