My Number 1 Options Tool You Can Use to Trade Right Now

by Andy Crowder
I'm often asked about my favorite options strategy for producing income.

And my immediate answer is always selling puts.

A short put, or selling puts, is a bullish options strategy with undefined risk and limited profit potential. Short puts have the same risk and reward as a covered call. Shorting or selling a put means you are promising to buy a stock at the put strike of your choice.

**Why Sell Puts?**

Selling puts allow you to generate a steady, reliable stream of income without actually owning any stock. And if you want to own a certain stock, you can purchase it at the price you want. The best part—while you're waiting for the stock to hit a specified price you are able to continuously collect income. So, why would you ever set a limit price when you could sell puts and collect income while waiting for your price to hit? That wouldn’t make sense.

And oftentimes once I am put shares of the stock or ETF I want to hold I simply sell covered calls against my newly acquired shares. I especially love using this approach when I want to purchase a dividend stock as it allows me to essentially create my own dividend through selling calls and collect the dividend offered by the security.

Let’s go over a quick example.

**Apple (AAPL)** is a stock I like to sell puts on (and covered calls for that matter). It’s a company that I feel comfortable owning for the long haul mostly due to its unwavering quest to please shareholders.

The stock is currently trading for 157.60, but my preference is to pay at least 10% less. And while waiting for the stock to potentially close below my stated price at expiration, I collect roughly 2% to 3% every 30 to 45 days.
The June 17, 2022 expiration cycle fits within our 30- to 45-day timeframe and the 145 strike is 11.2% below the current price of the stock. So, given our desire to own Apple at, say, $145 – we can get paid $325, or 2.3% for every put option sold. Think about that: we can get PAID to agree to buy a stock at a lower, preferred price.

Now, most investors would simply set a buy limit at 145 and move on, right? But that approach is archaic. Because you can sell one put for every 100 shares of AAPL and essentially create your own return on capital (depending on the strike you choose).

Some say it’s like creating your own dividend and in a way I kind of agree.

The trade itself is simple: **Sell to open June 17, 2022 AAPL 145 puts for a limit price of $3.25.**

So again, by selling the 145 put options in June you can bring in $325 per put contract, for a return of 2.3% over 40 days. **That’s $2,925, or 20.7% annually in premium sold.** You can use the premium collected from selling the 145 puts either as a source of income or to lower the cost basis of your stock.

**What’s the Risk?**

The maximum risk is that the short 145 put is assigned and you have to buy AAPL for $145 per share. But you still get to keep $325 collected at the start of the trade, so the actual cost basis of the position is $145 – $3.25 = $141.75 per share. **And you can continue to sell cash-secured puts on AAPL over and over, lowering your cost basis even further, until your price target is hit.**

The 141.75 per share is our breakeven point. A move below that level and the position would begin to take a loss.

But remember, most investors would have purchased the stock at its current price, unaware there was a better way to buy a security. We rarely take that approach. We know better. We understand we can purchase stocks on stocks we want to own at our own stated price and collect cash until our price target is hit. It’s a no-brainer.

As always, if you have any questions, please feel free to email me at andy@cabotwealth.com.
Andy Crowder is a professional options trader, researcher and chief options strategist of Cabot Options Institute Earnings Trader. Formerly with Oppenheimer & Co. in New York, Andy has leveraged his investment experience to develop his statistically based options trading strategy which applies probability theory to option valuations in order to execute risk-controlled trades.

His proprietary strategies have been refined through two decades of research and real-world experience and has been featured in the Wall Street Journal, Seeking Alpha, and numerous other financial publications.

As a professional options trader, Andy has helped thousands of option traders learn and implement his meticulous rules-driven options trading strategies through highly attended conferences, one-on-one coaching, webinars, and his work as a financial columnist.

He currently resides in Bolton Valley, Vermont and when he’s not trading, teaching and writing about options, he enjoys spending time with his wife and two daughters, backcountry skiing, biking, running and enjoying all things outdoors.