# LEAPS TRADER

## Generate Wealth and Manage Risk with Long-Term Options

**By Hans Albrecht, MBA**

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LEAPS TRADER:
Using Long-Term Options for Strategic Trading Success



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# Introduction

Let's begin by acknowledging that tax strategies and compliance may not be the most exciting aspects of trading—they can often feel tedious or complex. However, if your goal is to retain more of your profits from successful options trades, it's essential to address these topics directly.

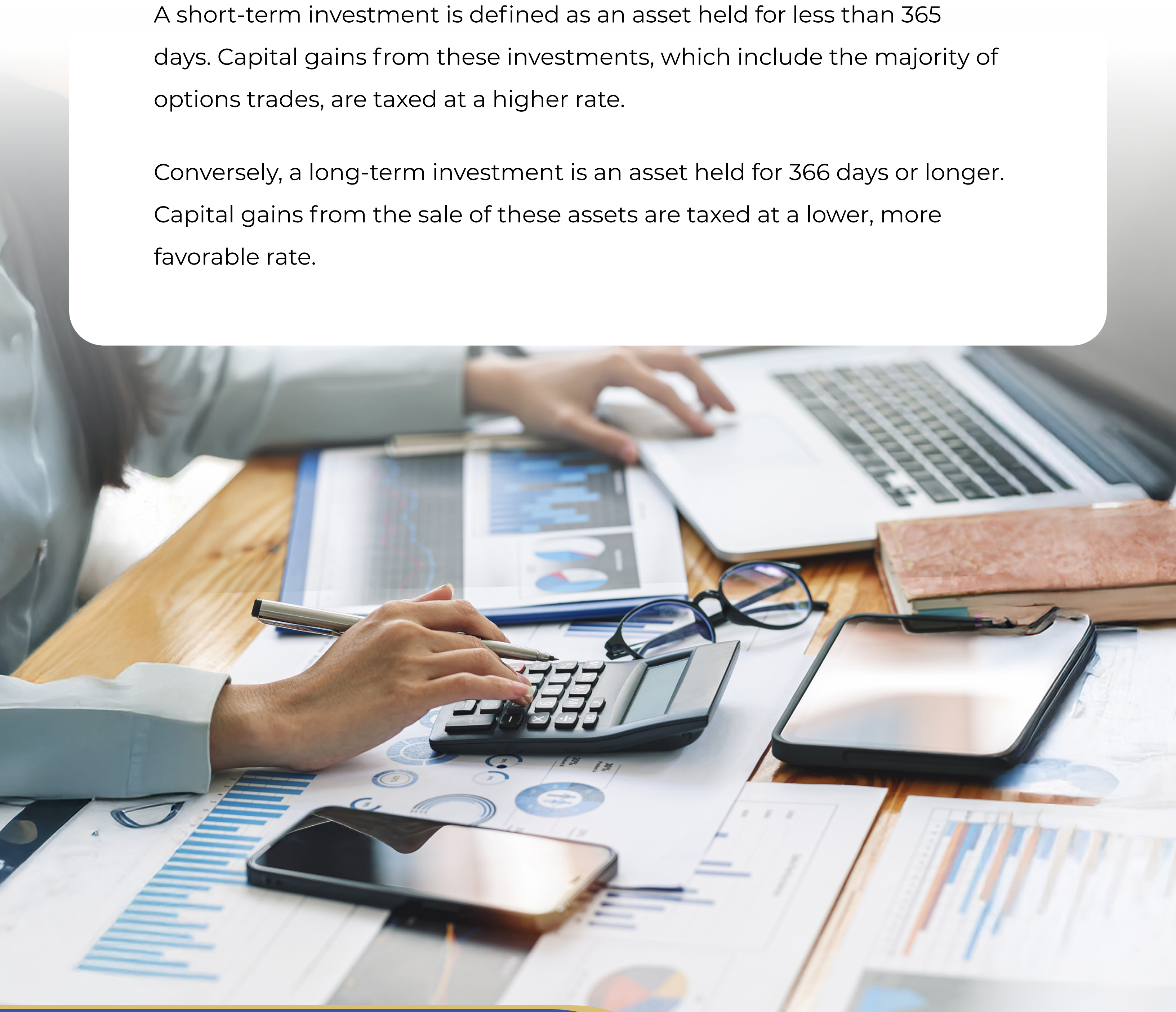
It's also important to note that I am not a licensed tax professional or financial advisor. That said, through years of experience trading options, I've gained a practical understanding of how these considerations typically apply in real-world scenarios.

