The Stock Market's "Fast-Cash Window" Just Opened – And Here's the Strategy to Deploy Today

The stock market has been resilient over the past several weeks.

Although stocks have pulled back since late July – the Standard & Poor's 500 Index is down about 8% or so – the pullback has been quite orderly. I see this as a perfectly ordinary mid-course correction – and not the start of something more sinister.

If you look at market breadth and sentiment, stocks are actually extremely oversold – so oversold, in fact, that I view this as a bullish contrarian signal for stocks.

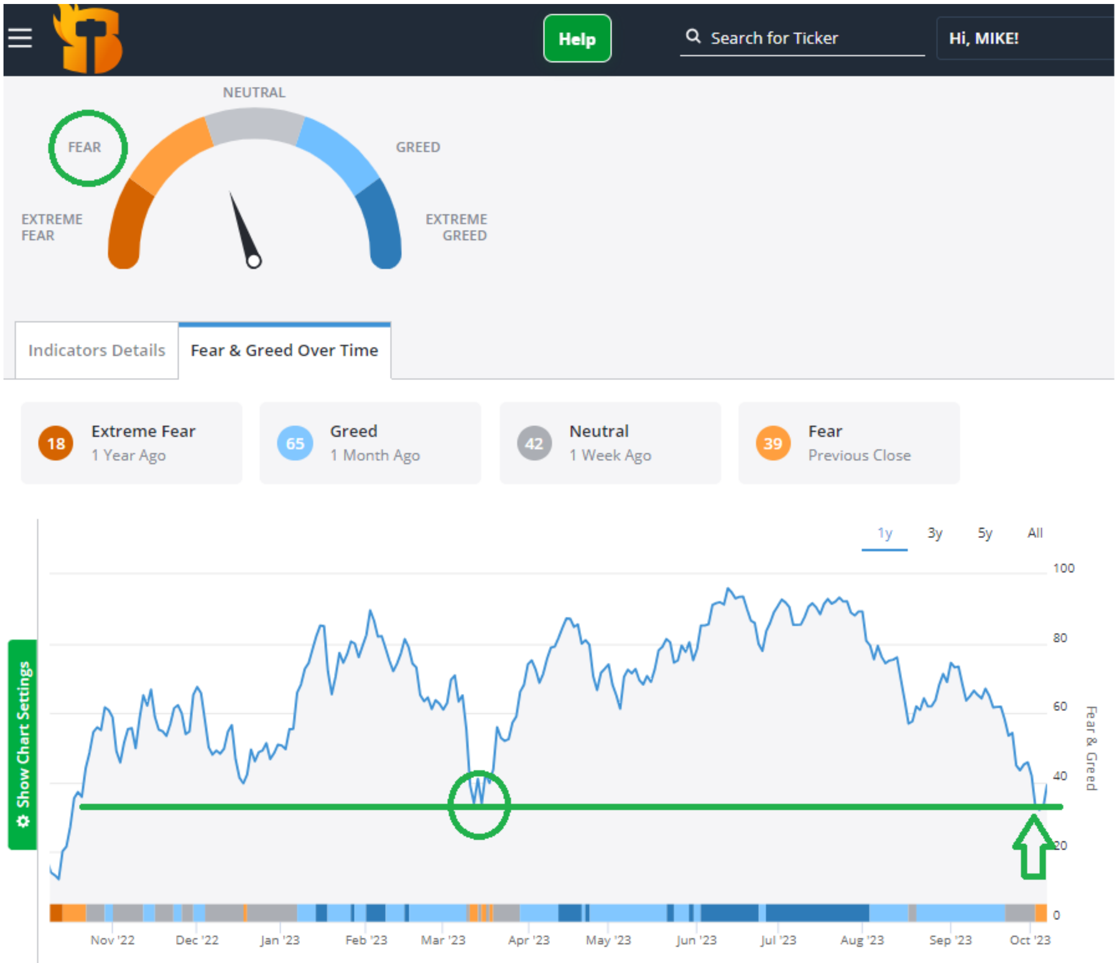
All of this seems to be telling us that a "fast-cash" profit window for stocks will open – and stay open – between now and the end of the year.

