TREAT YOUR STOCKS LIKE REAL ESTATE

CHRIS JACKSON

INVESTING IN STOCKS AND TREATING THEM LIKE REAL ESTATE

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ABOUT THE AUTHOR

Chris Jackson is a serial entrepreneur that has ventured into multiple businesses and careers, ranging from the military, truck driving, to police officer, and also business. Since the military he had struggled with defining himself as to what he truly wanted to do. Thinking that each change of job was a waste, he regenerated his thoughts to which seemed like a never ending path to unhappiness or an unsuccessful attempt of job satisfaction to what he now calls a personal life accumulation of knowledge. Chris states, “It isn’t always about trying to find that one perfect job right away, however it is about the experience and knowledge gained to be able to truly define ourselves as to what the bigger picture is, even if we may not know it right away, but for later use”.

With that, taking in all that he has encountered, he now is passing it onto others who look for that same personal objective in life, and tends to use it not as a weakness, but now a structuring tool for success. Even though we feel as our lives are stagnant or depressing at times, we must focus on it being a lesson rather than a mistake. Taking that time, and reflecting on how we can use it for an advantage and to build it into a transgression for personal use is what makes us unique.

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INTRODUCTION

Investing in the stock market is not throwing your money in and hoping that it actually jumps in value. Usually people jump in with little experience and get burned.

No biggie, I did the same thing and lost my shirt before it dawned on me I needed to become educated on the stock market. Not only that, I had friends that crashed and burned too.

The first big mistake is using emotions to make decisions.

Many times, people fall in love with a stock because they relate to it. In my case, I fell in love with a company called Under Armor.

Everyone was buying and wearing it, so I got excited.

Man, was I wrong...

So, you need a different strategy to make money with stocks. In this chapter I'm going to show you a simple way to get started. This has worked for me and others and I'm sure it'll work for you too.

Applying Real Estate Investing Strategies to Stock Investments

So investing in the market is not just throwing your money in and hoping that it actually jumps in value. Most people often do this and that is the biggest mistake of their stock market experience and call it quits for the simple fact they get burned shortly after. When I first started investing, I was a little clueless as well when it came to actually understanding the value of a company. Simple emotion trading is what I was doing. Thinking that the stock of my choice was the best because I liked the brand itself or thought hey Under Amour, everyone is wearing it so it's the hot stock that will make me a few thousand! I was so wrong.

It's not about the current moment, because if you base your strategy of now or whenever you decide to throw your money at the market, it will eat you alive. With my investing in stocks like they're real estate I am going to teach you how to make money on a passive or residual basis, and whether or not a stock that you are in control of moves up or down building confidence and helping you increase your portfolio rather than showing losses over and over like most un-intelligent investors do each year.

Think of it this way, when you are buying a stock, you must first know whether or not it is undervalued, and what the intrinsic value is. While this can be time consuming and the most critical part in determining what stock(s) to invest in, this is the deal breaker. Most people often buy at the wrong time, or when they believe the stock is at its lowest point. Let's face it, technical trading strategies go out the window when it comes to actually being an intelligent investor. I could go in depth as to why technical analysis fail and no matter what the GURU's tell you, fundamentals are the bread and butter when it comes to the value of stocks and when they increase or decrease, so throw away your charts!

So if I told you that many investors actually think of the simple form of investing and that is buy low, sell high, but they never realize that taking that concept and adding in a way that is often overlooked could generate you even more on your returns each year. Think of buying a stock, treating it like real estate, renting it out on a monthly basis, and capitalizing whether the stock moves up or down in price!

Before we jump into this method, I will cover the basics of the stock market, what stocks are, how to find undervalued stocks, share with you the golden rules that must be aligned in order to pick the stocks to purchase and then dive into the buy XYZ stock at a certain price, throw up some premium – (cash or credit that you earn) and determine whether or not you want to let the stock sell for the difference, or keep it, and do this over and over again!

What is a stock? If you don't know by now what a stock is, then maybe you should go back and read up on the basics before getting this much into detail about what I am about to teach you! I am only kidding! I wouldn't write a book just for the advanced investor, for the sake of, we all have to learn somewhere, and from someone, so why not learn it here, from ME!

CHAPTER 1: WHAT IS A STOCK

Stock is a type of security that signifies ownership in a corporation and represents a claim on the part of the corporation's assets and earnings. There are two main types of stock: common and preferred. Common stock usually entitles the owner to vote at shareholders' meetings and to receive dividends. Preferred stock generally does not have voting rights, but has a higher claim on assets and earnings than common shares. For example, owners of preferred stock receive dividends before common shareholders and have priority in the event that a company goes bankrupt and is liquidated. Also known as "shares" or "equity."

*SOURCE

https://www.investopedia.com/terms/s/stock.asp#ixzz57tTf4KMN

Now that we understand what a stock is, we can dive into understanding what a share is. A share is one portion of a company in terms of the entire company as a whole. The number of shares you buy determine the amount of the company you own. Think of owning a stock like you actually have ownership in the company but also for this lesson; let's focus on just 100 shares at a time. Why?

This is the amount needed to own to be able to write covered calls, or rent out your stock with this investing strategy. As many new investors sometimes do not have this kind of cash it is important to understand that starting small and starting is the key focus to any new portfolio.

You have to start somewhere. With the type of strategy that I am going to show you, this starting small will help you compound your profits over and over again gaining momentum that will begin to show itself as you learn this hidden stock investing strategy that only the professionals know and don't want you to know!

Think of it this way, when you are losing money, someone on the other side is winning and profiting from your losses. Also think of the market as the casino. Only casinos in the long run profit big and take all! Why not put the odds in your favor as they do?

One other way that I like to think of stocks and when you are temporarily buying them, YES I said it, temporary stock buying is what I said, because we are not marrying the stock, treating it as though we are going to live with it forever, because we never know when that stock will end up not happy, falling in price and leaving you like a bad habit.

