

All About Calls

Edward Modla

Executive Director, Investor Education
OCC

Allen Helm

Regional Brokerage Consultant
Fidelity Investments



Disclaimer

Options involve risks and are not suitable for everyone. Individuals should not enter into options transactions until they have read and understood the risk disclosure document, Characteristics and Risks of Standardized Options, available by visiting OptionsEducation.org or by contacting your broker, any exchange on which options are traded, or The Options Clearing Corporation at 125 S. Franklin St., #1200, Chicago, IL 60606.

In order to simplify the calculations used in the examples in these materials, commissions, fees, margin, interest and taxes have not been included. These costs will impact the outcome of any stock and options transactions and must be considered prior to entering into any transactions. Investors should consult their tax advisor about any potential tax consequences.

Any strategies discussed, including examples using actual securities and price data, are strictly for illustrative and educational purposes and should not be construed as an endorsement, recommendation, or solicitation to buy or sell securities. Past performance is not a guarantee of future results.

All content in this document is owned, or licensed, by The Options Clearing Corporation ('OCC'). Unauthorized use is prohibited without written permission of OCC. While reasonable efforts have been made to ensure that the contents of this document are accurate, the document is provided strictly "as is", and no warranties of accuracy are given concerning the contents of the information contained in this document, including any warranty that the document will be kept up to date. OCC reserves the right to change details in this document without notice. To the extent permitted by law no liability (including liability to any person by reason of negligence) will be accepted by OCC or its employees for any direct or indirect loss or damage caused by omissions from or inaccuracies in this document.

Trademarks

The following trademarks, logos, and service marks displayed are owned by The Options Clearing Corporation:

OCC®





The information provided in this communication is solely for educational purposes and should not be construed as advice or an investment recommendation. Fidelity Investments is a separate company, unaffiliated with The Options Industry Council. There is no form of partnership, agency affiliation, or similar relationship between The Options Industry Council and Fidelity Investments, nor is such a relationship created or implied by the information herein. Fidelity Investments has not been involved with the preparation of the content supplied by The Options Industry Council and does not guarantee or assume any responsibility for its accuracy or completeness.

Presentation Outline

- ❑ Call Options
 - ❑ Definition and Motivations
 - ❑ Basic Bullish Strategies
 - ❑ Covered Call
 - ❑ Long Call
 - ❑ Bull Call Spread
 - ❑ Exercise and Assignment



Call Options:

- **Definition**
- **Motivations**



Call Options: Definition and Motivations

- ❑ Equity call options are **contracts** that give:
 - ❑ The **buyer** the right to buy shares of underlying stock
 - ❑ The **seller** the obligation to sell shares of underlying stock (likely already owned)
 - ❑ The transaction price and expiration date will be defined within the options contract
- ❑ Call options make it possible to target a variety of investment objectives including:
 - ❑ **Long Calls** – Bullish Speculation
 - ❑ **Short Calls** – Generate income and reduce risk of long stock position



Covered Calls:

- Potential Income Generation
- Potential Risk Reduction

Covered Calls: Motivation

- ❑ Construction:

- ❑ Sell 1 call option for each 100 shares owned

- ❑ Motivation:

