" How to Create a BBQ Cash Flow"

With covered calls and Bull Put Spreads

Bartel Atkin Kern

What is a Covered Call?

- A stock strategy in which you OWN a stock and WRITE (Sell) a call at the next strike price above the current stock value.
- You will have the ability to get a monthly check from the stocks you own. We live in a month to month billing cycle to pay our bills. This will assist us in getting the CASH.
- Where you can learn more about this strategy http://www.cboe.com/education/strategy/eo-2.htm

Why do Covered Calls

- It is the least risky with options.
- It allows us to have a monthly cash flow from five to forty percent gains a month.
- We have a debt in our club and figured it is hard enough to get people to pay for it.
- It will allow us for expenses to be met and served for our club. We can buy more Stocks or LEAPS.
- Compound our investment faster.

Least Risk in Options?

- Do we lose if the price is at the Strike price? **No**, but sometimes called out.
- Do we lose if the price is below the Strike price? **No**
- Do we lose when it is above the Strike price? **Yes.**
- We win with sixty six percent chance playing with this strategy. It can be 100% Winning situation if we set this up right.

What if we did gain 20% monthly?

- This is the assumption we used fifty thousand dollars to play Covered Calls.

M	Amount in Dollar
1	60,000.00
2	72,000.00
3	86,400.00
4	103,680.00
5	124,416.00
6	148,299.20
7	179,159.04
8	214,990.85
9	309,586.82
10	371,518.19
11	445,805,02

Rules of Covered Calls.

- Better Returns with Margin Account Trading.
- Find Stocks that have Volatility.
- Look for the 5.00 to 30.00 trading range of Stocks.
- Try finding those stocks that have an option price quote equal to eight percent or better at strike price.
- You do not need to employ all three factors to make it work. The Three blended together will make many happy returns.

Margin

Purchase 1000 Shares at $9.00 = $9,000.00

Divide by 2 (**margin**) equals $4,500 cash.

Sell Calls for $1.00

$1.00 *1,000 Shares= $1,000.00

Rate of Return:

$1,000.00/$4,500.00 =**22%**

This is the return if you are
If you are not called out.
But if Called out, you
Make an additional $1,000
(10.00 Sell price - 9.00 Purchase price= 1.00)
Capital Gain = $2,000.00

New Rate of Return: $2,000/$4,500 = 44 % in four weeks.

Non Margin

Purchase 1000 Shares at $9.00 = $9,000.00

Put up **all cash** for this position equals $9,000.00 Cash.

Sell Calls for $1.00

$1.00 *1,000 Shares= $1,000.00

Rate of Return:

$1,000.00/$9,000.00 =**11%**

This is the return if you are
If you are not called out.
But if Called out, you
Make an additional $1,000
(10.00 Sell price - 9.00 Purchase price= 1.00)
Capital Gain = $2,000.00

New Rate of Return: $2,000/$9,000 = 22 % in four weeks.

Two Types of Income from CC

- Money from the premium for selling the call. This hits the account the next trading day and will be available for other uses.
- Money from Capital gains. If You buy a stock for $9.00 then sell it for 10 or 12.50, you have that amount as capital gain. This money will hit in your account in three days after the sell date. Meaning it would Arrive on Wednesday after the close of the market on Friday.

Managing IDTC

Purchase at $31.00 = $31,000.00

Divide by 2 (**margin**) equals $15,500

Sell Calls for $.75 May
$.75 June
$2.00 July
$1.78 Aug

TOTAL 5.28 each share* 1000 shares equals to $5,280.00/15,500 = **34% in four months.**

The stock climbed up to 39.00 The strike price was at 35.00. He wanted to keep the stock. He felt it would go below thirty five. He was afraid to be called out. He bought his calls back for 4 3/8 and sold August calls at 6 ¼ with 1 7/8 Profit His goal is to wait till it gets below thirty five and buy it back for less than one dollar. Sell it again for a higher price. The price is currently dropping

Whets good and Bad about IDTC

- It was bought at a high end of the covered call strategy price. My brother in law has sentimental feelings for it.
- If he is able to buy it back at thirty four for .75 cents and then resell it with a higher strike price like 40.00 and resell the option for .75 as it gets close or more.
- He can easily have a + 90 percent gain for four months if he gets called out. 5.28 plus the Nine dollar capital gain on the stock. 14.28 for each share.
- He is happy with this kind of gains. I think we could be happy with this kind of gains.

Bull Put Spread:

- It is used when you are optimistic that the stock will go up strongly. For an example JDSU, ARIBA are good examples.
- You sell one put below the strike price and buy the next level put price. You profit in the difference of the put prices.
- It is a powerful tool and we can do it two weeks before option prices expire.

Cisco Puts Price now 67

Srike price	Last Trade	Bid	Ask
60	1 5/16	1 3/16	1 3/8
65	2 9/16	2 1/2	2 5/8
70	4 7/8	4 5/8	5
75	8 1/2	8 1/4	8 5/8

What will we get out of this?

- If we feel confident Cisco almost never disappoints anyone. I would pick $70.00 strike price for the put to sell and reap the $5.00.
- I will have to protect myself on the down side. I can be greedy and take a ten point spread or be conservative and take the five point spread.
- Lets take the five point spread at 65 is $2 ½.
- 2 ½ -5 = 2 ½ is for one share. We have one thousand shares of Cisco and we can easily take 2,500 for a three weeks. Do this for ten months out of twelve. We will get 25,000/68,000=36.7%
- Maximum loss if the deal went south is 2,500.

Calls JDSU Puts

Calls Last Trade	Calls Bid	Calls Ask	Strike price	Puts Last Trade	Puts Bid	Puts Ask
80 1/4	80 3/4	81 1/2	**70**	10 1/8	9 5/8	10 1/8
69 3/4	75 1/4	76 1/4	**80**	14 1/2	13 1/8	13 7/8
71	65 3/8	66 3/8	**90**	18 3/4	17	17 3/4
60 7/8	65 3/8	66 3/8	**100**	23 1/2	21 1/2	22 1/2
62 3/8	60 5/8	61 5/8	**110**	28 1/2	26	27
56 5/8	56 7/8	57 7/8	**120**	34	31 ½	32 1/2
54 7/8	53 1/8	54 1/8	**130**	39 1/2	37 1/8	38 1/2
49 3/4	49 1/2	50 1/2	**140**	46 1/8	43	44
47 3/8	46 3/8	47 3/8	**150**	52 1/4	49 1/8	50 1/8
42	43 3/8	44 3/8	**160**	59	55 3/8	56 5/8

How to pay off our Debt?

- Sell JDSU Puts at 150 for $50.00.
- We will collect Ten thousand dollars for doing this.
- We need to protect ourselves on the Downside buy puts at 110 for $27.00
- We make a profit of $23 dollars to pay off what we owe. 50 – 27 = 23 dollars.
- When the stock appreciates to above 200 a share buy back the 150 put and sell the 210 put again reap the money. Only if you believe it will go up.

Summary

- You now know how to make a monthly cash flow with your money and the club money.
- This will allow us to powerfully earn at least a hundred and fifty percent a year with LEAPS, Covered Calls and Bull Put Spreads. How many of you want this?
- Questions?

Where to Get More Information

- Wade Cook Seminars.
- Selling Covered Calls:The Safest Game in Options Market by Charles J. Chaes printed in 1990 by Mc Graw-Hill Company.
- WWW.CBOE.COM check into education.
- Wall Street Money Machine by Wade Cook.