Welcome to Money for the Rest of Us. This is a personal finance show on money, how it works, how to invest it, and how to live without worrying about it. I'm your host, David Stein. Today is episode 565. It's titled Small Gains, Big Losses: The Hidden Risk of Steady Income.

I recently had dinner with a friend, and he mentioned that he had gotten involved in options trading, and he was really excited about it. It was an outfit called Low Stress Trading. And the reality is, whenever I hear the word low stress as it relates to any type of investing or betting, red flags go up. And I was particularly concerned regarding this particular strategy after I spent time on their page.

Now I've invested in options for decades, so options themselves are not bad. They can be used to protect against losses. They can be used for speculation. But what we don't want to do is confuse the income, the high levels of income we can get from selling protection, selling puts or selling calls as part of a covered call strategy. We cannot forget that that income is not the return.

This is insurance, and Low Stress Trading emphasizes this is an insurance type strategy, but they ignore the potential for losses. So we want to take a look at some of these option income strategies, understand what the returns are, what's a reasonable rate of return, how they work.

And we're going to broaden it out to other examples where we collect income. But oftentimes we forget the fact that there are potential losses or expenses that offset that income. And we just don't want to be taken in by the promises of high income. And that's what Low Stress Trading is doing. They're promising very high income.

A One-Hour Sales Pitch

Here's a rule of thumb for any type of sales page or landing page. The more words, the more text, the more wary we should be. And in this case, Low Stress Trading, 15,300 words on their sales page. They suggested they spent over 200 hours on it. Now, if we compare that to Money for the Rest of Us Plus, our premium community, our sales page, about 1,500 words. It takes about six minutes to read, not an hour to read the other sales page. And so it's much shorter.

The other thing to be wary of about with this type of strategy is we want to look at what the performance record has been for any type of investment service. For Plus membership, we share the historical returns for our model portfolios. If we look at Low Stress Trading, they've only been trading since 2022, late 2022. Now, keep in mind, 2022 was a difficult time if you were in options trading.

Back in episode 323, I featured another friend that had got involved in option trading. He was using the wheel strategy, which is similar to the strategy that we are going over today, where you're selling puts on single stocks or ETFs, you're collecting the premium income. It's very, very high income, but at some point you're going to experience a loss and we'll see why that is. And this other friend, I asked him about it in 2023.

Are you still doing this? Because he was super excited about it. And he said, well, not as much because he had some positions that that sold off, that they fell below the strike price for his puts, and then he had to sell calls on them and his portfolio was smaller. He didn't have as much money. And he said it just wasn't as fun because he couldn't redeploy because he had these underwater assets.

Never a Losing Week?

Now, when we look at the track record for Low Stress Trading, not only about 17 months of a track record, they haven't updated it since April 2025. And so they're suggesting they've never lost money in a single week. But we don't have the record and they haven't updated the record. What do we share for Money for the Rest of Us Plus? We try to be incredibly transparent. We show the historical returns for our model portfolios.

We show the standard deviation, we show the maximum drawdown. And and I share my portfolio. I share every single trade of my portfolio. Now I'm not here to to pitch you on Plus membership. I'm just comparing a sales page that is overpromising and, and not fully disclosing their abilities because they're not showing performance, at least not very much performance. And they've not been doing it for very long.

The 68% Promise

Now, here's what bugs me the most about Low Stress Trading. They say they make 1% a week, and compounded, that equates to a 68% return. And indeed they target, when you sell a put with their strategy, you're targeting premium income of 1% per week. And then they say 98% win rate, which suggests that 2% of the time you lose money, and that's the problem. You're going to lose money with a trading strategy like this, and that will bring down your return.

Now you can still have a positive return options trading, or this type of simple option strategy. Like I said, I've been doing it for decades. It has a positive expected return. It is investing, but it's not 68% return. It can't be. And I'll share why.

What to Expect

Here's what you can expect from an options strategy where you're either selling puts or it's a covered call. It could be a single stock, several stocks, it could be an index. 6 to 8% annualized. That's the return. That's the historical record, because you're going to get, with any type of insurance that you're writing, there are losses. You think about an insurance company, they collect premium income, they invest the proceeds, but then they pay out losses, be it home insurance.

I've invested in catastrophe bonds. So cat bonds, we did an episode earlier this year. It's in the show notes as a related episode. In this case, they're selling insurance, reinsurance essentially, to protect against natural disaster losses. My expectation for this strategy is a 6 to 8% return. The ETF I'm invested in, the Brookmont Catastrophic Bond ETF, ILS is the ticker. It has an 8% return annualized.

Now, it's still a newer track record, but there's going to be losses. That's what you get when you're writing insurance. And when you're selling a put or you're selling a call, you are writing insurance, and there are going to be losses that are going to reduce your premium income.

