

THE OPTIONS INCOME

TRADING STRATEGY GUIDE

HOW TO GENERATE CONSISTENT INCOME (AND LIMIT YOUR
RISK) WRITING AND SELLING OPTIONS



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RISK DISCLAIMER

The Options Income Trading Strategy Guide:

The Definitive Guide to Trading Inflation

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Scoring a “HOME RUN” on a big options trade is exciting... But imagine

What if you traded options in a way that squeezed out an average of 5% gains per trade... but you won 90% of your trades?

This type of trading is known as options income trading or trading options for income.

It's not as exciting, but you could potentially earn the same if not more profits in the same timeframe... without the stress of one big trade going sour.

Plus, it's not time-intensive. That makes it perfect for retirees, working professionals, and even active traders.

Interested? To help you get started, we created this options income strategy guide. In it, you'll learn:

- Who income trading works best for
- What sets income trading apart from regular options trading
- A simple tactic for limiting your options income trading risk... and even calculating the exact amount you stand to lose
- How to fast-track your options income mastery

And more. So keep reading for everything you need to know about options income trading:

What is Options Income Trading?

Options trading for income is a strategy that puts you on the other side of an options transaction. You're not an options buyer but a “writer” — you write and sell the contract. Someone else buys it.

When you sell the option, you collect the option's price, or the **premium**, from the buyer. This is your source of income as the options writer.

As the writer, you want that option's underlying asset (usually a stock) to stay within a particular price range. If the underlying price falls too low (for puts) or rises too high (for calls), the buyer will exercise the option and cause you to incur losses.



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Options Income Trade Example

Imagine Stock ABC trades for \$55. Stock ABC Put options with a \$50 strike price trade for \$3. Each put contract is for 100 shares. You sell a \$50 strike price put and collect the \$300 (\$3 x 100) premium.

Ideally, you want Stock ABC's price to stay above \$50 until expiry. This would earn you profits since you won't have to sell back underlying stock. The options buyer would not exercise the option.

In the worst case, you want Stock ABC to at least hit \$47, the breakeven point, since the option was \$3/contract. The buyer might exercise the option, forcing you to buy the shares at the strike price, causing you to break even.

However, you'll incur losses if the stock price falls below \$47. For example, if it falls to \$45, you're forced to buy at the \$50 strike price. You earned \$300 but paid \$500, resulting in a \$200 net loss.

Options income trading is not about landing the occasional home run. You aim for small, consistent, high-probability "base hits". This offers a few benefits:

Who Should Consider Trading Options For Income?

Options income trading can create, as the name implies, a new income stream without investing a lot of time. You can make a couple of trades per week and earn decent profits when you dial your skills in.

Anyone can benefit, but it's especially handy for...

Retirees

Trading options for income can be a fantastic pursuit in retirement.

Whether you want to:

- Upgrade your retirement lifestyle (More money for that travel bucket list)
- Create financial security by reducing reliance on your retirement assets, OR;
- Leave a larger legacy to your family

Your options trading can earn you the money needed.

Speaking of retirement assets:

You can trade options for income in an IRA if your broker allows it. This can help you save on taxes while potentially building or maintaining your retirement assets.



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Working People Looking For Extra Income Streams

It's no secret: We're in tough times. One of the best things you can do during a grim economic outlook is look for extra income streams. Doing so alleviates a lot of stress.

First off, you can set aside more for savings. And if the worst happens, and you get laid off...

Your options income can reduce your need to tap into those savings.

Trading options for income can offer that second income stream. It doesn't take a lot of time to do it — a couple of trades a week can work fine — so it's easy to build into your busy schedule.

Of course, in good times, trading options on the side for income helps you reach goals like retirement, purchasing a home, and putting your kids through college.

No need to worry about the market's direction, either. You simply alter which types of options you use to set yourself up for winning opportunities.

Traders Who Want to Complement Their Active Directional Trading

Even full-time day or swing traders can dip into options income trading. It complements active options trading by putting you on both sides of the

equation. The pros of options writing can help offset the cons of options buying and vice-versa.

For stock investors, selling options can hedge against stock losses by selling options. And if things go the right way, they instead earn additional profits.

