How to Find Opportunities with PowerOptions

Introduction:

In the first article of this series we discussed portfolio insurance as the missing link to a sound financial investment program. Our second article dealt with a possible solution to the insurance concern by using the purchase of put options to minimize losses for a stock investment position. The third article applied put option insurance together with some management techniques for the Hewlett Packard (HPQ) stock to illustrate the theory of the first two articles. In this, the forth article we will demonstrate the tools available on the PowerOptions financial web site to aid in implementing the married put and collar strategies in a methodology which controls risk and extracts income profit from the married put option position.

Married Put Insurance:

If you currently own a stock position that is profitable, it is possible to create a married put position to guarantee some of that profit. Rather than take the risk of losing that gain to the vagaries of the market, it might be more prudent to lock in some of the gain and not give back those hard earned dollars. The first tool to be discussed uses put option insurance to lock in a defined profit. The position insurance tool on PowerOptions provides a means to assess the merits of different insurance positions using put options.

Navigation:
After logon from the home tab click the "Married Put" tab. If the married put tab is not present use the last tab "Other Strategies" to put up the married put tab.
Click "Insurance" or "Position Insurance"

The following menu will appear to insert the data needed to calculate the put insurance:
Figure 1. Position Insurance Tool

| Home | My Portfolio | Married Put | Extended Collar | Covered Call | Naked Put | Short Strangle | Bull Call Debit | Long Call | Custom Spreads | Other Strategies |

Married Puts Home | Search | Sample Searches | Search by Symbol | Back Test | Insurance

Position Insurance Tool

The Position Insurance Tool helps investors with winning long stock positions lock in a certain amount of profit using **Married Puts**. Simply enter your stock symbol and cost basis to see a list of **Married Puts**.

You can also add a **Covered Call** to the position by selling a call at the same strike or higher than the bought put. To view these **Collar** positions select a call month as well as a put month from the boxes below.

New Cost Basis = Original Cost Basis + Put Ask Price - Call Bid Price
Locked In Profit = Put Strike Price - New Cost Basis

Position and Search Criteria

Stock Symbol	Cost Basis/Shr	Buy Put Month	Sell Call Month	
		All Months	None	Calculate

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As an example, HPQ will be used with the following parameters submitted as data for Figure 1:

- Stock Symbol for Hewlett Packard   HPQ
- Cost Basis / Share of $39.00 (cost basis for a profitable stock)
- Buy Put Month of   January 2009 (insurance for 204 days)

Figure 2. Position Insurance example for HPQ

Position and Search Criteria

Stock Symbol	Cost Basis/Shr	Buy Put Month	Sell Call Month	
HPQ	39	January 2009 ▼	None ▼	Calculate

▶ Hewlett Packard - Current Price: **$44.28** Current Profit: **+5.28 (13.5%)**

More Info	Put Symbol	Put Exp (Days)	Put Strike	Put Ask	Put Time Value	Put Time Value /Mo	New Cost Basis	Locked In Profit	% Locked In Profit
▶	HPQMI	JAN 2009 (204)	45.00	$4.20	$3.48	$0.51	$43.20	$1.80	4.2%
▶	HPQMV	JAN 2009 (204)	42.50	$3.10	$3.10	$0.46	$42.10	$0.40	1.0%
▶	HPQMH	JAN 2009 (204)	40.00	$2.20	$2.20	$0.32	$41.20	$-1.20	-2.9%

Figure 2. illustrates a matrix of results for the creation of a married put for the HPQ stock position having experienced a profit. The column labeled "Locked In Profit" shows how much of the current profit can be locked in using of each put position considered. The resulting locked in profit is sorted from highest to lowest. Even though the $40 strike has the lowest put premium, it sacrifices several points from the $44.28 current price and actually result in a slight loss if the stock were to decline substantially from these levels.