That's the prediction.

Now here's the proof – and some great ways to capitalize.

First, The Facts

Let's start out with "Exhibit A" – our own Fear & Greed indicator, which you'll find on the Markets section of the *TradeSmith* dashboard as shown below.



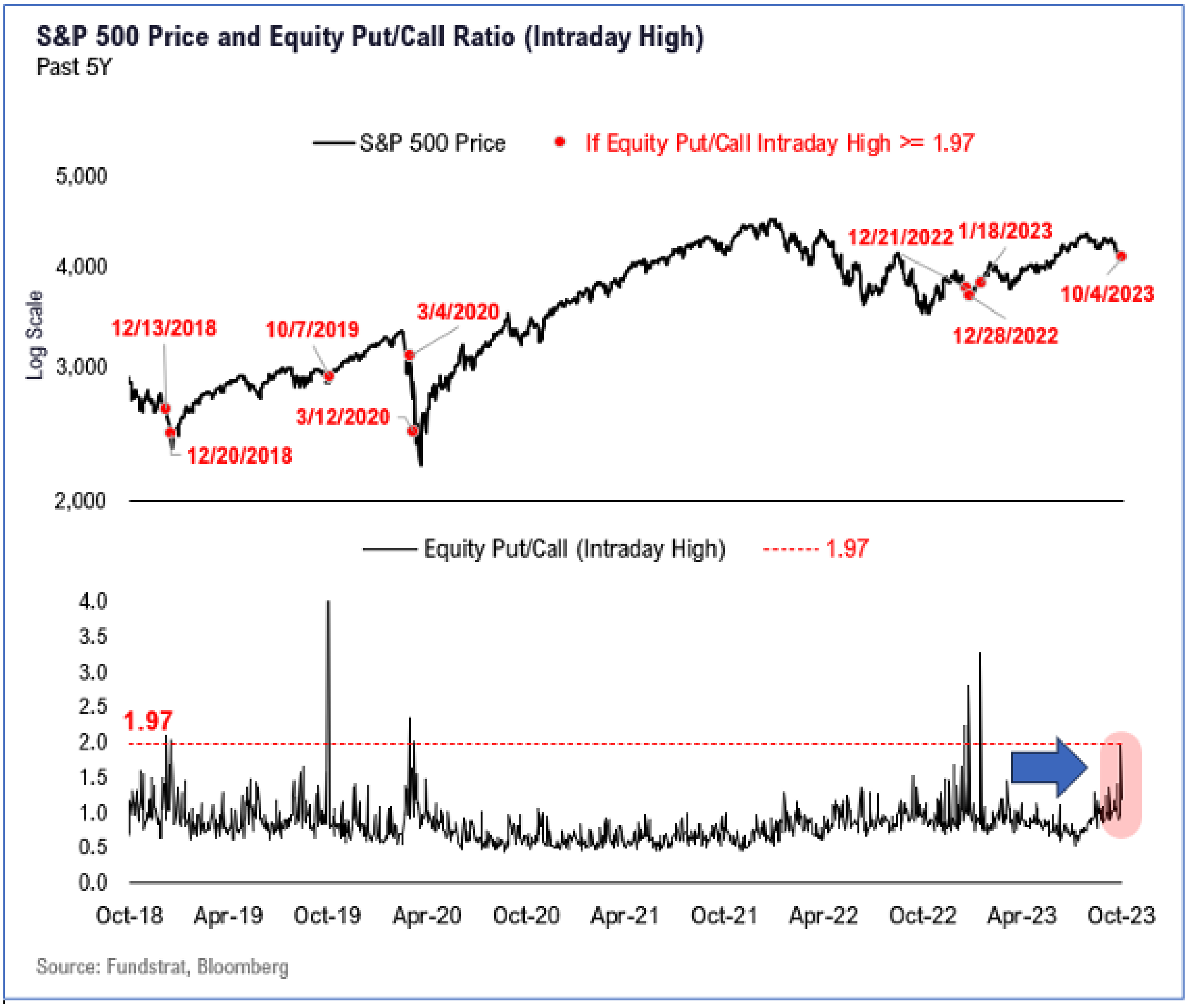
As you can see, "fear" in financial markets is clearly in the driver's seat right now. In fact, our fear gauge just registered its lowest reading since March, around the 30 level.

