Why you should use options for more income and/or reduce risk

It's no secret that options have exploded in popularity over the years. The reason is simple. No other investment offers the broad range of benefits to investors that options do.

Here are the 5 most important...

For starters, options can increase your profits substantially. It's not unusual for options to rocket up hundreds of percentage points in a very short amount of time.

You see, for the cost of an option premium, you control 100 shares of stock. That means for a small investment, you have the ability to make a lot more on a stock’s move (than if you had just bought the stock outright).

Second, the amount of money you need upfront with options is SUBSTANTIALLY less than just about any other investment out there.

You can control huge amounts of assets with a relatively small amount of money. And for many options strategies, you can actually generate income with no money out of pocket.

Try that with stocks!

Third, **options give investors amazing flexibility.**

There are literally hundreds of strategies you can use with options. From straddles to strangles, from call buying to put selling, the variations are endless!

You can **use options to create strategies to profit from just about any scenario** you can envision...

Fourth, when used correctly, **options are one of the best risk management tools** known to man.

This is the main reason why options are used so heavily by big-time investors and Wall Street insiders. No matter what investment you're using, or what investment strategy you're following, **options can always be used to reduce risk.**

Last, but not least, **options make it very easy to generate income on a regular basis**.

Whether it's collecting option premiums on stocks you already own, or generating credits by selling options to eager buyers, generating income is a very popular way to use options.

In a nutshell, when selling calls or puts, you can make money not just on the direction of the stock, but even if the stock doesn't move at all. Plus, selling options gives you a ton of flexibility on how you design strategies.

With so many benefits, it's no wonder the pros trade options so heavily. You've likely heard the term "smart money" when referring to professional traders. Well, the smart money is often in options.

Despite these benefits, many people are scared away from options…

Options are not too risky for most investors

This crazy idea has kept the amazing money-making power of options out of the hands of the people who need it the most...

People like you who are tired of the low returns and extreme volatility of stocks, bonds and mutual funds. And that's a shame.

Yes, options do involve some special nuances that you must be aware of. And yes, options trading can be risky if you go about it in the wrong way. But doesn't that apply to just about any investment?

Used correctly, options can be one of the most profitable investment vehicles in your arsenal.

They can make you a lot of money in a very short amount of time.

And because of the leverage involved, you don't need to be a millionaire to generate huge profits.

In fact, as you'll see in a minute, most of the options you should buy cost less than $300 a piece.

For all these reasons and more, you'd think virtually every investor in the world would use options in one way or another.

But unfortunately, most 'amateur' investors do not.

The reason?

Because the financial media says that options are too risky and too complicated for the individual investor.

Well guess what?

It's time to change all of that. And we're going to do that right now.

New Rule #1: Don't Buy Any Option That's Priced Over $3.00!

Look, it's no secret that the way to make big money -- whether you're investing in stocks, bonds, real estate, or options -- is to buy low and sell high.

That's just common sense...

Buying undervalued assets is the quickest way to wealth that I can think of, besides winning the lottery!

And the best way to find an undervalued option, is to look at those trading at $3 or less. Inexpensive options give you the chance to get the triple- and quadruple-digit returns that every investor craves. Those kind of returns can still happen with more expensive options, but it's a lot less likely.

New Rule #2: Only Buy Options That Expire In 6 Months Or Less-- You'll Get More Bang For Your Buck!

Look, I know a lot of you think it's safer to buy options that are many months and even years away from expiration. But the truth of the matter is, you'll be a lot better off keeping your expiration month just a few months out.

The key takeaway is this: always buy shorter term options if you're looking to maximize your gains while trading options.

New Rule #3: Always Sell Covered Calls Nine Months to a Year Out

While buying options is a nice way to get leverage for cheap, there's even more opportunity when it comes to selling options… which brings us to Rule #3.

Selling covered calls allows you to generate income on stocks you already own.
Let's say there's a stock in your portfolio you really like (or a stock you want to buy and hold for the long-term).

For example, say you own (or buy) 100 shares of Exxon Mobil (XOM).
XOM is a solid long-term addition to any portfolio. It's the largest oil company in the world… and oil isn't going to be cheap anytime soon (if ever).

The oil giant pulls in an insane $400 billion a year in revenue, and generates $36 billion in profits. Plus, it's a fairly recession-proof stock.

Hey, people still buy gasoline during a recession!

Okay, so once you have XOM in your portfolio, here's how you can continuously generate additional income from it.

The strategy I'm referring to is selling covered calls.

It's simple...

First, pick an out-of-the-money call. If XOM is trading at $95, we'll use next April's 100 strike as an example. For this example, we'll say the 100 call is trading for a premium of $2.02.

Now, when selling covered calls, you'll want to sell options <u>at least six months</u> out. I personally like to go out **<u>nine months to a year</u>**.

Here's how it works...

You own XOM at $95. The stock typically doesn't move that much - it's what we call a low volatility stock. It's unlikely XOM will climb above $105 (the all-time high) in six to nine months. As such, we'll sell the 105 call for $2.02.

If XOM stays below $105 before the option expires, you earn $2.02 on your covered call, or $202.00 (for every 100 shares you own)... all for doing absolutely nothing.

Basically, if the stock drops, you've given yourself an extra $2.02 cushion on the downside. But, if XOM stays around the current level, you'll make money on your call without losing a dime on your stock position.

If XOM goes up but stays below $105, you'll make money on the stock increase up to $105 and from the premium you collected on the covered call. That's the best of both worlds!

Finally, if XOM blows through $105, your option will get exercised. Since you're already long 100 shares, all that means is that your broker will remove the shares from your account. In other words, you'll be cashed out of your position for profit.

If that happens you've just made $10 on your stock appreciation and another $2.02 from selling the option.

Plus, you can always buy more shares and do the same thing over and over again.
(If Exxon does not reach $105, your options expire, you keep the premium, and then you can do it all over again!)

Look, it's basically a no-lose strategy. You're somewhat protected on the downside, and every other scenario is profitable for you.

Remember, you planned on holding these shares long-term anyway, even if the price falls over the next year.

So tell me again, why wouldn't you sell covered calls every chance you get?