

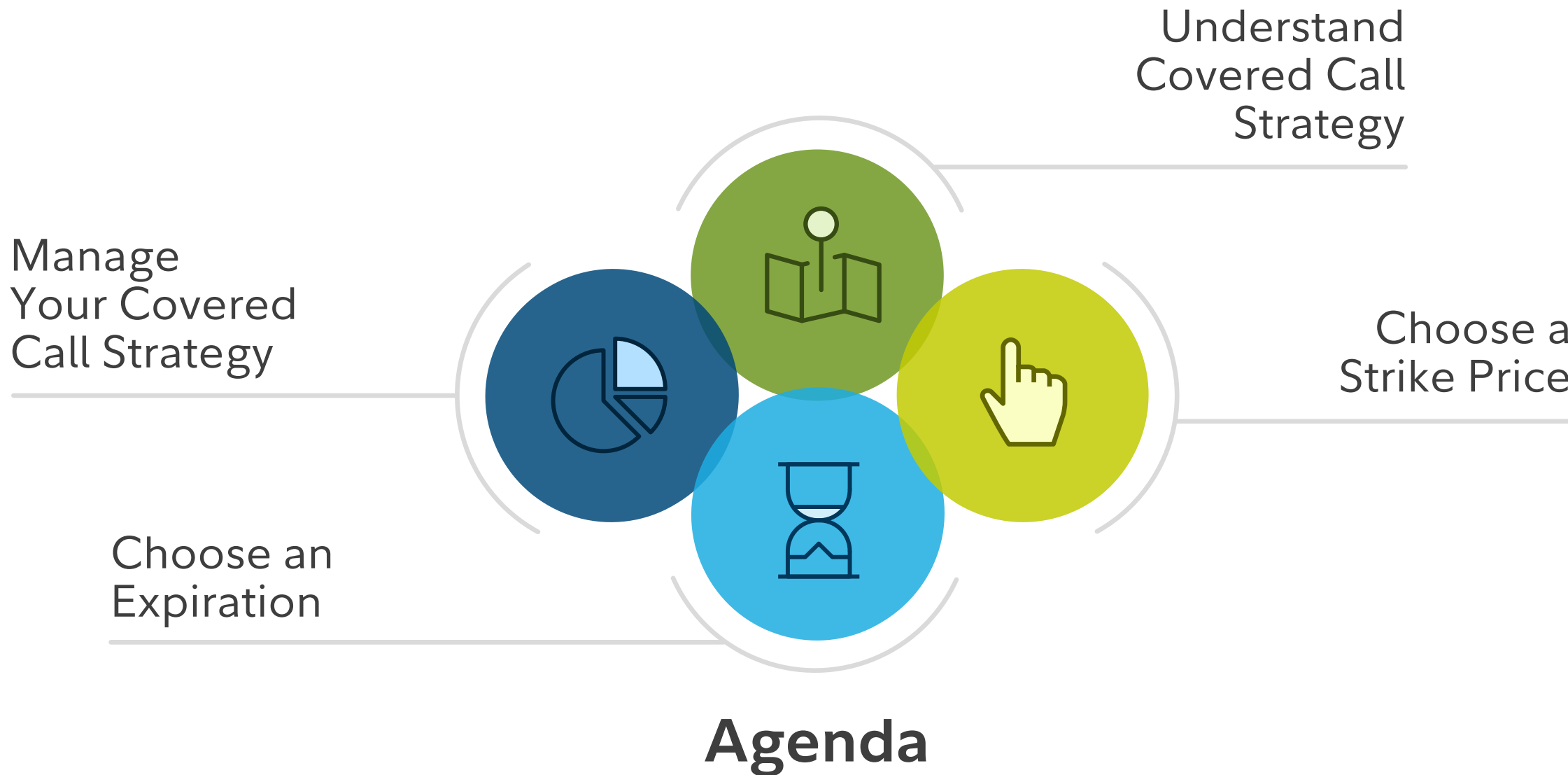


A Fidelity Investments Webinar

Writing Covered Calls

BROKERAGE: **OPTIONS**







Understand Covered Call Strategy

Covered Call Strategy: The Basics

Outlook:

Bullish to neutral

Construction:

Buying (or owning) stock and selling call options on a share-for-share basis, typically 1 contract per 100 shares

Max Gain:

