

2/21/23

Hello Premium Income Investors,

The goal of a premium income trade is to collect a premium by selling a naked Put.

There is never a rush to get into this trade.

This week we like a premium income trade in Morgan Stanley, MS.

MS is trading at 98.82 as I write this.

You can Sell to Open MS, Mar. 31, 93 strike price Puts for 1.07.

This trade pays you \$107 cash per option contract.

You can do this on margin.

You can also do this in a cash account if you don't want to use margin.

Either way is good.

If you want a higher premium use Puts with strike prices closer to the market price of the stock.

You can check the yield with the premium income calculator in the members area. You might be surprised at the different yields for different strike prices.

Here is how this trade looks in the calculator

| Stock Price | Put Price (Premium) | Strike Price | Number of Contracts |
|--|------------------------|--------------|------------------------|
| \$98.82 | \$1.07 | \$93.00 | 1 |
| (Type values ONLY into the 4 blue boxes above) | | | |

Results shown below:

DO NOT TYPE BELOW THIS LINE

| | |
|--|-----------------|
| 20% of Stock Price equals ... | \$19.76 |
| Puts are out of the money by ... | \$5.82 |
| Margin required per contract ... | \$1,501.40 |
| Total margin required ... | \$1,501.40 |
| Credited to your account INSTANTLY ... | \$107.00 |
| PROFIT = ... | 7.1% |

...

You can get out of this trade anytime by entering an order to Buy-To-Close the Puts you sold.

Goal: Let the options expire worthless. If the stock is above the strike price at expiration, the options will expire worthless, and you keep all the premium you received for selling the Put.

Exit Strategy A: Have the stock Put to you, then sell it and make a profit. If you get the stock Put to you, you can immediately sell the stock and still make a profit from the premium you received for selling the Put.

Exit Strategy B: Have the stock Put to you and keep it. Some people want the stock to be “Put” to them. If you get the stock, you can sell covered calls against it and bring in even more cash.

If you want the stock assigned to you at the strike, consider using a higher strike price. You get a higher premium, and you get a better chance of owning the stock at a great price.

Exit Strategy C: Get out before the stock hits your strike price. If you do not want the stock Put to you, set a conditional order to buy to close the option when the stock hits a price that is 1.00 above your strike price.

Trade Well,
Jack

Full Disclosure: I own MS.