



Rolling and Recovery

CHEAT SHEET

Rolling and Recovery

Why Roll: To avoid assignment or being “put” a stock on a weekly option position.

Tactic: When you roll a position, you are taking a net loss on the first (or front week) put you sold and generating more cash than that loss through the sale of a second position (back week).

THE ANATOMY OF A ROLL

Existing Position: 5-Day 39-Strike Put Premium Received	\$0.35
Premium paid to Close 39-Strike Put.....	-\$0.65
Premium Receive to Sell 7-Day 39-Strike.....	\$0.75
Net Credit From the Roll.....	\$0.10
Initial \$.35 Premium + \$.10	
Credit from Roll = +\$.45 Net	
Total or \$45 per contract	

Here’s the math: You lost a total of \$0.30 on the front weekly put (\$.65 paid to close - \$0.35 received to open). However, you received a premium of \$.75 for the new 39-strike put, so you netted \$.45 (\$.75 back week premium - \$0.30 front-month loss) or \$45 total.

Rolling a Position Trade Example

Here is the above example in a sample trade selling 3 contracts:

On Monday, the price of GM stock was \$43.95.

Trade: Sell 3 Contracts of GM Nov, Week 4 44 Puts

Premium received: \$.35 per share (100 shares x \$.35 x 3) **+\$105**

On Thursday, GM stock is trading at \$43.65 and the GM Nov, Week 4 44 Put is selling for \$.65

Roll Trade (one action):

Buy (back) GM Nov, Week 4 44 puts for \$.65 per share or \$195 **-\$195**

Sell GM, Dec, Week One 44 puts for \$.75 per share or \$225 **+\$225**

Net Cash in Hand after the Roll **+\$135**

On Friday at the close, GM stock is trading at \$44.25... and your new contract expires worthless...you keep.... **+\$135**

RULES OF ROLLING:

One Trade: Execute Rolls as ONE TRADE. Most online brokers offer the ability for you to roll the trade as one transaction on your screen.

Short Time: You should usually roll from a weekly position out to the shortest possible time period, another weekly position.

Pre-Emptive Roll: You may want to consider a “pre-emptive roll”. Roll before the option gets In-The-Money if you think it’s headed that way and pay less to buy back the original position.

Potential for Increased Cash: Sometimes with “pre-emptive rolls” you end up with a larger net credit increasing the amount of cash you collect.