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THE AMAZING STOCK REPAIR STRATEGY

Profit and loss chart showing how this Stock Repair Strategy works at different stock price levels

The chart will show the stock price, the price of both the Feb. 30 and Feb 35 calls, the individual profit and losses of the stock and the options and finally a profit/loss of the entire position, assuming the original stock purchase price was $40.

STOCK REPAIR STRATEGY RESULTS							
Current Stock Price	Stock P&L	Feb. 30 Option Price	Feb. 35 Option Price	Feb. 30 P & L	Feb. 35 P & L	Total Option P & L	Total Position P & L
$25	-15.00	0	0	0	0	0	-15.00
$27	-13.00	0	0	0	0	0	-13.00
$28	-12.00	0	0	0	0	0	-12.00
$29	-11.00	0	0	0	0	0	-11.00
$30	-10.00	0	0	0	0	0	-10.00
$31	-9.00	1.00	0	+1.00	0	+1.00	-8.00
$32	-8.00	2.00	0	+2.00	0	+2.00	-6.00
$33	-7.00	3.00	0	+3.00	0	+3.00	-4.00
$34	-6.00	4.00	0	+4.00	0	+4.00	-2.00
$35	-5.00	5.00	0	+5.00	0	+5.00	0
$36	-4.00	6.00	1.00	+6.00	-2.00	+4.00	0
$37	-3.00	7.00	2.00	+7.00	-4.00	+3.00	0
$40	0	10.00	5.00	+10.00	-10.00	0	0
$42	+2.00	12.00	7.00	+12.00	-14.00	-2.00	0
$45	+5.00	15.00	10.00	+15.00	-20.00	-5.00	0
$50	+10.00	20.00	15.00	+20.00	-30.00	-10.00	0

As you can see from the chart, the Stock Repair Strategy will get your position back to even at the same place as doubling down would have, and in half of the move required to recover your losses by just holding onto the stock. In our example, the prices are constructed to make the calculations easier and to work out so that the trade incurs no debit or credit. As mentioned previously, it is not often that the numbers work out this evenly.

Ideally, this 1 x 2 spread will be purchased for a credit; that is you will receive a little profit up front by doing the trade. It will not be much, but this credit (profit) should be factored into your return.

If you can't get the spread for a net credit, it is important to note that the closer to even that the trade sets up for, the better result you will see from the trade. Remember, since the trade will be very close to even to begin with, it is only important to note that the closer the trade is to even, the better – unless you can put it on for a credit.

Conclusion: The goal here is to try to make back the money lost without the stock having to trade all the way back to the original level. Doubling down (also known as "Dollar Cost Averaging") does accomplish this but you must have substantial additional funds to cover another stock purchase and you must be aware that you now have twice the size of the position thus twice the risk if the stock continues to trade down. This can translate into even larger losses on continued downward movements.

Also note that Stock Repair works best on more volatile stocks trading in wide intraday ranges, because the volatilities will be higher so you can generally sell the out of the money calls for more money.

It also works best on a stock that recently declined rapidly, and lost 10 – 25% of it's value unexpectedly, because here you would most likely expect to see some degree of technical bounce. Generally, you would also be able to receive higher premiums from selling the out of the money calls while volatilities are high, to offset more of the cost of the at the money calls you would purchase.

Knowing this, the Stock Repair Strategy, alleviates the two major risks of the "Doubling Down Strategy" while still allowing for recapturing losses in less of a move if the stock rebounds.

First, the reason we buy one option and sell two is so that we do not have to put up additional capital, as you would have to when doubling down. You may have to put out a small amount of money if the 1 by 2 spread produces a debit, but it will be pennies on the dollar compared to another stock purchase, plus commission costs.

Second, the Stock Repair Strategy allows an investor to recover from a loss with less of an upward move in stock price.

So, next time a stock that you own trades down sharply, in a short amount of time, take a look at the option premiums and see if the *Stock Repair Strategy* might work for you.

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