

THE SMART OPTION SELLER

# Put-Selling Basics

By Lee Lowell

Thank you for visiting The Smart Option Seller website.

It is my goal to educate and enlighten you to one of **THE** most powerful and lucrative stock market strategies ever to come into existence, in my humble opinion.

I've been using this method for twenty six years now and it hasn't let me down yet.

It is **NOT** some kind of fad or exotic strategy that only works under certain conditions or only works for the creator of the system.

This is a public strategy that has been available to everyone since option trading came into existence in 1973. It has been used by some of the most successful investors of our time, including one of the all-time greats - Warren Buffet. Yes, even he uses put-option selling to generate millions of dollars. You can't argue with that.

This is not to say that everyone who uses the strategy will be successful though.

Because just like any investment, you have to know how to execute it properly. Otherwise you will be flying blind and will most certainly give your money away.

Put-selling is no different - you have to do it correctly. And this is why I'm here. Think of me as your put-selling tour guide.

## **What To Expect**

In this booklet, I will teach you the basics of put-option selling and how we can use it to generate continuous streams of upfront cash payments and the potential to buy high quality stocks at ridiculously low prices.

I will show the mechanics of put-selling and what to expect when you make the trade. I will also discuss the reasons why it has such high probabilities of profit and why many people still don't know it exists (better for us!).

Be prepared to be amazed at how simple this strategy really is and its two-fold advantages:

1. **Creating instant upfront income.**
2. **The opportunity to buy high quality stocks at extremely low prices.**

## **Put Options - Defined**

What is a put option anyway?

Option contracts come in two flavors: call options and put options.

We will only deal with put options here.

To really get a feel for what put option contracts are, you need to look at it from each side of the transaction - from the buyer's perspective and the seller's perspective.

As a **put option buyer**, you are entering into an agreement to potentially **sell** shares of a stock at a pre-determined price (the strike price), for a pre-determined amount of time (the expiration date), and are required to pay a fee (the premium) for the right to enter this agreement.

Your goals as a put option buyer fall into one of two categories:

1. You are outright speculating that a stock will fall in price.
2. You are protecting a long stock position already in place and want to set a selling price (profit taking) for that position.

In the option's world, it is my opinion that most buyers fall into category #1, and it is the reason why I believe that being the option **seller** has incredible probabilities of profit and extreme advantages over the option buyer. My explanations will come a little further down in this guide.

As a **put option seller**, you are entering into an agreement to potentially **buy** shares of stock at a pre-determined price (the strike price), for a pre-determined

amount of time (the expiration date), and are compensated with an immediate upfront payment (the premium) from the put option buyer.

Your goal as a smart put option seller is to **only** enter into a put option selling trade for a stock in which you generally have an interest in owning, because you may end up actually buying the stock. More details to come.

There are many put option sellers who make these trades for the sole reason of collecting the upfront premium from the put option buyer.

That is a big mistake. Yes, it can be a great way to earn immediate cash, but many of these put option sellers end up having to make good on the agreement by purchasing shares of stock in a company that they never wanted in the first place. And many times these stocks end up going sour, offsetting all of the upfront payments. This is **not** the way to sell put options effectively.

Selling put options correctly involves three steps.

## **Step 1: Decide On A Stock That You Want To Buy**

Why is this important? Because it will keep you from falling into the trap of just selling random put options on random stocks just to collect the upfront cash.

That's a no-no!

So, let's pick a hypothetical stock and run through an example.

One of my favorite all-time stocks is **Walt Disney (DIS)**.

I love the stock, but sometimes I feel the price is too high for me to buy it outright. What can I do? There are two choices:

1. Put in a limit buy order with my broker or in my online trading account which will allow me to buy the stock if it falls to a pre-determined level.
2. Sell a put option contract at a strike price that closely resembles my target buy area.

If I choose method #1 and put in a limit order, there's never a guarantee that DIS will fall to my buy level. That's the drawback to using limit orders. You never know if the stock will come down in price to the area in which you want to buy.

You could end up sitting there for months on end waiting for a fall that may never occur.

But, if you choose method #2 and sell a put option contract, you will receive an upfront cash payment while you wait for the stock to fall in price.

