



# **CANADIAN INVESTORS' COURSE**

## **Session 12: Options Commentary**



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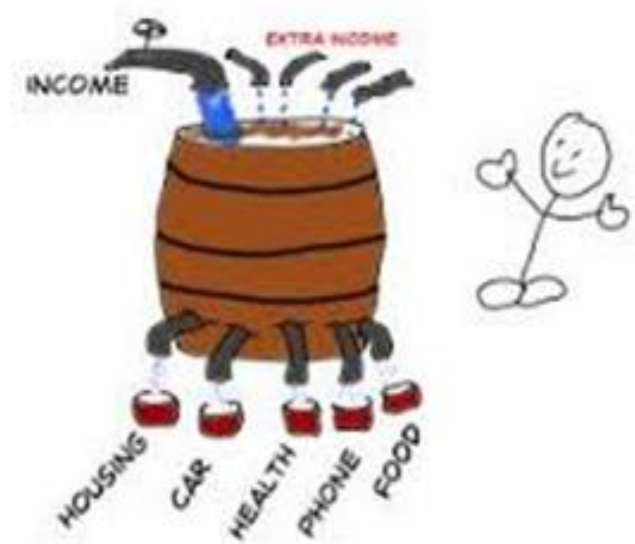
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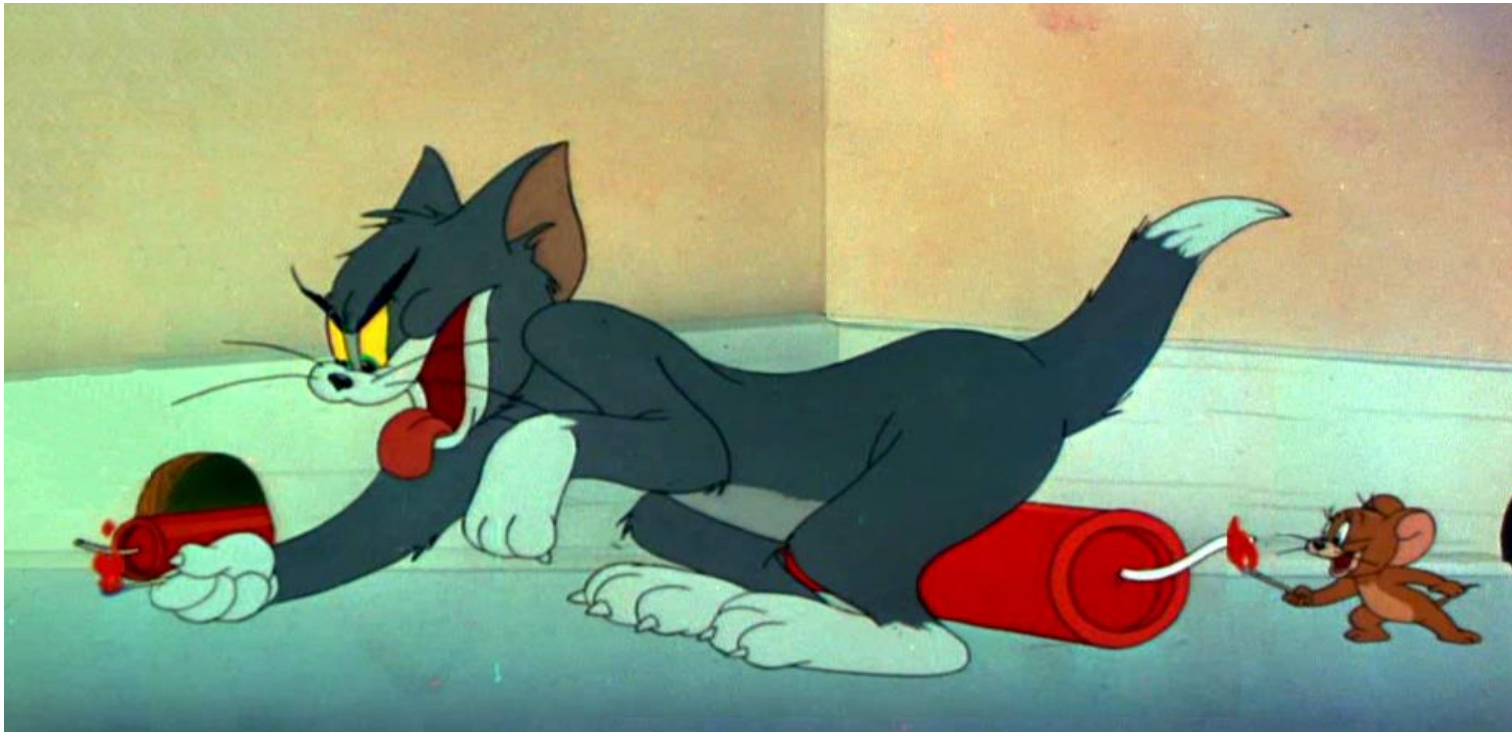


