<https://www.tastylive.com/concepts-strategies/covered-call>

**Covered Call (Capped profit, limited upside potential).**

Imagine you own 100 shares of a stock and you want to generate some extra income from these shares.

This is where a covered call comes in.

1. **Own the Underlying Stock:** You already have 100 shares of the stock in your portfolio. This is the "cover" in a covered call.
2. **Sell a Call Option:** You sell a call option on those same 100 shares with a strike price slightly above the current stock price. This gives the buyer the right to buy your shares at that price before the option expires.

**How it Works:**

* **Stock price stays below the strike price:** The option expires worthless, and you keep the premium you received from selling the call. You also keep your shares.
* **Stock price rises slightly above the strike price:** The option buyer may exercise their right to buy your shares at the strike price. You still make a profit from the premium and the increase in the stock price up to the strike price.
* **Stock price rises significantly:** The option buyer will almost certainly exercise their right to buy your shares. You miss out on the larger gains above the strike price, but you still profit from the premium and the price increase up to the strike price.

**Key Takeaways:**

* **Limited Profit Potential:** Your maximum profit is capped at the strike price plus the premium received.
* **Limited Risk:** Your maximum loss is the purchase price of the stock minus the premium received.
* **Income Generation:** Covered calls are a popular strategy for generating income on stocks you already own.
* **Suitable for Neutral to Slightly Bullish Outlook:** This strategy works best when you expect the stock price to remain relatively stable or increase modestly.

**Example:**

You own 100 shares of XYZ stock currently trading at $50. You sell a call option with a strike price of $55 and receive a premium of $2 per share ($200 total).

* If XYZ stays below $55, you keep the $200 premium and your shares.
* If XYZ rises to $60, the option buyer will likely exercise, and you sell your shares for $55 each. Your profit is $5 per share from the price increase plus $2 per share from the premium, totaling $700.

**Important Note:** Like all options strategies, covered calls involve risks. It's essential to understand the potential downsides and consult with a financial advisor before implementing this strategy.