Clearly, selling a put option is the superior method. It's like being paid to place your limit order.

In both methods, we want the stock to fall in price. But there's no guarantee it will. At least when you sell a put option, someone will pay you cash upfront while you sit and wait. You can't get that with a straight limit order.

Let that concept sink in.

## Step 2: Decide On The Level You Want To Buy The Stock And Sell The Corresponding Put Option.



Chart courtesy of StockCharts.com

The daily chart of Disney you see above was taken at the close of trading on January 24, 2017. It finished the day at \$107.90 per share.

I love the stock and want to buy some shares, but not at its current price of \$107.90. I have interest in buying it near its last pullback area around \$90 per share. That's my buy target.

What can I do?

Well, if I put in a straight limit order to buy it at \$90, there's no guarantee DIS will ever come back to that area. I'd rather be productive with my time while I wait for it to fall again.

What's the plan? Sell a put option, of course!

Symbol <b>DIS</b>	Last <b>107.90</b>	Change <b>+0.78 ▲</b>	Bid <b>107.82</b>	Ask <b>107.99</b>
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DIS Expiration Months: JanWk4 | FebWk1 | FebWk2 | Feb17 | |

Puts

Strike	Last	Chg	Bid	Ask	Day High	Day Low
July 2017 (178 days to expiration)						
50.00	0.05	0	0.01	0.08	0	0
55.00	0.07	0	0.02	0.11	0	0
60.00	0	0	0.03	0.16	0	0
65.00	0	0	0.06	0.24	0	0
70.00	0.28	0	0.10	0.32	0	0
75.00	0.13	-0.34	0.17	0.37	0.18	0.13
80.00	0.24	-0.26	0.28	0.58	0.24	0.24
85.00	0.44	-0.23	0.49	0.81	0.44	0.44
90.00	0.80	-0.26	0.84	1.20	0.80	0.80
92.50	1.32	+0.11	1.11	1.48	1.32	1.32
95.00	1.51	-0.18	1.48	1.60	1.51	1.51
97.50	2.25	0	1.91	2.04	0	0
100.00	2.60	-0.25	2.44	2.60	2.60	2.60

Option chain courtesy of OptionsXpress

Above is a current option chain for Disney put options that expire in July 2017. You will use the option chain to see how much money you can receive for selling various put option contracts. Option chains can be found online, from your broker, or in your trading platform.

Since my target buy area is \$90, I use the option chain to see the current bid & offer prices for that specific option contract. Scanning across from the \$90 "Strike" column, I see it has a bid/ask market of \$.84 bid/\$1.20 offer, giving it a fair market value of roughly \$1.02 per option contract (splitting the bid/ask price).

Whenever you make a transaction in the market, whether you trade stocks or options, you should always try to trade somewhere in between the prevailing bid/ask spread.

So if I were to sell a Disney \$90 put option for \$1.02 per contract (hypothetical trade), what does that mean?

It means I'm contracting myself out to potentially buy 100 shares of Disney for \$90 per share at any time before and up to the expiration date in July 2017, if I'm called upon to do so.

In exchange for my agreement to potentially buy those shares at \$90, I would receive \$102 for every option contract I sell.

Every option contract is worth 100 shares of stock. Five (5) option contracts equals 500 shares of stock. So if I sell five (5) option contracts, I'd be agreeing to buy 500 shares of Disney at \$90 per share. I would also receive \$510 upfront from the put option buyer. That's some good cash.

In the end, we would only be called upon to fulfill our agreement if Disney is trading below \$90 per share at July 2017 expiration. Currently, Disney is trading at \$107.90, so it would have to fall almost \$18 per share.

If Disney isn't trading below \$90 per share at July expiration, then the option expires worthless, the trade is over, and we keep our \$102 per contract that we received when we first executed the trade.

**Important:** stick to the amount of potential shares you'd like to buy. If your typical purchase size is 300 shares, then you would sell three (3) put option contracts. Stay within your comfort zone!

## Let's Talk About The Money

When we sell the \$90 put option for \$1.02, we actually get \$102 for each option contract sold. This is based on the 100 share multiplier since each option contract represents 100 shares of stock.

