Important Information

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A covered call strategy can limit the upside potential of the underlying stock position, as the stock would likely be called away in the event of substantial stock price increase. Additionally, any downside protection provided to the related stock position is limited to the premium received. (Short options can be assigned at any time up to expiration regardless of the in-the-money amount.)

With the covered call, there is a risk of stock being called away, the closer to the ex-dividend day. If this happens prior to the ex-dividend date, eligibility for the dividend is lost. Income generated is at risk should the position move against the investor, if the investor later buys the call back at a higher price. The investor can also lose the stock position if assigned.

A cash secured or naked put strategy risks purchasing the corresponding stock at the strike price when the market price of the stock will likely be lower. A cash-secured or naked put strategy includes a high risk of purchasing the corresponding stock at the strike price when the market price of the stock will likely be lower.

Spreads, Straddles, and other multiple-leg option strategies can entail substantial transaction costs, including multiple commissions, which may impact any potential return. These are advanced option strategies and often involve greater risk, and more complex risk, than basic options trades.

A long call or put option position places the entire cost of the option position at risk. Should an individual long call or long put position expire worthless, the entire cost of the position would be lost.

Delta is a measure of an option’s sensitivity to changes in the price of the underlying asset. Gamma is a measure of delta’s sensitivity to changes in the price of the underlying asset. Vega is a measure of an option’s sensitivity to changes in the volatility of the underlying asset. Theta is a measure of an option’s sensitivity to time decay.

Carefully consider the investment objectives, risks, charges and expenses of any exchange-traded fund (ETF) before investing. To obtain a prospectus containing this and other important information, contact your broker. Please read the prospectus carefully before investing.

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Covered Calls Sample Investing Plan

OPTIONS STRATEGIES

Objective
To generate opportunistic income on stocks you own by selling premium. While this strategy can help lower your cost basis, the main objective of this strategy is not protection.

Watch List Criteria

Stocks/ETFs:
- Equities you own which have already hit your price target, or equities which you’re okay with selling if you are assigned
- Average daily volume of 1,000,000+

Options: Low bid/ask spread—spread should be 10% or less of the ask price

Entry Rules

- Technical Analysis:
  - Setup: Stock has made a parabolic move and is 10% or more above its 30-day simple moving average
  - Entry Trigger: A sign of weakness in the underlying (e.g., the MACD turning down)
- Expiration Selection: 20 to 50 days to expiration
- Strike Selection: Sell a call with a delta between .30 and .40

Money Management Rules

Position Size: Sell no more than one call contract for every 100 shares of the stock you own.

Exit Rules

- If the option expires in the money, you will have to sell the stock. If you want to keep the stock and the option is in the money:
  - Consider rolling the option to the next month if you can do so for a credit.
  - Consider buying back the call to keep your stock.
- If the option finishes out of the money, the option will expire worthless.
- Note: Remember your stock exit rules. If these rules are triggered, buy back the call before selling the stock.

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Routines

Daily:

- Monitor your stock positions for setups and entries like parabolic moves and signs of weakness.
- Monitor open covered calls and consider your exit rules for any options that are in the money.

Quarterly: Check strategy performance against a benchmark, like the CBOE® S&P 500® BuyWrite Index (BXY).
Cash-Secured Puts Sample Investing Plan
OPTIONS STRATEGIES

Objective
To build a stock/ETF position at a discount by selling a put. Note that this strategy is not intended to provide regular income but, instead, is a way to scale in to an equity position at a potential discount.

Watch List Criteria
Stocks/ETFs:
- Equities with strong fundamentals that you’re willing to own
- Average daily volume of 1,000,000+

Options: Low bid/ask spread—spread should be 10% or less of the ask price

Entry Rules
- **Technical Analysis**: Underlying closes above the high of the low day
- **Expiration Selection**: As close to 50 days as possible
- **Strike Selection**: Sell a put with a delta between -.30 and -.40

Money Management Rules
**Position Size**: Consider the cost of assignment. If assignment occurs, the cost of purchasing the shares should be no more than 5% – 10% of your account value.

Exit Rules
- If the option is in the money within four days until expiration, consider rolling to the next month or accept the assignment of the stock.
- If the option is out of the money, let it expire worthless.

Routines
**Daily**:
- Monitor your watch list for entry signals.
- Monitor open puts and consider your exit rules for any options that are in the money.

**Quarterly**: Check strategy performance against a benchmark, like the CBOE® S&P 500® BuyWrite Index (BXY).

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Short Call Verticals Sample Investing Plan

OPTIONS STRATEGIES

**Objective**
To profit from sideways-trending and downtrending stocks or ETFs by selling a call option at one strike to capture time decay and also buying a call option at a higher strike to limit risk.