I interpret this as a contrary bullish signal for the stock market. And sure enough, after that last dip into extreme fear back in March, the S&P 500 blasted 16% higher in just over three months.

For "Exhibit B," let's turn to the wonderful world of stock options.

Folks use stock options for all sorts of reasons. Pure speculation or perhaps to hedge a long or short position in stocks. Or there's the way I prefer to trade options in my *Ultimate Income* service – using them to generate cash right now, while also setting yourself up to snag high-quality stocks at a discount.

The ratio of trading between bullish call options and bearish puts can reveal a lot about market sentiment. The Chicago Board Options Exchange (CBOE) equity put/call ratio can also signal when market sentiment is too bullish or bearish providing contrarian signals to buy or sell stocks.



Recently, the put/call ratio sank to an *extremely* oversold (or bearish) level of 1.97, as you can see in the lower panel (marked with the blue arrow). That means almost twice as many bearish put options traded compared to bullish calls.

And looking at the chart of the S&P 500 in the upper panel, you can see that such extreme readings in the put/call ratio have most often led to a trend shift to the upside in stocks.

In fact, when this signal has triggered in the past, the S&P has been up 80% of the time over the next six months – with median gains of 9.6%. Even better, stocks have been up 100% of the time over the following year, posting average gains of 18.4%.

So, with the stock market oversold *now*, it may be just about time for a bounce higher.

And that gives us a great opportunity to earn that "fast-cash" income from options trades – using our *TradeSmith Options360* screening tools.

Earning Income 'The *TradeSmith* Way'

One great way to do exactly what we've talked about here is to sell put options on select, large-cap stocks. By doing so, you can look to make money two ways:

- By targeting high-quality stocks you want to buy at a discount – while getting paid (income) to do so
- Or just trading for cash premium – without intending to buy the underlying stock.

Either way, selling put options is an ideal strategy to consider.

But let's assume that you're only in in for the money. You want to sell put options for quick income, but don't want your money tied up long term by getting "put" the shares of the underlying stock.

Let me show you how to do that the *TradeSmith* way.

