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The Smart Option Seller

Let's Grab That Cash!

Issue #1076 January 16, 2024 - By Lee Lowell

Profit Results - CVS Health (CVS)

Hello Smart Option Sellers,

Hope everyone had a good weekend.

On Friday we adjusted our CVS buy-back price up a touch in order to lock in the gains.

Well, we really didn't need to move it very far as the majority of fills came in at $.06 per contract.

This low price surprised me a touch, but fills ranged from $.05 to $.07 per contract (depending on when you placed your order), and there was a large $.06 offer level for pretty much the whole day.

That worked out well for us, as it was only a penny off the $.05 official price we were shooting for.

Here's what we did (official):

Bought back (bought-to-close) all of the CVS February 16, 2024 $60.00 strike put option contracts for an official debit buy price of $.06 per contract as a closing transaction (bought-to-close).

Currently, this put option is worth roughly $.04 to $.06 per contract, so if you didn't place your buy-back trade yet, you can still get filled within our range.

Here are the profit details:

We originally established (sold-to-open) this put option on December 11, 2023 for a sale price of $.25 per contract, and now we took gains by buying it back (bought-to-close) for $.06 per contract.

With the fill at $.06, it locked in a gain of $.19 per contract ($19 for every contract traded) and a return on margin (ROM) of 1.6% ($19/$1,200) in one month's time. If you like to annualize, the return is roughly 19%.

You might notice, that although our dollar gains are typically the same for each trade, our ROM can fluctuate quite a bit.

The reason being - the strike price has everything to do with how much margin you will be required to hold aside, and thus, will affect your ROM. The higher the strike price, the higher the margin requirement. And vice versa. This is the main reason why I like to focus on lower-priced stocks - typically $50 and under.

To understand how the margin works and the calculations involved, here's the breakdown:

Whenever we sell an option contract, your broker will require you to maintain a "margin requirement".

The margin requirement is made up of free cash funds that are already in your account and will need to be held aside while the trade is active. Think of it as collateral. You are not borrowing money from anyone nor are you paying interest to anyone.

Some people can confuse the margin requirement with "buying on margin". They are completely different concepts. We are not "buying on margin" when selling put options (you can read my Margin Primer in the Members-Only section of the website).

The margin requirement is typically 20% of what it would cost to buy 100 shares of the stock at the strike price. In this case: 20% x $6,000 = $1,200. Your specific margin requirement at your broker may be higher or lower than that. If you are unsure, just ask them. Your margin requirement will also have an effect on your final ROM.

So for this trade, our margin requirement was $1,200 per each put option contract sold.

Our profit on this trade turned out to be $19 per each put option contract sold.

Hence, the return on margin (ROM) comes out to $19/$1,200 = 1.6%.

Also, the fill at $.06 allowed us to capture 76% of the full profit potential ($.19 gain/$.25 full potential = 76%).

When selling options (puts or calls), your full profit potential is capped at what you initially sell the option for. In this case, that amount was $.25 per contract.

We like to close trades early (buy-to-close) before expiration when we can capture at least 80% of the full profit potential. This is called my "80% Rule". Although we captured a hair less than 80% on this trade, we still locked in good gains.

Locking in early wins is just smart money management and it allows us to free up cash to put towards new trades.

Congratulations to those of you who participated.

Ok, that's all for now.

Continue to hold all other positions as-is.

Contact us here with fills, comments, questions or concerns.

Best,

Lee
Let's Grab That Cash!

Current Portfolio

Continue to work all other trades as instructed and continue to hold all other open positions as-is.

See the Current Portfolio below for current prices & instructions.

Note on the Current Portfolio - if you are a new subscriber and don't have a position yet on any of our trades, make sure you enter your order at the original recommended prices. The Current Instructions column gives the most recent updates. If you are unsure or have any questions, please ask us!

Smart Option Seller Portfolio

Put-Sell Option Positions	Entry Date	Entry Sell Price	Current Price	Current Instructions
CVS Feb 16, '24 $60 P	12/11/2023	$.25/contract	$0.05	Closed. BTC for $.06 per contract
				See instructions from 1/12/24 Alert
BMY Mar 15, '24 $42 P	12/22/2023	$.26/contract	$0.18	STO for $.25 per contract or higher
				See instructions from 12/22/23 Alert
MU Mar 15, '24 $62.50 P	1/3/2024	$.26/contract	$0.16	STO for $.25 per contract or higher
				See instructions from 1/3/24 Alert
Unofficial Position				
UNG Jan 19, '24 $4.00 Call -	4/11/2023	$3.60	$2.05	See instructions from 4/11/23 alert
SCHW Jan 19, '24 $55 P	11/7/2023	Various	$0.04	See instructions from 11/7/23 Alert
UNG Jan 19, '24 $5.00 P	11/30/2023	Various	$0.01	See instructions from 11/30/23 alert
CVS Feb 16, '24 $72.50 P	12/11/2023	Various	$0.78	See instructions from 12/11/23 Alert
CVS Feb 16, '24 $75 P	12/11/2023	Various	$1.48	See instructions from 12/11/23 Alert
BMY Mar 15, '24 $52.50 P	12/22/2023	Various	$3.05	See instructions from 12/22/23 Alert
MU Mar 15, '24 $80 P	1/3/2024	Various	$1.95	See instructions from 1/3/24 Alert
Legend				
STO = Sell-To-Open/Sold-To-Open				
BTC = Buy-To-Close/Bought-To-Close				
BTO = Buy-To-Open/Bought-To-Open				