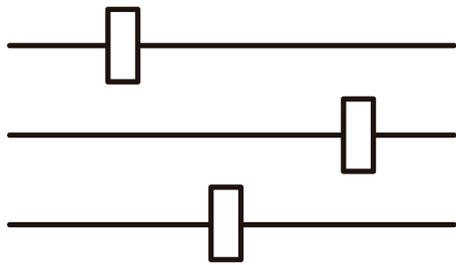


RENT
YOUR STOCKS
FOR MONTHLY
CASH *flow*





RENT YOUR STOCKS FOR MONTHLY CASH *flow*

Although the stock market tends to rise over time, it can often have long periods where it trades sideways — or even drops.

That's why astute investors use a strategy that allows them to “rent” their stocks, providing them with monthly cash flow.

The beauty of this strategy? It's incredibly flexible. Anyone with an investment account can do it. And it can turn every stock into an income-producing one, even if it doesn't pay a dividend.

What's this rental strategy? It's a strategy known as *covered call writing*.

CALL WRITING EXPLAINED

While many investors may be wary of trading options, covered call writing is the absolute safest investment strategy you can use. Why? Because the calls you're writing are *covered* by the shares you already own. That's why it's a way to "rent" out your stocks for extra money.

Here's how it works: When you sell to open a call option, each option contract is good for 100 shares. And each contract has a strike date and a strike price.

If you own shares of a company trading at \$50, you may choose a strike price of \$55 and sell a call option three months out. If it's currently January, that would make the strike date in March.

When you do so, you're betting that your shares will rise less than 10 percent (the \$5 gain on the starting \$50 price) in the next three months. If you're right, you'll keep all the money you made from selling the option and keep the shares.

In a dropping or sideways market, that's a clear case of earning extra income. And that's true in a slowly rising market.

In a massive bull market, however, things may change. If your shares are over the strike price when the options expire, say at \$56, you'll still have to sell your shares at \$55. But, you'll still keep the option premium you sold. If you sold these \$55 call options for \$2 each, you'd still be ahead of the game.



Why would investors do this? Consider the math in our example above. In three months, an investor got an extra \$2 in income from their \$50 in shares. That's a clean 4 percent return. Most companies that pay dividends can't even pay their shareholders 2 percent annually.

In this example, an investor who could make that kind of return four times per year, they'd be clearing an extra 16 percent off an existing position!

This isn't hyperbole. Most investors who use this strategy consistently are able to see an additional 8-20 percent per year with this strategy. That's enough to offset a lot of market loss and bring in substantial additional income!

The other advantage of covered call writing? It's portfolio specific. That allows you to hedge your existing positions precisely, rather than try and keep extra cash on hand.

And it's a flexible strategy as well depending on your portfolio goals. Say you own 1,000 shares of a stock. You could sell 5 options contracts. With each contract good for 100 shares that would mean you'd only risk losing 500 shares of a position you hold if you're called away. That makes this a useful tool for scaling into and out of positions.

