

# Frequently Asked Questions (Class H)

### Who is eligible?

Regardless of citizenship or residency, a U.S. address and tax number are needed. You don't have to be accredited; annual income should be at least \$90K (otherwise, net worth must be >= 400K).

### What is at risk?

On paper, your only risk is illiquidity during the 80-day period after any significant capital infusion. After that, you can liquidate fully with 19 days' notice. (See the Operating Agreement.)

### Expected yield

Each Member (or holder of a Unit) is promised a sequence of yields over a fixed lifetime (2 or 5 years). For example, the initial yield may be 9%. Each year the rate is raised 50 bp; additionally, the Unit's remaining (undrawn) gains are compounded. Every four months, a Member may draw a portion of the accumulated gain (as wages, or 1099, or dividends, or etc.). When a particular Unit expires, the parties can negotiate a replacement Unit; for example, **5 years at 10.5%**?

Example of \$80K initial with 30% draw each year (ignoring taxation):

	rate	Principal	yield \$	%draw	draw \$	re-invest
1	9.0%	80,000	7,200	30%	-2,160	5,040
2	9.5%	85,040	8,079	30%	-2,424	5,655
3	10.0%	90,695	9,070	30%	-2,721	6,349
4	10.5%	97,044	10,190	30%	-3,057	7,133
5	11.0%	104,177	11,459	30%	-3,438	8,022
6	11.5%	112,198	12,903	30%	-3,871	9,032
		<b>121,230</b>				

And with 75% draw each year:

	rate	Principal	yield \$	%draw	draw \$	re-invest
1	9.0%	80,000	7,200	75%	-5,400	1,800
2	9.5%	81,800	7,771	75%	-5,828	1,943
3	10.0%	83,743	8,374	75%	-6,281	2,094
4	10.5%	85,836	9,013	75%	-6,760	2,253
5	11.0%	88,090	9,690	75%	-7,267	2,422
6	11.5%	90,512	10,409	75%	-7,807	2,602
		<b>93,114</b>				

## Market returns

“Leverage” is how much collateral is reserved per option contract. For our purposes, baseline 1.0x leverage (per ERN’s writeup) is 100K to 135K. ERN is prioritizing low incidence of loss, rather than high(er) overall ROI.

From the ERN Strategy baseline, we derive this returns possibility set (options alone) — 4.5% and 6.3% and 8% (summarized as 6.26% ±1.43). Our real-world strategy will use leverage between 1.2x and 1.6x. Colloquially, with more leverage we make a bit more day-to-day, then lose even bigger on a “bad day.”

We assume, concomitant with the increased leverage, that stdev increases between 20% to 40%. Thus, by incrementing leverage and stdev, we project options-only returns of 8.1% ±2.2 to 10% ±3.2; that is, ranging from 5.9% to 13%. With the fixed minimum 2.5% Treasury yield added, final market returns (ignoring all taxation) are expected **most modestly** to range from 8.4% to 15.7%. Even if stdev increases by 400% (super unlikely), the options-only returns would average 10%.

Regardless of under-the-hood market results, Members know how much their next payout will be; the contractual daily cumulation is unvarying.

Technically, ERN is (we theorize) trading at 1.0x leverage, writing between 3.5 and 4.5 delta, with 24 to 29 hours till expiration. Whereas the Company will be trading at 1.2x to 1.6x leverage, writing between 2.5 and 3.5 delta, with the same timeframe.

All numbers ignore taxation, which may decrease outcome by 1-3 % points!

## If the strategy Always Works, wouldn’t everyone be doing it?

You’re always underneath the Market’s dump truck; this *feels bad*. The NYSE can theoretically fall 20% in one day.

As an example, ERN in 2022 (?), running with \$1mil collateral, had a single-day loss of ~4% (\$40K). To keep playing after such an event, one must have confidence in the long-run. Would *you* keep anteing up after losing \$40K? Imagine collecting premium for 52 weeks. After a year, you will only keep 8 to 11 weeks’ premium; the specifics are entirely unpredictable.

## How can anything compare to Buy-and-Hold of S&P500?

Typical FIRE assumptions require the Market to grow on average between 7 and 13% a year. However, Put selling works in both a flat market or bear market. You are never surprised.

There are various CEFs and junk bonds that provide 9-11% p.a.; however, keep in mind the Company will work closely with Members (U.S. residents) to reduce tax burden.

## Is there a history of real performance?

For the Company, no. Individual trading over the prior 4 years indicate annual returns of 13% to 17% from Put-writing. (Making 17% one year doesn’t mean you get that the next year.)

The Company seeks to generate 12% to 14% p.a., while profit-sharing 9% to 11.5% (not considering taxes).

Does this strategy require a highly intelligent, adept, semi-brilliant trader for execution? Remember the pull-quote from ERN: "...haven't written much about options is not that they have ceased to be successful. Quite the opposite, it's such a reliable, albeit boring, money-maker..." And the wealthyoption.com trader said, "Systematic with no decision-making required".

### Where is the Company?

Company is a New Mexico LLC taxed as C-Corp. The entity itself may be taxed on retained earnings.

### How can Members lower the tax burden?

Members can choose draw payments with great flexibility (if U.S. resident); including 1099 or wages, director's compensation, HSA or other benefits, Self-Directed IRA or 401(k), and dividends. The exit payment (liquidation) should be classifiable as **long-term capital gains**.

If it's possible to hold the Units in a tax-advantaged account, that could be helpful. You may also consider joining the LLC via an entity in Washington State or Texas, to minimize state taxes. Taxation unfortunately presents countless permutations and exceptions.

### Can the current yield be increased?

For the first new investor brought in with at least \$85,000, your yield is raised by 25 bp.

### Are the Class H Units equity?

The Class H Unit has a defined finite lifetime and could informally be characterized as convertible debt. Only Class A or B units behave like normal equity (see the Operating Agreement).

### When will the Company have business continuity?

In 2025 (first half). After that an attorney can wind-down the entity if the Manager becomes incapacitated.

### How to get started learning to DIY with options?

Best beginner resource is McMillan's [Options as a Strategic Investment](#) ( isbn 0735204659 ).

( <https://www.amazon.com/Options-as-Strategic-Investment-Fifth/dp/0735204659> )