

7 Rules For Trading Covered Calls with ProWriter.

All information is readily available from ProWriter and the MyCC Reports in the Members Area.

RULE 1 – Check the Yield. Aim for at least 2.5% exercised *or* not exercised. See the “Not Exercised, Exercised Profit and % Return” in the MyCC Reports and or ProWriter

RULE 2 – Check the Open Interest. The open interest represents the number option contracts that are current. The higher the figure the better as this creates more volatility which creates better prices. ***Avoid options that have low open interest.*** See “Open Interest” in report

RULE 3 – Check the PE ratio. The PE ratio stands for ‘Price to earning ratio’. Without going into too much detail, this number shows us if the company, based on its fundamentals (earnings) is cheap, normal or expensive. A company with a PE of 15 is considered to be normal. Less than that then the company is considered to be cheap and if more than 15 it’s considered expensive. Fundamental or value driven traders love the PE ratio as they only buy stocks that are considered to be a good deals so they only look at stocks that are trading under a PE of 15. ***Look for stocks that have a low PE Ratio.***

RULE 4 – Avoid stocks in sectors that are in a crisis. Consider the fundamentals. Take an active interest in the financial news in the media. Spend some time researching companies. ASX web page is a good start for free information. If there has been a major event in a particular sector then consider the ramifications. Talk with your Adviser. See the “Latest Financial News” on the MyCC Home Page.

RULE 4 – Check the Trend. Bring up a 5 year chart of the company and at a glance decide whether the stock is in an uptrend, sideways or downwards trend. Consider stocks that are in an **upwards** or **sideways** trend. Avoid stocks that are in downward trends. See the Trend Chart linked in the MyCC Reports, Trend Button in ProWriter or MyCC Home Page

RULE 5 – Check for Support and Resistance Levels. Most companies trade within ranges and stocks tend to move between these ranges, causing invisible lines of support & resistance to be formed. The longer the levels are respected then the stronger the level. ***Consider stocks that have fallen onto support levels.*** By doing this we have effectively purchased stocks that are cheaper and have reduced the likelihood of the stock falling further. Stocks can break support of course but the idea here is to minimize downside risk as much as possible. Support and resistance lines can be horizontal or diagonal. See Trend Chart and read Trading Secrets by Louise Bedford

RULE 6 – Don't put all your Eggs in one Basket. This is another simple but effective risk minimization technique. As a guide [my opinion] is that if you have 100K to invest then consider four companies. If you have 50K then two companies, and 25K or less then one or two companies. If you are a 100K plus investor then keep diversifying but be careful not to take this too far as the costs associated with trading too many stocks may lessen your premium.

RULE 7 – Place your selected trades into your ProWriter trading plan and trade your plan.