Writing a covered call against the stock position can enhance the locked in profit as illustrated in Figure 2. In Figure 3 a covered call for the month of August has been added to each put insurance position and sorted by Locked In Profit. The use of a covered call with a protective put is called a Collar Strategy:**Figure 3. Creating a Collar from a married put option position:**

Position and Search Criteria

Stock Symbol	Cost Basis/Shr	Buy Put Month	Sell Call Month	
HPQ	39	January 2009 ▼	August ▼	Calculate

▶ Hewlett Packard - Current Price: **$44.33** Current Profit: **+5.33 (13.7%)**

More Info	Put Symbol	Put Exp (Days)	Put Strike	Put Ask	Put Time Value	Put Time Value /Mo	Call Symbol	Call Exp (Days)	Call Strike	Call Bid	New Cost Basis	Locked In Profit	% Locked In Profit	% Assnd
▶	HPQMH	JAN 2009 (204)	40.00	$2.20	$2.20	$0.32	HPQHH	AUG 2008 (50)	40.00	$4.80	$36.40	$3.60	9.9%	9.9%
▶	HPQMV	JAN 2009 (204)	42.50	$3.10	$3.10	$0.46	HPQHV	AUG 2008 (50)	42.50	$2.85	$39.25	$3.25	8.3%	8.3%
▶	HPQMI	JAN 2009 (204)	45.00	$4.20	$3.48	$0.51	HPQHI	AUG 2008 (50)	45.00	$1.40	$41.80	$3.20	7.7%	7.7%
▶	HPQMI	JAN 2009 (204)	45.00	$4.20	$3.48	$0.51	HPQHW	AUG 2008 (50)	47.50	$0.55	$42.65	$2.35	5.5%	11.4%
▶	HPQMI	JAN 2009 (204)	45.00	$4.20	$3.48	$0.51	HPQHJ	AUG 2008 (50)	50.00	$0.20	$43.00	$2.00	4.7%	16.3%

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Adding a covered call can enhance returns. The Aug. 08 call options were used because they were within 2 months of expiration. Since the protective put will not expire until Jan. 09, there will be several more opportunities to write calls against this position if the position is not called away. It should be noted you are seeking insurance because the stock has performed well and you want to lock in some of those profits, therefore, you should give the stock some room to continue this trend and choose the a strike for the call OTM and higher than the put used for insurance. In Figure 3 these would be the last three candidates shown. The last three have the highest % if assigned, but have not guaranteed the highest locked in profit. They are anticipating follow through on the stock price up trend.

Married Put Search:

In the previous case we created a married put position to lock in profit from an already existing profitable equity position. However, if we have cash ready to invest, we need a tool to find the best married puts available to trade. For this case, we will examine a tool available to find a married put by searching the through the entire market using a set of search criteria. The goal of the search is to find a stock and a protective put that meet our requirements. First we need to establish the search criteria or conditions for our ideal married put purchase. An initial set of parameters were established under the named search "**Radioactive":

Navigation:

- After logon from the home tab click the "Married Put" tab. If the married put tab is not present use the last tab "Other Strategies" to put up the married put tab.
- Click "Search" in the sub menu
- Select the Search Settings Saves As "**Radioactive"

The following settings are part of the "Radioactive" search:**

- Sorted by % Max Risk
- Put expirations between 150 to 700 days out in time
- Put up to 20% In The Money (ITM)
- % Risk between 2.5 and 9%
- Put open Interest greater than 0
- Stock price between 9 and 200
- Average stock volume greater than 300K
- In an up trend based on the Stock Price > 50 Day Moving Avg.
- Stocks chosen also appears on the IBD 100 or CANSLIM lists

Other criteria could have been used, but these criteria provide a good starting point for the married put search. The following sorted list illustrated in Figure 4 is the result of the above search parameters applied to the entire options market on 6/27/08.

Figure 4. Married Puts Selection using the "**Radioactive" named search

Home	My Portfolio	Married Put	Extended Collar	Covered Call	Naked Put	Short Strangle	Bull Call Debit	Long Call	Custom Spreads	Other Strategies

Married Puts Home | Search | Sample Searches | Search by Symbol | Back Test | Insurance |

Ernie Zerenner's Married Put SmartSearchXL Results   **See More/Less Columns**

6/27/2008, Markets Closed Real Time   All Months ordered by % Risk - Filtered   **Printer Friendly Results**

