How to Collect a 162% Cash on Cash Return

Today we are going to explore one of the most profitable, low-risk income strategies I’ve come across in my 27 years of trading. This income strategy produced consistent returns during the recent financial crisis and the severe 2008-2009 bear market.

Most investors are not familiar with the concept of selling option premium to produce cash income. This is a very simple yet lucrative income strategy.

When you sell an option premium, your brokerage account is immediately credited with cash that is equal to the option premium that is sold. For example, if you sell an option with a 2.00 point premium then $200 cash is credited to your brokerage account. You get to keep this cash payment regardless of the price movement of the underlying stock.

One look at the broad based S&P 500 Index charts that follow shows a lot of market volatility and wide price swings but no clear trend. With these types of markets it is difficult to profit from the long or short side.

The S&P 500 Index charts display price movements over different time periods. Notice the one thing these charts have in common is that they show lots of price swings but little change in price for the Index over the time period displayed.

Selling option premium to generate cash income is the ideal strategy for today’s volatile markets and uncertain economy.

Lots of Price Swings But No Clear Trend
The S&P 500 Index only changed two points over the time period displayed below despite all of the volatile price moves.

**Summer of 2010**

![Chart of S&P 500 Index performance in 2010](chart.png)

**Unchanged Over One Year Period**

The S&P 500 Index was unchanged in 2011. It opened 2011 at 1257 and closed 2011 at 1257.

![Chart of S&P 500 Index performance in 2011](chart.png)
These S&P 500 Index price charts show no clear trend and high volatility. With these volatile markets, it is difficult for the average investor to realize a consistent return.

**Generating Weekly Income with Covered Calls**

Due to the versatility of the Covered Call Strategy and its ability to profit in up, down or flat markets, I have been very active generating option premium income by trading covered calls. In the past 5 years alone, I have collected $7,485,348 in gross option premium income.

Trading Covered Calls with weekly options takes the Covered Call Strategy to a whole new level as you get to sell option premium 52 times a year! The Weekly Covered Call Strategy is covered in Chapter 4 of the W.O.W. Manual.

Weekly covered calls are initiated by buying 100 shares of stock and selling 1 weekly call option. As previously noted, when you sell an option cash equal to the option premium sold is immediately credited to your brokerage account. If you sell a weekly option with a 1.5 point premium, $150 in cash is credited to your brokerage account. This cash credit reduces the cost basis of the stock and reduces the overall risk of the trade.

The great advantage to selling weekly calls is that you get to sell 52 options every year which allows you to compound your returns very quickly.

Options consist of time value and intrinsic value. At-the-money and out-of-the-money calls consist of only time value. At option expiration options lose all time value.

*If you are short an option, the time value of that option becomes profit at expiration regardless of the price movement of the underlying stock.*

**Time Value = Profit When You Are Short an Option**
Let’s look at a weekly covered call trade I made recently so that you can understand this important concept. I own 1,800 shares of the small cap ETF symbol TNA. I have been selling weekly calls against my TNA ETF. My brokerage account spread order below shows that I closed out 18 of the May 25 weekly calls and sold to open 18 of the TNA Jun 1st 49-Strike calls. The TNA ETF was trading at 48.43.

My brokerage account confirmation below shows that I sold the 18 TNA Jun 1st 49-Strike weekly calls at 1.47 points. After the commission, $2,628.31 in cash was credited to my brokerage account for the sale of the 18 options.
With TNA trading at 48.43 the 49-Strike call is an out-of-the-money call consisting of only time value. At option expiration in one week, the time value of these options becomes profit regardless of the price movement of TNA.

**162% ‘Cash on Cash’ Return**

Purchasing 100 shares of the TNA ETF at the current price of 48.43 and selling the 49-Strike call at 1.47 would cost $4,696 to initiate this covered call trade (48.43-1.47 = 46.96 x 100 = $4,696 cost basis). If you were to rollover this trade weekly and receive a similar premium, you have the potential to collect $7,644 in cash over the next year.

Receiving $7,644 in cash over the next year would result in a 162% ‘cash on cash’ return ($7,644 cash income / original $4,696 investment cost = 162%).

If you receive a 162% cash on cash return a lot can go wrong and you could still profit from the trade. The underlying stock/ETF could decline substantially and you could still profit. If you had bad timing on entering the trade you could still profit. And there could be volatile price swings in the underlying stock/ETF and you could still profit. This gives the weekly covered call strategy a huge advantage over directional option trades that require the stock or ETF price to move in the right direction to profit. Also many times directional trades can get ‘stopped’ out during volatile price swings if you employ a portfolio money management system.

**162% ‘Cash on Cash’ Return Can Profit**

- If you have bad timing when entering a trade
- During volatile price swings
- Even if the underlying stock/ETF price declines substantially

**Time Value = Profit When You Are Short an Option**

With the TNA ETF trading at 48.43, the 49-Strike call option consists of only time value at option expiration. When you are short an option, the time value portion of an option becomes profit as the time value decays to zero at expiration.

If the TNA ETF remains flat at 48.43 at weekly option expiration the 1.47 points of time value in the 49-Strike call becomes profit as the value of the option goes to zero. If the TNA ETF increases in price at option expiration I still collect a 1.47 point time premium profit at expiration. The short option may show a loss if the TNA ETF increases in price above the 49 strike price but this loss is offset by an increase in the ETF price and I still wind up with a 1.47 point time value profit.
If the TNA ETF declines in price at expiration I collect a 1.47 point profit as the value of the short option goes to zero. This 1.47 point profit could be offset by a loss in the ETF price depending on how far the TNA ETF declines in price.

- If TNA remains flat at option expiration = $147 time value profit
- If TNA increases in price at option expiration = $147 time value profit
- If TNA decreases in price at option expiration = $147 time value profit (could be offset by loss in ETF value)

**162% Return Potential Increases When I Rollover Options**

I normally rollover my weekly options using an option spread order similar to the spread order just displayed for the TNA ETF. If you receive a cash income of $147 each week and a total income of $7,644 over the course of a year, this income will allow you to purchase additional shares of the TNA ETF and make additional covered call trades. This would allow you to compound your returns and increase the 162% cash on cash return.

*The weekly option covered call strategy offers very attractive returns and very low risk making this one of the best overall strategies for the average investor.*