

# Beginners Corner Information

Lesson 7

Exit Strategies: Monitoring Your  
Stock and Option Positions

Covered Call Writing

# Situations Requiring Exit Strategies

- Stock price drops significantly prior to expiration Friday
- Stock price moves up significantly prior to expiration Friday
- Stock price is higher than the strike price on or near expiration Friday

# First Step in Exit Strategy Execution

ALWAYS BUY BACK THE  
OPTION FIRST



## Exit Strategies Prior to Expiration Friday

- Rolling down: 20%/10% guidelines
- Look to “hit a double”: 20%/10% guidelines
- Convert “dead money” to cash profits
- Take no action
- Mid-contract unwind-stock price goes up

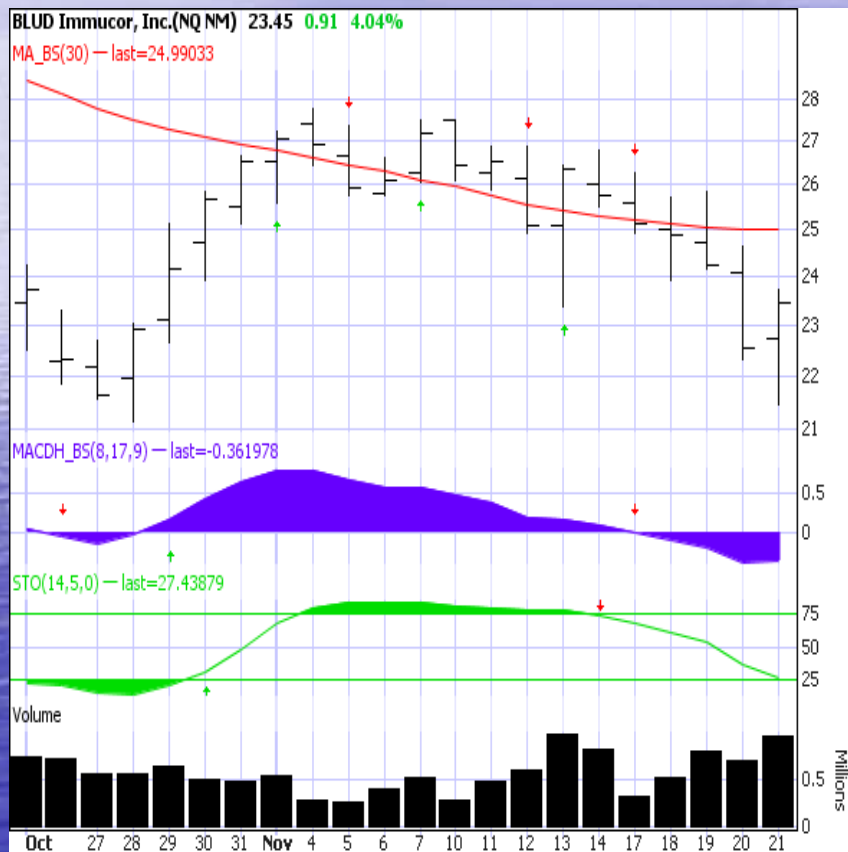
# Rolling Down

## Rolling Down Example



- 10/29: Buy 100 x HAS @ \$28.50
- 10/29: Sell \$30 Call @ \$1.50
- 11/11: B-T-C @ \$0.15(meets 10% rule)
- Sell \$25 call @ \$2.00
- Additional profit = \$185

