RECOVERY TACTICS: AN OVERVIEW

Income Masters
With Michael Shulman

Today...

- This is not a deep dive on a specific tactic
- This is an overview of choices and decisions
- I will review specific tactics in more depth at the end of trading sessions in the coming weeks

Recovery Tactics

- You are staying in a position
- You want to break even or take a small, manageable loss
- You want, if possible, to generate cash
- Evaluate - decide - pick a tactic

Evaluate the Company and Stock

- Is the company still deserving of your capital
- Is the stock still worth your capital
- Are there better opportunities for your capital
- Are you comfortable with a recovery tactic that has a reasonable chance of accelerating a climb to break even

Choices

- Sell calls on assigned shares
- ***Accept assignment,*** convert shares/calls to LEAP/call positions
- ***Do not accept assignment***, buy back the put at a loss and manage a net debit situation
- ***Do not accept assignment***, buy back the put at a loss and create bull/put spreads

Setting Up Any Trade

- You carry over the cost basis from the original position
- You must decide before hand how much capital will continue to be allocated to the position
- Do not factor in tax implications although they can be meaningful

First Steps - What if I Just Sell Calls

- Assume 1%-2% in appreciation and cash per week, how long to break even?
- You will always be able to roll a call down to generate a higher return and more cash when the stock falls in price
- You will always be able to roll the call forward when the stock moves up
- If the stock pops dramatically, you can turn the position into a net debit and sell puts

I Just Sell Calls

Stock	Current Cost Basis	Stock Price	Current Price/ Strike	Value Gap	Weeks to Even	Weeks to Even
					2%	1%
DHI	$98.69	$86.00	$87.50	$11.19	6	13
Etc						

Stock	Current Cost Basis	Stock Price	Current Price/ Strike	Value Gap	Weeks to Even	Weeks to Even
					2%	1%
DHI	$97.19	$87.00	$88.00	$9.19	5	10
Etc						

What is a LEAP

- A call or put expiring more than 12 months out
- As with any call, it controls 100 shares of stock per contract
- LEAPs provide tremendous leverage
- I often use the term for long term calls that have expirations shorter than 12 months

Risk/Reward

- They decline in value - or rise in value - much faster than the underlying shares
- They are simple to roll if need be
- They have more risk than owning shares as they do expire
- They provide more reward because of the leverage they provide when selling calls

LEAP/Call Spreads

- Sell the shares
- Buy LEAPs with that capital
- Sell more calls than if you simply owned shares
- I often use term "LEAP" when a long dated call expires in less than 12 months

Why Using LEAP/Call Spreads

Stock	Current Cost Basis	Stock Price	Contracts to Sell	Capital	Gain Per Wk	Weeks to Even
DHI	$97.19	$86.00	**3**	**$25,800**	**$774**	**13**

Sell shares, buy 10 Jan 2023 60 Calls

Stock	Current Cost Basis	Stock Price	Contracts to Sell	Capital	Gain Per Wk	Weeks to Even
DHI	$97.19	$86.00	**10**	**$26,500**	**$2,580**	**4**

When Using This Approach

- You may want to sell calls farther out of the money
- Tracking can take many forms
- We track back to the original cost basis

LEAP/Call + Put Collars

- Buy a LEAP 12+ months out
- Buy a put to protect the position
- Sell weekly or monthly calls
- In this market, almost a "must do"

Three Approaches

- Own the LEAP for appreciation only, use cash from selling calls to buy puts
- Use cash from calls to selectively buy puts or puts further out of the money than the calls you sell
- Use cash to buy puts that do not cover or protect the entire position

If You Buy Puts

Stock	Current Cost Basis	Stock Price	Contracts to Sell	Capital	Gain Per Wk	Weeks to Even
DHI	$97.19	$86.00	**3**	**$25,800**	**$774**	**13**

Sell shares, buy 10 Jan 2023 60 Calls, buy ten puts

Stock	Current Cost Basis	Stock Price	Contracts Sell	Capital	Gain Per Wk	Weeks to Even
DHI	$97.19	$86.00	**10**	**$26,500**	**$1,290**	**7**

Why Buy a Put?

- Trade with more confidence
- Volatile days create opportunities
- You may make money money when the stock falls than when it rises

Creating Net Debits

- Buy back puts at a loss
- Sold a 50 put for $.50, stock goes to $45
- Buy back put for $5.25
- Net debit of $4.75
- Sell a put for $.30
- Net debit of $4.45
- And so on

Bull Put Spreads

- A more speculative approach
- Enables you to reduce capital to position
- Increases risk
- I have not yet used this approach in Income Masters

Bull Put Spreads

Stock	Current Cost Basis	Stock Price	Contracts to Sell	Capital	Gain Per Wk	Weeks to Even
DHI	$97.19	$86.00	**3**	**$25,800**	**$774**	**13**

Sell shares, create 50 silly bull put spreads

Stock	Net Debit	Capital	Contracts Sell	Cash Per Spread	Gain Per Wk	Weeks to Even
DHI	$11.19	**$25,000**	**50**	**$0.25**	**$1,250**	**7**

Why This Approach

- Silly put spreads have lower short term risk compared to bull/call/LEAP spreads
- The above example is for a full capital commitment
- If you converted half the position you could still reduce the time to breakeven with cash/profits from a new position created with theater half of capital available to you

You Must…

- Monitor and manage the position
- Take profits and re-enter the position based on market conditions
- Understand LEAPs rise and fall in value such faster than the underlying shares

You Must…

- Be committed to the stock for the long haul
- Monitor and manage the trade - yes, I am repeating myself
- Take profits and re-enter the position based on market conditions
- Understand LEAPs rise and fall in value such faster than the underlying shares

When to Close

- These are recovery positions on a damaged stock
- Target break even or an acceptable loss
- Break even is when Net Value = Cost Basis

Recap

- Quantify risk before deciding to create a recovery position
- You gotta believe!
- You must follow these positions closely - 3rd reminder!
- A real positive - these kinds of leveraged positions can produce outsized cash returns and profits

DISCLAIMER: This is educational and informational content for buying stocks and selling options to generate income. Nothing presented in this coaching or training program is intended as, or should be construed to be, a recommendation to buy or sell any specific security. These are not recommendations. This information is provided for educational and informational purposes only. Use this information at your own risk.

LIABILITY: Readers agree to hold Traders Reserve, LLC completely harmless and free from liability of any kind as a result of using the techniques and strategies described herein. This program and content is for educational and informational use only. Use caution and seek the advice of an outside registered investment advisor. Prior to making any investment or trading decisions, reader agrees to exercise due diligence when it comes to making trading decisions and all information that has been provided herein should be independently verified. You agree the Traders Reserve, LLC is not responsible in whole or in part for the outcome of your trading decisions. There is no implied warranty for the fitness or suitability of this information for your use, and you expressly waive any liability or claim arising from such usage.

U.S. Government Required Disclaimer – Stock, options and futures trading is not appropriate for everyone. There is a substantial risk of loss associated with trading these markets. Losses can and will occur. No system or methodology has ever been developed that can guarantee profits or ensure freedom from losses. No representation or implication is being made that using any of the Options Income Blueprint strategies or tactics, or the information in this website or accompanying material will generate profits or ensure freedom from losses.

HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN LIMITATIONS. UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING. ALSO, SINCE THE TRADES HAVE NOT BEEN EXECUTED, THE RESULTS MAY HAVE UNDER-OR-OVER COMPENSATED FOR THE IMPACT, IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFIT OR LOSSES SIMILAR TO THOSE SHOWN.