Covered Call and Put Writing Funds

Now, here are the returns of various option strategies that that have been around, and some I still invest in. The first one I ever invested in, we recommended it as an institutional client. It was in our client portfolios, the Gateway Fund. They've been around since, I believe, 1997. They've had this fund. Now, if you look at the long term track record, ten years, around 7%, 15 years, 6.3% annualized, 20 years, 5% annualized.

They're selling calls on the S&P and they're selectively buying puts to protect against the downside. So this is more of a collared strategy. This isn't a straightforward covered call or a straightforward just selling puts.

But a buy-write strategy is, yes, Invesco S&P 500. That's a covered call strategy. PBP returned 8% annualized over the past 15 years. The WisdomTree Equity Premium Income ETF, I've invested in this ETF since 2020. It is selling put options. So this is this is similar to what Low Stress Trading is suggesting. This is a simple sell puts on the S&P 500 in this case.

And they sell a put, assuming they gauge their put trying to earn 2.5%, and they'll hold the put for 4 to 5 weeks, and they collect that premium income, again, 2.5%. That's a lot. And then if you compound that, that's 60% type returns over the entire year if you don't have to pay out any losses. And look at the, the ten year annualized return, 8.3%.

Now, the return of these strategies very much also depends on the performance of the underlying index or stock. There's something called delta, and it talks about how the premium income and how the option pricing will change based on the movement of the underlying security that the option is based on. And so if we look over the past ten years for the S&P 500 index, it's returned 15.5% annualized. These various strategies that are based on either they're selling calls or they're writing puts, they've earned about half that amount. And that's why I say reasonable expectations, 6 to 8% annualized.

Even an ETF like the YieldMax TSLA Option Income ETF, TSLY, 50% distribution rate. That's what it's paying out. What's its three-year annualized return been? About 8.8%, because it's writing calls, but you're exposed to all the downside of the stock. And that can hurt the return and it lowers the return. So the income can be massive, but there are also losses. And because there are losses, that's why the premium income is so high.

Two Sides of Every Option

Now there are two sides to every trade. When you sell an option or when you buy an option, if you're a buyer, you pay the premium. If the seller, you collect it. If you're buying that protection, let's say you're buying puts, you're suffering a small loss all the time. It doesn't feel very good. And as humans, we're not wired to do that, to keep losing money every week in order to to protect ourselves. It can feel wasteful.

Whereas if you're selling puts or you're selling calls, you get that income hit every week, that dopamine hit, and it feels safe. But occasionally, rarely, there's a large loss. And then if you're buying, you get you get the gain.

And so psychologically, and this is why these trading academies, they and they're talking about a low stress way of doing options, they can charge $2,500, $5,000, $6,000, because it seems so easy, especially during a bull market where there haven't been as many losses. But if we look over long periods of time, it brings the return down, 6 to 8% annualized.

What Drives the Return
So what drives return if you're doing a selling put type strategy such as Low Stress Trading is doing? Well, first off, you have cash set aside. So you're earning interest, cash interest, T-bill interest. And again, the value of the put, it's part of whatever the stock is doing. During periods where stocks do very, very well, then there's going to be less losses. And so that's going to drive the return.

A big component, though, is the volatility premium. Options, be they puts or calls, their pricing depends on the expected or implied volatility of the underlying stock. And then if the actual volatility is less than or greater than that, that will determine your return. If the implied volatility is very high and the stock's actual volatility or the index is lower, then you're going to earn a positive return over time.

And that's the benefit of something like WTPI, where they're selling puts on the S&P 500 index. You have a positive risk premium, a volatility premium, that you get because of that strategy. And because the people want that protection so much, that insurance protection, they're willing to overpay for it. And so the premium income is higher than it should be because the implied volatility priced in into those options is greater than the actual volatility that we see with the S&P 500.

And then the fourth element is trading costs. You know, what's the bid-ask spread on those options? And if you're if you're focusing on single stock, highly volatile stocks, those bid-ask spreads can be quite high. And that can erase some of that volatility premium that we talked about in step three.

Selling One Tesla Put
I went this week and I looked at the pricing of Tesla's puts. And so at the time, Tesla was selling for around $375 a share. I wanted to figure out, okay, what put could I sell? Like these strategies typically just hold the put for a week. So I looked for puts that expired in one week. I could sell a put that earned a 1% premium, and the strike price of the put was about 2% below the current price.

And so if I was going to do a trade, I'd have to just sell one put, at around $37,000 set aside, I'd earn that income. And based on the implied volatility of Tesla's stock, which is around 43% or so, this trade had a 65% chance of a positive return. And what would my return have been? It would have been 1%.

Here's what could happen during the week. If the stock was up 10%, 5%, flat, I'd earn 1%. Now the Tesla stock owner, they would earn whatever the stock did that week. But if the stock fell, then I would lose money, if it fell below that, that breakeven rate or the strike price. But I would also collect the premium income.

