

Portfolio Sizing for Options-Income Investing

How much capital does it take to run the VOL approach — and why we point most subscribers toward roughly fifteen to twenty positions

By Tim Travis, Editor · Value Options Letter



The most-asked question

Of every email Value Options Letter receives, none arrives more often than this one:

“How much money do I need to run your strategy?”

We owe subscribers a thoughtful answer rather than a default number. This paper is that answer. The short version is that the math of cash-secured puts and covered calls — combined with the discipline of sensible diversification — points most subscribers toward roughly \$100,000 of investable capital as a workable starting point. Below that, the strategy does not stop working, but it gets harder to execute well. Above that, returns to scale flatten quickly.

Two important framing notes before we go further. First, Value Options Letter is a financial publication, not a registered investment adviser. Nothing in this paper is personalized advice for your situation; only you (and, if applicable, an adviser working specifically for you) can make that determination. Second, the numbers we suggest are guidance, not a gate. Plenty of subscribers run smaller accounts thoughtfully and profitably, and plenty run much larger ones. What follows is a framework for thinking, not a rule book.

Why options-income has a natural capital floor

Stocks divide into single shares. Options do not. One U.S.-listed equity option contract represents 100 shares of the underlying stock, and that simple fact creates the entire capital-floor question.

When VOL recommends a cash-secured put on, say, a \$40 stock, the actual transaction looks like this. You sell one put contract — exposure to 100 shares — and you set aside \$4,000 of cash to honor the obligation if the put is assigned. You receive a premium up front, perhaps \$80 or \$120 depending on tenor and implied volatility, but the binding constraint is the \$4,000 cash you must commit per contract. That cash is not free to do anything else while the put is open.

The same arithmetic applies to covered calls, which are the second leg of the wheel: you must own 100 shares of the underlying before you can write a single call. On a \$50 stock, that is \$5,000 of equity exposure per contract.

A subscriber running our research with five different recommended positions, average effective collateral of \$5,000 per position, is therefore committing \$25,000 of working capital to the strategy with all five positions open. A subscriber running fifteen positions on the same average is committing **\$75,000**. There is no version of this strategy that is meaningfully smaller per-position, because the contract size is fixed.

(Mini-options and weekly options expand the menu, but not the core arithmetic. We do not currently recommend mini-options because liquidity is poor, and weeklies introduce gamma and IV-crush dynamics that our framework is not optimized for.)

This is the first, and most concrete, reason a capital floor exists. If you cannot commit at least \$4,000–\$10,000 per position, you cannot meaningfully diversify across the names we cover.

Why fifteen to twenty names

A single trade going wrong is a manageable event. Three or four trades going wrong simultaneously is the difference between a useful program and a destroyed account.

The names we research — large-cap and mid-cap value stocks where we believe the entry price (strike minus premium) represents fair-to-attractive long-term ownership — are not riskless. Any individual position can fail because:

- Earnings disappoint and the stock breaks the strike materially.
- Sector sentiment turns and the underlying re-rates lower.
- Company-specific news — a fraud, an unexpected dividend cut, a regulatory action — disrupts the thesis.
- Macro stress hits and high-quality names fall alongside lower-quality ones.

A diversified book of fifteen to twenty positions across at least five or six sectors absorbs these events. A concentrated book of three positions does not. We have watched subscribers with three-position accounts experience drawdowns indistinguishable from owning a single bad stock, and we have watched subscribers with twenty-position accounts move through the same news cycle with a barely-noticeable performance dent.

Why fifteen to twenty specifically, and not five, or fifty?

The lower bound is empirical. Modern portfolio theory has shown for decades that the marginal diversification benefit of additional positions *diminishes sharply* once you reach roughly fifteen to twenty holdings in a single asset class. Below that, you are absorbing meaningful single-stock risk. Above that, you are mostly adding administrative complexity without meaningfully changing your risk profile.

The upper bound is operational. We have known subscribers who tried to run forty or fifty positions simultaneously. Most discovered that they could not execute well — they missed roll dates, they let assignments accumulate without managing the resulting equity, and they paid too much in commissions and bid-ask spread. The strategy stops being a research-driven program and starts being a clerical job. Ten to twenty-five well-managed positions is the sweet spot for nearly everyone.

A reasonable middle target is **seventeen positions spread across six to eight sectors**.

Working backward to \$100,000

Given that target, here is the math.

Suppose your seventeen positions average \$35–\$50 per share — typical for the value names we cover — and you are willing to commit roughly one contract per position. Average collateral per position is approximately \$3,500 to \$5,000. Total committed capital across the book is therefore \$60,000 to \$85,000.

Now add a working buffer. You almost certainly do not want every dollar of available cash committed to open puts at all times. Premium income piles up in the account, occasional assignments push you into equity that you may want to write covered calls on (which doubles the capital commitment for that position from “cash-secured” to “shares held”), and you want to keep dry powder for new ideas as they appear in the letter. A 15–25 percent reserve buffer on top of the committed capital is sensible.

Add the reserve and you arrive at approximately **\$70,000–\$105,000** as the working range that comfortably accommodates a fully-deployed fifteen-to-twenty-position book at our typical strike levels. Round to **\$100,000** as a clean, honest number for “you have enough capital to do this without constantly fighting the math.”

The estimate does not depend on heroic assumptions. It is contract size (100 shares) times average strike (~\$40) times target position count (17) plus reserve. Run your own numbers if your average strike differs materially.

