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By David Goldstein

Do You Need Cash Flow?

How Savvy Options Traders Collect Regular Cash Payouts - Quickly and Easily!

Do you need cash flow?

Maybe you're retired, and need to replace a paycheck.

Maybe you're just looking for some extra cash to spend on the house, the kids, or a nice vacation.

I prefer to invest my money in ways that throw off some steady income.

Imagine how your life would be different, if you could generate cash by clicking a few buttons…

- Paying for your groceries
- Paying for your car
- Paying for your vacation to Europe
- Cash to give to the kids
- Cash for anything!

I know it's possible because I use these techniques myself to generate Income on a regular basis.

Before you think this is a pipedream, keep reading.

I'm going to show you exactly how to do it.

We're going to cover 2 simple options strategies to generate Cash Flow:

Credit Spreads and Covered Calls.

Let's Jump right in…

Cash Flow From Covered Calls in Seconds…

The key to this strategy is selling options.

Now, I don't have time to get into the details of what a call option is, or a put option, or options premium. **<u>I assume you already know the basics of options trading.</u>**

If you don't understand the basics of options, check out our website ZenectWealth.com for more information.

Alright, the strategy I'm going to teach you about is simple, it's called a *Covered Call*.

It's a great way to outperform the market week after, week… month after month… all while generating extra cash for you to spend!

Here's how it works.

Let's say there's a stock in your portfolio you really like (or a stock you want to buy and hold for the long-term).

For example, say you own (or buy) 100 shares of Wells Fargo (WFC).

WFC is a solid long-term addition to any portfolio. It's one of the largest banks in the US… and that's saying a lot considering how big the US financial system is.

The banking giant pulls in nearly $70 billion a year in revenue, and generates $20 billion in profits.

The company makes money hand over fist.

Okay, so once you have WFC in your portfolio, here's how you can generate income from it.

First, pick an out-of-the-money call. WFC is trading near $55 as I write this, we'll use a call option about 6 months out with a $60 strike.

In this example, we'll say the 60 call is trading for a premium of $2.50.

Now, when selling long-term covered calls, you'll want to sell options about six months out. I personally like to go out between four and nine months.

Here's how the numbers look…

You own WFC at $55. The stock typically doesn't move that much - it's what we call a low volatility stock.

It's not all that likely WFC will climb far above $60 in a few months. That's why we picked the 50 dollar call option for $2.50.

Remember WFC hasn't been over $60 since 2018.

If WFC stays below $60 before the option expires, you earn $2.50 on your covered call, or $250 (for every 100 shares you own)... all for doing absolutely nothing. This is where the option expires worthless.

Basically, if the stock drops, you've given yourself an extra $2.50 cushion on the downside.

But, if WFC stays around the current level, you'll make money on your call without losing a dime on your stock position.

If WFC goes up but stays below $60, you'll make money on the stock increase up to $60 and from the premium you collected on the covered call.

That's the best of both worlds!

Finally, if WFC blows through $60 to the upside, your option will get exercised. Since you're already long 100 shares, all that means is that your broker will remove the shares from your account.

In other words, you'll be cashed out of your position for profit.

If that happens you've just made $5 on your stock appreciation and another $2.50 from selling the option.

Now here's the game changer… you can always buy more shares and do the same thing over and over again.

Most likely, Wells Fargo will not reach $60, the options you sold will expire worthless, you keep the premium ($2.50 x 100 shares = $250), and then you can do it all over again!

Look, it's basically a no-lose strategy. You're somewhat protected on the downside, and every other scenario is profitable for you.

Remember, you planned on holding these shares long-term anyway, even if the price falls over the next year.

Full Disclosure, I own WFC stock and I write covered calls!

But that's not the only way to make instant cash…

FAST Cash Flow From Credit Spreads…

Credit Spreads, I've heard them called the ***Option Trader's Cash Machine.***

This is a strategy best used when the markets are calm and you're not expecting a lot of volatility.

Don't use these trades around earnings season or important corporate announcements, as wild movements can put you into a losing trade.

So, what is a Credit Spread?

Credit spread is a term used to describe the direction of cash flows when executing a spread trade.

When the simultaneous buying and selling of options results in a cash inflow (credit) to your account, it's called a credit spread.

In other words, the options you buy cost less than the options you sell.

