



# The Wheel Strategy

“Get paid while you wait to buy stock.”

*Warren Buffet (?)*

# The Wheel Strategy

- A systematic way to sell cash secured puts (CSPs) and covered calls as part of a long-term trading methodology that is as safe and reliable as options trading gets.
- Monthly income is generated using strong reputable stocks.
- The goal of this strategy is to collect premium by repeatedly selling CSPs.
- Assignment is not a goal of this strategy.

## Four Steps:

1. Select a stock
2. Sell put
3. Sell covered calls
4. Review, return to Step 1



## Step #1 Stock Selection

- A profitable company and one you would want to own
- A bullish-to-neutral trend with buy or hold analyst rating
- Priced > \$15
- Dividends are good
- Consider option volume
- Consider price volatility



## Step #2 Sell Puts

- ▶ 30 to 45 DTE is a period of optimum time decay and richest premium.
- ▶ 14 to 30 DTE rapid time decay (high theta) but high gamma.
- ▶ 70% Prob OTM (30 Delta).
- ▶ Size of trade (# contracts) is based on acct size.
- ▶ Trade small (1contract/10 positions vs. 10 contracts/1position).
- ▶ Not good to have more than 5% of your account in a single stock position.
- ▶ Consider closing or rolling at 50% profit.
- ▶ Consider closing or rolling if strike price approaches ATM.
- ▶ If profit cannot be realized take assignment.



## Step # 3 Sell Covered Calls

- ▶ If you are assigned stock, determine the net stock cost using a tracking spreadsheet
- ▶ If stock cost is above market price sell CC premium to continue adding to the PnL and lowering the net stock cost below current market price before the stock gets called away.
- ▶ If the call is not assigned, then the call can be closed for a profit, and another sold until the net stock cost is below the current stock price.
- ▶ Continue this until the net stock cost is below the strike price at which time the stock can be left to be called away.
- ▶ Since selling puts is usually the most profitable, one can sell the stock then sell more CSPs, or sell a rich ITM call that will be called away but adds to profits.



Triple Income Strategy (The Wheel) Tracking P&L										
CREDITS						DEBITS				
Action	Date	Shares	Prem	Total	Status	Action	Date	Shares	Cost	Invested
CSP	11/19/2018	200	\$ 0.31	\$ 62.00	Closed	BB	11/26/2018	200	\$ 0.15	\$ 30.00
CSP	11/27/2018	200	\$ 0.40	\$ 80.00	Closed	BB	11/30/2018	200	\$ 0.10	\$ 20.00
CSP	12/3/2018	200	\$ 0.34	\$ 68.00	Assigned	AssignSTK	12/11/2018	200	\$ 25.00	\$ 5,000.00
CC	12/12/2018	200	\$ 0.50	\$ 100.00	Expired					\$ -
CC	12/24/2018	200	\$ 0.45	\$ 90.00	Expired					\$ -
CalledSTK	12/28/2018	200	\$ 26.00	\$ 5,200.00	Closed					\$ -
Divi	1/15/2019	200	\$ 0.15	\$ 30.00						\$ -
				\$ -						\$ -
				\$ -						\$ -
				\$ -						\$ -
				\$ -						\$ -
				\$ -						\$ -
				\$ -						\$ -
				\$ -						\$ -
Credits Taken In from CSPs				\$ 5,630.00		Debits Paid for Stock and Option BB costs				\$ 5,050.00
Adjusted Cost Basis and Running P&L				\$580.00						
<b>Definitions:</b>										
CSP = Cash Secured Put			AssignSTK = Assigned (or Purchased) Stock							
CC = Covered Call			CalledSTK = Stock Called Away (or Sold)			Note: You can enter the current stock price in CalledSTK to model see where the position is at.				
BB = Buy Back of CSP or CC			Divi = Dividend Earned							



## Step # 4 Review and Return to Step #1

- ▶ Turn the wheel and start over
- ▶ Review the spreadsheet and PnL
- ▶ Go back to Stock Selection