So don't marry the stock! However you want to look at it, but don't hang onto your stocks forever. Nothing lasts forever! We want to simply own the stock long enough to make our money, and get out!

CHAPTER 2: MISTAKES THAT MOST PEOPLE MAKE WHEN THEY INVEST

Too many times have I heard the story of how someone invested their money, and 10 minutes later they lost it all. I have also heard some of my friends getting into penny stocks, thinking that the huge possible profits that await them will happen and make them rich overnight. Have you ever threw, yes THREW in your money at the market, finding out that minutes later the stock drops and not in your favor leaving your head spinning and thinking that you have just lost it all? This type of “trading” will burn you every time.

The first mistake that most people make is spending their money on a stock that they believe is a good stock, or a hot stock. This type of emotional trading, IS NOT INVESTING first of all. Just because you like to fly Delta, does not mean that DELTA is worth investing in. Digging deep into their financials, and understanding whether or not they can sustain themselves is vital. Checking their cash flow, the balance sheet, and understanding if they could actually wipe out all of their debt and not go bankrupt is one of the areas to check. Having enough cash on hand to erase their debt if they chose to liquidate. If a company’s expenses are more than their income, there are issues that lie ahead later on. Now while this is not always bad, nor creates bankruptcy, it still is one of the biggest things to look at. Another mistake that people make when it comes to investing, is picking the wrong time to invest, or throwing their money away.

Yes, that is what I said, throwing your money away! The point at which you begin to invest in a company is vital because obviously you want to have the highest return of investment, and when you pick the wrong time, that percentage is less.

Picking the time at which to invest in a stock, **THAT IS UNDERVALUED** takes skill and knowledge. This is achieved over time and takes practice. Understanding the psychology of investors will help understand the flow of the markets, and the stock patterns. I said throw away the charts earlier, and I still mean that. The charts do help when it comes to understand the estimated best time to get into a stock. Is the stock currently overbought or oversold? Using a simple indicator like the RSI (Relative Strength Index) will help determine a roundabout measure of a stocks time to purchase or sell off point. The simple understanding of whether a stock is on a decline or incline is also key to buying at the right time.

Understanding that an incline or decline is always and generally followed by a sell off period or buying period. If a stock has risen for 3- 5 days continuously then the short term selloff, (where the bears will begin to sweat and scare) will take place soon after. This could also be the point to which people are taking their profits. REMEMBER: The trend is your friend!

Other mistakes that the new trader, investor and individuals make is getting involved in risky companies. These companies can be penny stocks, newer companies that haven't been listed as long, and overall very volatile companies or stocks. These do not have any real reason for their movements other than hot releases or news releases made to pump up the stock, which are more common for penny stocks. They pay millions of dollars for such news releases made to make the stock sound worth the look, just to have their prices pumped up and then shortly fall right back down. The reason for the decline right after is for the fact that the price WILL ALWAYS FIND ITS TRUE VALUE. Remember that rule – The stock price will always and eventually find its true value!

CHAPTER 3: THINK LIKE A MILLIONAIRE

Let’s face it, millionaires and those who have made it in life making out huge when it comes to profits are unique. Do they hold some type of special skill when it comes to making the money like they do? Understanding a simple rule: There are assets, and liabilities in life, and that is it when it comes to the categories of money. Assets will make you money, while liabilities will cost you money. Understanding that every time you buy something, it will either cost you more and more to keep, or it will eventually help you make a return.

When it comes to stock buying, of course everyone would think that it will make you money, but it’s often harder than said, and as we have seen too many people fail at stock investing due to a few common mistakes. With the simple approach to investing like the millionaires you too can start earning profits, building confidence, and leaving you with a greater return each year within your portfolio. Value investing is the only true way of investing whether it is in the stock market, or other areas in life.

Asset or Liability?

Asset or Liability?

When we look at a stock, we may have thought about buying it at its lowest price point that we can, and then selling it at its highest price possible. That's pure hindsight and is not easy, nor is it possible. At some point, you will learn that you will never find the stock at its lowest point and you were lucky enough to grab it up.

Deal with it! What I am going to teach you, will help you start understanding how to place the odds in your favor, capture dividends, capture monthly, quarterly income, or other various time frames for a continued profit. Start thinking that your stocks can make you more money than just buying and reselling. Once you start earning income, the best way to make more and more, is compounding your profits that will allow you to buy more and more stocks, and larger amounts of shares.

Start thinking like a businessman and invest in companies that you would be interested in owning yourself. When you own a stock, technically you own part of the company. Would you invest in a crap stock or company that you knew were failing? Chances are no way!

Owning shares of certain stocks are giving you the ability to make money constantly whether the stock moves up, down or stays sideways. So let's take a look at how to pick the right stocks using a few methods or fundamental approaches that I have successfully used over and over again. Using these approaches, will allow us to purchase the stock when it is first a great company, but also one that is currently UNDERVALUED giving us the chance to profit more successfully rather than hoping and praying that it rises. You will have more comfort knowing it will rather than hoping and watching for the next jump.

