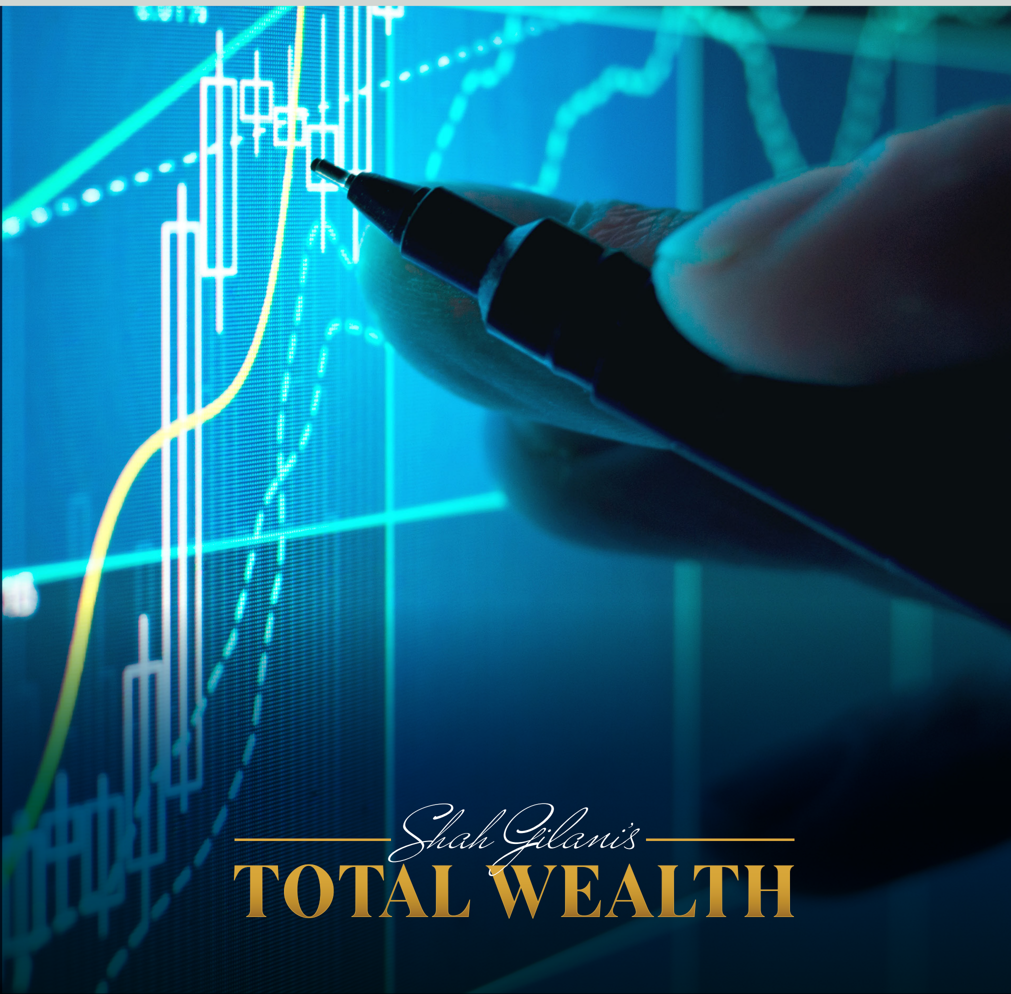
PROFIT ACCELERATORS: OPTION PLAYS EXPLAINED



Shah Gilani's
TOTAL WEALTH

Profit Accelerators: Option Plays Explained

Options…

In the investing world, this word can be divisive. All too often, it's associated with risk, loss, or confusion – but for Shah, it's a way to accelerate profits and *mitigate* potential risks.

That's why Shah recommends buying calls, puts, or call spreads in the Weekly Watchlist, *$100 Tuesdays*, and Friday'*s Buy, Sell, or Hold*.

But through comments and emails, you've communicated with our team that there are concerns about options – what they are, how to play them, (most importantly) how to order a spread, and how they work.

Thanks to your curiosity and drive to learn, we've worked with Shah to develop this special report: a complete how-to guide that explores the why and how of options.

But please note: Anything not found here could easily be explained by your broker. If you come away from this report unsure about anything at all, give them a call, and they'll be able to assist you with placing your order correctly.

Now that that's out of the way… let's hop to it.

Options Basics: Calls and Puts

Like stocks, options are a kind of security.

But stocks, when purchased, give you partial ownership of a company. In selling that stock, you give up ownership.

Options, on the other hand, are contracts that give the buyer the right – but not the obligation – to buy or sell 100 shares of an underlying asset at a specific price (called "strike price") on or before a certain date.

When Shah recommends an option play, the "underlying asset" usually refers to a stock – so let's use **Owens & Minor Inc.** (NYSE:OMI) as an example to walk through the two types of options: calls and puts.