How is Trading For Income Different from Regular Trading?

A regular options trader buys the option. They hope the underlying asset moves sufficiently in a particular direction so they can sell the option for a profit. Or, in some cases, exercise the option to acquire the underlying asset.

Call option buyers want the underlying price to increase. Put option buyers want the underlying price to decrease.

An options income trader, as we explained, is the other side of that transaction. They write the options that a buyer, well, buys.

Regular options trading offers limited risk and theoretically unlimited profit potential. For example, say they buy Stock ABC call options for \$50 with a \$55 strike price for \$3/contract. The buyer wants the price to climb above \$55.

The more Stock ABC climbs above \$55, the more the option's value grows. Think about it: Buying a



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\$100/share stock for \$55 is more attractive than a \$60/share stock at the same price.

An options writer's income ceiling is the premium they receive. However, they can theoretically lose a lot. For calls, they can lose an unlimited amount since a stock price can (in theory) continue upward indefinitely. For puts, they can lose a lot, but not as much. The floor is \$0/share of the underlying asset.

Wait, so isn't options income trading worse? Why would people write options?

Well, you have one major advantage...

Time.

Time, or Theta

Theta measures an option's price's decline due to the passage of time.

As you know, options expire. The closer the expiry date, the less time the underlying asset price has to change.

Humans have a negativity bias, meaning we care more about avoiding loss than enhancing gain. So the buyer is more worried the option won't move in the right direction than they are hopeful it will.

Other Benefits of Options Writing

Options writers have two more advantages over the buyers:

For one, you get the premium right away. This advantage is powerful if you have a high win rate since you're less likely to worry about the buyer exercising the contract.

Plus, you can close out the contract at any time. This allows you to cut your losses if you think the underlying asset may go the wrong way.

Still, you do have unlimited risk here — but luckily, there's a neat fix that can help you limit and even calculate your exact risk on any trade...



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Credit Spreads

A credit spread is a way to structure your options income trades to limit risk. It involves buying a low-premium option and selling a high-premium option on the same asset.

Both options are of the same class (calls or puts) and have the same expiration. The difference is in strike price, which causes the difference in premium.

The net premium is the trader's maximum profit potential. You want both options to be out of the money (OTM) at expiration to make the most profits.

Credit spreads forgo some profit potential to limit your risk. In fact, you can calculate your maximum potential loss on a trade — allowing you to control your risk.

One last thing: You can adjust your credit spreads to market conditions. You may want to increase your positions in markets with high implied volatility. Higher volatility can mean larger potential price swings, creating more profit potential.

When implied volatility is low, you might want to decrease your positions. Profit potential decreases, so you can scale your risk down accordingly.



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Two Major Options Income Spread Trades

There are several major types of options setups. We'll cover two of them below.

NOTE: Each setup (including those not covered here) comes with plenty of sub-variations. Don't worry about understanding them right away. As you grow your skills, you can study new setups at your own pace. For now, it's important to know a few broad types so you can understand broadly what they are and pick which ones you want to learn.