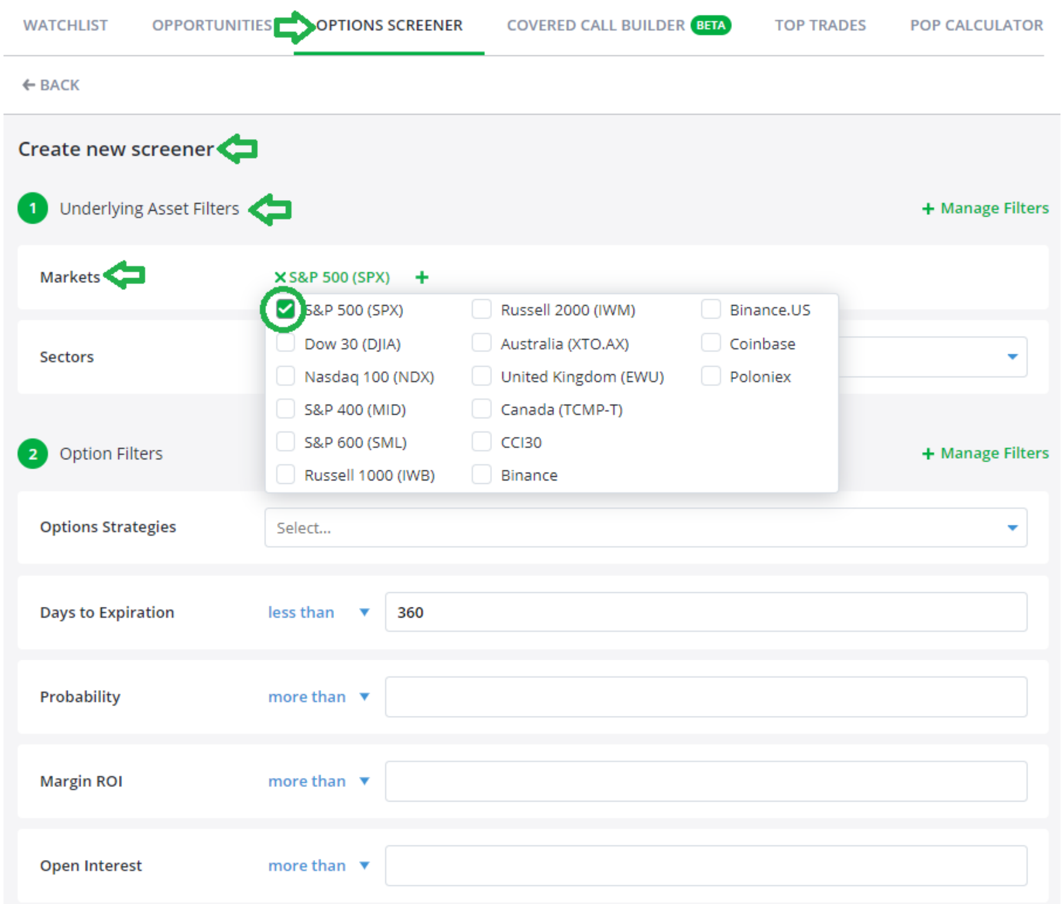
As a reminder, our options screening tools are available to our *Options360, TradeSmith Essentials*, and *TradeSmith* Platinum customers.

First, be sure you are logged in to *TradeSmith Finance*. Click on the **Options** from the main menu bar, then on the **Options Screener** tab, and click on the "+ Create new screener" button.

On the next page, click on the "+ Manage Filters" link (as shown below). Note that because I have Platinum-level access, I may have filters you don't see in your account.

As you can see below, the screener page has these two sections:

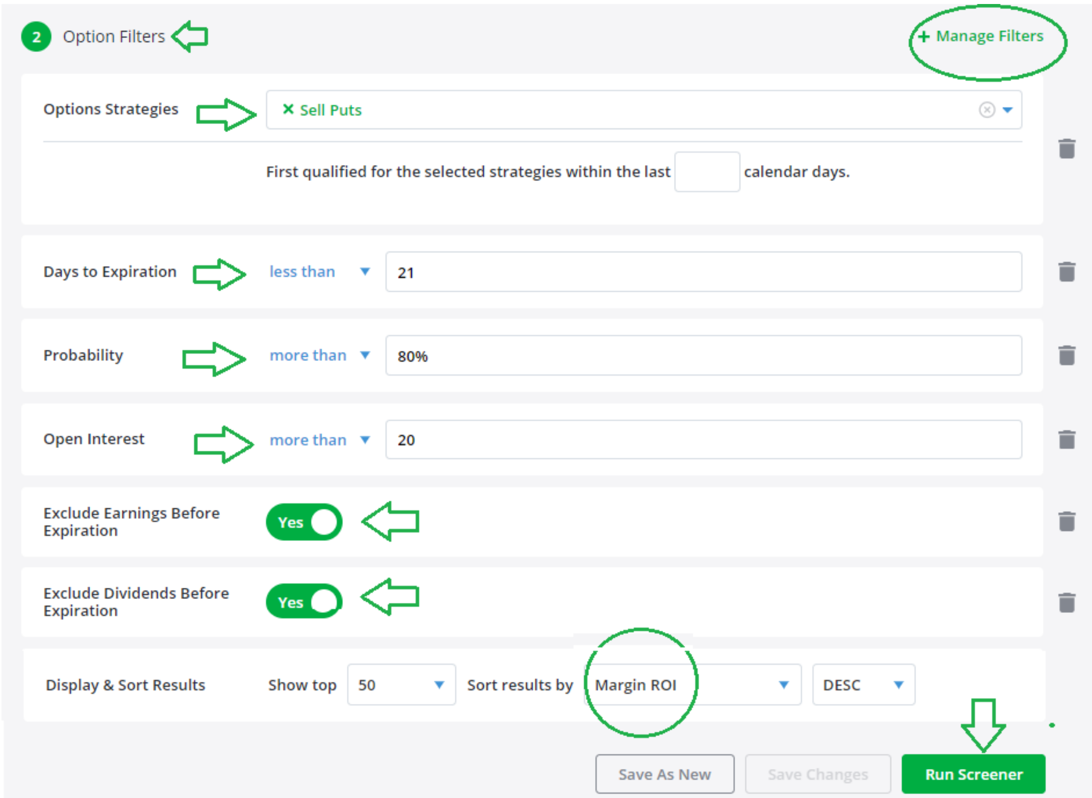
* Underlying Asset Filters.
* And Option Filters.