$\$1.02 \text{ per contract} \times 100 \text{ shares} \times 1 \text{ option contract} = \$102$

$\$1.02 \text{ per contract} \times 100 \text{ shares} \times 5 \text{ option contracts} = \$510$

The more contracts you sell, the more money you get. But remember, it also obligates you to buy 500 shares of stock at expiration if Disney is below \$90. That's \$45,000 you must have ready to go to purchase the shares.

## Step 3: What Happens At Expiration?

There are only two outcomes that can occur at expiration:

1. The stock is above your strike price.
2. The stock is below your strike price.

If the stock ends above your strike price at the close of trading on expiration day (\$90 in the Disney example), then you **do not** get to purchase any shares.

Let's say Disney ends up at \$96 on expiration day. You do not get to buy them at \$90 because why would anyone sell you shares at \$90 when they're still trading at \$96 in the open market? They wouldn't, and so you can't buy them at \$90 at this point in time.

But as I mentioned earlier, as a consolation to you not getting to buy the shares, you still get to keep the money (\$102 for Disney) that the put option buyer paid you on day 1 of the trade.



For the investor that opted to put in a limit order with his broker to buy Disney at \$90 - well, they are still waiting to buy it at \$90 and they didn't get to receive \$102 from anybody.

Win for the put-option seller!

If the stock ends below your strike price at the close of trading on expiration day (\$90 in the Disney example), then you **do** get to purchase shares and walk away a happy camper. Why? Because you were able to buy shares of a stock you wanted at the price you wanted.

Extra bonus: you also get to keep the \$102 per contract that the put option buyer paid you on day 1 of the trade.

Win again for the put-option seller.

## Conclusion

That's it. The three steps of successful put-option selling.

It really is quite simple.

1. Pick a stock.
2. Pick the price you're interested in buying it.
3. Sell the corresponding put option and collect your upfront payment.

After that, you just wait to see where the stock ends up.

You'd be amazed at how many people tell me they're so happy that I introduced them to this great strategy of collecting upfront income. It has made such a difference in their lives (and their bank accounts!)

## What Else Do I Need To Know?

There are a few items to note that can help you get up and running with selling put options. And after I run through those details, I will give my opinion and some evidence on why I believe put option sellers have a **HUGE** winning advantage over put option buyers.

In order to sell put options effectively, you should execute these trades in an approved option-selling margin account. What is that?

All brokerages rank the types of trades you can execute according to their perceived risk factors and assign them to a "Risk Level". Your broker will approve you for either some or all of those levels based upon your knowledge and experience with those types of trades.

You can sell put options in either a "cash-secured" put-selling account, or in a "margin" put-selling account.

For instance, Charles Schwab's approval levels look like this:

Approval Level	Strategies	Eligible Account Types
<b>Level 0</b> Level 0 can be used for covered and protective strategies, enabling you to generate income or hedge positions.	Options on long stock:* <ul style="list-style-type: none"> <li>Covered calls</li> <li>Protective puts</li> <li>Collars</li> </ul> Options on short stock:* <ul style="list-style-type: none"> <li>Covered puts</li> <li>Protective calls</li> <li>Collars</li> </ul>	<ul style="list-style-type: none"> <li>Brokerage, including non-retirement business accounts and trusts</li> <li>Retirement plans</li> <li>Individual Retirement Accounts</li> <li>Guardianship and custodial accounts</li> </ul>
<b>Level 1</b> Level 1 can be used to sell cash-secured equity puts, an income-generating strategy, or for using long options to take advantage of speculative directional opportunities.	All of level 0, plus: <ul style="list-style-type: none"> <li>Cash-secured equity puts</li> <li>Long calls</li> <li>Long puts</li> <li>Long straddles</li> <li>Long strangles</li> </ul>	<ul style="list-style-type: none"> <li>Brokerage, including non-retirement business accounts and trusts</li> <li>Retirement plans</li> <li>Individual Retirement Accounts</li> </ul>
<b>Level 2</b> Level 2 includes the addition of spread trading, enabling you to take advantage of more defined risk strategies.	All of level 1, plus:* <ul style="list-style-type: none"> <li>Vertical spreads</li> <li>Long calendar/diagonal spreads</li> <li>Long ratio spreads</li> <li>Butterfly spreads</li> <li>Condor spreads</li> <li>Iron butterflies</li> <li>Iron condors</li> </ul>	<ul style="list-style-type: none"> <li>Brokerage, including non-retirement business accounts and trusts</li> <li>Individual Retirement Accounts</li> </ul>
<b>Level 3</b> Level 3 enables you to place unlimited-risk, short options trades.	All of level 2, plus:* <ul style="list-style-type: none"> <li>Uncovered calls and puts</li> <li>Short straddles/strangles</li> <li>Short calendar/diagonal spreads</li> <li>Short ratio spreads</li> <li>Uncovered options</li> </ul>	<ul style="list-style-type: none"> <li>Brokerage, including non-retirement business accounts and trusts</li> </ul>

