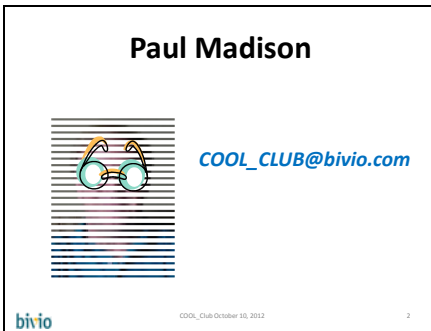




Good evening and welcome to tonight's session of the Covered Options Online Learning Club otherwise known as the COOL_Club. We are fairly laid back here in the COOL_Club and so if you have questions feel free to type them into the questions box and Sharon who is helping us out tonight in the back room will get them to me.



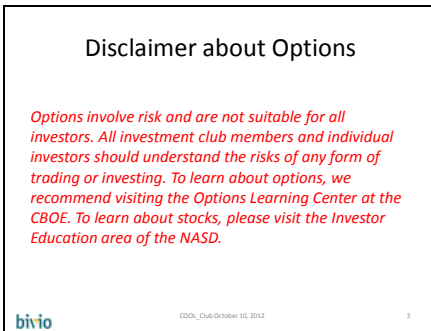
I am your host Paul Madison and

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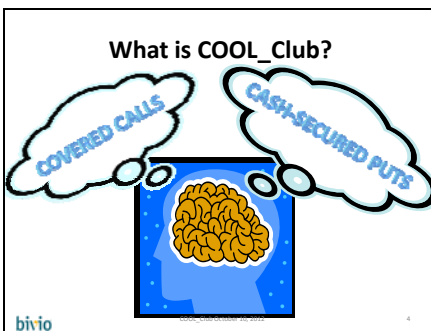
resident COOL_Club Dude.

<Click>

You can write to me at the COOL_Club Discussion List which is COOL_Club@bivio.com



Our usual Disclaimer about Options... Options do involve risk and are not suitable for all investors. All club members or individual investors should understand the risks associated with options or any other investment instrument before investing. Also on the slide are places to go to help learn about options as well as stocks.



So what is COOL_Club

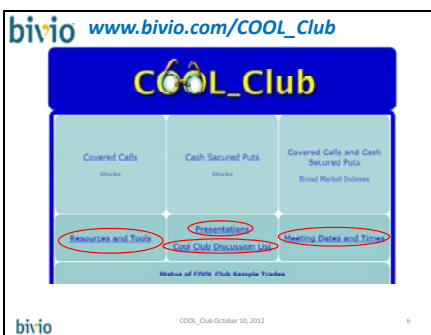
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For those of you who are new, COOL_Club is a weekly 30 minute session where we explore the thought processes associated with doing Covered Options. Some nights, like tonight, we explore side topics that are related to selling covered options that I believe will help you better understand them.

October Schedule		
• First Wednesday (Oct 3 rd)	5 pm ET	<i>Why I Sell Rather Than Buy Options</i>
• Second Wednesday (Oct 10 th)	8 pm ET	<i>Covered Options: Getting started with your broker</i>
• Third Wednesday (Oct 17 th)	9 pm ET	<i>Covered Options & Earnings Season</i>
• Fourth Wednesday (Oct 24 th)	10pm ET	<i>Selling Covered Options Index ETFs</i>
• Fifth Wednesday (Oct 31 st)	Break	<i>Halloween - watch out for Mr. Volatility!</i>

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Here is our October schedule. This week we will be doing an extra topic about what you need to do with your broker to be able to start selling covered options. I have made an executive decision and have changed up our topics for the next two weeks. Since we are starting to move into Earning seasons, I have decided to talk about covered options and Earnings Season next week. Then the week after I think we will look at Covered Options on Index ETFs as we may be starting to see some opportunities at that point. If I am wrong and something else makes more sense to discuss, I may change again. Of course our fifth Wednesday will be All Hallows Eve and we will be out trying to exorcise the monsters in our markets.