In this sample screen, we'll use a bit of both. First, for Underlying Asset Filters, as shown above, we want stock options.

And since we're interested in quality stocks, let's filter for only stocks found in the S&P 500 Index as shown.

Under Option Filters, let's narrow the field to sell put trades with a very high probability of success. You can simply click on + Manage Filters to add the option filters shown below, or to add any filters you want to use.



First, under ***Options* Strategies**, select **Sell Puts**, which screens for stocks that meet our criteria for *Options360* put-selling candidates.

Second, under **Days to Expiration,** we want to go short term with selling put options. That's because we don't want our money tied up *too* long. And the further out in expiration you go with any option – puts or calls – the greater the odds they could be in the money.

Our objective here is to generate short-term income from the put-option premium earned. So select **less than 21 days** until expiration.

Next – and this is important – under **Probability,** I'm selecting **more than 80% Probability of Profit.** We do this because we want high odds of the option expiring out of the money, which means you'll pocket the entire premium earned.

Under **Open Interest (OI)**, you want to choose "liquid" stocks that are actively traded. So insist on at least *some* open interest, meaning other investors are trading the options. In this case, I chose **more than 20** contracts of OI, but you could adjust that higher or lower to filter your results even more.

Finally, when selling put options for fun and quick profit, you don't want to trade options around key corporate events. And especially not around dividend-payment dates or quarterly earnings reports, which are coming up soon.

