THE ULTIMATE INCOME STRATEGY
Looking for the ultimate income strategy? Forget about treasuries, CDs, and even some dividend stocks. There’s a better, out-of-the-box way to generate safe, consistent income.

I’m talking about options. Yes, options!

You see, for years, individual investors shied away from options, thinking they were too complex. Too risky. Or too difficult to trade.

But now, investors are flocking to them in droves.

That’s because making decent returns on traditional “safe” investments right now is harder than separating black pepper from gnat poop!

For decades the formula for wealth management remained the same:

1. Live below your means to save some cash;
2. Invest in blue-chip, dividend-paying stocks and bonds to grow your nest egg; and
3. Live off the dividend and interest income from your investments while you golf and fish your way through retirement.

But the calculus has changed. The world we invest in today makes No. 1 tough, No. 2 really tough, and No. 3 darn near impossible. However, I didn’t say completely impossible. **All it takes is a new approach!**

In Part I of this special report, we’ll bring to light the lurking dangers within many conventional income-based investment strategies — including blue chips and dividend-paying stocks.

In Part II, we’ll suggest an alternative — investing with options. And we’ll provide you with concrete examples to show you how simple and reliable options investing for steady income and returns can be.

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**Part 1: Buyer Beware!**

With the S&P 500 trading near its all-time highs, it’s beginning to look like a healthy market correction isn’t so much “possible” as it is likely. Or maybe even inevitable! For reference, take a look at the chart on the right.

With so much at stake, I’d say keeping your money safe needs to be priority No. 1. So let’s look at our choices...

**WHY PARKING YOUR MONEY JUST DOESN’T PAY RIGHT NOW**

The traditional parking places like savings accounts, money market accounts, bank CDs, and Treasury bonds are the safest of the safe because of their low likelihood of disappearing. Your principal, so the thinking goes, is safe and you can earn a modest...
income stream on your funds. But there is a problem: The returns piece of the puzzle has disappeared! Because the interest rates on these accounts sit at historic lows. How low?

Try this:

- The average rate available on money market and savings accounts is 0.40%.
- The best rate you can get on a one-year CD is 1.10%.
- The U.S. Treasury will pay you only 1.62% interest for five-year bonds and 2.52% for 10-year bonds.

Consider this sobering fact: Locking up your $10,000 for a decade will earn you less than $0.70 per day.

**THE DANGER LURKING IN YOUR DIVIDEND STOCKS AND MLPS**

The next rung up the risk ladder is blue-chip dividend-paying stocks. In theory, dividends can grow over time to combat inflation. But as investors have piled into dividend stocks, their prices have risen dramatically. And that’s sent the yields on some popular utility stocks to their lowest levels in 14 years!

To combat these falling yields, big financial institutions have greedily cobbled together master limited partnership (MLP) exchange-traded products to hawk to yield-starved investors. The problem here is that many have unattractive legal structures that can create hard-to-see tax liabilities, charge exorbitant fees, and introduce new risks into the equation altogether. If you’re looking to see how these funds performed over the past decade, you’ll be left guessing, because they weren’t around 10 — or even five — years ago!

**Part 2: How Any Fool Can Make Money on 9 out of 10 Trades**

Fortunately, there’s an alternative strategy that investors can use to generate safe, consistent monthly income.

That alternative is of course, options.

Now, you might have heard that trading options is highly "complex" and overly "risky." And that’s perfectly true — the way some people trade options. But not the way we invest in them here at The Motley Fool.

You see, you can approach options as a trader… or as an investor.

Options traders view options as a lottery ticket. They might lose money 9 out of 10 times they trade. But they’re looking for that big winner… which will hopefully make up for their losing trades.

Options investors, however, approach things quite differently. They use sensible options strategies alongside their investment portfolio to tamp down their overall risk and build far greater gains over time.

And successful options investors can expect to make money on well over 50% of the trades they close.

**Of course, here at The Motley Fool, we’re overachievers. So we’ve made money on more than 9 out of 10 trades we’ve closed in our Motley Fool Options service.**

How do we do it? We use strategies that stack the odds in our
favor. We’re stock investors who use options to leverage what we already know about a stock.

In fact, we spend our time on understanding the businesses underlying our option strategies — the quality, value, threats, competitive weaknesses, etc. From there, we leverage that knowledge and understanding into profitable options trades.

We’re not options “traders” — we’re investors first, going into positions with a clear thesis, a desired outcome, and an appreciation for the risk/reward of every situation. And one of the great things we can do with this knowledge is draw out strategies that can continue to earn a steady stream of continual profits for years.

