HARVESTING OPTION PREMIUMS

SELLING COVERED CALLS FOR INCOME

A brief guide for buy and hold investors to potentially generate additive, consistent income using the stock portfolio you already have.

UNDERSTANDING OPTIONS

Includes a quick definition for stock options

USING OPTIONS FOR INCOME

Shares a strategy to generate additive income backed by the stocks already part of a base portfolio

Build Wealth Confidently

Wall street is known for applying and benefitting from investment strategies that are painted as too complicated for the rest of us on main street to use effectively. There are 2 sides to this existing leg up: 1.) Know how, and 2.) Available tools. TappAlpha is committed to unlocking transformative financial opportunities for every day investors by making advanced investing simple, actionable, and transparent.

TappAlpha has a mission to **Unlock Financial Opportunity For Everyone**.

By pioneering one of the first fintech-powered ETFs with daily covered calls, we're making advanced investing simple, actionable, and transparent for everyone. Our mission is to make powerful financial tools and know-how accessible to everyday investors. Through a deep commitment to innovation and education, we empower investors to pursue their financial goals with confidence. TappAlpha is more than an investment platform; it's a commitment to making financial opportunities accessible for every investor.

This published series is dedicated to financial education designed to empower main street investors with wall street strategies, helping those with the curiosity and drive to potentially reach their financial goals, faster.

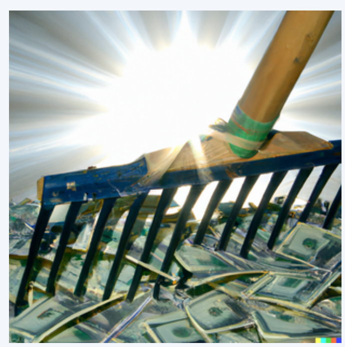
Harvesting Option Premiums:
The Potential for an Additional $1,000 a Week

Let's dig into the world of stock options investing, particularly how options can be used to generate income.

Quick Definition

So, what exactly is a stock option? Well, it's a contract between two people that gives one person the right (but not the obligation) to buy or sell a stock at an agreed-upon price (strike price) on or before a specific date (expiration date). There are two types of options: call options, which let you buy the stock, and put options, which let you sell the stock, at a predetermined price.

Now, options trading can be an effective way to speculate on the future movements of a stock, either up or down. As such, you can also use it as a way to hedge against potential losses in other investments in your portfolio. Below, we are going to explore the case of option premium harvesting, or collecting premiums from options written against your underlying investment position.



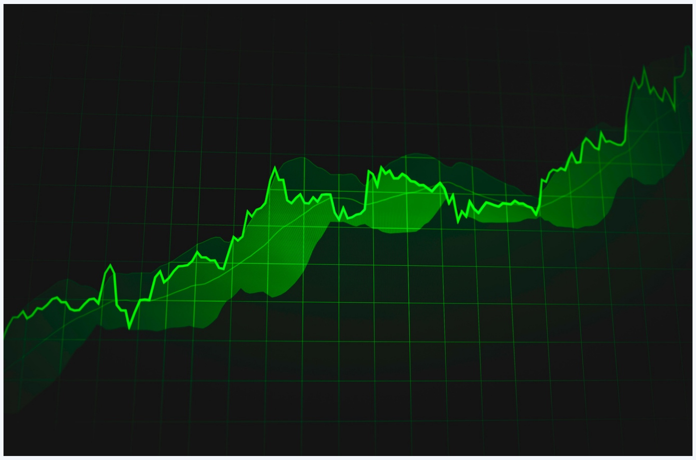
Using Options for Income

Option premium harvesting is a strategy in which you sell options (rather than buy them) to generate a steady stream of cash. When you sell an option, the buyer pays you an option premium, which is your income. You receive this income regardless of the outcome in the option contract. If the stock price does not go above the strike price during the duration of the contract, you keep the premium income and the stock. If it does go above the strike price, the buyer of the option has the right to exercise and purchase your stock for the agreed upon strike price. Finding a risk-appropriate level for your strike price has the potential to help you generate options premium while holding onto your underlying asset, netting you income. The benefits of option premium harvesting are compelling. For one, there is the potential to generate income from premiums. And two, it has the capacity to help reduce risk in your portfolio by providing an additive source of returns. As always, investing involves risk and loss of principal is possible.

Example

Selling a Covered Call

Let's say that you're interested in using option premium harvesting with Apple Inc. (AAPL) stock and currently own 1000 shares trading around $144 (as it was on Tuesday, 1/31/2023). Here's an example of how the strategy might work:



- Research: You research Apple's stock and determine that it's likely to remain relatively stable through the end of the week.
- Sell a Call Option: You sell a call option with a strike price of $150 and an expiration date of Friday, 2/3/2023. The option buyer pays you a premium of $1.03 per share, or $1,030 for 1000 shares on Tuesday, 1/31/2023.
- Collect the Premium: You collect the $1,030 premium from the sale of the call option, which is your income from the option premium harvesting strategy.
- Wait for Expiration: Over the next four days, you wait to see if the option will be exercised. If the stock price is above $150 at expiration (+4.2%), the option buyer will exercise the option and you will be obligated to sell 1000 shares of AAPL at $150 and lose out on any appreciation above that strike price.
- Keep the Premium: If the option is not exercised, you keep the $1,030 premium as profit from the option premium harvesting strategy and you keep your 1000 AAPL shares.

In this example, you generated a profit of $1,030 by selling the call option, even if the stock price does not increase and the option is not exercised. However, if the stock price increases significantly above $150, you may miss out on potential profits from owning the stock. Option premium harvesting is a way to generate income while potentially reducing risk in your portfolio, but it's important to consider the potential risks and benefits before implementing this strategy.

In conclusion, option premium harvesting can be a valuable tool for making money and reducing risk in your portfolio, but make sure you weigh the pros and cons before jumping in. And as always, do your research, understand the risks, and consult with a financial advisor before making any financial decisions.

*Note: the above example excludes commissions, fees, and taxes