

Structured Dividend Income

Generating double digit
returns on idle cash

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Nikhil Jaisinghani

Titan Capital Partners, LLC

www.titanstrategicincome.com

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Preface

My entry into the professional world of finance was circuitous to put it mildly. I grew up in a single parent household with an Indian father who was, to put it bluntly, fierce. He wanted a son with a PhD, perhaps following his footsteps into engineering. He also wanted a son to play tennis with. On both fronts, I disappointed.

I was born in Madison, Wisconsin, but my dad and I moved to Virginia the summer between first and second grade to be closer to my mom and sister who had moved to North Carolina. Minus a year in London when my mom and step-dad had temporary assignments there, I was the product of public schools. In college, I majored in math and physics while taking the courseload for, but never declaring, minors in astronomy and computer science. I was a well-rounded nerd.

My intention was to do a PhD in physics, but that all changed in a single moment. I was walking across a bridge at the University of Virginia when it occurred to me that we didn't really know if the field of physics was truly knowledge or just a bunch of accurate models. I had just taken a class in special relativity which predicts nearly identical results to Newtonian physics at low

velocities, but their explanation for how the universe works were completely and utterly different. Perhaps someone would find a new model that would change how we think about other aspects of physics. Perhaps special relativity would be replaced. Was I going to study a set of models which were doomed to be disproven in 100 years? By the time I got to the other side of the bridge, I had abandoned the pursuit of a PhD.

With no real plan in place, I took a job writing software for a mathematical consulting company that did a lot of US government contracts. I was good at it but bored doing it. I thought it was the location so I moved to California where I had a short stint writing software in Silicon Valley during the dotcom boom. I was still bored and life seemed to be shaping up to be less than I had imagined. Fortunately, before I had left for California I had submitted an application to the Peace Corps. A few months after I moved to California, I was packing what few things I had and moving to Nepal as a volunteer math teacher.

Nepal was mind blowing, and life there was a complete 180 from writing software in Silicon Valley. I had traveled to see family in India

before, but I had never really left the megacities. In contrast, my Peace Corps village was a two day walk from the nearest road. I had to walk to a spring to collect drinking water. I used a kerosene lantern at night to read. I read. I began writing short stories and poetry.

I taught math in Nepali to middle schoolers in a farming community who more than likely would never need math – or at least not the math I was teaching them. While overwhelming and frustrating, my time there was also amazing. If I needed to go somewhere, I'd throw a few days clothes in my pack and start walking, knowing I could be walking for days. When I needed to sleep along my journey, I would stop and ask to sleep on someone's porch (it usually cost less than ten cents to spend the night on a porch). I treated myself when I got sick using a box of medicine the Peace Corps issued me. My mind slowed down. I solved some math problems I had been unable to solve years earlier. I left a different person than I entered.

In the months after Peace Corps, I visited Tibet, hitched a ride on a cargo boat in Laos, read the Tao Te Ching (an amazing philosophical text that, despite being only 80 pages, took me weeks to complete), ran out of money in the

middle of nowhere Vietnam and was taken in by a moto taxi driver, made a website for a Tibetan furniture company, crossed into and out of India undetected, ran out of money in India and put myself on a \$0.50 cent a day food budget until I could make it back to my money stash, climbed in Thailand, and taught in an English medium school in South India. All of it made me want to incorporate adventure into my life moving forward. So when I got back, I decided to get a degree in international relations so I could find myself in rural Asia again, getting myself into jams, sleeping in the aisles on buses, the whole nine yards.

It didn't quite work out that way. I joined the U.S. Agency for International Development and was soon after sent to Abuja, Nigeria as a project development officer. Nigeria was another incredible experience, and I still have a soft spot in my heart for Nigerians (which puts me in the minority, I know), but I felt constrained professionally and I spent too much time in the capitol and not enough in rural villages.

So I quit and started a company to process flared gas in the Niger Delta region into products and services for local communities. This was my introduction to social enterprises. My business

partner and I got further than we should have, but not far enough; our pilot project got co-opted by the World Bank and we were back to square one after years of work. At that point, I no longer lived in Nigeria and had moved to India. And I needed to figure out something to do.

A year into sitting at my desk, irritated at not having something to build, I turned to an article I had read years earlier about a company called Husk Power Systems. HPS, as it was called, used rice husk to generate power for small villages in Bihar, India. Without really an idea, I decided I wanted to get into off-grid energy, not selling solar products but building a rural renewable energy utility company. That was as much as I had figured out when I was asked to attend a meeting for off-grid energy entrepreneurs in Mumbai. I pitched, nobody (including myself) knew what I was pitching, and after an awkward silence I sat down. An hour later, an entrepreneur from Greenlight Planet got up, talked about their 1-watt LED lantern and how it could be charged with a small solar panel. By the time I got to the airport that evening, I knew what my solution for off-grid electrification would look like. And by the time the plane landed, I had the unit economics roughly worked out.

In the months to come, I fully developed a low-cost solar micro grid design to provide electricity to off-grid communities of North India; I didn't realize it, but it was actually the world's lowest cost renewable micro grid design. We built a test grid. We built another. We uninstalled them after learning how not to deal with communities. We built more micro grids. We raised grant funding. We built more micro grids. We won a bunch of awards. We raised equity. We built more micro grids. I spent nearly ten years building Mera Gao Power. The experience had some incredible highs which still make me smile and some painful lows from which I still have not healed, but all in all it was an incredible and irreplaceable experience. Towards the end, our relations with our investors soured and I left the company. I was back to sitting at my computer searching for an idea.

It isn't quite Forrest Gump's topsy-turvy life story (the book is way crazier than the movie, by the way), but it was an interesting series of career twists. And the next job was going to be yet another turn in the road; as much as I loved off-grid energy, I had no new ideas to pursue in that space and was ready for a fresh start.

So I teamed up with a colleague to start an

investment advisory that used an asset allocation model we built based on the Black-Litterman model; as time went on, we drifted further and further from the Black-Litterman model, making what we thought (and still think) were improvements to the process. One input our model needed that was hard to measure was the market's expected return of the assets in which we were invested. I didn't put much faith in the Capital Asset Pricing Model so spent a lot of time thinking about better options. Which led me to **options!** It seemed intuitive to me that options must incorporate market forecasts, and with so many options on a single underlying asset, there must be a way to extract this information. I felt like a chemist trying to extract the essence of a fruit from the pulp, skin, and seed. I just needed to figure out the right process.

Turns out I wasn't the first to go down this path. And while I did not quite find what I was looking for in my research (though the model I developed will soon be published in the Journal of Economic Studies), I began to understand options really well and began chewing on what seemed like a contradiction in options pricing (I won't spoil it here but I go into detail in Chapter 3). By the time I had resolved it, which was years into my process, I had uncovered a key learning

– that by the nature of how options are priced, there is an options trading strategy that, just based on the math, is inclined to make money. And better yet, it wouldn't require me to allocate a portion of my portfolio to buy something new (which was great because I liked all of the stocks I owned).

I began trading the strategy in my personal portfolio in 2021 and made money each year, including through 2022 when both stocks and bonds were down big. I became convinced that this strategy has applicability beyond just my portfolio; after all, who wouldn't want to boost their portfolio return each year? If you are committed to it, you could have two, three, or four times as much money in retirement as you would otherwise, allowing you to retire years earlier or live more meaningfully in retirement.

That led me to start Placid Sound Capital Management. And in October 2025, I will begin trading options in the Titan Strategic Income Fund which I am very excited about. But I also felt the need to share this idea more broadly. Thus this book. I have written it with the intent of educating investors about options and explaining a strategy which has worked for me. But I have intentionally tried not to be

prescriptive. As an investor, you need to have conviction in your strategy. And what better way to have that conviction than to be integrally involved in its construction?

I hope the book achieves its three goals:

1. convincing you that you can monetize the collateral in your account, growing your assets faster
2. relaying enough information on options such that you understand what they are, understand their risk, and understand why I believe they offer a unique and attractive risk-return profile
3. providing you the direction you need to put in place a plan, whether that be making trades yourself or finding someone to execute the strategy for you

If I have written this book well, its contents will guide you in your personal finance journey. If you feel inclined to share your experience trading options or your take on the book, please email me at [nikhl@titanstrategicincome.com](mailto:nikhil@titanstrategicincome.com). Happy trading!

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Chapter 0: Read This First!

I had considered using a standard chapter heading of the likes of “How to Use This Book”, but I realized I almost always skip those chapters. But I am trying to save some of you time. The meat of this book is in Chapter 3, and I want to make sure you get there. So I am using this space to make recommendations on what you should and should not read, based on you, the reader to make sure you get there.

So here goes. Figure out which profile best describes you and then consider the recommendations that follow.

I’ve Got Nothing But Time: Great! Then proceed directly to Chapter 1 and read every page thereafter. But do not read the rest of Chapter 0 as there may be some spoilers.

I’m Busy, I Know What a Put and Call Are, and I Don’t Need a Refresher: Okay, okay! You don’t have to tell me twice. Proceed to Chapter 3. Read Chapters 3 and 4 and consider Chapter 6.

I’m Busy But I Don’t Know What Those Things You Mentioned Above Are, Or At Least Not Well

Enough to Continue Without an Explanation: Your time is valuable. So go to Chapter 2 and read the first 9 points in that section. Then proceed to Chapter 3. Read Chapters 3, 4, and 6 and I strongly suggest Chapter 5 as well. A bit of extra reading today may help you learn what others learned the hard way. And you don't want to learn the hard way.

Chapter 1: Unlocking Hidden Potential in Your Investment Portfolio

Each of us works tirelessly to maximize our financial outcomes. Whether we're planning for retirement, saving for college, or eyeing that vacation home by the lake, achieving our goals relies on us generating the best possible return on our investments. Many of us dream of that elusive financial freedom — where the returns from our portfolios alone are enough to support our lifestyle. For others, it's about creating a legacy, ensuring that our loved ones are taken care of long after we're gone. Whatever your financial goals may be, there's one simple truth: achieving them faster often comes down to one thing — boosting the returns from your investments.

Let's face it, managing investments isn't easy. With so many choices, fluctuations in the market, and the unpredictable nature of the global economy, it can be tough to figure out what's actually going to help your portfolio grow in the long term. Many of us rely on a strategy that

involves purchasing a combination of stocks and bonds, hoping that over time they will grow and appreciate in value. Yet, there is an underutilized asset hiding within every brokerage account — a resource that can unlock an additional layer of value that most investors overlook.

These hidden assets are the stocks you've already purchased and are holding in your portfolio — your equity positions — which can be used as collateral to generate additional income and boost your returns. That may sound confusing; the stocks in your portfolio have already been selected to help grow your account. How can they be underutilized? We will explore this idea further in the coming chapters.

The Power of Collateral

When most people think of collateral, they think of loans or mortgages. The value of your house, and the fact it cannot be picked up and moved easily, offers collateral which allows you to borrow a sum of money far greater than your annual income. The collateral is there “just in case”. Just in case you lose your job and cannot pay your mortgage, the house has real

accessible value which the lender can tap into to make their positions whole.

