Premium Income Investor

By Jack Carter

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Premium Income Investor

Imagine an investment strategy that pays you instantly… without ever buying any stock.

Or ever buying options.

Some people say it's the closest thing to 'free" money the market has to offer.

It's not get rich quick.

In fact it's considered conservative.

It can out perform the market.

It has already generated billions of dollars for investors.

Professionals use it too.

Warren Buffet made 5.7 million using this strategy on Coca Cola.

John Paulson took it to another level and made $13 billion dollars.

Now you can use the exact same strategy.

And like I said, it does not involve buying stocks.

But it does involve stocks.

What you are doing here is making a conditional offer to buy a stock at a certain price, for a certain amount of time.

When you make this conditional offer, you get paid instantly.

This is called collecting a premium.

So what is this conditional offer?

It's called an option…

Don't let options scare you.

What I'm going to do here is give you an understanding of options.

The first thing to understand is that an option is nothing more than the right, but not the obligation, to buy or sell a stock for a specified price on or before a specific date.

That's all it is.

An option BUYER owns the RIGHT to buy or sell a stock at a fixed price until the option expires. An option buyer pays money to own those rights.

An option SELLER owns the OBLIGATION to buy or sell a stock at a fixed price until the option expires. An option seller receives money to take that obligation. <u>This is how we collect a premium.</u>

We will only be dealing with Put options.

And we will only be selling Put options.

When we sell a Put option, we sell someone the right to "Put" the stock to us at a strike price until the option contract expires and collect the premium in exchange.

Here are a few more things you need to know about Put options…

<u>The premium</u> is the price of a Put option contract, as quoted by the exchange it trades on. It's the price that the buyer of the Put option pays you for the rights to "Put" the stock to you until the option contract expires.

Put Options are **in-the-money**, **at-the-money** or **out-of-the-money** depending on where the stock price is relative to the option's strike price.

"In The Money"

A Put is in-the-money when the price of the underlying stock is lower than the Put option's strike price.

"At-The-Money"

A Put option is at-the-money if the strike price of the Put option is equal to the market price of the underlying security.

"Out-Of-The-Money"

A Put option is out-of-the-money if the strike price is less than the market price of the underlying stock.

"Time Value Of An Option"

The time value of an option is the portion of the premium that is attributable to the amount of time remaining until the expiration of the option contract and to the fact that the underlying components that determine the value of the option may change during that time.

Remember, our goal with each trade is to collect a premium and let the option expire worthless.

You will do that selling Puts at strike prices below the stock's current price.

Why sell Put Options?

In the options market, there are definite winners and losers.

About 87% of all options buyers lose 100% of their money.

The reason is, they run out of time.

So **<u>you want to sell Put options, collect an instant premium and let them expire worthless.</u>**

In order to do this, we're going to follow a certain set of rules.

But first, let's get into using Put options to make conditional offers and collect a premium.

Using the Put option, you will make a conditional offer to buy a stock at a certain price that you pick, for a certain amount of time.

To do this, you will sell a Put option at a strike price you pick and an expiration date you pick.

In exchange for selling this Put, **you collect a premium and get paid instantly**.

Your goal is collecting premiums by making conditional offers to buy the stocks below their current price for a limited time, then letting the option expire worthless.

The key is to sell PUT options at strike prices that are deep **out of the money**, while they still have a little time value left, then let them expire worthless.

This way, the odds are in your favor that the option you sell will expire worthless.

Here are three examples…

1. CAT. CAT is trading at 93.74 per share.

   CAT is in an uptrend and pays a nice dividend.

You can sell a PUT at any strike price you want, but here we sell the 88 strike priced PUT options because this strike price is below the stock's current price.

You sell the Puts options at .72.

In this example, CAT is trading at 93.74

We sell the 88 strike priced Put, which expires in 39 days.

When we make this conditional offer to buy the stock at 88, we IMMEDIATELY collect a $720.00 Premium!

This works out to a 5.6% yield in 39 days.

Annualized that's 52.4% per year.

(You will never get that kind of yield from a bank CD or bond or mutual fund or ETF or real estate.)

But you CAN create your own yield with this strategy.

Example 2:

Even though AMZN is volatile, you can still make a nice yield. In fact, this volatility can help you because the more volatile the stock is, the higher the premium you collect will be.

Let's take a look at the option's chain and this will tell us the price for each option.

Looking at this options chain will help you decide what kind of return you want and how far out in time you want to make your offer based on how much premium you could get for selling a Put at different strike prices.

The longer the time of your offer, the more you will receive in premium.

In this chart of AMZN's options, we' are looking at the quotes of the AMZN PUT options that expire in 25 days.

I picked this time frame because of the premium you can collect in 25 days.

With AMZN trading at 760, we could sell the 740 Put and collect a nice premium.

And be $20 per share OUT OF THE MONEY!

You could also select a strike price closer to the stock price and make even more… however… if you get too close, you will likely get Put the stock and that's great if you plan on owning it.

But if you just want pure income, **select a strike price that is at a price the stock will not likely hit before expiration!**

Underlying Symbol
AMZN GO
Symbol Lookup

AMAZON COM INC
760.12 -8.54 (1.11%)
Last Trade 4:15:00 PM ET Refresh

Bid **759.20** Ask **759.90** Volume **2,960,215**
High **766.89** Low **757.20**

Last Updated: 06:12:28 PM ET Refresh All Quotes

Trade

Puts Collapse All

AMZN **Jan 06, 2017** (**Weekly: 25** days to expiration) **63** out of **63** Strikes Show: 8 | 16 | All