Let me give you a few examples…

**INCOME PLAY NO. 1**

**All the Benefits of Owning a Stock Without Forking Over a Pile of Your Hard Earned Cash**

Are you confident about a stock but reluctant to pony up the cash to buy it today? A synthetic long may be just the ticket.

A synthetic long option strategy works in nearly the same way as owning the underlying stock outright — except you don’t need to pay up front.

Usually, you’ll set up a synthetic long on a stock if you think it will appreciate in the next 18 months or so. As the stock price goes up, your option positions gain value right along with it.

With a synthetic long, you get unlimited upside potential on the options you buy. And if the stock goes down, you simply end up buying the underlying stock… at the price you’ve selected.

So that means you do need to have enough buying power in your margin account to potentially buy the stock if your option position moves against you. But remember, if the stock goes down, you can usually roll your synthetic long out to a later expiration date, which will give you more time for the stock to move. And if the stock pays dividends, you can bank a credit to roll it!

That’s what makes this such a great strategy for long-term investors!

Setting up a synthetic long is actually very simple. All you do is sell a long-term put option and use the proceeds to buy a call option on the exact same stock or exchange-traded fund. Both the calls and puts will have the same expiration date and the same strike price.

And we’ve walked hundreds of Motley Fool Options investors through it. Let me give you a real-time example.

**GENERATING INCOME ON MONSANTO FOR MORE THAN FOUR YEARS AND COUNTING!**

Motley Fool Options members have used this strategy to make buckets of income on Monsanto for more than four years in a row!

When we first recommended the synthetic long on Monsanto in March 2010, the stock was trading around $72.70 a share. So if you wanted to purchase 100 shares of Monsanto, you would have had to fork over a whopping $7,270.

Or instead of deploying a boatload of cash… you could have established a synthetic long.

To initiate the synthetic long on Monsanto, you would have bought the January 2012 $70 calls and simultaneously sold the January 2012 $70 puts.

And the total cash cost would have been just $205. Even if you factor in a 30% margin, you would still have needed only $2,305 in reserve.

That’s a whopping $4,965 less than the cost of the shares!

But that’s not even the best part. The best part is that once you’ve set up the synthetic long, you can make a series of income overlay trades on it quarter after quarter. And you can continue to roll the position forward into the future, so you can keep making income overlays on it.

That’s exactly what we have done with Monsanto! We’ve racked up a steady stream of income over the past four years.

From March 2010 to today, we’ve made a series of follow-on income overlay trades, and we’ve extended the underlying position out to 2016.

All told, we’ve collected $3,424 in cash income. So if you subtract our initial cash outlay of $205, we are already $3,219 in the black, not accounting for margin.

And if we were to shut down the synthetic long and the associated income overlay today (and we’re not about to do that to a nice cash cow like this, but if we were…), it would put another $1,355 in proceeds in our pocket for a total cash return of $4,574.

Now compare that to the guy who forked over $7,270 for the shares. Monsanto just closed at $125 as I write this. That’s a gain of $52.30 per share, or $5,230 in profits for 100 shares.

And the stockholder would have received $564 in dividends over that same time period. For a total gain of $5,794.

So let me ask you… would you have wanted to fork over $7,270 for a 100 shares of Monsanto to make a very respectable $5,794 in profits?

Or…
Would you rather have put up $205 for a synthetic long on Monsanto to earn $4,574?

I know my answer!

Now, synthetic longs aren’t for everybody. But if you don’t mind using a margin account to leverage the buying power of your other assets, and want to generate some outstanding leveraged returns, they can be a great addition to any portfolio!

**A SMORGASBORD OF PROVEN INCOME STRATEGIES FOR EVERY INVESTOR**

With Motley Fool Options, we give you an entire smorgasbord of ways to generate income with options. Unfortunately, I don’t have room to tell you about all of them here.

But the good news is, right now and for a limited time, you have FULL ACCESS to Options Whiz (the proprietary “Options U” experience that’s part of Motley Fool Options, our invitation-only options advisory service.) Inside Options Whiz, you’ll discover dozens of easy-to-execute strategies that can help you make money with options.

Strategies like the next one I’m going to share with you today! Take a look...

If you’re looking for another great income strategy and you don’t want to worry about margin, then you’ll love our income play No. 2. It’s a secret weapon called diagonals, and it turns slow-moving slugs into cash cows.

**INCOME PLAY NO. 2**

**Get Paid to Wait**

Another great way to generate income is to turn “slow-moving slugs” into “cash cows.” How? With diagonal calls.

Diagonal calls are a great long-term way to both invest with options and produce some monthly cash flow at the same time. Unfortunately, many traders don’t understand how powerful and flexible this strategy really is.

Let me explain…

Diagonal calls generate a steady stream of income in the short term while taking advantage of a slow-rising stock price. So you can get paid to wait for your stock to make a move.

