Are you leaving Cash on the table?
As an investor you have stocks in your portfolio. Those stocks, individually, will go up, down or remain about the same. Nothing really you can do about that. Market forces and corporate actions that are beyond your control will cause fluctuations in the value of your holdings.

But . . .
There is one important action you can take that will put cash in your brokerage account, today and month after month as time rolls by:
Selling Covered Calls and Naked Puts is a stock market strategy favored by many savvy investors. Here’s how it works: Take one of your stocks, Stock ABC, which has a market price of $29. If you will agree to sell that stock (a call option) for $30 on the third Friday of next month the market will pay you X amount of dollars today (the option premium). That’s the money that you are currently leaving on the table.

Think about what can happen when you sell the option. Only one of two things will happen: If the stock price of ABC is above $30 on the third Friday, you sell it for $30. That will happen about 30% of the time. The other possibility is that ABC is selling for $30 or less on the third Friday. In that case the option expires and you can sell another call.

Either way the option premium—Real Cash Money—is in your brokerage account ready to be spent or reinvested.

Continue the process month after month for a constant cash income from your portfolio.

This book will make you a Master of the art of selling Covered Calls & Naked Puts.
My Books

Covered Calls and Naked Puts: Create Your Own
Stock Options Money Tree (2004)
Cash For Life: Unlock the Incredible Monthly Cash

Show Me the Money is the fourth in a series of books explaining my “Money Tree” strategy for stock market investing. My strategy is one of repeated singles and doubles . . . not homeruns. Each month I pick a basket of dollars off my stock portfolio by selling Covered Calls and Naked Puts. That monthly cash income grows each month as my portfolio grows.

An important theme in all my books is wise stock selection. After all if you are going to have an orchard of money trees you want the trees to be as healthy as possible. I’ve created a unique technique for increasing the odds of buying low and selling higher. I’ve found that the best way to explain my strategy is with a narrative. Beginning with The Money Tree: Risk Free Options Trading in 2002 I introduced the story of an average middle age investor who meets his former college finance professor in the small community of Marco Island, Florida. As they renew an old friendship the Professor reveals his secrets for financial success.

My second book in 2004—Covered Calls and Naked Puts: Create Your Own Stock Options Money Tree—continued the same theme and narrative with updated examples and more on my Naked Puts strategy.

In 2006, the updated version titled Cash for Life: Unlock the Incredible Monthly Cash Income in Your Stock Portfolio was released – The updated version had strategies for ITM (In the Money), OTM (Out of the Money) and ATM (At the Money) and the underpinnings of my technical analysis that is displayed as the VISIONS V. I have published this concept as the Groenke V Theory. Go to www.RonGroenke.com and Useful Links for the details.
Show Me the Money: Covered Calls and Naked Puts for a Monthly Cash Income, the latest release, continues the same theme and narrative with important updates and additional strategies.

My books teach you how to earn income in your stock portfolio. They provide the concepts and techniques I have practiced over the past 20 years in generating income on my stock portfolio.

Detailed formulas and stock and option selection criteria are revealed and discussed.

It is my hope that these techniques, which have served me so well, will also be profitable for you.

A word of caution: Be very deliberate in your investing. Do your homework. Study this book carefully and master the techniques. You will find my software, which I call VISIONS Stock Market Explorer to be an important resource. It is the software program that I created and use to find quality stocks. It also shows Call and Put options with premiums that generate the best returns. This software is Internet based and takes the drudgery out of surfing the net for stock and option information. Spend your time analyzing the potential stocks presented by VISIONS. It puts all the information right at your fingertips.

The VISIONS Stock Market Explorer Scout application searches the entire stock market and provides the Top Ten stocks to invest in at the moment. It uses all the fundamentals as discussed in my books and applies technical chart analysis in its stock selection process. Scout has provided investment opportunities that were successful over 80 percent of the time. No one can bat 1000, but these results can put the odds in your favor.


Happy investing,
Ron Groenke
SHOW ME THE MONEY

Covered Calls & Naked Puts for a Monthly Cash Income

Ronald Groenke

KELLER PUBLISHING
Marco Island, Florida
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Think about what can happen when you sell the option. Only one of two things will happen. If the stock price of ABC is above $30 on the third Friday you sell it for $30. That will happen about 30% of the time. The other possibility is that ABC is selling for $30 or less on the third Friday. In that case the option expires and you can sell another Call.

Either way the option premium—Real Cash Money—is in your brokerage account ready to be spent or reinvested.

Continue the process month after month for a constant cash income from your portfolio.

The Naked Put strategy also gives you immediate cash. Using the same example with Stock ABC, which is in your
portfolio and has a market price of $29, if you agree to buy additional shares at a discounted price of $27.50 on the third Friday of next month (a Put option) the market will pay you Y amount of dollars today (the option premium). If the stock price is above $27.50 on the third Friday the option expires and you can sell another Put, generating more cash income. If the price does dip below $27.50 then you buy the additional shares and can now sell more Covered Calls. The put premium Y varies by stock and typically is one to three percent of the stock price.

This book will give you the basic skills to master the art of selling Covered Calls and Naked Puts.

Now immediately everyone starts to say: Yes! Right! Show me the money!

To satisfy your curiosity a very useful software program called the VISIONS Portfolio Income Explorer [PIE!] is available that will immediately analyze your portfolio for the amount of cash income it can generate right now.

**How Much Cash Are You Leaving on the Table Right Now?**

On the following page is an example of PIE using the DOW 30 stocks. It shows that with an equal weighting investment of about $12,000 in each DOW stock you could generate a monthly income of over $8,800 per month. The annual return on your investment is over 28 percent. This is without any stock appreciation.

You are receiving Call option premium income for holding the stocks. If they do go up in value then your return is even greater. So if you are holding stocks and hoping that they go up, why not get paid while you wait. These results may amaze you, but once you have read this book and implemented some of the concepts you can enjoy additional returns and cash income from your investments.
VISIONS PIE and other VISIONS investment software tools are available on a free trial basis and can be downloaded at www.RonGroenke.com.

Show Me The Money results for the thirty stocks in the Dow Jones Industrial Index

These results were provided by the VISIONS Portfolio Income Explorer software program.
Jake grimaced. *Not good* he thought as he reached for the thermos, refilled his wife’s coffee cup, topped off his own and cleared his throat.

“Katie, we need to talk. This is rather disturbing.”

The couple had retired to Marco Island, a resort community off the coast of southwest Florida, after selling their CPA firm in May of the previous year. Somewhere the frantic corporate world of meetings and tax deadlines was in high season. But you couldn’t tell it by the Kendall’s relaxed schedules. Mornings were spent by the pool on their screened lanai with coffee and bagels. Later they would both be at their computers, Katie doing free-lance stories for the local paper and Jake working on the “Great American Novel.”

This morning they had enjoyed an early beach walk and were now side-by-side in their comfortable lounge chairs on the lanai. The morning sun filtered through the large banyan tree and glistened in the pool water. There was worry in Jake’s voice and Katie wondered what could possibly have happened in the last few minutes to spoil his happy mood.

Swiveling the screen of his lap top computer so Katie could easily see the matrix, Jake continued.
“Yesterday the market closed up 140 points. But look at our portfolio. Almost all our stocks are down. What the heck are we doing wrong?”

They were both silent for a few moments. Traditionally their savings had been in bank CDs. But after many years of preparing tax returns for all types of investors it had become obvious that stock investments over the long run faired much better than the typically lower yield on CDs. So over the past 20 years they had built a retirement portfolio, which was now their sole source of income. Only a few of their stocks paid dividends. To meet living expenses they would sell sufficient stocks each quarter, hoping—and expecting—that the bulk of the portfolio would continue to grow.