Strike	Bid	Ask	Last	Change	Volume	OI		Build	Action
700.00	2.23	2.43	2.30	+0.26	8	234		Select	Trade
710.00	3.15	3.40	3.40	+0.52	108	112		Select	Trade
717.50	4.15	4.50	4.37	+0.87	43	52		Select	Trade
720.00	4.50	4.90	4.75	+0.90	31	158		Select	Trade
722.50	4.95	5.30	4.25	0	0	20		Select	Trade
725.00	5.40	5.80	5.84	+1.24	5	30		Select	Trade
727.50	5.90	6.30	6.61	+1.51	4	37		Select	Trade
730.00	6.40	6.80	6.80	+1.22	15	59		Select	Trade
732.50	7.00	7.35	5.85	0	0	16		Select	Trade
735.00	7.60	8.00	7.87	+1.32	1	24		Select	Trade
737.50	8.25	8.75	8.70	+1.75	7	44		Select	Trade
740.00	9.00	9.40	9.55	+1.77	4	50		Select	Trade
742.50	9.75	10.25	10.52	+2.15	6	20		Select	Trade
745.00	10.55	11.05	10.85	+1.77	4	23		Select	Trade
747.50	11.45	11.95	10.80	+1.03	2	17		Select	Trade
750.00	12.35	12.90	12.93	+2.80	60	406		Select	Trade
752.50	13.35	13.90	14.15	-1.25	1	30		Select	Trade
755.00	14.40	15.00	14.74	+2.96	45	303		Select	Trade

In this case, AMZN is at 760 per share.

This is an example of using the strategy on a stock you may already own.

So, making a conditional offer to buy AMZN… but… only if it hits 740… and… only if it does in the next 29 days, you get paid a premium of $920 instantly.

Remember, the stock is at 760, you agree to buy it only if it drops to 740.

That works out to a 6% yield for 25 days.

Annualized, that’s 87.5% per year!

Let’s look at one more then we’ll go through the process step-by step.

Example 3: Netflix

In this example, NFLX is trading at 123.44.

You enter a conditional offer to buy NFLX, but only at 114 in the next 30 days.

In exchange for making this conditional offer, you collect a premium.

In each example, you are making a conditional offer to buy the stock below it's current price for a fixed amount of time.

The conditional offer we use is a Put option.

And we select strike prices below the stock's current price and collect an instant premium payment when you do.

This conditional offer is based on three things…

1. **The stock.**

2. **The Put option strike price.**

3. **The amount of time.**

Let's break it down…

1. **The underlying stock.**

   The underlying stock is the most important part.

   This should be a high quality stock in an uptrend.

   A stock you wouldn't mind owning at a lower price.

2. **The option we use to make a conditional offer to buy the stock.**

   This part is really simple.

   We only use Puts.

   And we only **SELL** Puts.

   And, as part of the condition to buy the stock, we select the strike price of the Put option we would be willing to buy the stock at.

   In exchange for making this conditional offer to buy the stock at a lower price, we get paid a premium instantly.

3. **The amount of time.**

You pick a stock, a strike price and a time that allows you to get paid instantly.

The further out in time you make the conditional offer good for, the more premium you will collect.

This next part is very important…

How To Calculate Margin Required And Your Profit

Options strategies give you a huge benefit in terms of leverage and margin.

When you buy stocks, you either pay with 100% cash or you pay 50% in a margin account and the broker lends you the other 50%.

Your return is based on how much you made, divided by how much you invested, the capital required or margin required.

With the strategy you will learn here, the margin required is so low that it makes the yield on the premium collected very high.

Regarding selling naked Put options, the margin requirement has changed dramatically over the years.

I'm going to give you the formula you can use to figure out how much you need to invest to make the premium income you want.

When you open an online account, they will have a "margin requirement" for each strategy.

This "margin requirement" is the amount of cash you need to make this trade involving Selling "Naked" Puts.

How To Calculate Margin Required

This is the basic calculation to figure out the margin required to do the trade.

20% of the underlying stock's price + premium – out-of-the money amount x 100 = margin required.

OK, let's break it down…

We take the stock price and only have to put down 20% of that price.

Then we add the amount of premium we want to collect.

Then subtract the amount "out of the money" of your strike price.

Multiply that times 100 and that number is your margin required to do the trade.

This is a critical number because you cannot figure out how much you can make until you know the margin required to do the trade.

Now let's apply that formula to some examples…

Let's say CAT is at $95 per share.

You can sell the CAT $88 Put for .72

To calculate the margin required…

Stock Price of $95 x 20% = $19 + premium .72 = $19.72

- OTM of $7.00 (because our strike price is 88) = $12.72

12.72 X 100 = $1272 Margin required.

1 option contact margin requirement = $1272

If you want to trade 10 option contracts it would be

$1272 X 10 contracts = $12,720 margin required.

How To Calculate Your Profit

To calculate your return, take the premium you collected times 100 because each option contract is equal to 100 shares of stock.

In this case, we sold the Puts for .72

To calculate our profit we take .72 X 100 = $72
$72 divided by $1272 = 5.6%

10 contracts cost 12,720 in margin, you collect an instant premium of $720. $720/$12,720 = 5.6% yield.

If you did that every month, your annual yield would be 67%.

If you did it just 10 times a year, your yield would be 56%.

Now let's look at a few more examples.

AMZN Example…

AMZN is at $760 per share.

You sell AMZN 740 Put for $9.60.

Stock price 760 X .20 = 152 + 9.60 premium = $161.6 – $20 amount strike price is out of the money = 141.6

141.6 X 100 = $14,160 margin required.

$9.60 X 100 = $960 premium collected.

You invest $14,160 in margin to make this trade.

Sell 1 AMZN 740 Put for $9.60 = $960.00 instant premium income.

$960 income is a 6.7% return on this trade.

Netflix Example.

NFLX stock is at 123 per share.

You Sell 10 Jan NFLX 114 Put for $1.25

$123 X .20 = $24.60 + 1.25 – 9 = 16.85 X 100 = $1685 margin required

X 10 options contracts = $16,850 required

$1.25 X 100 = $125 X 10 = $1250 premium income.

$1,250 / $16,850 = 7.4% yield

(Applying this formula to every possible trade can be very time consuming so I had a really smart guy create a little calculator for you. Now all you have to do is type in a few numbers and it does all these calculations for you. This little calculator is inside the Member's Only Area.)

Now that we understand the principals and concepts, and how to calculate our margin and profit, let's move on and apply everything you have learned so far in a step-by-step process.

The first step involves putting our fingers on the broad market before we do anything else.

