How to Do Poor Man's Covered Calls (PMCC)

What Is a Poor Man's Covered Call?

- A **Poor Man's Covered Call** is a bullish options income strategy
- It mimics a traditional covered call but **uses options instead of 100 shares**
- Lower capital required compared to buying shares
- Also known as a **Diagonal Call Spread**

Why Use a PMCC?

- Generate **consistent income** from selling calls
- Requires **less capital** than owning shares
- Allows participation in **upside stock movement**
- Capital-efficient strategy for **small to medium accounts**

When Should You Use PMCCs?

- You are **bullish to neutral** on a stock
- Stock is in an **uptrend or above key moving averages**
- Implied volatility is **moderate to high**
- You want **monthly or weekly income**

The Two Options You Need

1. Buy a Long-Term Call (LEAPS)

- Expiration: **6–18 months out** (minimum 180 days recommended)
- Delta: **0.70–0.90** (acts like owning shares)
- Deep In-The-Money (ITM)
- This replaces owning 100 shares

2. Sell a Short-Term Call

- Expiration: **7–45 days out**

- Delta: **0.20–0.35**
- Out-Of-The-Money (OTM)
- Generates income (premium)

Step-by-Step: How to Set Up a PMCC

Step 1: Choose the Right Stock

- Liquid options (high volume & open interest)
- Tight bid/ask spreads
- Strong, stable companies (ETFs work great too)
- Examples: SPY, QQQ, AAPL, MSFT (for learning)

Step 2: Buy the LEAPS Call

- Pick expiration at least **6–12 months out**
- Choose a strike **deep ITM**
- Goal: High delta and slow time decay

Step 3: Sell the Short-Term Call

- Choose an expiration **2–4 weeks out**
- Select a strike **above current stock price**
- Collect premium immediately

Example Trade (Simple Numbers)

- Stock trading at: $100
- Buy LEAPS Call:
    - Strike: $70
    - Expiration: 12 months out
- Sell Call:
    - Strike: $105
    - Expiration: 30 days out

- Result:
  - You collect monthly income while holding bullish exposure

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How You Make Money

- Premium collected from selling calls
- Appreciation of the LEAPS call
- Ability to sell calls repeatedly over time

Managing the Trade

If Stock Stays Below Short Call Strike

- Short call expires worthless
- Keep full premium
- Sell another call

If Stock Rises Toward Short Call Strike

- Roll the call up and out
- Buy back the call and sell a later expiration

If Stock Drops

- Stop selling calls temporarily
- Hold the LEAPS until recovery
- Reassess trend and support levels

Key Rules for Beginners

- Always buy the **LEAPS first**
- Never sell a call with a strike **below your LEAPS breakeven**
- Avoid selling calls too close to expiration initially
- Manage risk — don’t over-leverage

Risks to Understand

- Stock can drop significantly
- LEAPS loses value if trend reverses
- Assignment risk on short call (manageable)
- Requires active monitoring

PMCC vs Traditional Covered Calls

- Much **cheaper** than buying 100 shares
- Slightly more complex
- Higher percentage returns on capital
- More flexible adjustments

Best Tips for Success

- Start with ETFs or large-cap stocks
- Keep position sizes small
- Focus on consistency, not maximum premium
- Track every trade

Final Takeaway

- PMCCs are one of the **best beginner income strategies**
- Combines growth + income
- Perfect stepping stone before advanced spreads
- When managed correctly, they can produce **reliable monthly cash flow**

Educational Purposes Only

- Not financial advice
- Options trading involves risk