# Understanding Options Taxation

The taxation of options is differentiated based on the holding period of the investment. Short-term and long-term trades are subject to different tax rates.

A short-term investment is defined as an asset held for less than 365 days. Capital gains from these investments, which include the majority of options trades, are taxed at a higher rate.

Conversely, a long-term investment is an asset held for 366 days or longer. Capital gains from the sale of these assets are taxed at a lower, more favorable rate.



## Capital Gains Tax Rates

The tax rates applied to capital gains are determined by your annual income and, for short-term gains, your tax filing status.

> **Long-term capital gains** are taxed at one of three rates: 0%, 15%, or 20%. The applicable rate is solely dependent on your taxable income.

> **Short-term capital gains** are taxed at your ordinary income tax rate. These rates, which can range from 10% to 37%, are based on a progressive system and are determined by both your annual income and your tax filing status.

# Strategies to Mitigate Tax Liability

Certain options have a distinct tax structure that can be utilized to potentially reduce your overall tax burden.

## Index Options Taxed Under a Unique Structure

Index options are taxed differently from standard equity options, offering a specific advantage. They are subject to a **60/40 tax rule:**

- **60%** of all gains are taxed at the long-term capital gains rate.
- **40%** of all gains are treated as short-term capital gains, taxed at the ordinary income rate.

This tax split is applied regardless of the holding period, making index options a potentially attractive alternative for tax efficiency.

## LEAPS as Long-Term Investment Vehicles

Long-Term Equity Anticipation Securities (LEAPS) are options contracts with an expiration date of over one year, often extending up to three years. They are specifically designed for long-term strategies and, when held for longer than one year, are taxed at the lower long-term capital gains rate. It is important to note that if LEAPS are sold within 365 days of acquisition, they will be subject to the higher short-term capital gains rate.

LEAPS serve various strategic purposes, including hedging long-term holdings when using the "put" version combined with an underlying stock. Think of these LEAPS as a kind of house insurance for your stocks. I used these extensively when running Black Swan downside-protect funds. The call version of LEAPS is the one we will focus on in our programs as a way to position for extended price movements, or to implement covered call strategies for targeted income generation. While LEAPS typically carry a higher premium, their time decay is slower initially, accelerating as they approach expiration.

# LEAPS Trading Example

Here is a strategic example of call LEAPS used for Bank of America (ticker: “BAC”), a well-known US bank.  In September 2025, the stock is trading at approximately $50.58 per share.  Let’s assume a positive outlook for the bank and a potential 25% gain for the stock over time.

Purchasing 100 shares of BAC would require a capital outlay of $5058 (100 x $50.58).  An allocation using LEAPS calls, however, would cost $1135 as per the example below.

One contract of the September18, 2026 $42 strike call, purchased at $11.35, is equal to a cost of:

1 x $11.35 x 100 shares (this is the standard 100 shares controlled per contract) = $1135

So, for $1135, roughly 22.4% of what it would cost to purchase BAC itself, we are able to control the same number of shares as we might have purchased (100).  This call will act very similarly to the stock as it rises, and even more so over time, so the exposure is closely replicated while at the same time requiring a lower investment.

We can adjust strike prices and expiry date as we see fit based on things like option pricing and stock sentiment.

BAC | BANK OF AMERICA CORP | 50.58 | -.17 -0.33% | B: 50.56 A: 50.59 | ETB | NYSE | ±0.291 | EXTO Eligible

| Last X | Net Chng | Bid X | Ask X | Size | Volume |
|---|---|---|---|---|---|
| 50.58 N | -.17 | 50.56 P | 50.59 P | 13 x 1 | 27,851,108 |

