**The Smart Option Seller**

**Wanna Get Paid To Buy Stocks?**

There's a trading strategy out there that you may not have heard about.

It rewards you with an upfront cash payment just for your agreement to buy a stock of your choice at a price of your choice.

Really?

Really!

Let me break it down for you.

Let's say there's a stock you want to buy but it's too expensive for you right now.

What do you do?

You have two choices:

1. Place a limit-buy order below the stock's current price and hope & pray it comes down to your desired level. No guarantee it will.

2. Learn an incredible trading strategy that will pay you cash upfront to wait for the stock to come down to your desired level. You will always get paid whether the stock comes down or not.

Which would you choose?

I hope you chose #2, because it's the superior strategy.

What's it all about?

Ever heard of ***put-option selling***? If yes, then great, this will be a refresher.

If not, then prepare to be amazed!

I will show you how you can get paid immediate cash upfront just for your agreement to buy the stock of your choice at below current market levels.

**Options Are Where It's At**

Today's article focuses exclusively on my go-to option strategy - selling put options.

Here's the basics.

In the world of options trading, there are two types: call options and put options. Each can act as a substitute for a stock position.

We will focus exclusively on put options.

And in the world of options trading, there are buyers and sellers (just like stocks). We will only be the seller in this case.

Let's explain each person's role.

If you are a ***put-option buyer***, you are speculating that a stock will fall in price in the future. By buying a put-option contract, you stand to make a profit if the stock falls to a desired level by a certain date (the expiration date).

As the put-option buyer, you must pay an entrance fee (the "premium") upfront for the privilege of buying that option contract, and if the stock doesn't fall to the intended level by the expiration date, that put option contract will no longer exist and will result in a total loss of the premium for the option buyer.

That entrance fee goes directly to the put-option seller at the onset of the trade.

That's where we come in.

As the put-option seller, you immediately receive the premium upfront from the put-option buyer.

Great! What's next?

**Getting Paid To Buy A Stock**

Here's the gist of the whole strategy.

When you sell a put option contract to a put-option buyer, not only do you receive the immediate cash payment, but you're also agreeing to buy the stock at a pre-determined lower price (the strike price) if it falls from its current price down to that level by the expiration date.

***Your goal as a put-option seller is to pick a stock you want to buy at a price below where it's currently trading.***

If stock A is trading at $100 per share currently, and you want to potentially buy it at $80 per share, then you can sell an $80 put option for its going rate and pocket the money right then and there.

At this point, all you need to do is wait out the expiration period to see if stock A falls from $100 to $80.

If it does, then you will be called upon to buy the stock at $80 per share and pay for it in full at that time.

Since each option contract represents 100 shares of stock, you will be required to pay $8,000 for the shares at expiration time.

One (1) option contract is the minimum you can trade, so make sure you're willing to buy 100 shares and that you have enough cash on hand to cover the full cost.

If 500 shares is your target, then you can sell five (5) option contracts and receive five times as much money.

As appealing as that sounds, ***do not*** sell put options on any old stock just to receive the cash. Make sure you sell put options for stocks in which you have a genuine desire of owning, otherwise you might get stuck buying duds.

If stock A doesn't fall to $80 by the expiration day, then the put option contract expires with no value.

You will not be able to buy any shares at $80, but at least you were compensated for your time by receiving the upfront payment from the put-option buyer.

In this case, you can now sell another $80 put option (or whatever level you decide) and collect another round of upfront cash.

You can theoretically keep "rolling" these trades for months and years on end if the stock never falls to your intended buy point.

It's important to note that there's no guarantee that you will be able to buy the stock at your desired level (because the stock might never fall that far), but at least you're making money off the effort (receiving the upfront premium).

**How Much Money Can I Make?**

That's up to you.

Once you've targeting a stock you want to buy, and the price you want to buy it for, you need to check the option prices.

An "option chain" is a matrix that shows option prices for specific stocks for various expiration periods.

Your first source to finding an option chain is through your broker. All trading platforms today have option chains readily available. You can also look online at a number of financial websites.