\*These strategies require a margin account. The IRA margin feature is to support spreads trading only. You may not use margin in your IRA to avoid cash account trading and settlement requirements, borrow funds, maintain a debit balance in your IRA, short stock or sell naked (uncovered) options.

Courtesy Schwab.com

In order to get the most bang for your dollar, I highly recommend selling put options in a margin account, not a cash account. Here's why.

The goal of put-option selling is to give yourself an opportunity to buy a stock at a cheaper price than where it currently trades.

The unknown is whether you will actually be able to buy the stock at expiration. It is unknown because you have no idea whether the stock will be above or below your buy point at expiration.

Since you may or may not be buying the stock in the future, your broker shouldn't ask you, nor would it be fair to you, to put up the full cost of buying that stock until it's necessary.

So in order to make the trade more appealing to you, most brokers will ask you to only keep roughly 20% of the full cost of the stock in your account as collateral. That 20% can be in the form of liquid cash or securities, and must be available in your account at all times.

For instance, if you sell the Disney \$90 put option, it would cost you \$9,000 to buy the 100 shares in full at expiration day if called upon to do so.

And since we don't know where the price of Disney will be until expiration day, your broker will ask you to keep roughly \$1,800 (20%) as collateral in your account while the trade is open.

That \$1,800 is called the "**margin requirement**". That term is very important to understand as it will help you get an idea of how much money you need to have in your account and how many contracts you could possibly trade.

Don't confuse "margin requirement" with the term "**trading on margin**". They are completely different concepts. Trading on margin is used when you borrow stocks from your broker and pay interest to borrow those stocks. Typically, investors will buy stocks on 50% margin which means they pay for half of the stock's cost and will borrow the other 50% from the broker.

The margin requirement is **not** a loan. It is money in your account that just needs to be held aside while your put-sell position is open.

Let's say you have a \$50,000 trading account and you sell one (1) of the Disney \$90 put option contracts. The margin requirement would be \$1,800, leaving your account with \$48,200 of free cash to use. Get it?

If you were to sell "cash-secured" put options in a "cash" account, then you would need to have 100% of the full cost of buying the stock on hand at all times.

This means you would need to have the full \$9,000 on hand in your account in order to sell the Disney put option, leaving you with \$41,000 of free cash to play with. This is not the best use of your funds.

To make the example more dramatic, if you sold five (5) of the Disney put options, the value of that purchase would be \$45,000. In your cash account, it would only leave you with \$5,000 to play with for other trades, whereas in the margin account, you'd only need to put up \$9,000, leaving you with \$41,000 of free cash to play with. That's a big difference.

Win for the margin account.

## **Why Option Selling Is King**

This is my favorite part of discussing why I love selling put options so much.

It is my chance to show you why option sellers have a huge advantage over option buyers and why their probability of winning is so high.

When it comes to predicting where a stock is going to be on a certain date, how accurate do you think someone can be?

Think about that question for a minute before you answer.

I'm asking you to figure out not only what price you think the stock will be, but I'm also asking you to tell me the exact date it will be at that price (expiration day).

Think that's an easy task? Heck no!

Who in their right mind thinks they can predict the where and when of a stock move?

Every person who buys an option, that's who.

How so?

Because when you buy an option contract, what you're doing is saying that you know where the stock is going to settle at by the day of expiration.

