

PLUS
ProWriter
Professional Covered Call
Trading Software

**AUSTRALIAN STOCKMARKET DATA
PROFESSIONAL COVERED CALL OPTIONS
TRADING PLAN SYSTEM**

5 STEPS TO TRADING OPTIONS

PREAMBLE

Please find below the “5 Steps To Writing Covered Call Options”

This module is inclusive and should adequately answer your questions.

Before we start. I assume you have some understanding of the Australian share market. Share options are [share] derivatives, also known as Exchange Traded Options (ETO's). If you look in the financial papers you will see:

- Derivatives – Call Options, and
- Derivatives – Put Options

Options are known as Derivatives.

This module is about selling or *writing* **Covered Call Options**.

Derivative Share Options can be bought and sold through Stockbrokers (Advisors) or on-line platforms, just like shares. The price of a share option is determined by market forces. When the option taker (the buyer) and the option writer (the seller) agree on a price for the option, a trade between them takes place, via the broker [on-line or off].

This module discusses a proven method for writing covered calls, that is; you are the call writer, you sell the option to a call taker (buyer), who pays you a premium.

A couple of relevant points:

1. The process of writing covered calls is easy
2. You must own the shares to write (sell) the call options against [covered call]
3. The process of buying the underlying shares is easy
4. Buying the underlying shares, that offer the highest yields, and will hold their value for the term of the option contract...is the most difficult part of the process
5. Writing covered calls is considered low risk, takes comparatively little time and can offer consistent good returns. To learn the process of how to trade covered calls you should develop your knowledge, put the work in, understand the environment etc. Paper trading, as described in this module is a good place to start, but take it seriously and honestly. Trade the live prices and keep accurate records, so you don't deceive yourself.
6. Writing covered calls can have consistent solid returns but don't expect to “make incredible gains overnight”.
7. ProWriter Plus is different. It's the only service of its type in Australia; until someone else hears about it!
8. You could trade Covered Calls to generate monthly income from your shares

A few definitions:

1. **Share Price.** Also known as Last Price. This is the price you could have purchased the underlying shares at.
2. **Strike Price.** Also known as Ex Price. This is the agreed price you are happy to sell your shares at and the buyer (taker) is happy to buy at, if they [the buyer] choose to *Exercise* the option.
3. **Premium.** The amount paid by the taker (buyer) to You, the seller, for the opportunity to buy your shares at the *Strike* price on or before the option contract expires
4. **Exercise.** The decision made by the buyer to buy your shares at the *Strike* price
5. **Yield.** The percentage return calculated by the $Premium / Share Price \times 100/1$
6. **Trend.** The direction the underlying share price appears to be taking either: up, down or sideways

The Australian Stock Exchange (ASX) web page is an excellent resource for option and share information. The following link discusses covered call writing: www.asx.com.au

My Covered Calls has developed ProWriter Plus software. It is unique and unlike other stock market software, does not merely regurgitate historical data.

ProWriter uses factual information derived from the ASX and lets you control the process of trading options by easily creating a Trading Plan showing you the option outcomes before you even trade.

Please note: My Covered Calls Pty Ltd is an Australian company that offers a stock market data service. We do not give financial advice, are not registered as financial advisers and do not make any claims as to investment performance advice or similar.

Any support offered is with regard to our data service, software product or about how to action trades or similar. No financial advice. Don't ask for it because we do not give financial advice.

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Introduction

Covered Call Writers Buy Shares, Sell Options, and Get Paid.

A Covered Call Writer or “Call Writer”, is someone who sells an *option* to someone else to buy their shares. Selling a call option gives someone else the right to buy your shares at an agreed price. If that ‘strike’ price is reached you can expect to be exercised at contract expiry, requiring you to sell the stock at the agreed price.

How does this work? If you own shares, the share price can only go up, down or sideways. Others may believe the share price will go up, however, they may not have the funds to buy and hold the shares and then wait for the share price to go up to take a profit; so they may pay you a **Premium**, say 2.5% of the share price, to buy your shares at a future date, at a price you both agree. If the share price does go up the option buyer may then **Exercise** the option; that is, buy your shares and choose to sell them at market and take a profit. You get your money back for the shares and keep the **Premium**. You always keep the premium, whether exercised or not. The reasonable risk you take is that the option buyer may not exercise the option (because the share price went down or sideways) and you keep the shares; to sell another option against. 80% of the time you will not be exercised, which means you can sell again next month.