CHAPTER 4: FIND THE VALUE OF A STOCK

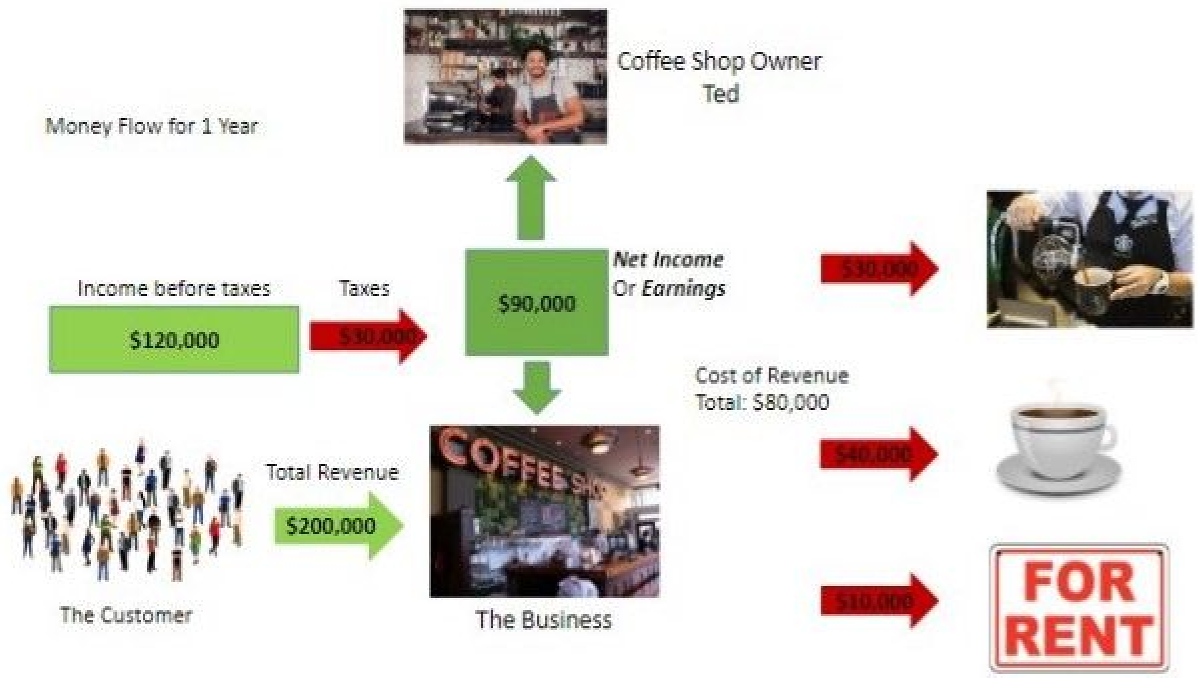
When you understand how to find the actual intrinsic value - (is the actual value of a company or an asset based on an underlying perception of its true value including all aspects of the business, in terms of both tangible and intangible factors.) then you will understand and have confidence every time you invest in a company. It will begin to be clock work and the pure confidence levels will soon rise. But don't ever become too confident! One of the biggest problems new investors find themselves facing is the psychological aspects of letting go of their money.

This is one of the biggest barriers between successfully investing in a good opportunity. Most people can't overcome the releasing of their own money. It's okay to do so when you know it will begin working for you as soon as you have invested. Remember, you can hold onto your money as long as you like, but you are eventually going to spend it rather than invest it anyway.

Okay now that we have learned to invest, and understand that hanging onto your money will obviously do nothing but leave your pockets anyway, we will now start to look at companies and whether or not they should be invested in. By digging into a company's financials we can begin to visualize what the company is doing and how they are doing when it comes to their growth. Understand the term, remember it, say it, and repeat: **NET INCOME.** This is the profit after everything has been taken care of, expenses; employees are paid, rent, cost of goods, etc. This is the earnings, and the owner's cash. As the owner, they have a say as to what happens to that net income. Is it given back to the company to grow off of, re invest in more inventory, advertising, etc? Or do they pocket it. Do they split it, between dividends to shareholders, and themselves, along with the company needs, what are they doing with their net income?

Don't forget the term **NET INCOME = EARNINGS**

When you are going to invest in a stock, the first thing you have to do is figure out what you are willing to pay for it, and what type of percentage return you are willing to take on your investment. Down below you will see a picture that is a generic type visual aid to show how a company is valued and what the return on that company is compared to its profitability and the price you pay for it. Theoretically speaking, this is how top investors like Warren Buffett determine whether or not stocks are worth buying. Taking the time to dig into their financials does take time, but I am going to not only show you how to value a business but also a website that I have used that calculates this for you for faster searching and analyzing.



As we can see, here is a business model that is generic showing us the Net Income after employee’s, cost of goods (coffee) and rent has been paid. This is an annual figure***

Ted the shop owner has $90,000 left over to put it back into the business, or profit it himself. Ask yourself, how much would you be willing to buying this coffee shop business, which makes you $90,000 per year? **Assume there is little risk.**

The way that Warren Buffett projects and calculates his willingness to invest is based on numerous financial techniques and calculations. Those will be explained in another lesson. The range that Warren Buffett seeks is generally less than a 15 X earnings.

The price you pay for a stock declines the more you had paid for it. It is up to you how much you are willing to pay for a company, and how much yield you are willing to earn from it. To find the price to earnings you would divide the amount you would pay for, by the net income. To find the return on investment (ROI) you would do the opposite, divide the net income by the amount that you would pay.

Owner

Net Income or *Earnings*

$90,000

Pay $2,000,000 for a 4.5% return? → This price is 22.22 X the earnings

Pay $1,200,000 for a 7.5% return? → This price is 13.33 X the earnings

Pay $500,000 for a 18% return? → This price is 5.5 X the earnings

Warren Buffett likes to invest in companies that are LESS than 15X earnings. To calculate: P/E for a stock:

Price per Share ÷ Earnings per Share (EPS)

This will allow investors to compare which stocks are more favorable in a selected industry. If stock XYZ has a P/E of 15 and stock ABC has a P/E of 8, which would you rather purchase? For every 15$ spent, you will earn $1 or for every $8 spent, you will earn $1? That is another way to look at P/E!

CHAPTER 5: USE THE BENJAMIN GRAHAM STRATEGY

Now that we know about investing like Warren Buffett we can dive a bit deeper into even more margin of safety when it comes to the defensive investing approach. Having the understanding of Value Investing, finding out whether or not a stock price is over or under its true value, we should take a step deeper in an analysis that is called the Benjamin Graham's Number.

This common strategy not only looks at the **earnings per share**, but also the **book value**. The Graham number is the upper bound of the price range that a defensive investor should pay for the stock. According to the theory, any stock price below the Graham number is considered undervalued and thus worth investing in. The formula is as follows:

$$\sqrt{22.5 \times (\text{earnings per share}) \times (\text{book value per share})}$$

BREAKING DOWN 'Graham Number'

The Graham number is named after the "father of value investing," Benjamin Graham. It is used as a general test when trying to identify stocks that are currently selling for a good price.