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 Excel Spreadsheet COOL TOOLS by clicking on "Resources and Tools"

And finally the schedule and registration links are here.

Tonight
• Covered Options: Getting started with your broker
• Posts on Different Brokers
• Recent Trades
• Open forum

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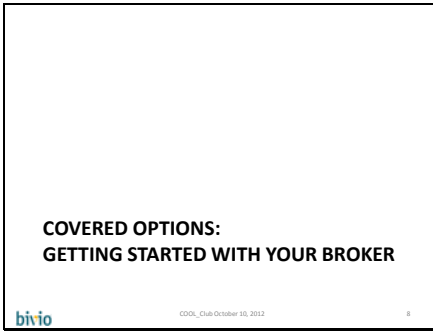
Tonight as I mentioned we

We will spend most of our time on Getting started with your broker

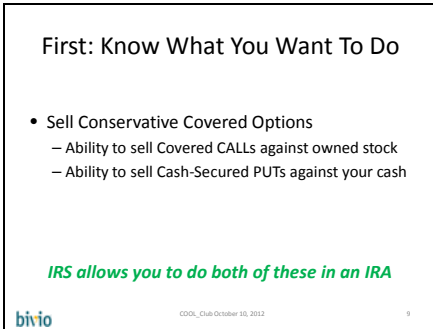
In addition we will look at some of the feedback from the discussion list around brokers.

Then we have a few outstanding trades that have been discussed that we will do an update on and as always if we have time

We will have an open floor discussion around any questions on covered options, specific stocks, and or tool questions.



So with that said let's explore Getting started with your broker for selling Covered Options

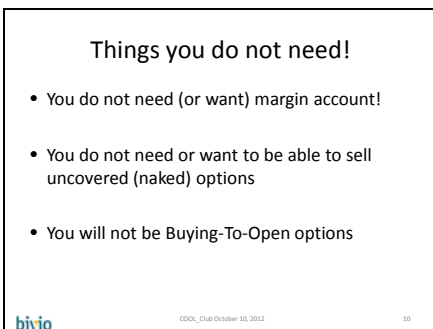


The most important thing to know is what you are trying to get setup. It is really pretty simple. You are trying to be able to sell conservative Covered Options. Specifically you want to be able to sell Covered Calls against your stock.

And you want to be able to sell Cash-Secured PUTs against your cash in your account.

That is all you want to add to your account and that is what you want to say to your broker.

By the way, and once again, the IRS views the risk profile of covered options to be low enough that they allow doing them in IRA accounts. Now that does not mean all brokers on all IRAs will let you do covered options. However if your broker does not allow it on your IRA, then you might want to consider moving the IRA to a broker that will let you do it.



Now that we have discussed the two things we want to be able to do, let's talk about what we do not want or need (at least in my humble opinion).

We do not want or need a margin account (more on what that is in a minute).

We do not need or want the ability to sell uncovered or naked options.

You do not need to be able to buy-to-open options.

What is a Margin Account?

- Margin
 - Allows you to “borrow” from broker
 - As example:
 - Sell CALLS but do not own the stock
 - Borrowing the stock from broker
 - Borrowed funds will be charged margin fees and/or interest
- Margin or leverage can be:
 - A good thing if you are right
 - *But potentially disastrous if you are wrong!*

So what is a Margin Account.

A margin account means that if you want to do something and do not have the cash or stock, you can borrow it from your broker. They will charge you fees and interest on those borrowings.

So for instance if you wanted to Sell Calls on a stock that you did not own, you can “borrow” the stock from the broker.

As I said you will be charged for borrowing from the broker.

There are also limits on how much you can borrow as a percent of your holdings. If your borrowings get too big you will be asked to deposit more money into your account to stay under the limit. This is called a Margin Call.

Why do people want to do Margin? Because if you are right on your trades the leverage works really nicely. However if you are wrong on the trade the leverage can really hurt you. If you are going to have a Margin account you better be right most of the time.

