VANTAGE POINTE
Vantage Financial Partners Limited

OCTOBER 2010

A TIMELY STRATEGY

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Many people believe our economy will produce slow growth in the near future as de-leveraging of the consumer continues. This could mean that returns provided by equities may be lower for a while. Bond income yield is also expected to lessen due to the low interest rate environment. What can an investor do to produce income to support his or her current needs? The covered call strategy can be used as one way to increase the cash flow of a portfolio. This strategy uses existing equity positions, such as exchange-traded funds or stocks, to provide income by writing and selling option call contracts against these positions.

BASICS OF COVERED CALL OPTIONS

An option is a contract written specifically to an underlying position for the right to buy at a specific price (known as strike price). The contract terms are valid for a predetermined length of time up to the expiration date. This right is sold for a premium that is received by the seller and deposited into the account. While this may sound complex, the covered call strategy is one of the most widely utilized option strategies in the investment industry.

Option contracts will typically be completed with one of three outcomes. If the underlying position increases in value more than the strike price, the option buyer will exercise his or her right and purchase the stock. If the underlying position remains stagnant or decreases in value, **the option will expire worthless.** In all cases the option buyer can still purchase the position for the strike price even if it is higher than the market value, but this rarely occurs. When the option expires, the contract is no longer valid. The seller retains the position and any premium made on the sale. At that time another option can be written to again produce income.

RISK & REWARD

While adding income to a portfolio during a time of slow growth and low interest is quite appealing, this strategy does include some risk. Should the market rise, any position covered by an option contract will be limited in its growth potential otherwise known as upside. If the position increases in value past the strike price it will most likely be purchased or called, and any additional growth will be lost. Also if it becomes necessary to sell the position while under the terms of an option contract, the investor must re-purchase the contract at the current market value in order to be released from the contract obligation. The contract may have a higher value than it did when it was first sold, which will result in additional cost.

> *"Options can be beneficial in portfolios to increase income when the market is bullish. It can also be effective when divesting a concentrated position."*

As with all investment strategies, one size does not fit all. Options can be beneficial in portfolios to increase income when the market is bullish. It can also be effective when divesting a concentrated position. However, it is important to recognize that not all market conditions or portfolios are ideal for this option strategy. Investment Managers at Vantage incorporate many different strategies and portfolio designs to help clients meet their investment goals. Please feel free to contact your Relationship Manager for further information on this or other investment strategies. To read our white paper on the Covered Call Option Writing Strategy, click here.

Published by Vantage Financial Partners Limited.

VANTAGE NEWS

This month, we hosted our third annual client appreciation event. Special guest, Bob Love, an NBA superstar and the current Director of Community Affairs for the Chicago Bulls, spoke about his humble upbringing, the triumphs enjoyed when playing as a Chicago Bull and overcoming challenges due to his speech impediment. His inspiring message reminded guests to ask for help when pursuing their dreams, to seek advice from good people and that it will take hard work to achieve your goals.

It was great to see so many new and familiar faces! We really enjoy hosting these events and look forward to seeing you at the next one.

Please click here to tell us what you thought of the event. We'd also love to hear your suggestions for future ones.

From left:
Sam Swisher, Sam Bakou, Dave Grant, Bob Love, Maria Saravia, Michael Rohrwasser, Tom Vislisel, Dan Kaibel, Kim Taylor, Jay Kulikowski, Dan Zalipski