

Five Proven Options Strategies That You Can Use Today

Former Floor Trader Reveals Strategies to Maximize Returns with Minimum Risk

By Ron Ianieri

The proliferation of online brokerage firms combined with low commission costs has empowered the average retail investor to navigate the options market like never before. Despite their reputation for being risky and difficult to master, options can present a unique advantage to the individual trader. They provide increased cost efficiency and are not as risky as equities. Options can also offer higher percent returns than stocks and strategic alternatives.

“A mastery of options is very achievable if you learn the right way,” states Ron Ianieri, Chief Strategist of The Options University. The former Philadelphia Stock Exchange floor trader offers five proven strategies for maximum returns with minimum risk.

The Covered Call/Buy-Write Strategy

The covered call is a premium selling strategy with two components - stock and options. The stock component consists of a long stock position in which the investor owns stock. The options component consists of selling one call per every 100 shares of stock owned. One options contract is worth one hundred shares of stock, so the ratio of stock to calls must be exactly 100 shares to one option contract. The philosophy behind this strategy entails using a long stock position with a short call option to create a positive stream of additional income. “It is similar to person purchasing a house then leasing it to pay the mortgage,” says Ianieri.

The Protective Put Strategy

The protective put is a premium purchasing strategy that is ideal for an investor who wants full hedging coverage for their position. The investor buys the stock and put at a one-to-one ratio, meaning one put for every 100 shares. The protective put strategy is optimal for situations when the stock has a potential for an aggressive upward or downward move.

Stock Replacement/Covered Call Strategy

Consider 1,000 shares of a stock trading at \$58, but an investor is unable to take advantage of this because of the capital requirement of \$58,000. This is the time to consider using the stock replacement strategy. An alternative to purchasing the stock outright is to find a way to replace the actual stock with something that is not as expensive. In this case, that alternative is a deep-in-the-money call.

Vertical Spreads

Vertical spreads provide the buyer and seller an excellent percentage return while providing limited loss scenarios.

Time Spreads

The time spread strategy is excellent for premium sellers who want to capture a premium in a hedged way. It involves the purchase of one option and the sale of another in different months, with both having the same strike. Important elements in the construction of the time spread are: using two calls or two put options on the same stock, using the same strike for both, choosing different months for each, and using a one-to-one ratio.

While these strategies lay the groundwork for a successful entry into the options market, ongoing education is the best asset that any investor can have. Ensure your success by staying abreast of the latest information such as articles, classes and the advice of professionals.

***Ron Ianieri** is currently Chief Options Strategist at The Options University, an educational company that teaches investors how to make consistent profits using options while limiting risk. For more information please contact The Options University at www.optionsuniversity.com or 866-561-8227*