Now, not every company is suited to a diagonal. A hot growth-engine stock, for example, would be a terrible choice. But big, boring, slow-moving behemoths are a perfect fit!

Take 3M (NYSE: MMM), for example.

When we first recommended setting up a diagonal on 3M in September 2011, the company was conservatively capitalized, tremendously cash generative, and, importantly, boring as heck. That made it the perfect company for a diagonal call.

That’s because diagonal calls let you leverage modest stock gains into a steady stream of income over several years. And that’s exactly what we did with 3M!

At the time we recommended the diagonal on 3M in September 2011, the stock was trading for $77.37. If you were to purchase 100 shares, you would have had to pay a whopping $7,737 up front.

So instead of paying a pile of cash for the shares, we set up a diagonal call.

It sounds complicated, but it’s not.

We simply bought a January 2014 $65 call for $18.63. Then we immediately sold the January 2012 $85 call for $2.28 credit. So our total cost to enter the position was just $16.35 net, or $1,635 per diagonal.

And unlike the stockholder who is on the hook for $7,737… the most we could lose was our $1,635. That’s $6,102 less capital at risk!

Not only that, but if the stock does make a move, you can always roll your diagonal up to a higher strike price.

That’s what happened with 3M. The stock went on a bit of a run, and we rode it all the way up. On May. 6, 2013, when we closed our diagonal, the stock was trading for $107.82.

Now, if you had purchased the shares of stock, you would have invested $7,737 and made $30.45 a share in capital appreciation. Plus, you would have pocketed an additional $3.55 in dividends. So that’s a profit of $34 per share, or $3,400 on 100 shares. Not bad.

But the Foolish options investor did much better! How much better? Well…

If you had invested in the 3M diagonal instead and rolled it up, following our guidance all along the way, you could have pocketed a total of $1,878 per contract on an initial investment of only $1,635.

So, again, you have to ask yourself…

Do you want to invest $7,737 in 100 shares of a slow-moving stock to make $3,400?

Or would you rather invest $1,635 in options and pocket $1,878? And for every 100 shares, you have nearly 80% LESS capital at risk than the shareholder…

And more than TWO TIMES the rate of return!

Seems like an easy choice to me.
INCOME PLAY NO. 3
How to Make Great Money on a Stock Everyone Else Has Left for Dead

Just because a stock is deemed "dead company walking" doesn’t mean options investors can’t make some great, steady income!

Take GameStop (NYSE: GME), for example.

In February of 2010, GameStop was deemed a company without a future — a retailer of new and used video games that was facing increasing competition and a gaming public migrating to digital downloads of their shoot-'m-up fixes. But calling on our stock and business analysis skills, we deemed the company cheap, cash rich, and well-managed.

By the time we closed the position in January 2013, straight stock investors earned 19% from capital gains and dividends on that stock.

Motley Fool Options members? They earned 42.5% over the same time span... by boosting their stock gains with options.

So our Motley Fool Options members earned more than double the return that the buy-and-hold stockholders enjoyed over the same period! And we didn’t do anything difficult or risky to get there.

Instead, we used easy-to-execute options strategies that generate income month after month.

Let me explain...

COVERED CALLS — GENERATING INCOME ON GO-NOWHERE STOCKS

Our main strategy was to write (or "sell") call options on the stock to earn extra income. And we did it over and over again, a total of 11 times over the course of the strategy.

The strategy is called a “covered call.” But don’t let the jargon confuse you. The setup is simple.

Setting up a covered call can be done in two easy steps.

• You purchase 100 shares of a stock. (If you already own 100 shares of the stock, you can skip this step.)

• You choose a call option with a "strike price" that's "out of the money" — meaning it's higher than the present stock price — and sell one call option for every 100 shares you own.

When writing covered calls you get to keep any dividends paid during the life of the call, you claim the gains if the stock rises — up to the call’s strike price... and you collect your cash up front from the call options you sell!

Let me show you how this works with our real-life trade on GameStop.

HOW MOTLEY FOOL OPTIONS SUBSCRIBERS TURNED GAMESTOP INTO AN ATM

Covered calls work well with stocks trading at what we deem their fair value. Writing covered calls is a great, conservative way to squeeze out additional profits on these stocks — even if they're moving nowhere fast.

GameStop was the poster child of a go-nowhere stock — a brick and mortar video game retailer in a world moving towards digital downloading. A company that had run out of room to expand but had solid management, generated lots of cash, and, importantly, was fairly valued assuming pessimistic prospects ahead.

And that made it very attractive as a way to generate income with covered calls.

We were happy to collect call-writing income on this stock until the cows came home! Which was pretty much exactly what we did!