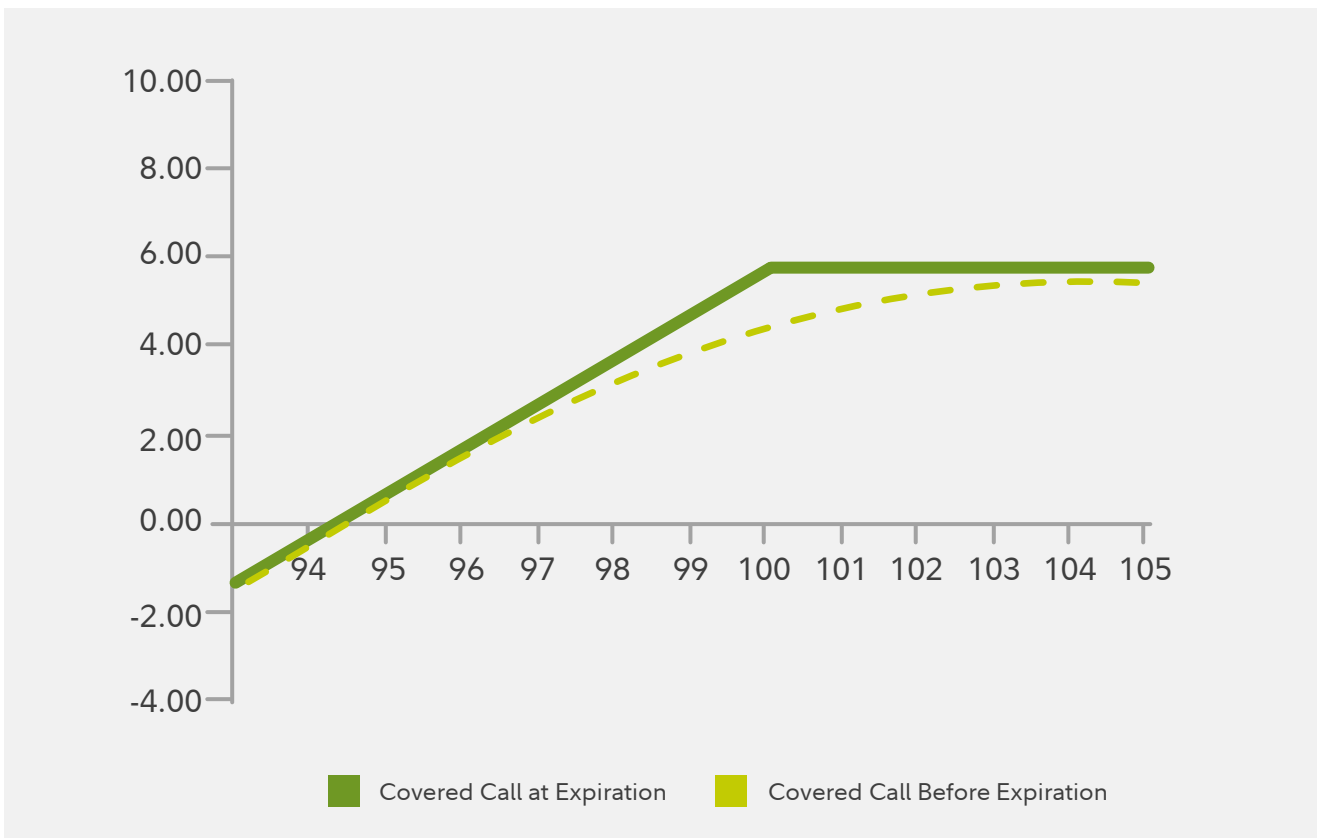
Strike price plus call premium received, minus cost of the long shares

Max Loss:

Cost of the long shares minus call premium received

Breakeven at expiration:

Stock price minus call premium received



Long 100 shares at 98.00

Short 1 100 call at 3.5

Why Sell Covered Calls?

Help Generate Income

- Take in premium on bullish-to-neutral outlook
- Enhance returns on a security not expected to move in the short term

Sell Stock

- Can be used as an exit strategy for a long position

Manage a Long Stock Position

- Reduce cost basis / breakeven
- Reduce delta exposure
- Generate positive returns in a sideways market

Get to Know the Greeks

The Greeks (at time of trade)

- Delta - rate of change (+)
- Gamma - rate of change of delta (-)
- Theta- time decay (+)
- Vega - volatility (-)

What are the risks?