**Watch List Criteria**

**Stocks/ETFs:**
- Stock or ETF is trending down or sideways
- Average volume of 1,000,000+

**Options:** Low bid/ask spread—spread should be 10% or less of the ask price of the short option

**Entry Rules**

- **Technical Analysis:**
  - Identify support and resistance. Enter on:
    - A bearish (red) candle/bar at horizontal or diagonal resistance (anticipating a bearish bounce)
    - OR
    - A close below the low of the high day (confirming a bearish bounce)
- **Expiration Selection:** 20 to 50 days to expiration
- **Strike Selection:**
  - **Short Call:** Sell a call with a delta between .30 and .40. Ideally, this strike price is at or above resistance.
  - **Long Call:** Buy a call at least $2 above the short strike.

**Money Management Rules**

**Position Size:**

- **Formula:** Portfolio risk / trade risk = # of spreads
- **Portfolio Risk:** 1% to 2% of active trading portfolio per trade
- **Trade Risk:** (Long strike – short strike) – the credit received from the spread

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**Exit Rules**

- Close the position when the bid price of the short strike is $0.05 or less.
- On the last trading day before expiration, if only the short strike is in the money, buy back the short strike. Allow the long strike to expire.*
- On the last trading day before expiration, if both strikes are in the money, let the trade go to assignment.

**Routines**

**Daily:**

- Check watch list for new entry opportunities.
- Monitor open short call verticals and consider your exit rules.

**Weekly:** Conduct searches and update watch list.

**Quarterly:** Check portfolio performance against a benchmark, like the S&P 500®.

*Talk to your broker to understand what fees are associated with expiration.

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Short Put Verticals Sample Investing Plan
OPTIONS STRATEGIES

Objective
To profit from sideways-trending and uptrending stocks or ETFs by selling a put option at one strike to capture time decay and also buying a put option at a lower strike to limit risk.

Watch List Criteria
Stocks/ETFs:
- Equities that are trending up or sideways
- Average daily volume of 1,000,000+

Options: Low bid/ask spread—spread should be 10% or less of the ask price of the short option

Entry Rules
- Technical Analysis:
  - Identify support and resistance. Enter on:
    - A bullish (white) candle/bar at horizontal or diagonal support (anticipating a bullish bounce)
    - A close above the high of the low day (confirming a bullish bounce)
- Expiration Selection: 20 to 50 days to expiration
- Strike Selection:
  - Short Put: Sell a put with a delta between .30 and .40. Ideally, this strike price is at or below support.
  - Long Put: Buy a put at least $2 below the short strike.

Money Management Rules
Position Size:
- Formula: Portfolio risk / trade risk = # of spreads
- Portfolio Risk: 1% to 2% of active trading portfolio per trade
- Trade Risk: (Short strike – long strike) – the credit received from the spread

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Exit Rules

• Close the position when the bid price of the short strike is $0.05 or less.
• On the last trading day before expiration, if only the short strike is in the money, buy back the short strike. Allow the long strike to expire.*
• On the last trading day before expiration, if both strikes are in the money, let the trade go to assignment.

Routines

Daily:

• Check watch list for new entry opportunities.
• Monitor open short put verticals and consider your exit rules.

Weekly: Conduct searches and update watch list.

Quarterly: Check portfolio performance against a benchmark, like the S&P 500®.

*Talk to your broker to understand what fees are associated with expiration.

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Protective Puts Sample Investing Plan
OPTIONS STRATEGIES

Objective
To protect your profits in a stock position from a large downward move by buying a put that can temporarily help manage your downside risk.

Watch List Criteria
Stocks/ETFs:
- Equities you already own that have hit their price target/exceeded original trade risk
- Average daily volume of 1,000,000+

Options: Low bid/ask spread—spread should be 10% or less of the ask price

Entry Rules
- Technical Analysis:
  - Setup: Stock has made a parabolic move and is 10% or more above its 30-day simple moving average
  - Entry Trigger: A sign of weakness in the underlying. (e.g., MACD rolling over)
- Expiration Selection: As close to 50 days as possible
- Strike Selection: Buy a put with a delta between -0.30 and -0.40

Money Management Rules
Position Size: Buy one put contract for each 100 shares of stock you own.

Exit Rules
- If the underlying stock falls below its stop order, consider exiting the trade completely or use the long put as a short-term swing trade.
- If three green arrows appear on the underlying, sell back the put.
- If neither of the above conditions are met, let the put expire worthless.
Routines

Daily:

- Monitor your stock positions for setups and entries like parabolic moves and signs of weakness.
- Monitor open protective puts and consider your exit rules.

