

# All About Calls

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# 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:

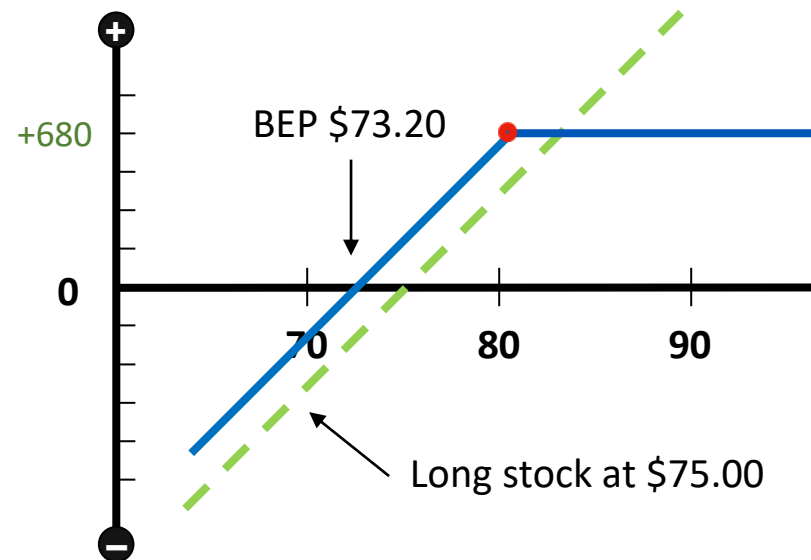
- ❑ Capitalize on moderately bullish outlook
- ❑ Expectation that the share price will not rise above the chosen strike price
- ❑ Lower break-even point (increases chance of positive outcome)
- ❑ Call option premium received is worth the associated obligations



# Covered Call Example

**Own 100 shares XYZ at \$75.00**

**Sell 1 XYZ 80 call at \$1.80**



**Break-even at Expiration:**

$$\begin{aligned} &\text{Stock Price Paid} - \\ &\text{Call Premium Received} \\ &\$75.00 - \$1.80 = \$73.20 \end{aligned}$$

**Maximum Profit if Assigned:**

$$\begin{aligned} &\text{Effective Stock Sale Price} - \\ &\quad \bullet \text{ Stock Price Paid} \\ &(\$80.00 + \$1.80) - \$75.00 = \$6.80 \\ &\quad \bullet \$680.00 \text{ Total} \end{aligned}$$

