Your Ideal Mutual funds/ stocks can fetch you monthly return.

How to Increase Your Returns by 948% or More: Covered Call Writing

Welcome to our special report, "How To put your demat holdings to work and earn monthly returns greater or equivalent to your salary".

You're about to discover how to take advantage of an investment system that's been used for decades by some of the world's most astute investors.

It's a system that can make you money in just about any type of market – up, down, or sideways.

It's also a system that can outperform the market with less risk. Trust me when I say that not many investment systems, strategies, or brokers can make that same claim!

You'll also be interested to know that you DON'T have to have millions of rupees to start with.

Once you get the hang of this extraordinary strategy, you can begin

Using the stock market as your own personal bank account – pulling out money whenever you wish!

We've seen this strategy used successfully by some of the biggest players on Wall Street and we know it

> "The Addition of this [strategy] to a diversified investor portfolio would have generated significant improvement in risk adjusted performance over the last 18 years.
>
> - Callan Associates

Can work for you.

So get ready, you're about to be introduced to an investment strategy that can truly increase your returns on stocks up to 10 times – without taking on any additional risk.

Who Can Use This Strategy?

Now before we get into the nitty-gritty of how this strategy works, I want to go over who can use this strategy. While it's very popular and used by thousands, it definitely isn't for everyone.

Let's go over some of the requirements.

First, you must have the ability to own at least 100 shares of stock in a company.It doesn't really matter if it's Axis Bank, TCS, Reliance, Idea, or Maruthi. You must own, or have the ability to own, 100 shares of stock in at least one company. Odd lot positions of less than 100 shares will not work.

Second, you must have the ability to be approved for a basic, plain-vanilla

Brokerage firm (most call it "Level 1" approval). The lowest level of approval is all you'll need - the ability to buy and sell covered options.

The strategy doesn't entail any high-risk spreads, naked options or anything like that. You won't need a margin account and you won't need to borrow any money. But you will need basic options approval, which is easily granted to over 99% of investors who ask for it from their brokerage firm.

Lastly, you'll need a little bit of time each month to monitor your open positions.

Once you've got these three things squared away, you're ready to start utilizing this investment strategy to supercharge your returns. Let's get to it...

How This Option Strategy Works

Now, before we show you why this strategy works, let's go over exactly how it works.

We'll then go over a few examples so you can see what it looks like in the real world.

In a nutshell, this system involves selling (writing) call options against positions of stock you already own or are thinking of buying. Commonly called 'covered call writing' or 'buy-write', this strategy can really boost your returns on stocks you would own anyway (or want to own).

It works like this.

Let's say you own 1000 shares of Axis Bank's stock. You would then sell an option giving someone the right to buy your 1000 shares at some point in the future.For an agreed upon price. For this right, the buyer of the option (that you're selling) will pay you a premium – consisting of cash up front.

So as soon as you sell this option, the premium will immediately be deposited into your account.

Once you sell this call option, several things can happen between now and when it expires.

If the stock does not reach the agreed upon price (called the strike price), the option will expire worthless.

That means you get to keep the entire premium received and your shares of stock.

If the stock does reach or surpass the strike price, you may be forced to sell your stock.

In that case, you get to keep the premium received upfront, plus any appreciation in the stock up to the strike price.As you are probably starting to see, this is a great way to amplify the returns on your portfolio and generate some extra income at the same time.

I know it may at first sound a little confusing, so let's go over an example using a stock you're probably already familiar with...

The Strategy in Action…

Ok, let's see how this strategy works using a real stock (remember, it doesn't matter which stock you use, as long as options are available on that stock, you can use this strategy).

Also keep in mind that you always want to have a neutral to positive outlook on the stock you own.

Let's say you own or are thinking of owning 100 shares of Axis Bank. Further, let's say Axis Bank is trading at per share Rs 546.73and it's late June. You think Axis Bank is going to go up but you'd like to earn some extra income on your shares and reduce your overall risk a bit.

So, you go online (or call your broker) and see that the July 550 call option is trading at Rs 23.60. What that means is the buyer of this option has the right to buy your 100 shares of Axis Bank at Rs 550, anytime before the last Thursday in July (options always expire on the last thursday of the expiration month).

And for this right, he's willing to pay Rs 2,360 (Rs 23.6 times 100 shares of stock each option is based on 100 shares of the underlying stock).

You decide this is a fair price so you decide to sell the July 550 call for Rs 2,360. Let's take a look at some of the numbers and possible outcomes:

- Axis Bank Investment (100 shares times Rs 546.43)= Rs 54,643
- July 550 Call Option Premium= Rs 2,360
- Rate of Return if Axis Bank doesn't move in the next 4 weeks: 4.3%
- Rate of Return if Axis Bank climbs above Rs 550 a share: 4.9%
- Breakeven on Axis Bank shares: Rs 522.83

So, what does all this mean?

