Get a High Yield on Cannabis Stocks

Description

Cannabis stocks are not well-known for their stability or their income generation. I guess this makes sense since they do not have any earnings of their own to pay out. But if you are a risk-tolerant investor with a desire to gain some income from your cannabis stocks, this article will give you some ideas to take to the bank.

There are two primary ways to generate income from your cannabis investing. Both make use of options, although the strategies differ in how they operate. The first strategy makes use of put selling, selling another investor the right to sell you their shares at a specified price, or selling calls, which is the right for you to buy their shares at a specified price. In order to take on that risk, options sellers are rewarded with an option premium

Due to the high volatility of cannabis stocks, selling options is an excellent income generation strategy for would-be cannabis investors. The increased volatility of cannabis stocks results in high premiums, and therefore higher income from your holdings. Follow these steps to get a high yield from these risky assets. Sell options at a duration just over a month to take maximum advantage of time decay.

Strategy 1: Sell cash-secured puts on your desired cannabis stocks

I always recommend selling cash-secured puts on stocks like **Aphria Inc.** (TSX:APH)(NYSE:APH). I highly discourage ever selling naked options, especially when the underlying asset is as volatile as a cannabis stock, since you are obligated to buy the stock should the price fall below your strike price. If you do not have the cash to cover purchasing the stock, you will be in big trouble. Besides, you want to eventually own this stock if you are to move onto step two, covered calls.

Make sure you choose a strike where you wouldn't mind owning the stock. Right now, Aurora is at an excellent point to sell an option. The stock just reported disappointing earnings, which has resulted in a sharp drop in the share price. The increased uncertainty and volatility increases the price of the put options sharply, creating the opportunity for higher premiums from put options.

If you are serious about buying the stock as soon as possible, sell a put at a strike price close to the current price to generate maximum income. In this case, the selling of a May 17, 2019 put with a strike of $11 carries a current premium of $0.70 a contract with each contract consisting of 100 shares. That gives the option seller a return of around 6%, minus the cost of commissions.

$11 times 100 shares = $1100

$0.70 times 100 shares = $70

$70 / $1100 = 6.4%

If the stock drops, you buy the stock. If it stays at the same level, you keep the premium and don't buy the stock. If the stock goes up, you keep the premium. With luck, you can do this several times before even purchasing the stock.

Strategy 2: Sell covered calls on your purchased stocks

If you happen to pick up the stock at $11, you now have the opportunity to sell covered calls on your positions. Try to sell calls above the purchase price so that you don't realize a capital loss on your position. If the stock has fallen far below the $11 price, don't worry. You have already, in effect, collected a dividend on your position for the year, so you can afford to wait.

Once the price sits around $11 once again, sell a call at a strike of $12 on your position at an expiry date just over a month from where you are currently sitting. Today, that would be a May 17, 2019 call with a premium of $0.90 a share, which would give you a yield of 7.5% on your shares. Furthermore, if you were to sell the shares, you would get an additional $1 per share in capital gains.

$12 call times 100 shares= $1200

$0.90 times 100 shares = $90

$90 / $1200 = 7.5%

That's a yield to take to the bank

This strategy takes some monitoring, so it isn't a passive income strategy by any means. But if you keep cash on hand to buy stocks with your puts and have the patience to wait for the right times to act, this strategy can be a great way to generate a yield from an otherwise non-dividend paying, volatile stock like Aphria.

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