Best Option Strategies
For You
How To Give Yourself A Serious Edge
In The Stock Market

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Best Option Strategies For You

I hope I’m not being too presumptuous (or bossy) by telling you what I think the best option strategies are for you.

Consider what follows then more in the vein of “Making The Case For Certain Strategies” vs. me trying to be a know-it-all and run your life.

And I’m also making certain assumptions here which may or may not be true –

The information I’m sharing is based upon many years of personal option trading experience as well as the assumption that you are new to options, or relatively new, or even that you do have some experience with options, but that you’re either not satisfied with some aspect of your results, or that you simply believe that there has to be a better way to consistently make good returns in the stock market.

Not All Trading Strategies Are Created Equal

If all your option trades worked out as anticipated (or hoped), there would be no need to make distinctions.

That’s probably the obvious statement of the year, but I point it out for a reason.

**Option trading success, in my opinion, is not so much a case of consistently being “right” on direction and timing as much as it is in choosing strategies that have inherent structural advantages in the first place.**

Maybe that’s because I’m “wrong” so much of the time. When I set up an option trade on a stock, if I’m being completely honest, I have no idea what the stock is going to do in the days and weeks that follow.

I may have an opinion, of course. I may decipher (or believe I’ve deciphered) what I consider a likely scenario to be based on my reading of a stock’s chart, but the reality is that I’d mostly be guessing if I claimed to have any special (or accurate) insight into the near term behavior of a stock.

And there’s a very important reason why that’s so – because there really is no “behavior” of a stock. A stock isn’t alive, it doesn’t possess self-awareness, and it certainly isn’t making any choices.
The stock’s “behavior?” Well that isn’t determined by the stock, or even by the operations of the underlying business. The stock’s “behavior” is determined by the actions of its buyers and sellers.

I say this a lot, but when you attempt to predict the near term behavior of a stock, what you’re really attempting to predict is the near term behavior of other traders.

**Structurally Survivable Trades**

Benjamin Graham, the Father of Value Investing, and famous mentor to Warren Buffett, wrote in his seminal classic, *The Intelligent Investor*, that the objective of investing was not the management of returns, but rather the management of risk.

And when it comes to option trading, one of the most important risk management principles that I advocate is the concept of only entering what I term “Structurally Survivable” trades.

When I speak of “structurally survivable,” I’m not talking about your own personal survival (no offense, of course, and I certainly wish you a long and prosperous life). After all, if you take a loss on a trade, I trust that’s not going to ruin you or have you rushing to the window ledge of the nearest tall building.

What I’m really talking about then is your capital, specifically your investing funds. That’s what we want to preserve, to make sure that we set up trades with certain structural advantages that give us a reasonable chance to avoid a permanent loss should the trade go against us.

Now I go into this critical concept in much greater detail in a premium report entitled, “*Leveraged Investing Risk Management Strategies,*” (included in *The Essential Leveraged Investing Guide Package*), but I’ll share the abbreviated version with you in the following pages.

(Obligatory disclaimer: As you may imagine, there are numerous factors involved, and nothing is ever 100% guaranteed – for more info and details, check out the Leveraged Investing material.)

**Selling Time vs. Being Right**

When it comes to buying and selling options, I really like being on the selling side of things.
I really, really, really like it.

Now I’m not going to give you some B.S. spiel about how writing options or selling them (either term is correct) is some kind of magic bullet or that it’s like being the casino while all those on the buying side of your trades are a bunch of speculative gamblers and lottery ticket buyers.

If long option strategies NEVER worked, no one would use them. But if you’re right about a stock’s price action, and you’re right on the timing, then a long option strategy can make you a lot of money in a very short amount of time.

**But the key is you HAVE to be right.**

If, however, you’re wrong about either the price action or the timing of your call, that’s when the trouble starts.

Now there may be things you could have done to minimize your risk initially, and there may be adjustments you can make to limit the damage once the trade begins to move the wrong way, but the reality is that when you’re wrong, it’s going to be next to impossible to avoid incurring some kind of loss.

**When you’re on the long side of the trade, you don’t get a second chance.**

In contrast, when you’re on the short side of the trade (i.e. selling or writing options) and the trade moves against you, you frequently CAN get a second chance. And a third. And a fourth if necessary. Or as many as you need, in fact.

[note: that’s not true for all selling side/credit spread type trades, of course – which we’ll address a little later.]

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**Only The Gods Transcend Time**

Fortunately for us, we don’t need to transcend time in order to sell it.

**Because – and this is a critical point to understand. When we write or sell options, what we’re really selling is time itself.**

And the nice thing about time is that there will always be more of it (unfortunately, that doesn’t mean that you or I will always be around to enjoy it).

Recall the fundamental nature of options as a wasting asset. The value of an options contract consists of intrinsic value (the relationship between the current share price of the stock and the
option’s strike price) as well as its extrinsic or time value (basically everything that isn’t intrinsic value).

