TRANSCRIPT

Monitoring covered calls

Presenters: Andrew Rakowski and Edward Modla

Andrew Rakowski: My name is Andrew Rakowski. I'm the regional brokerage consultant for southern New England for Fidelity Investments. My role is education and support for independent-minded investors that are managing a portion of their portfolios with Fidelity. Myself and the other regional brokerage consultants work in conjunction with the Fidelity branches around the country to help provide expertise around brokerage where needed. I'm joined by Ed Modla from the OCC, the Option Clearing Corp. He shares passion about the value of customer education as I do too. And today focusing on covered call writing our second session, taking it a little further, the next step as far as hey, I have a covered call strategy on, what are my choices or what are my options, pun intended. So let's get started, Ed. I will let you get into it.

Edward Modla: Great, yeah, thanks, Andrew, for the intro. And looking forward to this session as we take the covered call trade to the next level. First our disclaimer. Options are a complex tool. They need to be well understood before using in a live account. And everything we do here today is for educational purposes. Do not take any of our comments as advice or guidance. We're going to start the session talking about position management depending on where the stock goes. Once the position is initiated, the stock is going to move in one of three ways, up, down, or sideways. And what are some of your choices? Then we'll talk about variations of the strategy. I always like to include variations because I find that options strategies, they have these terms, covered call, you have strangles, straddles, collars, all these terms. And we know what the term means. There's a classic definition for what that strategy is all about. But in a live account with real money it is often the case that investors are taking their foundational knowledge of a particular strategy and then changing it a little bit. They tweak it. Maybe they leave a piece off or they add a piece or they change the volumes in some way. So it looks a little different than what we would normally think that strategy to be. The investor is trying to do there is accomplish tweaking the strategy more to their liking, so they have something in their portfolio in their account that is more consistent with their market outlooks. We're going to talk variations and spend a little bit of time on the end on myths and misconceptions. And then flip over to look at the Fidelity platform and check out some real live quotes and look at some pricing action and order entry as well.

So we're going to start with position management techniques here in this session. I assume everyone's got their thinking caps on already. But for this segment here tighten up the caps a little bit. This one is going to be a little bit involved. Before we get to where the stock might go, these are just some broad comments that you're going to see consistent throughout the coming slides here. The possibility of getting out of the trade, accepting assignment, rolling in some way. We'll define that. Or possibly selling the stock but making sure you have to buy back that call as well, not leaving a naked call. So as we just glance here, and we're going to get more in the coming slides into details, Andrew, what would you say? How would you describe managing positions, monitoring positions? The fact that you can't just set and forget options. How important is it for investors to be aware of what we're about to get into?

Andrew Rakowski: I'd say it's extremely important just as owning individual stocks. Why do you own it? What's the company? What's your price target? Introducing options then, a little more complexity. What's the amount of premium I'm looking to receive? We talked about it in the first session. Getting out. It doesn't matter if there's some time premium left. If you've changed your investment thesis on the stock and you no longer want to own it, then you unwind, you buy the call, you sell the stock. Accepting assignment or early exercise. If the option is deep in the money and it looks like an assignment may happen, buy the option back and roll it. If you don't want to have your stock taken away from you. And then I would say buying back cheap options. The covered call strategy has worked out. The stock has sat there. Maybe it went against you. And maybe there's still some time. Maybe a week or two. And you could buy those short calls back for five cents, three cents. What are you waiting for? I think even if it's a highly improbable event if it's a very inexpensive trade. Any buy to close option trade below 65 cents there's no commission. If I'm short five calls and I can buy them at three cents (inaudible) and like you said avoid selling the stock and leaving a naked short call. If you don't want that additional risk just unwind the entire trade.

Edward Modla: Yeah. I'm going to elaborate on this. The reason why it's here really is in times of panic. I think investors when they're calm and they're evaluating their position and the stock is selling off, it's not going well, and they want to get out of this position to reduce the risk of potential future losses, they might think okay, I need to sell the stock, I need to buy the call back. I've seen market circumstances where the market is crashing and investors are panicking and they're seeing their account balance getting clobbered. And they're trying to sell the stock or in my business, I saw this in the futures business as well, trying to sell their position in shares, and getting rejected orders. And not knowing what's going on, because they're not thinking straight, they're panicking. And the reason why those orders to get rid of their stock are getting rejected is because the result of just selling the shares is going to leave a naked short call that your account might not have approval to have. So I just want to emphasize this point here. When you do sell off and try to exit the position particularly when it's moving against you and particularly when it's moving against you very quickly and there's a market crash going on, keep your head on straight and know that you do need to probably buy back the short call before selling stock or do those transactions at the same time. Buying call and selling stock simultaneously. Even if the call has no value. Just the fact that you would potentially leave a naked uncovered call might not be something that your account allows.

