

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

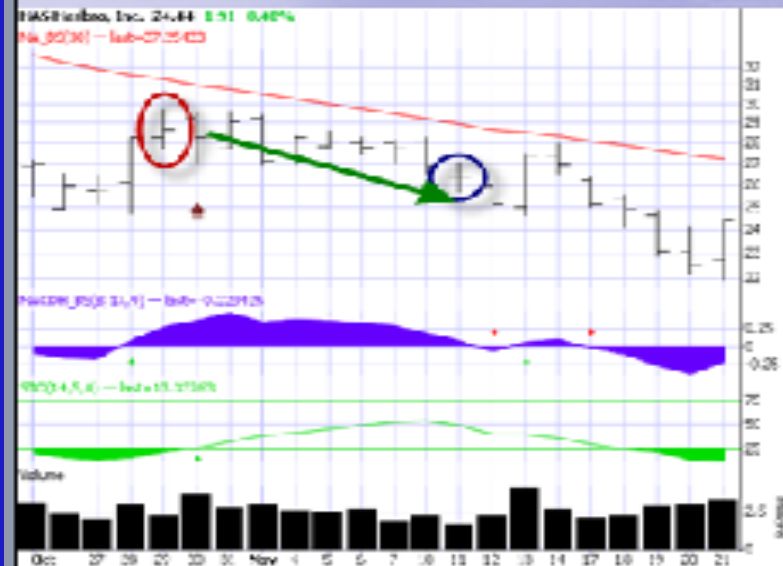
ALWAYS BUY BACK THE
OPTION FIRST

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

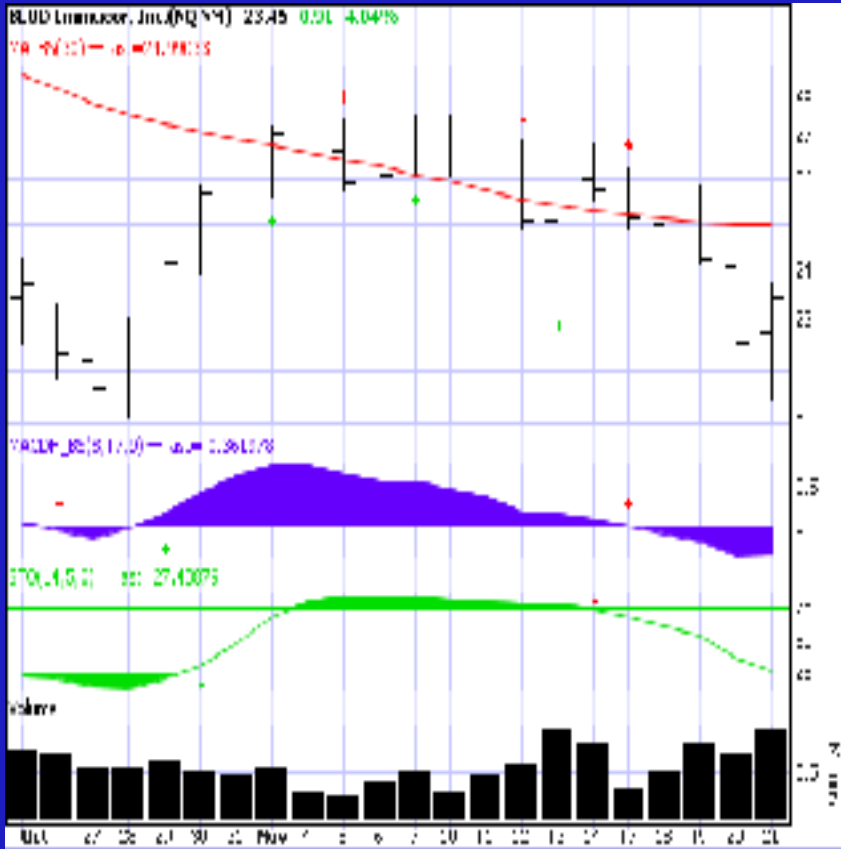
Rolling Down

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

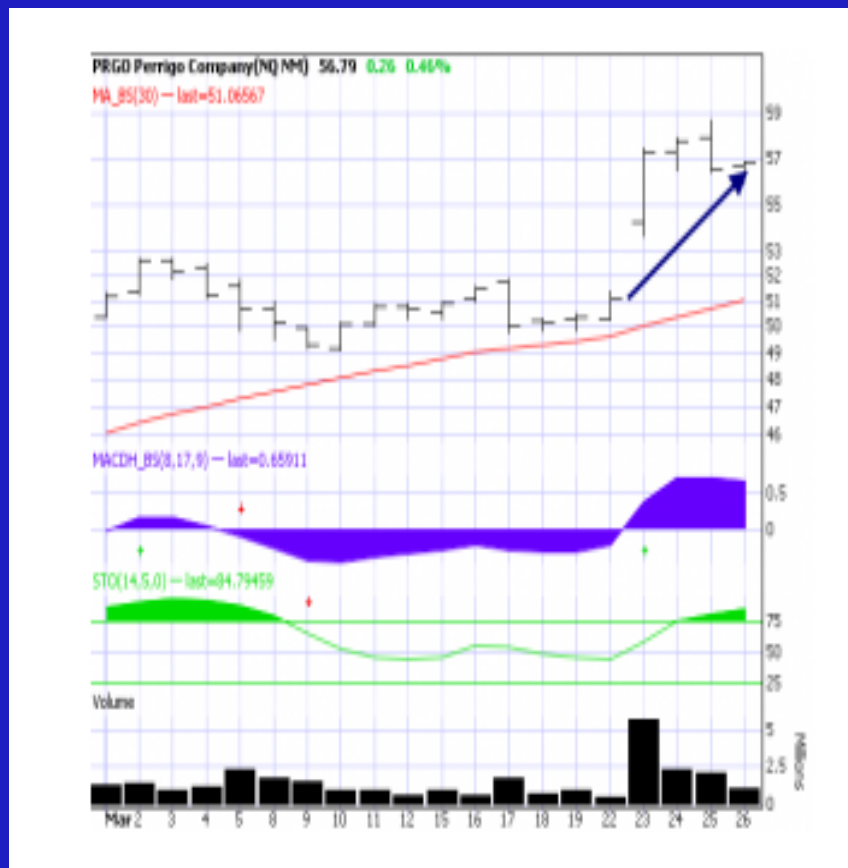
Plan to “Hit a Double” Classic V-Pattern



- 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 VWAP: 38.88

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	16.30	15.00	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
8.95	6.88	8.40	7.50	0	0	32.00
5.95	5.88	5.40	5.50	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	648	35.00
3.00	2.88	2.50	3.50	0	16	36.00
1.77	1.88	1.40	2.45	0	102	37.00
0.90	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	16.30	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
6.10	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
1.12	0.00	1.25	1.50	0	115	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