GENERATING INCOME: THE PRIMARY OBJECTIVE OF A COVERED CALL STRATEGY

How one investor turned long-held stocks into additional income using covered calls.

David owned 100 shares in a stock that always seemed to move up slowly in value, but not enough to generate significant gains for his portfolio. And while he was confident that the stock would continue to increase in value over time, it wasn't appreciating enough toward his retirement goals.

His advisor had told him about covered call writing, an options strategy that could potentially allow David to generate more income from stocks in his portfolio.

David would receive a premium up front for agreeing to sell his stock to a third party at an agreed upon price, or strike price. (*This strategy works best for stocks that you believe are steady or will rise slightly in price over a set period of time.*)

However, David has to be willing to part with those shares should the call be assigned (in other words, selling his stock at the agreed upon price). Once sold, he would miss out on any additional gains made by the stock and the sale may result in a taxable gain. Still, writing covered calls presents an opportunity to potentially boost overall returns on David's stocks with a limited measure of downside protection.

Two months later, the stock never reached the price that David agreed to sell it at, and the covered call was never assigned.

> "In this example, David kept the stock, its unrealized profit and the premium, making more income on stock that he owned than he could have otherwise, and without having to sell it.*"

*This is a hypothetical illustration and is not intended to reflect any actual outcome. Please review the "How it Works" section of this brochure for other possible outcomes when using this strategy.

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HOW IT WORKS

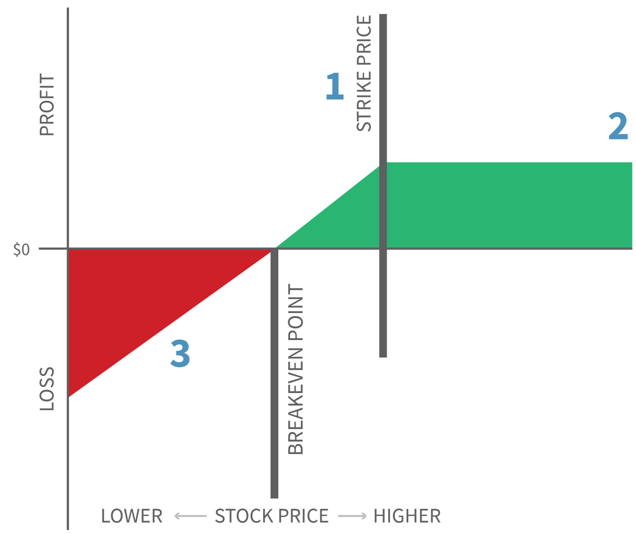
When you write a covered call, you enter into an agreement to sell your stock when it reaches a certain price, called the strike price, within a certain time period, called an expiration date. For agreeing to sell your stock at the agreed upon price, you are paid a premium up front known as a call premium, which is yours to keep. Once you write (sell) a covered call, there are three possible outcomes.

1 One possible outcome is that the stock never reaches the strike price within the stated time period and is never assigned (or, in other words, you are not required to sell). If this happens, you get to keep the stock, any unrealized profit from its growth, and the premium as additional income.

2 Another possible outcome is the stock reaches the strike price at the expiration date, or possibly sooner. In this case, the call in all likelihood will be assigned, requiring you to sell the stock at the specified price. You keep the appreciation from the higher stock price as well as the premium as additional income, but must relinquish the stock. And if the stock continues to rise past your strike price and the call is assigned, you are paid only the strike price, meaning you miss out on the potential gains made by the stock above your strike price. The sale of shares due to assignment may result in a taxable gain.

3 The third possible outcome is the price of the stock falls. In this case, you keep the stock and the unrealized loss it incurs. However, you also get to keep the premium, mitigating the impact of the loss.

PROFIT AND LOSS FOR A COVERED CALL



Commissions, fees, and taxes have not been included in this example. These costs will impact the outcome of all stock and options transactions and must be considered prior to entering into any transactions.

Talk to your advisor about covered calls.

Covered call writing can potentially help you generate more from your slow growth stocks and generate income for your portfolio. Talk to your Raymond James advisor today to see if your portfolio could benefit from this options strategy.

IMPORTANT COVERED CALL DEFINITIONS

Call Purchaser - An option in which the holder (owner) has the right but not the obligation to buy the underlying stock at the strike price for a certain, fixed period of time (until its expiration).

Covered Write - A position in which a call option is written (sell) against a long stock position.

Assignment - Writers of American options can be assigned at any time. Upon assignment they receive cash from the option owner and must deliver the underlying securities.

American-style - An option that can be exercised/ assigned at any point before expiration. Equity options are American style.

Bid - The disseminated price at which exchanges indicate options can be sold.

Break Even Point - The initial stock price minus the premium received.

Standstill Return = Option Premium Collected / Current Stock Price.

If Assigned Return = ((Strike Price - Current Stock Price) + Option Premium Collected) / Current Stock Price.

Options Contract - One options contract typically represents 100 shares of stock.

Premium - The price you pay if you're an option buyer, or the amount you receive if you're an option writer.

Strike - The price at which stock is traded upon exercise/assignment of an option contract. Some options have multiple underlying stocks. In these cases, the strike times the multiplier is the total price paid for all of the option's underlying securities.

Time Decay - The decline in value of your option as the expiration date approaches.

Time Value - The perceived and often-changing value of the time left until an option's expiration.

Underlying - The cash or securities that are delivered upon exercising an option. Most options deliver 100 shares of a single stock.

Writer - If you sell an option to open a new position, you're a writer.

Options involve risk and are not suitable for all investors. When appropriate, options should comprise a modest portion of an investor's portfolio. Prior to buying or selling an option, a person must receive a copy of "Characteristics and Risks of Standardized Options" (ODD). Copies of the ODD are available from http://www.optionsclearing.com/about/publications/character-risks.jsp or by contacting Raymond James at 880 Carillon Parkway, St. Petersburg, FL 33716. The information in this document is provided solely for general education and information purposes and, therefore, should not be considered a complete description of listed options. No statement within this document should be construed as a recommendation to buy or sell a security or to provide investment advice. Please consult a tax advisor for the tax implications involved in the use of options. Supporting documentation will be supplied upon request.

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