
How to Do Covered Calls (Beginner-Friendly Guide)

What Is a Covered Call?

- A **covered call** is an options strategy used to generate **income**
- You:
  - Own **100 shares** of a stock
  - **Sell (write) a call option** against those shares
- You get paid a **premium upfront**
- In exchange, you agree to sell your shares at a set price if assigned

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Why Use Covered Calls?

- Generate **weekly or monthly income**
- Get paid while holding stocks you already own
- Works best in **flat or slightly bullish markets**
- Helps **lower your cost basis** over time
- Ideal for **long-term investors** looking for cash flow

What You Need Before Starting

- A brokerage account approved for **options trading**
- At least **100 shares** of a stock
- Basic understanding of:
  - Call options
  - Expiration dates
  - Strike prices

Best Stocks for Covered Calls

- Large, liquid stocks (easy to enter and exit)
- Stocks you **don’t mind selling**
- Examples of good traits:
  - High volume
  - Tight bid/ask spreads
  - Stable or slow-moving price action
- Common covered call stocks:
  - AAPL
  - MSFT
  - SPY
  - AMZN

Step 1: Buy or Own 100 Shares

- Covered calls require **100 shares per contract**
- Example:
  - Buy 100 shares of Stock XYZ at $50
  - Total investment = $5,000

Step 2: Choose a Call Option to Sell

- Pick an **expiration date**
  - Weekly = more frequent income
  - Monthly = more premium
- Pick a **strike price**
  - Above current stock price (Out-of-The-Money)
  - Safer for beginners

Step 3: Sell the Call Option

- Sell **1 call contract** for every 100 shares
- Example:
  - Sell the $55 call
  - Collect $1.00 premium ($100 total)
- Premium is paid **immediately**

What Happens Next? (Outcomes)

- **Stock stays below strike**
  - Option expires worthless
  - You keep the shares
  - You keep the premium
- **Stock goes above strike**
  - Shares may be called away
  - You sell at the strike price
  - You keep the premium + profit

How Covered Calls Make Money

- Income from **option premium**
- Potential profit from **stock price increase**
- Reduced downside risk due to collected premium

Key Risks to Understand

- **Limited upside**
  - Gains capped at strike price
- **Stock can still drop**
  - Premium only offers partial protection
- **Missing big moves**

    - Stock could run far above your strike

Beginner Tips for Success

- Start with stocks you already own
- Sell **out-of-the-money calls**
- Avoid earnings weeks at first
- Don’t chase high premiums
- Be okay with shares being sold

Common Beginner Mistakes

- Selling calls on stocks you want to keep forever
- Choosing strikes too close to current price
- Ignoring expiration dates
- Forgetting about earnings announcements

Covered Call Example (Simple)

- Buy 100 shares at $50
- Sell $55 call for $1.00
- Max profit:
    - $500 from stock
    - $100 from premium
- Total potential profit = $600

When Covered Calls Work Best

- Sideways markets
- Slow upward trends
- High implied volatility environments

When to Avoid Covered Calls

- Strong bullish momentum
- Before earnings (high risk of assignment)
- When you want unlimited upside

Final Takeaway

- Covered calls are a **beginner-friendly income strategy**
- Best for investors who want:
  - Cash flow
  - Lower risk
  - Consistency
- Not ideal for aggressive growth traders

Educational Purposes Only

- Not financial advice
- Options trading involves risk