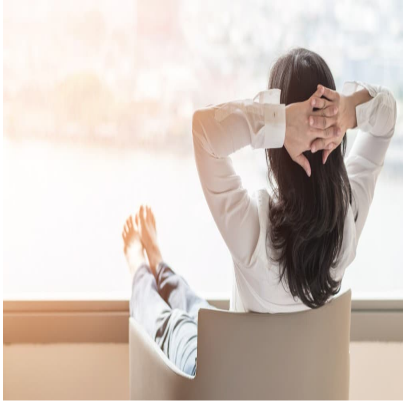

How to Find Peace of Mind in Your TSX Stock Investments

Description

Every Canadian TSX investor should know how to sell covered calls to hedge portfolio risk, especially in a bear market like this one. It may sound risky, but the odds are that selling covered calls carries a lot less risk than simply owning the stock.

Selling covered calls also requires little to no effort or experience. It is a reasonably safe method to earn additional returns on investments in increments of 100 shares. The reason it is so safe is due to the time-value of the option, or theta.

Theta is one of the "Greeks," which traders use to evaluate options. The idea behind theta is that options lose value closer to their expiration date. The loss in value means that you can repurchase the option later for less than for what you sold it.

Options trading volume will be higher for many of the top TSX stocks in banking and energy. Two other stocks you might consider hedging with covered calls are **Stars Group** (TSX:TSGI)(NASDAD:TSG) and **Finning International** (TSX:FTT).

The no-dividend stock: Stars Group

Stars Group is a great stock to sell covered calls. First off, for the past week, the shares have been increasing in value. Thus, traders who are willing to buy call options on the Stars Group are eager to pay more than if the stock was falling in value.

If you already own shares in Stars Group, and you suffered capital losses, consider selling a call option on the stock to protect against additional loss in value.

Stars Group offers no dividend. Thus, investors with this stock in their portfolio gain no interest in the investment unless it promises capital gains. Because capital gains are not a sure thing, stocks that don't offer dividends tend not to be the best investment.

Selling a covered call on Stars Group is one way to generate returns from what might otherwise yield nothing.

The poor earner: Finning International

Finning International is also the perfect stock to sell covered calls. Although this stock has lost 52% of its value in the past year, shareholders should be hesitant about selling such a great dividend payer. The stock gives shareholders a quarterly dividend of $0.205 per share.

A better alternative to accepting a capital loss is to sell a covered call and capitalize on the power of theta. Finning is a great contender for selling a covered call because of its low-profit margin. Currently, at a low-profit margin of 2.6%, the stock qualifies as a poor earner with a levered free cash flow of negative $14.75 million.

If you are unlucky enough to be losing money on shares of Finning, sell a covered call and invest the proceeds in a government-insured certificate with the same expiry date as the call option.

Foolish takeaway

It is unlikely that a call option sold today will be worth more one to two years from now. Call options lose their value over time — and very quickly. A stock would need to see an improbable and rare increase in value to offset the loss in time value. That's why every TFSA investor should look into hedging their portfolios by selling covered calls.

In a bear market like this one, TFSA investors need to gain more confidence to hedge investments in the stock market with safe short positions like covered calls.

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2. Investing
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4. Top TSX Stocks

TICKERS GLOBAL

1. TSX:FTT (Finning International Inc.)

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