If this sounds simple? It is. If it sounds low risk? You own the shares. Will you make huge profits overnight? Probably not. Will you return 30% a year? Could be achieved.

Covered Call Writing is considered a low-risk trading instrument because you already own the shares and are merely selling options on those shares. Writing covered calls is an option related strategy you may consider for Self Managed Super Funds.

ETO's

ETO's or Exchange Traded Options are traded on a screen based trading system called the Derivatives Trading Platform (DTP). ETO orders are created on ASX Participant's DTO computers and sent to all ASX Participant's screens via the ASX's host computer. The trading data is managed by the ASX host computer and is distributed to brokers, information vendors etc. Information can be real time, 20 minute delayed, end of day or other variants.

Trading Data

Trading can be achieved by using data obtained from newspapers or some trading platforms, or conveniently read from the **MyCC** or **ProWriter Plus Smart Reports** which can be viewed on-line and downloaded, and printed.

For this example I will assume we are using **My Covered Calls ProWriter** and the **Smart Reports**.

Successful Call Writing

Successful call writing is measured by getting consistent monthly cash flow from high returns. How is this achieved? By knowing which “blue chip” shares have the highest option **Yield**, knowing these companies share price **Trend**, and making a simple yet effective **Plan** before entering the market. Then, **Trade the Plan**. If you chase the highest “instant” yields during the market, you may not have time to plan your trades effectively. Remember, people don't plan to fail they fail to plan.

My Covered Calls uses ASX derived data which is fed to the **ProWriter Plus** software to create **smart reports** that show the highest **Yields** and let you quickly compare deals **in, out** and **at** the money. Share price **Trends** can be instantly viewed from within the reports, by clicking the respective company name to see its chart.

We also use the **Trend Chart** to look for companies with a *relatively* low share price. To be clear on this point...if a share price has traded from say \$3 to \$4 and back to \$3, then around \$3 would be the LOW end of its range and around \$4 would be its HIGH end. See example below. **We always look to buy in at the low end** or consider an ‘insurance’ Put option.

See example:





MY COVERED CALLS STRATEGY (THE FIVE STEPS) EXPLAINED

Introduction *My Covered Calls* consistent success comes from using the **Yield** and **Trend** and **planning** all trades, every time; and **trading the plan**. Once you enter the market you can follow the live movement of the companies you have selected in the plan, and buy shares and sell options as close to the plan as possible.

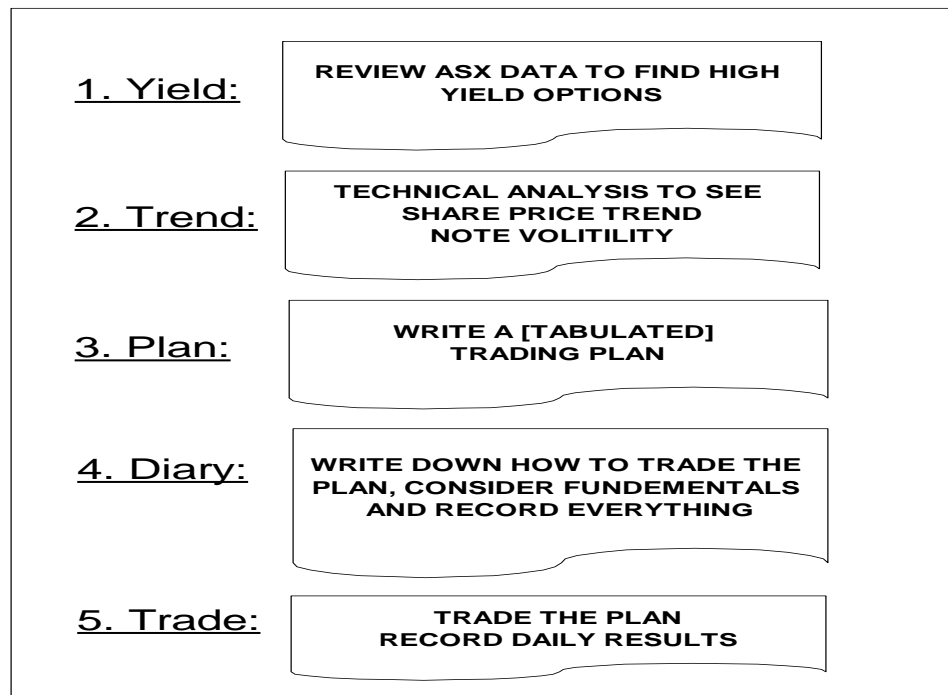
This strategy has achieved results above 2.5% in a month.

