

HOW OPTIONS ARE LIKE 'DIGITAL PROPERTY'

EARNING INCOME WITH OPTIONS

THE GUIDE



**A STEP-BY-STEP
PROCESS**

Using Options to buy quality
blue-chip shares to be rented
out for recurring monthly income

Welcome to this guide to **Options** – showing **how to create a recurring income stream** and explaining it through the similarities between Property and Options.

Who is the guide for?

- ✓ **Perfect** for **property** and **business owners** interested in **additional income streams** ... **without** the hassle of management – AKA *Tenants, Toilets and Boilers!*
- ✓ **Someone** wanting to avoid their cash being eaten by inflation (which is **much** higher than the official rate)
- ✓ **Or** ... you might just have heard about Options and wondered how they work

Guide Contents

- | | |
|---------------------------------------|---|
| 1. Quick Summary | Pages 2-4: How the Strategy Works and Steps |
| 2. Further Details | Pages 5-7 has Worked Examples |
| 3. Management Guidelines | Page 8 – Some of our Golden Rules |
| 4. FAQs | Page 9 – includes Platforms, Capital Required |
| 5. Conclusion & Key Points | Page 9 |

The Author of this Guide – Who am I ?

I'm Manish Kataria, a CFA-qualified professional with over two decades' experience in professional investment management, having managed capital at JPMorgan and other top tier institutions. I directly managed funds, ETFs, stocks, options, and bonds.

Like many others who invest in options, ETFs and stocks, **I also invest in property** – owning a mainly-residential portfolio of BTLs and HMOs.

InvestLikeAPro – Investment Academy

The [Investment Academy](#) has given **thousands of investors** the tools to become **financially independent**. Without complexity or high fees.

My passion is sharing **pro-grade investment knowledge** that can be implemented in a **simple, set-and-forget, low-cost** manner.

Enjoy the guide!

Manish



This content is for informational purposes only. Do not take it as investment advice.
***Capital at Risk* FSCS protection may not apply.**

Options as ‘Digital Property’ Your Step-by-Step Guide to Earning Income with Options

Options as “Digital Property”

This guide shows you how Options can be an ideal investment strategy to earn recurring monthly income. It explains the **similarities** between **Options and property investing** – i.e. owning a quality asset which can be rented out to generate recurring cashflow.

For the Quick Summary: Pages 2-4 shows how the strategy works and the steps
For Further Details: Pages 5-9 has worked examples, FAQs and risk management rules

We’ll follow the journey of **Nick**, a real-life property and business owner, who wanted to diversify his wealth and create income in a more stress-free way.

Starting with zero knowledge, Nick became a confident Options investor within a few months of practice and guidance. **He now averages an income of 1.8% per month.**
By following the process he’s **never had a permanent loss** (see p7 for the **rules** he follows)

Meet Nick ...



Nick runs a small business and owns a couple of BTL properties. He’s an enthusiastic investor who enjoys learning to diversify, grow and protect his wealth. He also has self-managed pensions (SSAS, SIPP).

Over time, management responsibilities and upkeep of his BTLs has taken a toll. Cashflow has also reduced with rates and taxes. Nick needed a more hands-off approach that also yielded a steady income stream.

Nick also had uninvested cash, inside his Limited company and pension. He was keen to have his money work harder and beat inflation, at least.

Nick had heard about Options from a fellow investor. Intrigued, he researched further, eager to learn an approach that aligned with his income goals. He discovered options had been around for centuries to help investors **reduce risk** rather than being speculative.

After some training and guidance Nick began investing in Options through his **Ltd Company** and **personal account**. Then in his **pension (SSAS)** where he keeps his returns **tax-free**.

Nick loves the stress-free nature of the strategy – relieved he doesn’t have to deal with tenants, toilets, or boilers (nor tax returns or regulations)!

Going forward, he aims to gradually increase his returns with experience and know-how.

Parallels to Property Investing

The **Options Wheel Strategy** instantly resonated with Nick as he drew parallels to property investing. Like buying and managing physical property, Nick saw that he could own stocks in quality companies and use the assets to generate income. He was further encouraged to learn that **Warren Buffett** likes options and uses them regularly for income generation.

