

Generating Income with Covered Calls - Checklist

Stock Selection:

Step	Consideration Point	Notes
1	Do I already own the stock for which I'd like to write a covered call? <ul style="list-style-type: none"> <input type="radio"/> Yes (overwrite) <input type="radio"/> No (buy write) 	
2	What is my outlook for the stock? <ul style="list-style-type: none"> <input type="radio"/> Bullish <input type="radio"/> Neutral <input type="radio"/> Bearish (<i>not appropriate for covered call writing</i>) 	
In general, I should answer questions 3 to 7 below with a "yes" for covered call writing to be appropriate:		
3	Am I willing to own the stock if the price declines? <ul style="list-style-type: none"> <input type="radio"/> Yes <input type="radio"/> No 	
4	Am I willing to sell the stock if the price rises? <ul style="list-style-type: none"> <input type="radio"/> Yes <input type="radio"/> No 	
5	Am I satisfied with the static rate of return? Static Rate of Return = $\text{Income} / \text{Investment} \times \text{Time Factor}$ Static Rate of Return = $(\text{Call} + \text{Dividend}) / \text{Stock Price} \times (360 \text{ days per year} / \text{days to expiration})$ <ul style="list-style-type: none"> <input type="radio"/> Yes <input type="radio"/> No 	
6	Am I satisfied with the if-called rate of return? If-Called Rate of Return = $(\text{Income} + \text{Gain}) / \text{Investment} \times \text{Time Factor}$ If-Called Rate of Return = $(\text{Call} + \text{Dividend}) + (\text{Strike} - \text{Stock Price}) / \text{Stock Price} \times (360 \text{ days per year} / \text{days to expiration})$ <ul style="list-style-type: none"> <input type="radio"/> Yes <input type="radio"/> No 	
7	Am I willing to sell the stock at the effective sale price if assigned? Effective selling price = Total dollar amount received, including any option premium, for selling a stock Effective selling price = $(\text{Strike price} + \text{call premium}) - \text{commissions}$ <ul style="list-style-type: none"> <input type="radio"/> Yes <input type="radio"/> No 	

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Strike Price Selection:

Step	Consideration Point	Notes
1	<p>Which of the following statements best expresses my position:</p> <ul style="list-style-type: none"> ○ I want to sell the stock AND there is no urgency (go to step 2) ○ I am indifferent and am willing to hold OR sell the stock (go to step 3) ○ I do not want to sell the stock, BUT do want to generate incremental income (go to step 4) 	
2	<p>I want to sell the stock AND there is no urgency:</p> <ul style="list-style-type: none"> ○ Sell a call with a strike price below or very close to the current stock price 	High probability of being assigned
3	<p>I am indifferent and am willing to hold OR sell the stock</p> <ul style="list-style-type: none"> ○ Sell a call with a strike price that is close to the current stock price 	Approximately 50% probability of being assigned
4	<p>I do not want to sell the stock, BUT do want to generate incremental income</p> <ul style="list-style-type: none"> ○ Sell a call with a strike price above the current price of the stock by a distance with which you are comfortable ○ Your forecast for this stock should be that the stock price will not rise above the strike price of the call ○ Have a plan to close the covered call, i.e., buy to close, if the stock price rises to the strike price of the covered call 	Lowest probability of being assigned
5	<p>Use the Probability Calculator tool, on either Fidelity.com or Active Trader Pro®, to help determine the likelihood of the underlying equity trading above, below, or between certain price targets on a specified date.</p>	<p>View the video tutorial: Using the probability calculator on Fidelity. Com Probability analysis in Active Trader Pro®</p>

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Expiration Date Selection:

Step	Consideration Point	Notes
1	Which of the following statements best expresses my position: <ul style="list-style-type: none"> ○ I have a lot of time to devote to trading (go to step 2) ○ I do not have much time to devote to trading (go to step 3) 	
2	I have a lot of time to devote to trading: <ul style="list-style-type: none"> ○ Sell short-term calls (60 days or less to expiration) with strike prices close to the current stock price ○ Writing covered calls every month or even every two months requires a considerable amount of time to follow the market, pick stocks, watch positions and make adjustments as necessary ○ As a result, selling short-term options tends to be suited to those investors with considerable time to devote to this activity 	
3	I do not have much time to devote to trading: <ul style="list-style-type: none"> ○ Sell intermediate-term calls (90 days to 6 months) with strike prices at least 5% above the current stock price ○ Covered calls of this nature tend to require less time to monitor ○ Therefore, they are better suited to investors who are less inclined to follow every up and down and twist and turn in the market 	

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Disclosures:

Options trading entails significant risk and is not appropriate for all investors. Certain complex options strategies carry additional risk. Prior to trading options, please read [Characteristics and Risks of Standardized Options](#), and call 800-343-3548 to be approved for options trading. Supporting documentation for any claims, if applicable, will be furnished upon request.

The Generating Income with Covered Calls Checklist is provided for educational purposes only and is not intended to provide legal, tax, investment or insurance advice, nor should it be construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any security by Fidelity or any third party. You are solely responsible for determining whether any investment, investment strategy, security or related transaction is appropriate for you based on your personal investment objectives, financial circumstances and risk tolerance. You should consult your legal or tax professional regarding your specific situation.

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