

IBKRWEBINARS.COM



May 1, 2023

IUR Capital

Covered Calls for Your Equity Portfolio

Gareth Ryan

Founder & Managing Director
IUR Capital

Exchange and Industry Sponsored Webinars are presented by unaffiliated third parties. Interactive Brokers LLC is not responsible for the content of these presentations. You should review the contents of each presentation and make your own judgment as to whether the content is appropriate for you. Interactive Brokers LLC does not provide recommendations or advice. This presentation is not an advertisement or solicitation for new customers. It is intended only as an educational presentation.



Disclosure:

Options involve risk and are not suitable for all investors. For information on the uses and risks of options, you can obtain a copy of the Options Clearing Corporation risk disclosure document titled [Characteristics and Risks of Standardized Options](#) by calling (312) 542-6901.

Futures are not suitable for all investors. The amount you may lose may be greater than your initial investment. Before trading futures, please read the [CFTC Risk Disclosure](#). For a copy visit interactivebrokers.com.

There is a substantial risk of loss in foreign exchange trading. The settlement date of foreign exchange trades can vary due to time zone differences and bank holidays. When trading across foreign exchange markets, this may necessitate borrowing funds to settle foreign exchange trades. The interest rate on borrowed funds must be considered when computing the cost of trades across multiple markets.

The Order types available through Interactive Brokers LLC's Trader Workstation are designed to help you limit your loss and/or lock in a profit. Market conditions and other factors may affect execution. In general, orders guarantee a fill or guarantee a price, but not both. In extreme market conditions, an order may either be executed at a different price than anticipated or may not be filled in the marketplace.

There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations.

- IRS Circular 230 Notice: These statements are provided for information purposes only, are not intended to constitute tax advice which may be relied upon to avoid penalties under any federal, state, local or other tax statutes or regulations, and do not resolve any tax issues in your favor.
- Interactive Brokers LLC is a member of [NYSE](#) [FINRA](#) [SIPC](#)



Covered Calls for an Equity Portfolio



March 2023

Not for redistribution or copy

Gareth Ryan
Founder & Managing Director
gryan@iurcapital.com

Options are leveraged products that involve risk and are not suitable for all investors. Before committing capital to any option strategies, read the “Characteristics & Risks of Standardized Options” provided by the Options Industry Council. For a copy call 312-542-6901.

A copy is also available at: <http://www.optionsclearing.com/publications/risks/riskstoc.pdf>

IUR Capital LLC is an investment advisor registered with the Securities & Exchange Commission (Firm CRD 153630). IUR Capital Ltd is a registered Portfolio Manager with the Ontario Securities Commission (NRD 37230) and authorized and regulated by the UK Financial Conduct Authority (Firm Reg 514394). We do not hold any client funds. Client accounts are held at a FINRA regulated broker-dealer and clearing firm. The Presenter is an Investment Advisor Representative of IUR Capital and a FINRA Registered Representative of an affiliated broker-dealer (IUR Securities LLC).

None of the content discussed in this presentation carries an offer or solicitation of an offer to buy or sell any security or operate any specific strategy. Any securities included in this presentation are for illustrative purposes only and are not intended as recommendations. Where multi-leg strategies (including spreads) are discussed, the commission is per leg and therefore multiple commissions will apply. Commissions are subject to change.

The information provided in this presentation is believed to be accurate, but the accuracy and completeness of the information is not guaranteed. Investors should not rely on any information for the maintenance of books and records or for tax, accounting, financial, or regulatory reporting. *Past performance is not indicative of future results.*

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?

(As of March 15, 2023)

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

CBOE VIX 1 Year



Source: CBOE

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



Source: CBOE

KBW Bank Index....look away now



Source: CBOE

Any trading symbols, entities or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.

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

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

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”

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

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

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

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

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

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

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

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

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

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.

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

Reacting to Price Movement...continued

- When should you choose between A, B, or C?
- There is no right answer!

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

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)

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

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....