A typical option chain looks like this:

## Option Chains for IBM - International Business Machines Corp

| Symbol | Range | Type | Expiration |
|---|---|---|---|
| IBM | All | Puts | Jan18 |

Find Symbol | Futures

| Symbol | Last | Change | Bid | Ask |
|---|---|---|---|---|
| IBM | 142.50 | -0.64 ▼ | 142.50 | 142.53 |

Puts

| Strike | Last | Chg | Bid | Ask | Day High | Day Low | Vol |
|---|---|---|---|---|---|---|---|
| January 2018 | | | | | (142 days to expiration) | | |
| 60.00 | 0.04 | 0 | 0.01 | 0.06 | 0 | 0 | 00 |
| 65.00 | 0.03 | 0 | 0.01 | 0.09 | 0 | 0 | 00 |
| 70.00 | 0.09 | 0 | 0.02 | 0.14 | 0 | 0 | 00 |
| 75.00 | 0.09 | 0 | 0.01 | 0.18 | 0 | 0 | 00 |
| 80.00 | 0.11 | 0 | 0.06 | 0.23 | 0 | 0 | 00 |
| 85.00 | 0.17 | 0 | 0.12 | 0.24 | 0 | 0 | 00 |
| 90.00 | 0.24 | 0 | 0.22 | 0.26 | 0 | 0 | 00 |
| 95.00 | 0.30 | 0 | 0.30 | 0.35 | 0 | 0 | 00 |
| 100.00 | 0.40 | 0 | 0.41 | 0.44 | 0 | 0 | 00 |
| 105.00 | 0.52 | 0 | 0.54 | 0.56 | 0 | 0 | 00 |
| 110.00 | 0.74 | 0 | 0.72 | 0.76 | 0 | 0 | 00 |
| 115.00 | 0.99 | 0 | 0.95 | 1.01 | 0 | 0 | 00 |
| 120.00 | 1.26 | 0 | 1.28 | 1.35 | 1.26 | 1.26 | 02 |
| 125.00 | 1.83 | +0.10 | 1.82 | 1.86 | 1.83 | 1.83 | 02 |
| 130.00 | 2.45 | 0 | 2.59 | 2.66 | 0 | 0 | 00 |
| 135.00 | 3.75 | -0.10 | 3.75 | 3.90 | 3.75 | 3.75 | 02 |

Courtesy Optionsxpress.com

Here we see an option chain for a sampling of IBM put options that expire in January 2018. You can pick any expiration you choose. There are many of differing lengths and each option price is different for each expiration month.

The "Strike" column shows which options are available to trade, and so you'll pick the one that corresponds closest to your intended buy point.

The "Bid" & "Ask" columns show what each of those options are trading for. Never use the "Last" column as an accurate assessment of the option's worth. Always use the Bid & Ask prices.

Let's suppose in this hypothetical trade (example only!) that you like IBM at $120 per share, and you're willing to buy it at that level.

It's currently trading at $142.50 per share, which is above your target at the moment.

What do you do?

You can sell a January 2018 $120 put option for its going rate.  In this case, that's roughly $1.30 per contract (splitting the bid/ask).

Options are quoted in dollars and cents per contract.

Since each single option contract represents 100 shares of stock, you must multiple the option's price by 100 to get the full dollar value that you will receive.

In this case, if you sold one (1) January 2018 $120 put option, you would immediately receive $130 into your trading account.

If you sold five (5), you would receive $650, and if you sold ten (10), you would receive $1,300.

But remember, you are agreeing to buy 100 shares of stock for every one (1) put option contract you sell.

If you sell ten (10) put options, you're agreeing to buy 1,000 shares of IBM at $120 per share. That would require a full payment of $120,000 at expiration if IBM is trading at $120 per share or below at that time.  Be mindful of your risk parameters.

If you wanted to try and buy IBM even cheaper, you could sell the $100 put option for $.42 per contract.  That translates into $42 into your pocket for every one (1) contract you sell.

That would obligate you to buy 100 shares of IBM for $100 per share if IBM is trading at $100 or below at January 2018 expiration.  That's a $42.50 per share discount to its current price.

And just for fun, look at the $75 put option.  It has a value of roughly $.10 per contract.

That would hand you $10 per each contract sold.

Remember the underlying premise here: the put-option buyer is buying these contracts because they think the price of IBM is going to drop to a certain level by January 2018.

