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Choosing the Long for Poor Man's Covered Calls

Poor Man's Covered Calls



1 of 7

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- A *covered call* means selling a short OTM call while holding 100 shares of the underlying.
- This strategy generates additional revenue compared to holding the shares under any situation other than a sudden spike in the underlying, where it still isn't exposed to loss.
- 100 shares can be quite capital intensive however. A *poor man's covered call* (PMCC) recreates similar P/L dynamics by using an ITM long call in place of shares.
- But how do we decide what long call to use when forming a PMCC?

The study:

- Using 15 years of data in SPY options we investigated a variety of poor man's covered calls.
- All short options sold were 45 DTE, 30 Δ calls.
- For the long calls, we explored:
 - 60 Δ , 70 Δ , 80 Δ , and 90 Δ strikes with
 - the same expiration (really just a long call vertical), 60 DTE, 120 DTE, or 1 year to expiration.
 - All positions were closed when the short option expired.
- We also included "rich man's" covered calls, the results from using 100 shares of SPY in place of the long call over the same time frame.

Choosing the Longs for PMCCs



3 of 7

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45 DTE Long Calls	60Δ Long Calls	70Δ Long Calls	80Δ Long Calls	90Δ Long Calls	Rich Man's
Win%	65%	66%	66%	68%	71%
Avg P/L	\$27	\$27	\$26	\$26	\$29
Avg. Capital Requirement	\$488	\$739	\$1,115	\$1,819	\$18,052

Choosing the Longs for PMCCs



4 of 7

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60 DTE Long Calls	60Δ Long Calls	70Δ Long Calls	80Δ Long Calls	90Δ Long Calls	Rich Man's
Win%	66%	69%	69%	69%	70%
Avg P/L	\$29	\$29	\$27	\$27	\$29
Avg. Capital Requirement	\$559	\$845	\$1,290	\$2,079	\$18,052

Choosing the Longs for PMCCs



5 of 7

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6 Month Long Calls	60Δ Long Calls	70Δ Long Calls	80Δ Long Calls	90Δ Long Calls	Rich Man's
Win%	67%	69%	69%	70%	70%
Avg P/L	\$28	\$28	\$27	\$26	\$29
Avg. Capital Requirement	\$1061	\$1641	\$2,475	\$4,034	\$18,052

Choosing the Longs for PMCCs



6 of 7

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1 Year Long Calls	60Δ Long Calls	70Δ Long Calls	80Δ Long Calls	90Δ Long Calls	Rich Man's
Win%	69%	69%	70%	70%	70%
Avg P/L	\$27	\$27	\$26	\$26	\$29
Avg. Capital Requirement	\$1,855	\$2,503	\$3,782	\$6,180	\$18,052

Takeaways:

- Writing covered calls in SPY has been a generally successful strategy over the past decades.
- PMCCs were able to recreate almost all of this success while requiring vastly less capital.
- When choosing a long call to form your PMCC, it was hard to go wrong, but 70 Δ and 60 DTE provided a nice balance of capital efficiency without giving up profits or reliability compared to a rich man's.
- Due to the length of the study, expect current SPY costs to be higher, but the relative differences between strikes and expirations should remain.

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