# What is Selling Insurance on the Stock Market?
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We all know about insurance on vehicles or on homes, but what most people don't know is that you can actually insure your shares on the stock market. Better still we can actually sell the insurance to other stock holders.

As we all know the Insurance companies are the ones making all the money when it comes to car insurance. You still pay your insurance premium even if you don't make a claim. Let's look at a normal insurance policy and how it works:

The insurance company promises to pay an agreed value for your car in the event of an accident during a set period of time, for this you pay them an insurance premium. If you do have an accident during the coverage period the Insurance Company will pay the agreed value.

So how does this translate to the stock market?

Surprisingly, it is very similar, you can insure your stocks for an agreed value over a specified period of time and, just like your car, a premium is paid for this protection.

**Let's look at an example:**
Let's say you own 1000 shares in company XYZ.
You purchased these shares for $30.00
To protect yourself you purchase Insurance at an agreed sale value of $29.50
This insurance policy will cover you for 2 months and will cost you $0.25 per share or ($250) for your 1000 shares.

This Policy offers you, as the policy owner, the RIGHT but not the OBLIGATION to sell your 1000 shares for $29.50 at any time during this period.
Of course you would not sell your shares for $29.50 if the current share price is greater than $29.50 because you could get more for it on the open market. If the share price however falls bellow $29.50 you may be more interested in selling your shares. What if the share price falls dramatically to say, $10.40? Well, you can still sell your shares for $29.50 Remember it is your choice when you sell your shares during the coverage period; you are not obligated to sell them at all but you do have the right to sell them at any time.

This method is great if you have a large portfolio and wish to protect yourself against any downward movement, but of course you need to take into account the cost of purchasing the insurance in the first place. Remember, you have to pay the premium wether you sell your shares or not, So if the share price continues up to $33.00 your insurance policy is effectively useless and you have paid $250 for peace of mind.

As I mentioned earlier it is the insurance companies who tend to make the big money not the policy holders. So how can we sell the insurance?

Instead of buying our 2 month policy in the example above you can sell a 2 month policy for a premium.

You now sell a 2 month insurance policy with an agreed sale value of $29.50 for this you will receive $0.25 per share or ($250) for 1000 shares.
You will receive this premium as soon as you sell the policy and it can not be taken away from you, you get to keep the premium no matter what. (Just like your car insurance company)

As the insurer, you are now obligated to buy the shares at $29.50 at any time the policy owner chooses during the 2 months that the policy is active.
Of course the policy owner is not likely to sell their shares to you for $29.50 if the current price of those shares was higher than $29.50 (technically this can happen because we can't account for the idiot factor). If this does happen you will have to purchase the shares for $29.50 but you can immediately sell the shares on the market at the current price, and pocket the difference.

You may be thinking by now that doing this is very risky as you are opening yourself up to a $29,500 share purchase
1000 shares x $29.50 current share price = $29,500

So why would you risk $29,500 for $250?

Let's say you actually do want to buy shares in XYZ, the company is currently trading at $30 and you are happy to buy the shares for $30. Instead of paying $30,000 for your 1000 shares you could sell the insurance policy and collect your $250.

If the shares drop to $29.50 you will have to buy the shares. You have effectively purchased the same shares for a $750 discount as follows:.

Instead of paying----------------$30,000
You now pay---------------------$29,500
You received a premium of-----$250
**This is a saving of---------- $750**

You now own 1000 XYZ shares which you would have purchased for $30,000.

But what happens if the stock does not drop bellow $29.50?

If the stock price does not drop bellow $29.50 and you still wish to purchase the stock after the policy has run out, you simply sell another insurance policy for the following month and collect another premium. Just like the car insurance company who collects premiums but does not pay out to everybody.