Consistent monthly returns demonstrate success in writing call options.

In This Part **There are many systems** you can follow to write covered calls.

MyCC follows its proven strategy which is covered by the following topics, namely:

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YIELD - FIND THE HIGHEST OPTION YIELDS AVAILABLE

Smart Reports

Determine the best call option deals available on the ASX by reviewing the current top option yields. This can be done by logging into **MyCC** and selecting the Top 10 by Yield report. Another smart report to look at is the All Options by Company report (select current month), which shows all yields for all companies for this month and automatically calculates the % return for at, in and out of the money. You can quickly scroll through the report to see the high yield company options in, out and at the money. The **Yield** is shown under the **Not Exercised** and **Exercised** % return column.

The Smart Reports show a yellow strip as close to **at-the-money** as mathematically possible. At the money is when the Strike price is at or near the underlying company's share price. The blue shading allows you to quickly compare **Exercised** or **Not Exercised** profits.

Look for a return above say 2.5%, per month (~30% annually). For example shown below is an extract of the Top 10 by Yield report showing the % return for FMG, for Dec 13. @ 3.4% not exercised and 3.66% exercised.

Company Name	Last Sale	\$ +/-	Bid	Offer	Open	High	Low	Volume	P/E		
FMG - Fortescue Metals Group	5.735	-0.005	5.73	5.74	5.72	5.745	5.69	3370320	9.49		
Company Code	Last Trade	Expiry Month	Strike Price	ASX Fair Price	Contract Size	Open Interest	Not exercised		Exercised		BEP
FMGUK8	2013-11-26 13:28:53	19-Dec-2013	\$5	\$0.747	100	2774	\$74.7	13.03%	\$1.2	0.21%	\$4.988
FMGKWS	2013-11-26 10:38:01	19-Dec-2013	\$5.26	\$0.532	100	1523	\$53.2	9.28%	\$5.7	0.98%	\$5.203
FMGL98	2013-11-26 12:31:44	19-Dec-2013	\$5.75	\$0.195	100	7195	\$19.5	3.4%	\$21	3.66%	\$5.54
FMGL98	2013-11-26 09:57:12	19-Dec-2013	\$5.76	\$0.192	100	659	\$19.2	3.35%	\$21.7	3.78%	\$5.545
FMGUS8	2013-11-26 14:45:41	19-Dec-2013	\$6	\$0.097	100	6918	\$9.7	1.69%	\$36.2	6.31%	\$5.638
FMGLC8	2013-11-26 11:05:23	19-Dec-2013	\$6.01	\$0.097	100	5302	\$9.7	1.69%	\$37.2	6.49%	\$5.638
FMGY18	2013-11-25 11:04:19	19-Dec-2013	\$6.5	\$0.025	100	3191	\$2.5	0.44%	\$79	13.78%	\$5.71

Company Name	Last Sale	\$ +/-	Bid	Offer	Open	High	Low	Volume	P/E		
FXJ - Fairfax Media Ltd	0.595	-0.01	0.595	0.6	0.605	0.605	0.595	534389	-85		
Company Code	Last Trade	Expiry Month	Strike Price	ASX Fair Price	Contract Size	Open Interest	Not exercised		Exercised		BEP
FXJFT8	2013-11-26 13:27:55	19-Dec-2013	\$0.6	\$0.022	100	5350	\$2.2	3.7%	\$2.7	4.54%	\$0.573

