The 10 Most Costly Mistakes Made By Covered Calls Writers
And How To Avoid Them

Everyone makes mistakes. Our challenge and goal is to correct them. That is what will make us successful investors who become financially independent, CEOs of our own money. Here is a list of the most common errors made by covered call writers and how to eliminate them: DO NOT……

1- Only sell options on stocks that are already in your portfolio. These equities may not be appropriate for covered call writing. Only sell options on stocks that are sound fundamentally and technically and are in a great performing industry.

2- Select an option to sell predominantly because of the high return it offers. High option returns oftentimes mean great volatility and therefore high risk. Don’t get greedy! Don’t even calculate your return until you have determined that you have a quality stock in a solid industry.

3- Sell only out-of-the-money strikes. Many experts advise this strategy because of the stock appreciation it may generate in addition to the option sale. There are times when you want the downside protection of an in-the-money strike. Each situation needs to be evaluated on its own merit. Do not paint every option sale with the same brush.

4- Sell an option and then ignore your stock and option positions until expiration Friday. The use of exit strategies is critical to maximize your success writing covered calls. Your positions must be monitored throughout the contract period in case your stock decreases in price or moves above the strike price near expiration Friday. A system must be in place to manage these positions in an accurate and time efficient manner.

5- Sell an option on a stock when there is an upcoming earnings report in that same contract period. An earnings report creates tremendous volatility. This event increases the risk we Blue Collar Investors refuse to take. There is increased downside risk with little upside profit potential. Avoid earnings reports!
6- Use a broker whose commissions will influence your investment decisions. A successful covered call writer will be buying and selling many contracts per month. In addition, there will be trading of the underlying equities. Since exit strategies will play a major role in the profits generated, we must use an online discount broker whose fees are so low that commissions will become a non-event.

7- Use a system that requires excessive time. I believe in setting yourself up for success. In order to succeed your system must be time efficient and easy to navigate. This will require a portfolio manager of easy to access lists of accurate information regarding your stocks and options. Organization is critical to making the best decisions that will generate the highest returns.

8- Sell options in markets that are increasing exponentially or depreciating precipitously. This is a great investment strategy in moderately bullish, moderately bearish and neutral stock markets. I sell covered call options about 90% of the time.

9- Have more than 20% of your portfolio invested in one particular industry. Diversification is so important in reducing risk because if one industry takes a sudden downturn, the others can pick it up.

10- Invest in stock options or any other investment strategy without being fully educated. Who is more likely to succeed at blackjack: The player who is familiar with all the nuances of the game of the person who sits down at the table praying for good cards? The difference between blackjack and covered call writing is that the former will be a long-term losing proposition while the latter can lead to your financial independence.

Wishing you the best in investing,

Alan Ellman,
The Blue Collar Investor

[Contact Information and Website Links]