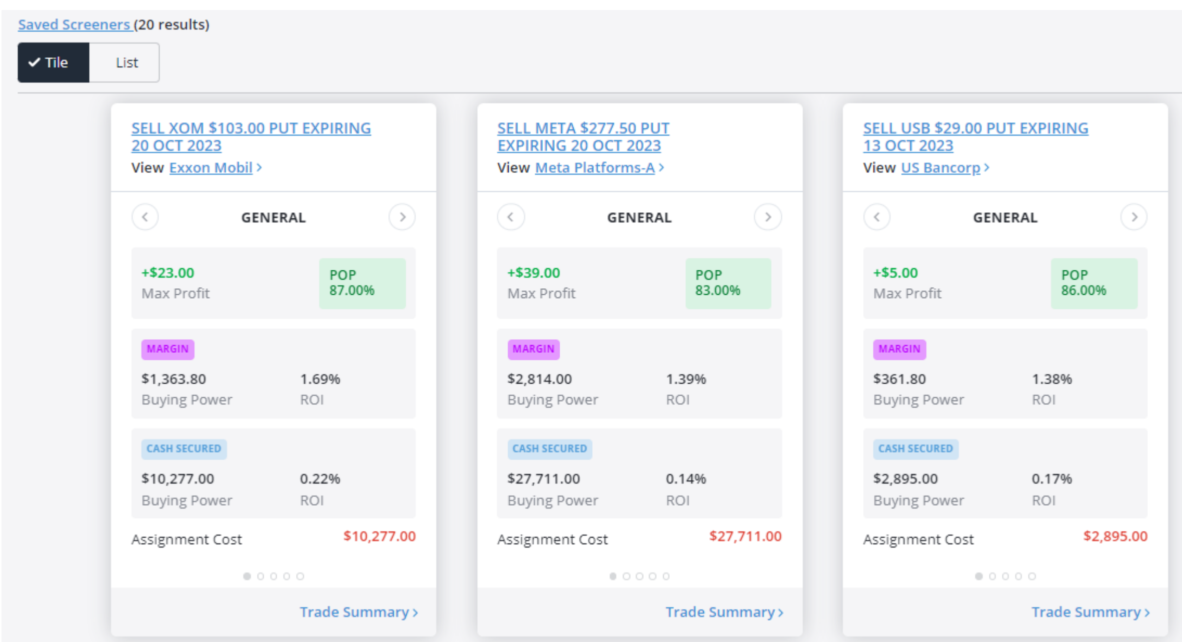
If investing and trading are akin to a river-kayaking trip, these corporate-event windows are like the white water rapids: They can flip you from end-to-end – or leave you submerged upside down. You see, stocks can get whipsawed during earnings season. And they can trade down when they go "ex-dividend," especially if the payout is a big one.

So the best course of action is to avoid these rough waters altogether. And two key filters – **Exclude Earnings Before Expiration** and **Exclude Dividends Before Expiration** – can make this happen. So toggle **YES** to each.

Now that you have the filters you want, be sure to click "**Save as New"** (so you can go back to your work later), and then click "**Run Screener**."

Display & Sort Results: I want the results sorted by "Margin ROI, DESC" (descending). That means the opportunities most likely to deliver the biggest bang for your buck will be displayed right at the top.

I got 20 total opportunities when I ran this screen yesterday. But given our space constraints, here's a sample of what I found.

