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### **IUR Capital**

# **Covered Calls for Your Equity Portfolio**

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Covered Calls for an Equity Portfolio

**IUR** CAPITAL

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# Host Profile (Gareth Ryan)



- Founded IUR Capital Ltd in 2007, IUR Capital LLC in 2010
- IUR Capital is an investment advisor for institutional and retail investors
- Focused in exchange-traded option strategies

#### Market update....how has March been?



- Significant daily swings in March driven by current banking jitters
- S&P 500 back to flat YTD / Nasdaq +10% YTD
- 2022's biggest losers are 2023's biggest gainers (NVDA/TSLA/AMD)
- Treasury market volatility has dominated headlines in recent sessions
- But March is a busy month outside the bank news CPI/Fed
- Will the current bank concerns blow over?

Source: IBKR TWS

# The VIX tells its own story about *implied* market moves...





### S&P 500 was having a solid Q1...

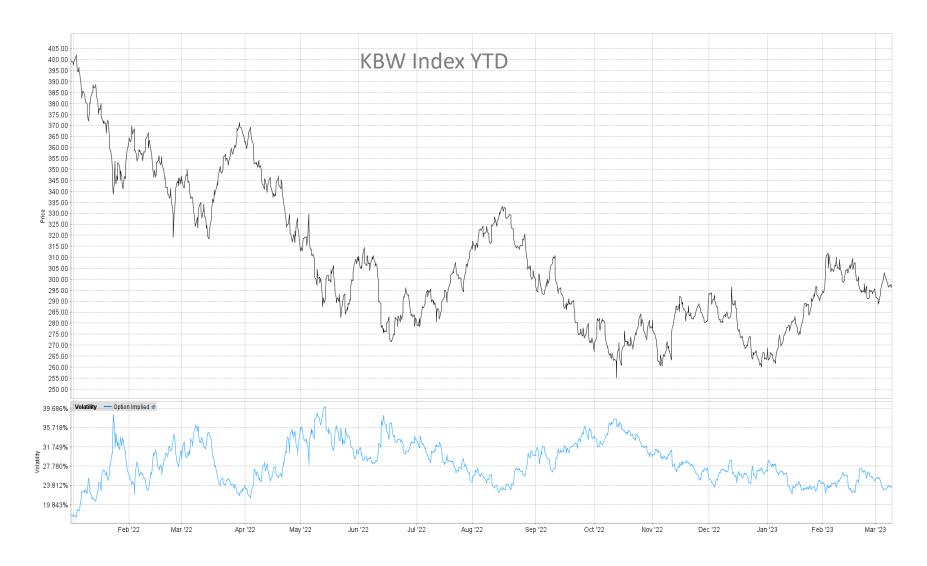




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### KBW Bank Index....look away now





Source: CBOE

Question of the day....



Should we own banks through cash-secured puts at these levels?

Answers please in the Q&A Panel

#### Covered Calls...a review of basics



- Options are contracts
- giving the owner the <u>right</u> to buy or sell an asset at a fixed price for a specific period of time
- and <u>obligating</u> the seller to take the opposite side if and when the option is exercised by the owner
- The covered call strategy involves an <u>obligation</u> to sell stock

#### Definition – Covered Writing



- Covered Call strategy part of premium-harvesting for equity portfolio
- Consists of buying stock and selling calls on share-for-share basis
- Selling calls against stock already owned known as "covered writing"

### Selling Covered Calls – Why?



- Forecast: Neutral to moderately bullish on the stock
- Objective: Increase returns through call premiums in stable markets and reduce stock price risk

#### What we need to know...



- The seller of a covered call:
- has the obligation to sell stock at the strike price (at any time, if assigned)
- until the expiration date
- in exchange for accepting the obligation, the seller receives a premium

#### What do I need to bear in mind?



- The risk is the stock declines below breakeven point, a loss will result
- Profit potential is above the strike price, losses from the short call offset gains from the long stock position



#### **Example of Covered Call Position**

XYZ Company			
		Calls	Puts
Oct	35	\$8.75	\$0.30
	40	\$4.90	\$1.40
	45	\$2.30	\$3.80
	50	\$0.90	\$7.50
Jan	35	\$9.50	\$1.20
	40	\$6.30	\$2.90
	45	\$3.90	\$5.50
	50	\$2.30	\$8.80

XYZ trading at \$43.50

Data on XYZ 52 week high \$49.87 52 week low \$36.75 Your forecast the stock to be between the \$40.00 - \$45.00 range over next 80 days

Options involve risk and are not suitable for all investors. Multiple leg strategies, including spreads, will incur multiple transaction costs



### Covered Call Example....continued

- Buy 100 shares of XYZ at \$43.50 + Sell 1 XYZ Oct 45 Call at \$2.30
- It is 80 days prior to expiry, and stock pays a dividend of \$0.18c in 27 days

#### Reacting to Price Movement



- What should you do if XYZ rises above \$45.00 prior to expiry?
- A) Do nothing and wait for assignment if you are willing to sell your stock
- B) Buy back the call and keep the stock if you are bullish and/or do not want to sell the stock.
- C) Close the entire position by buying the call and selling the stock if you are bearish and willing to sell the stock.

## Reacting to Price Movement...continued



When should you choose between A, B, or C?

• There is no right answer!

### Reacting to Price Movement...continued



- What should you do if XYZ is unchanged at \$43.50 at expiry?
- A) Write another call.
- B) Sell the stock.
- There is no "objective answer" to this question.

You as the investor must make the decision for yourself.

#### Develop a Plan for Covered Calls



- Start with cash
- Find a stock: forecast should be neutral to bullish
- Buy stock / sell call (ITM? ATM? OTM?)
- At expiry: hope to end with cash
- Have a stop-loss point (and close position there)
- Diversify (do more than one at a time)
- Do it again (always be looking for the next opportunity)



Let's look at some real-time covered calls in TWS platform...

### Let's talk...



Email me gryan@iurcapital.com to request the slides or just to have a chat....