However, in your brokerage account, collateral can be used in a very different way. Few traders realize that the shares of stock in their portfolio are valuable not just because of their potential for price appreciation, but also because they can be leveraged in creative ways to enhance your investment outcomes. Just as a bank looks at the value of the house you are buying as security that the loan they are making will be repaid, your brokerage can use the value of your stocks as security against which you can conduct additional investing activity. And while stocks can be sold and moved, the brokerage firm has control over those transactions and isn't at risk of making a loan it cannot ensure is repaid. The brokerage firm's position as custodian of your securities provides the same assurance to them that the immobility of your home provides to a mortgage lender.

So, why does this matter? Let me walk you through an example that might change the way you think about your investments.

A Real-Life Example of the Power of Collateral

Let's say you have \$1 million in your brokerage account. For simplicity, let's assume that this money is invested in an ETF that tracks the S&P 500, which, historically, has delivered an average return of about 7% per year. Over the long term, that 7% annual return means that your initial investment will grow exponentially. In fact, the rule of 72 tells us that at a 7% return, your money will double roughly every 10 years.

So, after 10 years, your \$1 million would grow to \$2 million. After 21 years (doubling every 10 years was an estimate), it would grow to \$4 million. That's certainly an attractive outcome, right? The power of compounding at work.

However, what if you could increase your return by just a few percentage points per year? What if you could boost that 7% return to 10.5% per year instead? Let's break down the numbers and see how this small change can lead to an entirely different financial outcome.

Boosting Your Return

If you can increase your return from 7% to 10.5%, the effects of compounding are even more pronounced. Let's rework the example. With \$1 million invested at a 10.5% return, instead of doubling every 10 years, it will double every 7 years. So after 7 years, your \$1 million will become \$2 million. After 14 years, it will become \$4 million. But here's the exciting part: After 21 years, your account will have quadrupled, exceeding \$8 million.

By simply increasing your return by 3.5% — from 7% to 10.5% — the value of your portfolio nearly doubles over a 20-year period. Instead of having \$4 million, you now have closer to \$8 million, all from a relatively modest boost in your annual return.

And if you are exceptional and can add 7% per year to your portfolio return? Well now your \$1 million balloons to over \$15 million over 21 years!

Portfolio Value with Yield Enhancement

Year	7% Return	10.5% Return	14% Return
0	\$1,000,000	\$1,000,000	\$1,000,000
5	\$1,402,552	\$1,647,447	\$1,925,415
10	\$1,967,151	\$2,714,081	\$3,707,221
15	\$2,759,032	\$4,471,304	\$7,137,938
20	\$3,869,684	\$7,366,235	\$13,743,490
25	\$5,427,433	\$12,135,480	\$26,461,916
30	\$7,612,255	\$19,992,557	\$50,950,159
35	\$10,676,581	\$32,936,673	\$98,100,178
40	\$14,974,458	\$54,261,416	\$188,883,514

And while 3.5% and 7% additional returns are great, what if we could add 10%? Instead of a 7% return, what if we could generate an average of a 17% return per year? That roughly translates to doubling our money every 4 years. So now what happens to your \$1 million after 21 years? Your money would have doubled more than 4 times! That means your \$1 million would become \$27 million. That \$4 million you would have retired with by generating average stock returns for 20 years no longer looks all that impressive.

Before we continue, it is worth stating something which may already be obvious to you. If you can deploy the technique described in this book to

add 10% to your annual return, maybe your base portfolio doesn't need to be stocks anymore. Perhaps you just keep cash, treasuries, a money market fund, or corporate bonds. If you can get 3-4% from those and use the technique in this book to generate another 10% on top of that, you are doing much better than the long-term stock return average and hopefully doing it with less risk (as a plug, this is the strategy deployed in the Titan Strategic Income Fund).

Boosting Your Long-Term Return with Collateral

The obvious question, then, is how can you use the collateral in your brokerage account — all those stocks you own — to create that boost in your annual returns? Well, there are a few ways to use your collateral to boost your returns, but they are not all equal. Let us review the options.

Securities Lending

The first way to boost your returns using your stocks as collateral is securities lending. This is how

securities lending works:

1. You tell your broker you're willing to let others borrow your shares
2. Someone who wants to "short" the stock (bet that it will go down in price) borrows your shares
3. They sell your borrowed shares on the market (don't worry — this isn't like an acquaintance borrowing your car and selling it! Your position is protected.)
4. The borrower now owes you the same number of shares that they borrowed from you, no matter what happens to the price
5. In addition, the borrower owes you a lending fee while your shares are borrowed. This fee is based on market forces

Let's break this down with a simple example:

So let us say you own 100 shares of stock ABC. Another investor wants to short ABC. So they borrow your 100 shares and then sell them (wait, what? Don't worry, the brokerage is going to ensure you get your stocks back along with all of

the appreciation — or depreciation — that occurs while the stocks are being borrowed). Now the brokerage notes that the other investor owes you 100 shares. So when the value of ABC goes up, the other investor's obligation to you is now larger; they owe you 100 shares of a more expensive asset. But if the value goes down, they owe you 100 shares of a less expensive asset, and meanwhile they have the proceeds from selling your 100 shares at a higher price. This is of course what the short seller is hoping for.

But they can't just borrow your shares for free. There is a short fee that the brokerage charges the short seller. It may be 0.2% per year, but I have seen instances when it was above 10% per year, albeit for short periods of time. The brokerage charges this to the short seller and then splits it with you. And all the while, the short seller still owes you the 100 shares so you continue to benefit if the stock appreciates. Not too bad!

The truth is you may find that most of your shortable shares are not borrowed, and when they are they may not be borrowed for long. So even if the short fee goes up to 2% and you get half of that, it may only be on 10% of your portfolio at any one point in time. It is unlikely it will amount to a full 1% return per year, and even

more unlikely that it will get you 10%. Still, whatever you get is just gravy; as long as your brokerage is ensuring the short seller has sufficient funds to pay you back and closes out the short position when that becomes questionable, your shares are safe and you get a little bit of extra income.

But securities lending will not get you from a 7% to a 10% return, never mind to 17%. So let us look at some other options.

Investing on Margin

Margin investing works pretty similarly to a mortgage. Let us say you own a house and you need some short-term liquidity. Your bank would appraise your house and allow you to borrow a percentage of this; the money would be put in your bank account and voila, you have cash to spend!

But as anyone with a mortgage knows, it isn't free. You pay interest on your mortgage. When you buy a house in the United States, you can usually get a fixed rate loan; in this case, the loan value is constant for as long as you owe money

on it. But you can also get a variable rate loan where the amount you owe each month is dependent on the Federal Fund Rate, the 10-year treasury yield, or some other measurable rate. Margin loans are more like these variable rate loans.

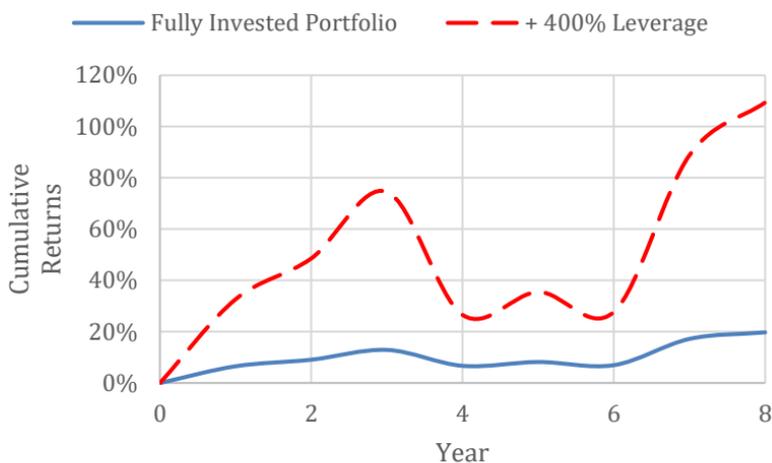
Here's how margin investing works:

1. Your broker lets you borrow money using your existing shares as collateral
2. You use this borrowed money to buy more shares
3. You pay interest on the borrowed amount
4. Your potential gains — and losses — are magnified; but remember that whether the shares in your account go up or down, you pay interest to the broker. This will dampen returns when prices go up and magnify losses when prices go down.

With a margin loan, you are asking your brokerage to be allowed to purchase shares of value in excess of your account value. You can use the stocks in your account to borrow more money to buy even more stocks! And while with a mortgage you cannot borrow more money

than your house is worth, with a margin account you can often borrow a multiple of your account value. The reason is your brokerage isn't allowing you to withdraw the funds, they are to be used to buy more stocks which are custodied at the brokerage. Back to our example, if you have \$1 million in your account and you borrow an additional \$4 million, you can now have \$5 million in stocks in your account. Your account value will still be \$1 million (\$5 million in stocks minus \$4 million in outstanding debt), but if markets go up 5% overnight, your account value will be \$1.25 million (\$5.25 million in stocks minus \$4 million in debt). That means your account value went up 25%! (Of course, if markets go down 5%, your account value will drop by 25%). It is a high-risk high-reward strategy. (Note, borrowing \$4 million on a \$1 million account is extreme. I am not recommending that you do this; in fact, I am recommending that you **not** do this).

The Impact of Leverage on Returns and Volatility



Note: The above does not include estimates on margin interest rates.

At first glance this looks good. But we have forgotten something; just like mortgages, you pay interest on that loan. And it is usually a few percentage points above the Federal Fund Rate. In fact, it varies wildly — see the table of margin rates from May 2025 below (you can get updated figures from <https://www.brokerage-review.com/article/brokerage-firm-margin-rates.aspx>).

Brokerage	Rate	Brokerage	Rate
Fidelity	12.6%	TastyTrade	11.0%
TradeStation	12.5%	Tradier	9.5%
JP Morgan	12.3%	TradeZero	9.0%
Citi	12.2%	ZacksTrade	8.8%
Ally Invest	12.0%	Webull	8.7%
TIAA	11.6%	Moomoo	6.8%
Sofi	11.0%	IBKR Pro	5.8%

Source: BrokerageReview.com

The problem with margin loans is that the margin loan rate is your hurdle – you need to generate returns from your stock portfolio above this margin rate in order to add value to your portfolio. If the Federal Fund Rate is 3% and your margin loan interest rate is 2.5% above that, you are paying 5.5% even if stocks are flat. If stocks go up 7% over a year, you only get an extra 1.5% (7% gain minus the 5.5% margin loan rate). And if stocks go down 7%? You lose 12.5% on the amount you borrowed (-7% loss from your stocks minus the 5.5% margin loan rate). So your hurdle to add value is significant unless you are investing in an ultra-low interest rate environment.

