

**BOOM & DOOM**

PROTECTING & BUILDING YOUR FINANCIAL FUTURE



INVESTOR'S DAILY EDGE



MT. VERNON  
RESEARCH

# Put-Option Selling – Get Paid To Buy Your Favorite Stock

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# What & Why Use Options?

- Simulate the underlying security
- Smarter use of your money
- Leverage
- Better risk/reward curve

## Options Expire

- It's been estimated that up to 90% of OTM options expire worthless
- Most people BUY OTM options
- OTM options – when bought have a very low probability of profit
- Want to be on the other side of the transaction as the seller? Yes!!!!



## Probability Calculator

Type of Asset	Stock				
Current Price	17.35				
Future Date (MM/DD/YY)	03/21/09				
Days Ahead (Optional)	50				
Future Volatility	38.00				
Dividend Yield(Optional)	0.00				
Risk-Free Interest Rate (Optional)	2.00				
First Target	12.90	Second Target	12.90		
Click here to calculate <a href="#">GO!</a>					
<b>Price at Each Standard Deviation</b>					
3	-2	-1	+1	+2	+3
11.41	13.13	15.12	20.02	23.05	26.53
<b>Probability of:</b>					
Finishing below lowest target	Ever touching lowest target	Finishing between the two targets	Ever touching highest target	Finishing above highest target	
1.70%	3.20%	0.00%	98.3%	98.3%	

## Option Selling

- You can sell options as easily as you can buy them – as single options or spreads
- The option buyer pays you instant cash
- Option selling – when done correctly can have a much higher probability of winning

# What is Put-Option Selling?

- An option strategy in which “naked” put option contracts are sold without any other “covering” security
- A method of potentially acquiring stock at below current market prices
- Obligates us to buy the stock at the strike price if called upon by the option buyer
- A method of creating cash flow by taking in a credit to your trading account

## Benefits Of Put-Option Selling

- Causes us to potentially buy below the market
- Gives us an immediate infusion of cash due to the “selling” of options
- Less money required upfront
- Can repeat the process many times

## Risks Of Put-Option Selling

- Can over-leverage yourself
- Downside risk just like a long stock (once assigned the shares)

## Selling Put Options

- Sell as many option contracts as you would be comfortable as buying equivalent number of shares
- 1 option contract = 100 potential shares
- 5 option contracts = 500 potential shares

## How Do We Sell Put Options?

- Pick a blue chip stock (DIS, MSFT, DELL, INTC, etc.) that you want to buy and hold
- Decide on a potential price level that you're comfortable owning it (by way of technical and fundamental analysis)
- Decide on an expiration month
- Consult the option prices
- Place the order

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## GE Monthly





## GE Options

Vol: 92.3M      Jan28      GENERAL ELECTRIC COt: 13.50  
Volatility: 60.58      15:09

Symbol	Symbol(short)	Last	Change	Bid	Ask
JUN09 2.50	GEW RS	0.10	0.00	0.07	0.10
JUN09 5.00	GEW RE	0.24	-0.04	0.25	0.26
JUN09 7.50	GEW RU	0.48	-0.09	0.48	0.51
JUN09 9.00	GEW RD	0.75	-0.13	0.73	0.76
JUN09 10.00	GEW RF	0.95	-0.14	0.94	0.97
JUN09 11.00	GEW RI	1.20	-0.17	1.20	1.24
JUN09 12.00	GEW RA	1.50	-0.25	1.53	1.57
JUN09 13.00	GEW RM	1.95	-0.26	1.93	1.97
JUN09 14.00	GEW RN	2.40	-0.33	2.44	2.48
JUN09 15.00	GEW RH	2.96	-0.34	3.00	3.10
JUN09 16.00	GEW RQ	3.65	-0.30	3.70	3.75
JUN09 17.00	GEW RR	4.90	-0.40	4.45	4.55
JUN09 18.00	GEW RO	5.25	-0.37	5.25	5.35
JUN09 19.00	GEW RP	6.00	-0.05	6.10	6.20
JUN09 20.00	GEW RT	6.90	-0.15	7.05	7.15
JUN09 21.00	GEW RL	9.08	+0.13	7.95	8.05
JUN09 22.00	GEW RV	9.20	-0.40	8.95	9.05
JUN09 23.00	GEW RW	10.90	+0.30	9.90	10.05
JUN09 24.00	GEW RX	11.15	-0.15	10.85	10.95
JUN09 25.00	GEW RY	11.70	-0.70	11.85	12.00
JUN09 30.00	GE RD	16.76	-0.54	16.85	16.90
JUN09 35.00	GE RG	22.10	+0.40	21.80	21.95