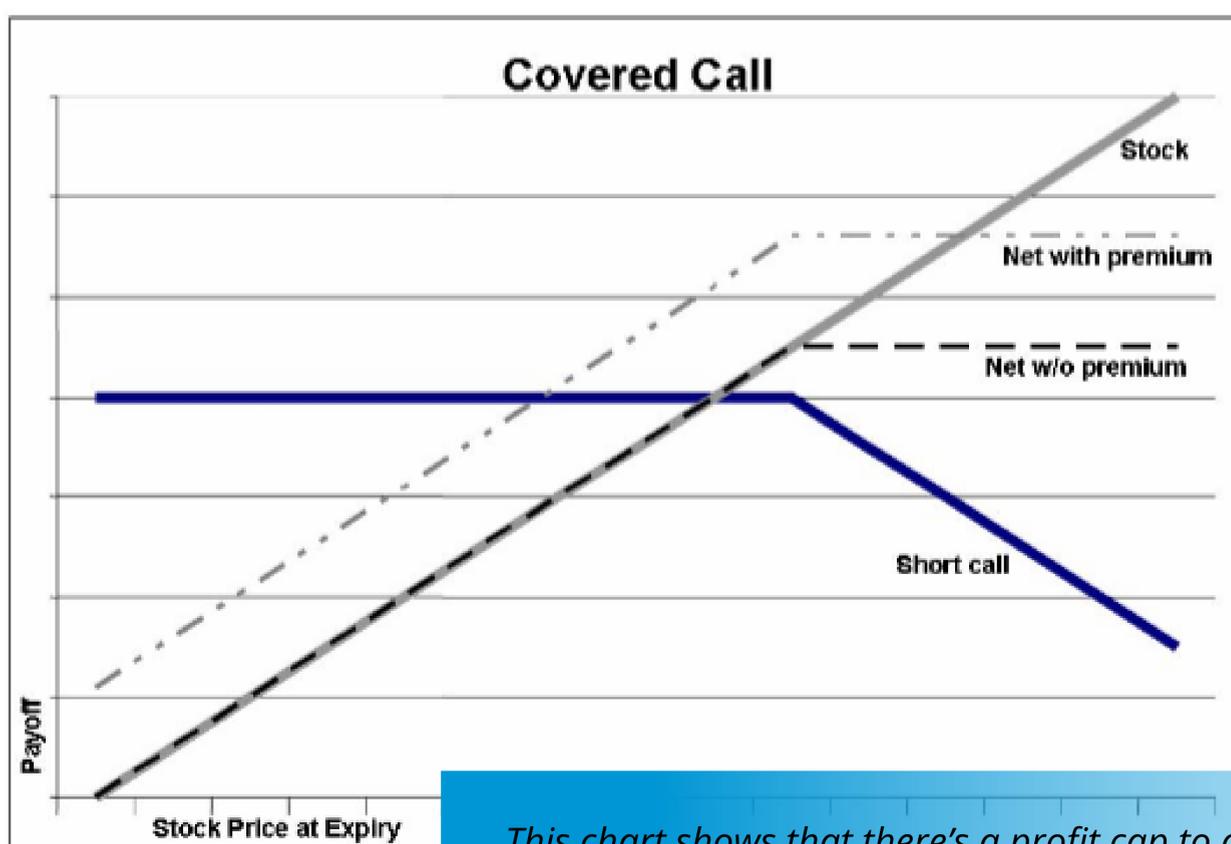
Advanced traders looking to protect against a market drop may use some more exotic ways to protect your portfolio. But anytime the market hits the skids, covered call writing keeps you invested and generating income until the longer-term trend to normal resumes.

THE DOWNSIDES

Obviously, every investment strategy has its risks. Covered call writing is as close to a free lunch in investing as it gets. But it does have a few downsides to consider before employing this strategy.

First, as the seller of an option, you are obligated to the option's terms. So if you sell a \$55 call and shares do move to \$56 or higher, you are required to provide the shares. That's why the call selling is "covered" by existing portfolio holdings.

If shares of your \$50 stock double to \$100, you'll still be expected to sell your shares at \$55. So this strategy can limit your upside potential if the underlying stock has a massive move upwards.



This chart shows that there's a profit cap to a stock position hedged with a covered call trade. However, if the stock price stays below the strike price of the option, it can be a safe way to earn extra income time after time.



Secondly, while this strategy can provide consistent income, it's a lot lower than what a trader could get from buying a call option on a stock about to rise.

By using this strategy, an investor has to have the belief that their underlying shares won't rise above the strike price within the time allotted. Given how most stocks trade calmly most of the time, this isn't a problem. But extreme events can and do happen.

Finally, investors looking to get out of a stock position that's been struggling may like this strategy. But if things start to go south for a company, having covered calls may not offset a drop in shares. If a company falls 50 percent in the space of a few months following poor earnings, the extra income from selling covered calls won't be enough to allow for a profit.