Just by doing this, you will improve your odds of success.

Before we can go through the steps, we need to be able to look at the chart of the broad market.

Then use the same charting criteria on individual stocks so we can just type in any stock symbol and see if it's bullish and where the strike prices are that we should use to make our conditional offer.

By having our charts set up a certain way, we can see support and find strike prices below support to use as our conditional offers.

How To Set Up Your Charts

To clearly see a stock that is already moving up in price and to spot the best strike prices to use, we'll use pre-set charts.

This set up will also help us filter stocks as well.

If you already have your online trading account opened then you already have a charting capability.

If you don't have your online account opened or you plan on calling in your trades over the phone, then you can use one of several free charting websites found online.

I set up my charts so that every time I plug in a stock's ticker symbol, I see everything I need to decide if it's a stock I would like to trade.

I can see if the stock is in a nice trend when I find it. And I can see where the support is and use that to pick the strike prices.

I pre-set my charts to contain a six-month daily bar chart.

The six-month view gives me the best visual read on the stocks trend.

I also like bar charts. They're easy to read.

Each bar represents one trading day.

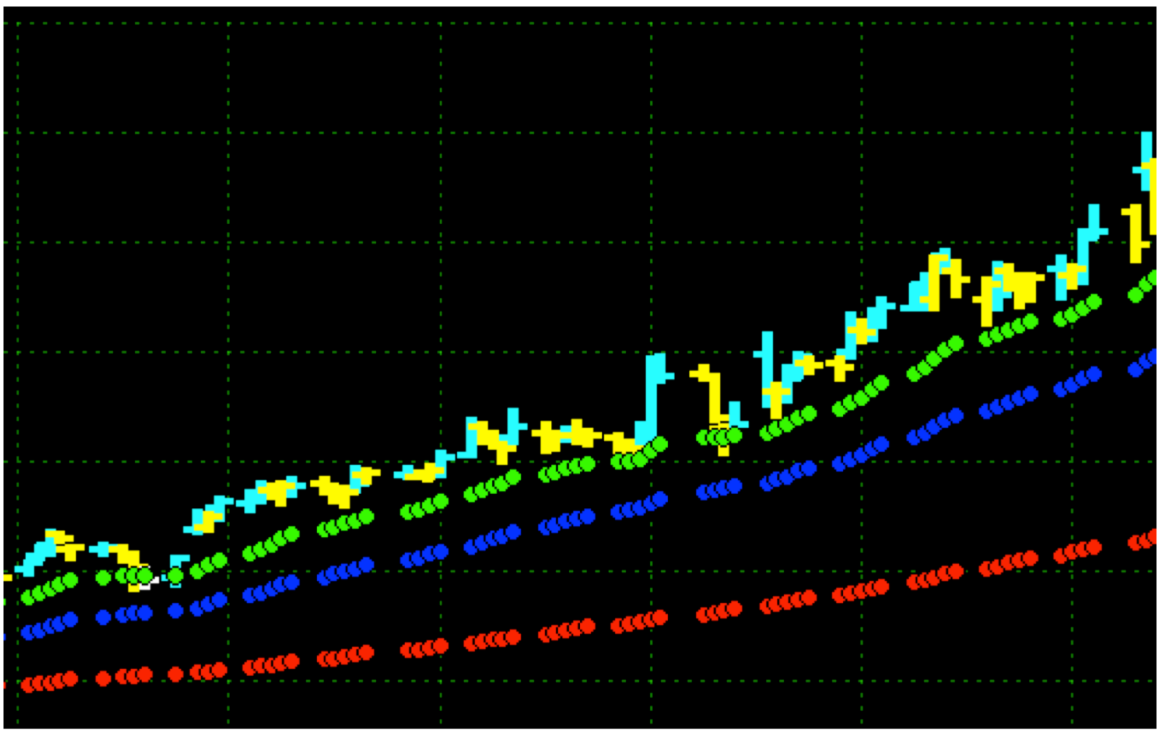
The top of the bar is the day's highest price the stock traded at.

The bottom of the bar is the day's lowest price the stock traded at.

The left hash mark is the price the stock opened at that day and the right hash mark is the closing price of the day.

Added to your charts should be a few a technical indicators that help you see the trend.

I use these technical indicators to show me the short term trend, intermediate term trend and long term
trend.



With that set-up, anytime you type in a stock ticker symbol, you'll see the trend of the stock and the support levels to use to pick the strike prices of your conditional offer.

We're going to use this charting criteria and look at a six-month chart of ticker symbol SPY. This will tell us the trend of the broad market.

Next, I'm going to give you the step-by-step process for making premium income.

Then I will explain each one… here we go.

Step 1: Broad Market

Step 2: Stock

Step 3: Identify Support

Step 4: Select Expiration

Step 5: Select Strike Price

Step 6: Exit Strategy Y/N

Step 7: Enter Order On A Limit

Now let me explain each step…

Step 1: Broad Market: Always check the broad market first.

Step 2: Stock: Look at a chart of the stock.

Step 3. Identify Support: Look at the support lines on the chart and write down the price where the support line is.
We use this price as a starting point to find a strike price in the options that we could use to make a conditional offer.

Step 4. Select options expiration: The further you go out, the more you will make in premium because the options have more "time value". Get the yield you want.

Step 5: Select the strike price: The strike price you select should be <u>below</u> the stock's current price.

Step 6: Exit Strategy Y/N: This step involves deciding if you want to have the stock Put to you at the strike price you selected if it drops or if you want to close out your conditional offer rather than being assigned the stock.

You want to decide what exit strategy you want based on the trade going against you….. so let's cover that…

What Happens When The Trade Goes Against You?

Ok, remember, when we sold the Put options, we got paid and in exchange, we're obligated to buy the stock at the strike price until the option contract expires.

If the stock drops, consider if you want to own it at the strike price or if you want to get out of the trade before you get assigned the stock.

1. If you want the stock: If you want the stock, there are four scenarios to consider…

1. If you get the stock PUT to you, your true price is the strike price, minus the premium you collected. This means if you get assigned the stock at the strike price, you could sell at the strike price and make a small profit.