The 22.5 is included in the calculation to account for Graham's belief that the price to earnings ratio should not be over 15 and the price to book ratio should not be over 1.5 (15 x 1.5 = 22.5).

The Graham number can also be alternatively calculated as:

$$\sqrt{15 \times 1.5 \times \left(\frac{\text{net income}}{\text{shares outstanding}}\right) \times \left(\frac{\text{shareholders' equity}}{\text{shares outstanding}}\right)}$$

Essentially, this second method of calculation is equivalent to the first. EPS = net income/shares outstanding, and book value is another term for shareholders' equity.

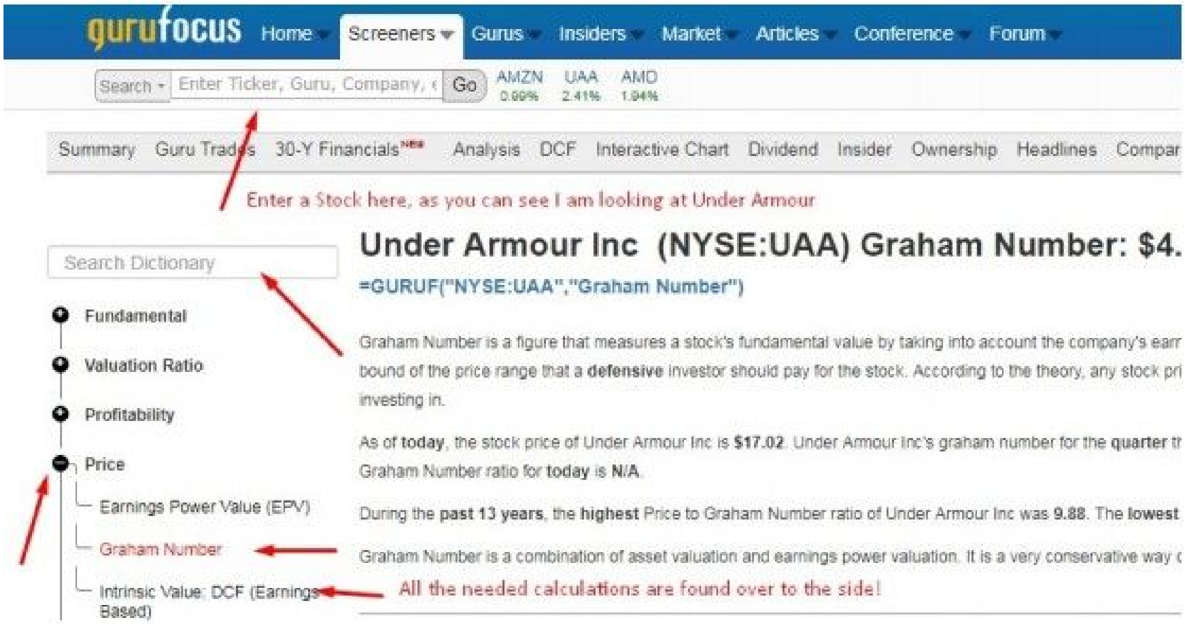
Example of Graham Number

For example, if the earnings per share for a single share of company ABC is $1.50, the book value per share is $10, the Graham number would be 18.37. ((22.5*1.5*10) = 18.37). Again, 18.37 is the maximum an investor should pay for a share of ABC, according to Graham. If ABC is priced at $16, it is attractive; if priced at $19, it should be avoided.

A website that I use to quickly find P/E, Graham Number, Intrinsic Value, and Peter Lynch Charts is -
https://www.gurufocus.com/new_index/?affid=356332

(Affiliated with**) so I will earn commissions from the link if you purchase subscriptions from, which I highly recommend! Not because I earn, but for the simple and extensive research tools they provide!

I would also recommend getting the book, The Intelligent Investor, written by Benjamin Graham which goes into detail about the valuing of stock and investing intelligently. The Intelligent Investor: The Definitive Book on Value Investing. A Book of Practical Counsel



Here is a screenshot for the site that I provide you that I currently use to screen all of my selections and do my research.

A few things to remember to check and research:

1. The Intrinsic Value of a stock
2. The P/E ratio
3. The Graham Number – [Click here to view formula]
4. Peter Lynch Chart – [Click Here to view the screener]

While researching these quick and simple evaluations are mostly what I use to allow me to make my selections of undervalued stocks, they should not be the only deciding factors for you. Understanding the balance sheets, cash flow statements and other forms should also be researched. The 4 that I have showed you can be used as a shortcut. But shortcuts aren't the best options for life, so remember that!