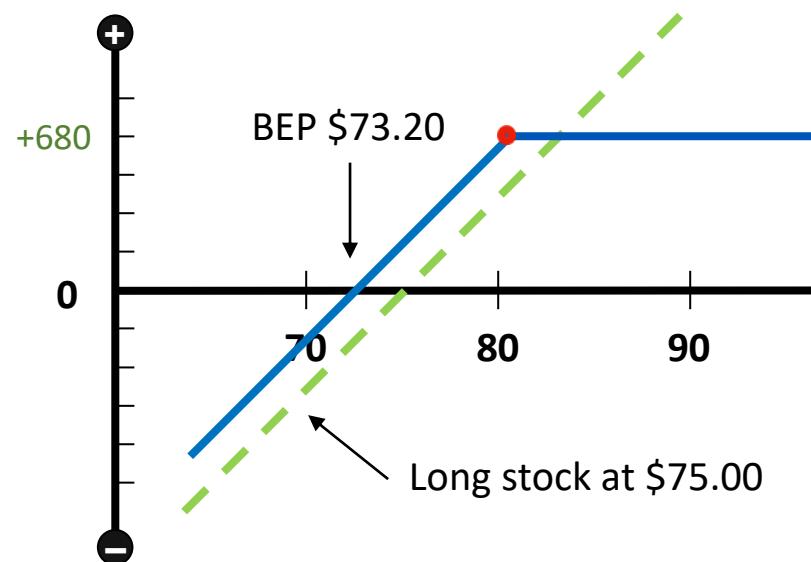
- ❑ Capitalize on moderately bullish outlook
 - ❑ Expectation that the share price will not rise above the chosen strike price
 - ❑ Lower break-even point (increases chance of positive outcome)
 - ❑ Call option premium received is worth the associated obligations



Covered Call Example

Own 100 shares XYZ at \$75.00

Sell 1 XYZ 80 call at \$1.80



Break-even at Expiration:

Stock Price Paid –

Call Premium Received

$$\$75.00 - \$1.80 = \$73.20$$

Maximum Profit if Assigned:

Effective Stock Sale Price –

- Stock Price Paid

$$(\$80.00 + \$1.80) - \$75.00 = \$6.80$$

- \$680.00 Total

Does not include commissions, fees, margin interest or taxes.

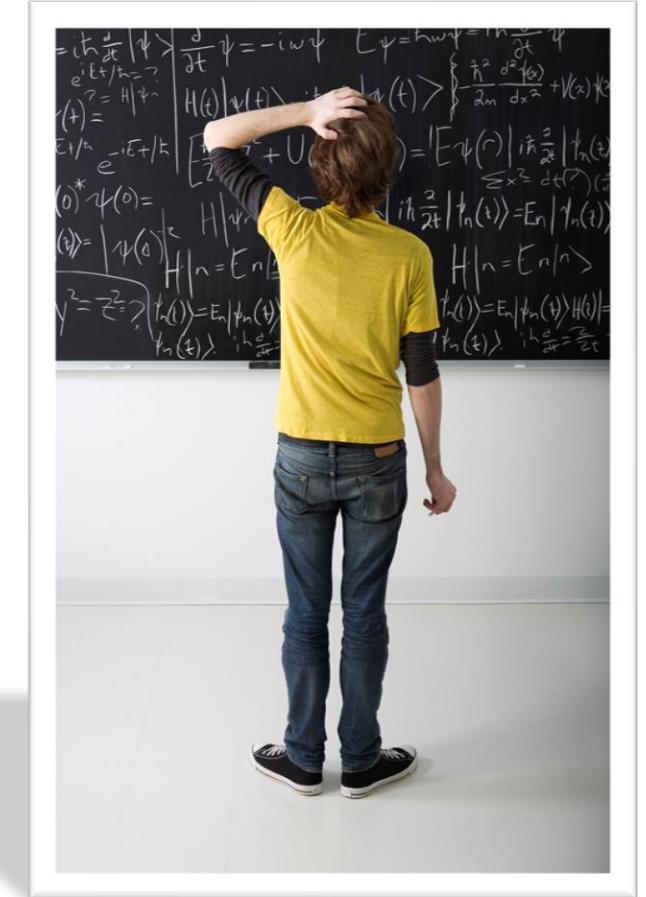
Basic Bullish Strategies:

- Long Call
- Bull Call Spread

Basic Bullish Strategies: Motivations

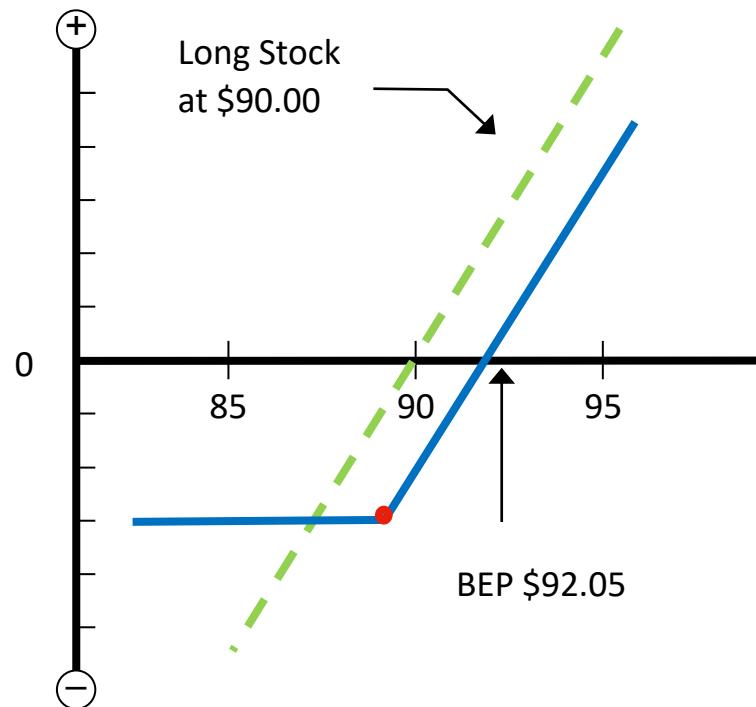
Long Call

- Bullish on underlying
- Lower cost of entry vs. purchasing shares
- Requires direction and timing of share price movement to be correct



Long Call Buying Example

Buy 90 strike call at \$2.05



Break-even at Expiration:
Strike Price + Call Premium
Paid

$$\$90.00 + \$2.05 = \$92.05$$

Maximum Loss:
\$2.05 Call Premium Paid
\$205.00 Total

Does not include commissions, fees, margin interest or taxes.

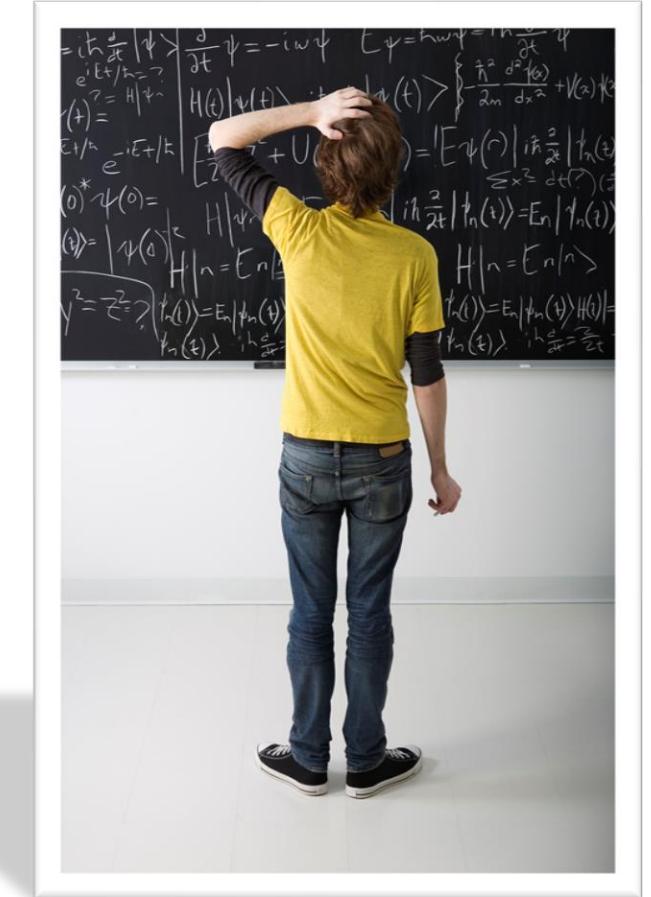
Basic Bullish Strategies: Motivations

Long Call

- Bullish on underlying
- Lower cost of entry vs purchasing shares
- Requires direction and timing of share price movement to be correct

