

Beginners Corner Information

Lesson 6

Executing A Covered Call Trade

Covered Call Writing

Course Review: Lessons 1-5

- Learned the basics of options and covered call writing
- Selected the best covered call candidates using fundamental and technical analysis and common sense principles
- Used calculations to determine portfolio returns and make-up


Types of Orders

- *Market order*: An order to buy or sell a stock or option at the current best available price
- *Limit order*: An order to buy or sell a stock or option at a specific price or better

Types Of Online Forms Used to Execute Covered Call Trades

- *Legging in:* Here we first buy the stock and once owned sell the corresponding call option
- *Buy-Write Combination Form:* Here we buy the stock and sell the option at the exact same time for a "net debit". For example, buy @ \$30 and sell @\$1, the net debit is \$29.

Legging IN- Buying The Stock

Transaction	Stocks 
Action	<input checked="" type="radio"/> Buy Stock <input type="radio"/> Sell Stock
Symbol	<input type="text" value="vmw"/> View Real-Time Quote Symbol Look-up
Quantity	<input type="text" value="300"/> Shares
Order	<input type="radio"/> Limit <input checked="" type="radio"/> Market <input type="radio"/> Stop <input type="radio"/> Stop Limit
Price	Market
Duration	Day Only
Account Type	<input type="radio"/> Cash <input checked="" type="radio"/> Margin
Funding From	Available Cash in Your Account

Legging In- Check Activity Status

Date	Transaction	Description	Quantity	Price	Net Amount	Realized Gain\Loss ¹
12/02/2009	Cash Disbursement	1015	0.000		(\$140.00)	N/A
11/30/2009	Money Market Interest	.15813%11/02-11/30 1110	0.000		\$.14	N/A
11/27/2009	Sell	KIRKLANDS INC (QQJ 12/19/2009 C 15.000)	(3.000)	\$.85	\$246.79	N/A
11/27/2009	Buy	KIRKLANDS INC	300.000	\$15.36	(\$4,613.05)	N/A
11/24/2009	Sell	UNITED STATES NATL GAS FUND LP	(500.000)	\$9.02	\$4,505.33	(\$2,134.22)
10/30/2009	Money Market Interest	.285% 10/01-11/01 1045	0.000		\$.26	N/A

Legging In- Sell The Call Option

Transaction	Options
Action	Sell Covered Call
Underlying Symbol	KIRK Symbol Look-Up Get Option Chain View Real Time Quote
Expiration Date	17-JUL-2010
Strike Price	15.0
Quantity	3 Contracts
Order	<input checked="" type="radio"/> Limit <input type="radio"/> Market <input type="radio"/> Stop <input type="radio"/> Stop Limit
Limit Price	1.15
Duration	<input checked="" type="radio"/> Day Only <input type="radio"/> Good-Until-Canceled (30 Days)
Qualifiers	<input type="checkbox"/> All or None
Account Type	<input type="radio"/> Cash <input checked="" type="radio"/> Margin
Proceeds To	Available Cash in Your Account

[Cancel](#) [> NEXT](#)

Buy Write Form: Net Debit



Covered Call Order Form			
Account No:		Password:	
Stock Symbol:		Quantity:	Action:
[BCI]		[300]	(<input checked="" type="checkbox"/>) Buy
			(<input type="checkbox"/>) Sell
			(<input type="checkbox"/>) Limit Net Credit []
			(<input checked="" type="checkbox"/>) Limit Net Debit [27.50]
Option Symbol:		Quantity:	Action:
[BCI-AF]		[3]	(<input checked="" type="checkbox"/>) Sell to Open
			(<input type="checkbox"/>) Buy to Close
Duration:		Advanced Order:	
(<input checked="" type="checkbox"/>) Day Order		(<input checked="" type="checkbox"/>) None	
(<input type="checkbox"/>) Good until cancelled		(<input type="checkbox"/>) Contingent order	

