Collecting a Weekly Paycheck by Trading Covered Calls

In this week’s Cash Cow Newsletter we are going to focus on Covered Calls. Writing weekly covered calls has been a strategy that has worked well for me during volatile and non-trending type market conditions.

When you sell option premium cash is immediately credited to your brokerage account. This cash credit reduces the cost basis of the stock and reduces the overall risk of the trade. Selling weekly options allows you to compound your returns quickly, as we get to collect a premium every week with weekly options.

Over the past 3 years my covered call trades have generated $1,116,800.89 in actual profits. This was during volatile, non-trending type market conditions.

**SPY (S&P 500 Index ETF)**
As you can see from the price chart above, the S&P 500 Index has been very volatile over the past 10 months. Initiating covered calls during these types of market conditions will allow us to lower our risk.

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

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. 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 stock and option directional trades that require the stock or ETF price to move in the right direction to profit.

Let’s look at a quick example of how you can make a 139% ‘Cash on Cash’ return potential selling weekly options. In this actual trade example I ‘rolled over’ a weekly covered call on the TNA ETF.

**Buy to Close Nov 23 52 calls, Sell to Open Nov 30 54.5 calls**
I sold 8 TNA 54.5-strike weekly calls at 1.42 points:

TNA was trading at 54.27. The 54.5-strike call was At-the-Money, consisting of only time value. As I mentioned before, time value = profit when we sell options.

This was a $5,285 investment. (Buy TNA at 54.27 – 1.42 option premium = $52.85 cost x 100)

If I sell TNA 54.5-strike weekly calls at 1.42, $142 cash will credited to my brokerage account after commission.

If TNA stock increases in price at expiration, there will be $142 in time value profit. If TNA stock remains flat, there will be a $142 time value profit. If TNA stock declines, the $142 time value profit could be offset by the loss in stock value.

With weekly options I get to sell calls against my TNA stock 52 times per year. If we average $142 in time value profit x 52 weeks, we can expect $7,384 in potential time value profit. If we take the $7,384 total time value profit and divide by the original investment of $5,285, we would get a 139.7% potential ‘cash on cash’ yearly return.

Even if TNA stock declined 20% or even 40%, I still have the potential to realize a good return.

If you receive a 139% ‘cash on cash’ return, a lot can go wrong and you could still profit from the trade.
Let’s now look at some weekly covered call profit opportunities for the December 14th expiration.

**TNA** (Small Cap Bull 3x ETF):

TNA is a triple leveraged ETF that tracks the performance of the Direxion Daily Small Cap Bull Index. There is more risk associated with leveraged ETF’s. Because of this added risk, option premiums on leveraged ETF’s are generally higher than that of normal stocks/ETF’s. We can take advantage of these high premiums by initiating a weekly covered call on TNA for the December 14th expiration.
Visa is a Super Portfolio stock that has done considerably well over the past year. Visa typically offers high premiums even though it is not a leveraged ETF like TNA. We can take advantage of these high premiums by initiating a weekly covered call on V for the December 14th expiration.

UGL (Ultra Gold 2x ETF):
UGL is a double leveraged ETF that tracks the price of gold bullion. This leveraged ETF typically has rich premiums. UGL has recently closed on the lower Keltner Channel, providing a good entry point for a December 12’ monthly covered call (UGL does not trade weekly options).

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