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

# Basic Bullish Strategies:

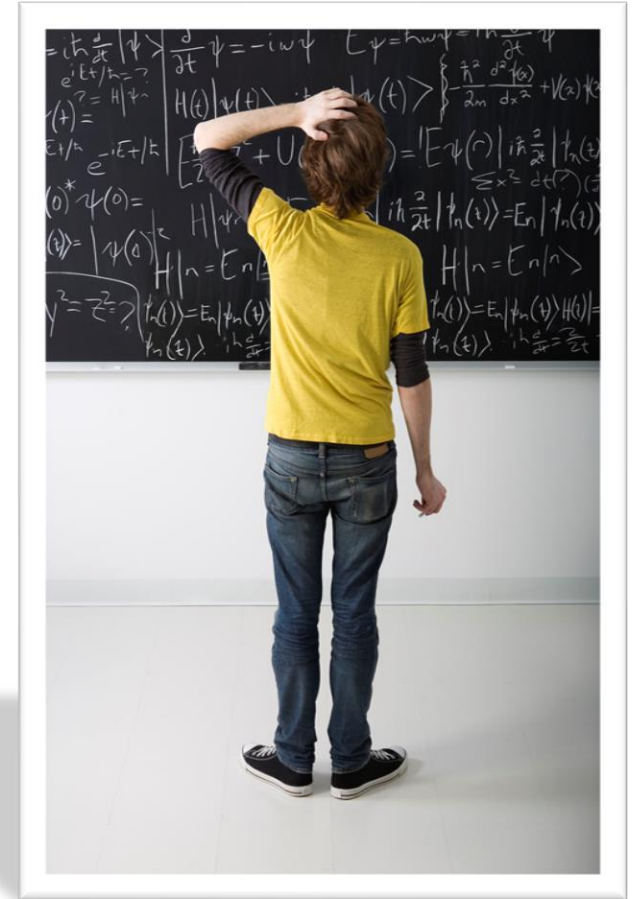
- Long Call
- Bull Call Spread



# Basic Bullish Strategies: Motivations

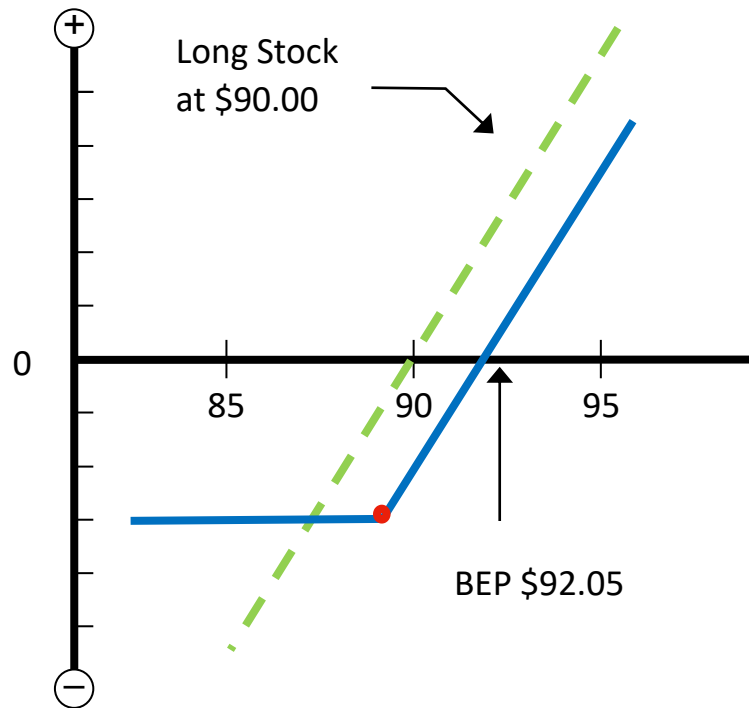
## Long Call

- ❑ 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.