Bull Call Spread

- Same motivation as Long Call but at lower cost in exchange for capped profit potential

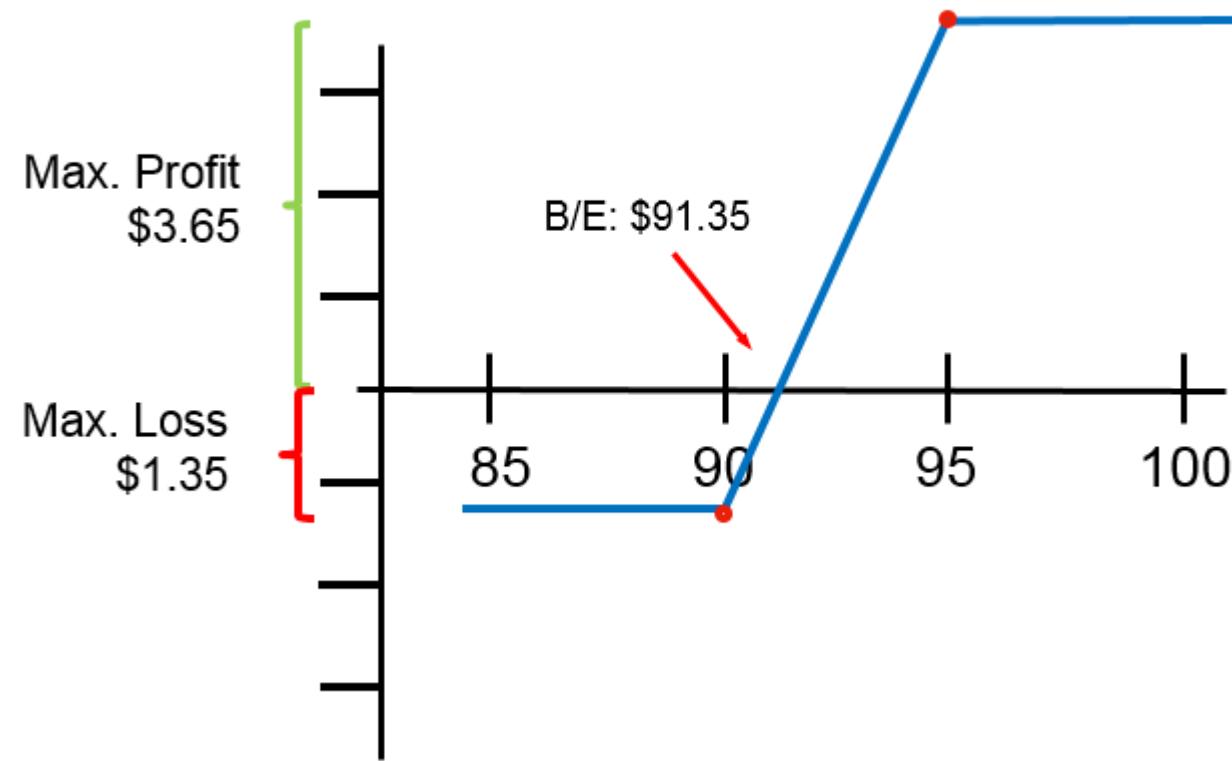


Bull Call Spread (Debit)