More Info	Company Name	Stock Sym	Last Stock Price & Chg	Option Sym	Expire/Strike & Days To Exp	Opt Ask	Net Debit	Max Risk	% Max Risk	% In Money	Implied Volat.	Delta	% Prob. Above
▶	ChevronTexaco	CVX	97.80 (+0.39)	CVXXB	08 DEC 110.0 (176)	15.30	113.10	3.10	2.7	+12.5	0.29	-0.72	24.0
▶	FMC Corp.	FMC	76.76 (+1.41)	FMCMR	09 JAN 90.0 (204)	15.90	92.66	2.66	2.9	+17.2	0.31	-0.67	26.9
▶	Praxair Inc.	PX	94.66 (+0.91)	PXMB	09 JAN 110.0 (204)	18.70	113.36	3.36	3.0	+16.2	0.32	-0.69	25.6
▶	ChevronTexaco	CVX	97.80 (+0.39)	VCHMB	09 JAN 110.0 (204)	15.70	113.50	3.50	3.1	+12.5	0.29	-0.70	25.6
▶	SPX Corp.	SPW	130.25 (+4.22)	OWMMK	09 JAN 155.0 (204)	30.00	160.25	5.25	3.3	+19	0.37	-0.70	24.4
▶	Cimarex Energy Co.	XEC	68.11 (-0.10)	XECXP	08 DEC 80.0 (176)	14.60	82.71	2.71	3.3	+17.5	0.37	-0.68	26.6
▶	Williams Companies Inc.	WMB	39.17 (-0.09)	WMBMI	09 JAN 45.0 (204)	7.40	46.57	1.57	3.4	+14.9	0.32	-0.68	26.8
▶	National Fuel Gas Co.	NFG	58.12 (+0.38)	NFGMM	09 JAN 65.0 (204)	9.20	67.32	2.32	3.5	+11.8	0.29	-0.65	29.5
▶	Cimarex Energy Co.	XEC	68.11 (-0.10)	ZWKMP	09 JAN 80.0 (204)	14.90	83.01	3.01	3.6	+17.5	0.36	-0.66	28.1
▶	Pride Intl. Inc.	PDE	47.79 (+1.50)	PDEMK	09 JAN 55.0 (204)	9.30	57.09	2.09	3.7	+15.1	0.35	-0.63	31.0
▶	ENSCO Intl. Inc.	ESV	80.68 (+0.71)	ESVXS	08 DEC 95.0 (176)	18.00	98.68	3.68	3.7	+17.7	0.40	-0.66	28.2
▶	SPX Corp.	SPW	130.25 (+4.22)	JPWXJ	08 DEC 150.0 (176)	25.60	155.85	5.85	3.8	+15.2	0.37	-0.67	27.2
▶	Transocean Offshore Inc.	RIG	152.50 (+1.22)	RIGMP	09 JAN 180.0 (204)	34.80	187.30	7.30	3.9	+18	0.39	-0.68	26.1
▶	EnCana Corp.	ECA	89.07 (+0.15)	ECAMA	09 JAN 105.0 (204)	20.20	109.27	4.27	3.9	+17.9	0.38	-0.67	27.0
▶	Williams Companies Inc.	WMB	39.17 (-0.09)	WMBNI	09 FEB 45.0 (239)	7.70	46.87	1.87	4.0	+14.9	0.33	-0.66	28.3
▶	ENSCO Intl. Inc.	ESV	80.68 (+0.71)	VKSMS	09 JAN 95.0 (204)	18.30	98.98	3.98	4.0	+17.7	0.39	-0.64	29.6
▶	Halliburton Co.	HAL	52.16 (+1.15)	HALML	09 JAN 60.0 (204)	10.40	62.56	2.56	4.1	+15	0.36	-0.64	29.5
▶	SPX Corp.	SPW	130.25 (+4.22)	OWMMX	09 JAN 150.0 (204)	26.30	156.55	6.55	4.2	+15.2	0.37	-0.65	28.7
▶	ChevronTexaco	CVX	97.80 (+0.39)	CVXXA	08 DEC 105.0 (176)	11.80	109.60	4.60	4.2	+7.4	0.29	-0.62	33.5
▶	Superior Energy Srvs. Inc.	SPN	54.46 (-0.53)	SPNXM	08 DEC 65.0 (176)	13.50	67.96	2.96	4.4	+19.4	0.44	-0.67	27.0

1 • 2 • 3 • 4 • 5 • 6 Next (1-20 of 143 total results)

The Married Put strategy can be used to set maximum risk the investor will tolerate before considering strategies to generate income or growth from the position. Since all of the stocks in this screen are members of the **IBD100** or **CANSLIM** list, they are considered companies with good growth prospects. Using a married put we have established a safety net from which to operate using other income management techniques. In general the management process depends on the direction the stock price takes:

- If the stock price increases to the put strike price, we might write an ATM or OTM covered call
- Buy back and roll up and out any covered calls that go ITM by the amount of the initial premium
- If the stock goes down by 8% or more we might sell the put and move it down one strike price
- Continue the put roll down process in a declining market to establish the lower break-even for an eventual bounce back.