At the time we recommended the GameStop covered call to Motley Fool Options members in February 2010, the shares were trading for $20.25 each. We recommended members purchase 100 shares for $2,025.

At the same time, we told members to write (or "sell to open") the April 2010 $21 calls on the stock, which paid you $1.10 per share, or a total of $110 in income for each contract.

GAMESTOP COULD DO NOTHING, AND YOU STILL GENERATE INCOME!

Now, there were two ways our GameStop covered call could have played out...

First, if the shares stayed below the strike price of your written $21 calls through expiration, those calls would've expired worthless and you’d have hung onto your existing GameStop shares. No buying or selling required. And you’d have kept the full $110 in option income.

Second, if the shares rose above the strike price of your written $21 calls at expiration, you'd have been obligated to sell your existing shares at $21. But again, because you already collected $1.10 per share for the options you wrote, you’d have effectively been selling the shares at a premium price of $22.10. That’s a 9% return for a 10-week investment!

WE WANT LONG-TERM, CONSISTENT INCOME, NOT ONE-HIT WONDERS

We collected some great income on GameStop! The stock price bounced around, but we maintained our covered call through most of the next three years.

When it looked like a call was going to expire worthless, we let it and then wrote new calls for additional income.
When it looked like our shares might be sold from under us — when the stock price threatened to close above the call strike — we bought back our former calls and then wrote new ones several months out, booking more income.

When all was said and done, on our shares that cost us $2,025, we booked a total of $821 of option and dividend income. That’s the type of income you can generate on "go-nowhere" stocks that remain flat.

Now compare that to the stockholder who pocketed just $358 ($303 on a 15% stock gain plus $55 in dividends) for every 100 shares, and I think you’ll see why we love this income strategy.

RETURNS MORE THAN DOUBLE THOSE FROM JUST OWNING THE STOCK

So by writing just a few simple covered calls a year on our GameStop stock, we more than doubled our income! More than doubled!

And that’s just one income strategy we use in Motley Fool Options!

THOUSANDS OF FOOLISH OPTIONS INVESTORS SHOW YOU THE WAY

There are plenty of choices of income strategies in Motley Fool Options, from beginner to advanced. Plus all the hand-holding you need.

Thousands of investors in Motley Fool Options will share their wisdom and experience with you along the way. Many of them started out never having invested with options before, and now they are paying it forward by helping new members like you.

So you can pick and choose which strategies are best for you. Start with the basics and then work your way up to more advanced strategies as you feel comfortable.

And if you’ve used options for years, you’ll find plenty of advanced strategies to keep you engaged.

STOP CHASING DIVIDEND YIELDS AND START COLLECTING MORE INCOME!

I hope by now you can see why so many conservative investors are flocking to options. Because options are one of the safest ways to generate steady income, particularly in this low interest-paying environment.

And there’s never been a better time to try options than right now.

Because here at The Motley Fool, we’ve taken the mystery right out of options investing. So you can learn to safely use options to supercharge your portfolio in ways you might never have thought possible.

It’s all in our FREE “how-to” options investing program, Motley Fool Options Whiz. Options Whiz is designed to show you how to trade options sensibly with a minimum of risk. This proprietary, interactive "Options U." experience features basic, intermediate, and advanced strategies...

It’s our way of urging you to see for yourself why using options can be so lucrative. And if you don’t believe me, listen to what these Foolish investors have to say:

"Feel better about my future..."
"The knowledge I’ve gained has been awesome. I feel better about my future realizing there are strategies the average investor can implement in down and sideways markets. Previously I just sat around getting frustrated when things went nowhere."
– Darron T., Cumming, GA

"The most effective way of investing in today's market ..."
"This by far has been the most effective and exciting way of investing in today's market for me. Thanks Fools!"
– M. Jones, Morgan Hill, CA

If Motley Fool Options, the invitation-only advisory service where we provide you dozens of income generating recommendations — like the ones you’ve been reading about today — sounds like something you’d like to hear more about, I have some very good news for you...

In a few days, you’ll receive an email with a link to all the details about the service...

• EVERYTHING FROM how we walk members through each recommendation… how we make money more than 9 out of every 10 times…

• TO THE FULL MONEY BACK GUARANTEE that makes it possible to try Motley Fool Options and get a full refund if you change your mind…

• YOU’LL EVEN HEAR DIRECTLY from a handful of Motley Fool Options members… and SEE FIRST-HAND EVERY TRADE WE’VE CLOSED since we launched Motley Fool Options!

All you have to do is keep your eyes on your inbox. We’ll be in touch!

All numbers as of May 14, 2014. The Motley Fool owns shares of GameStop.