In some cases where the stock drops an abnormal amount, you get assigned the stock, then the next Monday it's up huge.

This happened with Amazon and a trader I know. He pocketed a windfall because the stock bounced the next day. This happens sometimes… so consider it.

2. You wanted the stock anyway, so keep it.

3. Sell Call options

4. Collect the Dividend and sell Call options.

2. If you don't want the stock:

If the stock starts to go down in price and gets close to your strike price and you do not want the stock, your exit strategy will be to buy to close the Put you sold.

You can set this up to be done automatically at prices you select or you can set it up to receive an email alert so you can decide then.

If you do not want the stock, consider closing out the trade if the stock drops to price higher than your strike price.

Step 7: Enter you order on a limit.

Let's take a look at this options chain…

Underlying Symbol
AMZN GO
Symbol Lookup

AMAZON COM INC
760.12 -8.54 (1.11%)
Last Trade 4:15:00 PM ET Refresh

Bid 759.20 Ask 759.90 Volume 2,960,215
High 766.89 Low 757.20

Last Updated: 06:12:28 PM ET Refresh All Quotes
Trade

Puts Collapse All

AMZN **Jan 06, 2017** (**Weekly**: **25** days to expiration) — **63** out of **63** Strikes Show: 8 | 16 | All

Strike	Bid	Ask	Last	Change	Volume	OI		Build	Action
700.00	2.23	2.43	2.30	+0.26	8	234		Select	Trade
710.00	3.15	3.40	3.40	+0.52	108	112		Select	Trade
717.50	4.15	4.50	4.37	+0.87	43	52		Select	Trade
720.00	4.50	4.90	4.75	+0.90	31	158		Select	Trade
722.50	4.95	5.30	4.25	0	0	20		Select	Trade
725.00	5.40	5.80	5.84	+1.24	5	30		Select	Trade
727.50	5.90	6.30	6.61	+1.51	4	37		Select	Trade
730.00	6.40	6.80	6.80	+1.22	15	59		Select	Trade
732.50	7.00	7.35	5.85	0	0	16		Select	Trade
735.00	7.60	8.00	7.87	+1.32	1	24		Select	Trade
737.50	8.25	8.75	8.70	+1.75	7	44		Select	Trade
740.00	9.00	9.40	9.55	+1.77	4	50		Select	Trade
742.50	9.75	10.25	10.52	+2.15	6	20		Select	Trade
745.00	10.55	11.05	10.85	+1.77	4	23		Select	Trade
747.50	11.45	11.95	10.80	+1.03	2	17		Select	Trade
750.00	12.35	12.90	12.93	+2.80	60	406		Select	Trade
752.50	13.35	13.90	14.15	-1.25	1	30		Select	Trade
755.00	14.40	15.00	14.74	+2.96	45	303		Select	Trade

When we selected the 740 strike price Put, you can see it has a bid price and an ask price. The bid is $9.00 and the ask is 9.45.

When you enter your order, enter it as a limit order with the limit being the bid price. In this case, the price you would enter for your limit order would be $9.00

(Here's a secret: Many times you can get a better price than the posted bid price. Simply enter a price slightly higher than the stated bid price.)

Those are the 7 steps you want to follow on every trade!

Why This Strategy Works

This strategy puts the odds in your favor in four important ways.

1. You will only be investing in the same direction as the broad market. Never against it.

2. When you pick stocks in an uptrend and strike prices below support, the odds of being assigned the stock are very low.

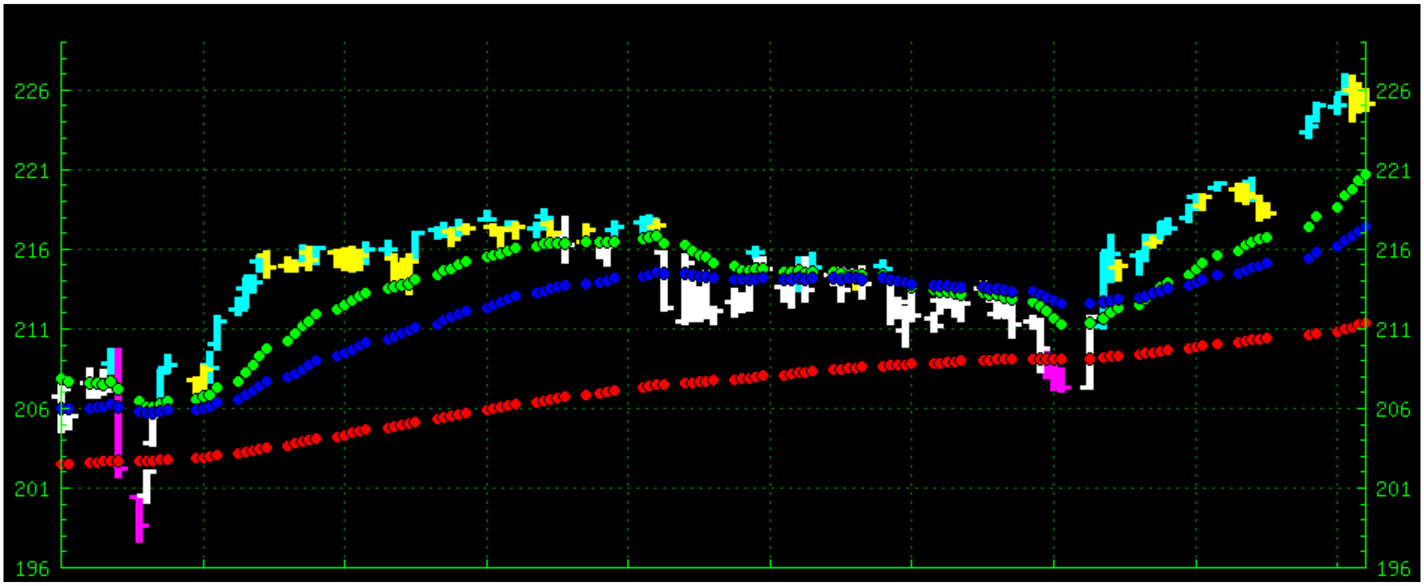
3. Options expire worthless most of the time. Options buyers lose 100% of the money about 87% of the time. Options sellers win most of the time. They win because "time decay" erodes the value of the option's price. This way they can sell a Put option that has a little time value left and let it expire worthless.