Buy a lower strike call and **sell** a higher strike call

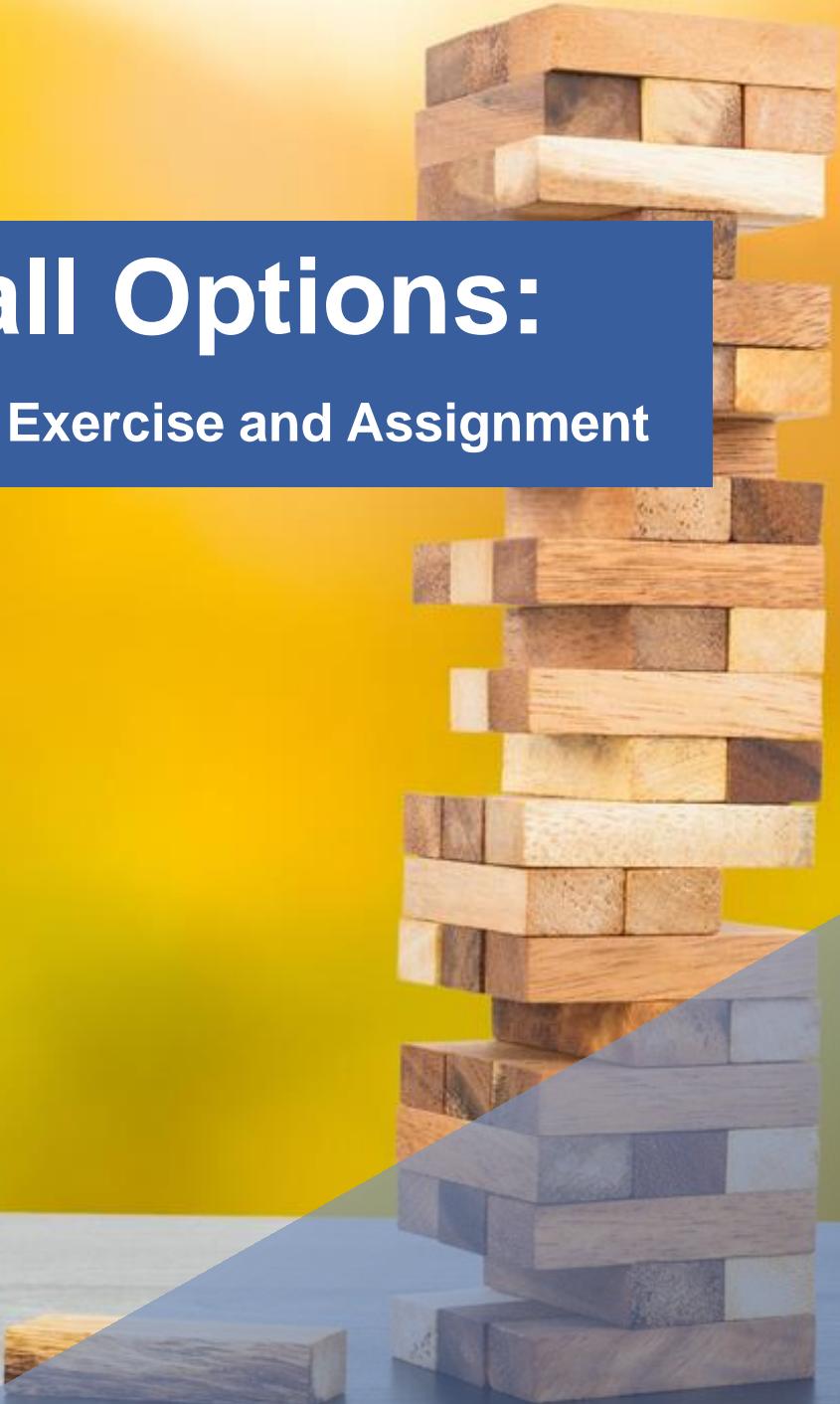
- Stock @ \$90
- Buy 1 90 Call \$2.05
- Sell 1 95 Call \$0.70

Net Debit \$1.35



Call Options:

- Exercise and Assignment



Call Options: Exercise and Assignment

❑ Call holder considerations:

- ❑ Sell to close prior to expiration
- ❑ Exercise at expiration
- ❑ Exercise prior to expiration (e.g. before ex-dividend date)
- ❑ Abandon the option (allow to expire without value)

❑ Call writer considerations:

- ❑ Assignment can occur on any trading day (be aware of ex-dividend date)
- ❑ An option does not have to be ITM to be assigned
- ❑ The only way to avoid assignment risk is to close the open short position