

Report on Bachelor

Institute of Economic Studies, Faculty of Social Sciences, Charles University

Student:	Tomáš Ježo
Advisor:	Mgr. Petr Polák, M.Sc., Ph.D.
Title of the thesis:	Effect of covered calls on portfolio performance

OVERALL ASSESSMENT (provided in English, Czech, or Slovak):

Short summary

The thesis aims to explore the performance of the covered call strategy (CC). The performance of the CC is compared with the benchmark buy-and-hold strategy of the underlying SPY (SPDR S&P 500 ETF Trust) using the annualized returns and standard deviation over the period from 2019 to 2023. For the construction of the CC strategy, the at-the-money and two/five percent out-of-the-money call options are used. The CC strategy is popular among traders, but it has some shortfalls, such as limiting upside potential. These are to some extent discussed in the thesis. Results indicate that the standard buy-and-hold strategy is superior to the CC in terms of annualized returns; however, the standard deviation of the CC is generally lower.

Contribution

The contribution, in terms of the results, is rather limited but is in line with the bachelor's level. More importantly, there is some contribution to the interpretation of the results. There are, however, several problematic issues when applying the CC that should be discussed during the general discussion. For example, it is unclear whether we can interpret lowering the standard deviation as a purely positive outcome when applying the CC strategy. It is obvious (and it is mentioned in the thesis) that limiting highly positive returns assures a lower standard deviation, but it definitely does not influence the left tails of the return (CC only decreases the losses by a little). Another issue is the problematic interpretation of the standard deviation when the data are highly skewed and definitely are not normal.

Methods

Tomáš uses standard methods for the task. All methods are used correctly.

Literature

The thesis contains an extensive literature review. The works cited in the thesis are relevant to the topic. The author shows a good knowledge of the literature and works with it properly.

Manuscript form

The manuscript is well-written, logically structured, and it is easy to read. However, there is still room for improvement in results interpretation. In the theoretical part, on page 6, there are some inconsistencies with the numbering of the Figures.

Overall evaluation and suggested questions for the discussion during the defense

In my view, the thesis is a solid piece of work and fulfills all the requirements for a bachelor thesis at IES, Faculty of Social Sciences, Charles University. I recommend it for the defense and suggest a grade C. I would suggest a better grade if Tomáš adequately addresses the raised questions. The results of the Turnitin analysis do not indicate significant text similarity with other available sources.

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Questions for the defense:

- 1) How can we interpret the lowering of the standard deviation when the CC strategy is applied?
- 2) Why do we observe different skewness for the 2% OTM and 5% OTM options used in the CC strategy?
- 3) How is the statistical significance difference of the results measured?
- 4) Can you compare the expected outcomes of the CC strategy in the long/short run?
- 5) Explain what is hedonic framing and mental accounting bias.

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
Contribution (max. 30 points)	25
Methods (max. 30 points)	20
Literature (max. 20 points)	20
Manuscript Form (max. 20 points)	15
TOTAL POINTS (max. 100 points)	80
GRADE (A – B – C – D – E – F)	C

NAME OF THE REFEREE: Mgr. Lukáš Vácha, PhD.

DATE OF EVALUATION: 29.8.2023

Digitálně podepsáno (29.8.2023)
Lukáš Vácha

Referee Signature