SaferTrader™

THIS PRO'S OPTIONS INCOME TECHNIQUE

Earn Up To 8-10% Monthly - Safely!

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SaferTrader™ REPORT

This Pro's Options Income Technique Can Earn Up To 8% Per Month

"Monthly Income For the Risk-Adverse"

This "white paper" report includes excerpts from "The Monthly Income Machine" and focuses on the most desirable vehicle for producing reliable monthly income from the markets.

After 30+ years as a stockbroker, financial writer and investment seminar featured speaker, there is only one market technique I personally use for my own account. It works to generate monthly income from monthly trades - whether the market rises, falls, or moves sideways.

If substantial monthly income is your objective, you should consider it too.

My name is Lee Finberg and I'm a former VP–Investments with Paine-Webber and Prudential Securities, as well as the author of several financial books including "The Monthly Income Machine."

Today, I handle only one client's account – my own. And the result of my decades-long market experience toiling on Wall St. and handling clients' and my own accounts, is that I became a very conservative investor indeed!

Having once made just about every possible trading mistake, and sometimes being unable to prevent my clients from doing the same, I long ago decided to rely on Albert Einstein's famous aphorism: "The definition of insanity is continuing to do the same thing over and over, and then expecting different results.

I named my own detailed blueprint for seeking monthly market income "The Monthly Income Machine," and the specific details and rules for the technique are spelled out in the book of the same name.

This report highlights the program, and you will find additional information at **SaferTrader.com**, the website we created to serve the community of investors who employ this and other recommended conservative, income generating techniques.

At the end of this report, you will have the opportunity to: (1) order the book and my personal 1-on-1 coaching that comes with it; and (2) register to receive the free ongoing series of "white paper" articles devoted to technique, alerts, and various other aspects of risk-adverse income investing, including "The Monthly Income Machine."

BEST (and worst) INVESTMENT VEHICLES FOR MARKET INCOME AND WHY?

All investment vehicles are not created equally. The SaferTrader philosophy begins with assessing the safety and reliability of investing for the ongoing income stream we seek. Let's begin with a very brief overview of the available investment vehicles, focusing on some of the disadvantages they present to the investor whose objective is income.

- **Stocks** – income is based on dividends, with the additional hope of capital gain based on the stock moving higher.

  Possible disadvantages include:

  Dividend income relatively small (usually well under 5%/year).

  Owning stock requires the market and the stock to have an upward directional bias (falling stock price can erase dividend gains).

  Dividends may be taxed at ordinary income rate.

- **Bonds** – income based on dividend yield.

  Possible disadvantages include:

  Dividend income relatively small (usually under 5%/year for corporate bonds, and government bonds currently yield under 3%/year).

  Bond values are very dependent on the interest rate environment of the economy. Rising interest rates result in falling bond values.

  There is very substantial rising rate risk now, because practically all economists believe much higher U.S. interest rates are inevitable as a result of Fed and Treasury actions undertaken to battle our major recession.

  Non-tax-free bond dividends are taxed at ordinary income rate.

- **Futures** – do not pay dividends. They are not an appropriate investment vehicle for those seeking safe income.

  The attraction of commodity futures is the hope for substantial short-term capital gains based in large measure on the high degree of leverage – and risk – futures afford.

Options – do not pay dividends themselves, but offer exceptional income opportunity when used properly.

Most option investors use the vehicle to seek "home run trades" rather than income (and they usually lose money trying!)

This report is not intended to be a comprehensive tutorial on the vast world of options. But we do need to briefly review some basics that are important to understanding how and why you can realistically target up to 8% monthly returns employing the unique SaferTrader strategy embodied in the "Monthly Income Machine."

INCOME FROM OPTIONS

Let's first be clear about the nature of options, and their reputation for being "risky." That reputation is well deserved, but is based – in my experience – on the widespread misuse of the investment vehicle as a gambling endeavor.

Basically, there are two flavors of options: calls and puts.

Calls give the owner the right to purchase the underlying stock or Index at a specific price (the Strike Price) at anytime, up to and including the expiration day of the option.

Puts give the owner the right to sell the underlying stock or Index at a specific Strike Price, again up to and including the expiration day of the option.

Stock options, like their underlying stocks, are traded on regulated exchanges. The options are available with Strike Prices in increments above and below the current price of the underlying stock, and with expirations each month. Expiration day is typically the third Friday of the month. Options are also available on many ETFs and market indices.