17 OCT 25 (33) 100
24 OCT 25 (40) 100 (Weeklys)
31 OCT 25 (47) 100 (Weeklys)
21 NOV 25 (68) 100
19 DEC 25 (96) 100
16 JAN 26 (124) 100
20 FEB 26 (159) 100
20 MAR 26 (187) 100
18 JUN 26 (277) 100
18 SEP 26 (369) 100

| Theta | Delta | Volume | Open.Int | Last X | Impl Vol | Bid X | Ask X | Exp | Strike |
|---|---|---|---|---|---|---|---|---|---|
| .00 | .96 | N/A | 12 | 28.75 H | 57.85% | 30.70 N | 31.05 T | 18 SEP 26 | 20 |
| .00 | .95 | N/A | 10 | 25.65 D | 46.90% | 25.75 Z | 26.35 T | 18 SEP 26 | 25 |
| .00 | .93 | N/A | 13 | 22.94 X | 43.47% | 22.95 X | 23.65 A | 18 SEP 26 | 28 |
| .00 | .92 | N/A | 75 | 21.12 I | 39.36% | 21.10 A | 21.65 T | 18 SEP 26 | 30 |
| .00 | .89 | N/A | 37 | 18.50 N | 38.51% | 18.70 T | 19.00 Z | 18 SEP 26 | 33 |
| .00 | .88 | N/A | 155 | 16.64 I | 35.63% | 16.95 M | 17.10 A | 18 SEP 26 | 35 |
| -.01 | .87 | N/A | 339 | 15.39 C | 32.21% | 14.90 A | 15.40 E | 18 SEP 26 | 37 |
| -.01 | .82 | 2 | 1,170 | 13.03 M | 31.35% | 12.75 A | 12.90 A | 18 SEP 26 | 40 |
| -.01 | .78 | 2 | 275 | 11.25 Z | 30.11% | 11.20 A | 11.35 A | 18 SEP 26 | 42 |
| -.01 | .72 | 15 | 1,480 | 9.09 X | 28.14% | 9.00 A | 9.10 A | 18 SEP 26 | 45 |
| -.01 | .67 | N/A | 1,380 | 7.44 X | 27.36% | 7.70 T | 7.80 A | 18 SEP 26 | 47 |
| -.01 | .59 | 1 | 3,708 | 5.96 I | 26.04% | 5.90 A | 6.00 M | 18 SEP 26 | 50 |
| -.01 | .52 | N/A | 2,532 | 4.75 D | 25.06% | 4.60 A | 4.70 A | 18 SEP 26 | 52.5 |
| -.01 | .44 | 19 | 4,282 | 3.62 X | 24.36% | 3.55 T | 3.60 A | 18 SEP 26 | 55 |
| -.01 | .37 | N/A | 800 | 2.61 A | 23.75% | 2.66 A | 2.72 A | 18 SEP 26 | 57.5 |
| -.01 | .30 | N/A | 745 | 2.06 X | 23.33% | 1.97 W | 2.03 A | 18 SEP 26 | 60 |
| .00 | .18 | 2 | 5,144 | 1.06 Z | 22.67% | 1.03 M | 1.07 W | 18 SEP 26 | 65 |
| .00 | .11 | N/A | 679 | .57 X | 22.47% | .52 C | .57 T | 18 SEP 26 | 70 |

This indicates that the market is aligned with my outlook—there is a shared expectation that Bank of America could perform well over the next year. Additionally, the premium priced into the option implies that the market may be underpricing a BAC rise meaningfully into late 2026, in line with our 25% upside scenario. This strengthens my interest in BAC LEAPS.

Based on this analysis, we purchased one LEAPS contract at a premium of $11.35. Again, this represents a total investment of $1,135 (100 x $11.35 x 1 contract), which is significantly less than the $5,058 required to purchase 100 shares of the underlying stock.

Naturally, the position is subject to some time decay. However, if BAC experiences a significant upward move - particularly in the first half of 2026 - the LEAPS contract may appreciate substantially in value. At that point, I have several strategic options available:

- Sell the LEAPS contract to realize a profit
- Sell a portion if I have more than one, to lock in partial gains
- Sell a same-expiry call option above the $42 strike to monetize some gains (depending on pricing) and create a vertical spread
- Sell a shorter-expiry call option above the $42 strike to create an "income" vertical spread
- Hold the position and reassess later

LEAPS can also serve as a passive-aggressive strategy to generate income through options. Similar to shorter-term options, LEAPS offer leverage relative to owning the underlying stock. If the stock moves significantly in the desired direction (either up or down) before the expiration date, LEAPS can yield a considerably higher return than holding the stock outright.

Being in control of the position allows me to evaluate and choose the most advantageous course of action. There are options!

