



Make Money Selling Covered Options

A handy way to increase your income from stocks that you own is to make money selling covered options. If you are doing it right, you routinely look at your stock portfolio. You do both **fundamental analysis** and analysis of market sentiment. You keep stocks that you believe will continue to go up in price and you sell those that are likely to fall. But, what do you do with those **dividend stocks** that pretty much stay at the same price month after month? How about stocks that you expect to go up gradually but not for a year or so? Here is where you can make money selling covered options.

What Is a Covered Option?

An options contract gives the buyer the right to buy the underlying equity in the case of a call contract or sell in the case of a put contract for a set price at any time during the term of the options contract. The seller receives a premium for taking on the risk of an unexpected move up or down of the underlying equity. A covered stock option is when the seller owns the underlying stock. An uncovered option is when he does not. In looking at how to make money selling covered options we start with selling call options on stocks that you own.

Calls, Puts, Covered and Uncovered		
	Covered	Uncovered
Call	Stock owner gets premium and keeps stock if it remains stable or goes down.	Trader gets premium but can lose significantly if price of stock goes very high.
Put	Stock owner gets premium and keeps stock if it remains stable or goes up on price.	Trader gets premium but can lose significantly if price of stock goes very low.

Knowing Your Stock

It is common for novice investors and traders to see a stock go up in price and simply believe that it will keep going. However, there are stocks that routinely trade within channels. If you own a stock that does this, there are two ways to make money selling covered options. If the stock is nearing the top of its normal trading channel you can often assume that it will not go a lot higher. You can sell call options on your stock, collect the premium and repeat the same process each cycle of the stock price. Likewise if your stock is nearing the bottom of its normal trading range you can often be assured that it will not fall much farther. As such you will be able to sell put options on your stock, make money selling covered options and repeat the process each stock price cycle.

Stock Profits

As this article points out there are more than one way to make money investing. Dividend stocks provide a nice quarterly income. A well-chosen stock will go up in value over time. And, you can make money selling covered options, calls or puts, on stocks that you own. The way to make money is to track your investments, develop the necessary skill sets for picking stocks and learn how to use tools like options to enhance your return on investment.

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