Jake couldn’t help but smile as he watched his wife’s pursed lips, wrinkled brow and focused concentration on the computer screen. Her dimples were just as cute as when they had first met at the University of Minnesota almost 40 years earlier.

Finally, “Oh Jakey, you know I don’t really understand the market. It doesn’t seem to make sense, but then how does anyone make sense out of the market. It seems to just be a random process. Maybe we should hire a financial advisor or perhaps buy one of those programs advertised on TV.” With a quick smile to Jake she turned back to the community newspaper.

Jake glared at the stock list a few more minutes, then began reading the online edition of the Wall Street Journal. This was his main source of information used to juggle the stocks in their portfolio. He would read about a company that seemed to have good prospects and then sell one of his lagging stocks to get the cash to buy the new stock.

“I’ll fix the bagels.” Katie hopped up and headed for the kitchen. She soon returned with Jake’s favorite: a garlic bagel topped with jalapeno peppers and melted mozzarella cheese.

Taking a bite of her own whole-wheat bagel with cream cheese she asked, “Are you going to Rotary today?”

“Yes. I understand the speaker is some type of stock market guru. Who knows, I might just learn something useful.”

***
“Jake, what I am showing you is very simple and yet very powerful,” said Graham.

“This is an investment I made in Interdigital Communications. IDCC is one of the leading companies that provide technology for wireless communications. If you use a cell phone, one of their integrated circuits may be inside. Study the chart carefully and tell me what you see.”

<table>
<thead>
<tr>
<th>INTERDIGITAL COMMUNICATIONS</th>
<th>IDCC</th>
<th>DAQ</th>
<th>MAR</th>
<th>JUN</th>
<th>SEP</th>
<th>DEC</th>
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<tr>
<td>11-24-03 B</td>
<td>1000</td>
<td></td>
<td>20.29</td>
<td>20295.00</td>
<td>-20295.00</td>
<td></td>
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<td>11-24-03 S</td>
<td>10</td>
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<td>1.30</td>
<td>1279.93</td>
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<td>2329.89</td>
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<td>03-22-04 S</td>
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<td>20.00</td>
<td>.65</td>
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<tr>
<td>06-21-04 S</td>
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<td>SEP</td>
<td>20.00</td>
<td>.95</td>
<td>929.97</td>
<td>-15125.24</td>
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<tr>
<td>09-20-04 S</td>
<td>10</td>
<td>JAN</td>
<td>20.00</td>
<td>.75</td>
<td>729.98</td>
<td>-14395.26</td>
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<tr>
<td>01-24-05 S</td>
<td>10</td>
<td>MAR</td>
<td>20.00</td>
<td>1.00</td>
<td>979.96</td>
<td>-13415.30</td>
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<tr>
<td>03-21-05 S</td>
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<td>.90</td>
<td>794.92</td>
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<tr>
<td>06-20-05 S</td>
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<td>1.15</td>
<td>1129.95</td>
<td>-11490.43</td>
</tr>
<tr>
<td>08-22-05 S</td>
<td>10</td>
<td>DEC</td>
<td>20.00</td>
<td>1.00</td>
<td>979.95</td>
<td>-10510.48</td>
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<tr>
<td>12-19-05 S</td>
<td>10</td>
<td>MAR</td>
<td>20.00</td>
<td>.70</td>
<td>684.97</td>
<td>-9825.51</td>
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<tr>
<td>03-17-06 C</td>
<td>1000</td>
<td></td>
<td>20.00</td>
<td>19980.00</td>
<td>10154.49</td>
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Jake took a few minutes to study the chart. “Professor, I believe I understand part of the first line. On November 24, 2003 you bought 1000 shares of IDCC at $20.29 a share. But, I’m not sure I understand the last three columns. Where did the 20295.00 come from? And why do the numbers in the second to last column go from negative to positive?”

“This is my short hand way of keeping up with my investments,” explained Graham.

“I’ve given this a lot of thought and have developed my own software program that analyzes each of my investments as part of my overall portfolio. My primary concern is cash flow. I don’t like to lose money. On each investment my first objective is to have a positive cash flow. My second objective is to have a very positive cash flow. We’ll talk more about monthly income later. First, let’s make sure you understand the basics here.

“You are correct that I bought 1000 shares of IDCC. The price per share was $20.29. I use a discount, on-line broker and the sales commission was $5.00. Add the sales commission of $5.00 to the purchase of 1000 shares at $20.29 a share and you have my total cash outflow. For this one purchase my total cash outflow was $20,295.00. The third to last column is the transaction amount and the second to last column is a running total or the cumulative effect of all the transactions. Since this was a cash outflow the dollar amount is shown as a negative.

“But, now let’s take a look at the second line of the IDCC chart. On the same day that I bought the 1000 shares, I sold 10 contracts of December Calls at a strike price of $20.00. The S in the second column means I made a sale. In the next three columns the “10 DEC 20.00” tells me what I sold. One contract is for 100 shares, the minimum needed to sell an option. So my 1000 shares of stock allow me to sell 10 contracts. That means that at the time the market price of IDCC was $20.29 a share I sold the option for someone to buy my 1000 shares for $20.00 a share any time up until the close of the market on the third Friday the following December.

“So the 10 in column three represents the number of contracts, 10 contracts or 1000 shares. DEC, in column four, is the month of
Take Control

*Failure is the opportunity to begin again, more intelligently.*

Henry Ford

“Katie my love, you are not going to believe who I met at Rotary today.” Jake arrived home in a state of excitement with his newly purchased copy of the Wall Street Journal.

“Let me guess,” replied Katie with a sly smile. “Could it possibly have been Rob Graham, the Finance Professor you had in college?” As Jake’s mouth hung open she continued.

“I’ve just been on the phone with Candy. She covers the Rotary Club events for the Sun Times. It’s a small island Jakey. Not much happens here without my knowing about it. And by the way, Lori and Steve are back from their cruise and would like for us to come over for cocktails and sunset on their balcony. So I accepted. Is that alright?”

“Sure. You know I’m always glad to visit with Steve and Lori. Besides I need to pick Steve’s brain. He retired near the top of that big brokerage firm. With all the money they have he must have done really well as a stockbroker, or analyst, whatever he was. But right now I’ve got homework to do. I’m computing how much money we can make by selling Covered Calls.”

“Covered who? Oh, never mind. Just let me know when I can read another chapter of your novel. I’m anxious to find out how your “Walter Mitty” CPA character saves the nation from financial ruin.”
As Jake did his computations he became increasingly familiar with the operations of the options market. Several points became obvious. Apparently there were three factors in his decision process, which determined the amount of premium he could receive by selling a Call option.

First, the time period to the expiration date was important. He considered two options based on the same stock and with the same strike price but different expiration months. The premiums differed and that was to be expected. Obviously the longer the option period the more opportunity for a stock to shoot up in value. So the option buyer would pay more for a longer option period. But then he noticed a more subtle distinction. There was not a direct correlation between time and value. A three-month option, while more than a one-month option, was not three times greater. The time value of money had a slight offsetting effect to the time value of options. Jake wondered if the professor’s strategy somehow took that into account.

The second factor under his control was the selection of the strike price. If a stock were selling for $12.50, a strike price of $15 would pay less than a strike price of $10. That made sense because with a $15 strike price the stock price would have to rise more than $2.50 before the option would be exercised. A strike price of $10 meant the stock was already $2.50 above the price at which it could be bought by the option holder. The $10 strike price meant the option already had $2.50 of intrinsic value in addition to its time value.