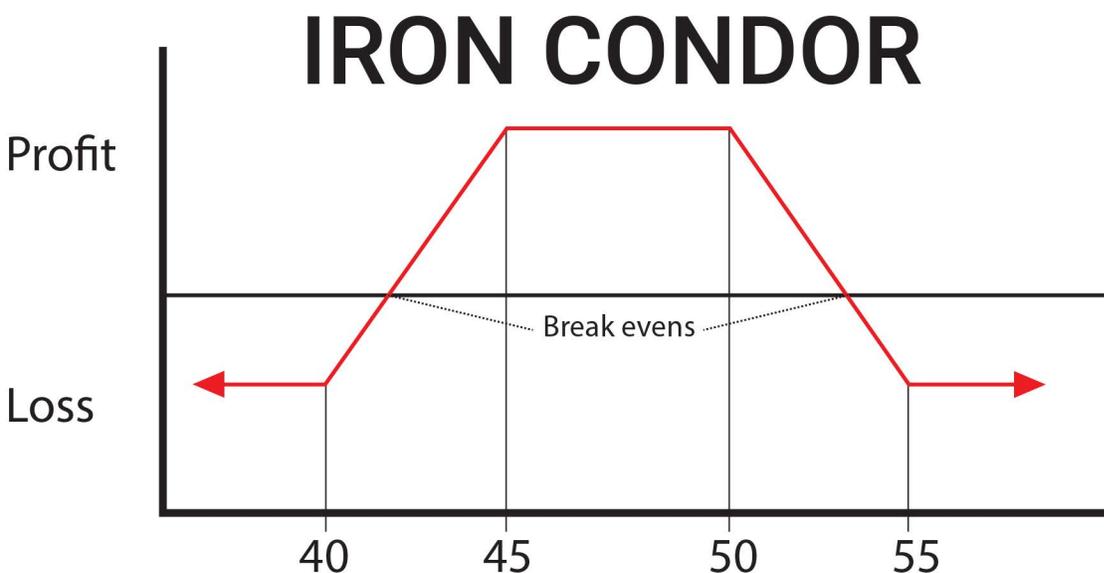
Condors

A Condor spread involves purchasing four options on the same underlying asset, each at a different strike price. They can consist of four calls or four puts and can be short or long. This creates four different combinations of Condors:

- Long with puts
- Long with calls
- Short with puts
- Short with calls

There is another type called an Iron Condor, which uses two puts (one long and one short) and two calls (one long and one short).

Here's an example of a condor spread:



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Butterflies

A Butterfly uses four different options at three different strike prices:

- A high strike price
- An at-the-money strike price
- A low strike price

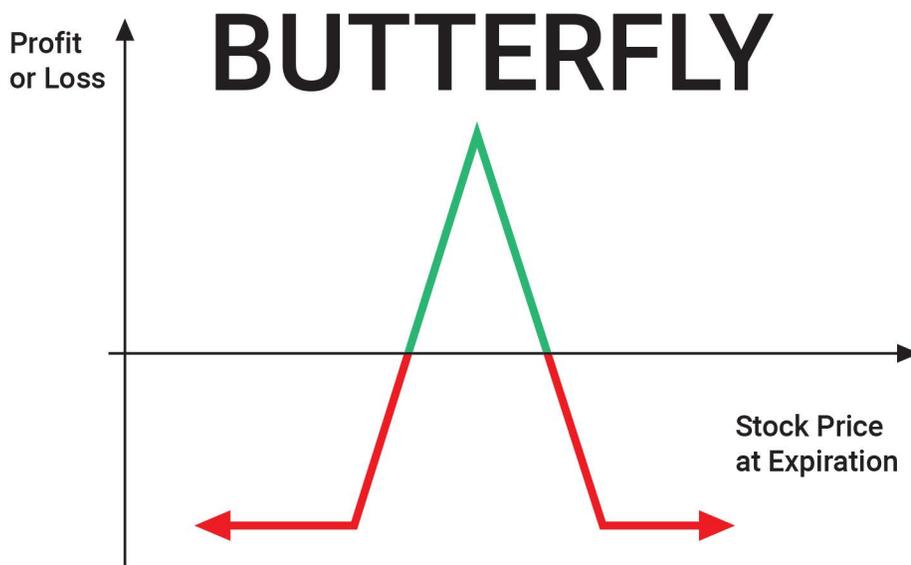
The high and low strike prices are the same distance from the middle strike price. For example, if the at-the-money strike price is \$40, the higher and lower strikes could be \$45 and \$35, respectively.

These spreads intend to maximize profits if the underlying asset does not move before expiration. In other words, they can work well in low-volatility environments.

There are six types:

- Long call
- Long put
- Short call
- Short put
- Iron Butterfly
- Reverse Iron Butterfly

Here's an example of a Butterfly spread:



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Fast-Track Your Way to Options Income Mastery

Whether you're retired, hold down a full-time job, or trade full-time, writing options can offer stable and consistent income...

As long as you do it correctly.

You must understand how to build credit spreads and use theta to your advantage if you hope to manage your risk and maximize your win rate.

It's a lot to take in. Trying to learn it all on your own can be overwhelming, but I can put you on the fast track to options income mastery:

Please go here to watch a short video with more information on how to implement your options income trading system.



To your success,

Dave Aquino
Base Camp Trading