Company Name	Last Sale	\$ +/-	Bid	Offer	Open	High	Low	Volume	P/E		
NCM - Newcrest Mining Ltd	7.76	-0.34	7.75	7.76	7.98	8.06	7.73	3030383	-1.03		
Company Code	Last Trade	Expiry Month	Strike Price	ASX Fair Price	Contract Size	Open Interest	Not exercised		Exercised		BEP
NCMRQ8	2013-11-27 09:19:11	19-Dec-2013	\$6.46	\$1.56	101	200	\$157.56	20.1%	\$26.26	3.35%	\$6.2
NCMYW8	2013-11-27 09:56:53	19-Dec-2013	\$7.96	\$0.347	101	116	\$35.05	4.47%	\$55.25	7.05%	\$7.413
NCMZ48	2013-11-26 13:34:39	19-Dec-2013	\$8.45	\$0.18	101	789	\$18.18	2.32%	\$87.87	11.21%	\$7.38
NCMW18	2013-11-26 14:31:37	19-Dec-2013	\$8.7	\$0.125	101	437	\$12.63	1.61%	\$107.56	13.72%	\$7.635
NCMQN8	2013-11-25 12:16:16	19-Dec-2013	\$8.95	\$0.09	101	219	\$9.09	1.16%	\$129.28	16.49%	\$7.67
NCMWH8	2013-11-26 10:45:18	19-Dec-2013	\$8.96	\$0.084	101	532	\$8.48	1.08%	\$129.68	16.55%	\$7.676

TREND - NOTE THE UNDERLYING COMPANY'S SHARE PRICE TREND

Share Price Direction

We need to determine the **Trend** of the underlying stock's share price as writing covered calls appears optimal in a gentle bullish market to sideways market. A quick look at the underlying company's share price history, can give us a sound indication of the stock's price movement; up, down or sideways. Share price history can be displayed graphically using its recent price history charts.

ProWriter has included price history charts in the smart reports. When you are reviewing the Top 10 by Yield report, or any of the **MyCC** reports, just click on the Company Name, in the report, and the chart shown below will appear.

The chart is a six month share price history "candlestick" graph, including Volume and MACD (Moving Average Convergence Divergence).

The chart below shows that FMG share price has **trended** upward from July to November; then moved sideways Trend in late November, with an **overall** upward trend.



PLAN – DO A TRADING PLAN, EVERY TIME

Trading Plan

Having reviewed the **Yield** and noted the **Trend** of a few likely companies; next you should create a **Trading Plan**. This can be done in tabulated form using a spreadsheet or automatically created using **ProWriter Plus**. The plan shows you the various choices you can make regarding [share] entry point, **Strike** and **Premium**, and shows you the profit **Exercised** or **Not Exercised**. Here is where you make an informed decision about the share(s) you are happy to hold and the call(s) you may write.

Print the plan and consider your choices, reviewing the **Trend** and any other [fundamental] information such as company announcements, news items, reports, world events like oil prices etc.

An example Trading Plan is shown below. Please note the **Premium** shown is the result of the premium price, which is expressed in cents, multiplied by 100. Option contracts in Australia are usually made up of 100 shares. They can vary so always check the contract size before buying the underlying shares. Another feature of ProWriter and MyCC Reports, does this check for you.

The Trading Plan was created with ProWriter Plus. It can be printed, exported to Excel; or emailed as an attachment to say an Advisor for further action.

Type	Company Code	Record Date Expiry Date	Shares	Option ontrac	Share Price	Cost	Equity Brokerage	Strike price	ASX Fair Price Premium	Option Brokerage	Not exercised		Exercised		Dividends		BEP	Close All	
											Net Profit	% Return	Exercise Brokerage	Net Profit	% Return	Value			Date
FMG																			
C (Sell)	FMGUP8	27-Nov-2013 19-Dec-2013	2000	20	\$5.71	\$11420	\$19	\$5.75	\$0.2	\$32	\$339	2.97%	\$32	\$387	3.39%			\$5.51	
FXJ																			
C (Sell)	FXJIT8	27-Nov-2013 19-Dec-2013	20000	200	\$0.59	\$11900	\$19	\$0.6	\$0.02	\$32	\$389	3.27%	\$32	\$457	3.84%			\$0.57	
NCM																			
C (Sell)	NCMYW8	27-Nov-2013 19-Dec-2013	2020	20	\$7.76	\$15675.2	\$19	\$7.96	\$0.35	\$32	\$649.94	4.15%	\$32	\$1021.94	6.52%			\$7.41	
Totals						\$38995.2	\$57			\$96	\$1377.94	3.53%	\$96	\$1865.94	4.79%				
Trading Plan Generated at 2013-11-27 11:29:47																			
F1 for Help												Connected		Latest data received: 27-Nov-2013 11:00					

