OptionsWest

Trading Service Pointers

When the Covered Call Trade is NOT Called out …
and you own the stock.

What are our management approaches?

Solutions ... When the trade is NOT called out to cash

There are a number of possible scenarios…

- The position is still above your breakeven, positive, but below the strike price
- The chart looks good
- The position is below the breakeven and is negative
- The chart looks bad
- The sector has turned south
- The market is bearish

The first concept to learn here is that this trade did not work and we want out and back to cash, asap. To keep the entire account working on all cylinders we do not need cash tied up in a down position. If we are positive in the position... take the money and run, even if it is only a few bucks and a meager percentage return; as this is not a stock trading account. It is a CC account where the position did not work.

We are not necessarily looking to make a nice profit on a trade that was initially unsuccessful; we first and foremost want the trade back to cash with some positive outcome, no matter how small.

Managing Positions that are NOT Called Out

The question to ask is: What is the best solution for this trade? The chart and the OX positions screen will help us answer this question. So, what are we looking for?

- Should we set a GTC sell order to sell the stock when profitable?
  What percentage are we looking for? Our original strike price?
- Should we sell another covered call on this position? Is a good covered call percentage% even available? When do they report earnings?
- Should we buy more stock to reduce our cost basis?
- Should we sacrifice another successful position to bring this trade profitable?
- Should we swap our poorly performing stock with another hot one for faster exit on the trade?

90% of the time we just set a GTC limit order to sell this position when it reaches the strike price or somewhere above our breakeven point, and we leave it alone until that happens … it takes patience.

Should we sell for a loss, NO! We want to be in the habit of making every trade successful.

Managing a "down" position

This is a situation where the cost basis has dropped below your breakeven and you are negative in the trade. Again, we work not to take any losses in an OptionsWest Style Covered Call account. So, what can we do?

Basic Management Approaches:

1) You can place a sell order at approximately 3% above your cost basis and wait
2) You can place a sell order at some point above your break even and take a smaller percentage return to get back to cash asap
3) You can write another covered call against this stock to further reduce your cost basis in the position
4) If the loss is small you can sacrifice another successful trade and make an "accounting adjustment" to bring both trades positive and get back to cash
5) You can also purchase more stock at this new trading level and lower your cost basis
6) If the stock is particularly troublesome you can actually swap horses and ride the trade to profitability on a different steed.

Five Basic Management Tools:

1) **Patience** 90% of the time all we want to do is to be patient enough for the position to recover. If the chart and news and fundamentals are still good we can place a limit sell order to sell the stock at a price that will earn us out 3% return. If the chart and news are not promising you can place a limit order to sell the position somewhere above the break even and take a smaller percentage return to get back to cash.

2) **Selling a 2nd Cover Call** When the chart and the time decay of the new option make sense, (we usually wait a week and half or two weeks) we can sell another next month or even a week call if available against this position to bring down our cost basis in the trade. The chart is our guide. You can sell an OTM call at a strike price that will leave us with a new break even above the strike price of the new call option. This assures us a positive return should we be called out. You can many times sell a call at a strike price lower that the current breakeven, if the price you are getting for the call pulls your breakeven down below the new strike price.

3) **Making an Accounting Adjustment** This move is basically stepping back and taking the "big picture" view. We call it honest cheating, as we sacrifice a small part of a successful current trade, to save a challenging trade. We steal some funds from a successful current trade to bring a position that is a bit underwater to a positive level. This is like stepping back and managing your entire account for success. Both positions are now winners and you are back to cash!

4) **Purchasing More Stock** This effectively lowers our coast basis in the position, reaching the new trading level. This step can be taken only when others are buying this stock and it has established support and a new trading level. The chart, news, and reasons for the drop in price are taken into account before making this decision. Did the stock drop with the market, or is the stock broken? It is usually a very profitable approach when taken at the right time, as the stock bought at the lower level brings the entire position profitable quickly as the stock price rebounds. We use this approach to get our daily trading of this position in the new trading range of the stock.

5) **Swapping Horses** This is a fairly drastic step and should be taken only when required … it should be a rare occurrence in your CC account. We basically switch to a winning stock to recover the trade. If you need to bring a down position back to profitability, it is much better to do it with a stock that is moving up strongly than with a stock that is broken. Since we refuse to take a loss on our CC account we manage this new horse(stock) back to profitability.