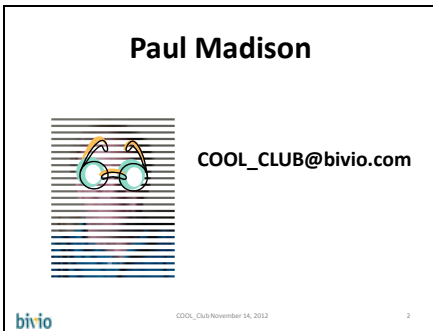


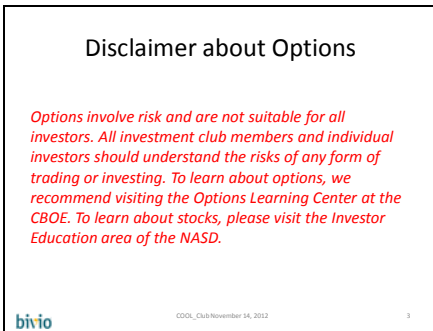


Good evening and welcome to the Covered Options Online Learning Club otherwise known as COOL_Club

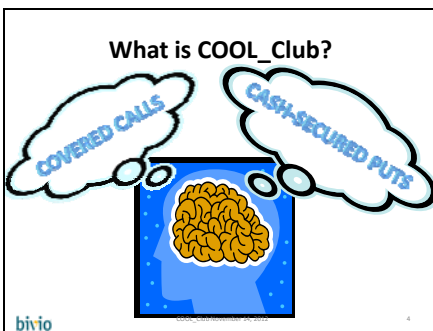


I am Paul Madison and I am your host for the COOL_Club

You can write to me at the COOL_Club discussion list which is COOL_CLUB@bivio.com



Quick disclaimer that Options do involve risk and may not be suitable for all investors. I encourage you to learn more about options and stocks. The slide mentions a couple of resources for more education.



COOL_Club is a weekly 30 minute session where we explore the thought processes associated with actual Covered Option Trades.

Most sessions we will walk through one or two trades from the recent past.

Going through the logic on why we are looking at a particular option on a particular stock.

We will look at both when trades are put on and we will come back and look again at them when they are closed.

November Schedule

- ~~First Wednesday (Nov 7th) 5 pm ET~~
Selling Covered Options – Index ETF
- **Second Wednesday (Nov 14th) 9 pm ET**
Selling Cash Secured PUTs
- **Third Wednesday (Nov 21st) Break**
Thanksgiving Week
- **Fourth Wednesday (Nov 28th) 9 pm ET**
Covered Options & Taxes

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Here is the rest of the November Schedule. We will be talking about selling Cash Secured Puts on Stocks tonight.

Next week will be an off week so that we can all celebrate 4F. Family, Friends, Food and Football. It does not get any better than that!

We will do a special topic on the fourth Wednesday on Covered Options and Taxes and it will also be at 9pm. This will not be an all inclusive tax discussion but it will cover a lot of normal tax considerations associated with doing Covered Options.

December Schedule

- **First Wednesday (Dec 5th) 5 pm ET**
Selling Covered CALLS
- **Second Wednesday (Dec 12th) 9 pm ET**
Selling Covered Options – Index ETF
- **Holiday Break (Dec 19- Jan 2)**

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We will only do two sessions in December the 5th and 12th and note the second week time is at 9pm Eastern.

We will take a bit of an extended break for the last part of December and the first week in January. Once we get unburied from snow, or presents, or company, or travel, or sports, or you pick what you will be buried in, we will resume on January 9th, time yet to be determined.

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Here is our COOL_Club home page

The link is www.bivio.com/COOL_Club

Both Handouts and recordings are under the Presentations link

Join the email discussion list by clicking here

You can get to the COOL TOOLS like we will use tonight by clicking on “Resources and Tools”

And finally the schedule and registration links are here.