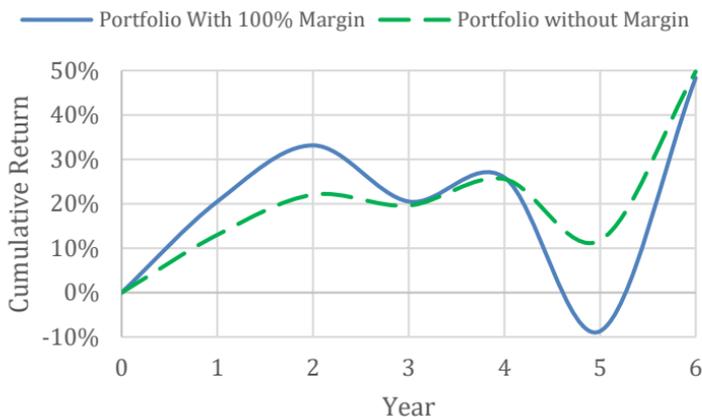
And because of how compounding works, the years of loss will take longer to recover. Over time, even if the market is up 7% on average, you

may not add the full 1.5% additional return each year. The following table shows a comparison between two portfolios: 1) a portfolio that is fully invested in stocks without margin, and 2) a portfolio which is fully invested but also has 100% margin; that is, if the account holder had deposited \$100,000, they would purchase \$200,000 worth of stocks, \$100,000 of which would have been purchased with a margin loan. Now if the stocks were to generate a 7% return per year over 6 years and the margin loan rate was 5.5%, what would the return be on the account with 100% margin? You might think that the first \$100,000 would generate a 7% per year return and the second \$100,000 would generate a 1.5% per year return (the 7% return from the stocks minus the 5.5% paid on the mortgage loan) which would result in an 8.5% annual return. In fact, the portfolio with margin would actually underperform the simple portfolio even though the annualized return of the market is above the margin loan rate. The following table presents illustrative figures to demonstrate this point.

	Stocks	Stocks with Margin
Year 1	13.0%	20.5%
Year 2	8.0%	10.5%
Year 3	-2.0%	-9.5%
Year 4	5.0%	4.5%
Year 5	-11.0%	-27.5%
Year 6	34.0%	62.5%
Annualized	7.0%	6.8%

For those of you who doubt the calculations or are more visual learners, the following graph presents the cumulative returns over time of the two different portfolios.

Impact of Margin Fees



Margin loans may suit you well when rates are low and you can borrow for less than 4%, or when you are certain a stock is going to catapult (I'm not going to tell you that you can't know this because some people are great at picking great stocks, but I can honestly tell you that most people who think they can pick the stocks "guaranteed" to pop actually pick lousy stocks). As of early 2025, the interest rate environment would be too high for me to recommend margin loans; it creates much greater risk and potentially lower long-term returns too.

A Better Way

To summarize, so far we have discussed two not-very-appealing ways to monetize the collateral in your brokerage account:

1. You can lend your shares to short sellers in exchange for interest income—though the yield may be modest, depending on demand and market conditions.
2. You can invest using margin to amplify returns, but this introduces a borrowing cost, creating a hurdle rate you must surpass to generate additional income.

So now we are getting to why I am writing this book: using your collateral in a safer (but it's investing, so you must always acknowledge that there is risk) strategy to boost your returns. You can use the collateral in your brokerage account to sell puts.

I know that many people aren't familiar with puts. Don't worry, I will cover this in the next chapter. Some are familiar enough to know they are options, and many people are afraid of options. I'll get into that more in the next chapter as well, but it is important to say this now: options in your brokerage account are like knives in the kitchen; if you are careless and sloppy, you may lose a finger. But once you learn how to use them safely, they are irreplaceable tools, tools that can dependably add 7%, 10%, or even higher additional returns per year, depending on your risk threshold. That is a good segway into risk...

The Risk-Adjusted Return

It's important to understand that boosting returns through collateral is not a free ride. As with any investment strategy, there are risks involved. Selling puts creates a potential future liability.

And if those liabilities are correlated with the stock market, your puts can lose value from a large downturn in the market just when your underlying portfolio is losing value, creating even larger drawdowns. And downturns happen, we know that. So at some point in your options trading experience, this will happen to you; you need to be fully aware of that possibility so when it happens you aren't surprised (and don't write me hate mail). It is never fun, but it is easier to tolerate when you have prepared for it and firmly believe in the long-term benefit to your account value.

This is where experience and familiarity will help you; you can never eliminate risk, but you can measure it and strategically minimize it. As an example, while 2022 was an awful year for markets, with US equities, international equities and even bonds down double digits, I sold puts throughout the year and actually made a 2 percent return on my options trading. My aim is more than a few percent in a year, but in that market, a few percent was a great result. I was able to do that by integrating downside risk into my selection process.

Here's the critical point: by utilizing your portfolio as collateral, you can enhance your returns

without taking on an equivalent amount of additional risk. In fact, when done correctly, leveraging your portfolio in this way can at times reduce losses in your investment account, as the income generated from collateral can partially offset the losses from your stocks during market downturns. And as we discussed earlier, that extra few percent you earn? It is the difference between your \$1 million turning into \$4 million and \$8 million or \$15 million or \$27 million.

While this strategy is more effective over long-term horizons where the benefits of compounding can really shine, you should begin seeing the results immediately. In essence, by using your existing assets in a strategic way, you can increase the overall efficiency of your portfolio, leading to faster growth, greater wealth accumulation, and a more secure financial future.

Realizing Your Goals Faster

For those of us with long-term financial goals — whether it's building a retirement nest egg, saving for a child's education, or accumulating enough wealth to enjoy a comfortable lifestyle —

compounding means every little advantage counts. What I've outlined here is not about making risky bets or gambling on speculative investments. Instead, it's about using the assets you already have to generate more income in a strategic and reasonably safe manner.

Imagine being able to retire years earlier than you expected or pass down a more substantial legacy to your children. The possibilities are endless when you focus on maximizing the return on every dollar in your portfolio. By leveraging collateral, boosting returns by just a few percent per year, and reinvesting those gains, you can achieve your financial goals more quickly.

The Takeaway

So, what's the bottom line? Every investor has the potential to significantly boost their returns by tapping into the hidden asset that lies within their brokerage account: collateral. Whether you are saving for retirement, a second home, or simply looking to build a more secure financial future, this strategy can help you achieve your goals faster. And the best part? It's a strategy that doesn't require you to incur margin fees. By

understanding and utilizing collateral, you can unlock the true potential of your portfolio and accelerate your financial journey in a way you may not have realized was possible.

Chapter 2: Understanding Options: 15 Key Concepts for Smart Investors

Introduction

I've been studying and trading options for about seven years now. While I've spent considerable time analyzing options pricing models (and no, I don't believe the Black-Scholes model is the best we can do), my primary focus as an investor has been using options as a tool for low-volatility yield enhancement.

My approach is straightforward: I maintain a fully invested stock portfolio and then sell mispriced puts on top of it. So far, these options have added positive returns to my portfolio every year.

However, I've noticed concerning trends in how other investors approach options:

- Some treat options like casino chips, using high-volatility strategies that amount to

gambling, often resulting in devastating losses

- Others witness these losses and conclude that all options are extremely risky, avoiding them entirely
- Many simply don't understand how options work and don't know where to start; a simple web search generates site upon site explaining the wheel strategy, iron condors, collars, and spreads, all of which quickly become overwhelming and discouraging

The truth is that options can be very dangerous, but they can also be used carefully and with controlled risk. Also, trading strategies do not need to be complicated to supplement your portfolio's return; forget the complicated animal names assigned to complex strategies. There are excellent yet simple options strategies that don't introduce excessive volatility or risk to your portfolio. But you need to understand the fundamentals before you can use these strategies effectively.

In this chapter, I'll share 15 essential concepts about options that will prepare you to make your

first trades with confidence and knowledge. If this list feels too long, focus just on the first 9 which will be important for the remainder of the book. Items 10-15 will be of interest to those wanting to understand more about options and perhaps compelled to develop and test their own strategies.

The Basics

1. Options Are Standardized Contracts

Options are standardized contracts entered into between two private entities (note that the underlying company is not involved; it is you and whoever is on the other side of the contract); there are four key variables which distinguish one contract from another:

- **Underlying asset:** The stock that the option is based on
- **Option type:** Whether it's a call (right to buy) or put (right to sell)
- **Strike price:** The price at which the option holder can buy or sell the underlying asset

- **Expiration date:** The last day the option can be exercised

Each standard options contract represents 100 shares of the underlying stock. To understand what the options contract means, you simply fill in the above details into the following language:

*I, the holder of the option, have the right but not the obligation to **[buy/sell]** 100 shares of **[ticker]** at the price of **[\$strike price]** on (or before, for American style options) the date of **[expiration date]**.*

That's it. That is what an option is. It's just a contract between two people giving the owner of the contract the right to buy or sell 100 options of a particular stock at a particular price on or before a particular date. Okay, maybe that doesn't seem so simple now; after all, buying stocks doesn't require all of these details. But in time, this will all be second nature for you.

Example: Let's say you owned Nvidia shares on November 8, 2024, when the stock was trading at \$148. Worried about a potential price drop, you might want to protect yourself from losses. To do

so you could purchase a put option (remember, a put is the right to sell stocks at a particular price) with:

- Ticker: NVDA
- Strike price: \$145
- Expiration date: September 18, 2026

You of course cannot enter into this contract for free; what a wonderful world it would be if we got free downside protection on our stocks. So let us say this particular option costs \$8 per share. Since each contract is for 100 shares, the cost to protect your position would be \$8 per share \times 100 shares = \$800 total (this is just an example; actual prices shift with market forces).

This put option would give you the right to sell your shares at \$145, even if the market price dropped below that level. So the maximum you could lose would be \$3 (the current price of \$148 minus the lowest price you could sell for of \$145) plus the \$8 you spent on the put.

Alternatively, if you didn't own Nvidia but thought its price might rise significantly, you could buy a call option with:

- Strike price: \$155
- Expiration date: September 18, 2026

If this option were to cost \$7 per share, the cost to buy one contract would be $\$7 \text{ per share} \times 100 \text{ shares} = \700 total .

This call option would give you the right to buy shares at \$155, even if the market price rose well above that level.

2. You Can Sell Options, Not Just Buy Them

For every buyer of an option, there must be a seller on the other side. When you sell an option, you receive the premium that the buyer pays upfront, but you may face an obligation later if the option is exercised. For example, let us consider a call with a strike price of \$100. If at the expiration date, the stock price is \$110, then the call has \$10 of intrinsic value; the owner can buy for \$100 a stock which has a market value of \$110. So if the owner of the call has gained \$10 on their investment, the investor who sold that call has just lost \$10.

3. Buying vs. Selling: Rights vs. Obligations

- **Buying an option** gives you a right but no obligation. If conditions aren't favorable, you can simply let the option expire worthless.
- **Selling an option** creates a potential obligation but no rights. If the option is exercised, you must fulfill the terms of the contract.

Example: If you sold that Nvidia \$155 call option and the stock price rose to \$165, the option holder would exercise their right to buy shares at \$155. As the seller, you'd be obligated to deliver those shares at \$155, even though they're worth \$165 in the market. This would result in a \$10 per share loss (\$1,000 total for the contract). But remember, you also would have received the \$700 from the buyer to begin with, so your losses wouldn't be as large as they might initially seem.

4. Option Prices Are Quoted Per Share

When you see an option price of \$7, that's the cost per share. Since standard contracts cover

100 shares, the actual cost to buy one contract would be \$700.