- The underlying price moves down
- Increase in realized volatility
- Not applicable
- Increase in implied volatility

Trader's View:

Understand the risks of early assignment to your personal situation –
upcoming dividends and tax considerations are often mistakenly overlooked when writing covered calls.



Choose a
Strike Price

Evaluate Exposure to Underlying Security

<div><div></div><div></div></div>					V 17,748,57
97.72 1.46 (1.52%)					
Strike ▾	Last	Bid	Ask	Delta	
▼ Nov 22 CALLS					
60	36.85	37.65	37.90	0.9959	
65	31.05	32.65	32.85	0.9953	
70	26.24	27.70	27.90	0.9865	
75	22.80	22.75	22.95	0.9759	
80	17.60	17.80	18.00	0.962	
85	12.00	12.95	13.15	0.9257	
87.5	10.45	10.60	10.80	0.8912	
90	8.55	8.40	8.55	0.8351	
92.5	6.45	6.40	6.50	0.7519	
95	4.75	4.60	4.75	0.6446	
97.5	3.20	3.15	3.25	0.5203	
100	2.08	2.05	2.08	0.392	
105	0.71	0.70	0.71	0.1775	
110	0.22	0.22	0.23	0.0677	
115	0.09	0.08	0.09	0.0274	
120	0.06	0.04	0.05	0.014	
125	0.03	0.01	0.04	0.008	
130	0.05	0.00	0.03	0.0046	
135	0.03	0.00	0.03	0.004	
140	0.01	0.00	0.01	0.0015	

Evaluate how the short call will affect exposure

ITM 92.5 CALL

- Delta = 75
- Net Delta (1 lot) = **25 share exposure** (100 - 75)

ATM 97.5 CALL


- Delta = 52
- Net Delta (1 lot) = **48 share exposure** (100 - 52)

OTM 105 CALL

- Delta = 18
- Net Delta (1 lot) = **82 share exposure** (100 - 18)

Evaluate Rate of Return (ROR) Potential





97.72 1.46 (1.52%)

Strike ▾	Last	Bid
▼ Nov 22	CALLS	
60	36.85	37.65
65	31.05	32.65
70	26.24	27.70
75	22.80	22.75
80	17.60	17.80
85	12.00	12.95
87.5	10.45	10.60
90	8.55	8.40
92.5	6.45	6.40
95	4.75	4.60
97.5	3.20	3.15
100	2.08	2.05
105	0.71	0.70
110	0.22	0.22
115	0.09	0.08
120	0.06	0.04
125	0.03	0.01
130	0.05	0.00
135	0.03	0.00
140	0.01	0.00

	BID	BREAK-EVEN	STATIC ROR	PROFIT IF ASSIGNED	ASSIGNED ROR
ITM 92.5 CALL	6.40	91.32	1.29%	1.18	1.29%
ATM 97.5 CALL	3.15	94.57	3.10%	2.93	3.10%
OTM 105 CALL	0.70	97.02	0.72%	7.98	8.23%