This content is for informational purposes only. Do not take it as investment advice.

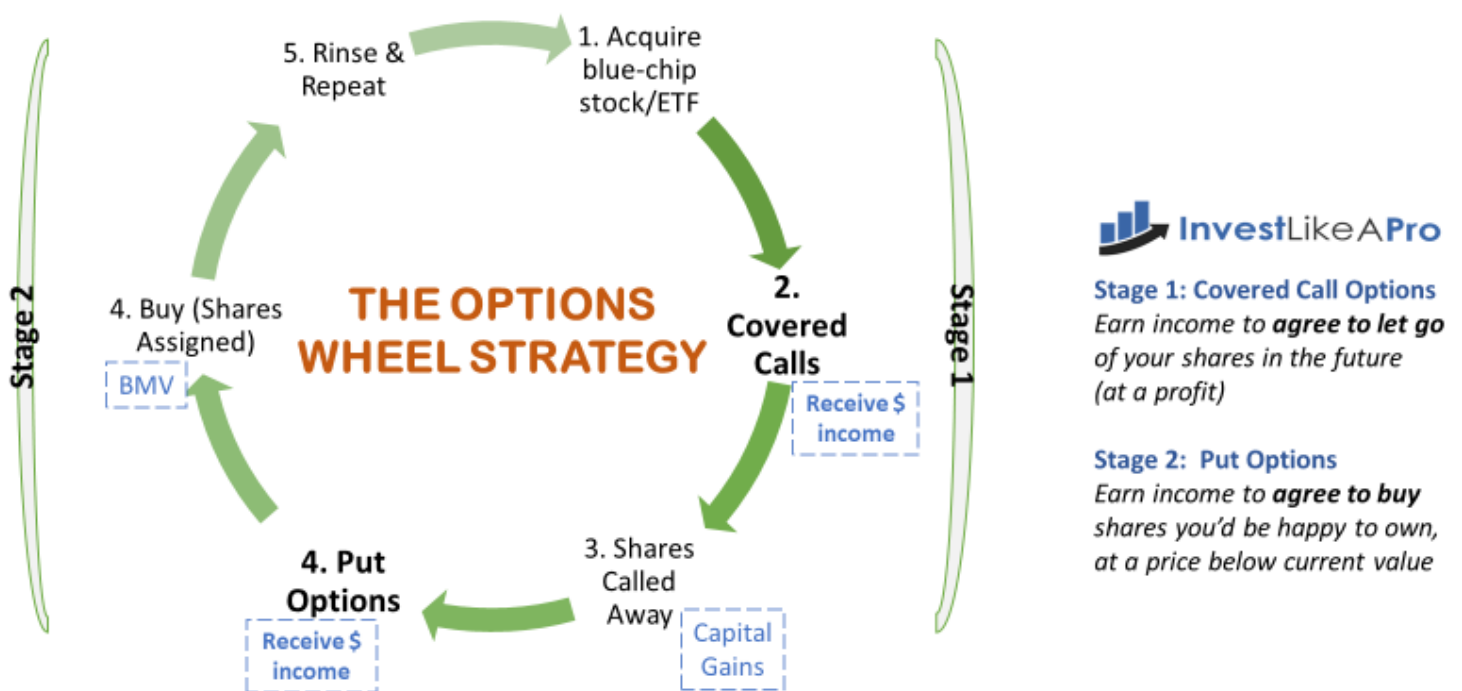
***Capital at Risk* FSCS protection may not apply.**

Nick learnt that after buying a quality piece of 'digital real estate' (shares in a blue-chip company), they could be 'rented out', via options, for an attractive monthly income. That income is typically in a range of 1-3% per month.

In a further comparison to property Nick also discovered Options can enable him to buy quality shares **below current value** (think: BMV) which can then be managed to extract more value (think: adding value / yield enhancement).

How the Wheel Strategy Works – A Summary ...

The steps below are a high-level summary of how the Options Wheel Strategy works. From page 4, we cover the strategy in a bit more detail using actual shares and income generated (the conservative examples we use are at the *lower end* of the typical investor return range of 1-3% per month).



The 5 Steps ...