The factors that determine what a buyer is willing to pay for an option, and what a seller is willing to sell the option for, is referred to as the Premium. The premium for each strike Price is determined by:

(1) The price of the underlying stock or Index, i.e. how far it is from a particular Strike Price (the closer the underlying is to the Strike Price, the greater the Premium);

(2) The volatility of the underlying stock, ETF or index (the more volatility, the greater the Premium) and;

.

(3) The amount of time remaining in the option prior to expiration (the more time until expiration, the more Premium).

Due to time decay, all options are constantly losing value as they approach expiration. Remember that fact; it is essential to the income investor!

BUYING OPTIONS– USUALLY THE WRONG SIDE OF THE TRADE

The following example covers the approach most option investors use. While it represents the most popular options technique, it is definitely NOT the strategy to use if (1) you seek income, (2) you are conservative, i.e., risk adverse, (3) you want to be on the side of an option trade that collects Premium rather than paying it.

In this "buying a call" example, XYZ stock is currently trading at $50/share... and Mr. Investor feels it could move much higher over the next 30 days. He believes there is a real likelihood it will move up, perhaps above $55 before the options expire next month.

Assume that a Call option that expires next month, with a Strike Price of $55, might be trading with a premium of $0.40. Since the option is for 100 shares of the underlying stock, it would cost $0.40 x 100 = $40 premium to buy this Strike Price $55 call option (excluding commission).

Mr. Investor pays the $40 premium, which gives him the right to purchase 100 shares of XYZ at the $55 Strike Price no matter what price the stock is trading at, up until options expiration day about a month from now.

Since the underlying XYZ stock is currently trading at $50/share, a price below the option's $55 Strike Price, the option has no real (intrinsic) value. It is referred to as "out-of-the-money."

All of the $40 out–of–the–money option value is "time value," meaning that the buyer is willing to pay $40 now for the right to buy 100 shares of XYZ stock for $55 in the event that the stock gets that high or higher before the option expires. If the underlying stock does move above the $55 strike price before the option expires, Mr. Investor could have a nice profit.

This is the kind of outcome outright buyers of Calls or Puts – who are basically gambling - are gambling on. But, as noted above, most of the time the underlying stock does not move up or down enough, and fast enough, for the out-of-the-money options the buyer owns to have any intrinsic value at all on option expiration day!

In this example, if the underlying stock fails to climb to the Strike Price of the option (at least $55), the option will expire totally worthless and Mr. Investor has lost his $40 investment.

The option buyer always has the major problem of running out of time. And that reality provides the underpinning for the correct strategy that income stream seekers should employ.

You must keep in mind that most buyers of out-of-the-money options lose money buying them because (1) they paid a premium that puts them in a current loss position the moment their trade is executed, and (2) because time decay immediately begins to erode the value of their position.

Summary:

Most option traders buy out-of-the-money Calls or Puts, gambling on a substantial move in the right direction before the option expires.

Most of the time, (80-90%) according to historical studies, the out–of–the–money options expire worthless and the investor loses the premium he paid for them.

Since 80-90% of options traders lose money, the obvious question is ***WHERE DOES THAT MONEY GO***?

The answer, as you surely have already deduced, is that the option buyers' losses go to the option SELLERS! They are the ones to whom the option buyers pay those premiums. That's why, in my experience, most professionals and market makers are SELLERS, not BUYERS of options.

SELLING OPTIONS FOR INCOME
(There is a RIGHT WAY... and a WRONG WAY)

The seller of the Strike Price 55 Call in the earlier example received the $40 premium the buyer had paid for it. The money is immediately credited to the seller's account, and he banks it on option expiration day if XYZ stock fails to reach $55 and therefore expires worthless.

Note, however, that it is critical to understand whether the seller of the Call did so "naked," or "covered," or as part of a "spread."

A. SELLING "NAKED" CALLS (the WRONG way)

The sale of a naked call means that the seller of the option does not own the stock at the time he sells the call. So a "naked" call is one that is not protected by an offsetting position in the underlying stock itself or another option.

With a naked short Call option, the profit potential is limited to the amount of premium received on the sale, but the risk is theoretically unlimited.

The procedure is so dangerous that many firms will not permit it in a retirement account, will make you sign in blood that you understand how risky selling naked calls is, and will demand that you have a ton of money in your account to protect you – and the brokerage firm – if the trade goes sour.