There are many option strategies that can be considered a credit spread. The key is:

1) Concurrently buying and selling two or more different options and
2) An inflow of money at the time the position is opened.

There's Lots Of Credit Spread types, like:

- Bear Call Spread,
- Bull Put Spread,
- Iron Butterfly Spread,
- Iron Condor Spread,
- Short Strangle,
- Short Straddle, and
- Vertical Spreads.

For our credit spread strategy, we're going to stick to basic bear call spread.

It simply means you're selling the strike closest to the actual stock/ETF price, and buying the farther out options (it's going to both calls or both puts in all cases). No matter what, you'll be collecting a premium.

Here's an example:

Say the XYZ stock is trading at $56…

You SELL or go Short 1 XYZ 60 call collecting $1.00 in options premium.
Then you BUY or go Long 1 XYZ 65 call Paying $0.25 in Options premium.

You just created a credit spread. You'll receive $0.75 per share or $75 per options contract.

So your maximum gain is $75.

Remember every trade has risk… so the max loss is the value of the high strike less the low strike less the Premium. (High strike - low strike - net premium received)

Back to our example… $65 less $60 less $0.75 = max loss is $4.25.

Now you know your max loss and max gain. Obviously you can select different time frames and different strike prices to adjust those numbers to suit your risk profile.

Here's the Options Cash Secret…

Since 80% of long options expire worthless, you already have a built in huge success rate in your favor.

Tack on some of our basic guidelines, and your success rate will be even higher.

How To Extract Cash From Options - Step By Step!

Here are the steps to executing a successful credits spread strategy:

Step 1: Find A Stock/ETF

Picking the right underlying to buy credit spreads on is the key to the whole strategy. But, it's really quite easy. Find a stock that has gone sharply higher or lower in the last few days.

Then, discover the reason for the move. If the reasoning behind the move doesn't seem to jive with the severity of the move, that's where you can put on a credit spread.

For example, if a stock drops because the CEO is involved in accounting fraud, that's bad. Avoid it at all costs.

The main takeaway should be finding a stock with high volatility in the short-term - but you expect it to return to normal levels in the very near future (within a week or a month at most).

Step 2: Pick The Options

Now that you have the stock picked, the rest is easy.

Choose options with a month or less to go before expiration (those are the ones that lose value – or decay – the fastest).

Then choose your strikes.

I like to use moving averages or other support/resistance levels to set my strikes. You don't want to be too close to the actual price, but you want to make sure you're capturing enough premium.

The long and short strikes of your credit spread should coincide with key technical lines as much as possible.

Step 3: Collect The Premium

Once you execute the trade, you collect the premium. Now, all you have to do is wait for expiration (and manage any risk – see next step).

Make sure you're collecting enough premium to make it worthwhile.

But you don't want to go overboard and get too close to the money (and thus heavily increase the risk of a loss).

Your personal risk tolerance will guide your decisions on premium… just make sure you do your due diligence.

Step 4: Manage Risk

Much of the time, there isn't a whole lot of management needed with credit spreads. You simply wait and collect your premium.

If the stock does move close to or past your short strike, there are a few ways to manage it.

You could:
1. roll the spread lower or higher
2. roll the spread out to a later month
3. close the trade for a loss
4. do nothing and see what happens.

Once again, it's all about personal risk tolerance, but the key takeaway is there are plenty of choices on how to manage your risk.

Personally, I think rolling the trade up/down or out is the way to go, unless something major has changed at the macro level.

Step 5: Rinse And Repeat

That's it! Just keep finding credit spreads that meet your criteria and watch the money flow in.

Don't forget to watch the overall market in case of a major spike in volatility.

Credit spreads aren't a good idea during crisis trading – so sit those periods out.

Besides that, feel free to go town with these money makers as often as you are comfortable with.

Conclusion To Cash Flow Investing

I just shared with you two significant trading strategies to generate new instant cash flow.

These are great tools that professional traders use to manage their income and generate cash on demand!

If you're looking at cash flow - in retirement - or even before retirement, start with these trades.

Good Trading,

David Goldstein

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If you trade options, we recommend you read and fully understand all the information contained in the Characteristics and Risks of Standardized Options. It's also known as the Options Disclosure Document and it explains the characteristics and risks of exchange traded options. (https://www.theocc.com/Company-Information/Documents-and-Archives/Options-Disclosure-Document)

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