DIARY – USE A TRADING DIARY

Trading Diary A **trading diary** can be used to keep a record of your cash at bank, share purchases, call option sales, other trading information and anything else you think appropriate. You can use your **Diary** to document your thinking or to do what-if scenarios. Successful trading often relies on an accurate Trading Diary to see your return on your investment. Recommend www.enroc.com.au for record of notes and conversations, trades etc.

Trading Platform **If you have a Comsec** or other on-line trading platform, go on-line and use live prices to buy the shares and sell the options as detailed in your plan. It's a good idea to print out your **trading plan** a place it in plain view, next to your keyboard or on a copy holder (works well).

Live Share and Option Prices **Current share and option prices** can also be seen on the ASX's web pages and other trading platforms but you have to hunt around for them.

These pages are very good and display 20 minute delayed data. Use the live prices to determine what prices you purchase the underlying shares at.

Record the share purchase prices in your **Diary**, which can include a spread sheet for recording data. Note the **Strike** you plan to sell the call at and record the current **Premium**, you receive at that **Strike**.

Bank Account **Open a bank account** and deposit your working capital. As you buy and sell shares and options you can record the debits and credits against this account. There is an old saying that "if you don't know how much money you have made, you have probably lost it". Keeping an accurate bank account, as part of your trading diary, is an excellent metric to use to measure your success at trading. Keeping accurate records is mandatory, for tax records etc. Many traders link a cash management account to their brokering account.

Higher Risk **If you wish to trade more aggressively** and are happy to accept greater risk, then note the strike price you are happy to sell a call at and consider the premium **spread**. That is the range between the lowest premium **bid** and the highest premium **offer**. Decide on the premium you want to achieve and how long you are prepared to wait for it (before accepting a lower bid). Write these variables down in your diary.

Watch or review the premium prices at the strike you have selected and write down when you achieve it. Add this amount to your bank account. Please note; while you hold the underlying shares their price may go up, down or sideways which will be reflected in the premium price. The above strategy would usually be based on your assessment the underlying stock price is in an upward **Trend**.

Time Efficient **Writing covered calls** is not only a low-risk instrument to trade, it is also very time efficient. You don't need to watch the market for eight hours a day; not take a day off because of open positions, or have updates sent to your mobile phone. In fact using **Prowriter Plus Reports** you can quickly scan all options available for the best deal, review the underlying company's share price trend, create a trading plan, and buy the underlying shares and write a call option(s); in less than an hour. Then be patient until the end of the month and see if you were exercised or not.

However, it is good practice to allow a couple minutes each day or so to go through the **ProWriter Plus** reports and note which companies regularly have the highest **yields** and best **trends**. It takes about ½ a minute to log in to **ProWriter Plus**, and about 1 ½ minutes to scroll through the All Options By Company Current Month Smart Report. Do this while you are checking your emails or taking a coffee break. Make a note of companies you would like to keep your eye on. This quickly builds your experience.

Follow the Market

You can now follow the market until the option expires (**call day**) and see what profit you have made.

It is very good practice to use the **Prowriter Plus Report View Selected Stocks Current Month** and select the companies you are trading options in and record the daily last share price, strike you sold at, and the premium. Do this each day (or at least every couple of days). This habit makes trading, in particular, very effective as you see two very relevant things:

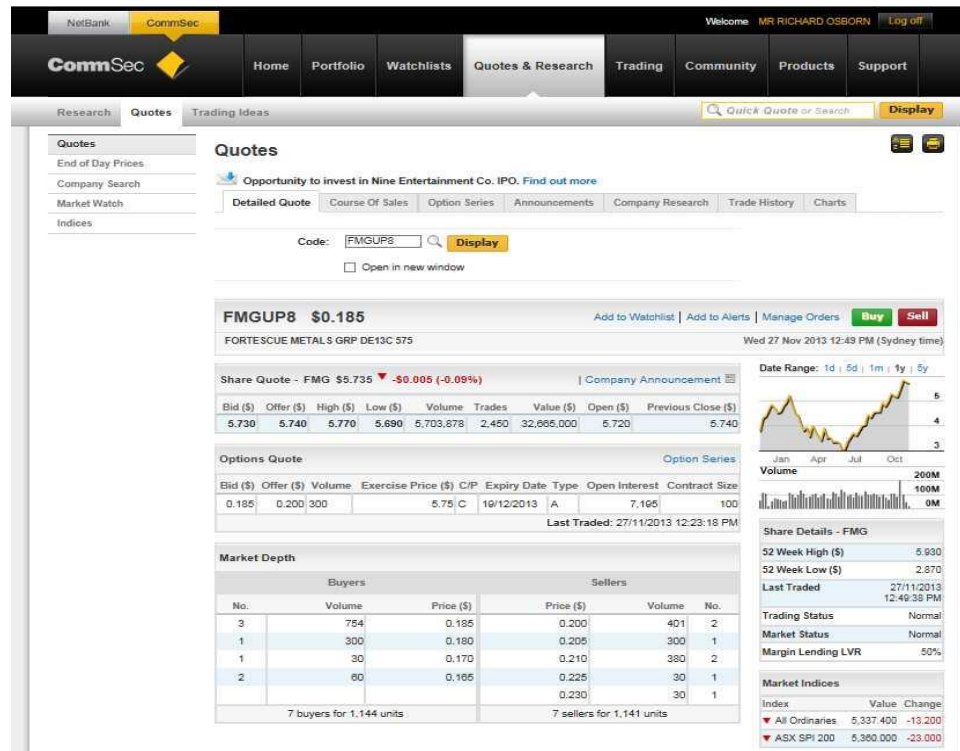
1. how the underlying share price influences the premium, and
2. how time works in your favour after you have written the call

Record the movements (price, strike and premium) in your **diary** or under your **trading plan** and look for price trends. This is a bit hands on, but it is what builds your experience. Any business, no matter what business it is must be concerned with getting a return on investment or value for money. Follow the market as often as you can, without letting it overwhelm you, and you should get your capital investment working for you as you write covered calls.

TRADE – TRADE ON-LINE OR PERSONAL ADVISOR

Trade On-Line

Use **Comsec** or other platforms to trade on-line. You can use your Advisor (see below) and still trade like the professionals on-line with modern trading software. You can do Buy-Writes online. Comsec is free to use



Advisor

Use your Advisor and/or trading platform to buy shares and write calls.

Obviously there is a lot more to trading than stated above. To learn more speak to your Advisor and read the content on-line.

Using an Advisor is a sound way to go. The advisor has the knowledge of the share market and the companies to be used for the underlying shares. This makes the all important selection of the underlying shares that much more objective.

ProWriter helps in this decision by presenting the companies with the highest **Yield** and showing the **Trend**; and then the Advisor applies their experience in support of the choices made.

The Advisor does the trading and can advise you of potential trades.



PROWRITOR PLUS PREFERRED STOCK BROKER

ProWriter Preferred Broker

Adie Jaser, of Kaz Capital, is happy to assist you with your advisor needs.

Adie looks after ProWriter Plus clients and has a proven track record. He is very personable and knowledgeable as a professional advisor.

Address: 1/277 Sussex St, Sydney NSW 2000

Phone:(02) 8999 0588

Hours: Thursday 7:00 am – 3:30

Stock advisors further mitigate your risk by using their knowledge and experience to advise. Especially good when you are starting out or want less hands on management of your portfolio or super fund.



WHAT YOU NEED TO TRADE COVERED CALLS

Prerequisites to Trade Calls

Arguably, you need three things to trade Covered Call Options:

1. The right Psychology
2. Knowledge, and
3. Investment Capital (or accessible Assets)

ProWriter Plus is an easy to use tool that shows you at a glance the:

- A underlying stock's Last Trade date and time
- Expiry Month
- Strike Price
- ASX Fair Price
- Contract Size
- Open Interest
- BEP (Break Even Point)
- Profit Not Exercised, and
- Profit Exercised, and
- Dividends due

It's like having a covered call calculator hooked up to the ASX

Our support will bend over backwards to help you wherever we can.