First, you receive a 4.3% return as soon as you sell the call option (in the form of a premium). Now, this option is good for only 4 weeks.

So, if Axis Bank's stock doesn't move in the next 4 weeks, you've generated a 4.3% return.

If Axis Bank moves up past Rs 550 a share, you're return is 4.9%. That is composed of the Rs 2,360 premium you received plus the appreciation of the stock all the way up to Rs 550 (another Rs 357 in this case).

Keep in mind, by receiving the premium upfront, you've effectively lowered your cost basis on your Axis Bank shares by that amount.

So, in the next 4 weeks, we'll make money as long as Axis Bank stays above Rs 522.83.

What Happens If Axis Bank Shares Do Not Get To Rs 550 by July?

If your Axis Bank shares do not reach the strike price (Rs 550 in this example), the option will expire worthless. Which means you get to pocket the entire premium and keep your 100 shares of Axis Bank stock?

Then, you could repeat the process and sell another option with an August expiration!

Theoretically, you could keep selling options against your position until the stock finally rises above the strike price you've set and your shares get called away.

If that happens, you could always buy the stock again and start over.

Keep in mind that you can control the probability of your stock being called away by setting the strike price lower or higher.

If you want to increase your chances of the stock not getting called away, choose a higher strike price.

The tradeoff is that the higher the strike price, the lower the premium you will receive.

If your objective is to increase the amount of premium you will receive, then choose an option with a strike price closer to the actual price of the stock.

The risk with a lower strike price is that the chances increase that your stock will be called away.

As you can see, you clearly have a lot of control over your investment situation with options.

What Happens If My Axis Bank Shares Drop Below The Breakeven?

Now, we've examined what happens if our Axis Bank shares rise or stay flat (which is what we want). Let's see what happens if they fall.

If Axis Bank falls to Rs 522.83, we'd break even on the trade.

This means we didn't make money, but more importantly we didn't lose any either.

Of course if we had NOT sold the option, we would be down Rs 23.60 per share or Rs 2,360.

That is, if we just owned 100 shares of Axis Bank outright at Rs 546.43.

This fact is one of the hidden benefits of covered call writing, it effectively lowers your cost basis.

In this example, we will only lose money if Axis Bank falls below Rs 522.83 within the 4 week time frame of the option.

And if this does indeed happen, we can sell another option after our first one expires, collect another premium, and lower our cost basis again.

How to Increase Earn more than your salary

So, based on the numbers above, let's see how we could theoretically increase our returns by 948% with this simple strategy.

I know it sounds crazy for such a low-risk strategy, but hear me out.

Not too long ago Axis Bank was trading at
Rs 505 a share. 20 months later, it was trading at Rs 546.43 a share.

That's an increase of 8.2% over nearly two years- not too shabby but not great.

Now, let's say that every month, you were able to sell a 'next month' call option and receive 4.3% each time.

Over 20 months that would be an additional 86% return.

Your return just jumped 948% on the same Axis Bank shares you owned anyway!

With this system, you have the opportunity to greatly increase your rate of return on many common stocks in all types of markets.

Now, before you get too excited, please understand that it rarely works out this cleanly in the real world.

One month Axis Bank shares may shoot up and your shares could get called away.

Additionally, the premium you receive can and will fluctuate from month to month.

The biggest risk you face when using this strategy is the stock moving considerably higher than your strike price (in which case you still make money, just not as much money as if you had held the stock outright).

5 Reasons Why So Many "Pros" Use This Strategy

Now that we've covered exactly how this strategy works, I want to go over the 5 most important reasons why so many 'advanced' investors use this strategy.

Everyone seems to have their own reasons for incorporating covered calls into their portfolio, but these are the most important ones:

1. Potential for a Higher Overall Return

The main reason investors follow any strategy is usually because they think they can generate higher returns.

It's no different with covered call writing.

There have been a number of recent studies that have shown that covered call writing strategies have outperformed the Nifty 50.

And this outperformance was over a long time period – almost 20 years!

For example, Ibbotson Associates completed a 16 year study in 2004 that showed a covered call writing strategy based on the S&P 500 actually outperformed the index itself with only 2/3rds the risk!

Over an 18 year period ending in 2006, Callan Associates came to a similar conclusion; the strategy outperformed the market as a whole with considerably less risk.

2. Lower Risk

Next to making more money, high on investors list of desirable investment traits is safety.

And safety is what a sensible covered call writing system can provide. Virtually anyone with a brain on Wall Street will argue that writing covered calls on stocks you own is actually less risky than owning the stock outright.

Covered call writing serves as a type of "hedge" that brings down your cost basis on your stock and insulates you somewhat from downward stock movement.

Recognizing the lower risk of covered call writing, the strategy was the only one allowed in IRAs by brokerage firms for many years.