1. Nick buys shares in a solid, blue-chip company or an ETF. Something he is happy to own
2. After purchasing the shares, Nick **rents them out** by selling a **Call option** on them (**Covered Calls**). This earns monthly income (options premium).

The buyer of the call option has paid this premium to have the right (an option) to purchase the shares from Nick. Critically, the price of that purchase (strike price) is decided by Nick at the start – ensuring it's **above** Nick's original purchase price.

This content is for informational purposes only. Do not take it as investment advice.

***Capital at Risk* FSCS protection may not apply.**

3. Within a month, if the share price rises to reach the strike price, Nick would need to sell his shares to the buyer of the option (at a profit). Nick has earned the **monthly option premium** plus the **capital gain**.

If the share price doesn't reach the strike price, Nick holds onto his shares but **still** earns the monthly option premium **in any case**. He can then sell another monthly call option.

Once the shares are eventually sold (or called away), Nick will have cash to acquire more shares and continue the process to earn more monthly income.

4. Interestingly, Nick learnt that a more effective way to acquire shares is through the sale of **Put Options**. This enables Nick to not only earn monthly income, but also allow him to purchase shares at **below current value**. Once purchased, Nick would sell call options again, exactly as described in step 2.
5. **Rinse and Repeat**. Steps 1-4 can be repeated, hence earning continuous monthly income through the sale of call and put options. Being a continuing process, the strategy is known as the **Options Wheel Strategy**.



PRO TIP

THE WHEEL STRATEGY IS PRETTY FLEXIBLE. MANY INVESTORS CHOOSE STEP 4 AS A STARTING POINT (TO ACQUIRE SHARES BELOW CURRENT VALUE) AND START THE WHEEL FROM THERE.

The Options Wheel Strategy typically earns our past students an income of 1-3% per month. It's a core pillar inside the [Investment Academy](#) - from which Nick is a graduate.

More info at www.InvestLikeAPro.co.uk

I hope you've found this guide useful so far.

Read the rest to learn about Nick's exact steps. And for a better idea of this fascinating strategy that's gaining lots of interest.

Enjoy!

Manish

Further Details - illustrating the Strategy with Real Companies ...

Apple: Nick's 'Digital Property'

Nick loved Apple as a blue-chip investment. After all, he thought, Apple is Warren Buffett's largest holding (NB: the reader must do their own due diligence like Nick had).

After some research, Nick started his Options Wheel Strategy with Apple (AAPL), comparing it to owning a sought-after piece of digital real estate. Nick buys 100 AAPL shares at **\$150**.



PRO TIP: WHEN CHOOSING YOUR OPTIONS, SELECT GOOD QUALITY SHARES, OR ETFs, THAT ARE NOT HIGHLY VOLATILE. ETFs ARE A GREAT PLACE TO START FOR BEGINNERS, BEING DIVERSIFIED AND LESS VOLATILE. THERE ARE MANY ETF OPTIONS AVAILABLE, ACROSS A VARIETY OF SECTORS.

Stage 1 - Covered Call Options

Nick takes the role of a landlord, renting out his digital property by selling a *covered call* on AAPL. *Property Parallel:* in effect, Nick has leased out his shares to a "tenant buyer".

He sets a strike price of **\$160** with an expiration date of one month. Like a lease agreement, Nick earns rental (option premium). In this case it's \$200 (\$2 x 100 shares) paid by the option buyer (tenant). This equates to a return of approx 1.3% over one month.

Nick has earned income to agree to **let go** of his AAPL shares in the future at a **higher price**



PRO TIP: WHEN SELECTING THE **STRIKE PRICE** FOR YOUR CALL OPTIONS, MAKE IT **HIGHER** THAN THE ORIGINAL PURCHASE PRICE OF YOUR SHARES. THAT WAY, IF THE SHARES ARE CALLED AWAY, YOU'LL MAKE **CAPITAL GAINS** (PLUS THE INCOME).

One of two things will now happen: 1) AAPL share price does **not** exceed the strike price or 2) it **does** exceed the strike price ...

Scenario 1. If AAPL's price does **not** exceed Nick's strike price of \$160 at expiration (one month), the lease will end and Nick keeps the \$200 premium (1.3% in one month), as well as keeping his AAPL shares.