This was an important consideration. The premium one could receive for selling a Call would always have time value and might also have intrinsic value. One of the stocks Jake selected for his pretend purchase had a market value of $17. He considered a June 15 option. That meant that the purchaser of Jake’s option could buy the stock for $15 anytime up until the third Friday in June, about a month off. The premium was $2.50. Jake could receive $2.50 per share by selling the option. $2.00 of the $2.50 was intrinsic value—the difference between the $17 market price and the $15 strike price. The remaining 50 cents per share was for the possibility that the stock would rise in value more than 50 cents in the next month. So, the premium consisted of intrinsic value plus time value.

On the same $17 stock Jake considered a June 20 option. That
Getting Down With the Basics

If you are given a choice between money and sex appeal, take the money. As you get older, the money will become your sex appeal.

Katherine Hepburn, at age 87

Tiffany smiled when she saw Rob and Jake headed her way. “What are you guys doing here today? Rotary’s not until Thursday.” Tiffany had run on the college track team with Jake’s daughter and fell in love with Marco Island while visiting on spring break. She and Jake were good friends and always kidded each other. Sometimes she would affectionately call him Uncle Jake.

“Urgent business Tiff,” Jake responded. “I’m learning how to plant a money tree. And if you give us good service I may show you how to plant one too.” At Jake’s request Rob had agreed to meet on Monday afternoon for a spot of tea and another investment lesson.

Tiffany seated them at a secluded table and went for the tea. Jake opened a folder in which he had his homework assignment and a series of questions.

“Professor, I hardly know where to start. Over the past 20 years I’ve generally invested any surplus funds in the market. Katie and I built our retirement fund that way. But it’s always been a straight investment and I generally just relied on the advice of my stockbroker or
a hot tip I got from a client. And I made regular contributions to a mutual fund IRA. Now, after our discussion last week and the homework assignment, I see a whole new possibility for earning income on a stock portfolio. I guess my key question is how to select stocks. Is it just random or is there a way to improve the odds. And also, while I now have some understanding of selling Calls, I don’t have a clue about Puts. Are Puts part of the money tree? And there’s the matter of . . ."

“Jake, hold on.” Rob grinned as Tiffany poured hot water on the herbal tea bag in each cup. “One step at a time.”

Tiffany teasingly gave Jake a pat on the head as she said, “I overheard part of what you two were talking about last week.” Turning to Rob and holding out her hand she said, “By the way, I’m Tiffany. Welcome to Marco Island.”

“Thank you Tiffany. The hospitality is great and the weather is terrific. Are you interested in investments?”

“Oh yes. I joined an investment club. We’re members of NAIC which stands for National Association of Investors Corporation. There are 20 of us pooling $50 a week. So far at our meetings no one has mentioned options. I wonder if you would be willing to make a presentation.”

Just then two couples entered the restaurant. “Got to go. I’ll be back,” as she bustled off.

“She’s a great kid,” Jake commented. “And a real hustler. I’ve never seen a young person with such eclectic interests. She coaches young girls at the Y in volleyball and basketball and frequently is in plays produced by Marco Players, our community theater group. And now, by golly, she’s interested in investments.”

“But professor,” Jake continued. “Where do we go from here? I want to learn it all. But, I know what you said is important. ‘One step at a time’.”

“Yes, that’s right,” agreed Rob. “What we need to do right now is be sure you have the basics down. Let’s take a look at one of your homework assignments.”

“OK. That’s good because that brings up one of my key questions. Here’s an analysis I did on Calls available on Wal-Mart. I know you said to get four options for each stock, but on this one I computed
The Naked Put

Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it.

Warren Buffet
After a few moments Graham said, “Sometimes you get lucky and never have the Naked Puts assigned. Here is an example with Career Education (CECO). Career Education Corporation provides post secondary education primarily in the United States.

“Tell me what you see.”

Jake had been studying the chart intently for several minutes. “This may be too good to be true. There’s got to be a catch here somewhere. What am I missing?”

Graham just smiled, giving his student time to analyze the Naked Put example further.

“Well,” Jake continued, “I remember from the Covered Call chart on IDCC that each line represents a transaction. So on December 6, 2004 you sold Puts on 10 contracts, 1000 shares, of CECO. DEC 30 means the strike price is $30 and the option will expire or be exercised on the third Friday in December. If the stock price is below $30 the holder of the option will require you to buy his 1000 shares for $30. If the stock price is above $30 the option will expire, which is apparently what happened. PE must stand for Put expired. In exchange for selling that option you received $.25 per share or $229.99 net of commission. You continued doing that, selling Naked Puts on CECO, and, over a twenty-four month period ending in December 2006, earned $10,805.03. How did I do?”

“Excellent! Later on I will explain how CECO worked its way to the top of my prospect list. I wouldn’t have made these transactions on just any stock. But for now let’s focus on the Naked Put as part of the money tree concept.

“Again it is very different from the traditional buy and hold strategy. In fact with Naked Puts I may never own the stock. Of course it has to be a stock that I would be willing to own because the Put might be assigned. But again the concept is to take short-term gains on a continuous basis on stocks that I own (Covered Calls) or stocks that I would be willing to own (Naked Puts). Now I pick some more cash off the money tree for my monthly income account and move on. There are always more trees and more fruit.

“Notice in this example that most of the premiums are for very short periods of time to expiration. I got $.25 per share with only eleven
Riding the Wave

Always bear in mind that your own resolution to succeed is more important than any other.

Abraham Lincoln

“Remember this Jake. Stock prices do not always continue to go up. They cycle through various price points, making a new 52-week high and then a new 52-week low. If you watch the stock prices of good companies, over time you will be able to detect the pattern that will allow you to buy at the right time and sell Calls and Puts that provide a steady monthly income stream. I call this process riding the wave.”

“Fundamental to riding the wave, both up and down, is a clear understanding of the market trend on the type of option you sell. By that I mean whether the option is In the Money (ITM), At the Money (ATM) or Out of the Money (OTM).

“Let me summarize for you just when to use these different strategies, depending on the individual stock and overall market trend.

“Sell In-The-Money (ITM) Covered Calls if there is concern that the stock may go down. ITM means the strike price is below the market price. The premium you receive has both an intrinsic value (that difference between strike price and market price) and time value (the gamble by the purchaser of the Call that the stock will shoot up). The more one is in-the-money the greater
the downside protection one has, but at the cost of a lower gain. Remember Insurance does cost money. This is a good strategy for short-term gains that beat money market or CD rates.

“**Sell At-The-Money (ATM) Covered Calls** if it appears that the stock (or market) is flat and going nowhere. ATM means the strike price and market price are very close to the same. Any difference between the two is negligible. The downside protection is only the premium received. The gain can be excellent if done over and over.

“**Sell Out-of-The-Money (OTM) Covered Calls** when a stock is in a good up trend and the overall market is rising (a rising tide lifts all boats). OTM means the strike price is higher than the current market price. The gain is not only the premium received (which provides some downside protection) but also potentially from stock appreciation. The stock appreciation is received only if the stock is called. If a stock does not go up far enough to be called you get the “If Expired” gain. Gain from appreciation is not experienced until you sell at a higher price. The gain here can be significant.

“**Sell Out-of-The-Money (OTM) Naked Puts** on good stocks at a strike price below the market price. This may be a bit confusing. You have to understand that an OTM Put has a strike price below the market price and an OTM Call has a strike price above the market price. The key attribute they have in common is zero intrinsic value, only time value. Keep in mind that a Put increases in value as a stock goes down. A Call increases in value as the stock goes up. An OTM Call is when the strike price is above the current market price. An OTM Put is just the opposite. An OTM Put is when the strike price is below market price. That makes sense because your objective with a Put is to buy the stock at a discount if the Put is assigned. For that to happen the strike price (price at which you may be assigned the stock) must be below the current market price when you sell the Put.