Basically, naked shorting is one of the most dangerous things you can do unless you are trying to rid yourself of any pesky wealth you have.

B. SELLING "COVERED" (not naked) CALLS
(one of the RIGHT ways!)

This is one of the SaferTrader strategies for earning extra income on stocks the investor already owns. It is a superb options technique, if you already own the underlying stock, for earning extra income every month, month after month, as long as you own the stock! (Learn more about this covered call technique with a White Paper report titled "More Money From Stocks You Already Own," available free upon request.

Good as it is for investors who already own a portfolio of stocks, selling Covered Calls is <u>not</u> the "One Best Investment Technique For Producing Monthly Income."

WHAT HAS THE HONOR OF BEING THE BEST, CONSERVATIVE, HIGH INCOME PRODUCING TECHNIQUE AND WHY?

Since:

- We don't want to buy Call or Put options outright because the statistics are overwhelmingly clear that those traders who do, lose money.

Since:

- They lose it because "time value decay" continually drives option premiums lower and buyers can only profit if the underlying stock or Index goes up or down <u>enough</u>, and does so <u>fast</u> enough, before option expiration.

Since:

- Further contributing to the problem option buyers face is that they must pay a premium to enter their position in the first place. That premium cost puts the trade "in the hole" on day one.

Do We Face a Conundrum?

Yes. We don't want to sell short Call options outright unless we already own the stock, because If we do sell them "naked," we are risking financial annihilation.

But we <u>do</u> want to <u>sell</u> options and collect the premium – safely.

The Solution:

- The solution to the conundrum begins with the **credit spread**, and its very close relative the **Iron Condor**, as the vehicle. (We'll examine the important benefits of this strategy in greater detail in the next section of this report).

- Selling credit spreads and Iron Condors enable us to sell options with limited risk and is the rational route to collecting rather than paying Premiums. The critical detail is, of course, having the proper <u>option selection and entry criteria</u> and the proper trade management techniques - when establishing the credit spread or Iron Condor trades each month.

- Remember that it is important that we use “out-of-the-money” options for our special spreads because the immutable effect of “time value decay” works for us, tending to drive the Premium down toward zero at expiration as we desire.

- The deck is truly stacked in our favor when we sell an out-of-the-money option credit spread, because its premium is by definition made up entirely of depreciating time value.

Used properly, this technique can, and often does, produce 8% - and often greater - returns on a monthly basis.

CREDIT SPREADS

All credit spread positions, including those of "The Monthly Income Machine," involve holding BOTH a short option position at a particular Strike Price AND a long option position whose Strike Price is even further from the current underlying stock's price.

It’s called a Credit Spread because you will RECEIVE money (your account will be credited) when your order is filled, rather than you spending money for the position. It’s also referred to as a Vertical Spread.

A properly positioned credit spread – one that follows the important entry criteria rules as outlined in the "Machine" - allows us to safely sell a call or a put (it will not be naked), because we will also have a related long position that removes the unlimited risk potential of a naked short position.

Thus, although we are “buying” an option (the “long” element of the credit spread) as a necessary part of a credit spread, we use the option we are buying only to protect our short income producing Strike Price option, and to greatly reduce our margin requirement.

Accordingly, we are not making the mistake most option traders make, i.e., the outright buying of options that are not part of a spread.

Overview of "The Monthly Income Machine Process"

1. Select specific stock options or index options that meet our very specific “Entry Criteria.”

2. Record date, price, etc. at which order is filled.

3. Check on closing prices of your positions occasionally until the third Friday of the month (expiration day).

4. Place the order as a CREDIT SPREAD, or its glorious relative the IRON CONDOR (more on this later).

5. Make adjustment (as explained in detail in the book) to the position prior to expiration, if necessary.

5. Smile! And, repeat process for the next month.

The Credit Spread and the Iron Condor...
The Foundation of "The Monthly Income Machine"

1. <u>The Bear Call Credit Spread</u>

As discussed earlier, we know we want to collect the premium that will be our monthly income, and that the investor collects the premium when he is the SELLER of an option.

We also know that selling an option (selling short) “naked” is a huge no-no.

The solution to the dilemma is to simultaneously SELL an option at one Strike Price and BUY a related option at a higher Strike Price. The resulting position, when done using Calls, is called a Bear Call Credit Spread.

Here’s how it works. Assume that we have decided (based on *entry criteria trade rules* detailed in the “Monthly Income Machine”) to do a credit spread with a specific pair of Apple options.