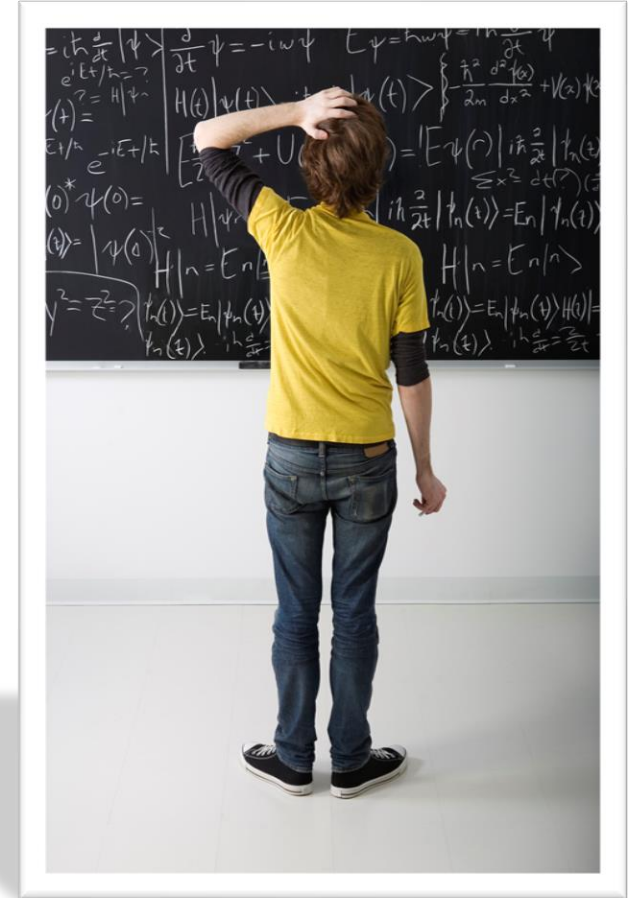
# Basic Bullish Strategies: Motivations

## 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

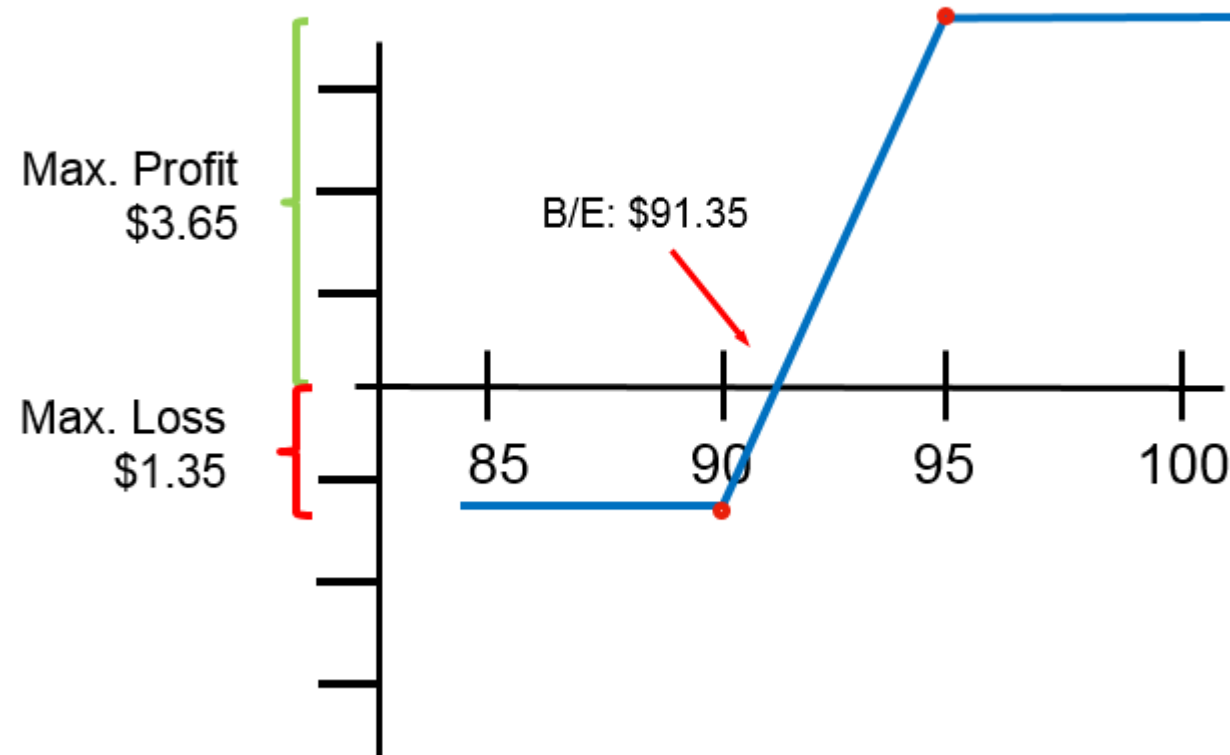
- ❑ Same motivation as Long Call but at lower cost in exchange for capped profit potential



# 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**



A tall, precarious stack of wooden blocks, similar to a Jenga tower, stands on a blue surface. The background is a bright yellow gradient with a large, glowing sun in the upper right corner. A dark blue diagonal band runs from the bottom left towards the top right, partially obscuring the stack of blocks.

# 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