“In summary, I routinely do ATM, ITM and OTM Calls, but I only do OTM Puts.
Build the Prospect List

Create your own vision of happiness.

Jean Groenke

The Rotary Club meeting ended and Jake waited patiently as Rob met the Membership Chairman and filled out the paperwork to be proposed for membership. Tiffany greeted them with a bright smile and led them to a secluded table.

“We have some special herbal tea I would like for you to try. I’ll be right back.” And off she bustled.

Rob noticed how diligently Jake was going over his notes as they settled into their seats. “I seem to recall that you made an A in my Finance 101 course.”

Jake laughed. “No not exactly professor. I had an A going into the final. But then I got distracted toward the end of the semester. Her name is Katie. I would like for you to meet her. We’ve been blessed with three daughters and five spectacular grandkids.”

“That’s wonderful. Jean and I enjoy our kids and grandkids too. But let’s get back to business. I’ve got two questions for you. First, do you understand the money tree concept?”

“I think so,” Jake responded as he gathered his thoughts. “To me it’s a rather radical concept for investing. Different from all my traditional understanding. We had a speaker at the Forum Club in Naples
recently. A guy named John Bogle. He made a lot of sense. His strategy seems to be to invest in an index fund, keep transaction costs low and ride the market up over the long term. Last week Katie and I had Tiffany and her boy friend over for lunch. Nice guy I guess, but really not good enough for Tiffany. Anyway, she was telling about the investing philosophy of her investment club. If I remember correctly . . .”

“I heard that!” Tiffany had good ears and was just coming around the corner with their herbal tea.

Winking at Rob, “He’s never liked any of my boy friends. Cut me some slack Uncle Jake. A girl’s got to have a little fun.”

Jake began to blush and Rob commented, “Tiffany, Jake was telling me about the philosophy of your investment club. Could you explain it?”

“Sure. Our local investment club is a member of NAIC. They provide a lot of support, monthly magazine and such. There are four basic principles. Make regular investments, reinvest all earnings and dividends, invest in growth equities, and diversify. But like I said earlier, the concept of options has never come up. Why do you think that is?”

“My guess,” Rob responded “is they are not familiar with how conservative and risk free a Covered Call transaction is. Like most people when they think of options trading they are thinking of buying rather than selling. But actually my strategy would be perfect for an investment club. I’ve worked out a rational process of stock selection and ranking. And, having done it both ways, I much prefer the money tree concept. By the way Jake was just explaining his understanding of the concept. Can you join us?”

“No, I’ve got to get back to the front. But how about giving a presentation to our investment club?”

“Be glad to. Set it up and let me know.” As she left, “Okay Jake, tell me about the money tree concept. That’s my first of two questions for you.”

“Obviously it’s entirely different from the traditional investing that you hear from John Bogle or learn in investment clubs. The key there is stock appreciation over time. With the money tree concept you are more interested in how much fruit you can pick off the tree rather
Buy Low—Sell High

The people who are buying stocks because they’re going up and they don’t know what they do deserve to lose money.

Jim Cramer

The investment club met at the home of its president, Nicholas Gardner, a past president of the Chamber of Commerce and a leading citizen on Marco Island.

Tiffany introduced Professor Graham and Jake to Nicholas and wife, Kris. Members mingled and nibbled on cheese and crackers. The Gardner home was at the end of a street, typical of Marco Island, with a wide canal on each side and bay to the front. The house was surrounded on three sides with water to take full advantage of the spectacular view.

Jake and Tiffany took seats as Nicholas called the meeting to order. “Tonight, we are pleased to have a retired finance professor and new resident of Marco Island as our speaker. Please give your attention to Dr. Rob Graham.”

There was friendly applause as Rob stood beside the flip chart facing the group of investors.

“Thank you Nicholas, and members, and especially Tiffany for inviting me tonight. It’s always a pleasure to share investment information with interested, intelligent investors. I’m somewhat familiar with
NAIC. I admire your dedication to periodic investing and your diligent analysis of individual stocks. As you know, there are many very complicated and sophisticated methods of stock analysis. Over the course of my teaching career I’ve explored the intricacies of fundamental analysis and technical analysis. Each has its pros and cons. But in the final analysis, what it all comes down to is the old cliché: Buy Low—Sell High.”

Graham flipped the chart open. “When you look at the history of each stock in your portfolio you see that each stock was purchased at some point in a cycle of highs and lows which has now become evident. At the time of purchase you don’t really know if the cycle is continuing as before or has just turned. We can look back and see that some were bought at a low point in the cycle and then moved up. Some were bought at a high point in the cycle and then moved down. Those in the later group may have now moved back up. Over time, your gain is greatest in those stocks, which you bought at the low point of their cycles.

“A question I asked myself is: ‘Is there anyway to increase the odds that I am buying at the low point of the cycle?’ Take the two extremes. At the end of each trading day there are stocks, which have closed at a 52-week high. And there are also stocks that closed at a 52-week low. Assuming you have eliminated consideration of stocks with low liquidity, negative earnings or declining sales—just looking at those two groups, the new 52-week highs and the new 52-week lows—which stocks are most likely to be at the bottom of their cycle?

“I offer no guaranties, but I have personally been very successful with stocks moving up from their 52 week low.

“The formulas I will give you now are to compute what I call Buy Limit and Buy Rank. These two values allow me to very quickly filter my prospect list and rank the stocks. For every stock you can get its lowest price of the past 52 weeks and its highest price. Let L stand for the 52 week low and H stand for the 52 week high. The Buy Limit formula is as follows.” Rob wrote the following formula on the flip chart.

\[
\text{Buy Limit} = L + 0.25 \times (H - L)
\]
A Note of Caution

Sometimes when you innovate, you make mistakes. It is best to admit them quickly, and get on with improving your other innovations.

Steve Jobs

I want to emphasize that no stock market system is fool proof. You have all been impressed with the return available by selling options.

“But there is always the clear and present danger that the stocks you have selected can go down and totally wipe out any profit you’ve made from selling options.

“A prime example of what can happen in the real world is the trade experience I had with ValuJet (VJET).

“On May 3, 1996 I purchased 2000 shares of VJET for $13.50 each and sold December 12.50 Calls for a premium of $3.375. It was a gain of 25% if expired and 19% if called out in seven months. On May 11, 1996 a ValuJet DC9 crashed into the Everglades in Florida with no survivors. The price of the stock was affected when all of ValuJet’s planes were grounded. Since I had losses built into my plan, I took action on June 18, 1996 and closed out my Call options (bought them back) and sold the stock the next day. This is noted in line two of the table as CC for Closed Call.

“What started out to be a good trade turned into a sizable loss with
Show Me the Money / Ronald Groenke

no foreseeable warning. Tragic and unforeseen events will happen when least expected.

“I do everything I can to protect against stock market surprises.
“T

The following chart flashed on the TV screen.

<table>
<thead>
<tr>
<th>VALUE JET</th>
<th>VJET</th>
<th>VJQ</th>
<th>MAR</th>
<th>JUN</th>
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<td>-8693.23</td>
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“But considering what transpired there is an important lesson to note. Anyone making this same investment without selling Calls would have had a greater loss by about $5100.
Jake was up early the next morning. After the professor’s presentation to the investment club, and the gift, he was more motivated than ever to master the art of selling Covered Calls and Naked Puts.