So let's look at now stock rallies. What are your choices? And then we'll look at stock consolidates and stock declines. If the stock moves up in your favor and I'll further stipulate that your opinion has now changed and you think the stock is going higher than you originally thought it was going to go, and I'll stipulate another element here that the stock has rallied close to or at your strike price but not too far beyond your strike price. When the stock goes up significantly higher than when your strike is it's a lot more difficult to manage. Rolling up is more predominantly done when the stock is rallying. It's approaching the strike or it's at the strike and the investor thinks this stock is moving quicker than I thought, news came out better than I thought, I am more bullish and I want to capitalize on that. Rolling as you'll see a number of times here over the next couple of minutes, it's very simple. It only involves closing the existing short option that you have and opening up something else. That's all rolling is in general. Closing what you've got and opening up a new position. And that's what we mean by the term rolling.

Now rolling can happen in different directions. In this case it's rolling up. Buying to close the short call that we initially sold. Getting rid of that position. And selling to open a higher strike call. We're effectively just moving the strike price. We want it higher now. If we're going to do this roll up it's going to cost something. There will be a net debit attached to that which increases our breakeven point. So a cost, a raised breakeven point. In exchange for those costs we increase our maximum profit potential because the shares could potentially now be called away but at a higher level, at this higher strike level. This would be aggressively bullish if the shares are rallying.

Again with the shares rallying the investor here could roll out. This would be starting the same way, buying to close, getting rid of the short call, buy to close the short call we originally sold. And selling to open a call option with a later expiration date.

Hence the term rolling out. This will be done for a net credit assuming we're using the same strike, the longer-dated option will have a higher premium than the shorter-dated one. We'll selling the longer-dated one in this case so we'll get a net credit. That increases our income received from the options piece. That improves our breakeven point as well. But we're also taking on more time. More time for the possibility of the stock moving against us. The downside risk is now enhanced because there's more of an opportunity for something bad to happen. More time for that to happen. And we're also tying up capital. We're now going to be in this trade for a longer period of time. So for that credit we do take on a few additional risks.

You could also consider combining these two. Rolling up to a higher strike and out. Up in strike price and out in expiration date. Hard to say whether that would be a credit or a debit. It would depend on your strike price and the premium. But rolling when the stock rallies is something you can think about if you want to continue the position in some way or if you want to capitalize on further upside or capture more premium. Generally rolling is going to occur if your bullish opinion has gotten a little bit stronger.

Of course if the stock has rallied, you can close the position. You're going to see this across all different scenarios. You can always close the position. We're going to emphasize that. Get out, move on to the next trade. Particularly if the call is in the money and the option has no time value left. If you notice this situation, you're say short let's say the 80 strike call. The stock is trading up at $90. You can check to see if there's time value left. If the market in the call is centered around $10, the bid-ask of the call was centered around $10, and it's in the money by $10, you know there's no time value left. You can check that, monitor it. And when the call goes in the money and there's no time value left then you are in a position that has all risk and no reward. If there's a week left, two weeks left, 10 days left, you have all risk and no reward. That's a good time to think about closing the position and moving your capital somewhere else.

You can also accept assignment. If the stock rallies, call goes in the money. Now particularly in contrast to closing the position assignment and just letting that occur might be a situation where there is some time value and you want to capture every penny. And you want to maximize the value of this trade and get every single dime, penny you can get out of it. Watching that time value decay. All the way through expiration. Not taking any action at all. And accepting assignment, allowing the shares to get called away. And at that point your capital is now freed up for a new position. Number of different things you can do here if the stock were to rally.

If the stock consolidates it means it is unchanged, doesn't go anywhere, and the call option just decays away, expires worthless. You can now consider selling another call. And this is very popular. This is in fact the intention of many covered call sellers. They want the call to expire worthless. They don't want the stock to rally all the way to the strike. They want to keep selling calls. Hear this a lot. I want to sell calls over and over and over again. You could do that as a roll out the way we described earlier.

