Google 5X Challenge Game Plan Access

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The Call Option Explosion

As you may know, the stock market can change very quickly… almost too quickly for most people.

Seems like things are the same from one minute to the next.

However…

Hidden in plain sight in the stock market is an opportunity that does not change.

It remains the most consistent aspect of the stock market.

It never changes.

As a matter of fact, it's even getting more profitable.

Yet, very, very few people ever take advantage of it.

Here's how it all came about…

Since the pandemic, hundreds of thousands of people opened brokerage accounts.

And as a result, most of these new traders gravitated to Call options.

They want to buy Call options and see them skyrocket in price in a few days.

But in reality, they lose 100% of their money 87% of the time.

On top of that, hedge funds and institutions are clueless about the market direction. You can tell because the market is downward and choppy.

They don't want to lose any more money… yet, being who they are, they are scared of missing out on a market rally.

The worst thing in the world for them is to watch the market rally and they aren't on board.

So what do they do?

They buy Call options rather than buying the stock.

Turning It To Your Favor

These two powerful factors — retail traders buying Call options and institutions buying Call options — have pushed Call option prices to all-time highs.

And that, my friend, has created the perfect scenario for people like you and me to take advantage of this.

How?

By *selling* Call options.

Not naked Calls because that is far too risky.

But rather covered Calls.

A covered call is when you own 100 shares of a stock and sell one Call option against that position.

This way, if you get “Called Out,” you have the stock to deliver.

And if you set this up right, getting “Called Out” can make you a huge profit.

Now, don’t go shooting yourself in the foot with this strategy because **it will not work with every stock.**

It will work with some stocks but not all.

What is the best stock to use this strategy on?

Alphabet. Ticker symbol GOOG.

Why GOOG?

GOOG has one of the highest Call prices relative to its stock price.

What this means is selling covered calls on GOOG can get you the highest yield of any covered call combination.

What makes for high Call prices?

Two things… volatility and a directional bias.

Google has volatility. And people expect the directional bias to be to the upside.

This is why GOOG has such juicy premiums in its Call options, and it's why you want to buy a little GOOG and sell Calls against it.

How Call Options Work

For the strategy to make sense, you need a solid grasp of Call options.

The first thing to understand is that an option is a contract. It includes 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.

A Call option is the right to buy a stock at a specific price on or before a specific date.

When you sell a Call, you have an obligation to allow the stock to be called away from you at a fixed price for a fixed amount of time.

The trader that purchases a Call, is the option "buyer."

The trader that sells the Call is the option "seller."

Each regular option contract is equal to 100 shares of the underlying stock.

When you sell a covered Call option you are selling the "obligation" to deliver the stock, on or before a certain date, (called the expiration date) at a certain price, (called the strike price).

There are four parts to an option.

1. The TYPE - Put or Call.

2. The UNDERLYING STOCK

3. The EXPIRATION DATE

4. The STRIKE PRICE

Those four parts of an option.

The Covered Call

One of the most popular and best uses for options is the covered call strategy. In this strategy, you buy 100 shares of a stock and sell one call.

As a strategy, "Covered Calls" are one of the best, most pure, predictable, and easily managed "cash flow" trading strategies in today's market.

In fact, they are so profitable that a lot of people are catching on and using this approach to generate monthly income.

Retired people, stay-at-home moms, executives and part-time and full-time traders from all walks of life can profit from this.

Here are three reasons people love it...

Predictable -

Because you can determine in advance what the returns will be, based on your own assumptions.

Easily Managed -

Because you only need to do a few trades at the beginning of each cycle and monitor them the rest of the month.

Cash Flow-

Because when you sell an option, the cash is in your account the next day! We "cash flow" the market by setting up covered calls to generate cash every month.

Covered Call Example

Here's an example. It's not from a real stock, but it will help you get the concepts and put this into action...

Let's say you like ABC company and you already own, or you buy 100 shares of ABC Co. at $90 per share at the end of January. ABC Co. is volatile at times, so the premium will be rather large.