As far as investment risks go, none of these criticisms for the covered call writing strategy will guarantee an investor loses money.

The only way a trader could get into trouble is if they stop "covering" their calls, and engage in what's known as *naked call selling*. A trader who owns 100 shares of a company can sell 1 contract and be covered... but if they sell a second contract, they're now naked by 100 shares. That increases the risk of having margin trouble if the underlying shares soar.

WHEN TO USE THIS STRATEGY FOR THE BEST RESULTS

Understanding both the risks and the downsides of this strategy, there are a few advanced tips for investors looking to get the best returns without taking on too much risk with their covered call writing.

1 FIRST, LOOK TO SELL COVERED CALLS AFTER A BIG SURGE.

It could be after a big market rally, or if a specific company has a big bump following earnings or some other news event. When that happens, the share price rises, making higher strike price options look more attractive to sell.

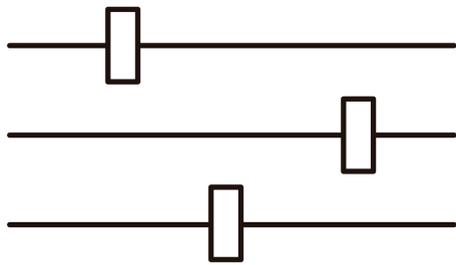
Even better, however, an unusually large move also means the option will likely have more premium to it as well. As an options seller, we want premium to be large. If the share price settles down, that premium will quickly decline.

2 SECOND, ONLY LOOK TO SELL COVERED CALLS AT A PRICE YOU'RE WILLING TO SELL OUT OF A POSITION.

Sure, most investors know not to get attached to a position. But if you have shares of some company that you expect to own indefinitely, you may not want to sell covered calls at all.

If you do decide to anyway, it may be better to find a strike price that's a lot higher from the current price of shares. In options-speak, traders refer to this as a "far out-of-the-money" trade. Investors who own a stock position with a large capital gain and are looking to avoid selling may prefer to go far out-of-the-money.

While it means a lower return, it also lowers the possibility of being called away. Those who have inherited substantial amounts of stock and are looking to avoid taxes from the profits may want to consider this strategy.



FINALLY HAVE REALISTIC EXPECTATIONS

Many investors hear the word options and think of huge swings. This strategy is as far from that as possible. And sometimes, if you aren't looking to get called away or if option premiums are low, it may be possible that the returns aren't as good.

Rather than get discouraged, however, it's important to remember that these extra returns from essentially "renting" out your shares allow you to add some extra income on top of any dividends you may receive. It can turn a great long-term company with a 2 percent dividend yield into a double-digit payer while waiting for the capital gains to play out. But as with all great investing, it can take time.

CONCLUSION:

ADD THIS RENTAL STRATEGY TO GROW YOUR PORTFOLIO INCOME

While there are a few modest risks to the covered call strategy, for most companies most of the time, it's a great way to enhance any income you're producing off of a position.

But the benefits speak for themselves. A covered call strategy, properly done, can increase your portfolio's return anywhere from 8-20 percent per year depending on market conditions.