Before you sign up with existing Broker

- Understand their rules around options
- It may make sense to move your funds to a Broker that is better suited for your options business

Before you just go in to sign up your existing accounts for Covered Options it would be good to research their rules around options. Depending on how their rules and fees fit your situation it may make more sense to move to another broker that is a better fit for what you want to do.

Rules to Explore

- Commissions associated with Covered Options
- Assignment Fees or charges (may be shown separate from commissions)
- Rules around Cash used to cover Cash-Secured PUTs
 - Does it have to be in a special “account”?
 - How quick does it become freed up after closing the position?

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So what do I mean by Rules that you need to explore.

First and foremost it is Commissions.

Next it is Assignment Fees which may be spelled out differently than their normal commissions.

And finally it is understanding how you must handle the cash portion of your portfolio that you want to be able to sell Cash Secured PUTs against. Does it have to be “sequestered” into some special place or account? If so, you’ll want to find out how quick is it freed up after you close out a Cash-Secured PUT trade.

At Schwab and Fidelity, my cash is freed up just as soon as I buy back a CSP. At Optionshouse as a comparison my cash is not freed up until the next trading day.

Commissions

- Base Trade Rate
 - Fidelity -\$7.95, Schwab \$8.95, Optionshouse \$5
 - Does it cover a certain number of contracts?
 - Fidelity & Schwab – 0, Optionshouse - 5
- Cost for each contract above the base
 - Fidelity & Schwab \$.75, Optionshouse \$1

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When we are talking about Commissions on options first we have the Base Trade Rate. That base may cover a certain number of option contracts such as 1 or 5 or something else. The base at Fidelity and Schwab is \$7.95 and \$8.95 respectively. There are no contracts covered in their base. Optionshouse has a couple different commission schedules to chose from but for the one I am using the Base is \$5 and that covers up to the first five contracts.

After the base then there is a commission charge for each contract in a specific trade. At Fidelity and Schwab that is \$.75 for every contract. At Optionshouse the cost is \$1 after the first five that are covered in the base.

So a trade with 10 contracts would cost about \$15.50 at Fidelity (plus a few extra pennies) and \$16.50 at Schwab (plus a few pennies) and at it would be \$10 Optionshouse (plus a few pennies). Fidelity and Schwab get cheaper somewhere north of a trade with 30 contracts. Not the realm that most of us are going to be playing.

Assignment Fee

- Assignment Fee
 - Covered CALL
 - Cost to sell your stock if CALLED away
 - Cash-Secured PUT
 - Cost to buy the stock if it is PUT to you
 - Fidelity, Schwab, Optionshouse
 - No Assignment Fee
 - Exercised cost same price as a stock trade
 - Fidelity \$7.95, Schwab \$8.95, Optionshouse \$5

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When an option is exercised some brokers charge what they call an assignment fee which can be \$15 or \$20 or sometimes even more. At Fidelity, Schwab, and Optionshouse, when you are exercised, the resulting trade just has a normal trade commission. So assignment fees are \$7.95, \$8.95 and \$5 at Fidelity, Schwab and Optionshouse respectively.

How Do I Get Set Up

- Some have an automated form
 - Forms are confusing at best
 - Inconsistent between brokers
 - Some are flat wrong
 - May put you into services you do not need (margin)

*Talk to a live person
Either in their office or on phone!*

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When you are ready, I would encourage you not to just do the online forms or fill out the paper forms from a brokers office. I would sit down with them and explain exactly the simple things you want to be able to do in your account. Tell them you want to Sell Covered CALLs and Sell Cash-Secured PUTs. Tell them, No I do not want a margin account and No I will not be Buying to Open options. Thank you.

I have found the forms to be confusing or wrong and they will lead you into potentially getting services like a margin account that you do not want. The brokers do not charge to work with a live person so I would highly recommend doing exactly that! In person is probably the best but on the phone is the second best option.

Why Brokers Ask Personal Questions

- SEC imposes on all brokers:
 - SUITABILITY REQUIREMENTS
 - RECORD-KEEPING REQUIREMENTS
 - ANTI-MONEY LAUNDERING/ANTI-TERRORIST FINANCING REQUIREMENTS

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When you go through the process they are going to ask you a lot of personal questions and the reason is because there are several sets of regulations imposed by the SEC that require them to ask for this information.

