

# Covered Call

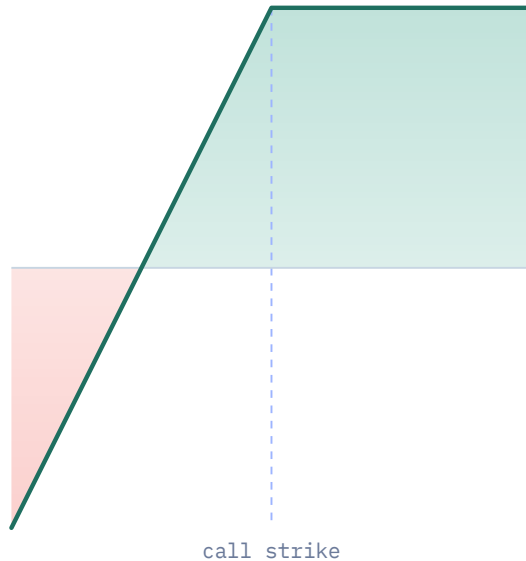
Earn on your share position and fix the selling price up front.

also: buy-write · covered write

## PAYOFF PROFILE

Profit / loss per contract unit

Profit



Schematic, not to scale.

Price at expiration →

## CONSTRUCTION

- +100 shares
- -1 Call at the call strike

## KEY FIGURES

|                 |                                            |
|-----------------|--------------------------------------------|
| Maxprofit       | price gain up to the call strike + premium |
| Maxloss         | cost basis - premium                       |
| Break-even      | cost basis - premium                       |
| Profitzone      | price above the break-even                 |
| Capitalrequired | a full stock position                      |
| Opening         | premium is collected                       |

## WHAT HELPS THE POSITION

|            |                         |
|------------|-------------------------|
| Direction  | Rising prices help      |
| Movement   | Large moves hurt        |
| Time       | Time works for you      |
| Volatility | Rising volatility hurts |

## WHAT PAYS YOU

Time decay

Size of the move against you

You get paid on the decay of the call you sold. The stock stays your main risk.

## TYPICAL USE

|                |                                                                 |
|----------------|-----------------------------------------------------------------|
| Market phase   | sideways range, quiet upward drift                              |
| Volatility     | medium (IV rank 30-50) / high (IV rank > 50)                    |
| Goal           | Income, Disposing of shares                                     |
| Expiration     | 30-45 days                                                      |
| Strike choice  | 0.20-0.35                                                       |
| Assignmentrisk | medium; rises before the ex-dividend date on in-the-money calls |

## EXIT & MANAGEMENT

|             |                                                      |
|-------------|------------------------------------------------------|
| Take profit | 50-75% of the credit                                 |
| Loss limit  | review the stock thesis, not the option in isolation |
| Time rule   | check in-the-money calls before the ex-dividend date |

## THE ONE QUESTION BEFORE ENTRY

Are you willing to hand over the shares at the call strike – even if they keep running afterwards?

## COMMON MISTAKES

- Sold on a stock you actually want to hold long term – the rally gets capped
- Ignored the ex-dividend date and got assigned early
- After a drawdown, sold a strike below cost basis and locked the loss in



Related: The Wheel · Collar · Long Call Diagonal — Opposite: Protective Put

Figures are per contract unit at expiration, before fees and tax. This is not investment advice — options can lose their entire value.