When this was written (in 2010), AAPL was trading at $172.16. In this example, we feel it is very unlikely to get as high as 190 during the remaining 34 days till expiration.

We are now looking at the (long ago, 2009) Option Chain for October Apple options.

AAPL Expiration Months: Sep 09 | Oct 09 | Jan 10 | Apr 10 | Jan 11

Calls									Puts						Disable Roll Ove
Symbol	Last	Chg	Bid	Ask	Vol	OpInt	Action	Strike	Symbol	Last	Chg	Bid	Ask	Vol	O
Oct 09 Calls				(34 days to expiration)				AAPL @ 172.16							
.APVJJ	23.25	0	22.95	23.10	00	13,363	Trade	150.00	.APVVJ	0.97	0	0.94	0.97	00	
.APVJK	18.65	0	18.50	18.65	00	11,036	Trade	155.00	.APVVK	1.50	0	1.48	1.51	00	
.APVJL	14.30	0	14.35	14.50	00	8,153	Trade	160.00	.APVVL	2.33	0	2.33	2.36	00	
.APVJM	10.70	0	10.65	10.75	00	9,682	Trade	165.00	.APVVM	3.65	0	3.60	3.70	00	
.APVJN	7.55	0	7.55	7.65	00	17,253	Trade	170.00	.APVVN	5.55	0	5.45	5.55	00	
.APVJO	5.09	0	5.05	5.10	00	18,700	Trade	175.00	.APVVO	8.05	0	7.95	8.05	00	
.APVJP	3.20	0	3.20	3.25	00	16,282	Trade	180.00	.APVVP	11.00	0	11.10	11.20	00	
.APVJQ	1.95	0	1.95	1.98	00	10,154	Trade	185.00	.APVVQ	15.25	0	14.80	14.95	00	
.APVJR	1.15	0	1.14	1.17	00	8,106	Trade	190.00	.APVVR	19.29	0	19.00	19.15	00	
.APVJS	0.68	0	0.66	0.68	00	4,735	Trade	195.00	.APVVS	23.90	0	23.50	23.65	00	
Action	Trade	Trade Calculator	Mini Pricer	Add to Watch List	Reset										

We see that the Call for the Strike Price 190 last traded at a $1.15 premium. And the next higher Strike Price, the 195 Call last traded at $0.68.

The “spread premium” between the two is $1.15 – 0.68 = $0.47. If that were to meet our “Entry Criteria” we would place a credit spread order as follows:

> Sell 1 Oct 190 AAPL Call (symbol APVJR)
> Buy 1 Oct 195 AAPL Call (symbol APVJS)
> ... for a credit of $0.47

As soon as the order is filled, $47.00 will be credited to our account (.47 x 100 potential shares = $47.00). That, of course, is why it’s called a “credit spread.”

No money (except about $1.50 commission) leaves our account. Instead, it grows by the amount of the premium we collected.

In case you didn’t notice, that $47 will be earned on our $500 margin in one month, for a 9.4% return in one month.

In order to do a credit spread, the brokerage firm requires that we have enough money in our account to meet the “margin” requirement. The required margin for a credit spread is based on the difference between the two Strike Prices, which in this case is $195 – $190 = $5.00. $5.00 equates to $5.00 x 100 potential shares of stock = $500 margin required.

The required margin, therefore, represents the theoretical absolute maximum amount that could be lost on the trade if we foolishly allowed the price of AAPL stock to rise to, or above our most distant Strike Price, i.e. $195, without our taking a corrective action..

Of course, we can exit from our credit spread, or employ a defined trade management adjustment technique any time, and would do so long before we were in danger of reaching the theoretical maximum loss.

Bottom line, for any credit spread on any stock, ETF, or Index option with Strike Prices $5.00 apart, the margin is $500. (Actually, it’s a little less because the premium that was credited to your account is subtracted from the required margin figure).

Predictably, the margin requirement on any option spread whose Strike Prices are $10 apart would be $1,000 ($10 x 100 potential shares = $1,000).

Remember: we have collected the net premium since the option Strike we sold brought in more premium than the cost of the Strike we bought. (Again, that’s why it’s called a credit spread).

Once we establish the credit spread, we want the net premium on the spread to decline and expire worthless on expiration day. And it will expire worthless at expiration as long as the underlying stock, ETF or Index price does not reach the short Strike Price leg of our credit spread.