He can now renew the lease by selling *another* covered call for a month in the same way and earn another month's income. He keeps doing this until the share price reaches \$160.

Scenario 2. When AAPL's price **reaches** Nick's strike price ...

If AAPL's price exceeds \$160 at expiration, the tenant will exercise their option to buy at the strike price. So Nick sells his 100 AAPL shares at \$160 each - his shares got "called away".

Here, Nick makes \$1,000 in capital gains (\$10 gain per share x 100) **and** keeps the \$200 premium from the call option sale (1.3%). Net gain: \$1,200.

Observation: note that whatever the scenario, the minimum cashflow to Nick is \$200 from the sale of the call option i.e. the monthly income. That is Nick's to keep **whatever** happens (up, down, or sideways).

Upon reaching the strike price, Nick moves to Stage 2 of the Wheel

This content is for informational purposes only. Do not take it as investment advice.

***Capital at Risk* FSCS protection may not apply.**

Stage 2 - Put Options

Once Nick's AAPL shares reach his strike price they'll get "called away" (sold) which moves him onto Stage 2. Nick has received rent + proceeds from the sale of his 'digital property'.

Nick is now cash-rich so actively explores a new acquisition that will again generate rent.

Interestingly, Nick discovered that instead of buying shares at full value, he can use **put options** to acquire shares at **below current value** (current price \$160). **Here's how ...**

Nick sells a **put option** on AAPL with a **strike price of \$145** and an expiration date one month away. He receives \$150 for selling these puts (1.1% for the month).

The plan is to earn income **and** purchase AAPL at \$145 which is below current value of \$160 (\$145 was Nick's chosen strike price).

*Property Parallel: Think of Selling Puts like agreeing to buy BMW
(and earning income to wait to buy)*

Scenarios in Stage 2 ...

Similar to before, one of two things can happen. 1) AAPL share price remains **above** the strike price or 2) it does **not** ...

Scenario 1. If AAPL's price remains **above** \$145, Nick simply keeps the \$150 premium earned (\$1.50 x 100 shares). He then goes again by selling *another* monthly put option. This can be repeated over again (earning monthly income) until we reach scenario 2 ...

Scenario 2: If AAPL's price falls below \$145 at expiration, the put option is exercised. Nick is now "assigned" 100 shares – i.e. he will now purchase 100 AAPL shares at the lower price of \$145 each. Remember, Nick **still keeps** the \$150 (1.1% in a month) in either scenario.

Observation: note that whatever the scenario, the minimum cashflow to Nick is \$150 from the sale of the put option i.e. monthly income of 1.1% in one month. That is Nick's to keep **whatever** happens (up, down, or sideways).



PRO TIP: AS AN ALTERNATIVE VARIATION, YOU MAY NOT WANT TO KEEP GOING AROUND THE WHEEL. HENCE, JUST FOCUSING ON THE INCOME ELEMENT. INSTEAD, YOU WOULD 'ROLL' YOUR PUT OPTIONS TO AVOID GETTING ASSIGNED.

Four Sources of Cashflow from the Options Wheel Strategy...

As its name suggests, the Wheel Strategy enables investors to earn monthly income by going around the wheel continuously, moving from steps 1 to 4 and around again ..

In doing so, there are **four** sources of returns and cashflow:

1. **Income** from selling **Call Options** in Step 2
2. **Capital gains** when the shares reach the Strike Price
3. Possible **dividends** from holding the shares before they get called away
4. **Income** from selling **Put Options** in Step 4



Extending the Wheel Strategy to other stocks

Feeling more confident, and to benefit from diversification, Nick moved ahead and ran the Wheel Strategy on **other** stocks and ETFs too. He likes the tech sector so he also researched other blue-chip companies such as **Microsoft**. He also discovered a diversified tech ETF on which options can be sold to earn income.

Nick then put together a **watchlist of 20+ options candidates**. This helped him to watch different companies, ETFs and sectors including **Technology, Financials, Real Estate, Healthcare, Energy** amongst others. Included amongst the candidates was **Gold** and **Silver**.

