



## Double the Yield on Your Cash Today

### Description

The great thing about the market is that there are endless ways to make money. One of the most interesting is through the use of options. I always like to think that if buying and selling stocks is like checkers, then using options is like chess. With stocks, you make money if the market, or your individual stock, is going up but lose if it is going down. With options, it doesn't matter which way the stock is going, you can make money either way.

Take the volatility that's been wreaking havoc on investors over the past few months. For a pure stock investor, you're basically on a dinghy in the ocean during a storm. While the waves are throwing you around, you close your eyes and hang on. Options give you the opportunity to capitalize on the volatility and make money from the craziness.

One very interesting way to play the options game is to use your cash to sell cash secured puts. The beautiful part aspect of these options is that they allow you to earn money while your cash is parked.

Let's say that you have \$10,000 parked in a high-interest savings account (HISA) waiting for the chance to buy some stocks at low prices. When the stock you want to buy, perhaps **Manulife Financial Inc.** ([TSX:MFC](#))([NYSE:MFC](#)), drops to a great entry point such as it was recently with its [5% dividend](#) yield and price to earnings ratio of 16 times trailing earnings, you might be tempted to buy. If you did buy at that price, I'm sure no one would say you got a bad deal.

But if you already had a lot of stocks and you wanted to instead keep your money in cash, you could sell a put on Manulife to earn premiums, money that you get upfront for assuming the risk of purchasing the stock at a defined price sometime in the future. Essentially you're insuring someone from losing money if the stock were to fall significantly.

At the current price of \$20.20 at writing, you might want to sell a put that expires in April for a strike price of \$20. For the obligation of buying the stock at \$20, you will be rewarded with a premium of about \$1.09 on the Manulife option. This money immediately goes into your account. Since each contract represents 100 shares of stock, you will receive \$109 (\$1.09 times 100).

Think about that for a minute. Manulife currently pays a dividend of \$1.00 per year, which means you're getting the entire [Manulife dividend](#) upfront without putting any capital down for the stock.

This essentially means that if the stock price stays at, or goes below \$20, then you will buy the stock. But since you're a long-term holder and you really wanted to buy it today at that stock price anyway, that's okay. Besides, if you get the stock, if the option is exercised, you will also collect dividends for the rest of the year.

But the really beautiful part is what happens if the stock goes up. If it goes above \$20, the premium will be yours to keep, as the option expires worthless in your account. That money can then be added to your pool of cash so you can sell another option if you so desire.

### One word of caution

Make sure, as I mentioned earlier, you sell cash secured puts. Don't sell naked options, options without the cash to support buying the stock. Many traders have been wiped out on one fluke down day when the market hands them all the stock options at once. Stagger your option expiry dates to further reduce risk, perhaps even matching expiry dates with some GIC maturities.

Sell small. Only sell options for the stock you would be willing to buy *at that moment on stocks you would buy anyway*. You don't want to get stuck with stocks that you don't want at a price you don't want to pay. If you're conservative, using cash-secured puts can be a great way to earn an extra return on your cash.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:MFC (Manulife Financial Corporation)

### PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

### Category

1. Dividend Stocks
2. Investing

### Date

2025/08/27

### Date Created

2019/01/10

**Author**  
krisknutson

default watermark

default watermark