# 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

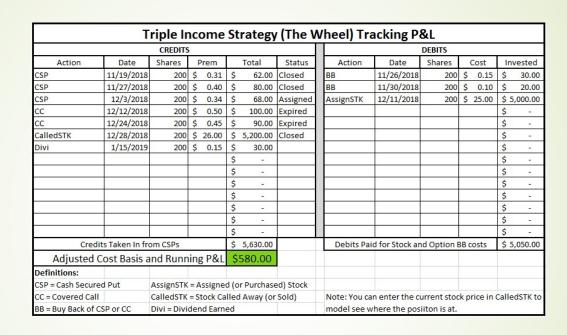
- ► A profitable company and one you would want to own
- ► A bullish-to-neutral trend with buy or hold analyst rating
- Priced > \$15
- Dividends are good
- Consider option volume
- Consider price volatility

## 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/1postion).
- ▶ 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 <u>sell CC premium</u> 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.



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

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