4. Selling Put options below the stocks technical support gives you even bigger odds of success.

Let's Put It All Together

OK, let me walk you through a premium income trade…step by step.

Step 1: We check the broad market….



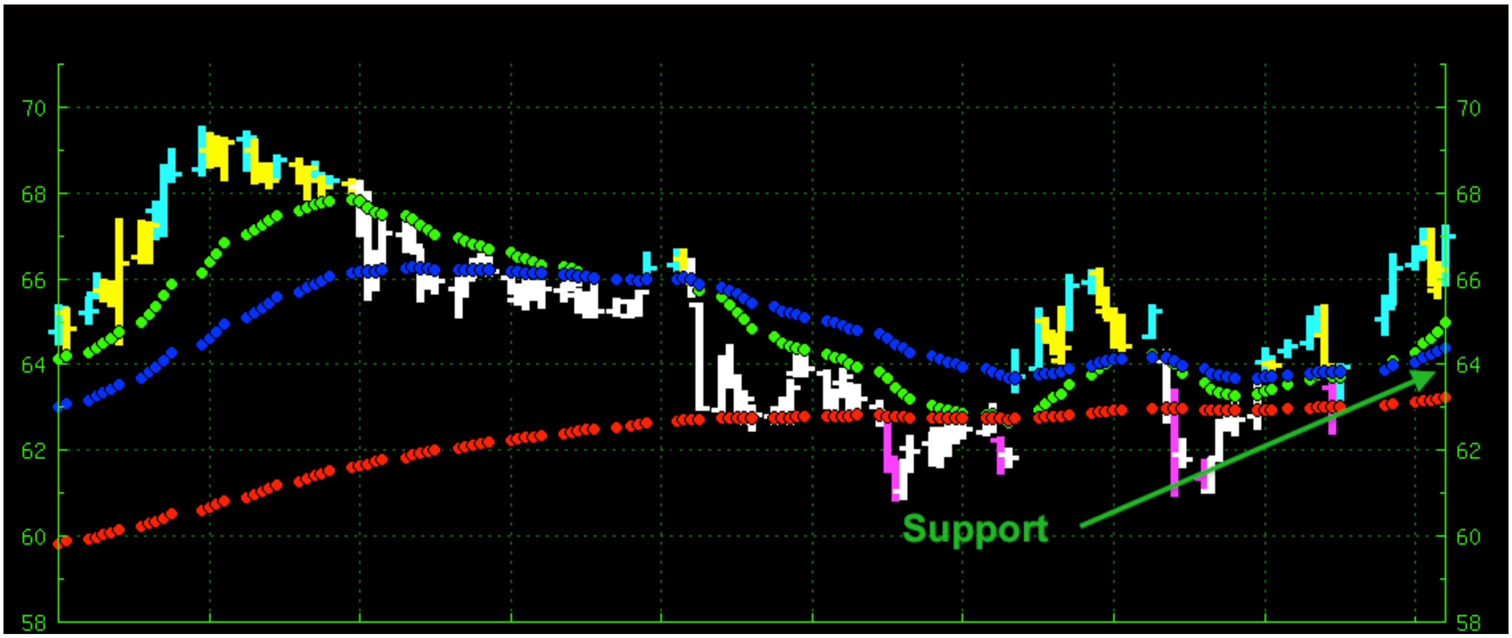
Looking at a chart of SPY will tell you what the S&P500 is doing.

In this chart, SPY is bullish.

You always want to do this first. Doing this first will keep you on the right side of the market and improve your odds of success.

Step 2: The stock. In this case, we'll use Altria Group.

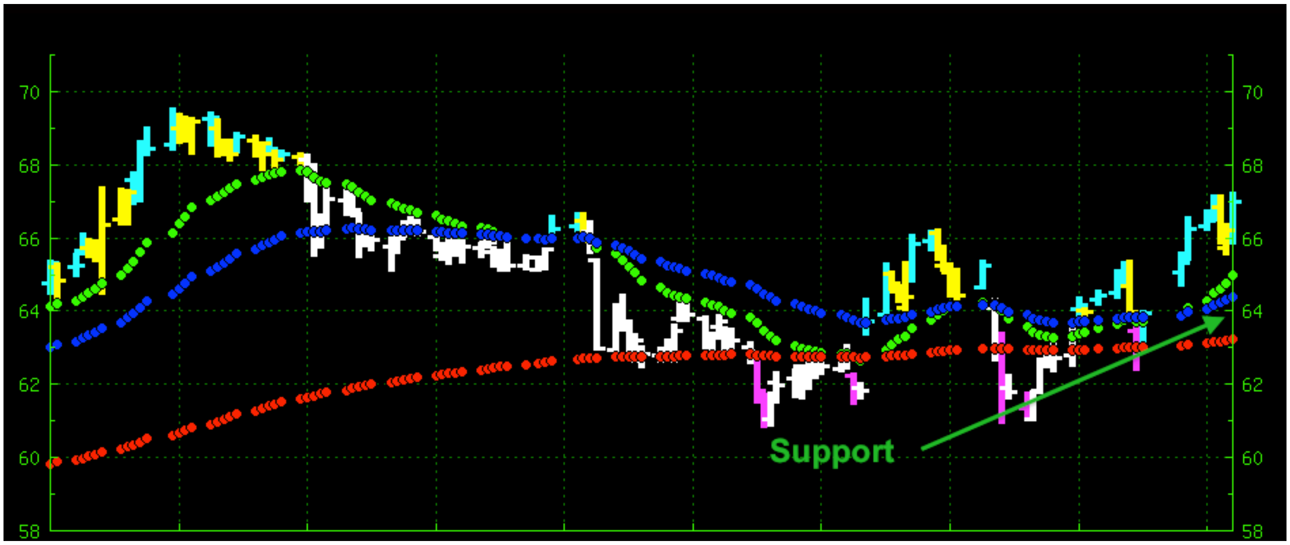
Altria



The ticker symbol for Altria group is MO.