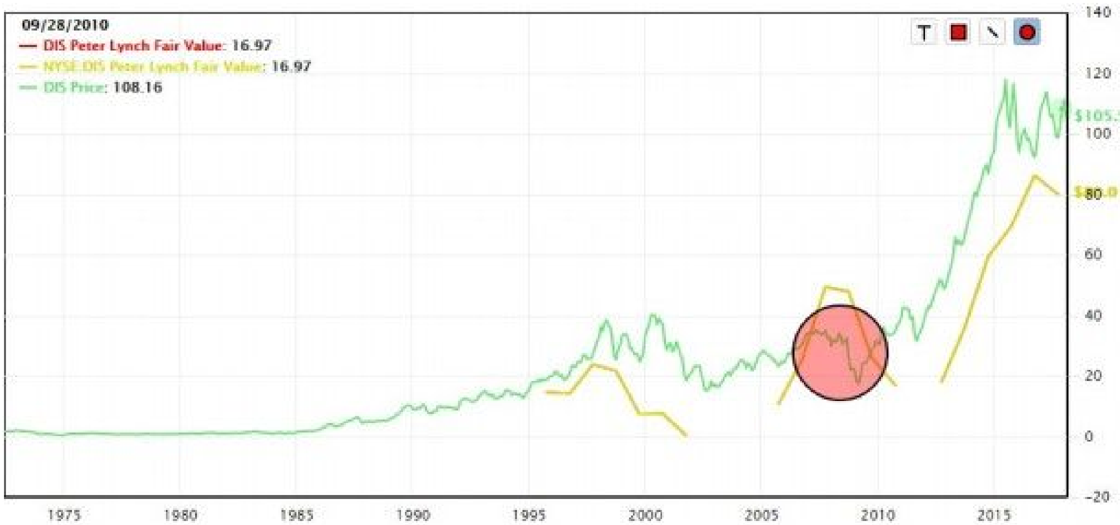
CHAPTER 6: THE PETER LYNCH CHART

Now that we have learned the importance of value investing, and learned to find the true value of a stock, we can buy with confidence, knowing that our stock can only go up. Okay, it's still not that easy, but with the valuation strategies that I am showing you, the percentage of success will definitely go up.

However I still cannot promise you that, and with the disclaimer, due to time, various factors, and all other aspects of the market no one truly knows the future of a stock's performance. Hence this can even be impacted by fear, greed, and pure ignorance of other traders and investors. But, remember, that a stock's price eventually, and always finds its true value! The information learned however, about finding stocks that are undervalued will increase your chances of success with having your stock merely rise in growth, and be able to capture some profits with both the upside, and capturing **premium** of that stock to which you own that I will be discussing in this book.

By understanding a stocks undervalued moment, we can safely invest assuming we have looked into the financials and see that they are performing successfully. We can also find that the Peter Lynch chart will help us visualize when a stock is undervalued, and under **15X earnings**. With having this type of visual aid we can successfully sell premium after buying **100 shares** of a stock and earn monthly and passive income.

Let’s take a look at the concept of the Peter Lynch chart and also take a look at who Peter Lynch is.



Using this chart we can see that around the years 2005 – 2010 Walt Disney was undervalued according to the Peter Lynch chart and as we can see the explosive increase shortly came once the price fell under the Peter Lynch value line. This is a great tool to use, assuming the stock you are researching has maintained a well business model.

Now the understanding of who Peter Lynch is and why I use his model and valuation strategy. Mr. Lynch managed Magellan Fund at Fidelity Investments between 1977 and 1990 and had an outstanding career in doing so, averaging **29.2%** returns consistently while more than doubling the S&P 500 market index and making it the best performing mutual fund in the world! His assets increased from **18 million** to more than **14 billion!**

Mr. Lynch has also written 3 popular and some of the best investing books when it comes to stock market investing, and YES I recommend you getting them!

- One Up On Wall Street: How To Use What You Already Know To Make Money In The Market
- Learn to Earn: A Beginner's Guide to the Basics of Investing and Business
- Beating the Street

To make your investing even more secure and safe sounding, I would suggest investing only when your stock of choice is under the Lynch Value line. While it's only personal choice, I make my investments under the line as one of my own Golden Rules!! I haven't made millions by doing so, but I have made returns around 10% consecutively using this chart and my investing strategy that I have yet to explain. So while you continue to read this eBook, I am advising you to keep in mind the previous chapters, and everything that I have explained to you so far.

Keep these as a personal strategy, or personal set of rules before you make any investment, and you will see your chances of success when it comes to profiting increase dramatically!

CHAPTER 7: THE GOLDEN RULES BEFORE BUYING A STOCK

As we have continued discussing rules and strategies, or even charts to calculate things like the intrinsic value, true value, the Benjamin Graham number, and whether or not a stock is currently priced higher or lower than it should be, these are all rules to follow, understand and know before buying into any, and I mean ANY stock.

Setting yourself up in understanding how a stock's performance is, whether or not their financials show a 10 year steady and continued path to success, is VITAL. We also should calculate in a safety margin of 3% which may seem higher than usual, but due to inflation and its unknown factors, we could say 3% is a defensive and well about normal percentage, but SAFE! If a company can show more than a 3% plus their own inflation or growth rate, then a company could be a good purchase.

A few other Golden Rules that I have developed and go by, some of which are written by billionaires like Warren Buffett, Carl Icahn, and Benjamin Graham.

1. <u>The 50 Year Rule</u> – Before a company is invested in, ask yourself if the business will still, and I mean STILL be thriving in 50 years. Will the company be one of those to which have outlasted its competitors? Avoid companies in industries like technology. Too many times are they great robust companies who come and go. We have seen it so don't deny it. Look at companies like groceries, homes, insurances, and banking stocks. These are the true needs that people around the globe need, not just want!

2. <u>Look for stable companies</u> – I have said it time and time again, these are the companies who have sustained themselves in the last

10 years. Constantly increasing profits and revenue, while keeping their debt's down or at least maintained. Don't look at the ones who profit and grow 10 to 20 percent one year, and then drop 10 to 20 the next. These are a no go! Too much risk as they don't even know what they are going to be able to do from year to year. STAY AWAY! KEEP YOUR KIDS AWAY, HIDE! Well don't hide, just don't buy!

3. <u>Take Advantage of the Mis-priced Great Companies</u> – Yes that is right! Companies often get mis-priced greedy traders, or investors. They sell when they shouldn't and the huge amounts that sometimes are let go, create downfalls in stocks. This doesn't always mean the guru's as they like to be called know exactly that the stock should be sold off, it's just that they are taking profits, or are scared….. If you know the stock is a great one, then take advantage of the discount! Buffett did this when banks were selling off stocks during the financial crisis and look what happened. They recovered and who made the billions?!!!

4. <u>"It's better to buy a wonderful company at a fair price than a fair company at a wonderful price"</u> – Best quote ever by Warren Buffett! As it says, it's better to buy a company that is great for a decent price than one that isn't so great, but also cheap. As you see, you get what you pay for. Buy cheap, get cheap. Sometimes it is better to pay for a great stock at a good price, because no matter what, you know you are going to get the profits.

