

Introduction to Covered Calls as a Strategic Income Source





If you own shares of stock (minimum 100 shares) and you're not selling call options against them, then you are throwing away free money. How's that? Well, *there are other traders out there who will give you money today for the right to take your stock away from you if it reaches a much higher price.* Selling "Covered calls" is such a great strategy for padding your bank account that I still can't believe there are investors who aren't taking advantage of it. *

* Lee Lowell - Get Rich with Options



	Sellers have OBLIGATIONS	Buyers have RIGHTS
Call	A seller of a Call Option has the <u>OBLIGATION</u> to <u>SELL</u> 100 shares of a stock at a certain price by a certain date.	A buyer of a Call Option has the <u>RIGHT</u> to <u>BUY</u> 100 shares of a stock at a certain price by a certain date.
Put		





Description:

The simultaneous purchase of an underlying equity and the sale of a Call of the same security.

Also known as a Buy-Write.

You can also sell one option against every 100 shares of stock you *already* own.



Objectives of the Covered Call:

1. To generate cash income.
2. To reduce the cost of a long position.
3. To enhance total return of a long position.
4. To reduce downside risk of long positions.





Considerations:

- **Outlook:** Mildly Bullish or Defensive
- **Situation:** MTI, VVC at Resistance
- **Risk:** Limited to Stock price paid – call premium received
- **Reward:** Limited to (Call Strike-Stock Price Paid) + Call Premium
- **Break-even:** Stock price minus call premium received.
- **Entry:** Out-of-the Money.





Buy 100 XYZ Shares	@ \$60.00
Sell 1 XYZ 45-day 62.50 Call	@ <u>\$ 2.00</u>
Net Debit	\$58.00

At Expiration (45 days)

- If XYZ is above \$62.50
Cost Basis - \$58.00

\$4.50 = 7.7%

- If XYZ is below 62.50 at expiration:

- ***Long 100 XYZ at a Cost Basis of \$58.00 or 3% lower than original price of \$60.***

- ***If XYZ below 58.00 at expiration losses will occur.***



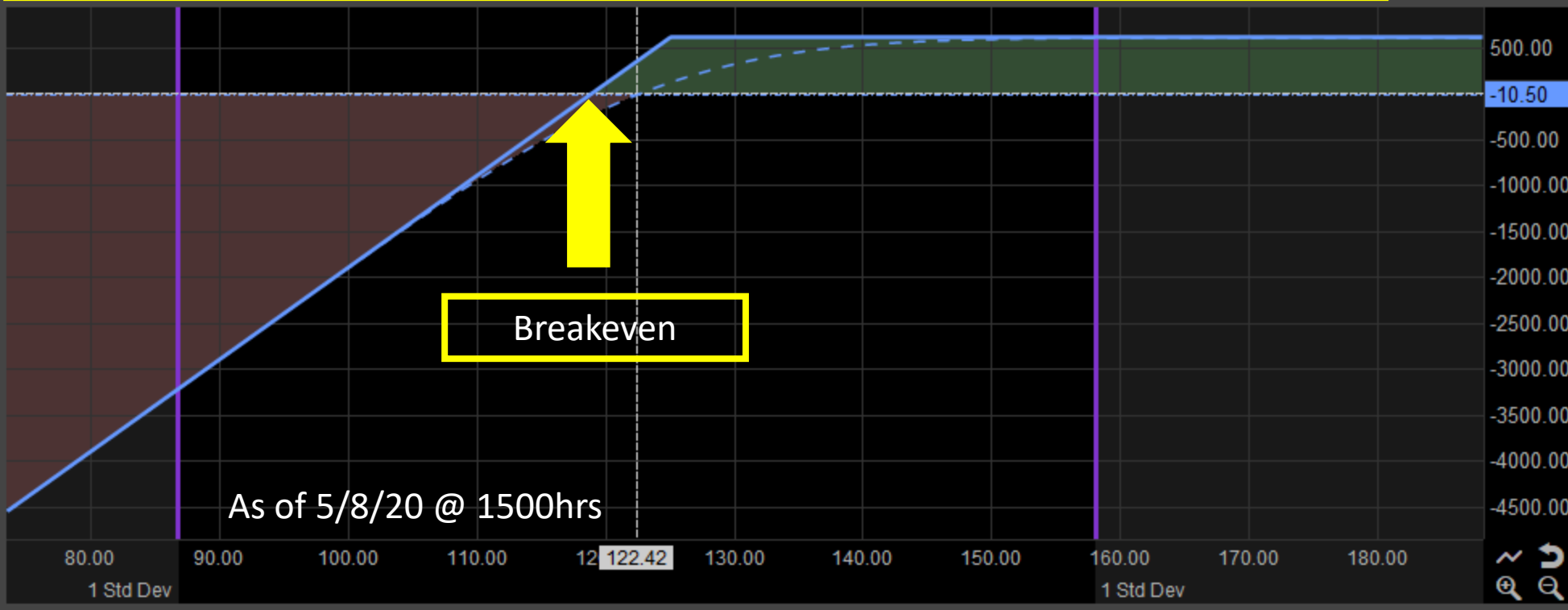
- Chart
- Quote
- Matrix
- Chain
- Spread
- Strategy
- Risk
- Skew
- Group
- Decay
- Project

Risk Graph: IBM

IBM	Last	Net	5 Day HV	20 Day HV	60 Day HV	90 Day HV	CIV Calls	CIV Puts
International Business Machines	122.42	1.19	16.25	35.00	66.75	56.75	29.50	28.00