Example

Assumes cost basis of the long stock shares is the current price of \$97.72

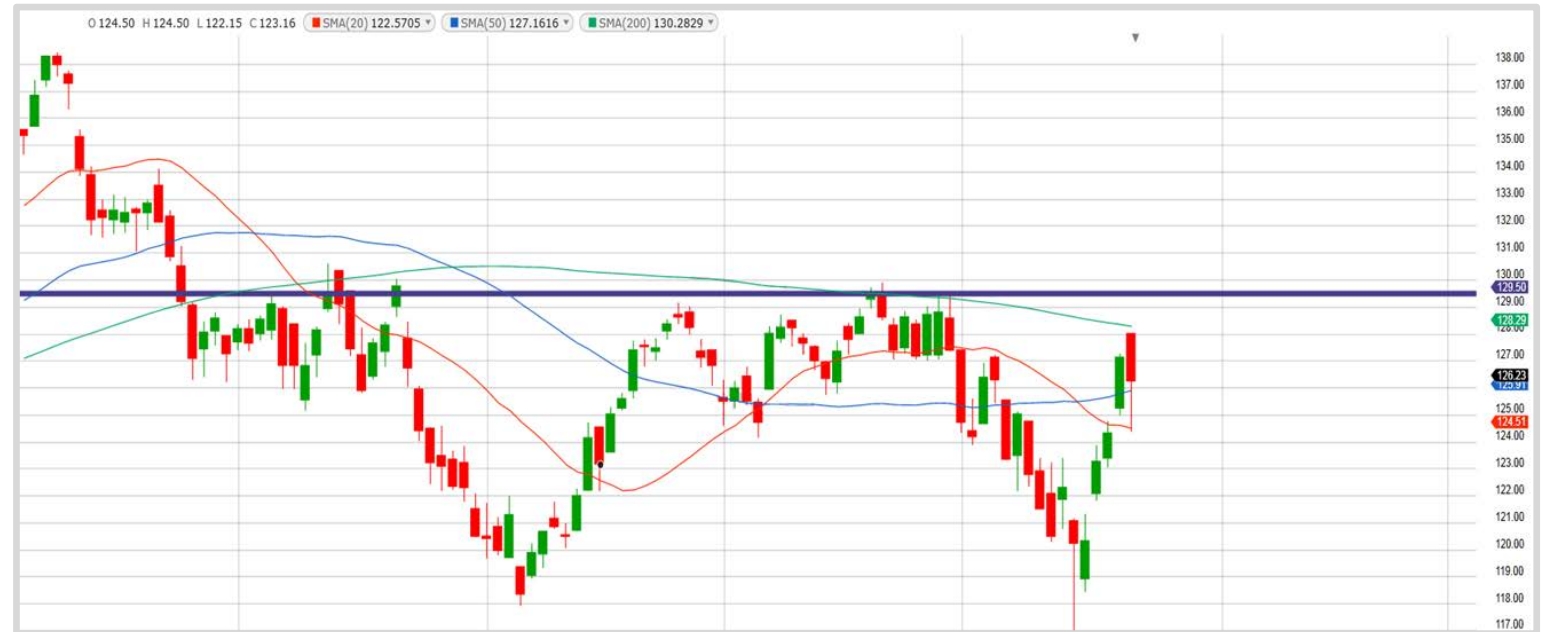
Assumes 12-month contracts are being sold and no dividends

