

WHY DO YOU NEED - THE AMAZING STOCK REPAIR STRATEGY

In today's markets, everyone from amateurs to professionals alike experience losses sometimes. Since the bubble burst, investors have come to understand that managing losses is just as important as attaining profits.

We have all found ourselves in situations where we have purchased stock that proceeded to trade down leaving us with a loss or a losing position that we had to fix.

During the recent bull market, a common solution was to buy more of the stock at its lower price and wait for it to go up. This strategy of buying more is called "doubling down." This is a risky strategy and not what we recommend, but let's review it anyway.

Doubling down allows investors to lower their dollar cost per share so that the stock only has to gain back a portion of the loss to reach break even.

For example, let's say you purchased 500 shares of XYZ stock (XYZ) for \$40.00 per share. Your capital layout would be \$20,000. (Commission costs, which vary greatly, are not included in our calculations of stock transactions but should be included when you figure your bottom line.)

Now let's suppose that the stock immediately dropped down to \$30.00 per share. You would have a \$5,000 loss on your investment. In order for you to recoup your \$5,000 loss, the stock would have to trade back to \$40.00.

The doubling down strategy would have you buy another 500 shares at \$30.00 which would give you a total of 1000 shares. (500 shares purchased at \$40.00 and another 500 shares at \$30.00). This would produce an average purchase price of \$35.00 per share on 1000 shares, and is known as "dollar cost averaging."

With the stock at \$30.00, you are now only \$5.00 away from being even instead of \$10.00 away. This is because you now own 1000 shares at an average price of \$35.00.

With this position, the stock would only have to trade back up to \$35.00 for you to break even instead of the stock having to trade all the way back to \$40.00.



However, if the stock did trade back up to \$40.00, you would see a profit of \$5.00 per share on 1000 shares, for a \$5,000 profit.

This strategy worked very well during the bull market and for years, many investors made large sums of money buying the dips and doubling down.

In the table below, let's assume that we purchased the stock at \$40, as in our example above, and then purchased additional shares at the new stock price.

DOUBLING DOWN STRATEGY RESULTS (Per Share)						
Original Purchase Price	Current Stock Price	Original # of Shares Purchased	Original Stock P & L	Additional Shares Purchased	P & L of New Purchase	Total P & L Per Share
\$40.00	\$25.00	500	\$-15.00	500	\$-5.00	\$-20.00
\$40.00	\$30.00	500	\$-10.00	500	\$0.00	\$-10.00
\$40.00	\$32.00	500	\$-8.00	500	+\$2.00	\$-6.00
\$40.00	\$35.00	500	\$-5.00	500	+\$5.00	\$0.00
\$40.00	\$37.00	500	\$-3.00	500	+\$7.00	+\$4.00
\$40.00	\$39.00	500	\$-1.00	500	+\$9.00	+\$8.00
\$40.00	\$40.00	500	\$0.00	500	+\$10.00	+\$10.00
\$40.00	\$42.00	500	+\$2.00	500	+\$12.00	+\$14.00
\$40.00	\$45.00	500	+\$5.00	500	+\$15.00	+\$20.00

When the bubble burst, the greatest weakness of this strategy was exposed. When you double down, you are doubling your position to average down your dollar cost per share. However, along with the doubling of your position comes the doubling of your risk. The strategy works well when your stock rebounds, but not so well if the stock price continues going lower.

Once the bubble burst, many investors not only felt the sting of not being able to recoup their initial loss, but got hit with additional losses after they "doubled down" and their stock continued to trade down.

Let's look back at our example. Above, we purchased 500 shares of XYZ for \$40.00 and the stock traded down to \$30.00 leaving us with a \$5,000 loss. We then purchased 500 more shares in a double down strategy to lower our average cost. We now own 1000 shares at an average cost of



\$35.00.

Now let's say that instead of the stock rebounding, the stock continues to fall to \$25.00. The original purchase of XYZ at \$40.00 has netted us a \$15.00 per share loss for a total dollar loss of \$7,500. But we also have to account for the additional 500 shares we bought at \$30.00. This amounts to a \$5.00 per share loss on 500 shares for an additional loss of \$2,500. This brings our total loss to \$10,000!

As you can see, "doubling down" doubles your position both on the way up and on the way down. It can help eradicate losses but can just as quickly multiply them.

So what can an investor do?

Introducing the *Amazing Stock Repair Strategy*. This strategy involves buying one at-the-money call option while simultaneously selling two out-of-the-money call options on the same stock, in the same month.

For more Information about option trading, please click here:
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