The credit spread in this example is called a Bear Call Spread, because we are “bearish” on the likelihood of Apple stock reaching our nearest Strike Price (the short 190 Call) prior to expiration.

It makes no difference whether Apple stock stays where it is, or goes down, or goes up, as long as it is under 190 at expiration day (34 days from when we entered the position).

Notice that it is the short position in the credit spread – the 190 Call – that we are really concerned about. We want the underlying stock price to stay below that 190 Strike Price (the short leg of the spread).

In essence, the real purpose of the long leg is simply to prevent us from being in a “naked short” position (with its unlimited risk). Having the long 195 leg also provides another very valuable benefit.

It keeps our margin requirement low! If we were to just be short the 190 Call, and didn’t have the long 195 call with it, the margin would be much greater than $500.

2. <u>The Bull Put Credit Spread</u>

Everything we just reviewed about “The Bear Call Spread” works <u>exactly</u> the same way for the Bull Put Spread. Only now we are doing a credit spread with puts rather than with calls.

We use a Bull Put Spread to collect our spread premium when we expect the price of the underlying entity to remain <u>above</u> a particular strike price, i.e., we are bullish on the underlying remaining above a particular price at expiration. We would place the “short” leg of our spread at that strike price and the protective “long” leg at the next strike price below it.

As before, we collect a premium on the Put we sell, and we pay a smaller premium for the one we buy. The net difference in the premiums is what we earn when both options expire worthless, which they will so long as the price of the underlying is at or above the strike price of our “short” leg at expiration.

Let’s turn again to the Option Chain we used in defining our Bear Call Credit Spread. This time, our focus will be on the Puts side of the chain.

Calls										Puts				Disable Roll Overs		Strea
Symbol	Last	Chg	Bid	Ask	Vol	OpInt	Action	Strike	Symbol	Last	Chg	Bid	Ask	Vol	OpInt	Actio
Oct 09 Calls			(34 days to expiration)					AAPL @ 172.16							Oct 09 Puts	
.APVJJ	23.25	0	22.95	23.10	00	13,363	Trade	150.00	.APVVJ	0.97	0	0.94	0.97	00	24,105	Trade
.APVJK	18.65	0	18.50	18.65	00	11,036	Trade	155.00	.APVVK	1.50	0	1.48	1.51	00	11,400	Trade
.APVJL	14.30	0	14.35	14.50	00	8,153	Trade	160.00	.APVVL	2.33	0	2.33	2.36	00	21,090	Trade
.APVJM	10.70	0	10.65	10.75	00	9,682	Trade	165.00	.APVVM	3.65	0	3.60	3.70	00	9,521	Trade
.APVJN	7.55	0	7.55	7.65	00	17,253	Trade	170.00	.APVVN	5.55	0	5.45	5.55	00	6,522	Trade
.APVJO	5.09	0	5.05	5.10	00	18,700	Trade	175.00	.APVVO	8.05	0	7.95	8.05	00	3,591	Trade
.APVJP	3.20	0	3.20	3.25	00	16,282	Trade	180.00	.APVVP	11.00	0	11.10	11.20	00	1,843	Trade
.APVJQ	1.95	0	1.95	1.98	00	10,154	Trade	185.00	.APVVQ	15.25	0	14.80	14.95	00	1,058	Trade
.APVJR	1.15	0	1.14	1.17	00	8,106	Trade	190.00	.APVVR	19.29	0	19.00	19.15	00	514	Trade
.APVJS	0.68	0	0.66	0.68	00	4,735	Trade	195.00	.APVVS	23.90	0	23.50	23.65	00	700	Trade
Action	Trade	Trade Calculator	Mini Pricer	Add to Watch List	Reset											

Assuming our "Monthly Income Machine" Entry Criteria indicate the proper Bull Put Spread involves the short 155 and long 150 Strike Prices, we see that with Apple stock (the underlying) at $172.16, this spread closed at a net premium of $0.53 ($1.50 – $0.97).

If we were able to enter this spread at the net $0.53 premium, we would have a $53 profit potential on our $500 margin, or a 10.6% return on our margin investment in just one month, so long as Apple stock was at any price at or above $155 on expiration day.

3. The wondrous, fantastical IRON CONDOR

We said that with the Bear Call Credit Spread, all we care about is that at expiration day Apple's price be below the short leg of the Call spread ($190), and that with the Bull Put Spread, our only concern is that on expiration day Apple be above the short leg of the spread ($155).