Evaluate Key Resistance Levels

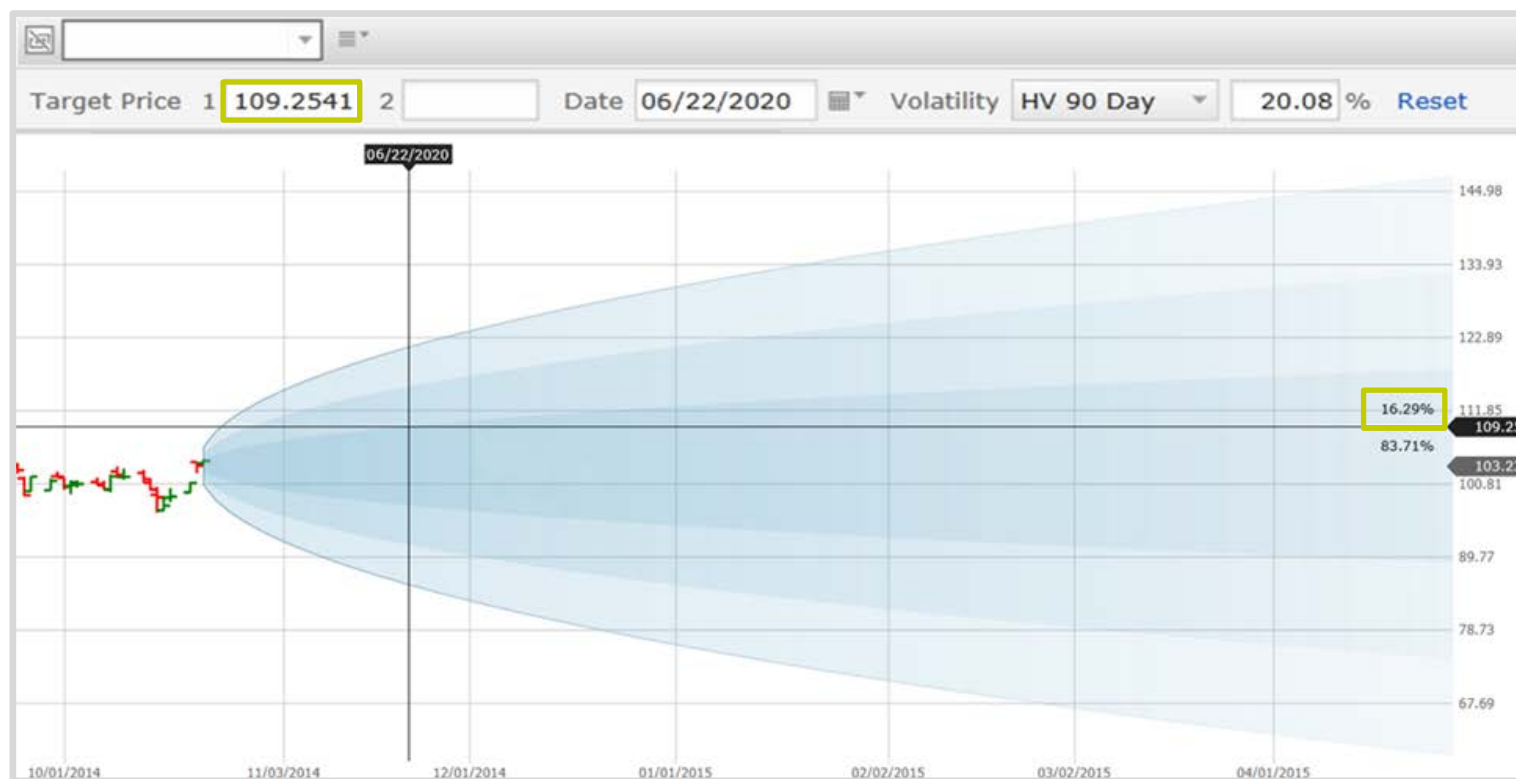


Identify price points where the security has had trouble breaking through

Use slow moving averages as a resistance level



Selecting Strikes with Probability Analysis



There is a 16.29% statistical probability that XYZ will be above \$109.25 on 6/22/2020.

Because the risk of assignment is to the upside, by selling a 16% probability option, a trader is expecting less than a 1 standard deviation move in the underlying.

Using Delta for Probability Analysis

97.72 1.46 (1.52%) V 17,748,57				
Strike	Last	Bid	Ask	Delta
▼ Nov 22 CALLS				
60	36.85	37.65	37.90	0.9959
65	31.05	32.65	32.85	0.9953
70	26.24	27.70	27.90	0.9865
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80	17.60	17.80	18.00	0.962
85	12.00	12.95	13.15	0.9257
87.5	10.45	10.60	10.80	0.8912
90	8.55	8.40	8.55	0.8351
92.5	6.45	6.40	6.50	0.7519
95	4.75	4.60	4.75	0.6446
97.5	3.20	3.15	3.25	0.5203
100	2.08	2.05	2.08	0.392
105	0.71	0.70	0.71	0.1775
110	0.22	0.22	0.23	0.0677
115	0.09	0.08	0.09	0.0274
120	0.06	0.04	0.05	0.014
125	0.03	0.01	0.04	0.008
130	0.05	0.00	0.03	0.0046
135	0.03	0.00	0.03	0.004
140	0.01	0.00	0.01	0.0015

Using delta to evaluate the probability of ITM at expiration

ITM 92.5 CALL

- Probability of being ITM at expiration is approximately **75%**
- Bid: 6.40

ATM 97.5 CALL

- Probability of being ITM at expiration is approximately **52%**
- Bid: 3.15

OTM 105 CALL

- Probability of being ITM at expiration is approximately **18%**
- Bid: 0.70

Consider Trade Goals and Objective

In the Money (ITM)

- Method of selling the stock
- Higher premium received
- More conservative (less bullish)
- Most downside protection
- Higher probability of being assigned

At the Money (ATM)

- Most exposure to time decay
- Most time value
- Highest gamma risk
- Approximately 50% probability of being assigned

Out of the Money (OTM)

- Income generation with upside potential
- Lower premium received
- Lower up-front downside protection
- Lower probability of being assigned
- More aggressive (more bullish)
- Highest potential return



