Twitter Thread by Thirty Days To X

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HOW TO MAKE MONEY SELLING PUTS

The low-risk method for turning limit orders into cash.

It doesn't take a genius to know that the stock market is overvalued.

Airbnb shares hit the market today and doubled right away. This in a time when half the planet is shut down and many people are scared to travel.

Of course, that's just one example. There are plenty more companies with impaired fundamentals now trading at or near al-time highs.

It is very hard to find a bargain anywhere, similar to June / July where everything popped, only to tank in value by September.

This means you have three options:

1) Sit in cash.

2) Buy now, expecting both a future drop and recovery.

3) Sell puts , treating them like limit orders and collecting cash while you wait for share prices to fall.

We'll focus on number three.

Also, quick disclaimer: I'm obviously no financial expert and this thread is purely for entertainment purposes only.

Anyway, back to the main content.

Selling a put is where you provide cash collateral against 100 shares of a stock. In exchange, you are paid a premium for your put.

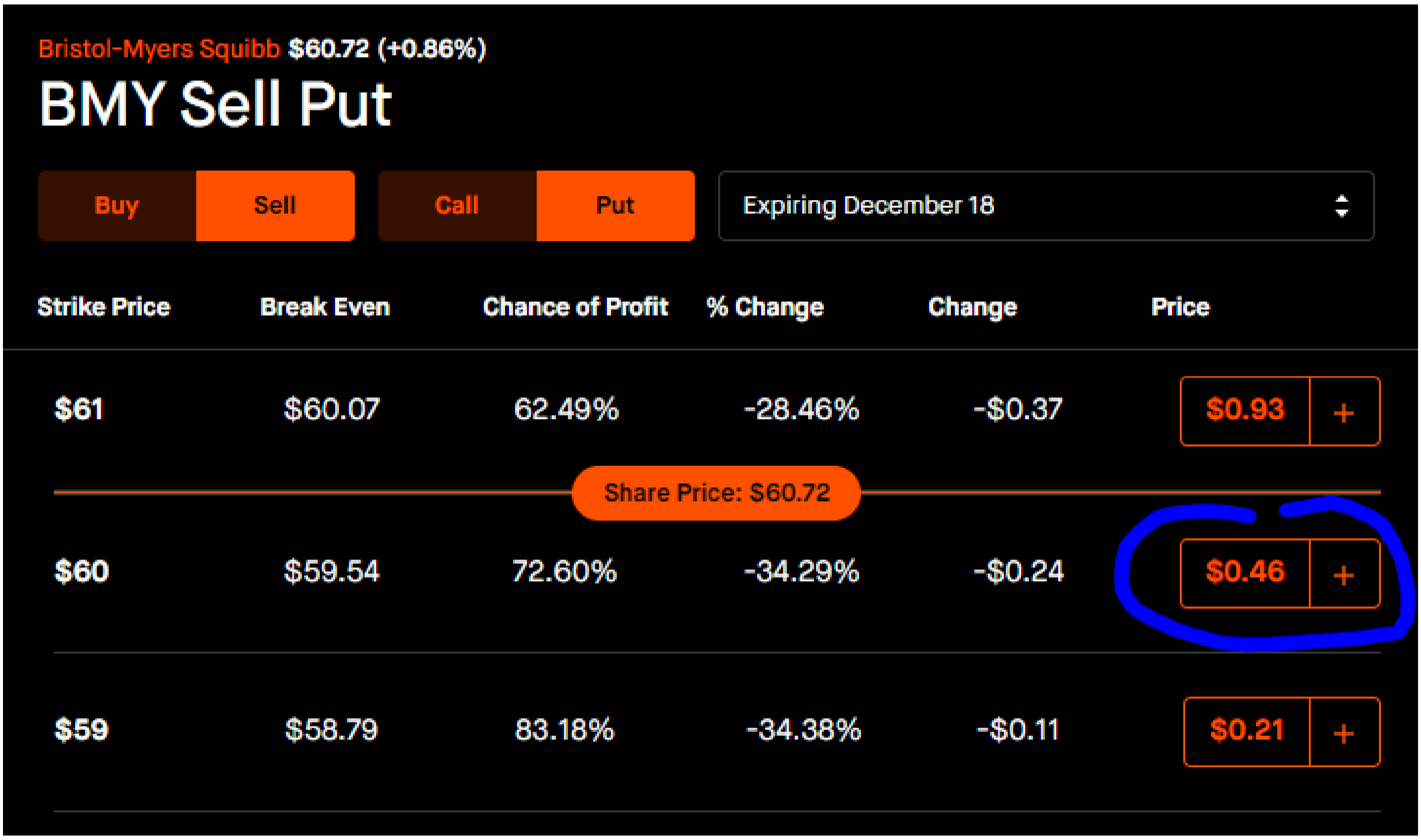
Sounds complicated, but it's not.

Here's a full explanation of the mechanics (with some simplified math):

Suppose you want to sell a $60 December 18th, 2020 put on Bristol-Myers Squibb.

You would collateralize $6,000 while being paid $46 as a premium. If Bristol-Myers closes lower than $60 on the 18th, you take possession of 100 shares.

HOWEVER...



If Bristol-Myers closes above the strike price, you get your collateral back AND keep the $46 premium. So you're getting paid $46 to place a limit order that went unfilled.

This means you're earning cash payments in a bull market, and taking possession of stocks you already want to own if prices fall.

You can also sell puts on ETFs like $VYM, $VOO, etc... which further lowers your long-term risk (if you're willing to hold long-term).

I wouldn't recommend trading options against speculative stocks or companies you aren't willing to hold in the long-run.

However, done right, this is a good way to generate extra cash while waiting for prices to lower on assets you already want to buy.

Personally, I've collected about $1,000 in long-term (March) premiums by selling puts. And also "bought to close" (where you buy back your own contracts once the premiums have fallen) $150 worth of puts between Monday and Wednesday.

Again, don't be stupid and trade options on some penny stock or YouTube "hot tip." But if you already know about a specific market or business, this is a good way to profit off your knowledge while you wait for Wall Street's "irrational exuberance" to end.

P.S. For those curious about where to learn more on options trading, here are too book suggestions (with affiliate links):

Unknown Market Wizards - https://t.co/RxUbYbatti

Stan Weinstein’s Secrets for Profiting in Bull and Bear Markets - https://t.co/uDF2fb2lKt