Restivo Long Call Option Strategy

This is the main technique for my personal brokerage accounts. Investors are recommended to invest in equities and options with their investment advisor's help. Long term theoretical practice, without risking any money, shows the effect on equity and option markets due to macroeconomic, microeconomic, political and natural events. These conditions cannot be anticipated and are risk components which cannot be eliminated or minimized. Modern portfolio management however, can in the aggregate, minimize the net effect of event driven risks and market risks.

1. **Buy K shares of a mature, profitable and slightly bullish company, where K = 100, 200, 300 ….**

2. **Write K/100 OTM (Out of The Money), 1 month, long call option(s).**

3. **Using cash premium(s) received; buy OTM, 3 month, long call option(s) of a more bullish equity.**

4. **Alternatively, using cash premium(s) received, buy OTM, 3 month, long call stock index option(s) having American style expiry only.**

Long call option value varies **directly proportionately** with the value of the underlying stock equity. As the underlying stock **increases** in value, the call option **increases** in value proportionately. **For long call options, "downside risk" means "when the equity is decreasing in value"**.

When writing long call options, a short duration to option expiry **minimizes** exercise risk, as the option value rises above the strike price in a **bullish** market, increasingly the probability of forcing the **sale** (option exercise) of the underlying equity. The exercise of the options' underlying stock, albeit at a small profit, as the option was OTM, will not be at a profit as high as the profit indicated by the **bullish** momentum of the underlying stock.

When buying long call options, a long duration to option expiry **maximizes** the ability of the option value to rise above the strike price in a **bullish** market for maximum, theoretically unlimited profit with limited downside maximum risk equal only to the cost of the options(s).

When buying options, using long call (or long put) only, the redundant and unnecessary costs of combination spread options (sometimes involving calls and puts, short calls and short puts, that must be bought to close the combination spread opening position prior to or at expiry), are eliminated.

Option spreads involving 2, 3 or 4 legs to open and the same number to close, introduce a limit on the maximum possible profit, in addition to the expense of redundant positions within each trade.

Equity positions are of the buy and hold for a long time, so worries over transient perturbations of the stock market in a week or month are not critical to stock value. Equity values are “mean seeking”, following the 200 day moving average for each stock respectively. “Protective puts” to sustain equity value in down markets are, on average, unnecessary under this type of long term equity portfolio position.