The gift. Had it been a dream or was it real? It was definitely real. It was right in front of him and he was about to open it. But first he played over in his mind the events of the last evening.

The two men had left the investment club and were walking to their cars parked in a vacant lot about 200 feet from the Gardner home. Rob was silent. He was obviously considering something. Jake noticed and said nothing. There was a pleasant breeze from the gulf and Orion the Hunter was high in the night sky.

As they reached their cars the professor finally spoke. “Jake, do you remember our first session at the Yacht Club when I first began telling you about the money tree?”

Jake nodded.

“I slid a sheet of paper across the table for you to look at. I told you it was very simple but yet very powerful. Well, that was the first step and I’ve been very impressed with how much you have learned in the past two weeks. You’ve done your homework assignments. That first assignment required you to compute the percentage gain you would
have with various options, both *If Expired* and *If Sold (Assigned).* That was important because you needed to understand the very basics of options.

“This afternoon at the Yacht Club we talked about you building a prospect list. Like the manager of the Boston Red Sox you’ve got your first string that are in action competing for the pennant. But you also have many more players on the farm teams, in training and ready to go into action if called. Those are your prospects and you can have as many as you want.

“And in addition to building a prospect list you are ready to analyze your own portfolio based on the seven fundamental criteria and the Buy Rank that I covered tonight. This is a mammoth, potentially daunting, undertaking. You could easily get discouraged.

“So I have a gift for you.”

With that Rob held out his hand, palm up. Lying in his hand was a small USB flash drive. Jake quickly picked it up and wondered just what he had.

“Tonight I demonstrated my Buy Limit and Buy Rank Wizard for the investment club. Also at the Rotary club presentation I demonstrated PIE, my Portfolio Income Explorer. What you have is more powerful and comprehensive. You have the VISIONS Stock Market Explorer. It includes PIE and the wizards, but much more.

“There are four key features that you will want to use as you begin picking dollars off your money tree.

“First, enter all the symbols for the stocks in your portfolio. VISIONS will search the market and prepare a table for you with the Buy Rank and the seven fundamental criteria for each stock. You can sort the list based on Buy Rank or any of the other columns. To make it even easier, one of the columns is called Best Fit. In this column a star rating is assigned to each stock based on how well it meets the seven fundamentals and the Buy Rank. The rating goes from no stars to four stars. Sorting by Best Fit will let you quickly identify quality. You will want to separate the gems from the duds.

“Second, easily build your prospect list, the players on your farm teams. Set a few key criteria and launch a VISIONS search of the entire stock market to find the several hundred stocks that are good
Gems and Duds

*I get to play golf for a living. What more can you ask for—getting paid for doing what you love.*

Tiger Woods

VISIONS opened. Jake took a few minutes to become familiar with the program which he had never seen before. From the opening page he found the input page that would allow VISIONS to search for data on his particular stocks.

There were currently 15 stocks in his portfolio. He entered the stock symbol for each and named the portfolio *Jake and Katie*. Soon the program was scouting the Internet for data on each of Jake’s stocks.

As the program was running, Jake remembered he had not finished his bagel in his eagerness to explore VISIONS. He found the bagel and Katie still on the lanai.

“How’s it going?” Katie asked.

“I’ve opened VISIONS and entered our stocks. The program is doing an analysis. We should have the results soon.”

Taking a bite of his bagel Jake wandered back into his office. On the screen waiting for him was the VISIONS analysis of his portfolio.
VVISIONS Search Results for Stock List [AAI, FLEX, NVLS, MOT, RHI, RSH, KLIC, AMR, TWX, MOLX, NTAP, CAH, MRVL, CPWR, TER, TOL, JBL, HD, AVID, QLGC, DDS, BC, CFL,]

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<td>13M 35B 63B 8B 24.00 +++</td>
</tr>
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Chapter 11 / Gems and Duds

End Of List
Building the Farm Teams

You may delay, but time will not.

Benjamin Franklin

“Jake, how about some lunch?”

Katie entered the office to find Jake still intently working with the VISIONS software program.

“Katie, my dear, this is just amazing. I’ve got to show you what I’ve learned. See this screen.”

The first panel of Scout was on the computer screen.
“Now all I have to do is set the criteria for stocks that I am interested in and then hit this button. There it’s running. While VISIONS does its search let’s go and have some lunch. How about we bike down to Vandy’s for a salad?”

Ten minutes later they were pulling into the popular Marco Island restaurant. The waitress knew to fix Jake’s salad with plenty of anchovies and of course none for Katie. Buttering a thick slice of homemade bread, Jake could not stop talking about his gift from the professor.

“Katie, I just can’t get over the concepts and the practical application of the program. It’s really very simple. You search the entire stock market, over 8,000 stocks, and then filter the list for those stocks that meet the professor’s seven criteria or whatever criteria you want to set yourself.

“I’m sure I’ve still got a lot to learn. But it seems really simple. We will probably have several hundred stocks on our prospect list. I think maybe I should have stocks on the prospect list without regard to their Buy Rank because that’s always changing as the stocks move through their up/down cycles. Then I will always be on the lookout for stocks that have the right Buy Rank.

“Oh gosh. I almost forgot. The professor said last night that VISIONS also has a search engine to find Calls and Puts. I can run that program for the stocks on my prospect list that have a good Buy Rank. Hmmm. Let’s finish up. I’m anxious to get back.”

As they parked their bikes and entered the house the phone was ringing. Katie answered the phone as Jake made a bee line for his computer. As he was experimenting with different ways of filtering his stock lists Katie came excitedly into the room.

“Jake, guess what. Never mind you’ll never guess. That was Jean Graham on the phone. They’ve invited us over for lunch tomorrow. They have someone they want us to meet.”
View from the Top

In order to succeed, your desire for success should be greater than your fear of failure.

Bill Cosby

Jake and Katie had a panoramic view of Marco Island riding up the glass elevator to the Graham’s penthouse condo. To their left was the Yacht Club at the foot of the Jolley Bridge, which connected the island to the mainland of southwest Florida. They spotted a small jet that had taken off from the Naples Airport, about 20 miles to the north. The pilot apparently wanted a birdseye view of Marco before his sharp turn north. Katie pointed out that they could see all the way to Goodland, a small fishing community on the south end of the island. Stan’s Idle Hour Restaurant was a favorite in Goodland. The elevator was for the exclusive use of the two penthouse condos at the top of the most recent luxury tower built on the beach. As they stepped out onto the open foyer they had views of the beautiful crescent beach to the north and the south.

“I’m curious who they want us to meet,” said Katie as Jake pushed the doorbell. Before the melodic chime had ended Jean Graham opened the door with a warm welcome.

“Come in,” she smiled. “We are so glad you could come over. Rob has told me what a quick learner you are Jake. Oh Katie, what a
beautiful sundress and how thoughtful of you to bring us these lovely flowers. Did you get them here on the island?”

“Yes, the Farmers Market on Wednesday has just about everything, including flowers. What a gorgeous condo,” Katie replied.

Jean had the graceful movements of a ballerina as she welcomed Jake and Katie in.

“Jake, Rob is on the balcony waiting for you. There’s a glass of iced tea for you out there. We’ll join you in a moment.”

Jake walked across the wide expanse of their “Great Room” to reach the balcony. The view outside was magnificent, but he was especially intrigued by the wide collection of paintings and artifacts. He quickly noticed items from the Orient, Australia and Europe. _World travelers_, he decided.

As he stepped out onto the balcony the sun was just high enough to begin casting its rays on the west balcony. The professor called from the corner to the north. “Come around here Jake. We can have the shade and still enjoy the view.”