Tonight

- Selling Cash-Secured PUT on Stock
- Using the Cash-Secured PUT COOL TOOL
- Work through some examples
 - CTSH and others
 - Stocks suggested by the COOL_CLUB discussion group
 - Don
 - ECHO
 - DIS
- Homework and Posts

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As I mentioned tonight we will talk about selling Cash-Secured PUTs on stock. You might have noticed that a lot of people on our discussion posts will abbreviate Cash-Secured PUTs as CSPs.

We work through one actual trade and then some examples using the COOL TOOL for CSPs.

And finally we will look at some of our posts on both homework and otherwise.

CASH SECURED PUTS

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As we move into talking about CSP's let's do a few quick refreshers.

Different Mindset!

Stocks →

Buy - Sell

← **Covered Options**

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First on Selling Covered Options

Something that is really hard for people when they start is the fact that your whole mindset is different.

When we are dealing with stock we always start by buying and then at some point we sell.

When we are doing Covered Options we have to think backwards

.... we start by first selling and then we might close it by buying. (of course there are other ways to close like expiring worthless or being exercised).

Opening Covered Options

Sell-To-Open

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That means that whenever you are starting

or opening a trade

We want to do a Sell-To-Openplease be sure this that is the action that you are selecting.

Covered Options as Fundamental Trades

SELL

BUY

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Here is another little visual picture that might help
When we sell covered CALLs , those CALLs with double LLs

can turn into stock SELLs with double LLs

But this week we are talking about Selling Cash Secured PUTs
and those PUTs with a U can

turn into stock BUYs with a U.

Why sell a Cash-Secured Put?



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So why might you want to sell a cash-secured PUT?

(click)

Maybe there is a Stock you want to buy and it has been
correcting in price

(click)

But it is not quite to the level you want to buy.



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***Despite not being at your buy price you are feeling like the
stock might turn and go up!***

Selling a Cash Secured PUT is a way for you to generate some
income on the cash you have ready to buy the stock.

Selling a Cash-Secured PUT

- Cash for at least 100 shares per contract
- Your Maximum buy price for the stock
- Look at selling front month *expiration*
- *Sell as far out-of-the-money as reasonable*

To get ready to sell a cash-secured PUT

You will need enough cash to buy 100 shares of the stock for each contract you want to sell

You need to know what **your** maximum buy price for the stock is as this sets the ceiling on what strikes you can do

I recommend when you are first doing options that you stick with doing the front month (or second month if front month has only a week or less left)

I recommend selling as far out-of-the-money as reasonable. Reasonable meaning that you get a good return for putting the option on.

CASH SECURED PUT COOL TOOL

I have tried to codify my thought process in a spreadsheet we call the CASH-Secured PUT COOL TOOL. It is available on the COOL_Club website.

COOL TOOLS

- Excel Spreadsheets
 - Works on Windows versions of Excel
 - Does not work on Excel for Mac

The COOL Tools are all Windows Excel Spreadsheets. They are saved in Excel 97-2003 file formats but work with the newer versions of Excel as well.

The Tools currently do not work on Mac OS X Excel but could be run on a Mac that is capable of running Windows and Office for Windows through BootCamp or Parallels or VMWare's Fusion.

Current Version 2.10



The current version of both COOL TOOLS, PUTs and CALLs for stocks, is 2.10. You can see this in light grey at the upper right hand corner of each sheet of the TOOL. If the number you see is less than 2.10 then you do not have the latest.

Excel Security

- Allow Macros to be enabled:
 - One simple Macro that resets things
 - *If prompted to allow Macros – Chose YES*
- Enable all Data Connections:
 - Uses MSN quotes
 - *If prompted to enable external data – Chose YES*

To run the TOOLS most effectively you must enable Macros as there are simple macros for clearing data and for going out to the web for data.

You must also enable external content so that the TOOLS can go get delayed stock quotes.

“Getting Started” Sheet

Cash-Secured Put COOL TOOL

This COOL TOOL is used to make **SELL-TO-OPEN** and **CLOSING** decisions on Cash-Secured Puts on STOCK. There is also a separate COOL TOOL for Covered Calls and Options on Broad Market Index ETFs (such as SPY and IWM).