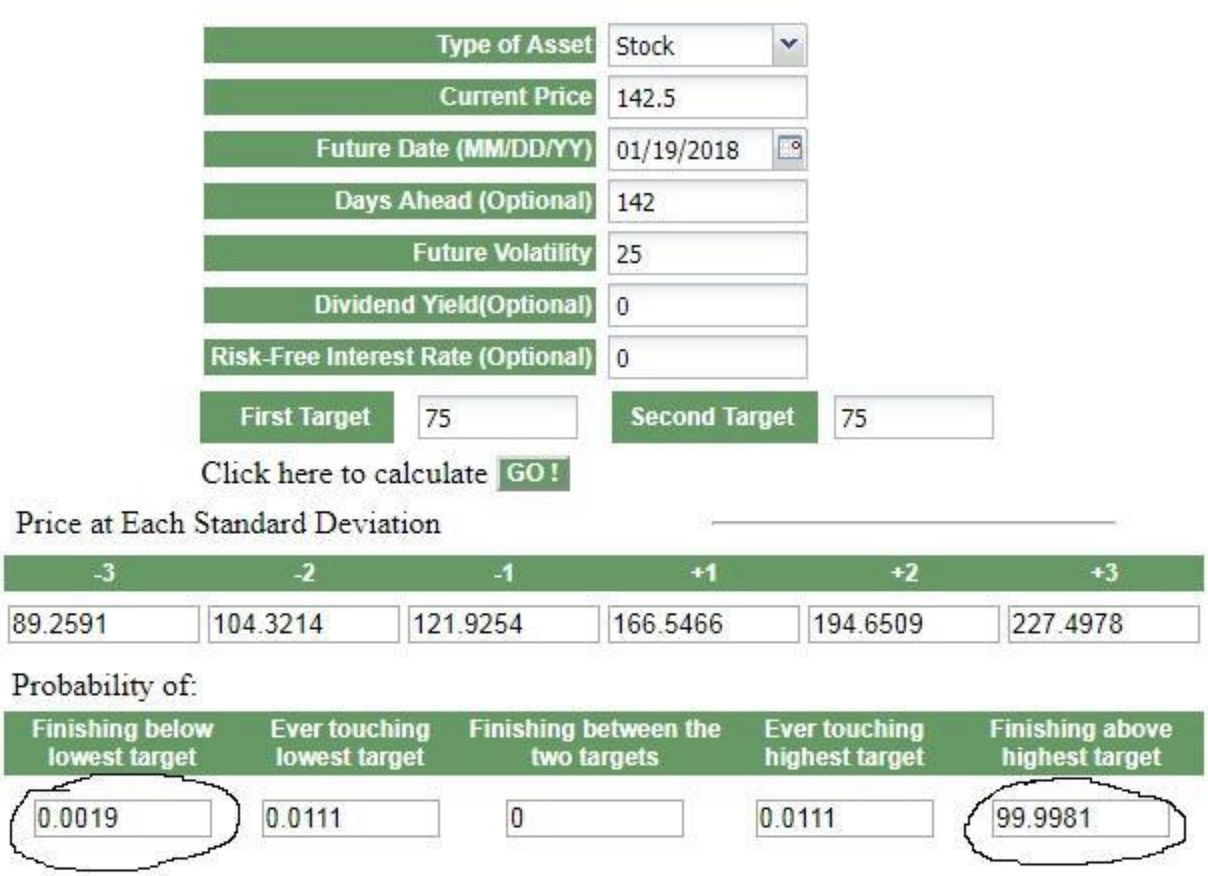
By them purchasing the $75 put option, they are thinking IBM could fall to $75 per share by January 2018 - five months from now.

Do you actually think IBM could lose almost half (47.4% to be exact) of its value in that time?

I'm thinking not.  But there are put-option buyers who do, and they're willing to pay you money for your agreement to buy IBM at $75 per share if it falls down to that level by January 2018.

Steal of the decade!  And the great thing about this, is that there is an almost endless supply of put-option buyers who are lining up to pay you to take their money.

Let's see what the odds are of IBM actually dropping to $75 by January 2018. Take a look at my trusty probability calculator below.



| | |
|---|---|
| Type of Asset | Stock |
| Current Price | 142.5 |
| Future Date (MM/DD/YY) | 01/19/2018 |
| Days Ahead (Optional) | 142 |
| Future Volatility | 25 |
| Dividend Yield(Optional) | 0 |
| Risk-Free Interest Rate (Optional) | 0 |

| First Target | 75 | Second Target | 75 |
|---|---|---|---|

Click here to calculate GO !

Price at Each Standard Deviation

| -3 | -2 | -1 | +1 | +2 | +3 |
|---|---|---|---|---|---|
| 89.2591 | 104.3214 | 121.9254 | 166.5466 | 194.6509 | 227.4978 |

Probability of:

| Finishing below lowest target | Ever touching lowest target | Finishing between the two targets | Ever touching highest target | Finishing above highest target |
|---|---|---|---|---|
| 0.0019 | 0.0111 | 0 | 0.0111 | 99.9981 |

See the bottom-left and bottom-right boxes that are circled?

The one on the left is showing the probability of IBM falling below $75 by January 2018 and the box on the right shows the probability of it staying above $75 by January 2018.

It has almost a 0% chance of falling below, and hence, almost a 100% chance of staying above.

In other words, the put-option buyer has less than 1% chance of winning on that bet and the put-option seller (that's us!) has a greater than 99% chance of winning that trade.

And by winning, I mean that the put option contract will expire with no value in January 2018 and we collect our $10 and walk away.  This is assuming IBM doesn't fall below $75 by then.  If it does, then we are happy as clams as we'll get to buy IBM for half the cost of what it traded for just a few months prior.