Jake settled in a comfortable lounge chair and picked up his iced tea as Rob set his book aside.

“We’ve always been so rushed in our prior meetings. Maybe this afternoon we can have a relaxing visit. You mentioned that you sold your CPA firm and moved to Marco to write a novel.”

“Ah yes, the Great American Novel. I’m afraid that’s just a crutch to keep from admitting that I’m finally retired. Although I think I do have an intriguing idea for a novel. But we get so involved with the kids and mainly the grandkids. Every time one graduates from middle school or high school we treat them to a major trip. This summer we are taking Sarah to Italy and Greece. That one-on-one time is really special. The novel? Well maybe some day.”

“Yes. Jean and I do the same thing with the grandkids. They grow up so fast.”

Rob stood up and looked out at the gulf and down the beach.

“Jake, would you bring the binoculars over. They are right there by your chair. Looks like a sailboat race is about to begin.”

Jake joined Rob at the railing and they took turns looking at the sailboats in fierce competition about half way to the horizon. Looking
When to Take Action

Money never starts an idea; it is the idea that starts the money.

W. J. Cameron

Except for the long hair worn in a ponytail and the diamond stud in his left ear, the man looked like Rob Graham.

“Jake and Katie, meet my twin brother, Greg. Greg these are our friends, Jake and Katie Kimball.”

As hands were being shook Rob continued. “Greg is a distinguished professor of mathematics in New Hampshire. He has been working on a formula that I think you will find interesting.”

Greg’s normally pale skin had taken on a Marco Island tan in the week he had been visiting. Jean brought coffee and key lime pie for everyone.

“Look at these incredible shells I found on Sand Dollar Island. And the birds. I can’t get over it. You people actually live here. I’m just now beginning to relax. Soon I’ll be back in the frozen north land.”

As the group settled down, Katie was admiring a large oil painting on the wall. She had recently volunteered as a lecturer at the Naples Art Museum and had done in-depth research on renaissance paintings.

Leaning in Jean’s direction she commented, “Jean, that painting is so familiar. But I can’t decide on the artist. It is almost certainly from
the late renaissance period. It has characteristics that you would find by da Vinci, Buonarroti or Raphael. But I can’t name the painting.”

Jean smiled. “I’ll let Rob explain that.”

Rob picked up his PDA and punched a few keys. The painting shimmered, seemed to come alive and then morphed into another equally dazzling late renaissance painting. To Katie the picture was again familiar but yet unique. She had never seen it before. Then the picture frame cleared and became a standard computer screen, 36 inches high by 64 inches wide.

“What you were looking at is a computer simulation,” explained Rob. “We have a computer program that provides ambience based on who is in the room. When I am here alone the painting displayed, changing every hour, is a Salvador Dali, or rather a Salvador Dali if he were alive today. The program has analyzed all of Dali’s paintings in the order that they were produced. It becomes, in effect, Dali and constantly produces new paintings. In similar fashion the computer has analyzed hundreds of renaissance paintings and provides a unique creation when we have guests.

“The program is based on a fuzzy logic concept and seems to be uncannily human at times. The simulated pictures often match my mood. Jean named the program HAL, and now it seems to respond better if called by that name. It responds to voice commands, but even without commands, it controls the ambience in the condo. For example it will adjust the lighting in a room if the TV is on. If the TV is off, you have plenty of light for reading wherever you happen to be. But when you leave the room the lights go off. It always knows who is where within the condo. Of course you can always override HAL with a voice command. At least so far,” Rob concluded to a round of chuckles.

“But now let’s get down to business. I’ve taken control of the monitor to more easily explain the break through that brother Greg has achieved. Greg has developed a formula that I believe will be very valuable.

“Jake, you know how important it is to pick the right stock. That’s where I put my greatest emphasis. First, build a qualified prospect list. Then qualify the list with Buy Limit and Buy Rank formulas. And
A glorious full moon was rising over the clear waters of the Caribbean. Jake and Katie enjoyed the view as they walked across the top deck of the cruise ship where they were to meet Rob and Jean. Over the past year they had practiced using VISIONS and were becoming masters of the art. Their portfolio, on which they sold Covered Calls had grown to 42 stocks. Their prospect list had several hundred stocks.

“Hurry, come look at the dolphins,” Jean called to Jake and Katie from the port side of the deck. The dolphins seemed to be enjoying racing along with the fairly small luxury cruise ship. There were only 400 passengers and an equal number of staff and crew. The destination was Grand Cayman. But the whole purpose of the cruise was to provide an informal setting for the investment seminars sponsored by one of the major investment publications. Jake had written an article for the national magazine titled “The Professor’s Money Tree” which resulted in Rob being invited to be one of the lecturers on the cruise.

“These are really posh accommodations,” exclaimed Katie. “Now if I could just get these nautical terms right. Like how do you know which side is port and which side is starboard?”
“I heard a bit of trivia once that helps me with those terms, port and starboard,” said Rob. “And it has to do with the word ‘posh’ that you just used Katie. When cruise ships first started going out of London down the coast of Europe and through the straits of Gibraltar, the first class passengers wanted to be on the side of the ship with a view of the coast. Naturally, they would be on the port or left side going down. Then on the return cruise home, they would change to the staterooms on the right or starboard side of the ship so they would still have a view of the coast. The term ‘port out starboard home’ or simply ‘posh’, became synonymous with first class accommodations.”

Katie wrinkled her nose, which meant she was thinking about what she had just heard. “So you certainly wouldn’t want SOPH accommodations. But I just noticed something interesting. I’ll present it to you in the form of a question. What astronomical event always occurs with the rising of a full moon?”

Katie smiled, watching the perplexed looks. “Oh come on. It’s not that difficult. It just occurred.”

Jean was the first to get it. “Oh, I get it. I was a member of an astronomy club as a teenager. In order for the moon to be full it has to be directly opposite the sun. If it were not directly opposite the sun it would not be full. So, a full moon will rise just as the sun is setting, a very common astronomical event.”

One of the staff came by with a tray of drinks and hors d’oeuvres. As they settled into lounge chairs Jake commented to Rob, “You really got a big response last night on your stock selection program. It seems most investors give lip service to Buy Low, Sell High, but think it’s just a glib saying. And they were really amazed with the VISIONS V. I could tell that was a real eye opener for most of the audience. Many of them spend thousands of dollars for “expert” analysis. Now with your Stock Screener and VISIONS V they can search the entire market for those select stocks that meet important fundamental analysis and then find the ones approaching a possible up-cycle based on technical analysis.

“What will you talk about in tonight’s lecture?”

Rob was thoughtful for a moment. “Stock investors fall into two categories, and many are in both. Some are most concerned with
Rob continued. “By the way, as all of you I am sure are aware, some of your stock picks are bound to go bad. No matter how careful you are with the stock’s fundamentals and technical analysis, we are dealing with a dynamic market. New competition with a technological innovation, bad management decisions, or an unknown number of events can cause a stock to suffer substantial losses. An accurate, honest simulation will have to take into account the certainty of some losses occurring in your portfolio.

“Now let’s establish the parameters for our simulation. In most cases option values follow the normal ups and downs of the market, so let’s be realistic in our expected gains. Is 20% possible? Is 30% possible? I’m saying yes. Is a 50% gain in one year on your investments with options is possible? I’ve been there, done that! Okay, what is realistic? Let’s pick a goal of 25%. Would you agree that a 25% return on your stock portfolio would be pretty good?