We can do both spreads and bank both net premiums so long as Apple stock finishes between the two short legs, i.e., between $190 and $155. What's more, at an "options-friendly" brokerage firm, we do not need to use additional margin for the second spread!!

The reason: Sufficient margin ($500) is required to be in an account to cover the possibility, no matter how remote, of one spread moving the maximum possible amount against us.

Well, it's obviously absolutely impossible for Apple to be *both* above $190 and below $155 at expiration, so only one margin should be required for the two credit spreads (the Bear Call Spread and the Bull Put Spread) that comprise the golden Apple Iron Condor!

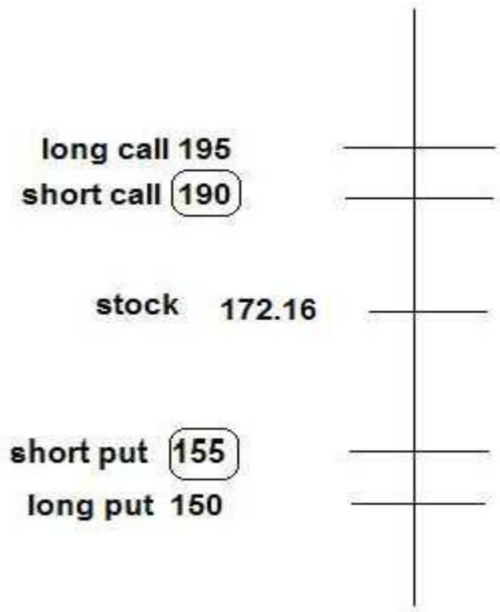
But some options-UNfriendly brokerage firms do not recognize this reality, and if you are forced to use "double margin," your rate of return on the trade has been cut in half!

(You can get additional information about the critical importance of using options-friendly brokerage firms, and our specific recommendations with available bonus money, at http://SaferTrader.com/brokerage/).

Now for the beauty of the Iron Condor! So long as Apple stays between $190 and $155 at expiration, we bank the net premiums on both the Bear Call Spread and the Bull Put Spread, a total of $53 + $47 = $100, on our $500 margin investment. That, boys and girls, is a 20% return in one month on the single $500 margin... so long as we are using an options-friendly brokerage.

Here is a graphic representation of the Iron Condor. This is just an illustration; the example trade is a reasonable one, but does not actually meet all the rigorous "Entry Criteria," employed in the "Monthly Income Machine."

Important: Note, above, that the short leg of a credit spread (whether a Bear Call Spread or a Bull Put Spread) is always the closest Strike Price to the underlying stock, ETF or index.


long call 195
short call 190
stock 172.16
short put 155
long put 150

Conclusions... and Next Step

I sincerely hope this report gets you started on the road to a reliable, profitable monthly income stream (*my* personal target is 6 - 8% per month).

Whether you employ the rigorous blueprint embodied in "The Monthly Income Machine," or not, I urge you to adhere to *objective* "rules" for trade selection and trade management, and not rely on whim or today's breathless pronouncements by TV "talking head" pundits.

"The Monthly Income Machine" spells out the recommended values associated with SaferTrader trade entry/trade management criteria for conservative monthly income seekers. These include, but are not limited to:

- minimum distance between underlying and selected option spread Strike Prices
- appropriate distances between the two legs of a credit spread
- minimum net premium to be earned
- minimum underlying price
- minimum underlying average daily volume (liquidity)
- estimated mathematical likelihood of success (delta)
- monthly vs. weekly options
- MRA (maximum risk amount) per trade
- Preventing "avoidable" headline risk
- Adjusting trades, if needed
- Account money management
- Selecting "option friendly" brokers (and naming names)

If you wish to order - satisfaction unconditionally guaranteed - "The Monthly Income Machine" program, you can do so here. Total price is $79.95, which <u>includes</u> the book, one-on-one coaching by the author to answer any questions, and access to the members-only FORUM:

Click Here To Order

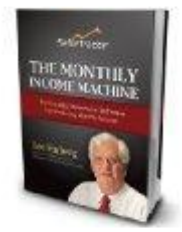
...and

To learn more, or register to receive (free) the ongoing series of "white paper" how-to articles, tips, and alerts for credit spread/Iron Condor income investors, visit www.SaferTrader.com.

Lee Finberg

Small risk. Big rewards.

Founder: SaferTrader.com
Author & Creator of “The Monthly Income Machine™”



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