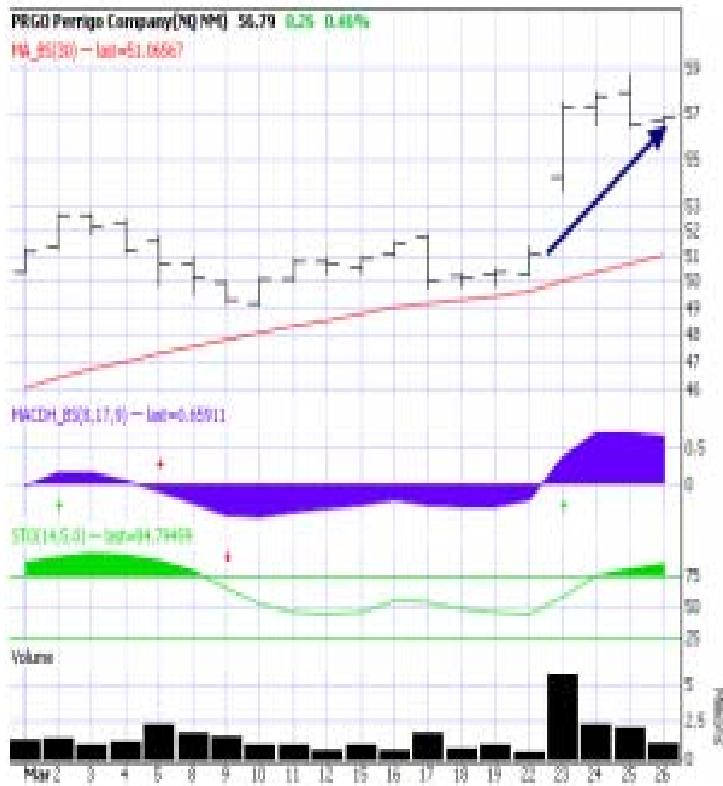
# Plan to "Hit a Double" Classic V-Pattern



- Buy @ \$23.80
- Sell \$25 call @ \$1.10
- Buy back \$25 call @ \$.20 (20% guideline)
- Sell \$25 call @ \$1.70
- Additional \$150 per contract profit
- Stock closes near purchase price



# Mid-Contract Unwind Stock Price Rises Rapidly



- Sell the \$50 call
- Prices rises to \$57
- Cost to buy back option = \$7.10
- Stock value moves from \$50 to \$57
- Cost to close is \$0.10 per share or \$10 per contract

## Exit Strategies On or Near Expiration Friday

- Rolling out- buy back option and sell next month's same strike option (January \$50 to February \$50)
- Rolling out and up- buy back option and sell next month's, higher strike option (January \$50 to February \$55)



# Rolling Out

Lululemon Athletica Inc. (NASDAQ:  LULU) Optionable  
 Last: 38.88 Chg: -0.72 (-1.82%) Open: 39.53 Avg Vol: 1,948,489 Volume: 2  
 Bid: 38.88 Ask: 38.89 High: 39.84 Low: 38.46 VW%Chg: -

Option Tools: [Covered Calls Calculator](#) [Selling Puts](#)