“Let’s keep it simple for illustration purposes. We are going to take
$25000 and buy three different stocks and sell Covered Calls. I personally like to have income coming in each month, so for the first month I will sell a one-month-out Call on one stock, a two-month-out Call on the second stock and a three-month-out Call on the third stock. We’ll assume we are starting in January. In February and subsequent months we will sell three month Calls.

“We start the simulation with an initial investment of $25,000.”

Rob punched the numbers into his PDA and the results flashed on the three large screens. “We need to make a couple of assumptions. First, how much premium as a percentage of the stock price could you expect to get for a three-month option? My experience has been that you can fairly easily get a 10% return for three months. You will need to test this yourself by checking the Call premiums on some of your favorite stocks. You can easily get this information from your online broker. Or go to www.yahoo.com. You may find it easier to get 4% for one month than 10% for three months. It all depends on stock volatility. The higher the stocks volatility, the greater the premium you receive. Anyway, for our simulation we will use 3.3% a month or 10% for three months.

“Now the next assumption is stock loss. Unless you are absolutely brilliant and extremely lucky, you will pick some stocks that insist on going down in value rather than up. I will use a 15% loss factor. The simulator will sell two of my stocks each year for a combined loss of 15% of the beginning of year portfolio value. Does that seem reasonable?”

There were sounds of agreement from the audience.

“Another factor we need to consider is the tax effect. At the end of each year I have the simulation deduct 25% of the net income—Call premiums less stock losses—from the portfolio to keep the tax man happy. For simplicity I have ignored commission expense and gains from stock appreciation. Commissions are low if you use a good online broker and would be more than off set by gains from stock appreciation on OTM Calls. Also, in this particular simulation, we are not using the leverage available in margin accounts.”
Trade Results

If a man has money, it is usually a sign, too, that he knows how to take care of it; don’t imagine his money is easy to get simply because he has plenty of it.

Edgar Watson Howe

Professor Graham punched numbers in his PDA to prepare view graphs for the large screens in the auditorium.

“I have put together a Score Board of a number of my stock portfolios which I refer to as Score Cards. Each Score Card shows the trades made in the portfolio with a performance summary and a history of the trades for each stock. The Score Board summarizes the results of all the Score Cards. I also make these available on my website.”

“Here is a sample Score Board for five Score Cards. These are provided as examples and not as recommendations.

<table>
<thead>
<tr>
<th>SCORECARD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>INITIAL INVESTMENT</td>
<td>60000</td>
<td>50000</td>
<td>200000</td>
<td>60000</td>
<td>50000</td>
</tr>
<tr>
<td>CALLED VALUE</td>
<td>96939</td>
<td>87440</td>
<td>212816</td>
<td>109670</td>
<td>34210</td>
</tr>
<tr>
<td>CASH BALANCE</td>
<td>3152</td>
<td>2455</td>
<td>3026</td>
<td>2726</td>
<td>6879</td>
</tr>
<tr>
<td>MARGIN EXPENSE</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>206</td>
</tr>
<tr>
<td>CASH WITHDRAWN</td>
<td>0</td>
<td>0</td>
<td>72000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>OVERALL VALUE</td>
<td>100092</td>
<td>89895</td>
<td>287843</td>
<td>112396</td>
<td>40884</td>
</tr>
<tr>
<td>GAIN</td>
<td>40092</td>
<td>39895</td>
<td>87843</td>
<td>52396</td>
<td>-9115</td>
</tr>
<tr>
<td>%</td>
<td>66.82</td>
<td>79.79</td>
<td>43.92</td>
<td>87.32</td>
<td>-18.23</td>
</tr>
<tr>
<td>PERIOD (MONTHS)</td>
<td>24</td>
<td>38</td>
<td>37</td>
<td>33</td>
<td>45</td>
</tr>
<tr>
<td>ANNUALIZED GAIN</td>
<td>33.36</td>
<td>25.20</td>
<td>14.28</td>
<td>31.80</td>
<td>-4.86</td>
</tr>
</tbody>
</table>
"Of course, these results change every month after option expirations on the third Friday.

"Here is Score Card 1.

### Scorecard #1

<table>
<thead>
<tr>
<th>DATE</th>
<th>TRANSACTION</th>
<th>(+/- AMOUNT)</th>
<th>BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>08-14-06</td>
<td>INITIAL INVESTMENT</td>
<td>+ 60000.00</td>
<td>60000.00</td>
</tr>
<tr>
<td>08-14-06</td>
<td>BOUGHT 1200 CONVERSE TECH</td>
<td>@ 19.90</td>
<td>- 23885.00</td>
</tr>
<tr>
<td></td>
<td>SOLD 12 CMVT JAN 20.00 CALLS</td>
<td>@ 2.5500</td>
<td>+ 3044.95</td>
</tr>
<tr>
<td></td>
<td>CALLED VALUE = 23980.20</td>
<td>SOLD % = 13.14</td>
<td>EXP % = 12.74</td>
</tr>
<tr>
<td>08-14-06</td>
<td>SOLD 10 CMVT JAN 15.00 PUTS @ .5000</td>
<td>+ 484.98</td>
<td>39644.93</td>
</tr>
<tr>
<td>08-14-06</td>
<td>BOUGHT 1200 ALTERA CORP</td>
<td>@ 17.810</td>
<td>- 21377.00</td>
</tr>
<tr>
<td></td>
<td>SOLD 12 ALTR DEC 17.50 CALLS</td>
<td>@ 1.8000</td>
<td>+ 2144.96</td>
</tr>
<tr>
<td></td>
<td>CALLED VALUE = 20980.30</td>
<td>SOLD % = 8.17</td>
<td>EXP % = 10.03</td>
</tr>
<tr>
<td>08-14-06</td>
<td>BOUGHT 700 ROWAN COS INC</td>
<td>@ 32.210</td>
<td>- 22552.00</td>
</tr>
<tr>
<td></td>
<td>SOLD 7 RDC OCT 32.50 CALLS @ 2.3500</td>
<td>+ 1629.97</td>
<td>-509.14</td>
</tr>
<tr>
<td></td>
<td>CALLED VALUE = 22730.24</td>
<td>SOLD % = 8.01</td>
<td>EXP % = 7.22</td>
</tr>
<tr>
<td>08-14-06</td>
<td>SOLD 5 RDC OCT 30.00 PUTS @ 1.3500</td>
<td>+ 659.97</td>
<td>150.83</td>
</tr>
<tr>
<td>10-23-06</td>
<td>SOLD 7 RDC JAN 32.50 CALLS @ 2.5000</td>
<td>+ 1734.94</td>
<td>1885.77</td>
</tr>
<tr>
<td>10-23-06</td>
<td>SOLD 6 RDC JAN 27.50 PUTS @ .8500</td>
<td>+ 494.98</td>
<td>2380.75</td>
</tr>
<tr>
<td>12-15-06</td>
<td>1200 ALTR CALLED @ 17.50</td>
<td>+ 20980.30</td>
<td>23361.05</td>
</tr>
<tr>
<td>12-18-06</td>
<td>BOUGHT 2500 TELLABS INC</td>
<td>@ 10.570</td>
<td>- 26430.00</td>
</tr>
<tr>
<td></td>
<td>SOLD 25 TLAB JUN 10.00 CALLS @ 1.6000</td>
<td>+ 3976.18</td>
<td>907.23</td>
</tr>
<tr>
<td></td>
<td>CALLED VALUE = 24980.16</td>
<td>SOLD % = 9.55</td>
<td>EXP % = 15.04</td>
</tr>
<tr>
<td>01-22-07</td>
<td>BUY 100 RDC @ 31.51</td>
<td>- 3156.00</td>
<td>-2248.77</td>
</tr>
<tr>
<td>01-22-07</td>
<td>SOLD 8 RDC APR 32.50 CALLS @ 2.0000</td>
<td>+ 1584.94</td>
<td>-663.83</td>
</tr>
<tr>
<td>01-22-07</td>
<td>SOLD 12 CMVT APR 20.00 CALLS @ 1.2500</td>
<td>+ 1484.95</td>
<td>821.12</td>
</tr>
<tr>
<td>01-22-07</td>
<td>SOLD 7 RDC APR 27.50 PUTS @ .7000</td>
<td>+ 474.98</td>
<td>1296.10</td>
</tr>
<tr>
<td>01-22-07</td>
<td>SOLD 10 AMD APR 16.00 PUTS @ .7000</td>
<td>+ 684.97</td>
<td>1981.07</td>
</tr>
<tr>
<td>04-20-07</td>
<td>1200 CMVT CALLED @ 20.00</td>
<td>+ 23980.20</td>
<td>25961.27</td>
</tr>
<tr>
<td>04-20-07</td>
<td>800 RDC CALLED @ 32.50</td>
<td>+ 25980.13</td>
<td>51941.40</td>
</tr>
<tr>
<td>04-20-07</td>
<td>BUY 10 AMD APR 16.00 PUTS @ 1.8500</td>
<td>- 1865.00</td>
<td>50076.40</td>
</tr>
<tr>
<td>04-20-07</td>
<td>SOLD 13 AMD JUL 15.00 PUTS @ 1.5000</td>
<td>+ 1934.93</td>
<td>52011.33</td>
</tr>
<tr>
<td>04-23-07</td>
<td>BOUGHT 1100 GOLD CORP</td>
<td>@ 25.650</td>
<td>- 28220.00</td>
</tr>
<tr>
<td></td>
<td>SOLD 11 GG JUL 25.00 CALLS @ 2.2500</td>
<td>+ 2459.96</td>
<td>26251.29</td>
</tr>
</tbody>
</table>