Every option has an expiration date. And if the stock doesn't make the move to where you want it to by then, that option contract will expire worthless. The option buyer loses 100% of his investment.

So basically, every option buyer thinks they know exactly where the stock will be on expiration day. The problem is, they don't understand options well enough to realize that fact. And guess what? Most of them fail upwards of 95% of the time!

So why do option buyers keep doing it? Because they don't know any better.

They think they're spending a small bit of money to hopefully hit it big. Buying options is the ultimate leverage trade. You only put up a fraction of the cost of the stock to get into the trade.

It's like betting in the casinos - little money down, big payoff potential.

To them, that's all they care about. If the stock makes the intended move, they'll make huge returns on their investment. Their judgment is clouded and they're not thinking deeply enough about how unlikely it is that they can predict the future.

And that's why option selling is so lucrative. Option sellers just need to let the option buyers fail in their prediction and we are there to collect on their horrible bets.

We don't need to predict the where & when. We just sit back and wait for the option buyer to fail.

It's a sweet gig for option sellers - winning 95% of the time.

In case you're not convinced that option buying is so horrible, let me show you the stats.

## It's All About Probability

Type of Asset	<input type="text" value="Stock"/>				
Current Price	<input type="text" value="107.9"/>				
Future Date (MM/DD/YY)	<input type="text" value="07/26/2017"/>				
Days Ahead (Optional)	<input type="text" value="178"/>				
Future Volatility	<input type="text" value="18"/>				
Dividend Yield(Optional)	<input type="text" value="0"/>				
Risk-Free Interest Rate (Optional)	<input type="text" value="0"/>				
First Target	<input type="text" value="90"/>	Second Target	<input type="text" value="90"/>		

Click here to calculate GO!

Price at Each Standard Deviation

-3	-2	-1	+1	+2	+3
<input type="text" value="74.0029"/>	<input type="text" value="83.915"/>	<input type="text" value="95.1548"/>	<input type="text" value="122.3524"/>	<input type="text" value="138.7405"/>	<input type="text" value="157.3237"/>

Probability of:

Finishing below lowest target	Ever touching lowest target	Finishing between the two targets	Ever touching highest target	Finishing above highest target
<input type="text" value="7.4492"/>	<input type="text" value="19.3348"/>	<input type="text" value="0"/>	<input type="text" value="19.3348"/>	<input type="text" value="92.5508"/>

What you see above is a "probability calculator". It's a simple tool that tells you the odds of a certain event happening.

In this case, we want to know the odds of Disney stock falling below \$90 per share from its current price of \$107.90 by July 2017 expiration (178 days from now).

In order to get the results, you need to fill out basic information at the top.

We input the current stock price, date of expiration , future volatility (found online), and the target level we are interested in (\$90).

All of the inputs are easily accessible with future volatility needing a little explanation.

Future volatility is a number that gives you an idea of how volatile the stock is expected to be over a period of time in the future. Erratic stocks have high volatility and stable stocks have low volatility. Looking at a simple volatility chart

of any stock can give you the results. In this case, Disney's volatility was roughly 18%.

After submitting the inputs, we get the results at the bottom of the calculator. Pay attention to the two circles on the bottom-left and bottom-right.

What we see is that there is only a 7.45% chance of Disney getting below \$90 per share at expiration, while there is a 92.55% chance that it will remain above \$90 per share at expiration.

The only way for the put option buyer to win is for Disney to be below \$90 at expiration. And what are the odds of that happening? 7.45%.

What are the odds of Disney remaining above \$90 and the put option seller winning? 92.55%. I like those odds better!

Whose side do you want to be on?

And in case you need even more proof, look at the two tables below:

What you'll see is data by the Chicago Mercantile Exchange (CME) from a study they published in 2002 in which they recorded the results of all S&P 500 & NASDAQ 100 option contracts during the 1997-1999 trading period.