5. Options Can Be In, At, or Out of the Money

- **Out-of-the-money (OTM):** The option has no intrinsic value yet – i.e. if the option were to expire today, it would expire worthless:
 - For calls this means: Strike price > Current stock price
 - For puts this means: Strike price < Current stock price
- **At-the-money (ATM):** Strike price equals the current stock price
- **In-the-money (ITM):** The option has intrinsic value:
 - For calls this means: Strike price < Current stock price
 - For puts this means: Strike price > Current stock price

Example: With Nvidia trading at \$148:

- A \$155 call is out-of-the-money (the option may have intrinsic value later, but it has no intrinsic value now; why pay \$155 when you can buy at \$148?)
- A \$148 call is at-the-money
- A \$140 call is in-the-money (the option gives you the right to buy at \$140 a share which is valued at \$148 in the market; that means it has intrinsic value)

Combining What We Know So Far

Before we go on, let's just do a bit to make sure we understand what we have covered so far. The following are graphs showing the returns of long and short positions on in-the-money calls and puts through the options' expiration dates. The dashed line in each graph is the return of the stock just as a reference; this allows you to see how different options positions compare to just owning stock.

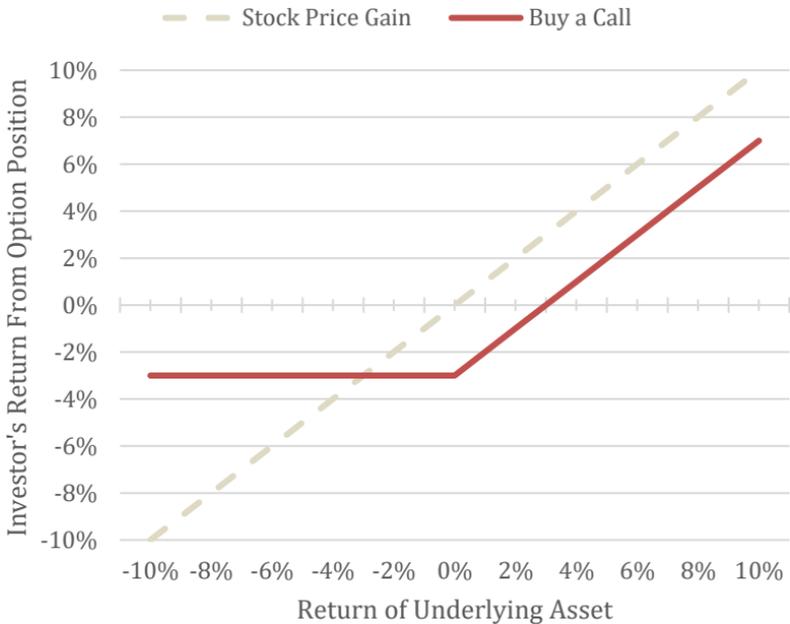
Note, there are times when each option position performs better than the underlying stock, but

there are also times when each option position performs worse than the underlying stock.

Also note that these graphs only cover at-the-money options for one particular expiration date. You would need a new book to show the graphs for all available options for any particular underlying security. This is part of what makes options overwhelming; the additional variables — long and short positions, option to buy or sell, expiration date, and strike price — mean that for any one security, the number of available options positions available measures in the thousands.

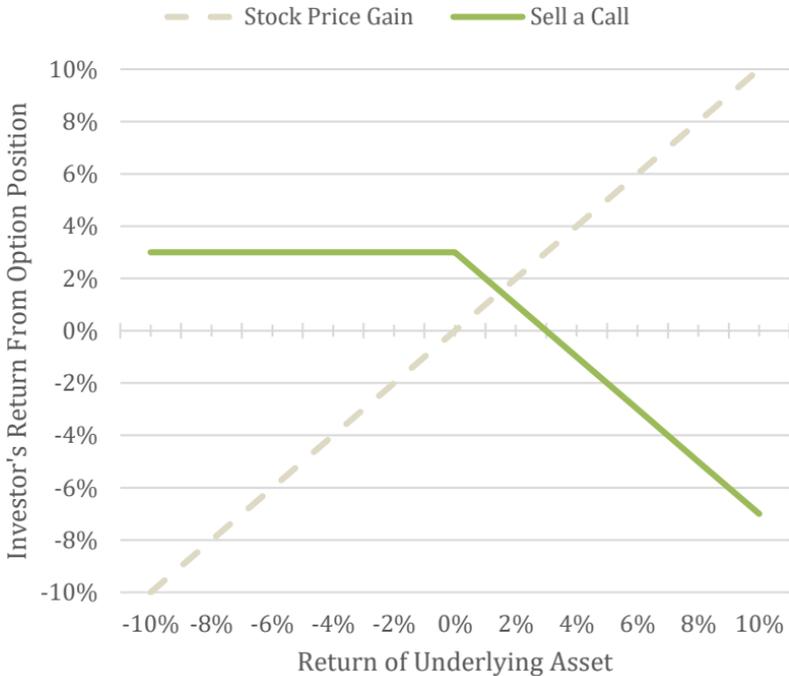
And a final note: the probability distributions are not presented here. Just remember that stocks tend to go up more often than they go down.

Buying an At-The-Money Call



As you can see from the previous graph, buying a call comes at a cost, in this case about 3% of the cost of the underlying security. When the stock rises, the investor benefits, but the cost of the call reduces the return to the investor. On the other hand, if the stock price falls, the investor can only lose the 3% paid for the call while a stock investor could lose much more.

Selling an At-The-Money Call



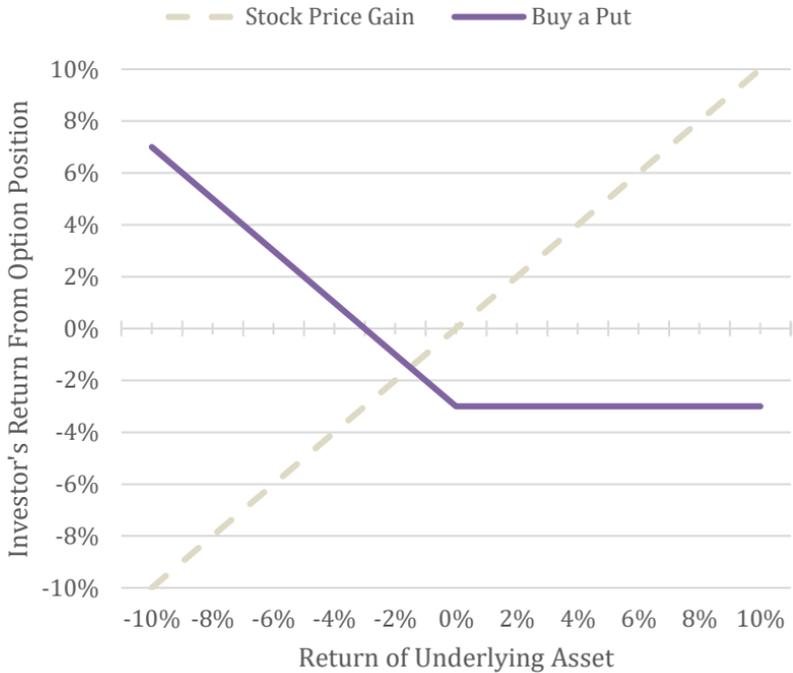
Next up is selling a call. The investor receives 3% of the stock value up front as a premium. As the stock price rises, though, the investor's obligations increase; remember, they have offered another investor the right to purchase stock at a certain price and that right can create a future potential obligation. If the underlying stock rises by more than 3%, the obligation is greater than the premium and the investor loses money. But if the stock price declines, the investor keeps the 3%

premium, making makes money when the stock loses money.

Summarizing the call positions, the call expires with a positive value if the price of the stock is above the strike price at expiration. The owner of the call benefits from the price of the underlying stock having risen while the seller of the call loses. But if the stock price is lower than the strike price at expiration, the value of the call is zero. In this case, the owner of the call has paid money for something that has no residual value while the seller of the call has received payment and has no obligation to the buyer; in this case, the seller wins and the buyer loses.

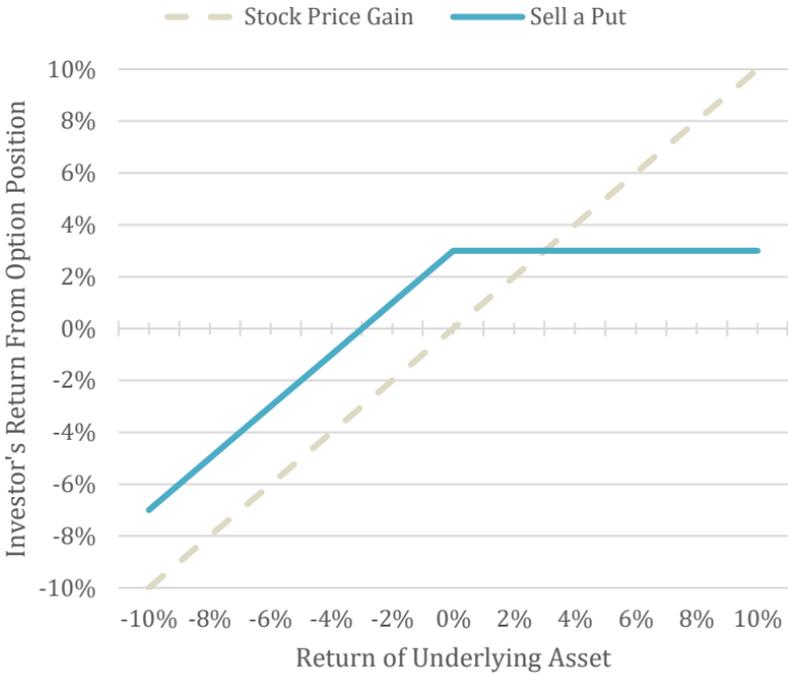
Now on to puts.

Buying an At-The-Money Put



Here is where things get a bit more interesting. While a short call benefits a bit when the underlying stock declines, buying a put has real upside when the underlying stock declines. The put does cost money up front, but that cost is the most the investor can lose. And if the stock keeps declining before the options expiration date, the investor can earn a huge multiple in return.

Selling an At-The-Money Put



The last example is selling a put. The investor receives a premium up front, in this example 3% of the cost of the underlying. As long as the stock price stays the same or goes up, the investor keeps that 3%. And if the stock goes down, the investor's obligation increases, but that loss will be partially offset by the premium collected.

A few final notes before we continue on to more advanced topics. First, in all of the above examples, I assumed the options price was 3% of

the underlying stock. That was just a supposition to allow me to demonstrate the return profiles of each position. Options prices are set by the market and vary by market conditions. On one day, an at-the-money call on Apple stock with 3 months to expiration may cost 3% of the stock price. On another day, it may cost 1%. On others perhaps 5%. How well an options investment turns out depends in part on how the underlying stock performs to expiration; that is something we cannot know ahead of time. But the other factor in how well your options investment performs is the price of the option at the time you invest; and that we do know ahead of time. It is important to consider the price — I would even say, it is important to wait for a good price — when investing in options.