View: All Months

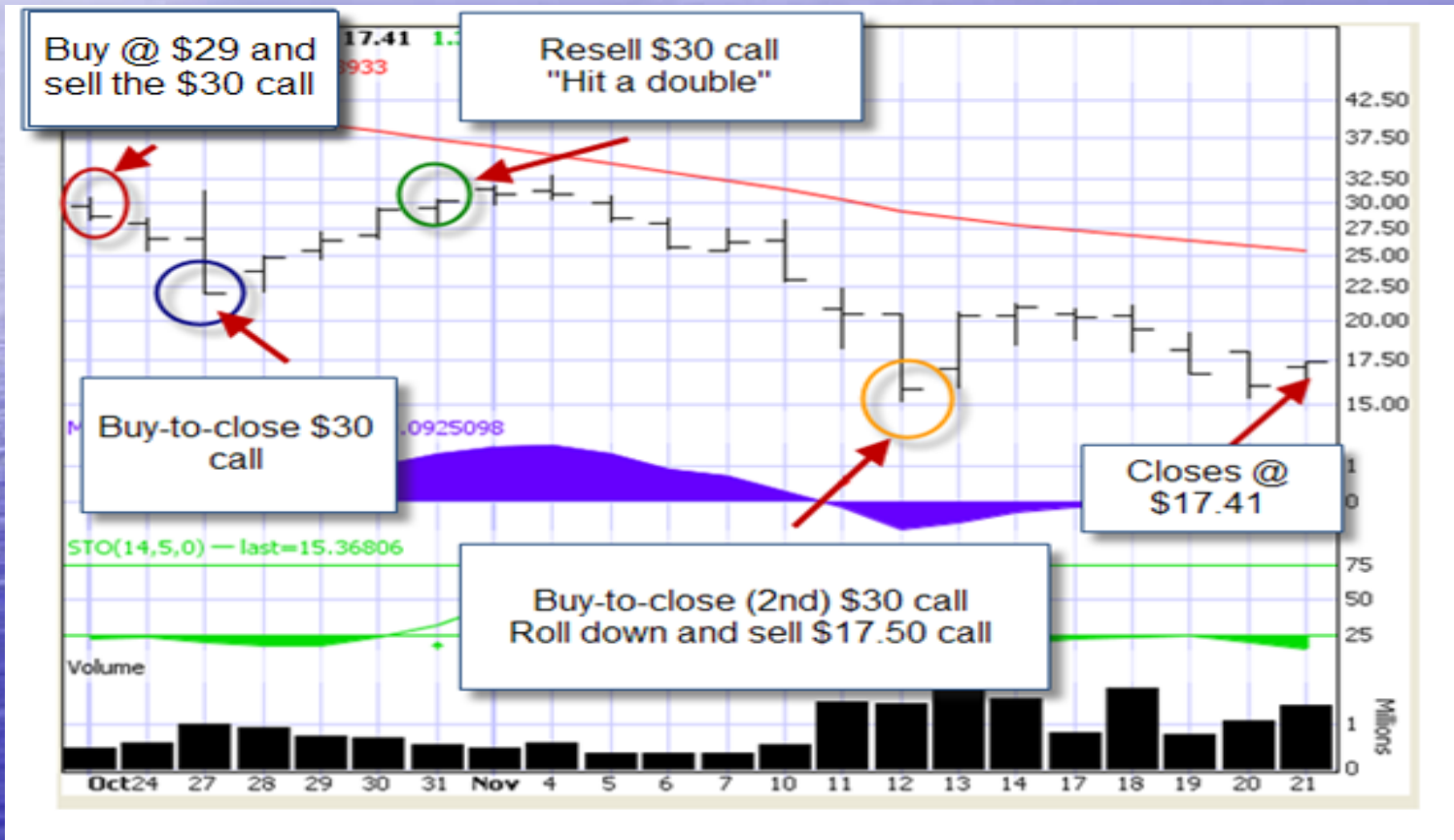
Calls							Jul 10
Last	Intrinsic Value	Bid	Ask	Vol	Open Interest	Strike	
18.95	18.88	18.40	19.50	0	17	20.00	
16.65	16.38	15.80	17.50	0	25	22.50	
13.95	13.88	13.40	14.50	0	30	25.00	
8.75	8.88	8.40	9.10	6	246	30.00	
6.95	6.88	6.40	7.50	0	0	32.00	
5.95	5.88	5.40	6.50	0	0	33.00	
4.95	4.88	4.40	5.50	0	13	34.00	
3.90	3.88	3.80	4.00	1	548	35.00	
3.00	2.88	2.50	3.50	0	16	36.00	
1.77	1.88	1.40	2.15	0	102	37.00	
0.98	0.88	0.90	1.05	20	84	38.00	
0.28	0.00	0.15	0.40	2	186	39.00	
0.08	0.00	0.05	0.10	47	1,253	40.00	

Calls						Aug 10
Last	Intrinsic Value	Bid	Ask	Vol	Open Interest	Strike
16.80	16.38	15.90	17.70	0	0	22.50
14.10	13.88	13.40	14.80	0	0	25.00
9.00	8.88	8.60	9.40	0	0	30.00
7.25	6.88	6.90	7.60	0	0	32.00
6.40	5.88	6.10	6.70	0	0	33.00
5.65	4.88	5.30	6.00	0	0	34.00
4.80	3.88	4.50	5.10	0	505	35.00
4.10	2.88	3.90	4.30	0	22	36.00
3.40	1.88	3.20	3.60	0	81	37.00
2.78	0.88	2.60	2.95	0	90	38.00
2.35	0.00	2.25	2.45	10	217	39.00
1.77	0.00	1.65	1.90	13	1,325	40.00
1.42	0.00	1.25	1.50	0	116	41.00

# Rolling Out- Calculations

- Buy-to-close July \$38 call @ \$1.05
- Sell-to-open August \$38 call @ \$2.60
- Profit =  $\$2.60 - \$1.05 / \$38 = 4.1\%$ , 1-month initial profit

# Multiple Exit Strategies With The Same Stock In The Same Month





# Summary

- Exit strategy execution is essential to maximize profits and mitigate losses
- Use if stock prices rises or falls significantly or if stock price  $>$  Strike @expiration Friday
- Always buy back the option first
- Use the 20%/10% guidelines for a declining stock
- In Lesson 8 we will demonstrate the entire step-by-step process for mastering the covered call writing strategy