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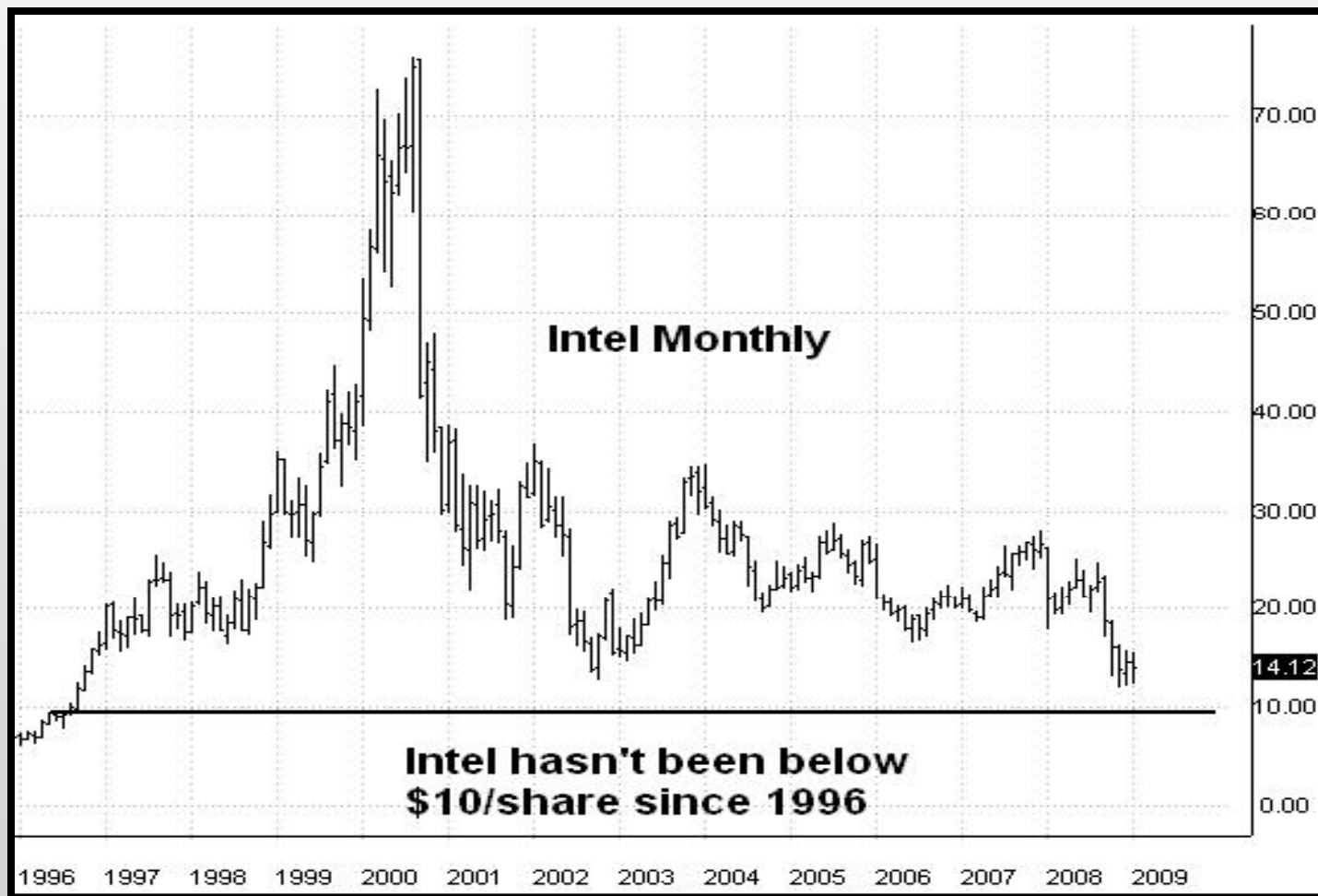


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## Intel Monthly





## Intel Options

Vol: 32.6M

Jan28

INTEL CORP

Last: 14.1575

Volatility: 43.98

14:20

Symbol	Symbol(short)	Last	Change	Bid	Ask
JUL09 5.00	NQ SA	0.07	-0.03	0.05	0.08
JUL09 9.00	NQ SI	0.60	-0.04	0.37	0.40
JUL09 10.00	NQ SP	0.71	-0.03	0.54	0.57
JUL09 11.00	NQ SL	0.81	-0.09	0.77	0.80
JUL09 12.00	NQ SO	1.13	-0.08	1.07	1.11
JUL09 13.00	NQ SM	1.50	-0.10	1.45	1.48
JUL09 14.00	NQ SN	1.94	-0.18	1.88	1.93
JUL09 15.00	NQ SC	2.54	-0.16	2.41	2.46
JUL09 16.00	NQ SQ	3.50	-0.05	3.00	3.10
JUL09 17.00	NQ SS	3.80	-0.05	3.70	3.80
JUL09 18.00	NQ SR	4.65	-0.35	4.50	4.65
JUL09 20.00	NQ SD	6.86	-0.04	6.20	6.30
JUL09 25.00	INQ SE	12.29	-0.21	11.00	11.15
JUL09 30.00	INQ SF	16.22	+0.12	15.90	16.25