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This process can be repeated as the stock fluctuates as shown in the HPQ example in Part 3. The "My Portfolio" section of the PowerOptions site helps apply these rules to the married put positions that are tracked in the portfolio. More details about using the "My Portfolio" tools for paper trading or tracking your real positions will be discussed at the end.

Married Put with a covered call, the "Collar"

Some investors would prefer to establish the collar immediately rather than create a married put and then wait for a movement in the stock as outlined above in the married put strategy. If the stock chosen immediately moves up, it is better to wait in creating the covered call, however if the stock immediately declines it would have been better to sell the covered call early. The collar search assumes that the stock, put, and covered call are all acquired at the same time.

The PowerOptions collar search enables one to select the put conditions separate from the short-term call conditions. In some cases it is possible to find a "Conversion" where the put assures only a 0.60 % max. loss and a 3.3% profit if assigned:

Navigation:

- After logon from the home tab click the "Collar" tab. If the collar tab is not present use the last tab "Other Strategies" to put up the collar tab.
- Click "Search"
- Select the Search Settings Saves As "Different Months - Put ITM Collars"

These setting can be used to get you started, but they can be modified to meet your personal investment conditions. The selection parameters used for the saved search called "Different Months - Put ITM Collars" are:
- Sorted by % Max. Risk
- Put expirations between 150 to 700 days out in time
- Put up to 20% In The Money (ITM)
- % Max Risk on the position less than 10%
- Call open Interest greater than 0
- Stock price between 15 and 150
- In an up trend based on the Stock Price > 50 Day Moving Avg.
- Call bid price greater than $.30
- No List selected

Using these settings resulted in finding 115 selections, as illustrated in Figure 5, which met the above parameter search conditions. It is generally best to make the search restrictive enough to limit the number of selections to 20 or less. The PowerOptions default searches will often result in more selections, but additional restrictions can be easily applied and then the new more restrictive search parameters can be saved under a new name for future access. The last three columns in Figure 5 are the risk reward columns. In general the % if Assigned returns are favorable with only one covered call write against the stock position and most selections are close to break-even if the stock price is unchanged.

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Figure 5. PowerOptions: Collar Search

Collars Home | Search | Sample Searches | Search by Symbol | Back Test | Insurance

Ernie Zerenner's Collar Search Results   See More/Less Columns

8/12/2008, Markets Closed Real Time   ordered by % Max Risk - Filtered   Printer Friendly Results

