US Option Overwriting Screen

Overwriting while capturing substantial upside

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Equity Derivatives
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At least 4% premium and 7% potential upside

Overwriting outperforms a long-only position if the underlying stock declines, but if the stock rises, it can underperform if the call strike is not sufficiently high. Investors concerned about missing out on the upside when overwriting may wish to consider the following candidates within the Russell 1000 that allow at least 7% gain by 15-Mar-2024, earn a minimum premium of 4%, and have underlying notional option volume of at least $5mn.

Exhibit 2: Overwriting Candidates
Top 10 overwriting candidates

Description							Screened Variables	
			Option		Premium		Call & Dividend	Call-Away
Symbol	Name	Price	Expiration	Strike	Call Bid	Div	Premium	Return
PENN	Penn Entertainment	23.39	Mar 15, 24	25.0	1.27		5.4%	12.3%
APP	AppLovin	47.06	Mar 15, 24	47.5	4.40		9.3%	10.2%
ALB	Albemarle	120.09	Mar 15, 24	125.0	6.80	0.41	6.0%	10.1%
CROX	Crocs	110.08	Mar 15, 24	115.0	5.20		4.7%	9.2%
MRVL	Marvell Technology	70.42	Mar 15, 24	72.5	4.30		6.1%	9.1%
CMA	Comerica	52.61	Mar 15, 24	55.0	1.50	0.72	4.3%	8.8%
NCLH	Norwegian Cruise Line	16.64	Mar 15, 24	17.0	1.00		6.0%	8.2%
HAS	Hasbro	51.29	Mar 15, 24	52.5	2.75		5.4%	7.8%
NVDA	NVIDIA	722.48	Mar 15, 24	725.0	50.95	0.04	7.1%	7.4%
PANW	Palo Alto Networks	371.97	Mar 15, 24	380.0	19.40		5.2%	7.4%

Source: BofA Equity Derivatives Research. Based on stocks in the Russell 1000 and data as of the 12-Feb-24 close. This screen is not a recommended list either individually or as a group of stocks or option contracts. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decision.

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Covered call writing can be used to generate premium on a long position. The strategy is best suited for names the call seller has a neutral short-term view on, as a call sells the right to upside participation beyond the call strike for a fee. Covered call writing is not a hedge and maintains full downside risk. High volatility names generally have higher call option prices to compensate for increased risk.

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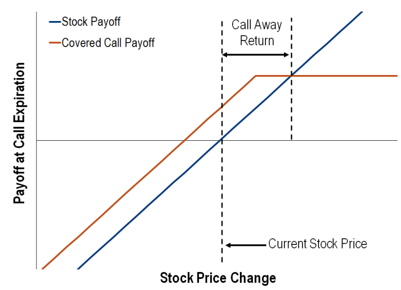
Exhibit 1: Covered calls enhance returns if the stock does not appreciate beyond the call-away return but maintain full downside exposure
Payoff diagram



Source: BofA Equity Derivatives Research

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Options Risk Statement

Potential Risk at Expiry & Options Limited Duration Risk

Unlike owning or shorting a stock, employing any listed options strategy is by definition governed by a finite duration. The most severe risks associated with general options trading are total loss of capital invested and delivery/assignment risk… all of which can occur in a short period.

Investor suitability

The use of standardized options and other related derivatives instruments are considered unsuitable for many investors. Investors wishing to partake in these strategies are encouraged to become familiar with the "Characteristics and Risks of Standardized Options" (an OCC authored white paper on options risks). U.S. investors should consult with a FINRA Registered Options Principal.

For detailed information regarding the risks involved with investing in listed options: http://www.theocc.com/about/publications/character-risks.jsp

Specific risks to covered call strategies: *If the stock finishes below the noted "breakeven point" at expiry, the investor's position will be valued lower; however, any discount in value will be partially offset by option premium received. If the stock finishes above the noted strike on expiry, the investor may have their underlying shares called-away (sold); however, realizing a profitable capped return equaling the noted call-away return.*

- When the underlying stock price meaningfully lies above the short call strike price, the investor is at risk of having their underlying shares called-away (sold). Holders can employ the following tactics to avoid call-away:

  Roll-out (Roll Forward): Buy back the calls that were originally sold and sell same strike calls at a later expiry. Because of the time value, this transaction usually results in an initial net credit.

  Roll-up: Buy back the calls that were originally sold and sell higher strike calls at the same expiry. Because of intrinsic value, this transaction usually results in a net debit.

  Roll-up & out: Buy back the calls that were originally sold and sell higher strike calls at a later expiry. The transaction can result in either a net debit or credit.

- When the underlying stock price meaningfully underperforms, the investor will have an opportunity to shift strikes and/or expiries to generate further income.

  Roll-out (Roll Forward): Buy back the calls that were originally sold and sell same strike calls at a later expiry. Because of the time value, this transaction usually results in an initial net credit.

  Roll-down: Buy back the calls that were originally sold and sell lower strike calls at the same expiry. Because of intrinsic value, this transaction usually results in an initial net credit.

  Roll-down & out: Buy back the calls that were originally sold and sell lower strike calls at a later expiry. Because of time value and intrinsic value, this transaction will result in an initial net credit.

General return risks associated with covered call strategies

> While covered call strategies will underperform stocks in fast bull markets, they will still realize significant profits. Covered call strategies tend to outperform outright stock ownership in flat, down and slightly up markets.

Covered call strategies allow clients to increase their yield on equity positions in exchange for giving up some of the potential upside in the underlying securities. While covered call strategies will underperform stocks in fast bull markets, they will still realize significant profits. Covered call strategies tend to outperform outright stock ownership in flat, down and slightly up markets. Covered call strategies tend to dampen the effects of general market volatility by offsetting outlier returns. The payoff properties of the covered call, capped upside returns and reduced downside returns (offset by option premiums received), work to truncate holding period returns towards the mean and reduce the overall standard deviation of a sample portfolio. These properties are reflected by a portfolio net delta that is less than 100% (typically between 65-90%). By definition, a long stock-only position exhibits a constant 100% delta.

Option Liquidity Risk

While we believe the overwriting candidates in Exhibit 2 are liquid and appropriate for covered call writing, the premiums noted can change rapidly and adversely. Investors should consider these factors before executing a transaction.

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