<b>% Exercised/Expired Options Contracts – S&amp;P 500</b>				
<b>S&amp;P 500 Options</b>	<b>% Exercised</b>	<b>% Exercised</b>	<b>% Expired</b>	<b>% Expired</b>
	<b>Call Options</b>	<b>Put Options</b>	<b>Call Options</b>	<b>Put Options</b>
<b>1997</b>	45.2%	5.9%	54.8%	94.1%
<b>1998</b>	44.0%	6.9%	56.0%	93.1%
<b>1999</b>	33.3%	5.5%	66.7%	94.5%

*Source: CME*

<b>% Exercised/Expired Options Contracts – NASDAQ 100</b>				
<b>NASDAQ 100 Options</b>	<b>% Exercised</b>	<b>% Exercised</b>	<b>% Expired</b>	<b>% Expired</b>
	<b>Call Options</b>	<b>Put Options</b>	<b>Call Options</b>	<b>Put Options</b>
<b>1997</b>	9.4%	6.8%	90.6%	93.2%
<b>1998</b>	26.2%	3.3%	73.1%	96.7%
<b>1999</b>	16.6%	1.7%	83.40%	98.3%
<b>3-Yr. Avg.</b>	<b>17.4%</b>	<b>3.9%</b>	<b>82.6%</b>	<b>96.1%</b>

*Source: CME*

The circled areas of the last columns show that both the S&P 500 and the NASDAQ 100 had put options expire worthless upwards to a high of 98.3% of the time. Neither one was below 93.1%



What does it all mean? It means option **buyers** were losers and option **sellers** were winners. Option buyers were holding investments that were losing on average 95% of the time. No thank you!

Win for option selling.

I hope this gives you an idea of how hard it is to consistently win as an option buyer. You may hit a winner every now and again, but 95% of the time, you're going to lose.

In my opinion, one of the main reasons why option buyers lose so much is due to the expiration date. It's just too hard to predict the exact day of a stock move.

And consider this other huge tidbit on why put option buyers have such horrible results - the fact of an ever increasing stock market.

In order to win as a put option buyer, the stock market must go down. As stocks go lower, put option prices go higher. This allows the put option buyer to sell his contracts for more than what he bought it for.

But as history has shown us, the stock market **always** goes up over time.

If that's the case, history is not on the side of the put option buyer. If stocks go up over time, then put option prices go down - causing put option buyers to lose a majority of the time.

With put options expiring worthless so often, think about how many times a year you can sell them and make a profit.

In our newsletter, we continuously sell put options, take a profit, and repeat the process. We do this over and over and over again throughout the year, raking up gains along the way.

Sick to option selling.

## **Assignments, Risks & Returns**

Lastly, let's go over what happens when you actually have to purchase the stock at expiration and the returns and risks you can expect when selling put options.

As you know from reading this report, if your chosen stock is trading below your pre-determined buy level (strike price) at expiration, you will get "assigned" the shares of stock and they will be placed in your account. At that point, your broker will debit your account for the full cost to cover the purchase.

This is a good thing. You now fulfilled your wish and purchased a stock of your choice at the price of your choice. You are now a full-fledged shareholder and assume all the rewards & risks of a stock buyer.

What are the rewards & risks?

The risks are the same as with every other stockholder - that the price of the stock can go lower.

If you have bought stocks before, then hopefully you have a good risk management plan in place, such as trailing stops.

But let's back up for a minute and also discuss the risk of the stock falling in price even before expiration. Because at that point, you'll still have the put-sell position in your account.

Let's say you sold the Disney put option for \$1.02 per contract while the stock was trading at \$107.90 per share.

What happens if Disney falls to \$100 per share in the next month or so?

Well, that put option will go up in price and you'll be holding a "paper loss" for a period of time.

Options are investments just like stocks, and they can fluctuate higher or lower in value, just like stocks. You can trade in and out of options just like stocks, so you can open and close trades at will if you so desire. There's no rule that says you have to hold onto options until expiration day.

But even if the stock price moves lower, time continues to erode towards expiration day, and as long as Disney remains above \$90 per share, the put option value will erode as well. This will move you back into a "paper gain".

Remember, you can close out of an option trade at any time you wish.

If the Disney put option is now worth \$.80 per contract, you can buy it back and lock in a \$.22 gain. I will talk about taking profits and my "80% Rule" in more detail a bit further down in the report.