Buy to close the option you're short. Roll it out to a further expiration. Or you can just wait for the option to expire. Wait till the next trading day. And then sell a brand-new option.

I must stress here if you're going to keep selling calls in this manner, make sure you take a step back and you have maintained your bullish outlook. You don't want to get into a routine without evaluating the market. Something might work seven, eight, nine times in a row, but it's that tenth time that could eliminate or wipe out all the profits that you had achieved previously. So don't fall into that trap of thinking well, this just works, it's been working for weeks, it's been working for months, so it just works, I'm going to keep doing it. Always take a step back and make sure there's not something going on in the market that's causing you to possibly have a different market outlook.

And you can also consider changing the strike price. Selling a call at a higher strike. If you think the shares might rally up a bit further. You get a little more premium there. If the stock starts to consolidate and remain unchanged it's actually very common to see investors sell another call but at a lower strike price. Maybe their bullish thesis has not really come to fruition. So they're going to sell a lower strike call. Get more premium out of that. Reduce their breakeven point even further. So certainly consider the new call that you open as a short position could be at a different strike price.

Closing the position. Here it is again. Stock consolidates, doesn't go anywhere. Call option expires worthless. We made some money on this trade. That's great. But evaluate the market. If all of a sudden you're not too sure about the bullish position in the market or in this stock, maybe you can consider closing the position and moving your capital to another trade.

And as always you can implement a different strategy. If the call does expire worthless you are now left with long stock. There's a number of different strategies involving options around a long stock position. Or you can just hold the shares outright. If you become more bullish. You don't want to protect at all and hold that upside exposure for potential gains. You can hold shares. Or there are other option strategies you can use around a long stock position.

And then the final direction the stock can move is lower. And this is where our pain is. These are where losses mount. If the stock declines we can hold the position. I just want to make sure no one holds and hopes for a market turnaround. Hold the position because you're still bullish and you have an unrealized loss. The option did not provide too much protection for you. It might take one bad experience to realize that the covered call really doesn't provide much protection. It's somewhat mitigated. But here with the stock down you could hold it if you truly believe the stock is going to turn around and head upwards.

Getting out, closing the position. Here it is again. Be true to discipline. You could say sometimes. I say almost always the most difficult trade is to close at a loss. Seeing that red number oftentimes people are staring at that number and they want to see it get back to breakeven. And they want to see a green number. Otherwise they watch a losing trade get worse and worse and worse. I've been there many times. One of the techniques that I think helps investors with this is when you have a losing position you can see how much money you've lost on a trade. Try to consider the alternatives. What other possible investments are out there? What other sectors, industries, or companies might you be able to invest in? And if the idea is to make back the money that you lost on this trade just ask yourself is this trade still the place to make back that loss, or is there an alternative, is there another place to move the money to that's going to give me a better opportunity to recover this loss. Closing and moving your money elsewhere might be a little bit easier if you think of it that way. But certainly being true to that discipline is difficult. And I always say the most difficult trade to do is to close out that loser and accept that your trade has lost.

Roll down. I'm going to say you see this when the stock has slowly or gradually moved down but not too far. The stock has really gotten clobbered and it's really sold off sharply, rolling down is probably not going to help you out too much. You're going to have big losses on your hands. But if it's somewhat gradually come down, rolling down involves closing the open short position and selling to open a lower strike call option. This will be done at a credit. The lower strike call will have a higher premium. You're selling that one so you get a credit, a better breakeven point. Remember your stock is underwater here so you're trying to recover that. But accepting a lower level, decreasing maximum profit potential. Because you now have your shares potentially closed out at a lower level.

There was a lot there in those three different descriptions. But to summarize, what you saw consistently throughout those three is you can close the position at any time. When your confidence is gone or if the time value is gone. You can hold the trade. You can always evaluate and think I'm still consistently bullish here, I'm going to hold the trade. Or you can roll in some fashion. Whether that's up or down or out or a combination of those. Holding the position, getting out, or rolling in some capacity. That summarizes what we just walked through. And if you didn't grasp all that that's perfectly fine. Learning options is all about repetition. You hear things over and over and over again. And all of a sudden it starts to sink in. But the key is to just listen. Take the time, try to learn about options in different capacities. And over time of course it'll start to come through.