5. <u>Buy when Stocks are or lower than 15X Earnings</u> – Now this doesn't mean just buy any and every stock that is 15X or less earnings. It means buy the great stocks, that meet all of the rules above and plus more, plus 15X or less!! As we have seen, the 15X less is what Warren Buffett has practice over and over again and is the highest return on stock portfolios. This rule is one to follow and remember when it comes to seeing stocks undervalued. **15X or LESS.**

6. Stocks are at or less than the Graham Number – As we have read earlier, this number is what Benjamin Graham created using the earnings plus book value with the margin of safety calculation. Having this number configured, seeing stocks at or less gives the best defense when it comes to investing.

7. Stocks are under the Peter Lynch Line on the chart – This runs hand and hand with the 15X or less earnings rule however provides a more visual approach. When the stock price dips under the Lynch line, it's time to buy! We have seen and heard where Peter Lynch sustained a favorable 29.2% return constantly using this theory! Why steer away from using it?

8. Sell Options when Implied Volatility is higher than Normal – This is one of the key areas to what I am going to teach you about treating your stocks like real estate, and my secret strategy that has often been overlooked by many uneducated investors. When IV (implied volatility) is higher than normal **(50% or greater)** or around their historical highs, it is time to sell premium or write covered calls. This is usually around or right after earnings reports. Once you have gathered whether or not a company has outperformed on its earnings, sell premium! Earn that passive, monthly income!

CHAPTER 8: STOCKS ARE REAL ESTATE

Now for the part where you are finally going to learn the purpose behind this book right!? You have probably been wondering when I was going to get to the point. As you can see, you have learned the basics about how to find undervalued stocks, my golden rules to picking the right ones, and now you are going to learn the advanced part of getting those stocks to pay you some dough!!! Weekly, monthly, or even out to a year!! This little strategy I had picked up on myself by watching someone I had followed during my initial investing learning and it sure has paid off.

Let's think of the ability to purchase a stock, it goes up in price and you get to collect not only the difference in price, but also something called premium. Yep, that's right, not only one way to profit but two! Now let's think of having ABC Company, buying it at $30 per share, for **100 shares**, for a total investment of $3,000. Now we would take this premium, which is called a written covered call, which we chose for 35 days out, at a strike price of $32. The covered call that we wrote for the $32 strike price, will pay us, yes, pay us right there and then a premium of **$75**. This means that we get to collect **$75**, no questions asked, it's ours! Still following?

The strike price of 32 means that we chose the stock price of being 32, so that we would hope to collect the $75 no matter what, and have some run to let our stock go up to 32. What happens if the stock goes up to 32? We already profited the $75 of premium for sure, and now we get to choose to keep our stock, which yes we would have to buy back the premium at probably a little more than what we got it for. So instead of keeping the $75, we would actually buy it back for $100 or so depending on what that strike price is now worth after the 35days, or, we can keep the $75, and let go of our 100 shares of ABC Company for $32 per share, equaling $3,200 for a profit of $200. So as you can see, not only have we profited from the $75 premium collected for writing the covered call, we also get to sell or actually let go of our stock, and yes all 100 of them, due to the rules for writing covered calls, the difference of $200.

So let's get this straight, we write what is called, a covered call, for the stock that we own. We have to have at least 100 shares, because in what is called stock options, the market operates in stock options at 100 shares per option. No other way around it, that's just exactly it, 100 shares per stock option. I will teach more about options in another book, but for the cause of this one, let's just stick to the basics. Now we can see how this is creating revenue for the stocks to which you own. As you own real estate, you earn revenue per month from rental payments. Also the appreciation of such real estate later down the road to which you can sell it. AS I said earlier, **you never marry your stock, you simply use it, get the profits, and let go.**

Why, because no one knows just how far in price a stock can go, nor know its ending value. Should stocks continually go up, yes, however for the sake of owning anything, **we sell it for the price we believe what it's worth.** This obviously is perceived value. A value to which things are considered for what others believe they are worth. Stocks are a bit different in terms of perceived value as we cannot sell them to the next buyer for whatever. The market decides the value at that current moment as people are bidding.

A little bit different than buying a custom built motorcycle, and flipping it for a higher price to someone who sees the bike at a much higher value. <<< Something I currently do as a hobby or second income! But anyway, back to learning about stocks!!

Using this strategy, comes different expiration dates to which you can earn income. The time frames usually go weekly, bi-weekly, monthly, 45 days, etc. I will show you a screen shot for demo purposes. Using this strategy also allows for investor confidence when they are deciding to invest. Don't ever use it as a crutch though! Use the rules we have learned earlier in this book like finding stocks that are great profiting companies and those that are undervalued.

Now you are probably asking what if my stock declines in price. Well if you had chosen the strike price from above, at $32, and it actually drops to 29, 28, 26 whatever the case may be, well your stock does of course lose value, but only on paper. You still get to keep the $75 premium, lowering your breakeven price, and collecting cash for each time you write a covered call. So while you might have lost the value of your stock, you collected $75.

But remember, finding undervalued stocks, and understanding that even real estate declines in prices, we can sit comfortably knowing that we can write covered calls over and over again, earning monthly, weekly, annual income on the stock anyways. **Here's another bonus.**

What if you own a stock that pays dividends?