A worked example: the \$100,000 starter book

It helps to make the abstract concrete. Imagine you have \$100,000 ready to deploy and the most recent VOL issue gives you twenty candidates, of which you select seventeen across six sectors. Your average target strike is \$42. Approximate position sizing:

- 17 positions × 100 shares × \$42 average strike = approximately \$71,400 committed cash collateral.
- Premium income on initial trades, roughly 1.5%–3.0% of collateral on a 30–60-day cycle = roughly \$1,070–\$2,140 received up-front per cycle.

- Reserve buffer for new ideas, assignments, and slippage = roughly \$28,600 (about 28.6% of the account).

That is a workable book. You can comfortably absorb a single-position assignment without forced-selling anything else. You can write covered calls on the resulting equity position without margin. And you have enough dry powder to add one or two new ideas if a name we have been watching finally hits the kind of fear-driven price we like to see.

The numbers are illustrative, not predictive. Premium yields move with implied volatility. Strike levels move with the market. Your own selection from our coverage may be more conservative or more aggressive than the example. But the structure — about 70 percent deployed, about 30 percent reserved, fifteen to twenty positions across multiple sectors — is the model.

What if I have less?

Many subscribers do, and the strategy is not closed to them. There are three honest options for smaller accounts.

Option one: *run a smaller version of the same book.* If you have \$40,000–\$60,000, you can still run eight to twelve positions on lower-priced names from the recommended list. Diversification will not be as deep as a fully-deployed program would offer, but it will be substantially better than concentrated stock exposure. The standard caveat is that if a single position fails badly, your portfolio will feel it more than someone running seventeen positions.

Option two: *run a slower version, accumulating positions over time.* Some subscribers begin with \$30,000–\$50,000 and one or two positions, then add new positions only as new capital arrives or as existing trades close successfully. After twelve to twenty-four months they reach a ten-to-fifteen-position book. This is the “season into the strategy” approach. It is slower but completely valid.

Option three: *skip the cash-secured-put leg and focus on covered calls only on stock you already own.* If you already hold meaningful equity positions in names that overlap with our coverage, you do not need additional capital to begin writing covered calls against those positions. The covered-call leg of the wheel works at any account size that already supports 100-share lots.

What we do not recommend in smaller accounts: writing puts on margin, using cash-secured puts as a substitute for an emergency fund, or selling more contracts than your cash collateral comfortably supports. These shortcuts work right up until they don't.

What if I have more?

The strategy scales, but it scales with diminishing operational returns.

A subscriber with \$500,000 has an easier time running twenty well-diversified positions than a subscriber with \$100,000. Average position size is larger, the cash buffer is more generous, and the rounding errors caused by 100-share contract increments matter less.

A subscriber with \$5,000,000 starts to encounter a different set of problems. Single contracts at our typical strike prices represent only 0.05–0.10 percent of the account. To put meaningful capital to work, you have to size up to multiple contracts per name — five, ten, sometimes more. At a certain point, the bid-ask spread on writing twenty contracts on a mid-volume name starts to cost real money. Above roughly \$5–10 million, most subscribers benefit from working with an adviser — which, again, VOL is not in our publisher capacity — who can think about institutional execution.

The middle band — roughly **\$250,000 to \$2,000,000** — is the easiest band in which to run the strategy. Below it, the contract-size friction is annoying. Above it, the execution friction becomes annoying. In between, the program runs cleanly.

What is genuinely up to you

Three things make this guidance, not a rule.

Your tax situation. Cash-secured puts in a taxable account generate short-term capital gains on the premium when the puts expire worthless. In a Roth or traditional IRA, those gains are tax-deferred or tax-free. We do not know which account you are running, and the right account size for one structure differs from the right size for another.

Your other holdings. Many of our subscribers already own equity positions, real estate, business interests, and bonds elsewhere. The right “options-income capital” is rarely 100 percent of net worth. The right size for the strategy depends on what fraction of your total picture you are willing to dedicate to this kind of program.

Your tolerance for assignment. Our default operating assumption is that assignment is a normal, neutral-to-positive outcome — we only recommend strikes at which we would be happy to own the stock. But your willingness to take assignment, hold the underlying, and sit through covered-call cycles may differ from ours. Subscribers who psychologically dislike taking assignment should size more conservatively than the framework suggests.

These are personal questions. We do not answer them for you. We give you the research and the framework. You decide how it fits.

Conclusion

Most options-income strategies — including the one VOL recommends — work best when applied across a diversified book of fifteen to twenty positions. Given the fixed 100-share contract size, the typical \$30–\$50 strike levels we work in, and a sensible reserve buffer, that maps to an investable-capital floor of roughly **\$100,000** for most subscribers running a fully-deployed program.

That figure is a guideline, not a gate. Smaller accounts can run the strategy in a smaller form. Larger accounts can run it more comfortably up to a point, and benefit from professional execution help past it. What does not change at any account size is the underlying logic: the program generates

income by treating diversification, discipline, and a willingness to take assignment on names you would happily own as the binding constraints.

“The reason we point most subscribers toward \$100,000 is not arbitrary. It is the level at which the contract-size arithmetic stops fighting you and the diversification argument starts working in your favor.”

Whatever your starting capital, the path is the same: pick fewer names than you think you need, manage them well, take assignment when it comes, and let the cycle compound.



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