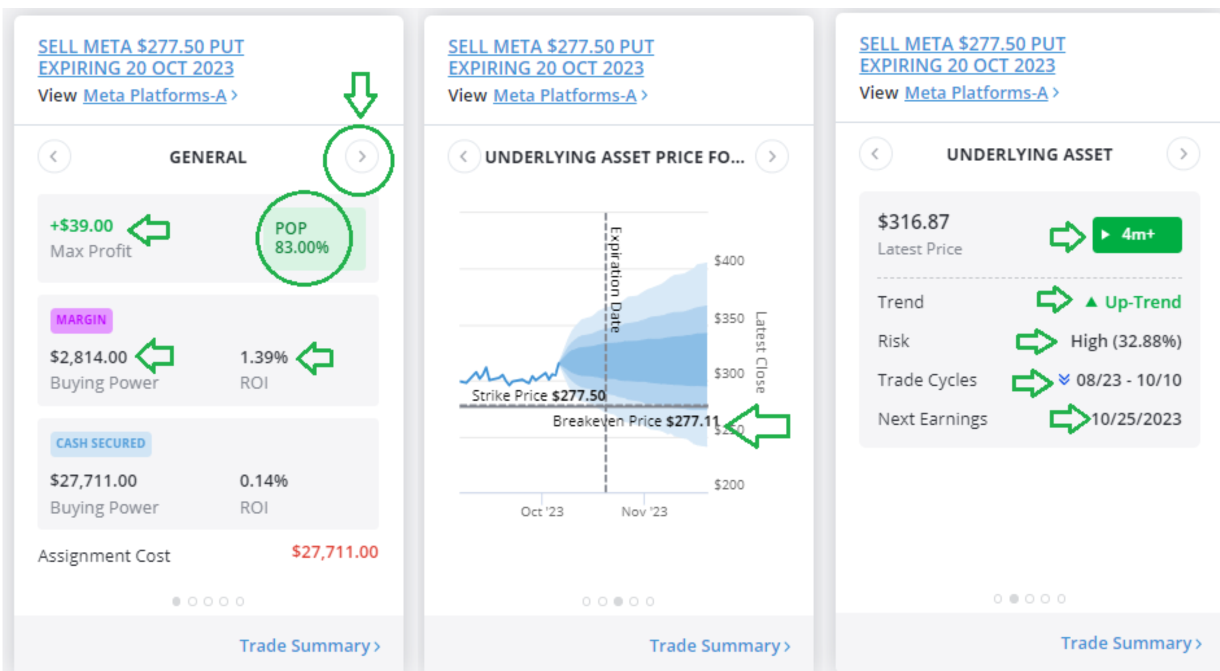


Exxon Mobil (XOM), Facebook-parent **Meta (META)**, and **U.S. Bancorp (USB)** are each high-quality stocks you can consider selling short-term puts on to earn current income.

Let's use META as an example that'll let me show you how to evaluate the options trade.

I chose META because of its thumping trifecta of high POP (83%), strong ROI (1.39%) and max profit potential of $39 per put option contract sold. And while the ROI and profit may not sound super alluring at first blush, remember that we're talking about an options trade that expires on Friday, Oct. 20 – or a quick eight trading days from now.

With our *Options360* tools, you can potentially find trades like this every week or so. And if you earned 1.39% on your money with a quick put option sell every two weeks, that could add up to a 36% ROI over the course of a full year.



OK, let's evaluate the META trade as shown above. By clicking on the left/right arrows as shown circled, you can scroll to more detailed information on the trade.

The first panel, at left, shows you the **General** statistics for the trade including:

- At top left is the trade description: Sell META $277.50 put expiring 20 Oct. 2023.
- Max profit is $39 per contract sold, with an 83% POP – very high odds.

- The trade takes $2,814 of your account's buying power using margin; but, remember, that's for a mere eight days.
- And you can see the trade's ROI is 1.39% over that eight-day period.

The second panel in the middle is a graphical representation of the trade's probability of success. According to our *TradeSmith* **Underlying Asset Price Forecast**, there is only a sliver of a chance that META will fall below the $277.50 strike price during that period.

The breakeven price of $277.11 is also shown. As long as Meta shares close above that level in eight days, you win and get to keep the full premium.

The far-right panel gives you key stats on the underlying asset; in this case, META is:

- Currently trading at $316.87 and in our Health Indicator Green Zone for more than four months.
- The underlying stock is in an Up-Trend and carries a high risk with a VQ of 32.88%.
- Our Trade Cycles timing indicators show it's now in a valley up-turn area.
- And the next earnings report isn't until Oct. 25, *after* the option expires.

When I'm searching for a put trade with a high win potential, that's pretty much everything I look for: A healthy stock trending higher that's also in a cycle valley (meaning the next move should be higher) with no volatility-igniting news coming up.

Mike Burnick's Bottom Line: There are plenty of great ways to use our *Options360* tools to go after speculative profits – with put or call options, or with options spreads. And you can do so with a high probability of success. Or you can "be like Mike" (I've been dying to say that), and use them as I do in my ***Constant Cash Flow*** trading service – selling puts to generate instant income with a 99.4% success rate. And if the stock market has bottomed, you're talking about an excellent time to do exactly that. You can also use our tools to select covered call option trades on stocks you own to generate extra income. The stock market cash window is open. The possibilities are limited only by your imagination, and your buying power.

Good investing,

Mike Burnick
Senior Analyst, *TradeSmith*

P.S. If you have any questions or concerns, feel free to reach out to me at **emailmikeburnick@tradesmith.com,** and include "Inside TradeSmith" in the subject line or at the top of your message.