



The Greatest Opportunity Since the Financial Crisis

Description

Right now, the market is giving you the opportunity to make massive amounts of money on your cash. You have the opportunity to purchase stocks at hugely reduced prices if stocks go down and make money if stocks go up without buying anything or using your cash. I'm talking about put option selling.

Pay attention to rare events. Headlines that contain information like, for example, "The Biggest Drop Ever" means it is an excellent time to look for opportunities. One of these headlines I read this week said something like, "Volatility Index (the VIX) at the Highest Level Since the Financial Crisis." When I read that, alarm bells went off in my head, although probably not for the reason you think.

Volatility is one of the major components in options pricing. Both market-wide volatility and individual security volatility can drive options prices up or down significantly. With volatility this high, this is a once-in-a-decade-or-more chance to make significant money or pick up some stocks at cheap prices.

This is why options are the perfect investment at the moment. You could sell puts on stocks you love at a very low level, collect a premium, and either pick up the stock if it falls or keep the premium if it doesn't.

The only downside to this scenario is that you do not own the stock unless the option decreases. If the stock rockets higher, you will not own the stock, which may be a bit disappointing for some investors.

This premium could be the equivalent to an entire year's dividend or more upfront. This cash is immediately yours to do whatever you want with. Want to buy more shares? Use the premium money to do so. Personally, I would keep the premiums locked in cash to build up your stockpile. Every time one of these options expires, you will be able to sell another with an increasing cash pile.

Consider a fairly liquid stock like **Open Text** ([TSX:OTEX](#))([NASDAQ:OTEX](#)). This is a great company with a long runway for growth. The market route has caused the [stock price to fall](#) considerably, reducing the stock from over \$60 a share to \$56 a share at the end of last week.

This software company is a great long-term investment and already has [a reasonable dividend](#). It is rather small, at 1.7%, but it has been growing steadily. The 15% dividend increase in 2020 continued its string of raises.

Volatility has given investors a gift. The monthly options on this stock are incredible. You could now sell options on shares of the company for an April 17, 2020 expiry date for about \$1 a share. The dividend on the stock is approximately the same after being converted into Canadian dollars, so you would effectively double your annual dividend.

The bottom line

Volatility has given investors a gift in terms of high options premiums. There are plenty of examples of stocks such as Open Text for which you can sell options. Take advantage of this strategy to build your cash pile in a volatile market.

A word of caution, though. Make sure you sell covered puts with the cash to buy the stocks. Don't sell naked puts in a bet that you have picked the market bottom. Use this strategy to buy stocks at sale prices and increase your cash pile today.

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POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:OTEX (Open Text Corporation)
2. TSX:OTEX (Open Text Corporation)

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