More Info	Company Name	Stock Sym	Last Stock Price & Chg	Call Symbol	Call Exp Strike Days to Exp	Call Bid Price	Put Symbol	Put Exp Strike Days to Exp	Put Ask Price	Net Debit	Break Even	Max Risk	% Max Risk	% If Assnd.	% If Unch.
▶	Autozone Inc.	AZO	136.61 (-2.35)	AZOIK	08 SEP 155.0 (39)	0.80	AZOMJ	09 JAN 150.0 (158)	19.80	155.61	138.25	5.61	3.6	5.4	-0.4
▶	Intl. Business Machines	IBM	125.22 (-1.38)	IBMIG	08 SEP 135.0 (39)	0.55	IBMMF	09 JAN 130.0 (158)	10.50	135.17	125.63	5.17	3.8	3.7	-0.1
▶	Genenntech Inc.	DNA	97.85 (+0.02)	DWNIA	08 SEP 105.0 (39)	1.20	DWNOT	09 MAR 100.0 (221)	7.30	103.95	98.22	3.95	3.8	3.9	-0.2
▶	Best Buy Co. Inc.	BBY	44.91 (+0.51)	BBYIX	08 SEP 52.5 (39)	0.35	BBYMJ	09 JAN 50.0 (158)	7.70	52.26	45.18	2.26	4.3	7.1	-0.2
▶	Genenntech Inc.	DNA	97.85 (+0.02)	DWNIB	08 SEP 110.0 (39)	0.40	DWNOT	09 MAR 100.0 (221)	7.30	104.75	99.77	4.75	4.5	6.7	-0.9
▶	Autozone Inc.	AZO	136.61 (-2.35)	AZOIK	08 SEP 155.0 (39)	0.80	AZOOJ	09 MAR 150.0 (221)	21.50	157.31	138.14	7.31	4.6	5.6	-0.4
▶	Abbott Labs	ABT	58.88 (-0.02)	ABTIZ	08 SEP 62.5 (39)	0.40	ABTML	09 JAN 60.0 (158)	4.40	62.88	58.58	2.88	4.6	3.4	0.2
▶	McDonalds Corp.	MCD	63.94 (-2.01)	MCDIU	08 SEP 67.5 (39)	0.60	MCDMM	09 JAN 65.0 (158)	4.90	68.24	63.49	3.24	4.7	3.3	0.3
▶	Adobe Systems Inc.	ADBE	45.62 (-0.27)	AEQIJ	08 SEP 50.0 (39)	0.60	AEQMS	09 JAN 47.5 (158)	4.90	49.92	45.49	2.42	4.8	5.0	0.1
▶	Wal-Mart Stores Inc.	WMT	59.25 (+0.69)	WMTIA	08 SEP 62.5 (39)	0.75	WMTML	09 JAN 60.0 (158)	4.60	63.10	58.66	3.10	4.9	3.4	0.5
▶	Coca-Cola Co.	KO	54.79 (-0.56)	KOIY	08 SEP 57.5 (39)	0.40	KOMK	09 JAN 55.0 (158)	3.50	57.89	54.63	2.89	5.0	2.8	0.1
▶	QualComm Inc.	QCOM	54.21 (-0.21)	AAOIL	08 SEP 60.0 (39)	0.40	AAOMT	09 JAN 57.5 (158)	6.70	60.51	54.48	3.01	5.0	4.9	-0.2
▶	Whirlpool Corp.	WHR	80.59 (-2.24)	WHRIS	08 SEP 95.0 (39)	0.35	WHRMR	09 JAN 90.0 (158)	14.60	94.84	81.73	4.84	5.1	7.3	-0.5
▶	Autozone Inc.	AZO	136.61 (-2.35)	AZOII	08 SEP 145.0 (39)	3.00	AZOMH	09 JAN 140.0 (158)	14.00	147.61	133.93	7.61	5.2	4.1	0.9
▶	Lockheed Martin Corp.	LMT	114.39 (+1.51)	LMTID	08 SEP 120.0 (39)	1.15	LMTMC	09 JAN 115.0 (158)	8.10	121.34	113.77	6.34	5.2	2.9	0.2
▶	CIGNA Corp.	CI	41.75 (-0.89)	CIII	08 SEP 45.0 (39)	0.65	CIMT	09 JAN 43.4 (158)	4.70	45.80	41.64	2.42	5.3	4.0	0.1
▶	Starbucks Corp.	SBUX	16.36 (+0.06)	SQXIM	08 SEP 18.0 (39)	0.32	SQXMW	09 JAN 17.5 (158)	2.44	18.48	16.15	0.98	5.3	5.2	0.5
▶	Affiliated Mgrs. Gp.	AMG	90.97 (-4.53)	AMGIA	08 SEP 105.0 (39)	1.00	AMGMT	09 JAN 100.0 (158)	15.90	105.87	92.35	5.87	5.5	6.4	-0.6
▶	Federal Express Corp.	FDX	87.63 (-0.34)	FDXIS	08 SEP 95.0 (39)	1.50	FDXMR	09 JAN 90.0 (158)	9.10	95.23	86.65	5.23	5.5	5.0	0.5
▶	Amazon.com Inc.	AMZN	87.25 (-0.84)	QZNIA	08 SEP 105.0 (39)	0.69	ZQNMY	09 JAN 100.0 (158)	19.25	105.81	89.31	5.81	5.5	7.8	-0.8

Portfolio Management:

Any of the opportunities found in doing a married put or a collar search can be inserted into the "My Portfolio" and the Profit / Loss application, which is shown in **Figure 6**. Just click the blue "More Info" button on the left of the selection and point to "Add to Portfolio". Just follow the instructions by choosing a portfolio and entering the remaining information i.e. number of shares, contracts, and commissions.

Once your position is established in the Profit / Loss Portfolio program it will be available to monitor the value of the position. Also by clicking on the "Edit More Info" key in the Profit / Loss Portfolio a number of management tools are available:

Navigation:
- After logon from the home tab click the "My Portfolio" tab
- Click "Profit / Loss Portfolio"

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- Click "Edit More Info" next to the position to analyze
- Then cursor to "Position Actions" and then "Position Analysis"

Figure 6. PowerOptions: My Portfolio – Profit/Loss Portfolios – Position Analysis

Married Put Profit/Loss Graph for Green Mountain Coffee Roasters Inc.