The Intermediate Concepts

6. Options Can Be Used in Very Risky Ways

Consider two investors, each with \$1,000:

- **Investor 1** buys 6 shares of Nvidia at \$148 each (\$888 in total)
- **Investor 2** buys 1 call option contract (strike

price \$155) for \$800

If Nvidia's price doesn't change over the next six weeks:

- Investor 1 still has \$888 worth of shares plus \$112 in cash (leaving her with the same \$1,000 she started with)
- Investor 2's option expires worthless, leaving them with just \$200 (an 80% loss)

This example illustrates why buying out-of-the-money options can be extremely risky. You could lose most or all of your investment even if the underlying stock price doesn't lose much of its value.

7. Options Can Also Be Used Conservatively

Now let's compare two investors, each with \$15,000:

- **Investor 1** buys 100 shares of Nvidia at \$148 each (\$14,800 in total)
- **Investor 2** sells 1 put option contract (strike price \$145) for \$800

If Nvidia's price doesn't change:

- Investor 1 still has \$14,800 in shares and \$200 in cash for a total of \$15,000
- Investor 2 keeps the \$800 premium, ending with \$15,800 (a 5.3% gain)

If Nvidia drops to \$140:

- Investor 1 loses \$800 (\$8 per share x 100 shares), ending with \$14,000 in stocks and \$200 in cash
- Investor 2 must buy 100 shares at \$145, losing \$500 (\$5 per share x 1 contract x 100 shares per contract), but still ends up with \$15,300 after accounting for the premium received when selling the put

Even in an extreme case where Nvidia's price crashes to near zero:

- Investor 1 would lose almost everything
- Investor 2 would lose less, protected somewhat by the premium received and the fact that she sold the put with a strike price below the stock price

The above examples demonstrate how selling puts can actually be less risky than owning the

underlying stock directly.

8. Synthetic Longs and Shorts

Options can be combined to replicate the payoff of owning or shorting a stock, without ever touching the underlying shares. This is known as creating a synthetic position.

Let's walk through a basic example. Suppose a stock is trading at \$100. You can create a synthetic long by buying a call and selling a put with the same expiration date and strike price. This setup replicates the profit/loss profile of owning the stock.

To understand why, let us assume that both the put and the call have a strike price of \$100. If the stock drops to \$90 at expiration:

- Your call is worthless (no one wants to buy at \$100 when the market price is \$90).
- The put you sold is now worth \$10 (the buyer can sell shares at \$100 when they are only worth \$90).
- Since you sold that put, you lose \$10, just as

if you had owned the stock and watched it fall from \$100 to \$90.

If the stock rises to \$110:

- The put you sold expires worthless (no one wants to sell at \$100 when they could sell at \$110).
- Your call is now worth \$10 since you have the right to buy shares at \$100 and sell them for \$110.
- That's a \$10 gain, the same as holding the stock as it rose from \$100 to \$110.

In both cases, the gain or loss from the synthetic position mirrors the movement of the actual stock. And you're not limited to at-the-money strikes; you could just as easily buy a \$95 call and sell a \$95 put. As long as the strike prices and expirations match, you've created a synthetic long.

Now let's flip it around. Let us say you sell a call and buy a put, both at the same strike price and expiration date. Now you've built a synthetic short position, which mimics the payoff of shorting the stock. To prove it to yourself, consider the value of your positions if the stock price declines

from \$100 to \$90 and if the stock price rises from \$100 to \$110. Do you get the same gains and losses as you would from a short position? (Hint: the answer is yes.)

The only other accounting to do is to assess the price of the call and put since you will have to pay for the call and will receive the premium for the put. And that leads us to item number 9...

9. Put-Call Parity

Put-call parity is one of the most important relationships in options trading. In simple terms, it shows how the prices of puts and calls relate to each other when they have the same strike price and expiration date. For our explanation, we'll assume interest rates are close to zero to keep things simple.

From point 8 above, we have two ways of creating a long position: 1) holding a stock and 2) creating a synthetic long with options. Similarly, there are two ways of creating a short position. So if I have both a long and a short position simultaneously, their price movements in time should essentially cancel out as this would be a

risk-free portfolio. I should not be allowed to make money by owning a long and a short position on the same asset simultaneously.

Let's use stock ABC trading at \$100 per share with options expiring soon.

Scenario 1: Long Stock + Synthetic Short

Imagine you do the following:

1. Buy ABC stock for \$100
2. Sell a call option with \$100 strike price (receiving premium)
3. Buy a put option with \$100 strike price (paying premium)

This combination creates a position with no risk. Why? Because any movement in the stock price is exactly offset by your options:

- If ABC rises to \$110: Your stock gains \$10, but your call loses \$10
- If ABC falls to \$90: Your stock loses \$10, but your put gains \$10

When the options expire, you'll have:

- \$100 (original stock value)
- Minus what you paid for the put
- Plus what you received for selling the call

Since this is a risk-free position, you can't make free money. Therefore, the put price cannot be less than the call price.

Scenario 2: Short Stock + Synthetic Long

Now let's try the opposite:

1. Short ABC stock (receiving \$100)
2. Buy a call option with \$100 strike price (paying premium)
3. Sell a put option with \$100 strike price (receiving premium)

Again, this creates a risk-free position:

- If ABC rises to \$110: Your short stock loses \$10, but your call gains \$10

- If ABC falls to \$90: Your short stock gains \$10, but your put loses \$10

When the options expire, you'll have:

- \$100 (from shorting the stock)
- Minus what you paid for the call
- Plus what you received for selling the put

Since this is also risk-free, you can't make free money here either. Therefore, the put price can't be higher than the call price.

Combining our two scenarios:

- From Scenario 1: The call price can't be higher than the put price
- From Scenario 2: The put price can't be higher than the call price

The only way both can be true is if the prices of the put and the call are exactly equal!

This is put-call parity: For at-the-money options with the same expiration date, the call price equals the put price.

What about when the options are not at-the-money? Put-call parity changes slightly when we use different strike prices:

- For a \$95 strike price (when the stock price is \$100):
 - The call will be worth \$5 more than the put
 - This difference (\$5) equals the stock price (\$100) minus the strike price (\$95)

- For a \$105 strike price (when the stock price is \$100):
 - The put will be worth \$5 more than the call
 - This difference (\$5) equals the strike price (\$105) minus the stock price (\$100)

Understanding put-call parity helps you:

1. Verify if options are correctly priced
2. Understand relationships between different options

3. Create equivalent positions in different ways

I wouldn't spend much time trying to find arbitrage opportunities in options; the market is very efficient at keeping these prices in line, and it's difficult and expensive for individual investors to profit from any small discrepancies. Large trading firms have hardware advantages (more expensive computers) and physical advantages (being closer to exchanges) which allow them to take advantage of arbitrage opportunities much faster than you will be able to do.

Instead, focus on understanding the concept to make better decisions about which options to buy or sell for your investment strategy.

The Advanced Concepts

10. There Are Many Options Strategies to Choose From

Beyond simple buying and selling of puts and calls, traders use numerous combinations:

- **Straddles:** Buying both a call and a put at

the same strike price to profit from increased volatility

- **Spreads:** Combining multiple options at different strike prices to limit risk
- **Cash-secured puts:** Selling puts with cash set aside to buy shares if assigned
- **Covered calls:** Selling calls against shares you already own

This doesn't even touch on iron butterfly or iron condor strategies. You can even use deeply in-the-money calls as stock replacements in accounts that don't allow margin, effectively controlling more shares with less capital. This book will not utilize these ideas. If you are interested in learning more, consider the free online courses at Options Alpha:
<https://optionalpha.com/courses>.

11. Market Makers Play a Significant Role

Market makers provide liquidity by simultaneously offering to buy and sell options. When they take a position, they typically hedge their exposure by buying or selling shares of the underlying stock.

Some theories suggest that as options expire or as prices change, market makers' hedging activities can influence the price of the underlying stock. As a retail trader, you may be buying options from market makers or competing with them when selling options.

12. The Greeks Measure Option Sensitivities

Options "Greeks" are mathematical calculations that measure how option prices change in response to various factors:

- **Delta:** How much the option price changes when the underlying stock price changes
- **Gamma:** How much delta changes when the stock price changes
- **Theta:** How much the option price decays with the passage of time
- **Vega:** How much the option price changes when implied volatility changes
- **Rho:** How much the option price changes when interest rates change

While useful for sophisticated strategies and market makers, many successful options traders get by with just a basic understanding of these concepts. And for the strategy I am proposing here, you can ignore the Greeks altogether.

13. Implied Volatility Reflects Market Expectations

Most trading platforms display the implied volatility for options, calculated using the Black-Scholes model (which, as I mentioned, I believe has flaws).

Higher implied volatility means the market is less certain where the price of the underlying stock will end up at the option's expiration date, resulting in more expensive options. Lower implied volatility suggests investors are prepared for smaller price movements which results in cheaper options.

14. Historical Performance Shows Important Patterns

Based on historical data:

- Buying puts is a strategy that tends to lose money over time. Buying puts is akin to buying insurance—you're paying a premium to protect against downside, and like all insurance, it's usually priced to benefit the seller.
- Buying calls historically underperforms simply buying stocks directly.
- Selling puts has shown more consistent profitability.

Always test your strategies thoroughly, but my research has led me to focus on selling options rather than buying them.

15. Options Participants Represent Market Extremes

Remember that options traders represent only a small, often polarized subset of the market:

- Options buyers are typically either significantly more bullish or significantly more bearish than the rest of the market;

after all, if the market were so bullish, the price of the underlying stock would have already risen, and if the market as a whole were so bearish, the price of the underlying stock would have fallen. Options buyers' sentiment deviates from the sentiment of the market as a whole

- Most investors don't trade options at all
- Only a small percentage of investors trade any particular option

All of this means you shouldn't read too much into options prices as market predictors. Develop your own systematic approach rather than trading on hunches or trying to interpret option price movements as market signals.

Conclusion

Options are powerful tools that can enhance your investment returns when used appropriately. While they can be used for speculation, their greatest value for most investors lies in generating income with controlled risk.

In the next chapter, we'll explore specific strategies for using options to boost your portfolio returns without taking excessive risks. We'll focus on practical approaches that you can implement immediately, regardless of your portfolio size or investment experience.

Remember: Options aren't inherently risky or safe — like the knives in the kitchen, it's how you use them that matters. With the knowledge you've gained in this chapter, it is almost time to delve further into using your stocks as collateral to boost your returns. But first, I need to share my philosophy with you. This will sharpen the remainder of the book and hopefully articulate to you why I recommend avoiding the various rabbit holes of options strategies and instead focus on a repeatable strategy of trades with a positive expected return.

Chapter 3: Why I Only Sell Puts: A Simple Strategy for Enhanced Returns

The Four Basic Options Trades

As a reminder, there are four basic options trades that form the building blocks of every options strategy:

1. Buy a put
2. Sell a put
3. Buy a call
4. Sell a call

In this chapter, I want to explain why I focus exclusively on selling puts to enhance my portfolio performance. While this might sound too simple to be effective, I have strong reasons to believe puts are consistently mispriced and that we as investors can take advantage of this.

My Basic Philosophy

My approach is straightforward: puts tend to be priced higher than their actual risk justifies. This means that:

- Repeatedly buying puts is likely to lose you money over time
- Repeatedly selling puts is likely to make you money over time

Let me explain why I believe this happens.