Let's shift gears a bit and talk about variations. I said earlier I always to talk about variations of strategies. And we're going to do that here with the covered call. Andrew, I'll start with you. How often do you notice we'll say either with the covered call or with any option strategy this variation come into play where investors take a strategy but do something a little bit else with it? How often do you see that?

Andrew Rakowski: A good number of the time. I just want to back up because I wrote something down when you were going through thinking about the stock and the downtrend. When you look at that red. And something that we used to say back in the day was your first loss is your best loss. So many times people sit in losing positions, where I think it goes back to what's your timeframe. And that's where rolling down is hey, maybe the stock is going to downtrend in a week, but it's a yearlong hold. I want to sell rally. And rolling down is a way of selling rallies almost. Yeah. Around the variations, just traditional covered call. I have 1,000 shares of stock, I'm bullish over whatever my timeframe is. I don't need to sell 10 calls, I don't need to cover or obligate the entire position. Maybe I sell five in the 30 calls and maybe I sell three 35s and I want to keep those extra two shares in case my stock goes to 50.

I also see sometimes people that are a little more sophisticated will use the premium to do other things. Buy some downside. That turns into a collar. That's an assignment for everybody here to learn more. As Ed said, because repetition. And then even some clients will do covered calls and they don't want to miss out on a potentially big upside. They'll buy cheap out-of-the-money calls. Say, "Hey, I brought in $1,000 on my covered call. I'll spend 300 to buy super cheap ones in case something crazy happens."

Edward Modla: Yeah, all sorts of things you can do there. Let's look at a few of those. As an example, and you've outlined this a bit. But here you have the classic covered call. Let's just look at it a bit differently with the stock trading 110, being long 500 shares of stock. Now you'll see with these variations it does come through a little bit easier when you have more than 100 shares, because you have more choices available to you. Long 500 shares. And as we had described the covered call today, that means you would be selling five of a particular call option. However, you don't have to do it that way. As Andrew was starting to describe there. You can sell any options you want that equal a quantity of five. This is what we're calling the staggered strike version of the covered call. Same expiration. And we're going to choose different strike prices and sell one at the 112 level, the 115, 118. We'll sell a few more up here at 120. And we get premium all along the way.

Now we know that if we sold five of the 112s or even five of the 115s we would get more total premium than this $720 across the board. But with these final two options being sold up here at 120 we have the opportunity to have 200 of our shares rally from 110 all the way up to 120 before they're called away. The profit potential here is much greater. So if you're comparing the classic covered call, we'll say selling five of the 112 calls, to this structure, this is more bullish. If you are more confident in the bullish move of the share price you might not want to sell five calls at 112. You might want to go ahead and stagger that, I'll be willing to get rid of 100 of my shares here at 112 but I want to hold the rest for a potentially larger move all the way up to this 120 level before I finally would have my shares called away.

Now if you weren't that bullish, selling five of the 112 calls means you're being more conservative, you're getting more premium. And you're trying to capture profits more from the options premiums than you are from the share price movement. So this staggered strike is really more aggressive than if you were to just do the classic construction of the covered call.

Let's look at one more. Staggering strikes and expirations. So again we have stock at 110. And we're long 500 shares. Let's take a look at how this plays out. Selling one of the 10-days very short, close to expiration, 112 calls at $1. We're going to sell a few more going out a month to the 115 level. And then we'll go out 40 days and sell a few more. Collecting all of that premium, 860. Now let's look at the advantages and disadvantages doing something like this. Staggering the strikes and also going out in expiration. If you do this version we'll say of the covered call you have greater flexibility to choose time durations and get different levels of time decay. Time decay is not linear. Options tend to decay very slowly when they're far out in time, three months, six months, nine months. The further out you go, the slower the decay is. Right around that 40-day level is when the decay starts to accelerate and increase. And if you choose different expirations then you're going to be able to choose options that span different areas there along that curve of the nonlinear decay. The short-term option is going to decay very very fast. You can capture that, understanding that the premium you receive from that option is going to be relatively low. Also if you go out further in expiration out further in time you can possibly choose higher strike prices, gives you more room to run on your share price because those later expiration dates will have higher premiums than the shorter-dated expirations. And of course as I just mentioned longer-dated options, you go out too far, they have slower time decay and if you do hold this position for a longer period of time, I mentioned this before, the longer you're in the position, yes, the higher premium amount is great, but it also provides more time for the stock to make an adverse move to the downside. Andrew, what do you see here with respect to this longer-dated? Do people get themselves into trouble looking for longer-dated options or going too far out in time? What do you think?