What Delta Means
Now with any type of option strategy, there's delta, and delta measures how much the option moves in price relative to the the underlying stock that it's based on, in this case Tesla. And when I bought, the

delta was about 33, which meant that if Tesla moved by a dollar, then the option price, the put, would have increased by or fell by $0.33. That delta can change over time.

So the bigger the fall, it falls below the strike price, then the delta ends up being one, because the the put option, if I bought it, it's going up tick by tick by what Tesla is falling in price. If Tesla's going up in price and it's well above the strike price, the delta is is much lower. And so it can shift over time. And that does impact the return of these put strategies.

Two Trades, Same Payoff

Now there's a relationship between puts and calls. It's called the put-call parity. And you can replicate the same thing. So we're talking about put strategies in this episode. So you you have the cash, in this case Tesla. You have $36,750 set aside in cash, or you sell that put and you earn $367.50. I could do the same thing if I own 100 shares of Tesla, roughly $37,000 in Tesla, and then I could sell calls on Tesla and earn the premium income that way.

In both scenarios, if you own the stock and I'm selling calls, or if I have cash and I'm selling puts, I'm exposed to all the downside of Tesla's stock. They're both insurance-like strategies. And the risk is that the stock falls and you lose money. And so yeah, we're getting the premium income. It could be 1% a week, compounded to 68% per year. But what are the losses that occur on a week to week basis that reduce the income?

Yeah, the steady income is there, but the losses are going to be there. The only way that you're going to earn 68% is if you're somehow a brilliant stock picker, and you never experience a loss during a week. It's impossible, absolutely impossible. That's why the premium income is so high, because losses occur. Stock markets are volatile.

What the Research Found

I reviewed the academic research on this strategy. It'll be in the show notes here. There's a list of papers, a couple that I want to focus on: the paper that talked about a higher volatility premium for index options versus individual stocks, and the Goldman Sachs paper. Let me talk about the Goldman Sachs paper first. In the Low Stress Trading sales page, it mentions that Goldman Sachs recommended elements of the put strategy that Low Stress Trading is using. Now, they had a footnote there. They said it's not the exact same thing.

So I found the Goldman Sachs paper that they referred to, and a lot of options trading academies refer to the same Goldman Sachs paper, and I'll link to it. Well, they measured a put writing strategy, selling puts, looking from 2003 to 2013, a ten-year period. And the annualized return was 7.1% per year versus the S&P 500, which did 7.3% per year. And so about the same, lower volatility.

But if you read the paper, they talk about the premium income that it was earning, 40% per year or higher in premium income over that ten year period, but the actual return was 7.1% annualized. They wrote insurance. There were losses. It reduced the return. That's just the way it works. Any strategy like that, you're going to incur losses. And that's what the Goldman Sachs paper said. It didn't say your return was going to be 68% and you're never going to lose money. You will.

Why Index Options Pay More

Now, the other research paper looked at index options, and you actually can earn higher premium over time after losses with an index option strategy, because you essentially get a correlation risk premium. With an individual stock, the risk premium is based on the implied volatility relative to the actual volatility. They tend to be fairly close after the bid-ask spread, but with an index option, investors want to protect against the entire market falling, so all stocks, and they're willing to pay more for that. And so the volatility risk premium is higher for index options versus individual stocks.

And so the safest, most diversified way to employ a put writing strategy that you get the highest volatility risk premium is an ETF like WTPI, where it is selling puts against the entire index. You're earning, in their case, 2.5% for every put that they write. They write two a month, they hold them 4 to 5 weeks. What do you got? That's 5% in premium income per month. That would be 68% annualized, roughly, if not higher.

Yet if you looked at that long term return, it's about 8% annualized. That's what these strategies do, selling options, either selling puts or as a covered call strategy. This is investing. It has a positive expected return. Gambling has a negative expected return.

Low Stress Bets Changes Direction

And last November, I released an episode titled Sports Betting Is Not Investing. And I featured Matt, who ran a website and a newsletter called Low Stress Bets, and I followed his track record. And to his credit, he was very transparent. I had a phone call with him and, you know, we didn't really necessarily agree. He felt that he was, it was low risk how he was going about it. But what's interesting is this month he has shifted focus.

In his newsletter, Matt said that over the past two years, I've tested a theory that betting on high probability sporting events could consistently generate returns that beat the S&P 500. I've learned that's a tough game to play. It is. And we'll look at his track record. He was very transparent. And so he has shifted to focusing on mental models, risk management and psychology for serious sports investors.

A Win Rate Is Not a Return

So let's take a look at what we can learn from what Matt learned, trying to make high probability bets to generate a positive return. Now, just as income is not a return when it comes to put writing strategies and covered call strategies, because of the losses, a win rate is not a return. Small, frequent wins can hide essentially a losing strategy, if when you lose money, you offset all the gains. And that's what we saw here.

