Audio Script
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Every example that we use is for illustrative purposes only and we do not include any commission and fees.

Imagine you purchased 100 shares of XYZ at $50.00 a share.

You feel bullish about this company long term, but you don’t expect it to make any big moves in the near term.

Based on this belief, you decide to sell a call, which is a type of options contract.

When you sell the contract, you set an agreed upon price, called the strike price and an expiration date which is your obligation period.

You immediately collect the premium for that contract

If the stock never goes above the strike price you set, the option expires worthless and the money you collected is yours to keep. You can think about it like a discount on your purchase of 100 shares.

If, however, the stock goes above that price, and the buyer chooses to execute, you will have to sell your shares at the strike. However, you still keep the premium.

This is why selling a covered call is one way option traders generate income

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