Andrew Rakowski: I see it sometimes because I don't think they think about conceptually what the time commitment means. They just see a big fat number. And they're like, "Wow, I can sell these at $7." I like the staggered strikes. To me either the same expiration or multiple expirations, it's a way to scale out of a position. If you really like the idea of a covered call and getting paid for your obligation, it's almost like I own 1,000 shares at 100 and I'm just going to put GTC orders out there at 115, 120, 125. Instead of that you're obligating yourself to sell at different price points. And then definitely the nonlinearity of time decay. The way I look at it might be pretty simplistic but it's 1 day is a large percentage of that 10-day option's life. Whereas 1 day from the 40-day option is a much smaller percentage. And then we could think even if it's a long-term, three, four, X number of days, they have a really long runway like you said.

Edward Modla: Yeah, that's true, yeah, and that 10-day option is going to decay very quickly and you're going to be able to achieve that and enjoy those gains and that quick decay with less premium there, and you know that's the case. But you'll have very quick time to get -- stock didn't move, let's say it stayed at 110, you can keep selling these 112 calls 10 days out over and over and over again. Some investors do say that this is just like working limit orders, you sell 100 shares at 112 and 200 more at 115 and 200 more at 120. And it is very similar. It's an alternative. Not exactly the same. If the stock were to run to 112 and it was a limit order they're getting filled there. They're getting filled. You're out of your position where you wanted. You move on. As we mentioned a couple times today options are usually only going to get assigned at expiration. So to be assigned and have your shares called away you're likely going to need to see the stock price above 112 on its expiration day. That means the shares could run up to 112 and then head the other direction and start to mount losses and you never sold anything, you never were assigned. That's one of the key differences between using options to get out of a position versus using a limit order.

Did want to pop up a few myths that I come across. I hear this from investors out on the road quite often. The larger premium the better. Investors are going to gravitate towards larger premium amounts. But certainly you have to realize the market is efficient. Higher option premiums mean the market is pricing a higher risk. If you're looking at stock A versus stock B and stock A has a higher premium than stock B does, you might want to sell that one. But keep in mind stock A might be much more volatile and higher risk. Sometimes that might not be the case. Sometimes you might be familiar with stock A and stock B and you believe both of them carry the same amount of risk or volatility, yet one of them is offering higher premiums. And that might be the superior trade. But just make sure you know. The market is efficient. If it's going to price in options at a higher level with higher premiums there's usually a reason for it.

Another one is being assigned is bad. You have to understand the strategy going into when you write a covered call. There's an element that you might be assigned and you have to be comfortable with that possibility. So you have to know what your goals are, why you're getting into this trade in the first place, and understand that assignment is always going to be possible and on the table. If you do not want to get rid of your shares, absolutely do not, then you have to consider whether or not the covered call is the strategy you want.

I hear this one a lot. Covered calls writing forces the investor to sell winners and keep losers because every stock that rallies gets called away and every stock that sells off stays in my account. Well, look, just keep in mind again you know your motivation going into the trade. If you were very bullish on the stock, covered call is probably not what you're going to gravitate towards as far as strategy. You're comfortable selling shares at the strike price. But you can also manage the position as we talked about earlier. Remember rolling up is a possibility. Rolling out. Doing other things to manage the position rather than just set it and let it go. And Andrew, as I'm about to let you take over, so we can take a look at things on the demo, here's just a summation. Again if stock rallies, stock consolidates, stock declines, you can see the commonality here. Close it. Close it. Exit. Hold it. Sell another call. Hold it. There's common themes across here that involve closing the position, holding it, or rolling in some capacity. And always consider your variations. Different things you can do that are going to be a little more consistent and tailor the trade more to your liking. And Andrew, feel free to share whenever you're ready. But those myths there always keep in mind. Larger premium not always better. Larger premium generally attributes itself to higher risk and more volatile stocks. Andrew, I can see your screen, it looks good. Go ahead.

Andrew Rakowski: So what we're looking at is Active Trader Pro and I thought we'd just look at a couple tools here to then bring it home about the different strategies. And also there is a nice option trade builder within the Active Trader platform. So everyone on the call or in the session who's a Fidelity client, you have access to Active Trader Pro. There's no cost. It's as simple as going to accounts and trade on the left-hand side on Fidelity.com, the fourth choice down is Active Trader Pro, and you can download the application.