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## Microsoft Monthly





## Microsoft Options

Vol: 43.7M	Jan28	MICROSOFT CORP	Last: 18.1061		
Volatility: 38.72	14:39				
Symbol	Symbol(short)	Last	Change	Bid	Ask
JUL09 2.50	MQF SZ	0.00	0.00	0.00	0.02
JUL09 5.00	MQF SE	0.02	-0.02	0.00	0.04
JUL09 7.50	MQF SY	0.04	0.00	0.01	0.04
JUL09 10.00	MQF SB	0.15	-0.01	0.13	0.15
JUL09 13.00	MQF SM	0.52	-0.10	0.52	0.53
JUL09 14.00	MQF SN	0.72	-0.05	0.73	0.75
JUL09 15.00	MQF SC	1.01	-0.15	1.01	1.03
JUL09 16.00	MQF SO	1.40	-0.14	1.34	1.37
JUL09 17.00	MQF SQ	1.75	-0.15	1.70	1.75
JUL09 18.00	MQF SR	2.32	-0.11	2.22	2.26
JUL09 19.00	MQF SS	2.88	-0.22	2.75	2.79
JUL09 20.00	MQF SD	3.50	-0.20	3.35	3.45
JUL09 21.00	MQF SU	4.05	-0.35	4.00	4.10
JUL09 22.00	MSQ SN	4.90	-0.25	4.75	4.80
JUL09 23.00	MSQ SQ	6.00	+0.20	5.55	5.65
JUL09 24.00	MSQ SD	6.83	+0.03	6.40	6.50
JUL09 25.00	MSQ SE	7.90	-0.15	7.25	7.35
JUL09 30.00	MSQ SF	13.00	+0.05	12.00	12.05
JUL09 35.00	MSQ SG	15.90	+0.05	16.70	17.15
JUL09 40.00	MSQ SH	20.25	+0.05	21.95	22.35

## Example: MSFT July 2009 \$15 Put Option

- Sell the July \$15 put for \$1.01
- Strike price is initially below current market - OTM
- Immediately receive \$101 for every put option contract sold
- Potential cost basis and breakeven price = \$13.99 (\$15.00 - \$1.01), over 20% below current market price of MSFT @ \$18
- More conservative view

## Example: MSFT July 2009 \$15 Put Option

- Will only have to buy the stock at \$15/share ONLY if MSFT closes below \$15 at expiration. Will have to pay for the stock in full at that time.
- If MSFT closes above \$15, option expires worthless and we walk away with our \$101/contract. No more obligation.
- Can buy back the option at anytime before expiration either for a gain or loss
- Can repeat the process for another expiration

## Broker Requirements

- Must have an option trading account and approval level to sell naked put options - usually “Level 3”
- The account will also be a “margin account” in which you must hold a percentage of your funds to cover the purchase price of the stock.
- If assigned, you will pay for the stock in full at that time. Must have funds available

# Margin Requirement

- Instead of paying for the stock in full upfront, margin funds are required
- Quick margin formula = 15% of current stock price + premium credit received x \$100
- Margin for MSFT July '09 \$15 put = \$372.50
- $(.15 \times \$18.10) + (\$1.01) \times \$100 = \$372.50$



## Return On Investment - ROI

- If you are not assigned, you are still receiving a great short-term return
- Calculate by dividing premium received by margin requirement
- MSFT July \$15 put option = 33% return for 6 months (\$101/\$372)

## Summary

- You can sell put options to buy long-term Blue Chip stocks below current price.
- ONLY sell put options for stocks you want for the long-run
- Sell the amount of put contracts according to your risk parameters (1 option = 100 shares)
- Don't sell put options just to receive the income – can be very risky
- Receive immediate premium income that can be used to earn interest and create cash flow
- If assigned, must pay for the stock in full at that time
- If not assigned, repeat process
- Great short-term returns

## Websites & Services

- [www.smartprofitsreport.com](http://www.smartprofitsreport.com) - free website for stocks, options & commodity information & articles
- [www.mtvernonresearch.com](http://www.mtvernonresearch.com) – information on the Instant Money Trader service