

## Weekly Covered Call Trading Plan

This document outlines the objectives, strategy, limits, tools and guidelines I will use when trading Covered Calls. Although it contains specifics that will guide my decisions, it is intended to be sufficiently flexible to adjust for unusual and changing conditions in the market. This is not meant as the “sole salvation” and is to be considered a “living” document.

### Objective

To increase my returns so that at the end of the year, I will have achieved a minimum return of 25% on “Traders”. To accomplish this, I plan to sell short term weekly covered calls.

### General Guidelines:

- Nothing within this guidance will prohibit me from buying back a call and then selling the underlying security in the event of a dramatic change in the security, or the market for that matter.

### Equity Trades

- To sell a call, first I must purchase the stock.
- Successful stock candidates must pass a technical analysis, using the following guidance obtained from Alan Ellman:
  - 1) 20 Day Exponential Moving Average must be above the 100 Day EMA
  - 2) Current price above 20 EMA
  - 3) MACD (12, 26, 9) positive and in uptrend
  - 4) Slow Stochastics
    - 80 = oversold
    - 20 = overbought.
 Watch for the second confirmation of the cross over
- Volume should be a minimum of 250,000 shares per day.

### Covered Call Option Trades

1. Primarily short term contracts will be used (focusing on weekly or up to 30 day).
2. Only sell into a flat or rising market for your equity.
3. Prior to selling, check out a 9 month chart to see if the equity has been in a long term up or down trend. Don't sell into a long term down trend (remember GM 10/11).
4. I plan to use Alan Ellman's spreadsheet to assist me in the selection of Call Candidates.
5. I will maintain sufficient cash funds so that buybacks can be exercised (see downside protection).
6. Prior to selling a contract I will fill in my Covered Call Check List.
7. Exit price will be established **upon** acceptance of the contract (usually 80% of the premium).

## Covered Call Option Trades (continued)

8. I will not trade across a company's earnings statement. If the company is slated to release earnings during the time of the contract, I will not write a contract. I have the flexibility of selling the underlying security or standing pat and then write after the earnings call.
9. Prior to placing the trade, I will check with Vector Vest, to see the market condition.
10. I will use Bollinger Bands (20, 2) to assist me in selection of a strike price (usually more important with Keeper type stocks).
11. My option trades will break down into two types:
  - A) "**KEEPER**" written on a stock: I wish to keep; hence I write out of the money (OTM) calls only for supplementary income provided by the premium.
  - B) "**TRADER**" written on a stock: that I am only looking at the premium and perhaps some upside potential; hence, I will write in the money (ITM), near or at the money (ATM) calls and will let it get called away at expiration. These stocks are usually done on a Buy/Write basis.

### Specific to the "Keeper" Type Option

1. I have no minimum acceptable Return On Option (**ROO**) with a keeper and will look at the premium as supplemental income.
2. I will write out of the money calls having a low delta on weekly.
3. I will use my Bollinger Bands (20, 2) to establish a realistic strike price that I may keep the stock and still capture some premium (sometimes less is more).
4. Option volume should be at least twice the number of contracts I plan to write.
5. In the event a Keeper runs up in price, I may buy it back and then may use a Roll out - Or - Roll up call option.

### Specific to the "Trader" Type Option

1. My **minimum** acceptable Return On Option (**ROO**) on a Trader is:

	ROO	Annualized
2. For a 5 Day Option =	0.5%	36%
3. As a rule I will not buy back a contract on a Trader type option.
4. Option volume should be at least twice the number of contracts I plan to write.

## Specific to the “Trader” Type Option (Continued)

5. Downside protection. I will apply some downside protection on my trader type options. If the cost of the underlying security drops, then its corresponding premium also drops. When the cost to buy back the original call has dropped to 20% of the original premium, I will usually buy the option back and then have a decision to make. I may then:

- A) Sell the stock
- B) Roll out
- C) Roll down

To achieve this limited downside protection when my Trader Type Covered Call Contract is accepted, I will then turn around and write another contract; this time, buy to close (at 20% of the original premium of the covered call). I will do this only for the first three (3) weeks of a monthly contract period or the first 4 days on a weekly. If it is not accepted then I will cancel the BTC order.

### **THE ONLY GOOD THING ABOUT A MISTAKE IS IF YOU LEARN FROM IT:**

- 1) If you wait to expiration Friday to BTC, then also wait till AFTER 1500HR before you BTC. This done due to pinning (remember SINA 01/27/12).
- 2) Wait till AFTER amateur hour until you trade (remember GMCR 02/02/12).  
It's not what you think about the stock...it's what the market thinks about the stock.