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IN CONTROL

How To Trade Covered Call Options in Australia

NARRATIVE

Covered Call Option Writers can Buy Shares, Sell Options, and Get Paid.

A Covered Call Option Writer or "Call Writer", is someone who sells an option to someone else to buy their shares. The simplified process is:

- You buy company shares using a human adviser or online via a trading platform
- You sell an option contract to someone else to buy your shares at an agreed price, on or by a certain date
- You get paid a premium for selling the option contract
- You are obligated by the contract, under law, to sell your shares (at the agreed price) if the buyer exercises the contract
- If the contract expires worthless, that is the share price does not reach the agreed price, then you retain ownership of the shares and keep the premium

This eBook follows over 10 years of experience trading Covered Call options in the Australian market, including lessons learned during the GFC and trading as a mmber of a SMSF. The book does not follow any particular rules as I am not so much of a book writer but have had a fair crack at writing covered call options.

The aim of the eBook is to share knowledge and guide your journey:

- *From learning about covered call options*
- *Setting up a trading account and trading entities*
- *Learning how to plan and execute trades; and*
- *Discover the thought process and nuances you may go through while trading covered call options in Australia.*

Selling a call option gives someone else the right to buy your shares at an agreed price. If that 'strike' price is reached you can expect to be exercised at contract expiry, requiring you to sell the stock at the agreed price. How does this work? If you own shares, the share price can only go up, down or sideways. Others may believe the share price will go up, however, they may not have the funds to buy and hold the shares and then wait for the share price to go up to take a profit; so they may pay you a Premium, say 2.5% of the share price, to buy your shares at a future date, say in one month, at a price you both agree. If the share price does go up the option buyer may Exercise the option; that is, buy your shares at the agreed Strike Price and choose to sell them at market and take a profit. You get your money back for the shares and keep the Premium. You always keep the premium, whether exercised or not. The reasonable risk you take is that the option buyer may not exercise the option (because the share price went down or sideways) and you keep the shares; to sell another option against. Statistically, 80% of the time you will not be exercised, which means you can sell again next month. If this sounds simple? It is. If it sounds low risk? You own the shares. Will you make huge profits overnight? Probably not. Will you make positive returns over a year? Could be achieved. Covered Call Writing is considered a low-risk trading instrument because you already own the shares and are merely selling (writing) options on those shares. Writing covered calls is an option related strategy which may considered for Self Managed Super Funds (SMSF). Fact: writing covered call options over shares you own outperforms just owning the shares alone.

PREAMBLE

Before we start. I assume you have some understanding of the Australian share market. If not please see www.asx.com.au/education/shares-course.htm

Share or stock options are [share] derivatives, also known as Exchange Traded Options (ETO's). If you look in the financial papers or online, you will see:

- Derivatives – Call Options, and
- Derivatives – Put Options

Options are known as Derivatives. We will talk about Call and Put Options more later.
This eBook is mainly about selling or writing Covered Call Options.

Derivative Share Options can be bought and sold through Stockbrokers (Advisors) or on-line platforms, just like shares. The price of a share option is determined by market forces. When the option taker (the buyer) and the option writer (the seller) agree on a price for the option, a trade between them takes place, via the broker; on-line or off.
This eBook also discusses a proven method for writing covered calls, that is; you are the call writer, you sell the option to a call taker (buyer), who pays you a premium. You keep the Premium and monitor the option contract. If Exercise or Not-Exercised your next step is…