Step 3: Support

This chart show MO is bullish with support at 64.



Step 4: Select options expiration: The further you go out in time, the more you will make in premium because the options have more "time value".

I selected options that expire in about one month. Selling an option with about one month time value gives you a nice premium without being at risk for very long.

In this example, we collect a premium and we are obligated to buy the stock at 64 for 31 days.

Part 2: Select Strike

The stock is at 66.69, and we identified support at 64.

We sell the 64 Puts. For .56

Here is a picture of the MO options chain for all the options that expire in 31 days.

If MO stays above 64 for 31 days, the option will expire worthless and we keep 100% of the instant premium.

Underlying Symbol
MO
GO
Symbol Lookup

ALTRIA GROUP INC
66.69 +0.20 (0.3%)
Last Trade 4:00:25 PM ET Refresh

Bid	Ask	Volume
66.68	66.69	6,149,085
High	Low	
67.159	66.46	

Last Updated: 04:05:08 PM ET Refresh All Quotes

Trade

Puts Collapse All

MO **Jan 13, 2017** (**Weekly: 31** days to expiration) — **30** out of **30** Strikes Show: 8 | 16 | All

Strike	Bid	Ask	Last	Change	Volume	OI		Build	Action
58.00	0.06	0.28	0.00	0	0	0	i	Select	Trade
58.50	0.06	0.31	0.00	0	0	0	i	Select	Trade
59.00	0.07	0.48	0.00	0	0	0	i	Select	Trade
59.50	0.11	0.33	0.00	0	0	0	i	Select	Trade
60.00	0.12	0.25	0.50	0	0	2	i	Select	Trade
60.50	0.17	0.35	0.58	0	0	19	i	Select	Trade
61.00	0.18	0.35	0.34	0	0	6	i	Select	Trade
61.50	0.23	0.37	0.00	0	0	0	i	Select	Trade
62.00	0.25	0.41	0.28	-0.16	2	16	i	Select	Trade
62.50	0.31	0.39	0.45	0	0	47	i	Select	Trade
63.00	0.37	0.43	0.39	-0.08	2	29	i	Select	Trade
63.50	0.45	0.51	0.64	0	0	5	i	Select	Trade
64.00	0.56	0.61	0.69	0	0	2	i	Select	Trade
64.50	0.68	0.74	0.92	0	0	39	i	Select	Trade
65.00	0.84	0.89	0.79	-0.25	29	20	i	Select	Trade
65.50	1.02	1.07	0.00	0	0	0	i	Select	Trade
66.00	1.24	1.29	1.18	0	3	0	i	Select	Trade
66.50	1.48	1.55	0.00	0	0	0	i	Select	Trade

MO is trading at $66.95 per share.

And we want to sell the 64 Put for .56.

Here's how we calculate it…

66.95 X .20 = 13.39 + .56 = 13.95 – 2.95 = 11.00 X 100 =

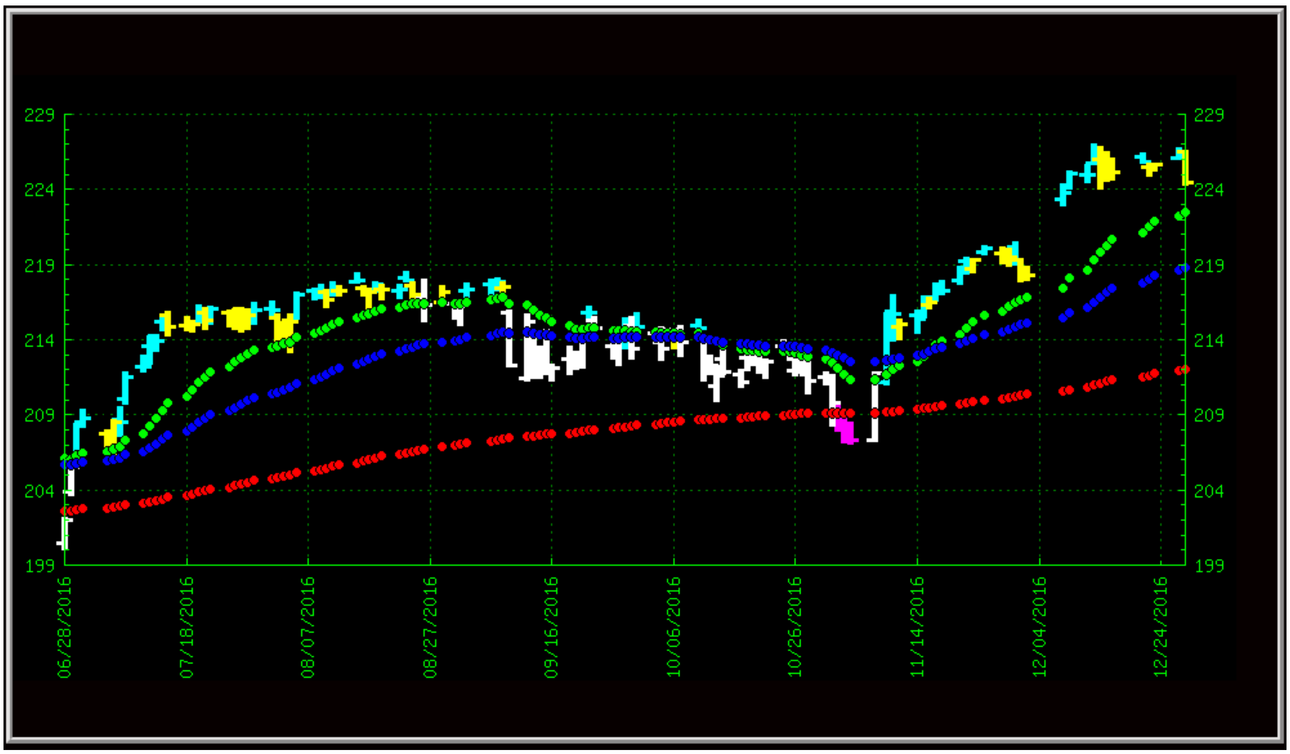
1100 margin required.