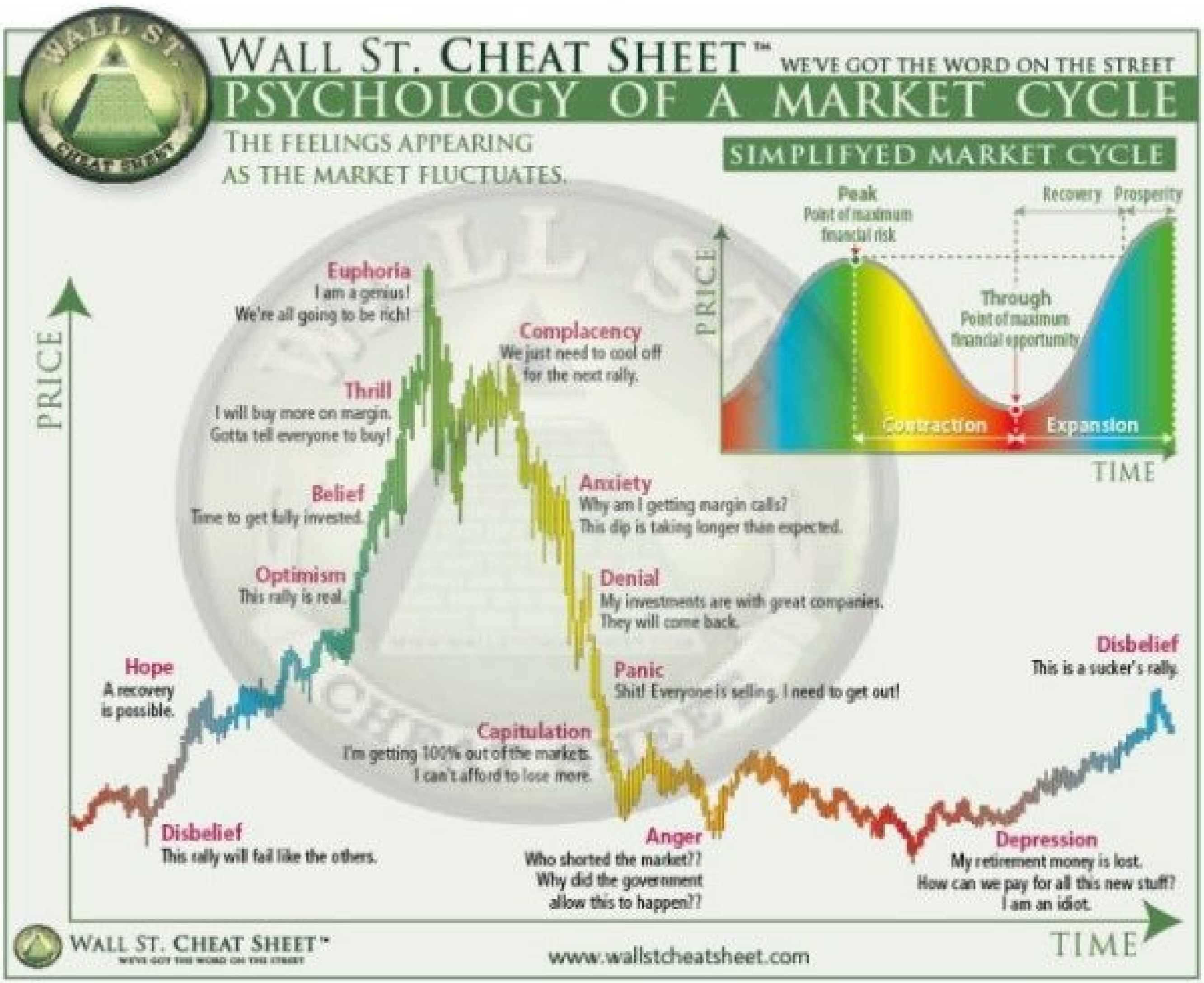
You get to collect and compound those as well!

Now you may ask, what are dividends?

A dividend is a distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders.
https://www.investopedia.com/terms/d/dividend.asp

So as you can see, not only are you buying a stock, letting it rise and selling it for a profit, but you actually get to control your income by writing a covered call against it. Thus, this allows you to buy up stock, treat it like real estate! Collecting a certain amount of premium, for certain amounts of time frames. Your decision! Think of the decline in your stock price, if and when it goes down, as an expense for that month. While you are collecting rent from your rental, you may have had to do some upgrades that cost money out of pocket. **In the long run, your investment in real estate blows up, and makes you money! So does your stocks!**

CHAPTER 9: CHOOSING WHEN TO LET GO



As always the first thing to remember when buying a stock is finding its intrinsic value, and knowing when a stock is oversold, and obviously undervalued.

This is not always easy, however as shown above, and I am going to tell you again, check out GuruFocus or click the link - https://www.gurufocus.com/new_index/?affid=356332

The site allows you to quickly shortcut through all of the manual labor and hassle of financial calculations and shows you the numbers with a click of the button! Need to know the intrinsic value, the Graham Number, the Debt to Income Ratio, the 30 year valuation, and so much more, no problemo! Letting go of something that is earning you monthly and solid income is never easy.

However, with all things, they do come to an end! Never, ever marry your stock! It becomes a liability – IT'S JUST A JOKE HAHA.

Seriously though, getting involved in a life term investment, we all know that comes to an end eventually as stocks always return at some point to a price we never want to see as an investor. There are some key factors that we should keep in mind though. Selling our money income generator is the first factor. The things to consider are things like, how easy is it to find another stock that will be good enough to earn high premiums on our covered calls, and the company is in fact in good financial standing where we will not have to worry about the failing of that company.

Does the stock(s) that we own pay out dividends and do we want to give that up. As it sounds like I am contradicting what I told you about never marrying a stock, I am still letting you know of the things to consider. I do have long term investments that I may never let go of, like Coca-Cola, and Walt Disney. We know they have been around for years and are probably not going anywhere. So those stocks are continuously making me money in the covered call option, and paying out dividends for residual income. The key to understanding the psychology of the stock market, is understanding the psychology of people and their investing habits. **REMEMBER:** The market rises, and falls due to buyer and seller greed and fear.

"Bulls make money, bears make money, pigs get slaughtered"

CHAPTER 10: UNDERSTANDING THE GREEKS

It's really not that bad, I promise!

When it comes to understanding the Greeks in stock options, **it is a must!**

Delta, gamma, vega and theta!!

What??? No clue? It's okay, I got you!

When it comes to understanding what they mean, it is simple as One, Two, Three, and Four actually.

