

The Wheel

The cycle of cash-secured put, shares, and covered call.

also: options wheel · wheel strategy · triple income strategy

THE CYCLE

- 1 **Sell a cash-secured put**
Cash-Secured Put · Page 07
Collect premium, and pick the strike where you want to own the shares.
- 2 **Assignment**
The price closes below the strike: 100 shares land in the account.
- 3 **Sell a covered call**
Covered Call · Page 08
Collect premium on the shares and fix the selling price.
- 4 **Called away**
The price closes above the call strike, the shares go — back to step 1.

One pass; the cycle then starts over.

KEY FIGURES

Maxprofit	all premiums collected + price gain
Maxloss	share risk - all premiums
Break-even	cost basis after assignment - premiums
Profitzone	price above the break-even of the cycle
Capitalrequired	strike × 100, permanently
Opening	premium is collected

WHAT HELPS THE POSITION

Direction	Rising prices help
Movement	Large moves hurt
Time	Time works for you
Volatility	Rising volatility hurts

WHAT PAYS YOU

Time decay Size of the move against you

You get paid on time decay in every phase - while carrying full stock risk the entire time.

TYPICAL USE

Market phase	sideways range, quiet upward drift
Volatility	medium (IV rank 30-50) / high (IV rank > 50)
Goal	Income, Acquiring shares, Disposing of shares
Expiration	30-45 per cycle days
Strike choice	0.20-0.30
Assignment risk	high, and intentional

EXIT & MANAGEMENT

Take profit	50% per individual trade
Loss limit	the stock thesis, not the individual trade
Time rule	21 days to expiration per leg

THE ONE QUESTION BEFORE ENTRY

Would you buy and hold this stock even without the option premium?

COMMON MISTAKES

- Run on high-IV single names: the premium is high because the risk is high
- After assignment, sold covered calls below cost basis and locked the loss in
- Never compared the return on capital against simple buy-and-hold



Related: Cash-Secured Put · Covered Call — Opposite: Protective Put
Figures are per contract unit at expiration, before fees and tax. This is not investment advice — options can lose their entire value.