Like shorter-term options, LEAPS offer leverage relative to owning the underlying stock. If the stock moves significantly in the desired direction (either up or down) before the expiration date, LEAPS can yield a considerably higher return than holding the stock outright. The longer-term nature of LEAPS allows us to give our thesis a chance to play out – decay is lower and a lack of having to be right, right away, allows us to zoom out and commit to larger trends.

It is important to respect sizing. Being able to purchase a LEAPS call for around 25% of the stock cost should rarely be seen as a chance to own four LEAPS calls for the same "full-stock" capital. That is taking on significant leverage. We will speak about this concept in the program. The LEAPS Trader philosophy is that proper LEAPS allocations mean that we are able to replicate much of the upside in a stock, while placing 75% of our capital aside for safe keeping.

The following scenario analysis is theoretical and should not be assumed as perfect. Many things play into outcomes, including volatility and the passage of time.

Let's run a side-by-side comparison for Bank of America (BAC) assuming the stock rises 25% (to about $63.22) by September 2026:

## Stock Purchase

- Initial outlay: **$5,058** (100 x $50.58)
- Future value: **$6,322.50** (100 x $63.22)
- Profit: **$1,264.50**
- Return: **+25%**

## LEAPS Call (Sept 18, 2026 $42 strike @ $11.35)

- Initial outlay: **$1,135** (1 contract x $11.35 x 100)
- Theoretical value with BAC at $63.22 and LEAPS price of $21.65 on February 15, 2026: **$2,165** Profit: **$1030** in 5 months
- Return: **+90.7%**

Both positions track the stock's move, but the LEAPS contract delivers over 3x the return on capital versus buying the stock outright. This is the leverage advantage of LEAPS: less capital deployed, higher percentage gain - while still closely replicating stock exposure.

Here's how the downside cases compare for BAC with stock vs. LEAPS:

## Case 1: Stock Flat all the way to expiry in Sept 2026 ($50.58, no change)

**Stock Purchase**

- Profit: **$0**
- Return: **0%**

**LEAPS Call (Sept 2026 $42 strike) – this is on the expiry data when all the time value has come out.**

- Intrinsic value: **$858** ((50.58 – 42) × 100)
- Profit: **–$277**
- Return: **–24%**

## Case 2: Stock Down 10% ($45.52)

**Stock Purchase**

- Profit: **–$505.80**
- Return: **-10%**

**LEAPS Call (Sept 2026 $42 strike)**

- Option value: **$505**
- Profit: **–$630**
- Return: **–55.6%**

This result emphasizes the need to use LEAPS responsibly and ONLY size up sparingly and with one's personal investment risk parameters and comfort.

# Benefits of Trading LEAPS

Long-Term Equity Anticipation Securities (LEAPS) offer several compelling advantages for investors and traders seeking long-term exposure with defined risk. Key benefits include:

> **Tax Efficiency:** LEAPS held for more than one year may qualify for long-term capital gains treatment, which is typically taxed at a lower rate than short-term gains.

> **Extended Time Horizon:** With expirations up to two years or more, LEAPS provide the underlying stock with more time to move in the desired direction, increasing the potential for profitable outcomes.

> **Strategic Flexibility:** When a LEAPS position performs well, investors can choose from various exit or adjustment strategies—such as selling the contract, rolling to a different strike, or creating spreads—to optimize returns.

> **Defined Risk:** As non-marginable, cash-secured instruments, LEAPS carry limited risk equal to the premium paid, making them a more controlled alternative to leveraged positions.

> **Capital Efficiency (Leverage):** LEAPS allow investors to control a similar amount of exposure as owning the stock outright, but with significantly lower capital outlay. This leverage can amplify returns if the stock moves favorably.

# Drawbacks of LEAPS

While LEAPS offer several advantages, investors should also be aware of their potential limitations:

- **Expiration Risk:** Like all options, LEAPS have a defined expiration date. If the option remains out-of-the-money at expiration, it may expire worthless. Investors must be prepared to either exercise, roll, or exit the position before it loses all value
- **High Premiums:** Because LEAPS provide a longer time horizon, they typically come with higher premiums. This additional cost reflects the extended duration and increased time value, which can impact overall returns.
- **Liquidity Constraints:** LEAPS often suffer from lower trading volume compared to shorter-term options. As a result, bid-ask spreads can be wider, potentially making it more difficult to execute trades at favorable prices or to adjust positions efficiently.