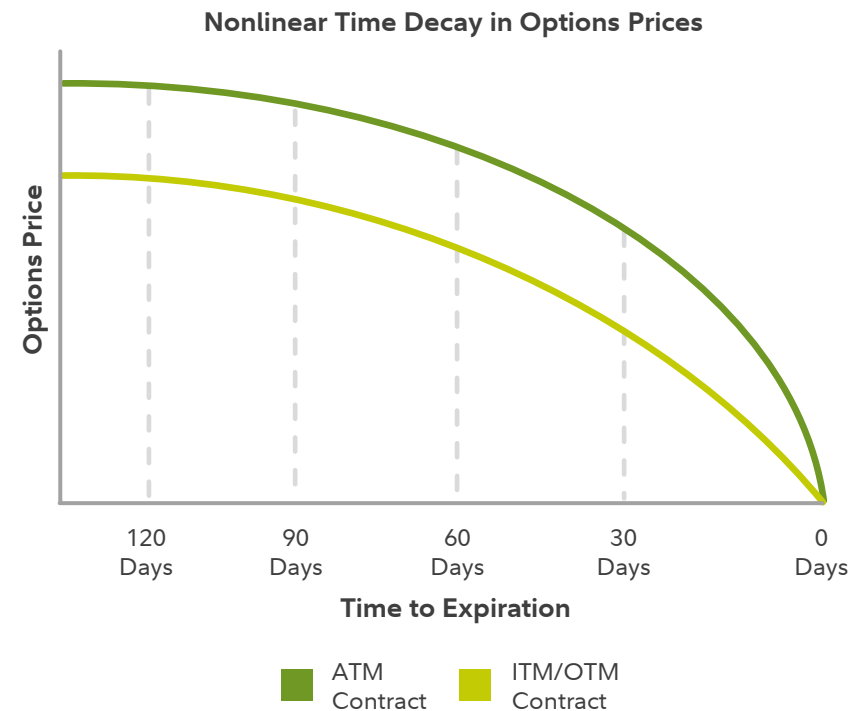
Choose an
Expiration

Consider Time Decay



Time decay typically accelerates as expiration comes closer, meaning shorter-term options have the highest time decay.

Strike	Last	Bid	Ask	Theta
▼ Nov 22 CALLS				
85	13.40	13.45	13.65	-0.0198
87.5	11.25	11.10	11.30	-0.0258
90	9.00	8.90	9.05	-0.0336
92.5	6.95	6.85	7.00	-0.0413
95	5.10	5.05	5.20	-0.0473
97.5	3.55	3.55	3.60	-0.0491
100	2.35	2.35	2.38	-0.0468
105	0.85	0.84	0.86	-0.0317
110	0.30	0.29	0.30	-0.0176
115	0.12	0.12	0.13	-0.0099
▼ Apr 17 CALLS				
95.71	8.50	8.45	8.60	-0.0204
96.43	8.15	8.05	8.20	-0.0204
97.14	7.95	7.70	7.85	-0.0205
97.5	7.63	7.50	7.65	-0.0204
97.86	7.45	7.35	7.50	-0.0205
98.57	7.10	7.00	7.15	-0.0205
99.29	6.66	6.65	6.80	-0.0204
100	6.45	6.35	6.45	-0.0204
100.71	6.10	6.05	6.20	-0.0204
101.43	5.70	5.75	5.90	-0.0203



Rolling vs. Selling

Rolling shorter-term contracts vs. selling one long-term contract

6-month period, write a 30-day option 6 times:

$$\text{\$1.00} \times 6 = \text{\$6.00}$$

OR...

6-month period, write a 180-day option 1 time:

$$\text{\$2.75} \times 1 = \text{\$2.75}$$

53.70 ↓ -0.19 (-0.35%) V			
Strike	Bid	Ask	Theta
▼ Dec 12 CALLS			
51.5	2.65	2.90	-0.0187
52	2.29	2.52	-0.0199
52.5	1.96	2.17	-0.0209
53	1.64	1.86	-0.0215
53.5	1.40	1.54	-0.0219
54	1.12	1.31	-0.0217
54.5	0.91	1.08	-0.0211
55	0.78	0.88	-0.0206
55.5	0.59	0.74	-0.0193
56	0.46	0.61	-0.0179
▼ Apr 17 CALLS			
45	9.15	11.25	-0.0107
46	6.95	10.25	-0.0071
47	6.25	9.35	-0.0079
48	6.80	7.20	-0.0084
49	6.15	6.40	-0.0091
50	5.50	5.70	-0.0098
52.5	3.90	4.15	-0.0106
55	2.69	2.89	-0.0106
57.5	1.77	1.94	-0.0098
60	1.11	1.30	-0.0085