X 10 options contracts = 11,000

Premium income = .56 X 100 X 10 options contracts = $560 = 5%.

Let's do another one…

Step 1: Broad market…



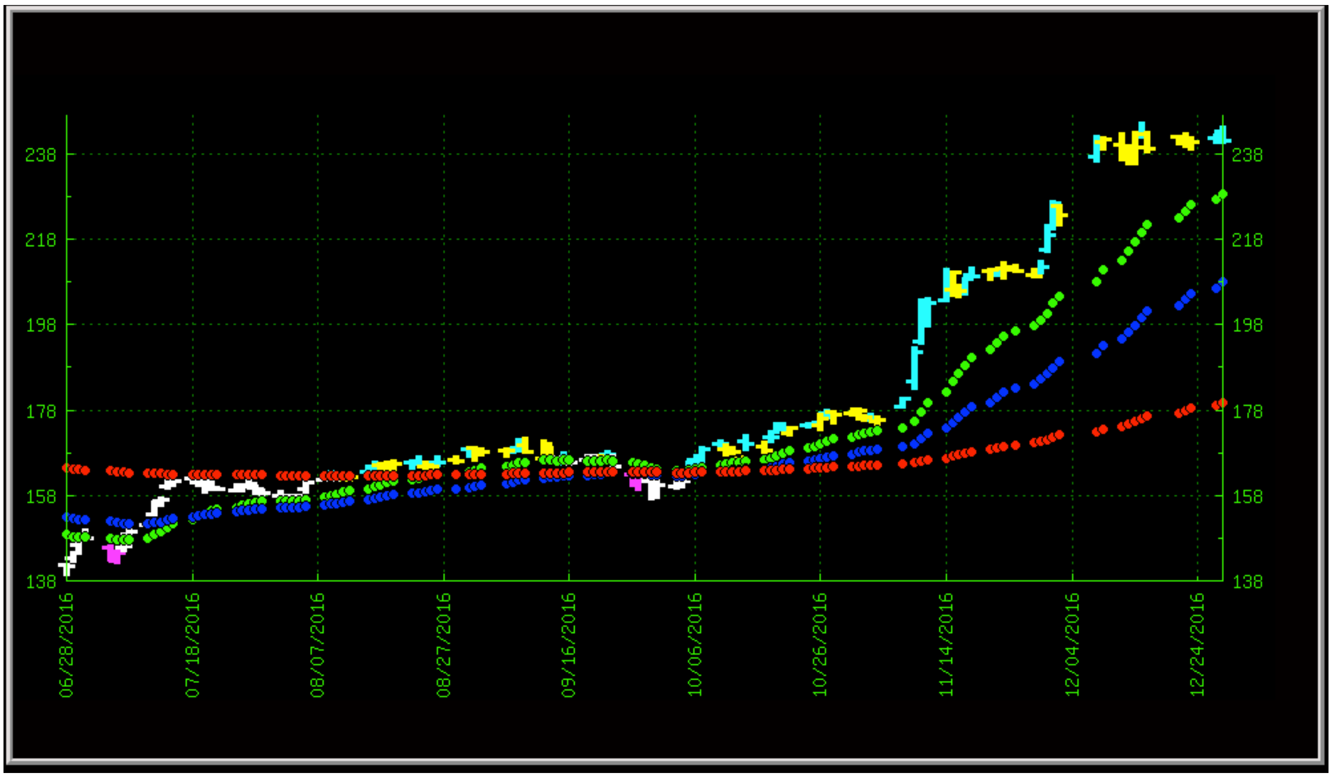
Broad market is bullish.