Risk Management and Golden Rules

Nick quickly realised the need to be educated and informed. That helped Nick reach his income targets **faster**, generate **higher returns**, and helped him **avoid common mistakes**.

Critically, Nick has **NEVER** made a permanent loss. Following the InvestLikeAPro process and risk management guidelines means Nick is **unlikely to ever** experience a permanent loss of his capital.

Nick learnt all these techniques (and more) by attending the [InvestLikeAPro Investment Academy](https://www.investlikeapro.co.uk/academy) for high-quality training on Options & ETFs. Learn more at [InvestLikeAPro.co.uk](https://www.investlikeapro.co.uk)

The below are some of InvestLikeAPro's best-practice **Risk Management Rules**.

Nick closely follows these and **always** applies them to his options investing ...

	Risk Management Rules	Property Parallel
#1	Select options on stocks or ETFs you'd be happy to own long term i.e. Solid, Quality, Blue-chip Companies/ETFs	You wouldn't buy property in a poor-quality location
#2	Don't chase high premiums. Instead, remember rule #1	Sometimes, very high rental yields are illusory
#3	Be Diversified	For obvious reasons
#4	Choose strike prices "out of the money". Puts: strike price below current value (BMV). Calls: at or above purch price (for capital gains)	You wouldn't buy a property <u>above</u> market value. Or sell at a loss.
#5	Choose options with good liquidity (min options volume of 1,000)	You wouldn't buy a property in areas which has very low demand or transactions
#6	Be educated and informed. Options is a very rewarding investment strategy with trusted info and education	Learn how to add value, reduce costs, and enhance returns with clever use of funding

Unlocking even Higher Returns: Advanced Opportunities (optional) ...

Note: *The Wheel Strategy, as described, can deliver very comfortable returns, without needing to become more advanced. Advanced strategies may be introduced with experience, confidence, and use of time ...*

Nick aims to gradually increase his current average return of 1.8% as he becomes more confident and gains more experience. His plan to scale up his options business includes:

- **Cleverly using leverage (margin)** in a cautious and conservative way
 - Think: *using other people's money*
- **More advanced strategies** (eg "Strangles")
 - Think: *multi-lets*
- **More active management** of his positions
 - Think: *optimising floor space and adding value*

This content is for informational purposes only. Do **not** take it as investment advice.

Capital at Risk FSCS protection may not apply.

Frequently Asked Questions

1. How much do I invest?

A minimum amount of \$3-5k is advisable. You would start with a dummy account and then use real money when comfortable. You invest directly via FCA-regulated platforms.

2. Which Platforms can I use?

Our investors use Interactive Brokers, TastyWorks, Saxo, and Exante. All FCA-regulated.

There are no upfront or annual costs for using these platforms. They charge a commission **per trade** which ranges from approx \$1 to \$3 per trade, depending on the platform.

Some platforms allow **dummy-trading** (paper-trading) to practice. I would **recommend** this.

3. How do I learn more?

There's lots of free information available online and on YouTube. Some is useful, some not as much of it is aimed for a US audience. As with all YT videos, be discriminating about which ones you follow.

4. How can UK investors implement the strategy?

The [InvestLikeAPro Investment Academy](#) provides the exact process, steps, templates and options candidates, as used by Nick.

Attendees receive guided implementation of the strategy with ongoing support on UK accounts, platforms and investing inside a pension / SSAS.

Visit InvestLikeAPro.co.uk or [Click here for further information](#) on the Investment Academy.

Conclusion and Key Messages ...

- The **parallels with property investing** offered Nick a fresh perspective on Options, enabling him to create an income stream while **escaping management burdens**
- By using the strategy in his pension, Nick earns income **free of tax** (currently 1.8% per mth). This helps him grow his wealth and income in excess of inflation.
- By following the process and risk-management rules, Nick can build a sustainable business in options and enhance his long-term financial security
- With **prudence and best-practices**, Nick will continue to build his wealth and income over the long term, with a more stress-free experience
- With education and guidance, Nick reached his income goals **faster**, makes **higher returns**, and has **avoided common mistakes**.
Crucially, he has never experienced a permanent loss

This content is for informational purposes only. Do **not** take it as investment advice.

***Capital at Risk* FSCS protection may not apply.**