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Options for Risk-Free Portfolios: Profiting with Dividend Collar Strategies

M. Thomsett
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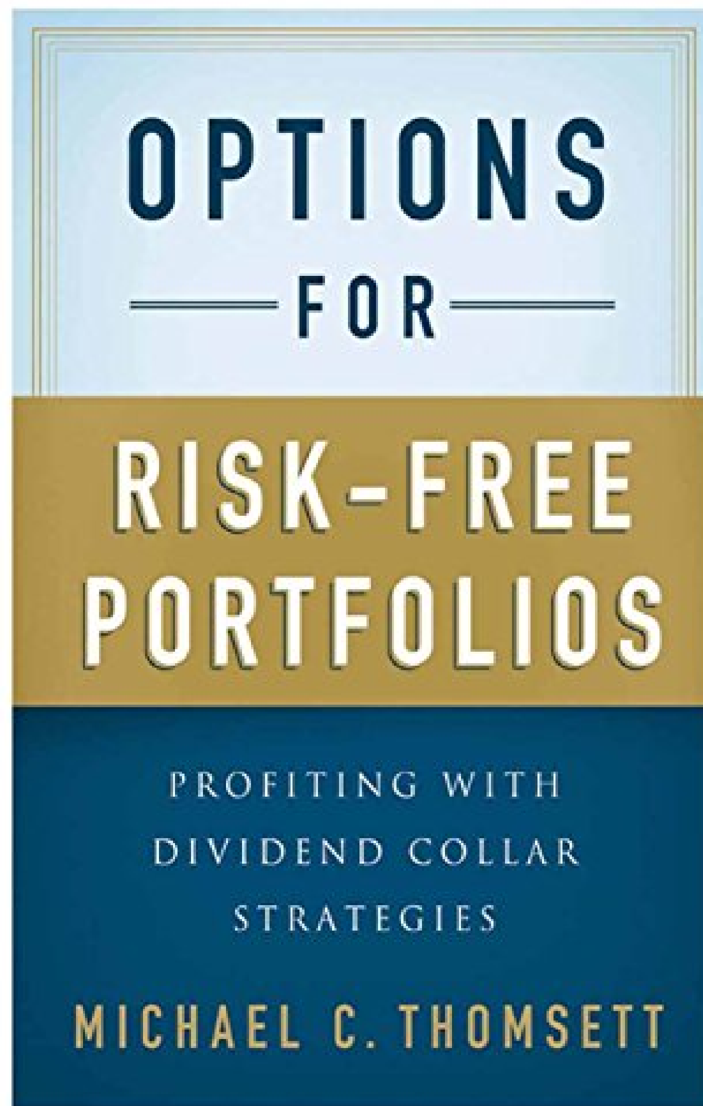

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M. Thomsett : Options for Risk-Free Portfolios: Profiting with Dividend Collar Strategies before purchasing it in order to gage whether or not it would be worth my time, and all praised Options for Risk-Free Portfolios: Profiting with Dividend Collar Strategies:

18 of 19 people found the following review helpful. Worst book I have ever read...seriouslyBy Rupam DebWorst book I have ever read (detailed reasons for my review below)I just decided after reading 70% of the book that I can't take it

