**Introduction**

Covered call writing is a cash-generating strategy that lowers our cost basis thereby improving our opportunities for successful investments. One of the many benefits of incorporating this strategy into our investment portfolios is that the system can be crafted to meet our trading style, market assessment, portfolio net worth and personal risk tolerance. We accomplish this by mastering the three- required skills necessary to achieve the highest possible returns. These are selection of the underlying security, option selection and position management.

As an example, if we project a bearish assessment of the overall market and want to protect our portfolios from a price decline in the underlying stock, we can opt for a low volatility security and sell an in-the-money call strike. In a bull market scenario for investors with a higher risk-tolerance, we may choose an underlying with a higher implied volatility and utilize an out-of-the-money strike which will present share appreciation opportunities. One size does not fit all.

This book takes the versatility of covered call writing to an even higher level where the strategy itself is adjusted to meet certain additional investment requirements and goals. Each of the three sections in this book will provide specific situations which frequently apply to retail investors and how traditional covered call writing can be tailored to meet these criteria.

In the first section, *portfolio overwriting* is discussed where we utilize long-term buy-and-hold portfolios which consist of securities that are of a low cost-basis and generally dividend-generating stocks. Our focus will be on how we can we can elevate the returns of these portfolios by selling call options and, at the same time, minimize the risk of assignment and thereby avoiding negative tax consequences.

Section II addresses the *collar strategy* wherein protective puts are used to safeguard the downside. This strategy is perfect for investors who need the additional security of a floor on the losing side of a trade and are willing to settle for lower returns in the process. This is the strategy Bernie Madoff referred to as the *split strike conversion strategy* in his claims of making fortunes for his clients. Of course, Madoff never made any trades, he just pretended to do so. This section will detail how to generate real cash flow with this strategy.

The final section of this book highlights the *poor man’s covered call* also known as the *long call diagonal debit spread*. This covered call alternative strategy is a way to enter a trade at a lower cost basis where long-term options (LEAPS) serve as stock substitutes. Since options cost less than stocks, the strategy requires less cash to set up trades and option sales will result in higher returns on capital.

It is instructive to note that all strategies, as well as their alternative counterparts, have both advantages and disadvantages associated with them. Before committing to a strategy, we must fully understand these pros and cons and master all aspects of the investment plan to both achieve the highest levels of returns as well as factoring in capital preservation.

This book does not delve into tax issues because the authors are not tax experts. Suffice it to say that, in general, option-selling trades result in short-term capital gains (losses) where it may be beneficial to trade in sheltered accounts when possible. We should check with our tax advisors before making any tax-related decisions.

The authors’ objectives for this book are to provide the necessary information to execute the strategies discussed as well as presenting material to assist in determining strategy selection based on portfolio net worth, personal risk tolerance and trading style. Our hope is that the time and effort put forth in writing this book results in achieving these goals.