**WHAT ARE CALL OPTIONS?**

Call options contracts are financial derivatives that give a buyer the right, but not the obligation, to purchase a security at a pre-determined price, called the **strike price**. The price of the option paid by the buyer, otherwise known as the **premium**, is influenced by the **market price**, the **strike price**, level of **volatility**, the option’s **time to expiration** and the price of the underlying asset.

**WHAT IS A COVERED CALL STRATEGY?**

A **covered call strategy** consists of an investor holding an underlying security and selling call options on that position. The investor receives premium income for selling the call option, but the option seller must sell the security at the strike price if the call is exercised.

**WHY INCLUDE A COVERED CALL STRATEGY IN YOUR PORTFOLIO?**

Covered call strategies inherently forfeit upside in exchange for current **income**, which is a negative for the option seller, but **positive** for the option buyer. An investor will likely underperform the **market** as they keep the option premium but forfeit some **stock price** increases. Covered call strategies are an option-based income strategy that seeks to collect the **premium**.

**WHAT DISTINGUISHES DIFFERENT COVERED CALL APPROACHES?**

There are numerous ways to implement a covered call strategy, and the approach an investor chooses will depend on their unique needs. The price of the option is a negative for the option seller, but **positive** for the option buyer. Covered call strategies can be used in **income-focused portfolios**, or tactically for investors who believe the **market** will continue to rise.

**EXPECTED OUTCOMES**

- **LONG STOCK**: An investor will likely underperform as the markets go anywhere, but the investor keeps the premium from selling the call option.
- **SHORT CALL**: A bearish options strategy, which obligates the call seller to sell a security to the call buyer at the **strike price** if the call is exercised.
- **BULL MARKET**: An investor will likely underperform the **market** as they keep the option premium but forfeit some stock price increases.
- **BOTH**: An investor can expect to fare in **positive** environments, while also mitigating the risk of writing a call option.

**Potential Results**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Potential Results</th>
<th>Outcome</th>
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<tbody>
<tr>
<td>Long Stock</td>
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<td>Short Call</td>
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<td>Both</td>
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**WHAT ARE THE UNDERLYING INVESTMENTS/POSITIONS?**

Covered call strategies can be used across a variety of different strategies such as making leveraged bets on securities, managing risk, and increasing **market price**. Options do not create value, but merely transfer value from one party to another. They can be used to exercise the option. Conversely, the seller of an option must sell the security at that strike price to purchase a security at a pre-determined price, called the **strike price**.

**MONEYNESS OF THE OPTIONS**

**Moneyness of the option** determines the tradeoff between premium and **loss**. Options **in the money (ITM)** have a **strike price** less than the **market price** and will be exercised. Options **out of the money (OTM)** have a **strike price** higher than the **market price** and will not be exercised. Options **at the money (ATM)** have a **strike price** equal to the **market price** and might be exercised.

**STRIKE PRICE**

The **strike price** is a critical component in covered call strategies. It determines the option's value move against **market price** and **income**.

**SHARE PRICE**

The **market price** of a stock determines the option's **income** and **loss**.

**PREMIUM**

The **premium** is the price paid by the buyer for the option, which is influenced by the **market price**, **strike price**, **time to expiration**, and **volatility**.

**RETURN PAYOFF**

Covered call strategies generate premiums, but also expose the investor to **price risk** of the underlying security. There is a **tradeoff** between the income generated from the option and the potential losses if the stock price decreases.

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