Four Reasons Puts Are Overpriced

Reason #1: Market Makers Balance Put-Call Parity

Remember put-call parity from the previous chapter? When a stock is trading at \$100, a one-month call with a \$100 strike price must have the same price as a one-month put with a \$100 strike price.

But here's something to think about: stocks tend to rise over time. For many stocks, prices go up

about 70% of the time and down only 30% of the time. So logically, shouldn't most investors be willing to pay more for calls than for puts?

Here's what happens in practice. When regular investors try to bid up call prices (or pay less for puts) to account for the greater probability of profitability, market makers step in. These professional traders:

- sell the now-expensive calls and buy the cheaper puts (remember that? It is a synthetic short — point 8 from chapter 2).
- purchase shares of the underlying stock offsetting the synthetic short. This creates a risk-free position.
- Because the call prices are higher than put prices, the synthetic short makes a small profit while the stock holding removes all risk. This is defined as arbitrage.

This results in increased demand for puts and increased supply of calls, bringing put prices up and call prices down until put-call parity is met. This results in puts being priced higher than you'd expect based solely on their likelihood of finishing in-the-money.

Bottom line: Put prices aren't just set by fear,

they're held up structurally by arbitrage dynamics. That's good news if you're a put seller because it means you're often collecting more premium than the realized downside risk would justify.

Reason #2: Puts Are Insurance Products

Puts function as insurance for stock portfolios. Think about other types of insurance you buy — home, auto, health, or travel insurance. Who sells these products? For-profit companies that price their policies to ensure they make money over time. And where does that profit come from? You, the insurance buyer. Over time, insurance has a net negative expected value for the purchaser.

Insurance buyers aren't just purchasing financial protection, they're buying peace of mind. They're willing to pay more than the mathematically "fair" price because the emotional benefit is worth it to them (or in the case of auto and home insurance, they are required to own it by the government or the bank).

When you sell puts, you're essentially becoming

the insurance company. Just like insurance companies profit by collecting more in premiums than they pay out in claims, put sellers can earn steady income by collecting premiums that, over time, exceed the occasional losses when stocks drop below strike prices. Insurance companies have to make payouts periodically, and you should expect to also, but just like insurance, by selling out of the money puts you are building in a deductible – you do not face any liability for the first few percentage points of loss. That protection helps you, and over time the expectation is that the premiums you collect will exceed the payouts you make.

Reason #3: Investor Psychology Favors Put Sellers

Research in behavioral finance consistently shows that people are risk averse. We feel the pain of losses much more intensely than the pleasure of equivalent gains.

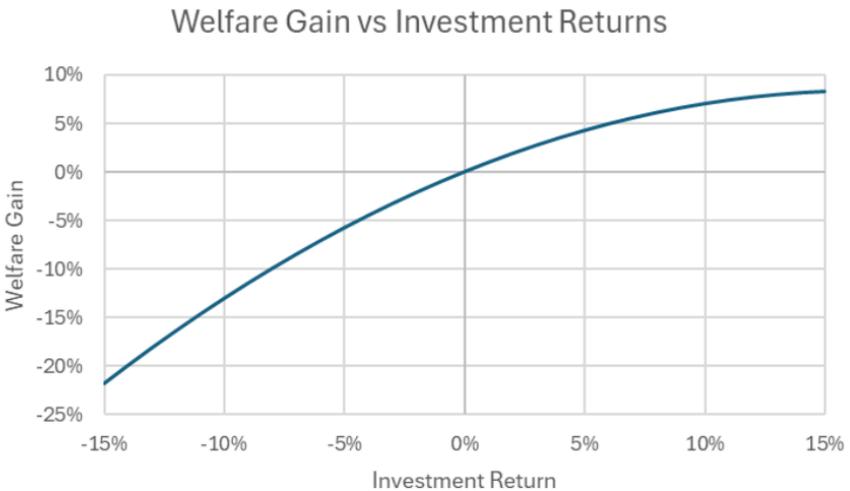
A typical investor's emotional response to gains and losses looks something like this:

- As returns increase, happiness increases

but at a decreasing rate (a 5% gain doesn't add much 5 times as much happiness as a 1% gain)

- As losses grow, unhappiness increases at an increasing rate (a 5% loss causes significantly more than 5 times as much distress as a 1% loss)

For those who are more visual learners, the above translates to the welfare graph below:



This psychological tendency means investors willingly pay extra to protect against downside risk — more than what a purely financial model

would calculate as fair value. As put sellers, we can take advantage of this emotional premium.

Reason #4: The Data Supports This Strategy

While logical reasoning is important, nothing beats real-world results. I've extensively backtested put-selling strategies, and the data confirms my theory.

My research shows that the further out-of-the-money a put is, the more overvalued it tends to be compared to its risk-neutral value (the price that would result in a 0% return over time if markets were perfectly efficient).



Note: The above is constructed from prices on SPY puts with three

weeks to expiration between 2014 and 2023.

Don't worry about the details of this graph. Just note that the further out of the money (i.e. the further left on the graph), the more overpriced the puts are.

Why Not Calls

Calls can be extremely profitable. Buying calls allows you to have exposure to all of a stock's upside without the same level of downside. And if you think owning stocks is a good investment philosophy, remember that owning a stock is equivalent to buying a call and selling a put. I've already articulated why selling puts is attractive and buying calls is just the other side of the synthetic long position.

But buying options for those new to investment can be very dangerous as there is a high chance of losing all of your investment. While it would not be particularly dangerous to use all of the money in your brokerage account to buy stocks, it would be very dangerous to use all of the money in your brokerage account to buy at-the-money or out-of-the-money calls. Yet, for a beginner investor,

this may feel like the natural way to invest. So remember that and do not invest your entire IRA in calls.

But the other hesitancy I have with purchasing calls is that they are often priced optimistically by traders who love the incredible potential upside and limited downside. The closer a product is priced like payouts at a craps table instead of an investment, the lower your expected returns. And backtesting confirms that repeatedly buying calls is less profitable than just owning the underlying stock.

And selling calls — remember earlier when we mentioned stocks tend to go up? If you are selling a call on an asset you expect to go up in value, you will need an extra high premium to make that risk worth it. And since a stock price has no upper limit, the potential losses from selling a call are equally unlimited. You can address this through a spread, but in general it is my belief that the right conditions for selling a call are rare.

Moving Forward with Put Selling

I believe the combination of put-call parity

mechanics, the insurance-like nature of puts, investor psychology, and historical backtesting data provides compelling case for using put selling as a portfolio enhancement strategy.

If you find this logic convincing and believe this approach could work for your investment goals, it's time to learn how to implement it. In the next chapter, we'll explore the practical steps for selling puts effectively and safely.

Chapter 4: Using Options to Generate Income

Now onto the good stuff: developing your put selection strategy and beginning to make trades. This book won't give you a magical formula for selecting the best puts — each trader's techniques are their own and should be guarded to some degree. But I will guide you through the process of selecting options.

Remember the four variables that differentiate options from Chapter 2?

- The underlying stock
- The strike price (the price at which the holder has the right to buy or sell)
- Whether it's a call (right to buy) or put (right to sell)
- The expiration date

You also need to decide whether you're buying or selling these options.

The good news: We've already eliminated two

choices — we're selling puts. Now all that is left is to select the underlying asset, pick a strike price, and decide how long we want to hold the put.

Choosing the Underlying Asset

Your choice of underlying asset will have a significant impact on your strategy:

If you choose a bond ETF, the price will move less than a small-cap tech stock. This means if you sold a put with a strike price 5% below the current share price and 1 month to expiration, your put is more likely to expire worthless than the same put on something more volatile. But for this same reason, the put price will be lower, giving you less of a premium and a smaller return.

Many people trade options on major indices like the S&P 500 or the Nasdaq 100. These markets are highly liquid (easy to buy and sell).

Others prefer to trade options on stocks they like — worst case scenario is that your put expires "in the money" and you end up owning the stock. You'll have bought it at more than its current value but less than what it was selling for when

you sold the put, plus you got some premium. If you liked the stock at \$100, you should like it even more at \$95.

Whatever you choose, get a sense of how much more or less volatile the stock is compared to the S&P 500. This benchmark can help you make better selling decisions.

Choosing the Duration

Here's the tradeoff on duration:

Longer-duration puts need to be sold less often (assuming you wait until expiration to sell another one), which reduces the work for you as a casual trader.

But shorter-duration options lose value faster (which is good if you're selling puts and hope the value goes to zero). This ultimately should help you make more money over time but requires more frequent trading.

As you choose shorter durations, the strike price will need to be closer to the current price to receive a decent premium. But remember that

the stock has to move that amount in a shorter period of time, so this balances out.

Selecting a longer duration option to limit your trading frequency is fine, but understand that your returns will likely be lower over time.

Choosing the Strike Price

Choosing how far "out of the money" you want to go is critical (and I propose that you always sell out-of-the-money puts; don't remember why? Revisit the put premium graph in chapter 3 to jog your memory).

The further out of the money, the less likely the option will end up "in the money," and therefore the less likely you'll have any financial obligation when the put expires.

But further out-of-the-money puts sell for less money, generating less of a premium for each trade and reducing your return.

Choosing a strike price is about balancing your desire for returns against your tolerance for risk.

Not sure where to start? Begin conservatively, perhaps targeting a strike price that's 6% out of the money for a 1-month put. For a stock trading at \$200, that means looking at the \$188 strike price. Trade for a while and see how you feel about the results. Is it too volatile? Are you happy with the return you are generating? Are you willing to accept more volatility for more return? Adjust accordingly.

Quantity: Managing Your Exposure

This is where people often lose their shirts. You have a \$100,000 portfolio and you sell \$1,000 in puts. That's only 1% of your portfolio, right? Wrong.

Perhaps the put was priced at \$1 and you sold 10 contracts (remember, each contract is for 100 shares, so that's 1,000 shares). But if the shares of the underlying stock are selling for \$200, your "notional exposure" is \$200,000 (10 contracts \times 100 shares per contract \times \$200 per share). That's more than your entire account value! I'm not saying there's never a time to make such a sale, but do so knowing exactly what you're doing.

First, decide how much exposure you're willing to take on. If you have \$100,000 in cash, maybe you're comfortable selling puts with a notional exposure of \$100,000. Or maybe you like the downside protection and are willing to take on \$150,000 in exposure.

As the title of this book states, you don't need cash to sell puts — you can use your existing stock holdings as collateral. So if you have \$100,000 in stocks (and no cash), how much additional risk are you willing to take by selling puts? Since selling out-of-the-money puts has historically been safer than owning stocks, maybe you're willing to add another \$50,000 or \$75,000 of notional exposure; maybe like me you are willing to add another 100% exposure. That's up to you. Whatever you decide, if you find you aren't sleeping at night, are drinking more coffee than you should, or are forgetting your kids' names, dial it back. The point is to create welfare gains for you; if your quality of life is notably lower because of the risk you are taking, you are getting the opposite of what you set out to obtain.

Whatever your comfort level, you must monitor your exposure and make sure you don't exceed it. There's no point in figuring out your risk

tolerance if you knowingly or unknowingly blow past it. If you do so knowingly, maybe your tolerance is greater than you thought — or you got a bit too big for your britches (I'm not sitting on a high horse; I did this a few months ago and got burned, so I'm writing this partly to reprimand myself!).

