Can I make Money on a Stock I Own Whose Price Hardly Changes?

Well, possibly. If you own a stock whose price never seems to go anywhere there may be a strategy that will generate revenue for you. It's called selling *covered calls*. If you are unfamiliar with stock options, a call allows the purchaser the option of buying a stock at a particular (strike) price for a certain time (time to expiration). In turn, the option writer (seller) agrees to sell the stock at the strike price for that same period. In exchange for this agreement, the option writer is paid a fee for each contract sold. An option contract is composed of 100 shares of stock, so if an option contract were selling for $2, the writer would get $200 for every contract sold. Usually, there is a fee for buying and selling options. So you want to make sure that you are receiving more money for the sale than you are paying in commissions.

The cost of an option (asking price) depends on several factors. It is broken up into two pieces, an intrinsic and extrinsic value. The intrinsic value is the difference in what the stock is selling for minus the strike price of the option. So, if the stock was selling for $15 and the option strike price was $12, the intrinsic value of the option would be $3. Although the strike price can be greater than the option price, the intrinsic value is never negative. It's always zero or some positive number.

The extrinsic value is based off of the time to expiration, strike price, volatility, risk free rate of return, and spot price. One common model used to determine the extrinsic value is the Black-Scholes. The extrinsic and intrinsic values are summed to produce the option price.

Usually option contracts whose strike price is equal or close to the stock price are the most heavily traded. The stock price moving either up or down causes the option price to change, and this is what most option buyers are looking for.

The Upside:
The best case scenario for the option writer is that the stock price does not move. In this case, the contract expires and the write keeps his stock, along with the money he received for selling the option (minus the cost to sell the stock option contract). If the stock price drops, the writer still keeps his stock and the premium, but his investment is worth less.

Downside:
The stock price increases dramatically. The option writer has his stock called, and is forced to sell it at the strike price. Usually, there is a fee for selling the stock, so this has to be taken into account. Plus, there is a capital gain or loss associated with the stock sale.

This article is only intended to alert the reader as to potential opportunities related to generating revenue through options trading. Stock option trading is inherently risky and anyone considering options trading should first consult an investment professional.

Disclaimer: The information provided in this article is only for educational purposes. It may not reflect all rules, regulations, or laws for the tax year discussed and it may not pertain to your situation.

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