A **call** option for OMI looks something like this…

OMI January 20, 2023 $2.50 Call (OMI230120C00002500).

If you bought this contract, you'd have the right to *buy* 100 shares of OMI at $2.50 per share by January 20 of next year.

Similarly, a **put** option for OMI looks like this…

OMI January 20, 2023 $2.50 Put (OMI230120P00002500).

Nearly identical to the other one, but the word put here is key. By buying this option, you would acquire the right to *sell* 100 shares of OMI at $2.50 per share by that date.

The value of these contracts is derived from OMI's stock value. Therefore, as the value of OMI ebbs and flows so will your profits or losses based on these hypothetical positions.

*Editor's note: While you can sell call and put option contracts without having previously owned them, we will not discuss that method of trading in this guide. Selling in this way, especially selling puts, is an explicitly speculative and risky trading method that we do not recommend for beginner or intermediate traders or investors. If you're curious about the method, we recommend referencing **Investopedia's** article on the subject, **which you can read here by clicking here**.*

Why Use Them?

Buying straight calls and puts is a method used in all kinds of ways by all kinds of traders, running the gambit from humble retailer traders to massive hedge fund moguls. But for Shah, the biggest reasons are to speculate on the markets and hedge risk.

For example, on Mondays Shah releases his watchlist – a complete list of stocks that could pop or atrophy before the week is out… and how to play them.

If Shah suspects that the value of a stock will rise due to the publication of quarterly financials or the announcement of a new product, he may recommend that you buy a call option. As we mentioned above, options can be dirt cheap. But as the value of the underlying stock grows, so will the value of the call option.

In short: A call option is a bet that the value of the underlying stock will increase. And you'd reap all the benefits of "owning" 100 shares of a stock that are now worth more than what you initially spent.

The opposite is also true. If Shah thinks a stock will crumble by market close on Friday, he'll recommend buying puts – although that is uncommon.

As the value of the underlying stock plummets, the value of your put option rises.

But options can also be a defensive maneuver. It's why they were originally invented.

You can think of an options contract as an insurance policy. Before fractional shares hit the scene, if you wanted to buy into an expensive stock and limit your potential losses you'd grab up put options.

Advanced Options: Spreads

Something else you may see in ***Total Wealth*** are recommendations to buy call spreads. Similar to a straight call, this strategy is used by investors betting that the underlying stock's value will rise – **but only a limited amount**. This method takes the risk mitigation to another level by limiting how much you can feasibly lose *and* gain while you hold the contracts.

Here's how you do it…

1. **Choose the stock** you think will rise in value over a set period of time. Think in terms of days, weeks, or months. These plays are generally shorter term.

2. **Buy a call option** with a strike price above the current value of the stock.

3. **Sell a call option** with a higher strike price and the same expiration date as the call option you purchased in Step 2.

The term "spread" can refer to many things in the investing world, but in this case, it refers to the value gap between the prices of the two options. Due to the gap, the money you receive from selling the second call option will offset the cost of buying the first.

And it sets a maximum and minimum for gains and losses.

Here's an example of a call spread Shah recommended on January 31…

> *Buy AAPL April 14, 2022 $160/$165 Call Spread for $2.25 or less.*

If you give this phrase to your broker, they should be able to execute this trade. This is also possible through some online platforms.

This is Shah's shorthand, but the instructions could also be written as…

> *Buy AAPL April 14, 2022 $160 (AAPL220414C00160000) and simultaneously sell AAPL April 14, 2022 $165 (AAPL220414C00165000) for $2.25 or less.*

Since you sold AAPL220414C00165000, the total cost of this trade would be $2.25 per share.

Remember: You will always sell the option with the higher strike price when dealing with call spreads.

Hedging Your Bets with Call Spreads

What makes call spreads so special and why Shah recommends them so frequently is that they dramatically reduce how much money you may lose if your bet is wrong.

Anything can happen in the markets – not all of which is predictable.

In fact, most of it isn't, which is why hedging your bets is very important.

Call spreads limit both your losses and gains because you set a lower and upper range for yourself. Let's use the below hypothetical call spread as an example…

Buy TSLA February 4, 2022 $200/$250 Call Spread.

Let's say you buy this, but Telsa's stock doesn't budge. The stock price on February 4 is $195, below the strike price of your first call option. In this instance, **let your call option expire worthless**. By doing this, all you lose is the premium paid in "buying" your $250 call upon expiration.

But if things go well and the stock value rises above $250 by expiration, **exercise your right to buy** the $200 call option – which will allow you to grab the shares below their current value and then **utilize your right to sell** them at their new price.

And, again, if there is anything you don't quite understand about one of Shah's recommendations — anything you're uncertain about as an option comes up for expiration — call your broker. Their customer service will be able to assist you in opening and closing positions.

If you're ever in doubt... give them a call.

Sincerely,

Total Wealth Research Editorial Staff

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