At expiration, however, the only value that will remain is intrinsic value. And if there is no intrinsic value, then the option expires completely worthless. In either case, an option will NEVER possess any time value at expiration, since time for that contract has run out.

Ah, the fleeting nature of life itself. Like the rest of the past, it’s gone, relegated to the shadows and the flickering memory of history.

So what could be better than getting compensated for being on the inevitable side of the passage of time?

**Well, it gets even better.**

Because even when you’re wrong as a seller of options (and this is true whether you’re selling covered calls or selling puts), you can always sell more time (it may be fleeting, but as long as you’re still kicking, time is always there just free for the taking).

OK – so how about some pragmatic applications and illustrations of my philosophical nonsense?

**Structurally Survivable Cash-Secured Puts**

Writing cash-secured puts on high quality companies at attractive prices is one of my favorite option trading strategies.

Basically, when you write a cash-secured put you’re offering to buy 100 shares of the underlying stock at a certain price (the strike price). And you’re also getting compensated for doing so (in the form of a premium cash payment).

This strategy is frequently likened to being an insurance company in that you’re “insuring” someone else’s shares (if the stock drops below a certain level at or prior to expiration, the holder of the put knows he or she can always unload the shares on you at the agreed upon price).

And one other point – the cash-secured aspect is significant. What that means is that you have enough cash in your brokerage account to fully cover the purchase of the shares should you ever be assigned (i.e. when the holder of the put exercises the put).
Now, there are a lot of different tricks to getting these trades right, which I spell out in great
detail in The Essential Leveraged Investing Guide, but when you do get them right, they can
produce some pretty terrific yields and they can also help you acquire those high quality shares
at some amazing prices.

But there’s another reason why I also really like them – even if the trade goes against me, I can
usually find a way to eventually wiggle free and not only NOT lose money, but actually continue
to book income again and again throughout the entire series of trades and adjustments that
ensue.

When a cash-secured put goes against me so that the shares are trading below the strike price
as expiration nears, and especially so if it would now cost me more to buy back the put than I
received when I first sold it, to the untrained eye, that would appear to be a loss.

(And, most likely, to your tax accountant as well.)

But when we talk about option contracts, we’re not talking about super complex contracts that
were negotiated by teams of high-powered lawyers over several arduous months. Option
contracts are actually amazingly flexible and easy to work with.

And to exchange.

I wouldn’t exactly call it renegotiating, but when you’re on the selling side of these things, you
can always “roll” them (buying back the put that’s expiring and selling a new put expiring at a
later date).

Without going into all the minutiae and the mechanics here, when I roll in the money short
puts, I have one of two objectives – to generate additional premium in the form of a net credit
(selling the new put for more than it cost to close out the old one) or else to lower the strike
price on the new put.

In either case, I’m lowering my eventual cost basis should I ever get assigned (or allow myself to
be assigned). And at some point, assuming the share price does rise again (remember, we’re
hopefully talking about a high quality business here), or if I’ve sufficiently lowered the strike
price on my subsequent rolls, the put(s) will most likely close out of the money and expire
worthless.

And that would also leave me with a lot of accumulated premium and some interesting stories
to tell the kids and grandkids about how a trade went against me but due to the structural
advantages that existed in the first place, I not only came out unscathed, I also most likely
generated some decent returns in the process.
Conclusion

I hope you’ve found this to be useful. It’s not designed to be a comprehensive covered call or put writing tutorial, but rather a quick intro to the way I personally trade and invest.

And it was fun for me to put together, too. Who doesn’t enjoy sharing the things he’s learned from years and years of doing something you love.

And I especially love sharing it with individuals who are receptive to the idea that they can actually improve their lives and their finances (believe me, I get my share of glassy eyed stares and yawns from family members and friends who don’t have this belief).

I’m not putting anyone down, but there are just so many people out there who buy in to that nonsense that the individual has no business investing on his or her own. The idea that you need to pay “experts” (with abysmal track records, by the way) to invest for you, or else buy a big index or ETF so that you not only own tiny little pieces of world class businesses, but you also own even more tiny little pieces of mediocre and struggling businesses – this is absurd.

Hmmmm . . . I wonder if the managed money industry’s millions of dollars in advertising each year is effective in getting their message out?

Know why the “average” person can’t beat the markets? Because the “average” person spends about 3 seconds a month actively thinking about investing. And you know why most mutual funds fail to even match the market’s returns each year? Aside from the fees they charge you, the biggest reason is that those fund managers have WAY too much money to competently manage in the first place.

Investing well is like any other skill – it’s learnable and it’s really not that hard. You just need some good educational resources and a willingness to take action (where the real learning takes place). And today, terrific resources to learn and develop ANY skill are in abundance.

I sincerely wish you the best investing success that’s possible, and that you find the resources that meet your needs and fit your personality.

And if any of what I’ve written here resonates, and you want to learn more about how I use options to manage and enhance my own investments, you can check out what I do here.

Take care,

Brad

Contact Form