OPTIONS SOLUTIONS

MARCH 2021

Enhancing the Returns of Stalled Stock.

A Case Study

Income producing without selling stock

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The stock market giveth, and the stock market taketh away. This is often true for anyone who has owned a stock for a long enough time to see it advance and then fall from the stock market's good graces. Because so many investors struggle to sell stocks, especially when prices are declining, there is usually a legion of investors who feel trapped in stalled stocks.

Most investors who find themselves in such a predicament tend to do nothing. They often hesitate to sell the stalled stock because it would trigger a major taxable event, or that they would possibly miss out on any recovery. Hence, they tend to do nothing and watch their money languish. Yet, a path forward exists that can help investors monetize a stock's stalled trajectory while generating income.

By selling call options against the stalled stock, investors can get paid by the options market just for agreeing to sell shares at higher prices. Should the stock price remain below the stock price, investors can keep the money received for selling the call option. Should the stock price exceed the strike price at expiration, investors can sell the stock at the strike price, or buy the option back as part of a "roll" trading the call for a higher strike price at a more distant expiration.

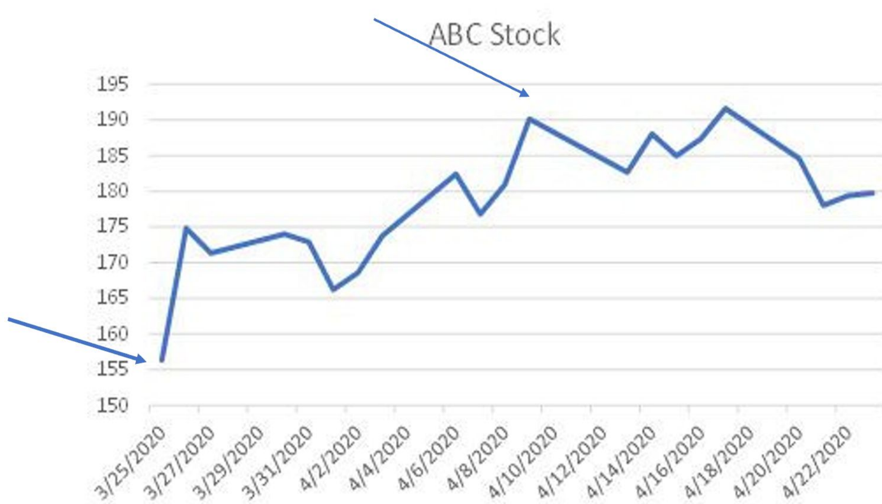
Investors can "roll" at a credit or sometimes they must pay to adjust the position.

To be sure, not everyone wants to sell stocks even if the prices are stalled. In those instances, investors can use Flexible Exchange Options, or Flex, call options. The FLEX options enable investors to customize an options contract. Many investors use FLEX options to change the expiration style of an options contract expiration date. The European expiration thus offers protection against being forced to sell a stock. To be clear, FLEX options do not protect an investor from losses that can be experienced if the stock price races through the call strike price, but they do provide protection against exercise, which some investors desire.

Result

This process simultaneously provides income for the client while eliminating the risk that any of his shares would be sold. On April 9, ABC stock had advanced to $190, five points above the call option strike price. We then “rolled” by repurchasing the April 185 calls and simultaneously selling June 200 strike price calls. These new June expiration “European” FLEX options could not be exercised until June 19.The resulting transaction generated in come of $0.30 per share while eliminating the risk that any stock would be sold.

On March 25, with ABC stock priced at $155 per share, we sold European FLEX call options that could not be exercised until April 17th, generating income of $1.50 per share.



Graph is for illustrative purposes only

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