ANTI-MONEY LAUNDERING/ANTI-TERRORIST FINANCING REQUIREMENTS

- Sets minimum information brokers must obtain
 - Customer name
 - Address
 - Identification number (or SSN for U.S. citizens)
 - Date of birth

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The least onerous regulation is the ANTI-MONEY LAUNDERING/ANTI-TERRORIST FINANCING REQUIREMENTS. It only requires the name, address, Tax ID number, and date of birth.

SUITABILITY REQUIREMENTS

- The broker must consider the customer's:
 - Risk tolerance
 - Other security holdings
 - Financial situation (income and net worth)
 - Financial needs
 - Investment objectives

Next is the Suitability Requirements and it goes a bit deeper as it needs:

Risk tolerance

Other security holdings

Financial situation (income and net worth)

Financial needs

Investment objectives

RECORD-KEEPING REQUIREMENTS

- For each account with an individual customer:
 - Customer name
 - Tax identification number (e.g., Social Security number)
 - Address
 - Telephone number
 - Date of birth
 - Occupation
 - Whether the customer is employed by a brokerage firm
 - Annual income
 - Net Worth
 - Account investment objectives

And finally there is the big one called Record-Keeping Requirements and it includes a lot. Some overlaps with the others but it also has:

Occupation

Whether you are employed by a brokerage firm

Annual Income

Net Worth

Investment Objectives (meaning basically income or growth or some combination)

Broker Assesses Your "Suitability"

- Wants to know:
 - Total Net Worth
 - Total Liquid Net Worth
- If you play too close to vest
 - May not approve you
- Tell them too much
 - They may "hound" you to move more to them

So for suitability they will want to know things around total and liquid net worth. I have seen situations with friends where they played this a little too close to the vest (meaning why do I have to tell them my total net worth it is none of their business) and the broker denied them from doing options. I know showing them too much might mean that they will bother you with moving more of your assets over to their firm. You just need to handle in a prudent fashion.

Recap

- Know what you want to do
 - Covered CALLs
 - Cash Secured PUTs
- Make sure current broker is best fit for options
- Work with a live person to get done!

Let's Recap

What we want to add to our accounts is the ability to do two things: Sell Covered Calls, and Sell Cash-Secured PUTs. Nothing more nothing less.

It would be good for you to assess whether your current broker is the right place to do covered options. By the way I have found transferring assets pretty easy to do. Just go to the broker you want to move to and provide them the information and they will do all the heavy lifting (they have everything to gain from doing it right and nothing to lose).

I highly recommend working with a warm body when you are ready to do this.

QUESTIONS

BROKER POSTS

Laurie F

- I have used Schwab for a very long time for IRA's. I really like them. They provide lots of research material and their representatives are very nice and very knowledgeable. I've also used TD Ameritrade and E*Trade in the past and had good experiences with both of them.
- I've found Schwab to work very well for options trades. They are not the cheapest, but they are not the most expensive either. Since I'm just learning and since the COOL Tool takes options costs into account, it's been working fine for me.

Chuck B

- I like to echo what Laurie said about Schwab. I used them for years and all the trading I do is in my IRA. If I have any problems or questions there customer service has always been good.

Malcolm M

- I've been a Charles Schwab client for over 15 years. I appreciate the extensive resources available, the online security measures, and the fees. Enabling my IRA and investment accounts recently for option trading took four days with no problems. I've been with my 'broker' (account representative) for five years and can go in to talk, phone or email him any time. If I call for help or concern, the support teams are very professional, personable and have worked through any concern I've had with my accounts (changing passwords, etc).
- It is your money. People know more about their barber than their investment firm. Make appointments to talk with people and take the time to go in and see how the place runs. I get more from looking at a guys car and desk than anything he tells me.