Consider the Trade in Light of the Outlook



Shorter-Term Expiration

- Most exposure to time decay
- Highest gamma risk
- Higher return potential by continually rolling (all else equal)
- Higher probability of early assignment
- More commissions incurred
- More aggressive (more bullish)

Longer-Term Expiration

- More up-front premium
- More downside protection
- Low exposure to time decay
- Lower gamma risk
- Higher probability of being ITM at expiry
- Less aggressive (less bullish)



Manage Your Covered Call Strategy

Three Ways to Manage Any Strategy

1

Leave the strategy alone

- Let the covered call(s) expire
- Allow assignment

2

Close the strategy

- Unwind: Sell the shares; buy to close the covered call(s)

3

Adjust the strategy

- Close the call(s); keep the long shares
- Roll out: Keep the same strike, up or down

Generate Trading Ideas with Fidelity's Tools



Get a quick look at what's happening in today's options markets

Argus Focus List

View the day's top covered calls and diagonal spreads

Market Scanner

View the day's high options volumes

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Argus Focus List

PROVIDED BY ARGUS

01/29/2020 4:00:00PM

Top covered calls and diagonal spreads.

Covered Calls

Diagonal Spreads

Stock Symbol	Annualized Return Rate*
TWTR	281.60%
WDC	198.75%
ATVI	172.56%
ANET	139.11%
DIS	137.96%
NOW	133.65%
SPLK	101.08%
CL	94.95%
MGM	92.70%
APO	80.28%

[See More](#)

Strategy Evaluator

PROVIDED BY DASH FINANCIAL TECHNOLOGIES LLC

Determine single- and multi-leg opportunities based on your market sentiment.

Market Commentary

Stocks Red as Virus Worries Persist

PROVIDED BY ARGUS

01/30/2020 5:43:00AM

Stocks opened lower Thursday and major indices are still trading in red numbers despite rising somewhat since the open. Better-than-expected corporate earnings continue to help buoy sentiment even as investors keep an eye on the possible effects of a coronavirus...

[See More Commentary](#)

Market Scanner

PROVIDED BY LIVEVOL, INC.

AS OF 01/30/2020 2:54:00PM

High Option Volume

Exploding IVs

Imploding IVs

High options volume today, relative to average, minimum 200 average.

Symbol	Company Name	Last	Last Change	Option Volume	Avg. Option Volume	% Avg. Volume
GEL	Genesis Energy, L.P.	\$18.07	-\$0.62	36,868	904	4,078
WEX	WEX Inc	\$222.78	-\$3.84	8,023	258	3,110
PENN	Penn National Gaming, Inc	\$30.63	\$1.61	32,010	1,086	2,948
MUSA	Murphy USA Inc	\$106.92	-\$6.11	7,572	388	1,952
KEX	Kirby Corporation	\$77.61	-\$7.20	5,515	306	1,802
BMO	Bank of Montreal (USA)	\$78.07	-\$0.30	5,532	372	1,487

Markets

IV INDEX MONITOR

Index	IVX	Change	1-Yr Hi/Lo
SPX	15	+0.6	22/9
NDX	18.3	+0.9	26/11
EEM	19.8	+2.1	25/13
SPY	15	+0.4	23/9
VIX	106.3	+12.5	129/66
RUT	17.3	+0.9	26/12
IWM	17.5	+0.9	25/12
XLF	16.9	-5.6	26/12
QQQ	18.2	+1	26/12
GLD	10.8	+0.4	17/8
USO	39	+4.8	47/22
EWZ	28	+1.8	37/22
GDX	25.1	+0.9	36/20

S&P 500 INDEX (SPX)

IVX Chart

09:30

11:30

13:30

15:30

16

15.5

14.5

Provided by IVVolatility.com

ET

Next Expiration

February 22, 2020

[Option Strategy Quick Guide](#)

20

Screenshots are for illustrative purposes only.

Generate Trading Ideas with Fidelity's Tools



Strategy Ideas

Generate new trading ideas with your strategy in mind using these easy-to-navigate filters

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[Strategy Ideas](#)
[Strategy Evaluator](#)

Tools
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[Intra-Day Trade Ideas](#)
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PROVIDED BY LIVEVOL INC.

