

# GLOBAL TRADING EDGE

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# The Protected Buy Write “Renting Shares”

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Tell me.... if you owned an investment property, would you rent it out to receive the monthly income or would you leave it vacant and miss out on the regular cash flow?

You'd be crazy to leave it empty and miss out on all that rental income wouldn't you?

Did you know you can do EXACTLY the same thing with shares but you don't need to outlay even half the amount of money you'd need to buy a property!

Just think, if you could make an extra 5% each month just by renting out some shares you own, that would equate to **60% annually!**

Imagine if you did it for just a few years?

What sort of difference would that make to the quality of your current lifestyle?



This strategy uses **Stock Options** (Call Options) and is commonly referred to as "Renting Shares" It really can be as 'safe as houses' when you have the right tools and know-how to put it in action.

In fact, I was lucky enough to have someone teach me this strategy years ago and I've been able to quit my full-time job and make my own decisions about how I live my life today, so I feel it's only right I share that knowledge with other people.

Today I'm going to show you step by step, EXACTLY how to do this but I want you to understand a few things before I begin.

The first one is peace of mind, or as I call it.... the ahhhhh factor. You've probably heard of it before:

## Insurance



Let's go back to that investment property.... or ANY property you buy in fact! Would you invest your money in a building without insuring it? What if the tenant trashed it, or worse, what if it burnt to the ground and left you with nothing?

You'd feel sick wouldn't you?

My guess is, you'd pay for an insurance policy on the property and you'd either pay by the month, 6 monthly or get a discount and pay for the whole year upfront!

You have the exact same choice when you rent out your shares. You can protect your capital and buy an insurance policy *and* you can pay for it over whatever term you wish.

This insurance is in the form of a Put Option contract. When you own one of these contracts it gives you the right to sell your shares for an agreed price at anytime throughout the life of the contract, whether that be for just one month, six months, a whole year etc

When you insure your shares this way before you rent them out, the strategy is called The Protected Buy Write and this is what I'm going to cover in detail today.

*But hey...*

If you don't want to fork out the little extra cash you'd need to buy an insurance policy, you don't have to! Many people don't and it depends entirely on how comfortable you are with risk. I mean, how would you feel if the share price dropped a little just after you bought them? Would it bother you or would you feel quite comfortable with the daily price fluctuations?

Only you can decide what level of risk you are comfortable with. Personally, I always insure my share portfolio and I'm happy with that decision because even over the financial fallout this last couple of years, while loads of people have unfortunately lost ridiculous amounts of money, I've still made that regular cash flow.

*(in fact, as an options trader, I made a motza when stock prices got smashed... but that's another strategy we cover extensively in The Global Trading Room)*

The choice is yours. If you choose not to insure your shares, you can still rent them out except now the strategy would be referred to as **Writing Covered Calls**.

The second thing I want you to consider is what stock you are going to use to rent out. Now, you may already own some shares and that's great because you're now going to learn how to leverage them.

Before you get started though, you need to find out if they are *optionable* stocks, that is, are you able to trade options over them?

This is something your stockbroker can help you with or send us an email and we'll help you out [info@globaltradingedge.com](mailto:info@globaltradingedge.com) with a shortlist of liquid optionable stocks to make your selection process easier.

If you don't yet own any shares, you'll need to consider which stock to select for this strategy and to do this we use a combination of fundamental and technical analysis.



*(There is a select criteria we look for in each company before we even consider finding the right entry signal on the technicals)* For the purpose of showing you how this strategy works, let's assume that you have already selected some Blue Chip shares.

# The Protected Buy Write

## 1) Stock Selection:

Once you have selected your stock to buy shares in, you need to determine how many you are going to buy. Obviously this is dependant on your budget, however you need to consider which market you are trading on as this will dictate the number of options contracts you will be dealing with.

If you are applying this strategy on the Australian or the U.K Stock Market, you'd need a parcel of 1,000 shares per option contract and if you are dealing with the U.S market, you'd need a parcel of 100 shares per contract.

Example: You are looking at an Australian stock trading at \$ 20.50 and you have a budget of \$ 60,000 to spend. You could buy 2,000 shares that would cost you \$ 41,000 and you would be dealing with 2 option contracts for both Puts and Calls. (1 x option contract relates to 1,000 shares)

## 2) Insurance:

Put Options give you the right to SELL your shares at a fixed price anytime throughout the life of your insurance 'policy' This protects your portfolio from the downside.

Select a Put Option with a strike price at or near the current share price and decide over which term you wish to take the contract. This will determine what expiry date the Put Option will have. A 6 – 12 month dated put option would be the most suitable.

So using the example above, you may look at a 12 month dated Put option with a strike price of \$ 20.50 and for this you might pay \$ 2.00

*Remember, you'd need to purchase 2 x contracts for this example*

## 3) Placing the Order:

It's advisable to purchase your Put Option insurance before you buy any shares.

The type of broker you use is entirely up to you. Many people use an online broker as their fees are minimal, however it may be worth considering a full service broker or at least a brokerage house that offers a phone service when you begin trading.

This way, you may feel more comfortable telling a human exactly what you're wanting to achieve rather than doing it all yourself on a computer to begin with.

#### 4) Income:

Your final step is to sell or 'write' a Call Option contract over your shares.

When you purchase Call Options you have the right to buy the underlying shares at the agreed strike price, but you are under no obligation to do so. You pay a premium for this right.

However, when you sell (or write) Call Options over shares you own, you are obligated to sell your shares to the Call option buyer at the agreed strike price if they exercise their right.

Your reward for this obligation is the Call Option premium which you get to keep regardless of which way the share price moves.

Your written Call Option Contract is effectively your lease agreement and your 'tenant' is the option buyer who pays you a premium which is effectively your 'rent'

So using the example above, you'd look to sell a call option with just one month until expiry with a strike price of say \$ 21.00 and for this you might receive \$ 1.00

### **Let's Understand the Strategy**

In this example, you paid \$ 2.00 for the Put options for a 9 month period (*similar to house or car insurance premium*) so your maximum potential loss is the cost of your insurance policy rather than the full share price.

Writing the Call Option provided \$ 1.00 of income so within 2 months of implementing this strategy, your insurance cost is re-paid leaving the following 10 months until expiry to enjoy the regular profits.

### **What Happens if the Market falls?**

Your shares are INSURED by the Put Option, so you can always sell them at the price you initially paid for them or you could sell them at market price, and hold the PUT option as it would increase in value while the share price falls.

Once the market had settled you could sell the Put Option for a profit and you also then have a GREAT opportunity to purchase the shares at a cheaper price and repeat the strategy again.

## What Have You Got to Lose?

The appealing part of the protected buy write is that no matter which way the share price goes, you are smiling 😊

In the example above, if the share price rose above \$ 21.00 and you had to sell your shares at \$ 21.00, you would still make a profit of 50c per share as well as the \$ 1.00 per share you received in call option premium.

If the price moves sideways and your shares were not 'called' away from you, you would get to keep the \$ 1.00 premium as well as your shares so you could repeat the strategy again next month.

If the share price fell below \$ 20.50 (what you paid), you could exercise your Put Option and sell your shares for \$ 20.50 (no loss) and you would still get to keep the \$ 1.00 per share Call Option premium.

## Want to learn more?

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and in your own time (at a fraction of the cost of a live course)  
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