**Called Value:** 27480.08 **SOLD % = 6.09** **EXP % = 8.71**
Glossary

**American Stock Exchange (AMEX)**—a private, not-for-profit corporation, located in New York City, that handles approximately one-fifth of all securities trades within the United States.

**American Style Option**—an option contract that can be exercised at any time between the date of purchase and the expiration date. The other type of contract is the European Style which may be exercised only during a specified period of time just prior to its expiration. Most exchange-traded options are American style.

**Arbitrage**—the simultaneous purchase and sale of identical financial instruments in order to make a profit where the selling price is higher than the buying price.

**Arbitrageur**—an individual that takes advantage of momentary disparities in prices between markets which enables one to lock in profits because the selling price is higher than the buying price.

**Ask Price**—the current cost to buy a security or option. It is the lowest price the seller will accept at that time.

**At-The-Money (ATM)**—when an option’s strike price is the same as the price of the underlying stock.

**Automatic Exercise**—the automatic exercise of an option that is in-the-money on expiration date.

**Bare Cash**—a company’s cash plus marketable securities less long term debt.

**Bear**—an investor whose sentiment or belief is that a security or the market is falling or is expected to fall.

**Bear Call Spread**—a strategy in which a trader sells a lower strike call and buys a higher strike call to create a trade with limited profit.
and limited risk. A fall in the price of the underlying stock increases the value of the spread. This is a net credit (cash inflow) transaction. The maximum loss is the difference between the strike prices less the credit. The maximum gain equals the credit.

**Bear Market**—the stock market cycle where prices for the overall market fall for an extended period of time, usually caused by a weak economy and subsequent decreased corporate profits. It is generally agreed that a bear market is when the stock market experiences a price decline of twenty percent or more, and lasts at least two months.

**Bear Put Spread**—a strategy in which a trader sells a lower strike put and buys a higher strike put to create a trade with limited profit and limited risk. A fall in the price of the underlying stock increases the value of the spread. This is a net debit (cash outflow) transaction. The maximum gain is the difference between the strike prices less the debit. The maximum loss is equal to the debit.

**Bid Price**—the current price you would receive if a stock (or option) is sold. It is the highest price the buyer will pay for that security at the present time.

**Black Scholes Formula**—a pricing model that is used by most options exchanges to price various options. It factors in the current stock price, strike price, time until expiration, current interest rates, and volatility of the underlying security.

**Break-even**—the price of an underlying security at which an option strategy neither gains nor loses money.

**Bull**—an investor whose sentiment or belief is that a security or the market is rising or is expected to rise.

**Bull Market**—the stock market cycle where prices for the overall market rise for an extended period of time usually caused by a strong economy and subsequent increased corporate profits.

**Bull Call Spread**—a strategy in which a trader buys a lower strike call and sells a higher strike call to create a trade with limited profit and limited risk. A rise in the price of the underlying stock increases the value of the spread. This is a net debit (cash outflow)
Appendix A

*Placing the Trade*

When placing option trading orders it is very important to state exactly what is intended. If a mistake is made and you execute a wrong trade you may incur a loss to undo it.

Option orders like stock orders can be placed in your brokerage account over the phone by calling a trader, over the phone with direct keypad input, or over the Internet with online access to your account. No matter which way you trade, the way an order is placed is important.

Here are some key terms you should know.

**Sell to Open**—You are opening a short position for a specific option.
This is what you use to write a covered call.

**Buy to Close**—You are buying back an option you previously sold, to close out the option. This is what you would do if you did not want your stock to be called. Also, you would want to do this if you want to sell the stock. Selling the stock without buying back the call option would leave you in a high-risk, uncovered position.

**Buy to Open**—You are opening a long position for a specific option.
This is what you do when you are taking a leveraged position by buying the option instead of the stock.

**Sell to Close**—You are closing a long position for a specific option.
This is what you do to capture a gain on your leveraged position.

**Market order**—The order will be executed at the next available bid price. Use this to buy or sell immediately.
Limit order—The order is executed at the limit price or better if possible.

For the day—The order called a Day order will expire at the end of the trading day.

All or none (AON)—Buy or sell the number of contracts specified. This condition is used to reduce the possibility of trading only one or a small number of contracts in a multiple contract order. Additional orders may increase your overall commission cost.

Good till canceled (GTC)—The order is open until it is canceled. Most brokerage firms will close GTC orders after ninety days.
Appendix C

Investing Tools

Now that you have gained the knowledge of the *Show Me the Money* concepts, your profits will be greatly enhanced by specially designed software programs reviewed on the pages that follow.

The screen shots provided here are just a sampling of the power of the VISIONS Stock Market Explorer, the Portfolio Income Explorer, Stock Explorer, EZ Link, the Money Tree Tools, and the Stock Market Simulator.

You can experience this software free of charge by downloading and running a trial copy from my web site www.Ron Groenke.com
VISIONS Stock Market Explorer: A Stock and Options Search Engine—
This dynamic program eliminates the drudgery of looking for the financial information for the companies that you might want to analyze and add to your prospect list. The major functions are shown on the Home Page. Each button below activates the function as named, which are further described below.
Meet the Author

Ronald Groenke

RON GROENKE moved from Minnesota to the sunny gulf coast community of Marco Island after twenty-five years in the communications systems and software development environment. He has been active in the stock options market for over twenty-five years and developed the concepts and techniques provided in this book.

On Marco, he and wife, Jean, are active in their church and busy entertaining family and friends who visit from the north.

Besides options investing/advising, other activities include personal computing, walking, boating, and volunteer work.

Ron can be reached at Ron@RonGroenke.com