Econ Wealth Management

# Writing a Covered Call - PSX

ASSET MANAGEMENT
EWM MVP
4/5/2022

*Our Latest Option Strategy*

## What is a Covered Call?

**A covered call is an options strategy that involves owning a stock and then selling a call that expires on a specific date at a selected strike price. This strategy is popular to generate income since we are the sellers of the contract and are on the receiving end of the transaction. As the sellers, we are paid a premium by someone who is buying the right to purchase the stock at the agreed upon strike price, and we, as the sellers, are obligated to sell to them at that same price. This type of strategy is usually used with a stock that is intended to be held for at least a few months and is not expected to move drastically higher.**

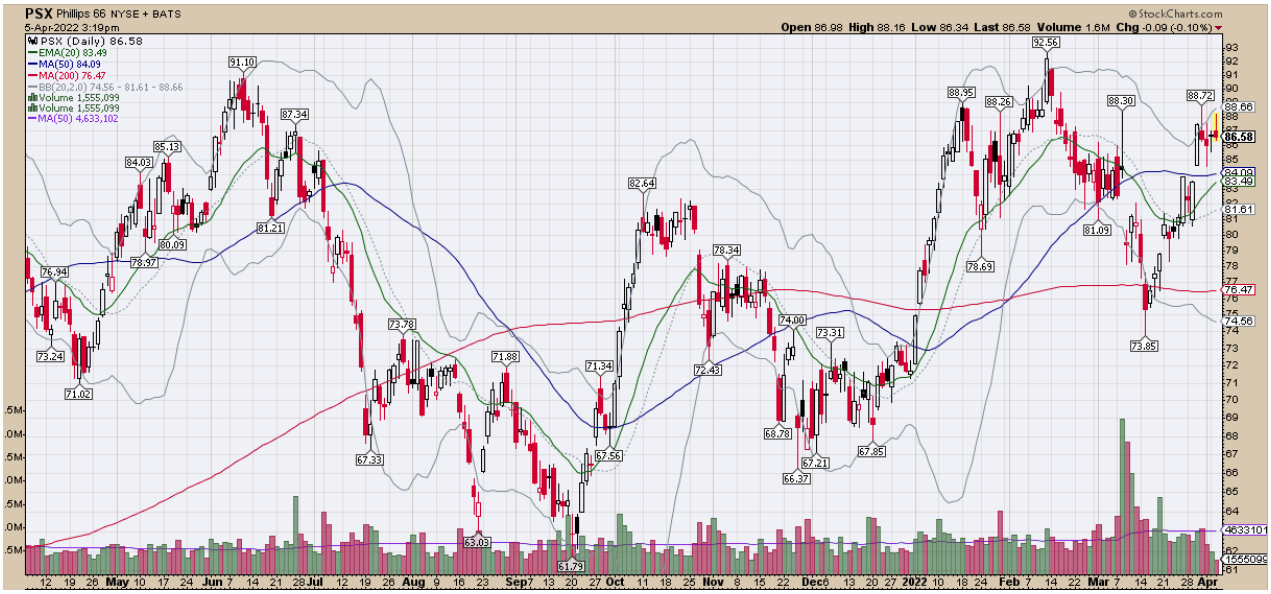
***Selling a Covered Call***

| *Phillips 66 (PSX)* | Price of Stock at Purchase | Expiration Date | Strike Price | Income/Contract |
|---|---|---|---|---|
| | $86.96 | November 18, 2022 | $90 | $718 |

## Phillips 66 (PSX)

**Phillips 66 is an energy company that operates through multiple segments including transportation of crude oil, natural gas, and liquefied petroleum as well as what we all probably know them best for, the refining of crude oil into petroleum products such as gasoline. Lately, the energy sector has been volatile as crude oil prices shot up to over $130/barrel in the beginning of March which resulted in just about a 20% drop of PSX. We intend to hold PSX for the foreseeable future as our exposure to the energy sector and thus took the opportunity to generate income by selling the call.**

**Below is the 1-year chart of PSX, which you may see seems to be quite volatile. Due to such, the pricing of the options tend to be higher than less volatile positions and therefore benefitted us since we are on the sell side of this particular transaction. Additionally, the strike price is $90, as displayed in the table above, which happens to be right around where the stock peaked so far this year. Ultimately, if the stock would continue higher, we are comfortable selling at $90 since it is right around its 52-week high.**

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