All of these sports betting apps, they have probability that includes the house's cut. And so you actually have to do better than the odds of any given wager that's there on the sportsbook in order to, to, to make money. Now, one of the interesting things about Matt's approach is he tended to, to take bigger bets when the probabilities were higher. And those tended to be the largest losses when occasionally they went against them.

The Full Record

But let's go ahead and take a look at the track record and see what we can learn. So over the the three years, there were 182 bets. He won 75% of the time, wagered over $33,000. At the end of the day, he lost about 100 bucks. So, I mean, it wasn't terrible. It was entertaining. It was fun for him. It's exciting to bet, but you're not going to make a lot of money, and you're certainly not going to beat the S&P 500, and you will probably lose money unless you can be even more successful than the probabilities that are stated on any individual trade.

So based on the trades that that Matt did, he needed an 82% win rate to start making money. And he actually won about 76.5% of the time. So he had gains, but they were not enough to offset the 25% of the time when he actually lost a bet. And so again, high probability. But you got to do better than that, in this case 82%. And he fell short.

And then if we break down his record by the size of the bet and the probability, when the probability was 85% or more, that's when there were the most losses, because he would wager more, $500 on a particular golfing event, another $500 for for hockey. And so he actually did better on those bets that had lower probabilities. He made a little bit of money, 400 bucks. But again, entertaining. Gambling is not investing. It has a negative expected return because the house wins. They're taking a very large fee. And so it's very, very difficult, even if they're high probability bets, to actually do better and make money.

Now, did he lose lots of money? Absolutely not. And so he did it in a, we'll call it a safe way. He didn't over wager, and then he he tracked his returns. He shared them publicly, to his credit. And now he's shifting how he does it. Compare that to Low Stress Trading. They're not being transparent with their track record, at least on their sales page. Maybe in their actual community, they've shown their entire record.

I mean, there is a community aspect to it and they're showing people how to trade and people are learning option strategy. My only beef is I think they're over promising. They have a calculator on their website that shows you how much money you could make if you compound it at 68% per year, and they're saying they haven't incurred losses. You will incur losses with the put writing strategy. You will. And that's why the return is 6 to 8% annually.

Income Is Not Return

Now, I've seen this behaviorally in other aspects. When I'm traveling, I'll usually take an Uber and I'll talk to the Uber driver and talk about how much money they're making and what kind of car are they taking. And, and invariably, it seems that they, they kind of ignore the cost of wear and tear on their car and the repairs, because oftentimes it's a personal vehicle, it's not a commercial vehicle.

And so they've sort of put the car repairs and the car depreciation in a separate mental account. And they're just counting that Uber income, whatever they're getting, that's their earnings. Well, you can't do that. That's it's the same as writing puts. You're you're earning this premium income. It's compounding, in this case, it's your Uber fares, but you have this occasional big loss when your car breaks. And if you're driving 200, 400 miles a week, like a lot of these drivers are, that should be factored into your earnings.

I give the example of the Brookmont Catastrophic Bond ETF. Again, insurance. They're writing insurance at 12 to 13% in many cases. But once you start factoring losses and other fees, it can bring down the returns. So our takeaway from from this episode is that investing has a positive expected return. Gambling has a negative expected return, and that income doesn't equal return. We have to factor in all the aspects of that return. And in the case of option strategy, yes, we're getting the income. It has to be offset with the fees and losses. We need to do this with all areas of our life.

Know Why You Hit the Target

This week I read part of the Liezi. It's a Taoist text, and they shared the story of an individual that was learning archery and in practice for three years, and he went to his master and said, hey, I can hit the target. And then the master asked him, do you know why you hit the target? He said, no, he didn't. And so he went back and practiced to figure out the underlying principles. That's what we've done here when it comes to options strategy.

We we've seen the returns, the historical returns. We've seen promises of returns, but we've done and we've looked at the underlying principles. What drives the return. We can't get suckered in to just how good it feels to always be getting this option income, this premium income, 1% a week, 2% a week, and get locked away and not realizing that there's going to be a negative event.

Nassim Nicholas Taleb, in his book The Black Swan, talks about a turkey. Everything great for a turkey, good food, fresh air, until the day before Thanksgiving. We can't be lulled into complacency. Any investment strategy we do, spend time understanding it, understand the risk, understand what reasonable expected returns are. Understand the drivers of the return. That's what we've done in this episode.

Thanks for listening. You can learn more about Money for the Rest of Us and what we teach about Plus membership at moneyfortherestofus.com. Everything I've shared with you in this episode has been for general education. I've not considered your specific risk situation. I've not provided investment advice. This is simply general education on money, investing, and the economy. Have a great week.