Before you start: Be sure that you have enabled Macros and External content!

Brokerage Commission Schedule			
Base Commission	\$14.95	Number of contracts entered on base	10
Assignment fee or stock trade cost	\$14.95		
Cost per contract beyond base	\$1.00		

Go to "Sell To Open"

Go to "Closing the Option"

Brought to you by: www.bivio.com/COOL_Club_@_There!

Developed by: [Paul Madsen INTEGRALADVISORS.COM](mailto:Paul.Madsen@INTEGRALADVISORS.COM)

The downloaded sheets will open on the Getting Started page.

This has a little bit of information about the COOL TOOL and is also where you would input the information about your particular broker's commission schedule.

At the bottom you have buttons that take you to the

“Sell-To-Open” sheet or the

“Closing the Option” sheet and

there is even a button to take you out to the COOL_Club home page.

Where can you download it?

COOL Club

Resources and Tools

There are many places to go to learn more about options trading. We will expand this list as more options come to our attention.

Additional Resources
Chicago Board Options Exchange
CBOE Global
CBOE Global Options A, B and F
Fundamental Investor Information
How to Use Options Profitably by Mark Douglas
Options Industry Council

COOL Tools
Covered Call COOL TOOL
Using the COOL TOOL to work on a contract
Using the COOL TOOL to determine how
to sell a covered call position
Cash-Secured Put COOL TOOL

You can get the tools by clicking on the Resources and Tools link on the COOL_Club home page. You will see the tools under the COOL Tools heading on the lower right side.

Here you will find the TOOLS and we also have links that go to the presentations on how to use the tools.

LET'S GO PLAY

COOL Examples

REMINDER!

- Education purposes only!
- No recommendations to:
 - Buy or sell stock
 - Sell or buy options
- Before investing in anything:
 - Consult a professional
 - Or do your own research

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CSP COOL TOOL - CTSH

CASH SECURED PUTS COOL TOOL **Sell-To-Open**

Enter Ticker: **ctsh** Price: **\$65.42** Puts's Change: **-0.53**

Company: **Cognizant Technology Solutions Corp.**

2. Fundamental Stock Questions

3. Analyzing your selection

4. Selecting a possible option

5. Analyzing your selection

Next Premium: **\$190.05**

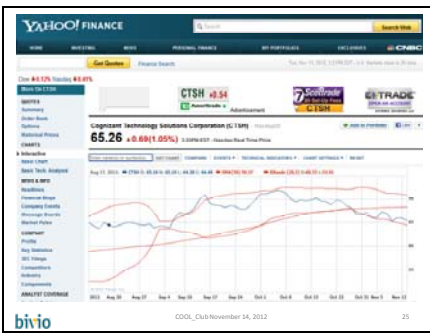
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Before we go live for some examples ... Here are some screenshots from the first example which I did put on yesterday both real for me and then in the Virtual Trading simulator to share with you.

For CTSH the price when I was doing this yesterday was just north of \$65. Using a fairly conservative growth rate of 14% I get a buy below \$72. I say conservative growth rate as the last two quarters have been higher than 20% growth and then the next two forecast quarters are between 17-19% growth. 14% feels very comfortable.



A quick look at the price chart shows us it has been trading down for the last couple months but it looks like there might be a support level around 65 which is also where the lower Bollinger band is.

CSP COOL TOOL - CTSH

CASH SECURED PUTS COOL TOOL **Sell-To-Open**

Enter Ticker: **ctsh** Price: **\$65.42** Puts's Change: **-0.53**

Company: **Cognizant Technology Solutions Corp.**

2. Fundamental Stock Questions

3. Analyzing your selection

4. Selecting a possible option

5. Analyzing your selection

Next Premium: **\$190.05**

APR 27%

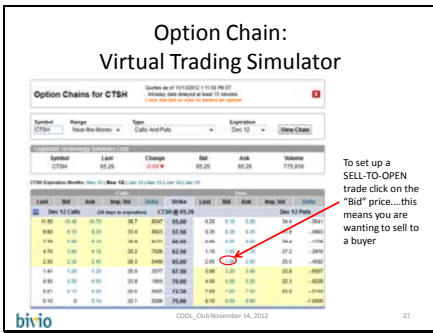
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When I was doing this yesterday the market was slightly up and so the tool tells us it might be better to wait until an overall down day. And as you will see later the tool was right.