But if you exceed your exposure limit unknowingly, that means you didn't do the simple work of tracking your exposure — and as an investor, that's not excusable. When selling puts, always, always, always make sure your notional exposure stays within the bounds you've set.

Once you know your limits and are committed to tracking your exposure, calculating it is simple. For every active put in your portfolio, multiply the number of contracts by 100 to get the number of shares, then multiply by the strike price (the strike price tells you the maximum you can lose on the trade as most underlying securities cannot have a price below \$0):

**Number of contracts × 100 × strike price =
Notional exposure**

Add up the notional exposure of all your puts to

get your total notional exposure. Then divide that by your account value to get your exposure as a percentage of your portfolio. Is this within your limits? If you are below your limit, you can sell more puts. If you are at your limit, stop. And if you are above your limit, go back to the section where I say you should never be above your limit.

You might find your notional exposure is routinely well below your target. If so, ask yourself why. Is your target wrong? Are you having trouble committing to it? Maybe you need time to ease into the strategy, increasing your exposure a bit every month until you reach your target.

The human element of investing is hard to eliminate unless you have a computer program doing your trading. If you're making decisions regularly, your natural dislike of losing money may affect your ability to reach your target exposure and income. Acknowledge this. Give yourself time. If you rush, your first bad month will feel so terrible that you'll "learn" that options investing isn't for you. Training your mind is as important as having a great strategy.

More Advanced Techniques

Diversification and Selectivity

If you peruse the web enough, you'll find examples of trading strategies that seem consistent with what I have proposed so far. For example, the author of *Early Retirement Now* sells out-of-the-money puts on the S&P 500 index that expire the same day or next day. Other options funds simply sell one-month puts on the S&P 500 once a month. These strategies do make money, but there are benefits to expanding your horizons beyond one index or stock.

Instead of just trading puts on the S&P 500, you could track 10-15 different assets. And instead of only selling puts with one expiration date, you could look at multiple timeframes. At any one time, you could end up with puts on 10 to 15 different stocks expiring on 3 or 4 different dates.

Diversification provides the standard benefit of smoothing out your returns and potentially reducing losses. But another great advantage of expanding your scope beyond just one index is that you can find anomalies across different assets and time periods. For example, you might find that today, puts on Walmart stock are priced

higher than those on Apple, but tomorrow it could be reversed. Since put prices determine your income, you could sell puts on Walmart today and Apple tomorrow. That will result in higher premiums and a greater return than if you just repeatedly sold puts on Walmart.

To help with this, I recommend developing a tool to track a wider range of puts. Manually looking them up takes too much time. Consider services like Wisesheets that provide options data in Excel or Google Sheets. Or if your broker offers an API, code your own custom tools. The tools I have built form the foundation of my business and result in significantly better investment returns.

Varying Strike Prices by Asset Type

Consider categorizing your assets into safe, moderate, and risky:

- For safe assets like bond funds, you might be comfortable selling puts with a strike price only 3% below the current price.
- For moderately risky assets like equity ETFs, blue-chip companies, or dividend stocks,

you might want more protection with strike prices 6% below current prices.

- For more volatile assets like smaller companies, you'd want even greater protection with deeper out-of-the-money strikes.

Increase Trading Frequency

Because puts lose their time value faster as expiration approaches, there's potential value in selling options closer to expiration. However, this means trading more frequently. If your put only stays active for a few days, you'll need to place new trades more often. By contrast, a 30-day put requires replacement just once a month.

Even if you're selling 30-day puts, consider putting 25% of your intended exposure on each week. The puts you sell this week will expire before those you sell next week and after those from last week. If there's a big market drop one week, not all your puts will expire in the money at the same time; those that don't expire will have time to recover.

You should be able to find better opportunities and further minimize risk by checking prices a few days each week, maybe even daily. Increasing your trading frequency can help boost returns and control losses through diversification.

The more sophisticated you want to be, the more likely you'll need custom software to compare puts across various metrics, with asset-specific adjustments. Such software could help rank opportunities based on your preferred risk and return profile, highlighting the ones that offer exactly what you're seeking.

Chapter 5: Cautionary Tales of Options Investing

Now that we've covered the benefits of selling puts against your unused collateral, it's important to discuss some warning cases. A healthy fear of options and leverage is a good thing, and this book wouldn't be complete without examining what can go wrong.

But as you read about each failure, it is important to learn what key failures each trader made. This section is not included for entertainment; its purpose is to help us avoid the same pitfalls in order that we become better traders. I have attempted to identify and highlight commonalities across the various cases to assist in this process.

The list of options disasters in history is long, and many stories never get documented. The examples here are just a few cases we can learn from, not an exhaustive collection of every options strategy that has lost money. However, I do feel they reflect the most common mistakes

options traders make, and thus I believe they will be useful to all to read.

OptionSellers.com: A Complete Meltdown

The case of James Cordier and his firm OptionSellers.com checks all the warning boxes - too much leverage, overconfidence, inadequate broker safeguards, and a devastating outcome for investors.

What went wrong?

1. Cordier sold "naked" options - meaning there was no downside protection. I've already mentioned why I don't like selling calls.
2. He specifically sold calls on natural gas prices. Unlike puts, which have a natural ceiling to potential losses, these calls had unlimited loss potential. Further, the underlying asset was quite volatile.
3. He concentrated risk by taking enormous positions that put his entire fund at the

mercy of a single trade.

4. He built his strategy around forecasting natural gas prices - something few people can do consistently. Instead of a strategy built on trades that have a low probability of failure, he took a gamble on his ability to forecast a commodity better than other investors.
5. He used a lesser-known brokerage that, instead of closing positions when accounts approached zero (as most established brokers would), extended margin loans to clients when their options liabilities exceeded their account values.

The result? A 20% move in natural gas prices led to a shocking -133% loss for his clients. A few things jump out from those numbers: 1) there was incredible leverage, roughly 700%, and 2) clients lost more money than they had invested because of the margin loans extended to them by the brokerage. They not only lost all their initial investment but ended up owing an additional 30% to the brokerage for margin loans!

Key lessons:

- Avoid selling naked calls - they have unlimited loss potential
- Sell out-of-the-money puts to give yourself a safety cushion and built-in downside
- Diversify your positions rather than betting everything on one trade
- Control your risk by limiting potential losses of each position
- 700% leverage is unthinkable; don't do that
- Choose an established broker with proper risk controls

Amaranth Advisors: When Leverage Meets Volatility

Amaranth was a successful hedge fund with approximately \$9.5 billion in assets. Brian Hunter, a well-respected trader at the fund, made several critical mistakes:

1. The fund used 5× leverage to boost returns. This level of leverage can devastate a

portfolio almost overnight.

2. The fund invested in highly volatile commodities without properly accounting for that volatility.
3. The strategy depended on predicting hurricane season severity - essentially betting on weather forecasts.

The result? It was only a matter of time before the fund's positioning was contrary to market movements. Their weather forecasts were wrong, and their leverage made a bad situation worse. The fund lost nearly \$7 billion in 2006 due to these highly leveraged trades, an amount too large to make up and resulting in permanent reputational damage. The fund closed soon after, and investors lost two-thirds of their capital.

The takeaway: Combining high leverage with highly volatile sectors creates a dangerous situation where losses can compound dramatically. A strategy reliant on forecasts, particularly forecasts of unpredictable events (like weather), turns investing into gambling.

■■■■■■■■: Sustainable Strategy or Hidden Risk?

In the first draft of this book, I included the name of a blog I ran across. While the trader who wrote that blog had not yet seen, or admitted to, a huge drawdown, I felt it was still a good cautionary tale. Still, I felt it was better not to name names. So I will refer to the blog as the Options Seller Blog and the trader as The Options Seller.

Not all cautionary tales end in disaster. The Options Seller of the Options Seller Blog has reported consistently earning 10%+ annual returns through options without blowing up his account. However, his approach uses significant leverage that, like the previous examples, is worth examining.

The Options Seller sells daily puts on the S&P 500 index that are out-of-the-money and expire in one day. To achieve his returns, he takes on approximately 5-7 times leverage compared to his account value.

Let's consider what could happen in extreme scenarios:

- In a "black swan" event where the S&P 500 drops 10% in a day, his strategy could lose around 45% of portfolio value in a single day.
- Even in a more moderate 5% daily decline, the strategy might lose 15% in a day.

While the S&P 500 rarely experiences such dramatic single-day drops, these scenarios highlight the risk of extreme leverage. The Options Seller's strategy works until it doesn't - and the day it doesn't could be catastrophic.

Conclusions From These Case Studies

Let's compare these examples to the approach I'm recommending:

Similarities:

- I propose options as a yield enhancement tool
- The strategy can be used alongside a fully invested portfolio (which is a form of

leverage)

Key differences:

1. **Leverage level:** The disasters involved enormous leverage (500% or more). Extremely high leverage can create amazing returns but is ultimately a dangerous game. These strategies have inspired the phrase “collecting nickels in front of a bulldozer”. The risk is real and simply too high to accept.
2. **Option type:** I discourage selling calls, as they're not typically as overpriced as puts and have unlimited loss potential.
3. **Protection:** I strongly recommend building downside protection by only selling well out-of-the-money puts. The more volatile the asset, the further out-of-the-money you should go.
4. **Algorithmic approach:** I encourage trading systematically rather than based on forecasts. Investor predictions are

notoriously unreliable - even the best investors are right just slightly more than half the time – which means they are wrong almost half the time. Forecasts can illicit strong conviction within the forecaster, but conviction and knowledge are not the same thing.

A Final Note on Discipline

I share these case studies to show what happens when you lose discipline. After a few months of great returns, especially when the market is down, it's easy to become overconfident. I am speaking from experience.

Don't let past success fool you into thinking you're immune to losses. If you do, you might start taking on excessive leverage without realizing it. Those outlier bad days, weeks, or months are rare, but they will eventually happen - and they will hurt more the more levered up you are.

My goal isn't to eliminate the pain completely - that's impossible. But I want you to be able to trade through that pain without giving up. The long-term benefits of investing in general, and investing via puts in particular, can outweigh the

short-term setbacks you'll experience along the way.

But if you lose everything on highly leveraged trades, those long-term gains will belong to someone else.

Trade safely, understand the risks you're taking, and remain humble.

Chapter 6: Safety is Critical for Long Term Account Compounding

Building off our case studies of options gone wrong, let's start with some important safety guidelines. These aren't rigid rules that everyone must follow — it's up to you as an investor to set boundaries you believe in and will stick to. But if you deviate from these guidelines, you'll likely be taking on more risk than I personally am comfortable with.

Managing Leverage: Finding the Sweet Spot

Leverage is the most obvious issue we saw in our case studies.

Using leverage isn't inherently bad, but too much can seriously damage your long-term returns. Let me illustrate with a simple example:

Imagine you have a security that goes up or down 50% each month. Perhaps it increases for two consecutive months, then drops in the third month. If you start with \$100, you'd have \$150 after one month, \$225 after two months, and \$112.50 after the third. Not bad for three months of investing!

