

## [Protect Your Stocks Using Put Options - The Collar Strategy](#)

The average stock trader will simply buy stocks based on some selection criteria, and then for the most part, will simply hope for the best that the stock will go up in value, and in a bull market there's a good chance that will happen.

In fact when the market goes up about 70% of stocks will also go up and in the same way when the market goes down it will also take about 70% down with it. This is what is called trading with the trend, you can see that 75 out of 100 stocks follow the market direction so by following the trend you statistically have a much better chance of making money.

But what if you own some good stocks and don't want to sell when the market is clearly going down, or about to go down?. There are a couple of tactics that you can consider, both of which involve the use of options, CALL options and PUT options. There is the widely known strategy called Covered Calls, and the much lesser known one called the Married Put.

Option trading can be very confusing and difficult at 1st, actually it's not that complicated once you have had a good education in the subject. However if terms like Put and Call Option, Married Put and Covered Call don't mean anything to you, don't attempt to trade options until you get that essential education in the theory.

Call options are bought and sold in 100 share blocks, this is 1 option contract. When doing a covered call you sell 1 call option contract for every 100 shares that you own. The value of the call option will go down if the stock goes down, giving you the chance to either let it expire worthless or buy it back at a much cheaper price. Either way you can get about 4-6% downside protection, but if the stock decreases more than this then you will have to take a loss.

Stocks in a bear market, and even in a bull market, can drop quickly on news or earnings releases, as much as 15 to 40% within a month. Using covered calls to protect your stocks will only provide limited protection of less than 7% at best and so will not save you if the stock takes a 40% tumble.

The Married Put is the preferred way of protecting stocks, over the covered call, this is because it offers much larger protection. As the stock goes down, the Put will gain rapidly in value depending on it's delta value and strike price, these have to be selected carefully to match the stock, hence the term married Put.

There are a number of parameters that need to be considered when creating a Married Put for protection, the following list highlights the main points:

1. What strike price is selected for the Put option
2. The price of the stock
3. Choice of options, in or out of the money
4. Time to expiration of the Puts

Even though the married Put protection only has a limited life span it offers much more protection than the covered call. It can provide as much as 95% loss recovery in the event of a significant drop in the stock price.

The disadvantage of the Married Put strategy is that you have to buy the Put option, i.e. it costs you money, whereas the covered call is a net credit, whoever said option trading was easy?. Having said that I have not yet told you the full story of the Married Put, there's much more. There are ways of offsetting the cost of the Put so that this strategy becomes self financing and can make heaps of money when the market is very volatile.

The general idea of the Collar Trade is to combine the covered call and married Put strategy into one, this is what is called the Collar Trade. In effect you put a collar around the stock, sell a call and buy a PUT. If you do this correctly most of the cost of the Put can be offset by the credit from the covered call so you can protect your valuable stock at almost no cost. Yes this is a great strategy which the general public is unfortunately very ignorant of, and most brokers don't understand.

### About the Author

James J. Dehoiver is an experienced options trader, he also loves to [learn stock trading systems](#) and master the top [technical indicators](#) for stock investors.

