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Selling Put Options

Why Sell Put Options?

- Generate additional income.
- Profit from range-bound to bullish stocks.
- Use to enter a stock position.
- Averaging down.

Selling Cash Secured Puts

- The option seller has available capital to buy the stock.

- Obligated to purchase the shares from the option buyer.

- Risk associated with the stock ownership below the strike price.

Selecting Strike Prices

- In-the-money strikes:
  - Composed of both intrinsic and time value.
  - The intrinsic value is upside potential.
  - The put seller must be bullish on the stock.

Selecting Strike Prices

- At-the-money strikes:
  - The stock price equals the strike price.
  - Made up entirely of time premium.
  - Achieve the greatest static return.

Selecting Strike Prices

- Out-of-the-money strikes:
  - Offer more downside before the put seller is obligated to buy the stock.
  - The smaller premium reflects the decreased probability of being assigned.

Selling Cash Secured Puts

- XYZ is trading at $50.00.
- 2-month put option with a strike price of $50.00 is listed at $2.50.
- Investor is obligated to buy the XYZ shares.
- Investor sells 1 put option and collects $2.50 per share in premium.

Selecting Strike Prices

	Put Option Strike Price	Put Premium	Adjusted Cost Base * If exercised	Cash Flow Return
	$54.00	$5.00	$49.00	2.04%
Stock Price	**$50.00**	$2.50	$47.50	5.26%
	$46.00	$1.00	$45.00	2.22%

* Returns calculated using the adjusted cost base as the common denominator.

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Selling Puts as an Income Strategy

- By selecting the at-the-money call option, $2,500.00 in real cash flow was created.
- 5.26% return on the investment over 2 months.
- Reduced the cost base of the investment.
- Downside protection created.

* Returns calculated using the adjusted cost base as the common denominator.

Selling Puts as an Entry Strategy

- Method of entering the position.
- Reduces the cost base of the potential investment.
- The upside potential of the stock is lost if never assigned, while having assumed the downside risk below the strike price.

Selling Puts for Averaging Down

- The investor is in a losing stock position.

- To purchase more shares and average down on the cost base.

- Strike price near the desired target price.

Naked Put Options

- The option seller is leveraged.
- Is obligated to purchase the stock from the option buyer.
- Creates an undefined risk.
- Risk of loss below the strike price is similar to owning stock.

Naked Put Options

- XYZ is trading at $50.00.
- 2-month put options with a strike price of $48.00 are listed at $2.00.
- Investor sells 10 put options and collects $2,000.00 in premium.
- Does not have sufficient cash to cover entire obligation – marked as naked.

Naked Put Options

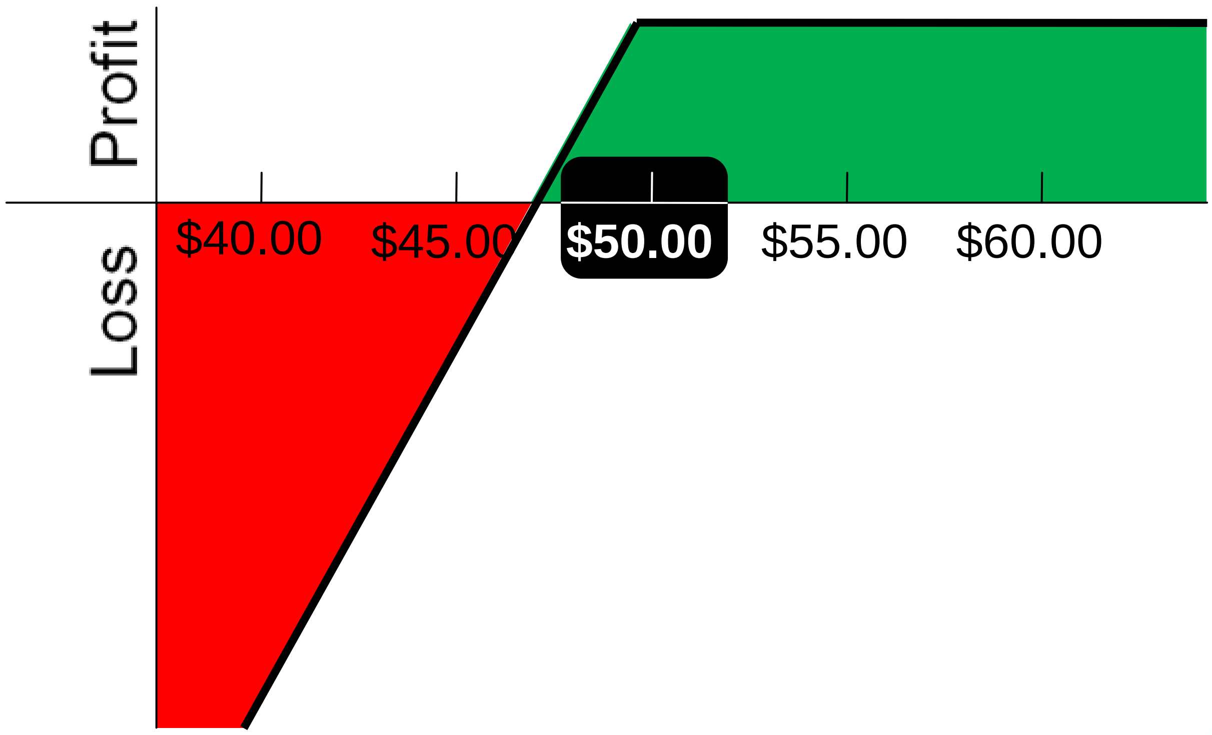
Stock Price at Expiration	Profit/Loss
$54.00	$2,000.00
$52.00	$2,000.00
$50.00	$2,000.00
$48.00	$2,000.00
$46.00	Break Even
$44.00	- $2,000.00
$42.00	- $4,000.00
$40.00	- $6,000.00

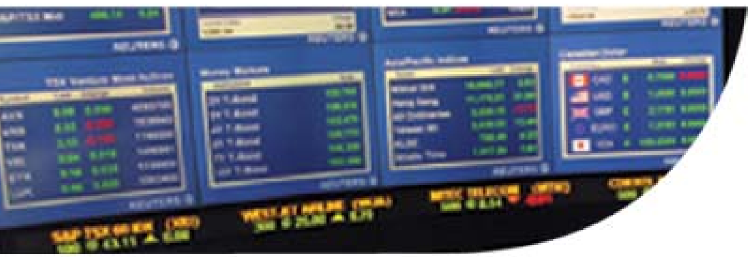
Stock Price

Strike

Synthetic Positions

Short Put = Long Stock + Short Call





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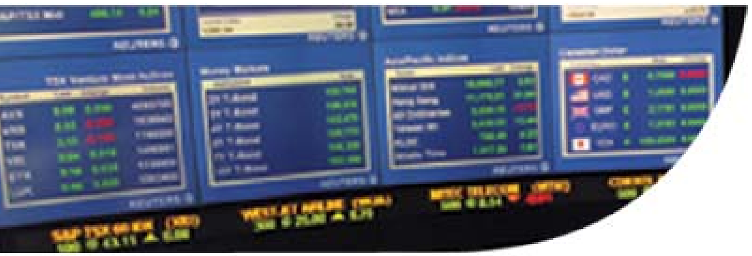

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