Step 2: Stock

We like Goldman Sachs…

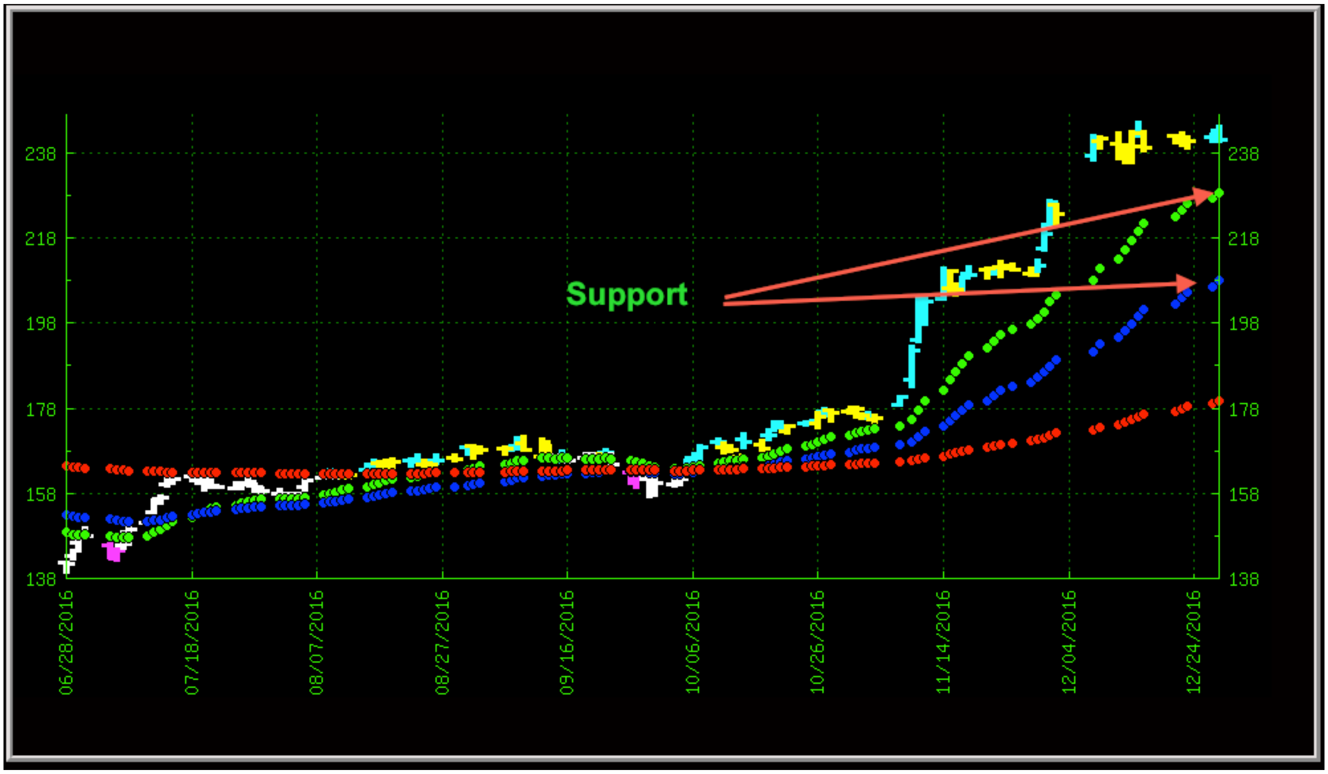
Here is a chart of GS…

Goldman Sachs



Step 3: Identify Support

Here is a chart of Goldman Sachs with support identified…



Step 4: Select options expiration: The further you go out in time the more you will make in premium because the options have more "time value".

I like to start with about 30 days time value left.

Let's look at the GS options chain…

This is a picture of the Goldman Sachs options chain that expires in 29 days…

Underlying Symbol
GS
GO
Symbol Lookup

GOLDMAN SACHS GROUP
236.84 -3.81 (1.58%)
Last Trade 1:20:05 PM ET Refresh

Bid	Ask	Volume
236.78	236.88	1,630,882
High	Low	
241.07	236.64	

Last Updated: 01:20:10 PM ET Refresh All Quotes
Trade

Puts Collapse All

GS **Jan 27, 2017** (**Weekly: 29** days to expiration) **40** out of **40** Strikes Show: 8 | 16 | All

Strike	Bid	Ask	Last	Change	Volume	OI		Build	Action
207.50	0.63	0.73	0.89	0	0	43	i	Select	Trade
210.00	0.78	0.88	0.78	0	0	37	i	Select	Trade
212.50	0.98	1.08	0.78	0	0	154	i	Select	Trade
215.00	1.21	1.31	1.23	+0.30	8	56	i	Select	Trade
217.50	1.51	1.59	1.50	+0.34	10	29	i	Select	Trade
220.00	1.86	1.97	1.41	0	0	141	i	Select	Trade
222.50	2.30	2.40	2.08	+0.61	1	50	i	Select	Trade
225.00	2.85	2.95	2.51	+0.83	14	152	i	Select	Trade
227.50	3.45	3.65	2.85	+0.80	6	15	i	Select	Trade
230.00	4.20	4.40	3.50	+0.85	6	927	i	Select	Trade
232.50	5.10	5.30	4.25	+1.00	6	31	i	Select	Trade
235.00	6.10	6.40	5.96	+1.11	1	65	i	Select	Trade
237.50	7.30	7.55	7.15	+1.55	16	60	i	Select	Trade
240.00	8.55	8.95	8.40	+3.00	50	160	i	Select	Trade
242.50	10.10	10.45	8.07	0	0	44	i	Select	Trade
245.00	11.70	12.15	7.85	0	0	17	i	Select	Trade
247.50	13.40	13.95	13.06	+1.71	5	5	i	Select	Trade

Step 5: Select the strike price: The strike price you select should be below the stock's current price.

We identified support starting at 228.

Looking at this options chain, you can see that you can sell the 222.50 and get paid a premium of $2.30.

GS is at 236 and in a bullish trend. If GS stays above 222.5 for 29 days, the option will expire worthless and you keep 100% of the premium you received.

Let’s do the math using the margin and profit calculations you learned earlier.

GS stock $239.
$239 X .20 = $47.8 + $2.30 (premium) = $50.1 – $16.50 (the amount out of the money = $3360 margin required per option contract.

X 1 option contract = $3360
Premium received = $2.30 X100 = $230
$230/$3360 = 6.8% return in 29 days.

If you did the same trade with 10 options contracts = 33,600 margin required and your profit would be $2300.

Let's have a quick review of the steps…

Step 1: Broad Market: Always check the broad market first.

Step 2: Stock: Look at a chart of the stock.

Step 3. Identify Support: Look at the support lines on the chart and write down the price where the support line is. We use this price as a starting point to find a strike price in the options that we could use to make a conditional offer.

Step 4. Select options expiration: The further you go out, the more you will make in premium because the options have more "time value." Get the yield you want.

Step 5: Select the strike price. The strike price you select should be below the stock's current price.

Step 6: Exit Strategy Y/N. This step involves deciding if you want to have the stock Put to you if it drops or if you want to close out your conditional offer rather than being assigned the stock.

Step 7: Enter Your Order on a limit. At least the current bid price or slightly higher.

Following these steps will put the odds of success in your favor.

This strategy gives you 6 important benefits.

1. **Premium Income Investing can give you tremendous yields**

2. **Premium Income can give you weekly or monthly income.**

3. **You will only be investing in the same direction as the broad market. Never against it.**

4. **When you pick stocks in an uptrend and strike prices below support, the odds of being assigned the stock are very low.**

5. **Options expire worthless most of the time. Options buyers lose 100% of the money about 87% of the time. Options sellers win most of the time. They win because "time decay" erodes the value of the options price. This way they can sell a Put option that has a little time value left and let it expire worthless.**

6. **Selling Put options below the stocks technical support gives you even bigger odds of success.**

This strategy is a great way to make income.

It's been proven to work.

Premium Income Investing is conservative.

Premium Income investing can outperform the market.

Premium Income investing can give you income like nothing else.

Plus you can customize it to get the yield you want.

If you are a subscriber to the Premium Income Investor Alerts, you will be glad to know that this is the process we go through to deliver to you the best opportunities to make premium income

Trade Well,

Jack