

Abstract

This thesis aims to evaluate the performance of a covered call strategy written on Exchange-traded funds compared to a buy-and-hold strategy of the Exchange-traded fund on the US stock market. The strategy is constructed using at-the-money, two-percent and five-percent out-of-the-money call options. The premium for the former is taken from historical market data and for the latter two calculated using the Black-Scholes-Merton formula adjusted for dividends. The results further provide a two-period distinction to better account for different market periods, namely Covid-19 and the geopolitical conflict in Ukraine. The results fail to show evidence of a significant difference between a covered call strategy and the buy-and-hold strategy. However, we provide possible applications of the strategy in certain market settings. The performance is evaluated on the basis of annualized returns and standard deviation, as ratios based on the mean-variance framework are omitted due to possible bias of negatively skewed distribution of returns of the covered call strategy.

JEL Classification G10, G11, G12, G13, C02

Keywords Covered calls, ETF, Black-Scholes model, Options pricing, Portfolio performance

Title Effect of covered calls on portfolio performance