Current Stock Price ■ :	$ 35.98 (-0.61)
Break Even ■ :	$ 50.39
Current Option Bid:	$ 10.60
# Days To Expiration:	162
Max Risk:	$ 5.48
% Max Risk:	10.8%

- Stock Chart
- Company News
- Company Profile
- Stock Details
- Option Details
- Opinion Indicator
- Earnings Calendar

- Income Statement
- Balance Sheet
- Insider Report
- Analyst Estimates
- Cash Flow Statement
- Return on Equity
- Option Chain

Profit/Loss for GMCR ($35.98)

■ On Expiration ■ On 7/11/2008
(0 days from now and 162 days to expiration)
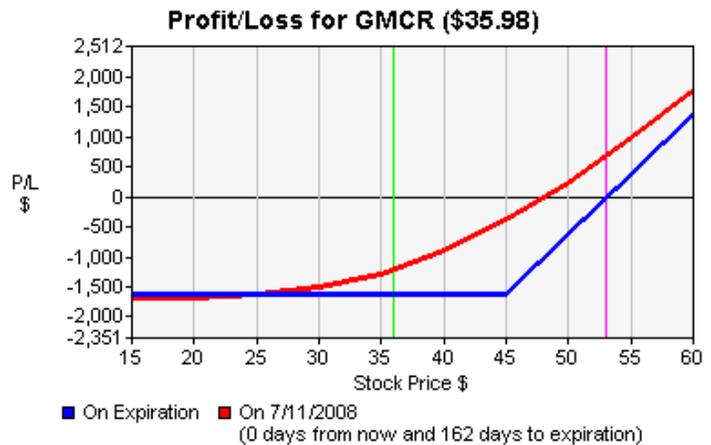
Original Position Value

This is the total cost to enter the position. The cost of stock, long put, and commissions done at a time where there was 177 days to expiration.

Original Position Value = $ 10,112.50   *Details*

Current Liquidation Value

The Liquidation Value is the amount you can expect to receive if you closed out both the Stock position and the near term put (sell to close). Subtracting the Original Position Value from the Liquidation Value will give you your Liquidation Profit/Loss for the position.

Current Liquidation Value = $ 9,298.50

Current Liquidation Profit/Loss = $ -814.00

Current Liquidation % Return = -8.0 % after 15 days   *Details*

Future Expiration Value

This is the total value of profit or loss that can be expected at expiration date. Since your option is ITM, you could sell shares of stock at the written strike price.

Future Expiration Value = $8,992.00

Future Expiration Profit/Loss = $ -1,120.50

Future Expiration % Return = -11.1 %   *Details*

Roll Out Opportunities...

Your stock has fallen by 12.6%, you may want to consider selling your put and buying a lower strike put. You could sell to close the QGMXI (08 DEC 45.00) for $10.60 /cont and buy to open one of the below puts...

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In **Figure 6.** above, the Married Put position can be analyzed during the holding period to evaluate the:

- Original position value
- Current liquidation value (using present prices)
- Future expiration value (using present prices)
- Roll out management opportunities (list not shown)
- History (past transactions, not shown)

The original, current liquidation, and future values help the investor to monitor the position, while the roll out opportunities provides ideas on generating income from the position. Roll out opportunities are found by applying the rules suggested earlier, which depend on the stock movement up or down from the original purchase. The roll out opportunities act as alerts to suggests actions that could provide income generation alternatives.

This suite of tools will enable an investor to find, analyze, compare, manage, and make money with option related strategies.

Summary of PowerOptions Tools available to support the married put investment strategy:

- Married Put Insurance – Used when a stock position is already profitable and you want to lock in profits using a Put for insurance.
- Married Put Search – Used to create a new position, by purchasing a stock and put protection at the same time, based on parameters that screen the entire options market
- Married Put Search by Symbol – Used to create put insurance on an existing position that is not profitable or view several other put insurance alternatives.
- Collar Search – Used to create a new covered call plus protective put position based on screening the entire options market
- Collar Search by Symbol – Used when you have a stock of choice for a covered call and protective put.
- My Portfolio – a management tool for different option positions. Tools to monitor the position, to suggest roll out candidates, and to archive historical transactions.
- SmartHistoryXL – this tool was not reviewed in this article, but is available to help test your choice of screening parameters against past stock and option data. This approach is much faster and more effective than paper trading.

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