Ron E

- Eighteen months ago, I was brand new to investing and set up an online account with TD Ameritrade. I asked for permission to trade cash-secured puts and covered calls right off the bat, and it was granted. I like TD Ameritrade's research capabilities, market and ticker news, charting, etc., and I still use that brokerage, but I found the commissions a little steep for frequent options trading.
- So I opened an OptionsHouse account earlier this year. Probably not as many bells and whistles, but as the name implies, it caters to options traders. I've been very happy with OH, especially the pricing structure for both stock and option trades.

Saul S

- I agree with Ron about OptionsHouse. I have also used Scottrade although they too have a weird setup for option trading.
- As for Vanguard, they do what they can to discourage short term trading in any form. For example, they don't even allow the use of trailing stops. Although I have accounts there, I have never traded any options with Vanguard. The option centric brokers, like OptionsHouse, will be best for your purposes.

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

Recent Trade

- MCD
 - Oct 10 - Just put on
 - MCD \$92.90
 - STO \$92.50 Call for 10/20 Exp. (10 days)
 - Collected \$1.50
 - APR 55%
- First time this one was done Collected \$1.77 for 30 days bought back after two weeks @ \$.50

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Open Trade: COH

- COH
 - STO on 9/25 \$55 PUT for 10/20 Exp.
 - Collected \$1.80 APR 45+%
 - Waiting to BTC or Buy COH @ \$55 - \$1.80
 - Currently @ \$2.40 (COH @ \$53)

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CSP COOL_Tool: COH

Clear Date		CASH SECURED PUTS COOL TOOL		Closing the Option	
Enter Strike:	Price	Put's % Change	Exp Date	Max Premium	APR
COH	\$53.00	-1.58%	Oct 20	\$55.00	45%
COOL Tool		Maximum Premium (\$4 price)		\$0.32	
A. Original Sell To Open Position		B. If you Buy To Close		Buy Premium	\$0.00
Enter Exp Date	Initial	Collected on Open	Cost To Close	Net	APR
Oct 20	\$55.00	\$55.00	\$180.00	(\$125.00)	45%
Sell To Open Premium	\$1.80	If option expires worthless in 10 days		\$125.00	
Number of Contracts	2	Collected on Open	Cost To Close	Net	APR
Date Held	Sep 25				
C. If option is exercised, the price you will buy the stock at:		Strike Price	Premium	Assignment	Cost per share
		\$55.00	-\$1.77	\$0.00	\$53.23

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Open Trade: QSII

- QSII
 - STO on 9/26 \$17.50 PUT for 10/20 Exp.
 - Collected .55 APR 45+%
 - Waiting to BTC or Buy QSII @ \$17.50 - .55
 - Currently @ \$.10 (QSII up to \$18.40)

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CSP COOL_Tool: QSII

Clear Date		CASH SECURED PUTS COOL TOOL		Closing the Option	
Enter Strike:	Price	Put's % Change	Exp Date	Max Premium	APR
QSII	\$18.40	-0.84%	Oct 20	\$17.50	45%
COOL Tool		Maximum Premium (\$4 price)		\$0.57	
A. Original Sell To Open Position		B. If you Buy To Close		Buy Premium	\$0.00
Enter Exp Date	Initial	Collected on Open	Cost To Close	Net	APR
Oct 20	\$17.50	\$17.50	\$40.00	(\$22.50)	45%
Sell To Open Premium	\$0.55	If option expires worthless in 10 days		\$22.50	
Number of Contracts	2	Collected on Open	Cost To Close	Net	APR
Date Held	Sep 26				
C. If option is exercised, the price you will buy the stock at:		Strike Price	Premium	Assignment	Cost per share
		\$17.50	-\$0.52	\$0.00	\$17.01

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NEXT SESSION Oct 17th 9:00pm EDT
COVERED OPTIONS & EARNINGS SEASON

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Next week, October 3rd at 5:00 pm and we will talk about Why we Sell rather than Buy Options.

As Homework, I like what is going on where people are sharing some things they are doing or trying. I think it would be good to make sure you spell out, this is in a Virtual account so people can take that in to account.

QUESTIONS & OPEN FLOOR

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GOOD NIGHT AND GOOD SELLING

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