Although there are risks to owning stocks, the rewards can be even greater. You have an unlimited upside potential, voting rights, and the opportunity to collect dividends.

Figuring out your eventual return on investment (ROI) is easy once you sell the stock.

But what happens if you don't get assigned the shares and the put option expires worthless at expiration?

Well, we know the put option buyer loses 100% of their investment. But what about the put option seller's return?

The way to figure out the seller's return is to use the calculation of "**return on margin**" (ROM).

Since option sellers are not investing any money upfront to get into the trade, you can't use the typical ROI formula.

Option sellers have a margin requirement which acts as their "investment" in the trade, and we calculate the return using that margin amount.

Using our Disney trade as an example, we learned that in order to sell one (1) put option contract of the July 2017 \$90 strike, we had to keep \$1,800 available in our account as the margin requirement.

If that put option expires worthless at expiration, we get to keep the full \$102 that the put option buyer paid us. That's our gain in the trade.

Since we had to use \$1,800 margin, we calculate the ROM by dividing the \$102 profit by the \$1,800 margin. This gives us a ROM of 5.6% in just under six month's time.

If you want to extrapolate out and compound your returns, you can expect to do this particular trade twice a year and double your return to 11.2%. Not bad at all.

Many of these trades will be shorter in duration and you can repeat them multiple times throughout the year, compounding your gains even more.

## **The Smart Option Seller**

Selling put options is all we do in The Smart Option Seller newsletter.

We engage in high probability trades, very similar to the ones you've read about here.

We only sell put options on high-quality, name-brand stocks in the Dow Industrials, the S&P500, and the NASDAQ. These are stocks we would be happy to own, and if assigned, we could end up building a very solid foundation for a nice long-term portfolio.

In the newsletter though, a majority of the time we aim to sell put options on stocks which have a very low chance of being assigned. So we will tailor the trades to continuously collect premiums from put option buyers over and over again, all throughout the year.

This allows us to accumulate large piles of cash over time.

Our members love it, and they tell me they would rather just collect the cash instead of buying the stocks. I can understand why.

One of the things we'll do consistently at The Smart Option Seller is to close our option trades early, before expiration day arrives.

Why?

Because we like to take profits along the way and build up our account values.

How do we do that?

By buying back the put options that we've sold.

I mentioned earlier about my 80% Rule.

This rule states that if the put option value erodes 80% of its original value, we will buy it back for a profit and close the trade.

Using our Disney example, we originally sold the put option for \$1.02 per contract.

Through a combination of the stock moving higher and time slipping away towards expiration, the put option value will decline.

Once it reaches a value of roughly \$.20 per contract, we would attempt to buy the put option back and lock in a \$.82 gain per contract.

After twenty six years of trial and error, I have concluded that taking profits after locking in 80% of the full potential gain, is a great way to build your account value over time.

Sure, you could wait longer and lock in 90%, 95%, or even wait until it expires worthless. That would allow you to lock in 100% of the full profit potential.

But I've seen many cases where a stock can open up five or ten points lower on the open due to a bad earnings announcement or a failed FDA trial. This will cause the put options to go back up price, delaying your opportunity to lock in good gains.

As I said at the beginning of this report, you have to know how to sell put options correctly. And doing that means you know when to take profits.

It also means you know which stocks to focus on to begin with, if you're interested in making put-selling a profitable endeavor.

Be careful if you decide to sell put options on high flyers. More than likely, you're going to get burned.

## **Thank You**

Once again, thank you for visiting our website.

Not many individual investors know about the benefits of put-option selling. I mentioned this at the beginning of the report.

The main reason why I believe this to be true is because most stock brokers aren't educated enough to understand the true benefits, and will discourage investors from getting involved.

Fine with me. More profits for us.

And now we've reached the end of the line.

I hope this guide has given a good understanding of what put-option selling is all about.

Although I tried to be thorough, in no way is this report exhaustive on the subject.

Please consult with your financial advisor before getting started.

If you would like to join us at The Smart Option Seller, feel free to look around the site and send us any questions you have. Signing up is easy if you haven't already!

To your future put-selling success,

Lee Lowell  
Founder, Smart Option Seller, LLC  
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