HOW TO

FIX A LOSING STOCK POSITION

Tom Gentile's
Power Profit Trades
Weekly Money Doublers From America's #1 Options Trader

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So you bought a stock, and now it's falling – and you're just standing by, watching the money drain from your account.

I've been there before. Anyone who has spent a decent amount of time in the market has been there before.

But there's one thing that separates the good traders from the bad – and that's knowing how to get your position out from under water.

Now, first things first: You only want to fix a losing stock position if you believe the stock will rebound and continue to rise. If you think the stock is destined to fall, then you need to get out immediately. Just sell the stock and take the loss. It's always smart to preserve capital for the next trade.

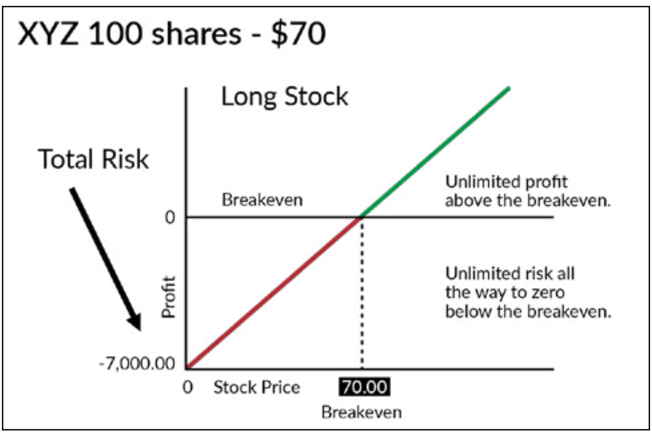
But if you think the stock has still got some juice, then you'll want to fix it. And to do that, there are three things you can do…

1. **Wait.**
   Basically, this involves doing nothing but sitting around, waiting, and hoping for the stock to go back up. Now, in my 30-plus years of experience, this hasn't worked. And if it worked for you once, it likely won't again. This is essentially a surefire way to have a front-row seat to the draining of your trading account.

2. **Double Down.**
   The double-down approach involves adding more

money to the trade at a lower price in hopes of bringing your breakeven down. Let's say you bought 100 shares of XYZ stock at $70 per share for a total investment of $7,000.

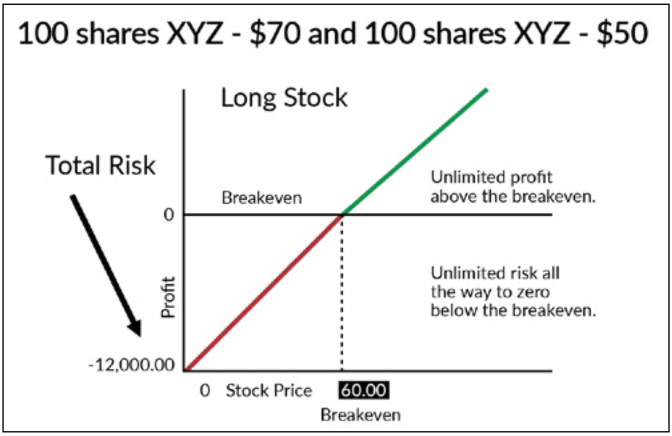
Your total risk would be your initial cost: $7,000. And your profit potential is limitless, moving up alongside the stock. Your breakeven is $70 – the price at which you bought the stock.



But after buying these 100 shares, the stock falls from $70 to $50. Using the double-down approach, you would attempt to lower your breakeven by buying into the stock as it drops.

So say you buy 100 more shares, this time for $50 each, bringing your investment to $5,000 – which, added to your original investment, brings your total to $12,000.

You lowered your breakeven, sure. But in the process, you added more cost and risk to the position. Now, you can't just lose $7,000 – you can lose up to $12,000.



Now, I wouldn't recommend waiting *or* doubling down. Because the third route involves lowering your breakeven as well – but you don't have to shell out a penny of additional cash.

3. **Fix It.**
   This is the best way to fix a losing stock position – turn to options.

   Once the stock drops, buy one at-the-money (ATM) call while simultaneously selling two out-of-the-money (OTM) calls. Essentially, you're robbing Peter to pay Paul. The premium you receive for selling the OTM calls will pay for the ATM call, creating a zero-cost trade that you can layer on top of the stock price.

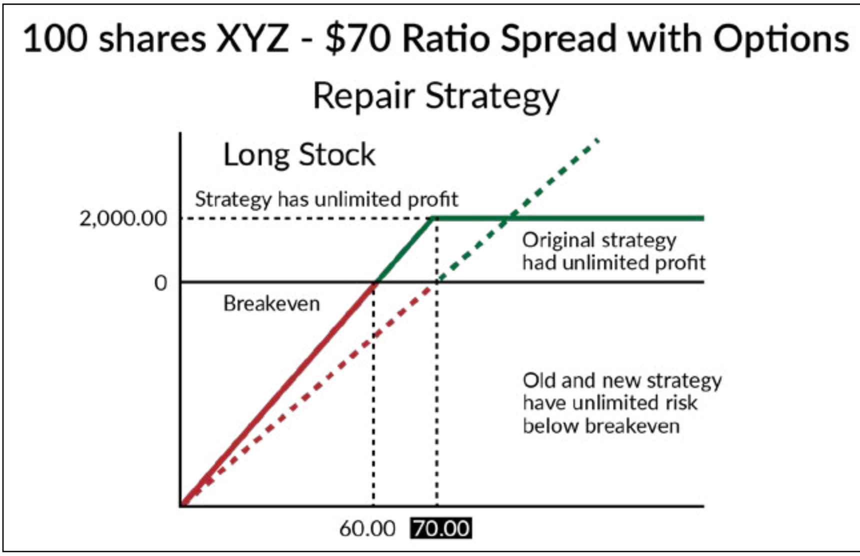
Let's take the same example we've been using. You bought 100 shares of XYZ stock for $70 per share. Then the stock drops to $50.

ATM means that the option's strike price is the same as the stock price. So you purchase a $50 call on XYZ stock. OTM means that the strike price is more than the stock price. In this case, you'll want to set your strike at the price you originally paid for the stock – $70. So you sell two $70 calls on XYZ stock.

The $50 call will run you about $7.00, or $700 for control over 100 shares. At the same time, selling the $70 calls will hand you $3.50 each, or $350 per contract, bringing your total income to $700 – creating a free trade.

BUY one ATM Call: $50 XYZ Call	-$700
SELL two OTM Calls: $70 XYZ Calls	+$350
	+$350
The Fix-It Approach	**$0**

Now, let's layer this trade over your stock position in the risk graph below:



The dotted line is the original position, and the bolded line is your new, free trade. As you can see, we've lowered the breakeven to $60 – without increasing the risk or spending any additional cash.

Now, there's just one disadvantage. Your option trade has a capped profit, while the original stock position had an unlimited profit. But remember – when a stock is falling, turning your position into a loser, it's not the time to be greedy. When a position goes against you by several points, you shouldn't be worried about profits. You should be worried about saving money.

And that's exactly what the Fix-It approach does.

To your success,

Tom Gentile

America's #1 Pattern Trader

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