

Selling Covered Call Options Strategy

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1. Choose a stock you own that is strong, i.e. the 20 EMA is above 100 EMA on 3 and 1 month chart.
2. Options fall off a cliff just before expiration date.
3. If a stock drops back a lot then just sell the option and the stock and buy something better. Avoid big losses.
4. The final trading day is Friday before the option expiration date.
5. Do not sell options in an earnings report month, OK to just hold the stock. You can sell an option just after an earnings report.
6. You need both an entry and exit strategy.
7. Entry Strategy - Only sell covered calls on stocks that you want to own long term or are comfortable will stay flat or appreciate in the next month. Try and sell options on a day when both the market and stock are up, premiums will be higher.
8. Only sell 1 month calls initially, but be prepared to "roll-out" for weekly options if they offer an attractive opportunity.
9. I look for a 15 – 20% annualized yield with a 75 – 80% chance of expiration. My favorite web site for this is <https://www.stockoptionschannel.com/>
10. An exit strategy allows you to maximize gains in the weeks before expiration. Use an exit strategy if the current price of the stock is less than the strike price.
11. So long as the current stock price stays above the strike price do nothing till the Friday before expiration.

Exit Strategy

Assume the current stock price is less than the strike price.

- During Week 1-2 (or week 3 in 5 week period) Buy back the call if the current call price is 20% or less of the initial premium price.
- During Week 3 (or week 4 in 5 week period) Buy back the call if the current call price is 10% or less of the initial premium price.

Choices in week 1, 2, 3 before Expiration

1. Roll Out (Buy to Close Call), do nothing and wait for a double in same month. Use this strategy if market is mixed to positive and early in the contract. You may then sell a call in the same month.
2. Roll Out, sell option for next month at same strike price.
3. Roll Out - Down, sell an option at a lower strike price in the same month, this is a defensive play to help cover the loss. Do this if market conditions are mixed to negative. Normally used in late week 2 or in week 3.
 - a. Example:
 - b. 100 xyz @\$38, sell \$40 Call @\$2
 - c. 1 week later the stock drops to \$35, call drops to \$.40, \$35 strike is now selling for \$2.
 - d. Buy to Close call for \$.40, buy a new \$35 call for \$2, \$160 profit
 - e. If stock closes at \$35 you have a total profit of \$200 (1st option premium) \$160 (second option profit) = \$360, less the \$3/share drop in stock price = \$60 profit
4. Roll Out - Up, sell option for next month at higher strike price.
5. Do nothing, do this late in cycle if 20/10% isn't met. Wait for expiration Friday.

On or Near Expiration Friday

Assume current price is higher than the strike price (Best situation)

1. Roll Forward, buy out option and sell next month at same strike price (in the money) or higher strike price (at or out of the money).
2. **Do Not** consider profit from original stock purchase or option premium when making this decision. Only consider the transaction from the strike price to the next month calls
3. In general, if current price is just slightly above strike, roll out and use the same strike price next month. If the current price is substantially higher roll out and up next month.
4. If the ending price is above the strike price, the strike price becomes the new cost basis for profitability (not tax).
 - a. Example #1 – Price is Higher
 - i. 10/20 100 xyz @ \$43, sell \$45 call
 - ii. 11/21 xyz closes at \$48.14
 - iii. Buy to close \$45C @ \$3.40
 - iv. Sell next mo call \$45 @ \$5.30
 - v. \$190 profit (\$530-\$340), 190/4500 4.2% return (1 month)
 - vi. You also have \$314 of downside protection (48.14-45), or 7% (314/4500) protection
 - b. Example #2 – Price is Higher
 - i. 10/20 100 xyz @ \$23, sell \$22.50 call (in the money)
 - ii. 11/21 xyz closes at \$24.58
 - iii. Buy to close \$22.50C @ \$2.45
 - iv. Sell next mo call \$25 @ \$2.10
 - v. Loss \$.35 (2.45-2.10)
 - vi. Profit on entire deal \$208 profit (\$24.58-\$22.50), Net profit is \$173 (\$208 less \$35) 7.7% return (173/2250) 1 month
 - vii. You also have \$42 of upside potential if \$25 strike price is hit (or above) (48.14-45), or 1.9% (42/2250) upside.
5. Take no action and let the shares get assigned. Do this if market is unfavorable but stock technical's are still OK. You can also do this if the quarterly earning report is coming out next month.
 - a. Example #1 (let shares go)
 - i. 10/24 bought 100 xyz @ \$55, sold 1 x \$55 strike
 - ii. 11/21 stock is at \$63.62 on Friday expiration.
 - iii. Choice: Roll Out, Buy to Close 1 x \$55 @ \$10, Sell next month 1 x \$55 @ \$8.10 (Loss is \$190)
 - iv. Choice: Roll Out – Up, Buy to Close 1 x \$55 @ \$10, Sell next month 1 x \$60 @ \$4.70 Value is \$9.70 (4.70+\$5), Ultimate Loss is \$.30. (10-9.70).
 - v. Since both choices show a loss just let shares get assigned.
 - b. Example #2 (Roll Out)
 - i. 10/20 bought 100 xyz @ \$43, sold 1 x \$45 strike
 - ii. 11/21 stock is at \$48.14 on Friday expiration.
 - c. Buy to Close 1 x \$45 @ \$3.40, Sell next month 1 x \$45 @ \$5.30. \$190 profit 4.2% return (190/4500). You also have \$314 of down side protection (48.14- 45) 7%.

d. This is a good deal.