You check the option's quote, and the ABC Feb. 10 100 strike price calls are quoted at $3.00 bid and offered at $3.25. You would enter an option's order to sell 1 of the ABC Feb 10, 100 strike price calls for $3.00 each and bring in $300.00 cash.

You have sold someone the right to call the stock away from you at $100.00 per share (which you already own at $90 per share) in exchange for
$300.00 cash.

This is a covered call because you already own 100 shares of ABC before you sell the calls.

If you have ABC called away from you at $100, you're "covered" because you own the stock.

You buy the stock first. Then sell the calls options. Buy the stock in increments of 100 and sell the options accordingly.

Once you're in the trade only, two things can happen, you'll get "called out" of the stock or you won't.

If You Get "Called Out"...

If the stock goes over $100.00 by expiration, you will have the stock called away from you at 100, which is the strike price you sold.

In this case, you would have the stock called away at $100.00, and you would make $10.00 profit per share or $1000.00 and get to keep the premium you received for selling the calls, which is $300.00 for a total of $1300. $1300 divided by $9000 equates to a return of 14.4%.
Not bad for one month.

Annualized, that's 168%.

You can double your return simply by buying the stock on margin.

If you buy the ABC stock at 90 on margin, it would cost $4500 to buy 100.

Selling 1 call for $3.00 per contract (100 shares) brings you $300 and getting called out at $100.00 per share creates another 1000 per share profit on the stock.

Total return now is $1000.00 plus $300.00 = $1300, divided by $4750 equals 28% return for one month.

Annualized, that's 336% per year.

If You Don't Get Called Out Of The Stock...

You now own 100 shares of ABC at $90. You've sold 1 contract of the ABC Feb $100.00 strike price calls for $3.00 each bringing in $300.

By the third Friday of Feb, if ABC is trading at $96 you won't get called out, the options expired worthless, and you will still get to keep the $300.00.

If you don't get called out, you have the same 100 shares of ABC to sell a call against for the next month, and now your cost basis is down to $87 per share because of the $3.00 you brought in from selling the calls that expired worthless.

How to Figure Your Returns

To figure your returns, you take the execution price you sold the option at and divide it by the stock price.

If you buy the stock on margin, you would take the execution price of the call option you sold and divide that by half of the stock price (since that is all you had to put up to buy the stock.) If you get called out. - Take the strike price (which will be the price you will have the stock called away), minus the purchase price (half the purchase price if you bought the stock on margin) plus the option premium you received divided by the purchase price, (or half the purchase price if you bought the stock on margin).

To get the exact return, you must subtract commissions and margin interest.

Management Strategy

The upside always looks great, but we also need to pay attention to the downside if we're going to be professional about it.

Let's not always assume the best. Let's be practical and realistic and acknowledge that this might not always work great.

What do you do if the stock starts to go down?

Well, you can't sell the stock because then you would have a "naked" call that has unlimited risk, so your brokerage firm probably won't let you do it.

In this case, if the stock has dropped to your risk tolerance parameter, you buy back the call and make a profit on it and then immediately sell the stock for a loss.

If you are buying back the option for a gain and selling the stock for a loss, it should be a wash.

Don't let the stock drop by more than you received in option premium.

In trading, anytime you can put yourself in a position where, if you lose, you break even and, if you win, you win big, you will come out way ahead. That is to say that if your downside can be managed to zero and your upside is 98% annualized, then you'll be a big winner even if you're right HALF the time.

The Gameplan

Google can be a great stock to use the covered call strategy on. The money you make from selling the call hits your account immediately; if you get called out, you make even more money.

Here's how to do it...

Buy 100 shares of GOOG at the market using cash or on margin.

Sell 1 GOOG Call option with a strike price 10%-15% higher than your purchase price.

Select an expiration date that is 30-40 days out.

If you get “called out” at expiration, you will make the difference between your purchase price and the strike price PLUS the premium you received for selling the Call.

If you don’t get “called out,” you now own GOOG with a cost basis that is lowered by the amount of premium you received, and you can sell another Call the next day the market is open.

Keep doing this until you are as wealthy as you want to be.

Trade Well,