



Want to Hold Stocks With No Money Down, Interest-Free? Here's How

Description

What would you say if I told you there was a way to benefit from owning stocks without putting any money down and without any interest from borrowed funds? "That's impossible," you'd surely say. But the fact is, there is a way to buy the companies you want to own today without putting any of your own money down and without borrowing any money to do so. It's an options strategy known as a synthetic long position, and it's probably one of the best strategies you could employ.

The beneficial aspect of the synthetic long position is that its risk profile exactly matches that of the stock you are purchasing. You will have zero capital outlay and no interest payments over the period that you hold the investment, which will help you to improve your returns. And if you choose the right price to set up the position, you can even potentially get a homemade dividend upfront. Here's how you set up the position.

Choose the right stock

Before setting up this trade, you need to make sure that you choose the right stock. This must be one that you wouldn't mind owning for a long period of time, has fairly liquid options, and is trading at a reasonable price. For this example, **BCE** ([TSX:BCE](#))([NYSE:BCE](#)) is an excellent [long-term holding](#).

Even though BCE has currently risen substantially from the lows it experienced last fall, it is still a good investment for long-term holders. The stock has a dividend of over 5% at the current price, which has been raised consistently for many years. In January, it continued this trend with a 5% increase to its quarterly dividend. It is also pretty much an essential service utility, with basically every adult Canadian wanting wireless access.

This is not a fast growth story, but it should continue to experience some growth over time. Q4 operating revenues increased 3% over 2017's Q4 results. Free cash flow increased by 56.7% over the same quarter of 2017, which should continue to support future dividend growth. Adjusted earnings per share were up 8% year over year.

Set up the trade

After you have chosen the right stock, you have to set up the trade. Setting up the synthetic long requires you to both buy a call that is about at the money and sell a cash-secured put at the same strike price. Doing so will probably result in either a net credit or a net debit. I prefer to set up the trade so I end up with a credit.

At BCE's current price of around \$59, that means setting up the trade at a strike price of \$58 and ride the trade for a long time, say one to two years. This allows you to take full advantage of the stock and simulate a long-term hold. As of this writing, the options will look something like this: you can buy a Jan. 15, 2021 \$58 call for \$3.45 a contract at market price. You can also sell a cash-secured Jan. 15, 2021 \$58 put for \$5.35 a contract.

Since each contract consists of 100 shares, this means you get a net credit of \$1.90 for the position, minus any commissions.

Closing the trade

If the trade goes up, continue to have the choice to buy back the put to close it or wait to let it expire worthless, either way netting a profit. You can then either choose to sell the call option at a profit or exercise the option and buy the stock at \$58. I usually choose to sell the option.

If the trade ends just above the strike price, the entire trade will expire worthless, leaving you with the net credit of \$1.90.

If the trade falls below \$58 at expiry, the call option will expire worthless, and you will be picking up the stock for \$58 a share. This is why it is so important to only do this strategy on stocks you want at a reasonable price while keeping cash to cover the possible purchase. Never sell naked puts.

With this strategy, your cash will sit safely earning interest while you ride the trade over the next one to two years. Worst-case scenario: you will buy [the stock](#) at a price you wanted it anyway, as long as you used a cash-secured put. Now that's a win-win.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)

PARTNER-FEEDS

1. Msn

2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

Date

2025/08/26

Date Created

2019/03/22

Author

krisknutson

default watermark

default watermark