Single Spread Compare Spreads

Covered Call		Edit Spread											
Position	Expiration	Strike C/P	Price	Bid	Ask	IV	Delta	Gamma	Theta	Vega	Rho	ITM	Brkeven
Buy 100			Fill: 122.52	122.41	122.44		1.0000						
Sell 1	Jun 19, 2020	125.00 Call	Fill: 3.72	3.65	3.80	29.53	0.4379	0.0325	-0.0588	0.1617	0.0560	46.6%	41.9%
Totals:				118.80	118.76	118.64	0.5621	-0.0325	0.0588				



Breakeven

As of 5/8/20 @ 1500hrs

Covered Call	
Brkeven (Up):	118.80
Brkeven (Dn):	118.80
Max Risk:	11880.00
Max Profits:	620.00
Credit:	372.00

42 Days to Expiration

Probability At Expiration

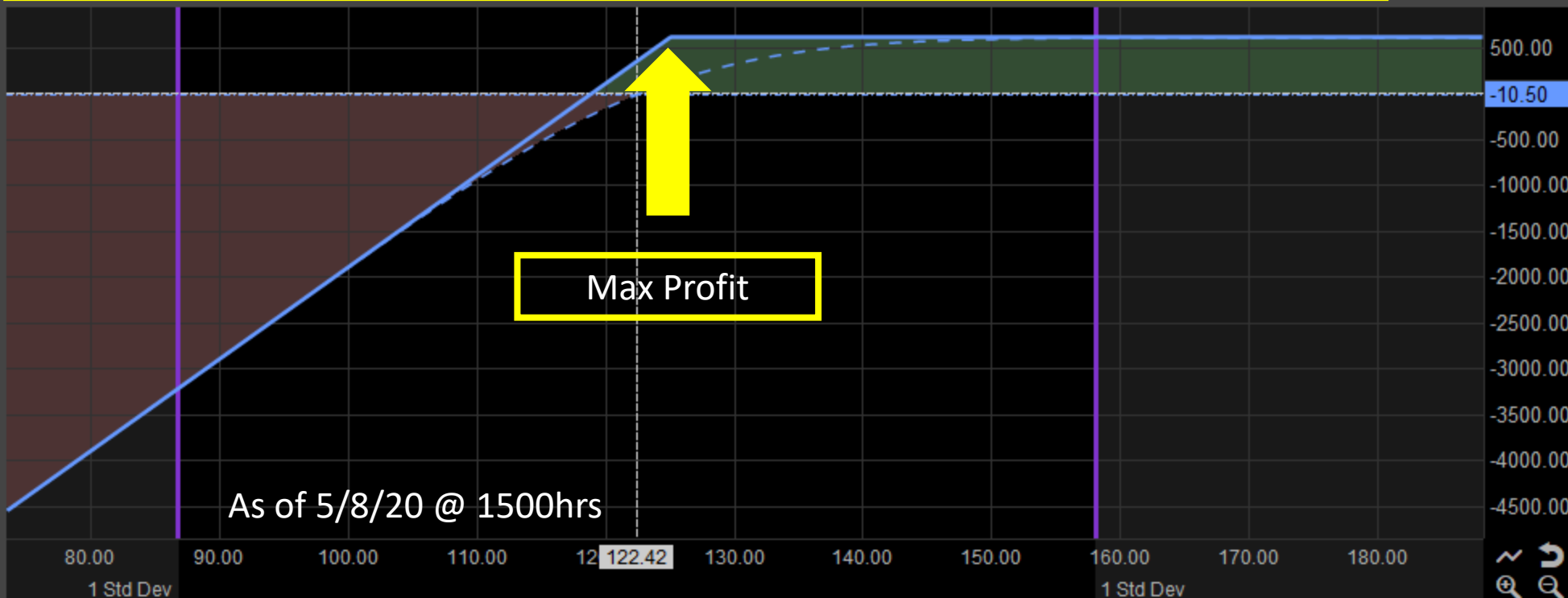
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A++

Look for High Quality Stocks

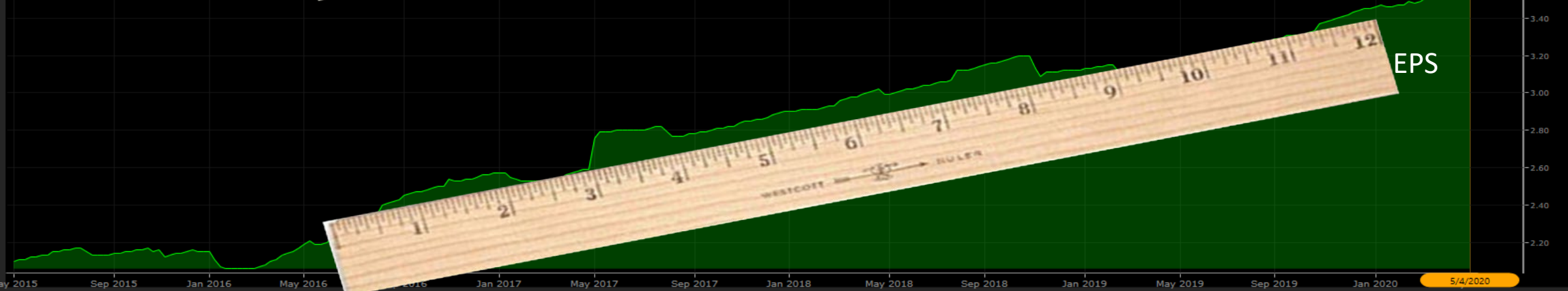


Price

Why are they called Ruler Stocks?



EPS



Graph Control Panel

Buy-Write Guidelines

- 5% ROI if called away
- Premium is at least 2% of bid price
- Expiration is between 30-60 days
- Do not hold through earnings report
- Open interest is greater than 100



Let's Do It!





“How do I keep from running out of money in retirement?”





“Just keep making more money!”

~ Dr. Bart Diliddo ~