any more. I am absolutely amazed at the very elementary mistakes in the book. It has left a very poor impression. Initially I thought I will not bother, but then considering the amount of effort I took in getting the book yesterday, I think it is my duty to post this. This is by no means a comment on the strategy itself. If a collar is done properly can be a good strategy...however I see little honesty in the way the author has tried doing the collars...the reason I am using such strong words is because the author has conveniently ignored Bid/ask spreads to prove his point.....he repeatedly gives examples (details below) of selling Calls at Ask price instead of using the Bid...well he gotto think the market makers are all fools.....initially when I strated noticing the errors, I didnot pay so much attention as I thought it must be a typo...however as I kept reading, I realized that it was not only WRONG information, mistaken calculations but it was also plain and simple dishonesty....yes when someone is trying to prove a point by repeatedly using the ask price for selling options, I call it dishonesty. it can be seriously misleading to a new option trader and what apparently is a good strategy will lose money as the bod/ask spread is a fact of life in trading.There are multiple errors in the book. Here are some of the examples:Example - 1Page 96 (chapter 4 - Downside protection, The Insurance PUT), last paragraph:"For example, you purchased 100 shares of ATT (T) at $32/share in April. By June 14, the price has risen to $35.21............"Calculation provided by author:Cost of share : $32/shareDividend : $0.44/shareEx. dividend date: 5th JulyCollar opened withJuly 36 short CALL : premium received - $0.23July 35 long PUT : premium paid - $0.80Net cost of options : $0.80 - $0.23 = $0.57.....so far so goodthe next sentence is disaster....."but upon exercise you make a profit of $3.21 per share (if you exercise the PUT) or $4.21/share (if your call gets assigned). Although the dividend is only 0.44 (versus the cost of the collar at 0.57)........."Really???The correct calculation should be:If the PUT is exercised (that is if the share price falls below $35.....) then the profit from the exercise is as below:$35 (sale price from exercising the 35 strike PUT) - $32 (purchase price of shares) = $3 (this is the pure capital gain). However when you subtract the cost of the collar of $0.57 then your profit becomes $3 - $0.57 (assuming that the call eventually expires worthless) = $2.43....even if you add the dividend of $0.44, you get a max profit of $2.87....I don't know where the author got $3.21 from.If the shares are called away (due to the short call being exercised), then the profit = $36 (strike of the call) - $32 (purchase price of shares) - $0.57 (cost of collar) = $3.43....and if you add the dividend then it becomes $3.43+$0.44 = $3.87.....GOD knows where the author got $4.21 from......if he is trying to indicate that the put got sold in the market for some salvage value (has to be $0.34...which is extremely unlikely), he needs to explain in detailAnd this is definitely not a one off error....read onExample - 2Page 105 (chapter 4 - Downside protection, The Insurance PUT),Here there is a break even calculation for a Ratio back spread...it is completely wrong. The author calculates the downside break even to be $48.01The down side break even should be as follows:Max risk in the trade if share price falls to $50 = difference in strikes ($2.5) X 3 short puts - Net credit = $750 - $49 = $701....till here it is fine.However if the price falls further below 50, the intrinsic gain in 3 of the long puts will exactly hedge the intrinsic loss in the 3 short puts. So the remaining 2 long puts will have to earn the $701 to break even...and for that to happen the share price needs to fall just below $46.5.....so that the 2 extra long puts earn $350X2 =$700 ~ $701It is quite possible that this is a problem with bad editing....but mistakes like these from someone who claims to be an expert (and has written over 70 books) is ABSOLUTELY UNPARDONABLE. Moreover it is not only a problem in calculation...it is also erroneous writing....example "So the break-even is found 1 point below $50, or at $48.01 (1.5 points X 5 = $750, minus net credit of $9, or $48.01)".......DUH???Plethora of other errors:I have seen a place where he writes call when actually it shoud be Put (forgot to note down the page number)Page 109 example of Long call Butterfly...ITM / OTM mix up ......he refers to the ITM call option as OTM and the OTM one as ITM.....Hope he actually knows the difference....he refers to the 46 strike call as OTM and the 48 strike call as ITM....may be he was practicing a hand stand when he was writing thisPage 112...same ITM/OTM mixupPage 113 -condor...conveniently ignored bid/ask....he is picking up the ask price for selling the calls (I have cross checked with the option chain for JNPR on 18th June 2012.Page 115 - Iron Condor construction is wrong... It should be short 17 / long 18 calls and NOT long 17 / short 18 as he saysPage 116 - collar...ignores bid/ask for both MSFT and MO for the short call.....and the list goes onI would ask any novice trader to stay away from this book by a million miles.....a day of my life wasted which I will never get back....but at least I can do my bit by cautioning others1 of 1 people found the following review helpful. Only Posts Demo TradesBy CustomerI don't think I'll ever buy another book, course, or seminar where the "educator" uses a demo account. It is entirely possible to wrack up hundreds of thousands of dollars of monopoly money using a demo account, and then tout the next best trading system. Michael Thomsett is yet another demo trader, and if you follow his tweets he posts daily about yet another huge percentage winner he has with his methods. He rarely tells you that it is only on a demo account.Think of it this way. If these people REALLY made such HUGE profits, why don't they trade it live? What's so scary about going live if you are wracking up such huge gains on your fake account? Something is holding them back, what can it be? If the system were really THAT good they would trade it, not merely play a game with it.Beware of all option "educators." Very rarely will you find one that trades live, that has skin in the game, and that will show you every live trade, good or bad. Everyone else hides behind the old warn out "this is for educational purposes only", meaning I don't trade this way myself nor is this a recommendation, it's just for "education." Steer clear of this stuff!This particular book is now somewhat outdated as Michael now uses different method for calculating his prices, still using demo dough of course, and does not include any commission fees.I will

give all "option education companies" that demo trade only a 1 star. They're practically useless.9 of 10 people found the following review helpful. needle in a hay stackBy Dr SAXI like some of Thomsett's earlier stuff, but this one seems to be selling snake oil. The opportunity this book is looking for are very rare even by the authors admission, I have yet to find any. Although Mr Thomsett claims otherwise, the main strategy seems to be dividend arbitrage. It looks for miss-pricing between the synthetic short stock (buy put, sell call at same strike) and buying the stock and collecting the pending dividend. It can look good on paper (although even that's rare), but by the time you factor in commissions and the risk of the short call going ITM and being exercised (and you being forced to PAY the dividend) , not certain there is any opportunity for the retail investor. Learn how to master vertical call spreads instead, and leave the arbitrage related strategies to the professionals.

An advanced strategic approach using options to reduce market risks while augmenting dividend income,nbsp;this titlenbsp;moves beyond the basics of stocks and options. It shows how the three major segments (stocks, dividends, and options) are drawn together into a single and effective strategy to maximize income while eliminating market risk.

About the AuthorMichael Thomsett has written over 70 books on the topics of options, trading, investing, real estate, and business management. He has also written two history books (The German Opposition to Hitler and The Inquisition), four specialized dictionaries, and five books of quotations on specialized topics. Thomsett's six best-selling books have sold over one million copies in total. He currently teaches at the New York Institute of Finance.