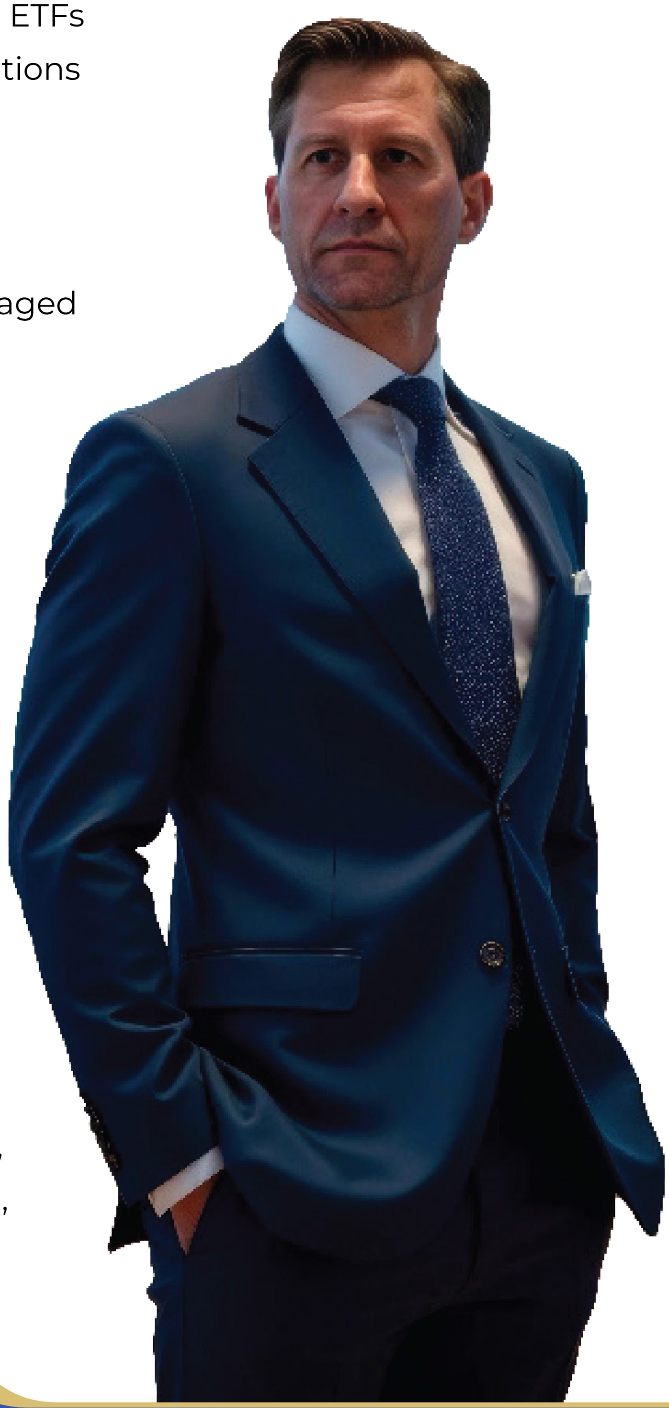
# Conclusion

Mastering the use of index options and LEAPS can offer strategic advantages—particularly the potential to reduce capital gains taxes—making them a valuable complement to a well-rounded trading portfolio.

However, as with any investment strategy, it's important to seek guidance tailored to your individual financial situation. Be sure to consult with a qualified accountant or financial advisor before implementing these approaches.

# About Hans Albrecht

- 29 years professional options management experience
- 15 years professional options market maker
- 10 years managing 12 option-based ETFs for investors around the world – Options Selling and Black Swan protect
- Ivy League MBA
- $1 Billion in options strategies managed
- $750 Million in option cash flow generated for members and investors
- Regular on business television: *TD, Nasdaq, Bloomberg, BNN, Morningstar*
- Quoted in and written for almost 100 articles in Investors Digest, Bloomberg, Advisor, Nasdaq, Wealth Professional, Globe&Mail, Financial Post, MX Exchange, many more
- Author of Let's Talk About Volatility, Crush the Premium, Volatility Ninja, and Options Cash Flow Blueprint



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