Election Year Strategy

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Cash Secured Put Writing

Options Give You Options

You may be tempted to wait on the sidelines in "Cash" until the election in November. Instead of simply waiting for that to happen, you could take an approach that is a little more pro-active and sell (write) a **Cash-Secured Put**. buy underlying shares if assigned, and at a price lower price that you select in advance.

Collecting Premium

An investor who employs a Cash-Secured Put writes a put contract, and simultaneously deposits in his brokerage account the full cash amount for a possible purchase of underlying shares. The purpose of depositing this cash is to avoid using leverage and to ensure that it's available should you be obligated to purchase shares at the put's strike price.

Increased market volatility from economic uncertainty in 2016 has elevated the value of premiums collected. Regardless of the direction the stock price takes after the put is sold the put seller keeps the premium.

Who should consider selling cash secured puts?

"An investor who would like to acquire shares in a particular security, but is willing to wait for them to trade at a target price that is below current market level." (cboe.com)

You will be paid, in the form of the premium received for selling the put, in return for accepting the obligation to

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Option Pricing

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The price of an option consists of two main parts.

Intrinsic Value is based upon the current market price of an underlying security or Exchange traded Fund (ETF) with respect to the strike price of an option.

Time Premium is the excess value which decays over the life of an option. Time premium is based in part on volatility, interest rates, dividends and the number of days to expiration.

Investor Insight

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The investor writing options is seeking to profit by capturing the amount of time premium left in an option.

Collecting Premium

On the upside, the risk is one of 'loss of opportunity'. After selling the put, the underlying stock price can increase above the put's strike price. In this case, neither a put seller, nor an investor who originally entered a low limit order for the stock instead, will buy the stock. **The put seller, however, keeps the put sale premium received.**

On the downside, the break-even point for this strategy is an underlying stock price equal to the put's strike price minus the premium received for selling the June 2016 option.

For example, last night's closing market price of the Russell 2000 ETF, (symbol: IWM) was $102.73, while the June 102 Put closed at $4.73.

The break-even purchase price if shares declined would be $102.00-$4.73 or $97.27 per share; 4.63% below its closing price on February 29th, 2016. If shares stay above $102.00, the static ROR is 4.63% over 109 days.

This strategy isn't for everyone. To determine if will help achieve your investment goals, contact Cenacle Capital Management at 847.686.4800 or email me at: info@cenaclecapital.com

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Footnotes: [1] https://www.cboe.com/strategies/equityoptions/cashsecuredputs/part1.aspx