To begin, select filters to narrow down matching strategies, or click on any strategy name to learn more

Select Filters
[Reset All](#)

Outlook

☐ Bullish
 ☒ Neutral
 ☐ Bearish

Profit Potential

☒ Limited
 ☐ Substantial
 ☐ Unlimited

Risk Potential

☒ Limited
 ☐ Substantial
 ☐ Unlimited

Available Strategies

Click on a strategy to see its definition and run a market scan.

Bearish OTM Put	Bullish OTM Call	Call Time Spread
Put Time Spread	Collar	Covered Call
Double Diagonal	Iron Condor	Long Call Butterfly
Cash Covered Puts	Long Put Butterfly	Long Straddle
Short Straddle	Long Vertical Call Spread	Long Vertical Put Spread
Short Vertical Put Spread	Short Vertical Call Spread	

Top 50 Results

Adjust Scan Parameters

Enter Underlying
Days to Expiration 60 Days or Less

[Find a Symbol](#)
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Intra-Day Trade Ideas

Check back during the day for updated trade ideas

THU
JAN 30, 2020

WED
JAN 29, 2020

MON
JAN 27, 2020

FRI
JAN 24, 2020

WED
JAN 22, 2020

FEATURED SYMBOL

 6:54 AM ET
DOW

 6:43 AM ET
MCD

RESULTS: DOW - DOW INC
Strategy
 Look at the March 20, 2020 \$50.00 covered call. For each 100 shares of Dow Inc. you buy, sell one DOW March 20, 2020 covered call option for a \$47.10 (\$48.10 - \$1.00) debit or better. That's potentially a 46% annual return.

Strategy	Symbol (Expiration/Strike)	Days to Expiration	Strategy Price
Buy Side	DOW		\$48.10
Sell Side	Mar 20 2020 50 C	49	\$1.00
Net Debit/Break Even: \$47.10			

Argus Research Notes
 We expect the new Dow - a recent spinoff from DowDuPont - to benefit over time from its low cost structure, solid cash flow and declining capital spending requirements, and strong presence in all key geographic and end-use markets. However, we expect Dow to face pressure in the near term from increased production capacity (for ethylene, polyethylene, propylene, distillates, and ethane) and weaker global economic conditions. On January 29, Dow Inc. reported adjusted fiscal 4Q19 earnings from continuing operations of \$577

RELATED INFORMATION
 DOW INC (DOW)
\$48.47 ↓ -1.20 (-2.42%)
 AS OF 4:10:00PM ET 01/30/2020
Bid 48.47 X 1
Ask 49.45 X 1
Vol 5,603,743
IV30 29.68 +0.81
HV30 27.36 +4.77
[Stock Research](#) | [Quotes and Tools](#)

RELATED NEWS
[Dow Gets Downgrade to Sector Perform at RBC Amid Concerns About Commodity Industry Weakness](#)
 MT Newswires - 01/30/2020 3:55:00PM

Key Takeaways

- Use covered call strategies to:
 - Help generate income
 - Sell a long stock position
 - Manage a long stock position
- Identify your trade goals and objective to help choose the appropriate strike and expiration.
- Consider trade-offs during the strike and expiration selection process. Consider the premium being received vs. the risk being taken.
- To manage risk, look at the strategy to determine if it makes sense today and in the future forward—don't get distracted by the past.
- Don't blindly roll strategies without considering why you're doing it, especially for covered call strategies. Rolling is simply closing one trade and opening a brand new one.

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options basics

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Thank You



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Questions? Contact a Fidelity representative at
877-907-4429

Important Information



A covered call writer forgoes participation in any increase in the stock price above the call exercise price, and continues to bear the downside risk of stock ownership if the stock price decreases more than the premium received.

Charts, screenshots, company stock symbols and examples contained in this module are for illustrative purposes only.

Options trading entails significant risk and is not appropriate for all investors. Certain complex options strategies carry additional risk. Before trading options, contact Fidelity Investments by calling 800-544-5115 to receive a copy of Characteristics and Risks of Standardized Options. Supporting documentation for any claims, if applicable, will be furnished upon request.

Greeks are mathematical calculations used to determine the effect of various factors on options.

There are additional costs associated with option strategies that call for multiple purchases and sales of options, such as spreads, straddles, and collars, as compared with a single option trade.

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