What I'm going to do here is just hey, options by expiration. What do I have coming up? What do I want to monitor? Are there any changes that I may want to take? This is also where I can easily choose my strategy. And we're still looking at Zynga. Again this was the same position we looked at before. Just going to prefill my data and I can say, "You know what, I want to change that price to $7.45." That's the net credit. Because it's going to cost me $7.68 roughly to -- excuse me. I'm trying to generate $7.68 by selling the stock. And I'm only willing to pay 23 cents to buy back my short options. So that's why right now I'm on the offer side. I'm a little bit away from the market. But I can just enter that order and wait. Or I could say, "What's really two cents or three cents? I want to change my price and get my orders done."

But what I really wanted to get into was under option, option trade builder, one, this is going to be more around just the traditional covered call strategy. And let's use Apple again as our example. So hey, what's your sentiment, bullish, neutral, bearish? Let's say that we're bullish. We have a couple different choices. We could buy a call. Cash-covered put. There are more choices than this. But this is really basic to start generating ideas. So covered call. Now it's going to explain to us what the different scenarios are. Ed did a good job. I can say, "Yeah, I want to go with the covered call." And click on next. Now I can choose my strike price. It's going to show me in the money versus out of the money. In this case let's just go to October 29th, the 148 calls trading at $4.15. It's going to show me what that probability of assignment is. To Ed's point. And there's no perfect answer to this. It's different for every investor depending upon what your homework has identified and your research. That could be a good number to have a little less than a one-in-two chance of having your stock taken away. So I'm just going to close that down. If I went to next it's going to prompt me for a trade ticket and I could load my trade ticket. But in the interest of time what I'd like to do is go to options. And now we're going to go to the profit and loss calculator. And what's nice here is that we're logged in to an account that has the position. I'm going to go back to Zynga. And now I can model out, and I'm just scrolling down a little bit, I can model out what my potential profit and loss for an aggregate position. To Ed's point. This is one of those staggered strikes and staggered expirations. We got a covered call on the October 8 line. We got a covered call on the November 9 line. And we have 100 extra shares of stock. I can click on summary. And I can model out what are my anticipated P&L returns. I can change my date. I can say, "What happens if potential price, and let's say I really get lucky and it doubles in price and goes to 15, between now and October 15th?" I can look and see what my anticipated profit and loss metrics are. In this case I plugged in a crazy number, 100 percent return. So these numbers are all relatively around the same time because there's going to be very little time value left in the options, they're going to be so deep in the money. But you can model out some different things to say, "What if? And then what if there's a change in volatility?" I could model it based on 30-day, etc. So a really helpful tool should you go down the road of staggered strikes and adding additional legs to an overall position.

One final thing I'll show you here is under strategy ideas. So what this is is pretty much a prebuilt back test of how would I have done in an underlying stock if I had executed an at-the-money 30-day, a near-the-money, and an out-of-the-money. And this is pretty good example of hey, the covered call strategy, while it can generate positive returns over time, it could potentially cap your total upside. Just calling the stock which gained 7 percent, a two-year strategy, was 27. I used Apple which had quite a run. It's a little different if I change it to Exxon Mobil. Again not a recommendation by myself or Fidelity. This is where it gets powerful too is hey, if I just sat with this stock over the past year and rolled that at-the-money 30-day option, I'd be down roughly 7 percent. The premium that I collected, I'd only be down 2 percent. So pretty good example where the covered call strategy compared to different stocks would give or generate different results over time.

.

END OF AUDIO FILE

Options trading entails significant risk and is not appropriate for all investors. Certain complex options strategies carry additional risk. Before trading options, please read Characteristics and Risks of Standardized Options. Supporting documentation for any claims, if applicable, will be furnished upon request.

There is an Options Regulatory Fee from $0.03 to $0.05 per contract, which applies to both option buy and sell transactions. The fee is subject to change.

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.

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.

Any screenshots, charts, or company trading symbols mentioned are provided for illustrative purposes only and should not be considered an offer to sell, a solicitation of an offer to buy, or a recommendation for the security.

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.

Fidelity Brokerage Services LLC, member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917.

997521.1.0