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**When it comes to generating INCOME STREAMS, there is more than one way to...**

**‘Skin a Cat’**



You don't need to take great risk to generate decent income.

Here are 2 problem scenarios. Solutions follow.

- A. Retired and need more than just 1% - 2% guaranteed income
- B. You need an Investment Advisor, particularly one that practices Rules Based Investing, because "I need to find a way to reduce or eliminate my fees?"





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Option Writing, particularly, Writing Cash Covered Puts, helps create the income to solve these two problems.

Please re-visit Session 12, Options, and review the examples.

**Let's talk about the solutions ...**



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**Retired and need more than 1% - 2%  
guaranteed income?**

**Do you really need to take too much risk?**

**Do you really need to go the 'pie chart'  
route?**

**NO WAY!**





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**A.** Here's an IDEA: If you are looking for an income portfolio that generates about a 4% pre-tax income, net-of-fees, then the portfolio below might be worth discussing with your Trusted Wealth Professional

Divide your portfolio into three equal portions between the following assets:

1. 1/3 invested in 3 - 5 year ladder G.I.C.s
2. 1/3 invested in Rate-Reset Preferred shares (P1 or P2 rated)
3. 1/3 invested in an Option Writing strategy, preferably, writing options on blue chip, dividend paying shares

This portfolio should be able to generate the desired income, **with a lot less risk**, by having less equity exposure. Also, about 65% of the income is taxed favorably! You could consider placing the non-trading portion of this portfolio in a Commission-based account (not fee-based) to enhance your return even further. Note: This Commentary was written in Spring 2017, interest rates may have changed by the time you are viewing this Session.

Please re-visit Sessions 1, 2 and 12 that describe these investments and feel free to LOCATE a TWP (Trusted Wealth Professional) to discuss.



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**B.** I need an Investment Advisor, particularly one that practices Rules-Based Investing, that can help me “find a way to reduce or eliminate my fees?”

When practicing Rules-Based Investing, *including option strategies*, make sure that your investment account and Advisor are equipped to write options and are active in this area.

Assuming you are using a fee-based account, this strategy will NOT result in a higher overall annual fee. It is possible that your advisor may generate enough option writing income to cover your annual fees in the first few months of the year. Then you could stop option writing or just continue to improve your returns! Find a Trusted Wealth Professional who is experienced and capable of doing this. To connect with a Trusted Wealth Professional, use the LOCATOR on [www.TrustedWealthProfessionals.com](http://www.TrustedWealthProfessionals.com)

**Cover your investment fees with this conservative strategy!**



## Option Writing ETFs (Exchange Traded Funds)

You can buy option writing ETFs; especially if dealing with a smaller account. Generally an account under \$250,000.

These ETFs are either:

1. 'covered Call' ETFs,
2. or 'cash covered' Put Writing ETFs

These ETFs can be listed on US or Canadian stock markets

These ETFs are constantly practicing option writing all year and generate returns about 6-7%, but please keep in mind there is a MER-fee associated with the ETF.



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## Are buying ETFs the best way to go?

1. For smaller account, yes.
2. For larger accounts (\$250,000+) it is better to Write individual Put/Call options and generate just enough to pay your annual fees in a fee based account. Or continue this strategy throughout the year.
3. If you are writing Put/Calls options to create year round income, then a larger account should Write individual options on securities. ETFs have internal MER-fees.
4. ETFs don't have the advantage of an individual account because they must worry about liquidity of their option position. ETFs with large volumes can be restricted.

Please review Session 12 on Writing options to review and understand the terminology as well. This is a Conservative strategy that is not practiced today as often as it was in the past. Less and less Investment Advisors know how to do write Options, unfortunately.



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