

Buy & Write Strategy

The buy & write strategy or covered call selling involves buying selective shares and selling, subject to appropriate timing, call options over those shares. The sale of a call option gives the buyer the right but not the obligation to purchase those shares at a set price sometime in the future (usually 6-9 months and at a higher price). It is not speculative but a defensive strategy. This strategy gives away some of the upside potential from a shareholding but generates option premium income for downside protection. The buyer of the call option pays the seller a price called the option premium, which is received up front and reduces the purchase cost of the shares thereby lowering the breakeven cost.

The effect of the buy & write strategy or covered call selling is to reduce the volatility/risk of the portfolio. Overtime this strategy can lead to superior returns and lower risk compared to holding shares.

The chart below compares the ASX Buy & Write Index with the ASX Accumulation Index to demonstrate the merits of this strategy.