That has since changed as options have become more popular over the years but it says something that brokerage firms allowed covered call writing in IRAs…

3. Generate Extra Income

This is the reason that a lot of people start selling covered calls in the first place.

They're able to generate extra income from stocks they already own. So, instead of sitting there and watching a stock do nothing for years, many use covered calls to put cold hard cash into their pockets (while they wait for the stock to move).

As you've seen in our real-life examples, the extra income generated from this strategy can be substantial.

4. Works in Almost Any Market

If you really break it down, stocks can only do 5 different things.

They can go up a lot, go up a little, stay even, go down a little, or go down a lot.

In 4 out of 5 of these scenarios, covered call writing tends to outperform the market in general. And, in the only scenario where it doesn't (when the market goes up a lot), you still make money.

5. Allows You to Safely Take Advantage of Volatility

This one is esoteric but legitimate just the same.

Let me explain. We alluded to the fact earlier that part of what determines option premiums is the volatility of the underlying stock.

If the underlying stock is very volatile, and moves around a lot, its option premiums will be very high.

Now, if the entire market is volatile like it is now, the overall level of premiums will be higher than normal.

This is good news for option sellers.

You'll be able to take advantage of some of the volatility in the market without exposing yourself to ridiculous amounts of risk. The best of both worlds!

Avoiding Common Mistakes

While covered call writing is a terrific strategy for most investors, there are some things you need to watch out for.

Let's go over the most important of these now.

Mistake #1: Only selling options on stocks with very high premiums

This is the number one, biggest mistake that just about every covered call writer makes at some point in their investment life.

As we mentioned before, the most important driver of option premiums is the volatility of the underlying stock.

So, the more a stock jumps around on a daily basis, the more premium will be demanded for its call options.

So, what happens is an investor sees a very volatile stock that's offering a one month premium of say 9%.

Then they say to themselves, "why would I settle on a 2% or 3% premium when I can buy XYZ stock and sell its options for 9%?"

So, they buy the stock, sell the options, and watch the stock subsequently drop 25% over the next few weeks.

I've seen it time and again.

There's a REASON that some stocks have very high premiums.

It's because they are very volatile and can move 10%-20% or more in a single day. Your 9% premium you received doesn't look so good when the stock falls 25% the next day!

If you're going to dabble in high premium stocks, you must be prepared for extreme volatility. Consider yourself warned!

Mistake #2: Setting the strike price too close to the stock price

Now, this mistake only applies if you want to keep the shares of stock you're writing the options against (because you'd have a big tax bill if you sold them for instance).

Let's say you've owned shares of Wal-Mart for 10 years and you really don't want to sell it, but you'd like to make some extra income from it.

In this case, you must set the strike price higher than where you think the stock can realistically go before the expiration date of the option.

If Wal-Mart is at Rs 53 and you sell a Rs 55 option, there's a good possibility it'll get called if and when Wal-Mart hits Rs 55.

A better idea would be to set the strike price at Rs 70.

That way, Wal-Mart would have to make a very large move before you would have to sell any stock.

The only downside of that is you wouldn't receive as much premium on the Rs 70s as you would the Rs 55s.

Everything is a tradeoff when it comes to options (and life consequently!)

Mistake #3: Not realising the different type of risk covered call writing entails

Although many investors have a sense of this, some completely miss the point.

Your biggest risk when selling covered calls is the ‘opportunity cost’ of not being able to participate in a big move to the upside in one of your stocks.

To demonstrate this, let’s say you buy 100 shares of X stock at Rs 25 a share. You then decide to sell a call option with a Rs 27.50 strike price.

Believe it or not, one of the biggest risks you’ll face with this strategy is if X stock rockets up to Rs 40 before your option expire.

Sure, you’ll make your premium plus the appreciation up to Rs 27.50, but you’ll miss out on a whole lot more (the appreciation between Rs 27.50 and Rs 40.00).

As a covered call writer, you must always ask yourself, “Am I being compensated enough for selling the right for someone else to buy my shares at a certain price?”

That simple question will prove very valuable when deciding what option to sell, if any.

Mistake #4: Ignoring the impact of taxes and commissions

This is a common mistake among investors following just about every strategy.

When calculating possible rates of return, you need to figure in taxes and commissions.

As far as commissions go, you’ll pay when you purchase a stock and when you sell the call option.

At expiration, you will not pay another commission if the option expires worthless.

However, if the stock is called you may pay a small commission. Be sure to check with your broker for details.

Obviously, with the proliferation of internet brokerages, commission costs have come down considerably and have made the strategy more viable than ever.

Remember, the lower commissions you pay, the better your returns, all else being equal.

The tax ramifications of covered call writing are beyond the scope of this report. Needless to say, you’ll need to speak with a competent tax advisor to best learn how to deal with this aspect of covered call writing.