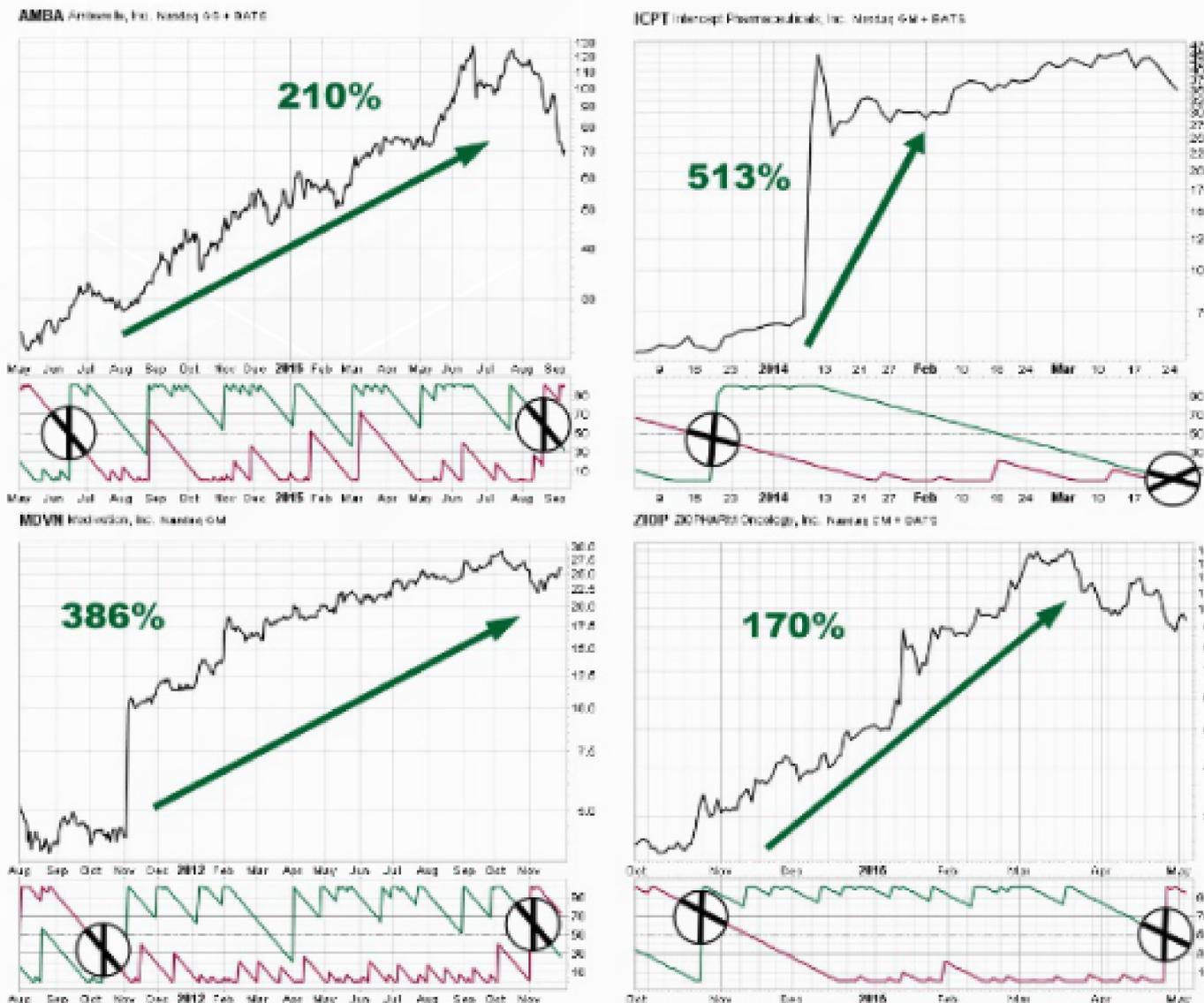
And it does so only at the "risk" of selling shares you own at a price you already determined was acceptable.

If the market declines, your existing positions are perfectly hedged in a way that broad market protection can't provide.

That's why we see covered call writing as a simple, but effective, way to improve your portfolio's returns in any market condition short of a rampaging bull market. While the returns may not sound like much—a few percentage points here and there—the results in a stock portfolio can compound quickly and bring in extra cash that can be used for the next great investment opportunity.



For years, THE KEY TO CONSISTENT TRIPLE DIGIT GAINS has been...
HIDDEN IN PLAIN SIGHT!



Only a small percentage of investors know it even exists, but if you can spot “The Pattern” on these charts, you could easily collect 2-3 winners every single month!

Find out at:
ExplosiveChartPatterns.com