Buy Write Form: Net Credit

Covered Call Order Form			
Account No:	Password:		
Stock Symbol: [BCI]	Quantity: [300]	Action: <input type="checkbox"/> Buy	Price: <input type="checkbox"/> Market
		<input type="checkbox"/> Sell	<input checked="" type="checkbox"/> Limit Net Credit [\$28.40] <input type="checkbox"/> Limit Net Debit []
Option Symbol: [BCI-AF]	Quantity: [3]	Action: <input type="checkbox"/> Sell to Open <input checked="" type="checkbox"/> Buy to Close	
Duration: <input checked="" type="checkbox"/> Day Order <input type="checkbox"/> Good until cancelled	Advanced Order: <input checked="" type="checkbox"/> None <input type="checkbox"/> Contingent order		
	[Preview Order]	[Clear]	

Playing The Bid-Ask Spread

- “Negotiate” a better price for the option sale
- Bid-ask spread $>$ \$0.10
- Use a “limit” order
- Do NOT check the “all or none box”
- Enter a price slightly below the mid-point of the spread

Playing The Bid-Ask Spread

Hi-Tech Pharmacal Co., Inc. (NASDAQ: **HITK**) Optionable
 Last: **22.34** Chg: **+1.48 (+7.07%)** Open: 20.68 Avg Vol: 367,139 Volume:
 Bid: 22.35 Ask: 23.23 High: 22.41 Low: 20.68 VW%Chg:
 After Hours Data Last: 22.36 Chg: **+0.02 %Chg: +0.07%** Volume: 6,458

Option Tools: [Covered Calls Calculator](#) [Selling Pu](#)

View: All Months

Calls							Feb 10
Last	Intrinsic Value	Bid	Ask	Vol	Open Interest	Strike	
7.30	7.34	7.00	7.60	0	0	15.00	
4.85	4.84	4.70	5.00	0	22	17.50	
2.42	2.35	2.30	2.55	97	285	20.00	
0.50	0.00	0.45	0.55	55	402	22.50	
0.05	0.00	0.05	0.05	0	460	25.00	
0.05	0.00	0.05	0.05	3	726	30.00	
0.05	0.00	N/A	0.05	0	560	35.00	
0.10	0.00	N/A	0.10	0	0	40.00	

Spreads for Fri Feb 19 21:00:00 PST 2010 Options: [Bull Call Spreads](#) | [Bull F](#)

Calls							Mar 10
Last	Intrinsic Value	Bid	Ask	Vol	Open Interest	Strike	
7.45	7.34	7.30	7.60	0	0	15.00	
5.15	4.84	5.00	5.30	0	17	17.50	
3.25	2.35	3.10	3.40	1	115	20.00	
1.77	0.00	1.70	1.85	22	217	22.50	
0.88	0.00	0.80	0.95	8	129	25.00	
0.17	0.00	0.10	0.25	0	119	30.00	
0.10	0.00	0.05	0.15	0	20	35.00	

Transaction: Options

Action: Sell Covered Call

Underlying Symbol: KIRK [Symbol Look-Up](#) | [Get Option Chain](#) | [View Real Time Quote](#)

Expiration Date: 17-JUL-2010

Strike Price: 15.0

Quantity: 3 Contracts

Order: Limit Market Stop Stop Limit

Limit Price: 1.15

Duration: Day Only Good-Until-Canceled (30 Days)

Qualifiers: All or None

Account Type: Cash Margin

Proceeds To: Available Cash in Your Account

Cancel > NEXT

Use An Online Discount Broker

- *Low trade commissions
- Watch for hidden fees and minimum requirements
- Prompt and courteous phone service
- Ask about "advanced platforms"
- For a FREE information file:
- alan@thebluecollarinvestor.com
- Put "online broker file" in header and include your name

Summary

- Covered call trades can be executed by *legging in* or with *buy-write combination forms*
- Orders can be entered as *market* or *limit* orders
- Whenever possible negotiate a better “bid” price
- Select an inexpensive but reliable *online discount broker*
- In Lesson 7 we will discuss *exit strategies*