So you decide to add 100% leverage to try doubling that return. This means multiplying each monthly return by 2. You start with \$100 and instead of a 50% return you have a 100% return! Amazingly, your account immediately jumps to \$200 after the first month. Then the next month your portfolio doubles again, soaring to \$400. Incredible! But here comes the problem: In the third month, instead of losing 50%, you lose 100%. Your account drops all the way to \$0.

This is obviously a simplified and overly dramatic example, but it shows how adding 100% leverage might double your returns in the short term, but it doesn't double your returns over the long run. Compounding works in mysterious ways.

Financial mathematicians can calculate the point at which additional leverage actually starts hurting your long-term returns (look up the "Kelly criterion" if you're interested). But I recommend

staying well below that theoretical maximum for two key reasons:

1. You never truly know your expected return distribution. If you've underestimated the risk of extreme events, the optimal leverage point will be lower than calculated.
2. As you approach the maximum effective leverage point, each bit of additional leverage adds more risk but delivers diminishing returns. The compensation for that extra risk becomes less and less attractive.

Finding the sweet spot means understanding how leverage will affect your losses during market downturns. While the strategy I am proposing has performed well in extended periods of sell-offs such as 2022 when markets were down 20% over 9 months or so, events such as the pandemic and the Trump tariffs, where markets fall further and faster, this options strategy would still have added significant losses to your portfolio. If your portfolio is down 10% in a week, how much more loss would you be willing to accept from your options portfolio? Another 5% (that would roughly translate to 100%

leverage with options as long as you are selling out of the money puts which have a few percent downside protection)? Another 2% (roughly 40% leverage with options)? 1% (20% leverage with options)? There is no magic formula, this is a decision you need to make yourself.

Once you have made the decision, try it out for a while. See how you feel when you hit your first down market event. Were you fretting because of those additional losses? Were you comfortable with it? Once you have lived through a period of losses, you can begin adjusting your leverage up or down in response. You may even find out you want to invest options on the full value of your account and not hold stocks as collateral. As of the time of writing this book, you can get roughly 4% return on cash. So if you are writing cash secured puts, you are earning 4% of interest from your cash plus whatever you earn from your options trading. Or maybe you find yourself somewhere in between with part cash and part stocks plus you sell puts.

Just keep in mind there are a lot of options available to you, and you should find the solution that fits your comfort level. That may sound like a cop-out, but I am trying to avoid the one-size-fits-all advice you may get elsewhere. Personal

reflection and being comfortable with your portfolio are critical if you are to stick with your strategy long-term.

Building In Downside Protection

Focusing on limiting losses will likely reduce your returns when markets are up (or flat). But my view is that without steps to mitigate losses, sticking with a strategy becomes a very difficult test of faith. I've noticed it in my own personal conversations with myself about what I have "learned", or how I can avoid repeating difficult times in the market. The worse my portfolio does, the more determined I am to ensure it doesn't happen again. And often times, that means reversing decisions which would benefit portfolio performance in more normal times. As I've said a few times in this book so far, a key goal is to execute a strategy you will not give up on when times are bad, allowing you to benefit when times are good (which, according to history, is more often than not).

There are a few reasons to embrace the downside protection of out-of-the-money puts:

You create downside protection by selling puts that are out-of-the-money (with strike prices below the current market price). The further out-of-the-money the puts are, the more protection they provide. If you sell in-the-money puts (with strike prices above the current market price), you have almost no downside protection beyond the premium you collected. If you are already fully invested, out-of-the-money puts reduce the additional losses you would face in a market downturn.

Another compelling reason to sell out-of-the-money puts is their mispricing. As mentioned earlier, out-of-the-money puts tend to be overpriced, and the further out of the money you go, the more overpriced they typically are. Building in downside protection can actually generate a greater return relative to the risk you're taking.

Finally, if you're investing as I propose, your stock and ETF portfolio already provide plenty of upside potential; you won't be relying on options for the bulk of your returns, the options would be there to enhance the returns. Limiting additional

volatility from your options strategy will help you stay the course when markets get rough.

I recommend getting your upside through your stock and ETF investments and letting the premium from your put sales provide meaningful additional secondary income over time.

Creating a Systematic Approach

Integrating downside protection into your options strategy requires having a specific method for selecting how much protection you target with each trade. As mentioned earlier in this book, a 2% out-of-the-money put on a bond fund may be adequate protection, but a 2% out-of-the-money put on Nvidia would not offer nearly the same level of protection. Puts on more volatile assets should be further out-of-the-money.

Without such a clear selection method, comparing puts with different strike prices across different assets will quickly become overwhelming.

For example, if you decide you will look at 10% out-of-the-money puts on Nvidia and 2% out-of-

the-money puts on a bond fund, put on your blinders and ignore other strike prices. There may be hundreds of options with different strike prices for any particular asset, and you don't have time to evaluate each of them individually. Find the one option which satisfies your criteria, pull it out, and ignore all the rest. Then compare the puts across each of the securities you are tracking; that will make it much easier to find the trade or trades you want to make.

You may feel tempted to sell puts with higher strike prices — after all, they offer higher premiums to compensate for the greater risk. Try to resist this temptation. Remember that those puts come with significantly more risk and typically less reward relative to the risk being taken. Make sure you have a process; then stay true to your process.

Beyond Price: Other Selection Metrics

You might find that a high put price alone doesn't feel sufficient for selecting the puts you want to sell. I personally like to measure the additional marginal risk to my options portfolio of

adding each potential new put.

I have a method for identifying one put for each underlying asset I track, and then I compare how much additional risk each would add to my existing options portfolio. I sort them from lower additional risk to higher additional risk and generally select puts that fall towards the top of that list.

You might find that factors like the past week's returns or option "Greeks" (delta, gamma, etc.) add value to your decision process. I've personally backtested these factors and found no additional predictive value, but perhaps you'll discover a better way to incorporate them into your selection process.

Without custom software to automate some of this analysis, you'll be limited in your ability to execute more sophisticated approaches across many assets. But even a manual approach can deliver significant value if you monitor a small handful of assets and select your trades primarily on put prices.

The Long-Term Payoff

Strategically and conservatively selling puts using your portfolio positions as collateral can potentially add more than 3% to your annual returns. That might not sound revolutionary, but consider this: If you plan on retiring in 20 years, an additional 3.5% per year means you could retire with twice as much money as you would have otherwise! An additional 7% means more than tripling your retirement income. And an additional 10% means retiring with 6 times as much money. There is real upside to putting in the additional work of monetizing your collateral.

This is the power of combining prudent risk management with the natural edge that option sellers often enjoy. By avoiding excessive leverage, building in appropriate downside protection, and following a systematic approach to put selection, you can enhance your portfolio's returns while keeping risk under control.

Chapter 7: Putting Your Knowledge to Work

By this point, I hope you understand options and how to use them to monetize the collateral sitting in your brokerage account. You should also understand the risks involved and how to control the additional risk you are adding to your portfolio.

As you consider implementing these strategies, you're probably wondering about two important questions:

Should I Do This with My Account?

"Do I really want to do this with my account? After all, it does increase risk."

My thoughts: There's no one-size-fits-all approach. The target of generating 3-4% additional return per year is actually quite conservative and wouldn't require using all your stocks as collateral to sell puts.

Consider this balanced approach: Keep half of your portfolio invested in equities and use the remaining cash as collateral for options trading. This would give you 100% market exposure, just as if you had invested your whole portfolio in stocks, but the options portion will typically be less volatile. You would earn interest on your cash plus gain returns from a relatively low-volatility strategy on the rest. That wouldn't get you the same long-term return, but it may be a decision that doesn't keep you up at night.

Remember, money is an imperfect means of measuring welfare, and welfare is what we truly care about. If doubling the money you have when you retire in 20 years comes with 20 years of sleepless nights, ulcers, and high blood pressure, that doesn't sound like a net welfare gain to me. Only you know what is helping you live a better life. Keep that in mind when making your investment decisions.

Should I Do This Myself?

"Do I want to do this myself? It sounds pretty complicated."

This is a fair question to ask. If your time is limited, you can't trade daily, and you don't have tools to gather information efficiently, consider outsourcing this task. Find a manager willing to charge a reasonable fee to help monetize your existing portfolio's collateral and boost your returns. This frees up your time and potentially delivers better results by leveraging professional tools and expertise.

But if you're a do-it-yourselfer who dislikes paying others for something you can think you can handle yourself, there's absolutely no requirement to hire a professional. The tips in this book should give you what you need to begin trading and monetizing the collateral in your brokerage account. Go forth and conquer!

Rules for Success

If you have opted with the DIY approach to monetizing your collateral, I want to leave you with a few parting tips. I recommend following the below guidelines as you trade:

1. Diversify Your Options

Options selling may be a new investment approach for you, but the old rules still apply. If you sell puts on one company on Monday, try to find a different company on Tuesday, and yet another on Wednesday. This simple approach will add tremendous value over the years.

For more advanced investors, you might even calculate how much additional risk each new put adds to your portfolio using historical price data. But don't let complexity hold you back — even a simple visual check can help ensure there is diversification in your portfolio.

2. Watch for Assignments

Your puts will eventually end up in-the-money, which (unless they're puts on indices) means you'll occasionally be assigned shares, either as the automatic action that occurs at expiration or because the owner of the put exercises their option (remember, a put is an option to sell; as long as it is an American style option – and most are, with the exception of index options - the owner always has that option to sell you shares

and can exercise that right at any point). Keep an eye out for these events. You don't want to check your portfolio weeks later and discover you own a bunch of Walmart shares you never intended to have!

3. Adjust Protection by Volatility

Customize your downside protection for each stock you are tracking based on its volatility. You might find that Nvidia puts always offer attractive premiums, but when Nvidia drops, it can drop fast and burn you badly. I speak from experience here! Target strike prices further out-of-the-money for these more volatile stocks.

4. Stay Disciplined

Don't get too bold. The keys to success are consistency and risk control. Selling puts closer to at-the-money will add unwanted volatility to your portfolio, and that extra risk won't be properly compensated for with sufficient additional reward. Play the long game.

5. Proceed at Your Own Pace

Finally, don't do anything you aren't comfortable with just because you read it in this book or on some blog. If necessary, ease into trading puts gradually. If you take on more risk than you're comfortable with, you'll abandon ship at the first sign of losses. Allow yourself to mentally adapt to what you're doing, knowing there will be periods of loss — and remembering that you accepted that possibility of additional when you started because you wanted the additional gains in more normal times.

Final Thoughts

Good luck in your trading! I hope you can significantly enhance your investment returns by putting that previously unmonetized collateral to work for you.

Remember that this strategy isn't about getting rich quick or making dramatic overnight gains. It's about consistently capturing a premium for taking on calculated risks; risks that you understand and can manage. Over time, those additional percentage points of return can

dramatically change your financial future.

Whether you choose to implement these strategies yourself or with professional help, the knowledge you've gained from this book gives you an edge that most investors never develop. You now understand how to make your portfolio work harder for you without taking on excessive risk.

The path to financial success isn't just about saving more, it's about making your savings work harder for you. Options strategies, when used properly, are one of the most powerful tools available to enhance your portfolio's long-term returns.

So take what you've learned, apply it wisely, and enjoy the rewards of becoming a more sophisticated investor!