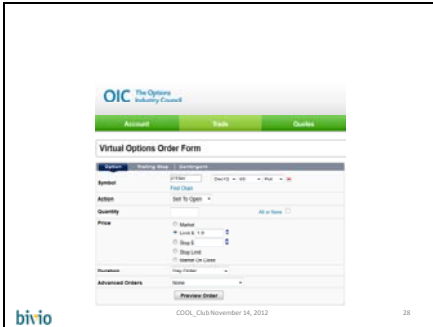
After looking at the existing option chain, I decided I liked the \$65 strike and it seemed like I could get \$2 or a little more. This gives me an APR of 27% and a net of \$190.



Here is the option chain at the Virtual Trading Simulator.

Notice I am on the December 2012 expiration as you can see it is Bolded and the other months are blue hyperlinks.

To SELL-TO-Open I click on the Bid price under PUTs . Why the Bid? Because it means you are wanting to sell to a buyera bit non-intuitive but that is actually the convention most brokers use as well.



When you click on the Bid this order form comes up and it fills in

The ticker - CTSH

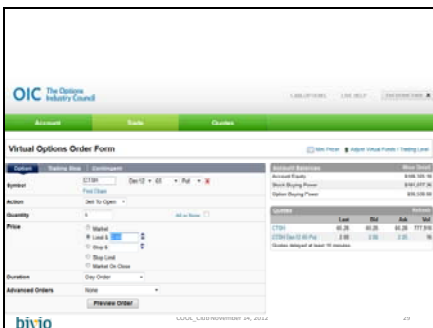
The expiration – Dec 12 means the December monthly for 2012. It does not mean that it expires on Dec 12th ...At the Virtual Simulator if it is a weekly it will show Week2 or Week1 or Week4...you will not see a Week3 as that is the same week as the monthly expires.

The Strike - \$65

The Type of Option – PUT

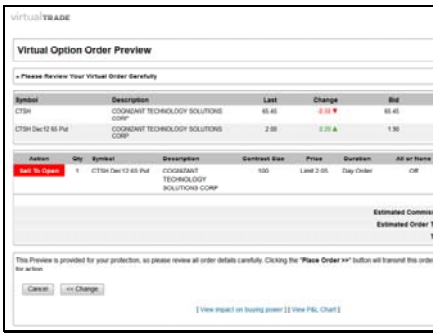
And because we clicked on BID it assumes the action you want to take is to Sell-To-Open

The limit price brought in is the current best bid on the option chain but we can change that to a higher number if we so desire.

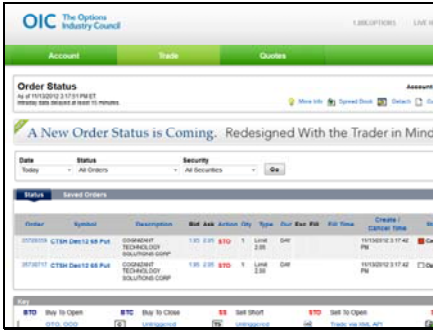


When we look to the side we can see that the best bid has now moved up to \$2 and the best Ask is \$2.05. I decided to join the best Ask at \$2.05.