Quarterly: Check portfolio performance against a benchmark, like the S&P 500®.
Swing Trading Long Calls Sample Investing Plan

OPTIONS STRATEGIES

Objective
To profit from upward, short-term momentum moves in a stock or ETF by buying a call option.

Watch List Criteria
Stocks/ETFs:

• Stock or ETF is trending up
• Average daily volume of 1,000,000+

Options: Low bid/ask spread—spread should be 10% or less of the ask price

Entry Rules

• Technical Analysis:
  • Setup: 30-day simple moving average is uptrending and a pullback creates at least one red arrow on the stochastic or MACD
  • Entry Trigger: Underlying closes above the high of the low day
• Expiration Selection: As close to 50 days as possible
• Strike Selection: Buy the at-the-money strike

Money Management Rules
Position Size:

• Formula: Portfolio risk/trade risk = # of contracts
• Portfolio Risk: 0.5% to 1% of active trading portfolio per trade
• Trade Risk: 50% of options purchase price

Exit Rules
Set stop order for long call at 50% of the options purchase price.

Exit the trade if:

• Long call achieves a gain of 100% of the purchase price
• 20 days or less to expiration
• Underlying closes below the low of the low day that was used to determine entry
• Stop order is triggered

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Routines

Daily:

- Analyze your watch list for new entry opportunities.
- Monitor open long calls and consider your exit rules.

Weekly: Conduct searches and update watch list.

Quarterly: Check portfolio performance against a benchmark, like the S&P 500®.
Swing Trading Long Puts Sample Investing Plan

OPTIONS STRATEGIES

Objective
To profit from downward, short-term momentum moves in a stock or ETF by buying a put option.

Watch List Criteria
Stocks/ETFs:
- Stock or ETF is trending down or sideways
- Average daily volume of 1,000,000+

Options: Low bid/ask spread—spread should be 10% or less of the ask price

Entry Rules
- Technical Analysis:
  - Setup: 30-day simple moving average is downtrending and a surge in price creates at least one green arrow on the stochastic or MACD
  - Entry Trigger: Underlying closes below the low of the high day
- Expiration Selection: As close to 50 days as possible
- Strike Selection: Buy the at-the-money strike

Money Management Rules
Position Size:
- Formula: Portfolio risk/trade risk = # of contracts
- Portfolio Risk: 0.5% to 1% of active trading portfolio per trade
- Trade Risk: 50% of options purchase price

Exit Rules
Set stop order for long put at 50% of the options purchase price.

Exit the trade if:
- Long put achieves a gain of 100% of the purchase price
- 20 days or less to expiration
- Underlying closes above the high of the high day that was used to determine entry
- Stop order is triggered

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**Routines**

**Daily:**
- Analyze your watch list for new entry opportunities.
- Monitor open long puts and consider your exit rules.

**Weekly:** Conduct searches and update watch list.

**Quarterly:** Check portfolio performance against a benchmark, like the S&P 500®.
Trend Trading Long Calls Sample Investing Plan

OPTIONS STRATEGIES

Objective
To profit from intermediate- to long-term (two months to two years) upward moves in a stock or ETF by buying one or more call options.

Watch List Criteria
Stocks/ETFs:

- Overall market is trending up. This can be measured by looking at a 30-day simple moving average (SMA) on a one-year daily chart of a broad market index (e.g., the S&P 500®).
- Stock or ETF is trending up. This too can be measured by examining a 30-day SMA on a one-year daily chart.
- Stocks with strong fundamentals (e.g., F/E of 3.25+)
- Average daily volume of 1,000,000+

Options: Low bid/ask spread—spread should be 10% or less of the ask price

Entry Rules
- Technical Analysis:
  - Setup: An uptrending moving average
  - Entry Trigger: A trend-trading entry signal (e.g., three green arrows from the Stock Investing course)
- Expiration Selection: As close to 150 days as possible
- Strike Selection: Buy the call with the delta closest to .70

Money Management Rules
Position Size:
- Formula: Portfolio risk/trade risk = # of contracts
- Portfolio Risk: 1% to 2% of active trading portfolio per trade
- Trade Risk: 50% of options purchase price

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Exit Rules
Set stop order for long call at 50% of the options purchase price.

Exit the trade if:
- The stop order is triggered
- The underlying shows a trend trading exit signal (e.g., the Three-and-Three rule from the Stock Investing course)

Exit or roll the trade if:
- Delta is .86+
- 20 days or less to expiration

Routines
Daily:
- Monitor watch list for entries.
- In open positions, identify deltas of .86+ or 20 days until expiration to exit or roll.

Weekly: Conduct searches and update watch list.

Quarterly: Check portfolio performance against a benchmark, like the S&P 500®.