Stock options don't always move in conjunction with an actual stock price. Trying to understand how options increase or decrease in value can seem a little overwhelming however understanding the Greeks simplifies the task of knowing how much the options are worth, will increase as the stock increases, or decreases, and tell you the percentage of whether or not the stock will be in the money, out of the money, or at the money. **<<< That is not always guaranteed, however does help measure the level of probability somewhat!**

Finding Values for the Greeks

First, you should understand the numbers given for each of the Greeks are strictly theoretical. That means the values are projected based on mathematical models. Most of the information you need to trade options—like the bid, ask and last prices, volume, and open interest—is factual data received from the various option exchanges and distributed by your data service and/or brokerage firm.

But the Greeks need to be calculated and their accuracy is only as good as the model used to compute them. To get them, you will need access to a computerized solution that calculates them for you. Most of the retail brokerages also provide this information. Naturally, you could learn the math and calculate the Greeks by hand for each option. But given the large number of options available and time constraints that would be unrealistic. https://www.investopedia.com/trading/using-the-greeks-to-understand-options

Let's take a look at the picture below to understand how an options table looks like, and see how the greeks are shown.

CALLS					DESCRIPTION	PUTS				
MID	DELTA	GAMMA	VEGA	THETA	STRIKE	MID	DELTA	GAMMA	VEGA	THETA
					▾ MAR 16 '18 (4 DAYS)					IV: 60.5%
25.10	1.000	0.000	0.000	0.000	35		0.000	0.000	0.000	0.000
20.10	1.000	0.000	0.000	0.000	40		0.000	0.000	0.000	0.000
15.10	1.000	0.000	0.000	0.000	45		0.000	0.000	0.000	0.000
10.12	0.994	0.004	0.001	-0.010	50	0.01	-0.006	0.004	0.001	-0.010
5.30	0.919	0.038	0.010	-0.075	55	0.20	-0.081	0.038	0.010	-0.073
1.69	0.523	0.105	0.025	-0.192	60	1.58	-0.477	0.105	0.025	-0.189
0.36	0.145	0.053	0.014	-0.122	65	5.28	-0.856	0.053	0.014	-0.120
0.11	0.042	0.017	0.006	-0.058	70	10.00	-0.959	0.017	0.006	-0.055
0.06	0.005	0.003	0.001	-0.009	75	14.95	-0.996	0.003	0.001	-0.004
					▾ APR 20 '18 (39 DAYS)					IV: 54.7%
25.23	0.997	0.001	0.002	-0.003	35	0.04	-0.003	0.001	0.002	-0.002
20.30	0.984	0.003	0.007	-0.008	40	0.09	-0.016	0.003	0.007	-0.006
15.48	0.951	0.009	0.021	-0.017	45	0.27	-0.049	0.009	0.021	-0.015
11.05	0.870	0.020	0.038	-0.032	50	0.81	-0.130	0.020	0.038	-0.030
7.28	0.725	0.031	0.065	-0.048	55	2.03	-0.275	0.031	0.065	-0.046
4.45	0.543	0.037	0.077	-0.057	60	4.20	-0.458	0.038	0.077	-0.054
2.55	0.368	0.035	0.071	-0.054	65	7.30	-0.634	0.035	0.071	-0.052
1.42	0.233	0.028	0.056	-0.045	70	11.15	-0.769	0.028	0.056	-0.042
0.80	0.143	0.020	0.048	-0.034	75	15.57	-0.860	0.020	0.047	-0.031
					▾ MAY 18 '18 (67 DAYS)					IV: 50.3%
25.30	0.990	0.002	0.008	-0.005	35	0.06	-0.010	0.002	0.008	-0.003
20.48	0.970	0.005	0.019	-0.009	40	0.19	-0.030	0.005	0.019	-0.007
15.88	0.922	0.011	0.037	-0.017	45	0.55	-0.079	0.011	0.037	-0.015
11.68	0.833	0.019	0.061	-0.027	50	1.33	-0.168	0.019	0.061	-0.024
8.15	0.703	0.027	0.085	-0.036	55	2.77	-0.298	0.027	0.086	-0.033
5.38	0.551	0.031	0.101	-0.040	60	5.00	-0.450	0.031	0.101	-0.037
3.40	0.404	0.030	0.102	-0.039	65	8.03	-0.598	0.030	0.101	-0.036
2.10	0.282	0.026	0.087	-0.034	70	11.75	-0.721	0.026	0.086	-0.031
1.29	0.191	0.020	0.077	-0.028	75	15.93	-0.814	0.021	0.075	-0.025

Delta will be the way a stock can be measured to its probability of being in the area of that strike price when you are selling premium, or covered calls. For instance, take a look at the May 18 '18 (67 days). First we must know that this is will not expire until 67 days. Now look at the strike price, which is in the blue area, at the 55 strike price. The delta shows 0.703 meaning that the chance of probability is 70%. This is not recommended as I like to purchase those of .30 and less. We also must know that is the amount you will collect .70 X 100 = $70.30 if you sell a covered call on the stock that you own 100 shares of.

Gamma measures the rate of change for the delta for each point in the underlying asset or stock.

Theta is simply time decay. Meaning the measure of how much the call or put option will decay in value. Theta is your friend when it comes to selling covered calls or credit spreads, while it is your enemy when buying options.

Vega is often confused with volatility. However it is how sensitive it is to a stocks change in value. An increase in volatility will increase the prices of all the options on an asset, and a decrease in volatility causes all the options to decrease in value. Now that you have learned the basics of this strategy that many professionals don't want you to know about, I will be available to you, to teach not only these basics to the covered call, but also the more advanced strategies that can earn you residual income monthly! Single, double, or even triple your investments!

I have developed an art for myself and I am teaching individuals how to understand such things over at my website and investors club. I also teach individuals one on one that dives more deeply on the specifics and mental basis of investing. If you are looking to create cash flow and begin your investing within yourself, the market, and to better your returns, then **Join the Investors Club Today**, where I help individuals learn when and how to earn using various Option Strategies.

https://www.investingwithchris.com/the-investors-club/

RESOURCES & EXTRAS

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