You will find over time, that after selling enough of these put options whose strike prices are well below the current price of the stock, will end up expiring with no value.

Although you won't get to buy the stock at the very cheap price you desire, at least you will be collecting cash time after time, which adds up quite nicely.

Note: make sure your commission costs are lower than what you sell the put option for. If you are paying more than $10 per option contract in commissions, it would make no sense to sell the $75 put option.

**What Happens At Expiration?**

There are only two outcomes that can occur at expiration:

1. The stock has fallen to, or below, your intended buy level. In the IBM example, if it falls to or below $120 per share, you will be called upon to fulfill your agreement and purchase the shares at that time. You broker will deposit the shares into your account and debit you for the full price of the stock.

We would still keep the premium paid to us from the beginning of the trade. We indeed got paid to buy stocks!

2. The stock doesn't fall to the intended target. If this is the case, you don't get to buy IBM at $120 per share, but you still get to keep the premium paid to you from the beginning of the trade. At this point the trade is over, but as mentioned earlier in the article, you can now sell another round of IBM put options and collect more upfront cash.

As a side note, if you ever want out of the trade, you can unwind it at any time you wish, as you never have to hold it until expiration. If you are the put-option seller, this would entail you buying the put option back to close out the trade. And depending on where IBM stock is trading at that time, this could incur a profit or loss for you.

You can see that there's more to this strategy than just being able to buy the stock or not.

If you structure the trades where you attempt to buy the stock well below its current price, more times than not (usually above 90%), the stock won't reach the intended level. This allows you to collect the upfront cash and repeat the process every few months. The win rate is super high. Winning = the put option expires with no value.

Selling put options gives you multiple ways to make money.

First, you'll get paid to sell the put option. You keep that money regardless of what happens afterwards. As mentioned, if the stock doesn't reach your buy point by expiration, the option will expire with no value. The put-option buyer is sad, and you are happy. You can then sell another round and get paid again.

If in fact you do get to buy the stock at expiration at your price, you can now ride the theoretically unlimited upside gains that comes with owning stocks.

Score for the put-option seller!

**What Are The Risks?**

The risk with selling put options is no different than with buying stocks.

If you are lucky enough to be able to buy the shares of your chosen stock at your chosen price, then the only risk you have at that time is that the stock keeps falling below your buy level.

That's the same exact risk any shareholder has.

What can you do about it? For starters, make sure you have a risk management plan in place. That could include setting a stop-loss level for your trade.

But this article is not about what to do once you own the stock. That concept is for another day. This article is here to show you how to get paid upfront for your agreement to buy your favorite stock. Just make sure you have an exit plan in place to protect your holdings.

Another potential risk, one which I alluded to earlier, is to make sure you don't sell put options just for the sake of collecting the premium. This could lead to a potentially disastrous situation very quickly. ***Don't do it!***

Make sure you stick to stocks that you definitely want to keep in your portfolio and you wouldn't mind buying at a cheaper price, if you are called upon to do so.

Also, since option contracts represent 100 shares of stock, this is the smallest amount you can play with. If you only want to buy 10 or 20 shares, then this type of strategy might not be appropriate for you.

Lastly, stay within your comfort zone and financial limits. It's easy to get enamored with the concept of getting paid cash upfront, but be smart, and use the strategy correctly.

**Summary**

You can collect a tidy little sum of money by the continual selling of put options over time.

By selling put options with a strike price below the current price of the stock (this is called out-of-the-money), you will find more often than not that the stock will not drop that far. This will allow you to continuously sell put options on the same stock throughout the year, collecting cash each time.

Only sell put options on stocks that you genuinely want to own, and make sure you will have enough cash to make the payout at expiration if called upon to do so.

Always have an exit strategy. Even the best stocks can fall further than you think.

Think of put-selling as a two-pronged approach:

1. You are getting paid to buy a stock you want.

2. It can actually be a money-generating system by the continual selling of put options that expire with no value. You might not ever end up owning the stock, but you'll be making money every step of the way.

And if you do get to own the stock, get excited for your unlimited upside potential.

You control your destiny with this strategy. You get to choose the stock you want, the level in which to potentially buy it, and the length of time of the trade. You will only sell put options on stocks that make sense to your financial situation.

Anyone can do it.

As long as you have an approved option-selling account with your broker, you are good to go. If you like being paid to buy your favorite stock, then this is for you.

Lastly, in no way is this an exhaustive essay on every aspect of put-option selling. Consult with your financial advisor to see if this strategy is right for you.

In our Smart Option Seller newsletter, we continually sell put options on high-quality stocks which allows us to collect upfront cash year round. It's a great money-maker.

Come visit us to see how it's done - www.smartoptionseller.com

To your future put-selling success!