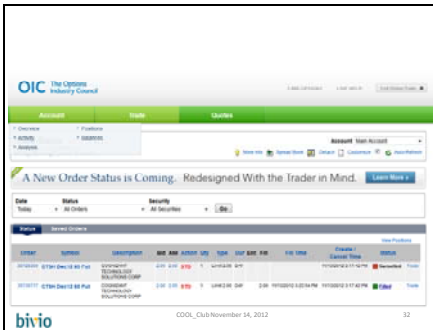
Now click on the preview order and



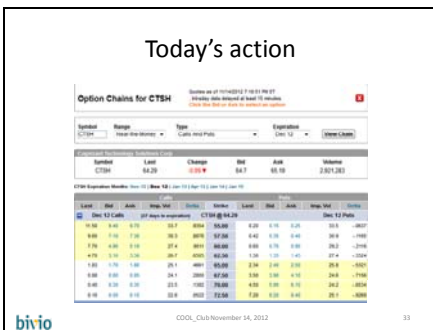
We see this final screen that makes sure that you are placing the trade that you want to be doing. Notice the BIG red “Sell-To-Open” be sure that is what it says. The VTS is a bit confusing to me as under QTY it says 1 which is 1 contract that represents 100 shares. The Contract Size column tells you how many shares are in one contract. Our limit price was 2.05 and it was an order that was just good for the day. You can see net of commissions I would collect \$190 just as the COOL_Tool had told me.



Later in the day I noticed I was not getting filled and so I moved down to \$2 rather than \$2.05



And fairly quickly I was filled.



Had I waited to sell today when the whole market was down I would see that CTSH is below \$65 and the \$65 PUT has moved up to 2.40 bid and 2.50 ask. I might even have looked at the 62.50s which at \$1.45 premium would have been a greater than 20% APR.

But I am still happy with my trade. If CTSH is put to me at \$65 less the \$2 I collected my buy price at roughly \$63 is over 12% below my conservative buy price of \$72.

QUESTIONS?

LETS WORK THROUGH A FEW LIVE

HOMEWORK & POSTS

ETF CSPs - Homework

- Tami
 - IWM PUT \$78 Strike Nov 17th Expiration
 - STO Nov 8 for \$50
 - BTC Nov 12 for \$28
 - Overall APR 26%
- Theresa
 - IWM PUT \$80 Strike Nov 9th Expiration
 - STO Nov 2 for \$46
 - Was exercised and owns IWM shares for \$79.64
 - Trying to sell CALLs (what level?)
 - I definitely find that IWM has greater price swings than SPY.
 - I feel a bit more nervous when doing CSP with IWM.
 - I am looking at SPY PUTs (for real money) but am afraid to pull the trigger. From everything I'm reading, it seems like there is more room for them to continue downward. So I'm nervous to jump in just yet.

ETF CSPs - Homework

- Theresa (late today)
 - SPY PUT Nov 17th Expiration
 - STO on Nov 14 \$136 strike, 3 for \$40 for 31% APR
 - STO on Nov 14, \$135 strike, 3 for \$40 for 31% APR
 - I don't think this experiment is going to go in my favor, since the price continues to drop, but, luckily, it's just the Virtual Trader.

My bet, she might be able to buy back both of these before the week is out.

Why, the market usually does not just go in one direction every day.

Even if you believe we will still be going lower for awhile it would not be unusual to see a market rebound tomorrow after the big move down today.

I don't really recommend selling options with only a couple days left.

I have number that we can work through live as time permits.

ETF CSPs - Homework

- Susan
 - I have been monitoring but have yet to pull the trigger as the SPY have been making lower highs and lower lows (downward channel). I am waiting to see some stabilization in the SPY before committing to a trade.
- Malcolm
 - VTS rather than real money
 - SPY PUT 137.50 Strike Nov 17 expiration
 - STO 2 @ \$1.20
 - Net Premium \$230.30 (based on actual commissions rather than OIC)
- Dan
 - Bearish technicals
 - Looking for catalyst for reversal
 - Settlement on Fiscal Cliff
 - Sign that Eurozone is not getting worse or spreading to US
 - Selling CSPs seems to be overly risky at this point

Other Posts

- Malcolm Post
 - Importance of an overall investing strategy
 - Concern for lack of low risk fixed income options
- Do you have an overall strategy?
- Willing to share it for discussion?

NEXT MEETING Nov 28th 9:00pm EDT
COVERED OPTIONS & TAXES

GOOD NIGHT AND GOOD SELLING