Covered Call: S - C_K

Mindset
- All about the underlying stock.
- There's no secret formula nor silver bullet.
- When writing options, the odds of being right are high; but you will win small, lose big. Don't get carried away by the stream of wins. Covered calls should be a boring strategy.

Entry

S: uptrend
- Fundamental analysis
- Technical analysis

K: pick the strike price with a delta close to 0.4

T:
- Ensure no event during the period you hold your options contract, e.g. earnings announcement.
- Usually the final week prior to expiry is when most options are exercised.
- Time decay is not linear. It accelerates once the option moves within 30 days of expiry. This means the best time frame is 30-45 day window.
- Longer term? Do a quick math, because you could've had 2 short term trades.

IV: between 30 and 70. If it's too small, you don't get much premium. If too large, too volatile

Exit

Max profit = K - stock purchase price + premium

BE = stock purchase price - premium
- Sideways (1% rule): when time value < 1% * underlying price, roll the option over ("roll" functionality)
- Win (2 & 20 rule): if the price of buying back your option is less than 20% of the price you paid, within the first 2 weeks of entering the contract, buy it back. For example, you sold it for $1 and now it costs less than $0.2, you can buy it back. Why? Lock in a solid profit. Look for other opportunities.
- Lose: what matters most is the underlying stock. If it's disappointing, don't wish your options to compensate.

Fundamental Analysis

(1) stability: boring in the short term, thrilled to own for the long run
Coca-Cola; ATT; Ford; FedEx, Ups
(2) low debt: otherwise quite volatile
(3) age: mature enough, 5 years old, not cyclical sectors such as travel, real estate, basic materials, commodities, etc
(4) management team: well versed, promote from within, not bring outside CEOs on board
(5) trading volumes: over a million shares a day
(6) better pay dividends, but you want large companies that paying out less than 40% of their net profits

Example: finviz
description: dividend yield, average volume, optionable
technical: 50-day SMA

Technical indicators: keep your system as simple as possible.
(1) Choppiness Index
- whether it is trending in a direction or moving sideways.
- A range between 0 and 100. If closer to 0, very trendy.
- 38.2/61.8
- When it goes beyond the upper threshold, it was traded in a range. This would be a great time for CC.

(2) Average Directional Index
If value > 25, a trend is on. Else. sideway.

(3) Bollinger Bands
- It measures the degree of volatility. 3 curves: middle is 20 day EMA, top is 2 std up, bottom is 2 std down
- If the band is quite wide, too volatile
- If the band becomes very narrow, trades anticipate a strong move in some direction. When you see the bands continuously squeeze, write your calls at a farther distance than usual.

(4) Parabolic SAR
- SAR stands for stop and reverse. When the dots are plotted above price, go short. When the dots are plotted below price, go long
- It doesn't work very well in sideways markets. But it is useful when it's trendy.
- If you spot a dots pattern that alternate in quick succession, you can risk a closer call.
- If you see dots constantly printing on one side, especially at the bottom, you need to push it out further.

Poor man's covered call
- Diagonal spread: long ITM call with expiry 1y, short OTM call with expiry 30-45 days
- By buying a LEAP call, you are basically long the stock.
- This substitution strategy works best in mature bull markets.
- This offers an advantage in terms of handling volatility. A long dated option has larger Vega than short dated one. If volatility up, no matter the price is up or down, you gain more than holding a stock. Theta is also very small since it's long.
- LEAP shall have delta greater than 0.75, i.e. deep ITM
- But it is dangerous when your short term option is moving ITM. In such a scenario, you have to exercise the LEAP and deliver the stock of the short options' buyer. You are screwed.

A list of practice
- (1) study 5 charts every weekday
- (2) entry rule
- (3) exit rule
- (4) log every trade, review them every week
- (5) 100 trades under my belt
- (6) only place one trade at one time

核心逻辑
收租金：长期持有正股，收取租金，牺牲一部分未来上涨潜力，有风险丢掉正股
行权价：OTM 2%-5%， delta 0.2
周末也有时间价值

其它应用
止盈一：小型科技股，卖deep OTM call；虽然少，也是稳定收入。一旦暴涨，直接拿钱离场
止盈二：想尽快落袋为安，路子比较野
减少开仓成本：计划长期投资，短期承压，此时IV偏高，卖call合适
弱对冲：接近ATM，1-2月，但是短期持有、适当时机平仓

行权价本质
越OTM, 越激进 -》越看涨，租金越少，保护力度越小
正股下跌 -》更加OTM
均值回归逻辑

LEAP
好处：加杠杆，不会爆仓，正gamma
坏处：低流动性，时间损耗