

Report on Bachelor / Master Thesis

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):

Please provide a short summary of the thesis, your assessment of each of the four key categories, and an overall evaluation and suggested questions for the discussion. The minimum length of the report is 300 words.

Short summary

In his thesis, Tomáš Ježo focuses on a specific way of portfolio creation, which slowly gains popularity among retail investors, mainly in the US, thanks to several ETFs (such as QYLD and XYLD), which use it and show interesting yields. Next to it, the usage of option contracts has grown in recent years. The thesis evaluates the performance of the covered call strategy with a regular buy-and-hold strategy during the last two decades. Such a period of time offers not only enough observations but also contains periods of economic growth and decline. The thesis does not find evidence of a better performance of such a strategy, but it is argued that it is valuable under certain market conditions.

Contribution

The thesis provides evidence, mainly for retail investors, that the covered-call strategy does not significantly improve the returns but decreases the volatility of the portfolio, which might be the aim of some investors. Covered-call strategy is known in portfolio theory, and there is academic literature about including such a strategy in a portfolio, but the results of the thesis are new.

Methods

The thesis uses observed data and statistical methods to assess the portfolio performance, which is okay. It is also valuable that the dataset is split into several periods to see the performance of different strategies in the long run, but also under specific market conditions (bull and bear markets are different but in the long run, investors will experience both). I lack a bit more transparency in a few details, such as why 2% and 5% at-the-money option portfolios were chosen if, on page 14, different levels in existing literature are mentioned.

Literature

The author demonstrated knowledge of academic research devoted to option strategies and portfolio theory. Covered literature is more than sufficient for the bachelor thesis. The author quotes relevant literature in a proper way.

Manuscript form

The thesis is well-structured and formatted (Tomáš uses a standardized Latex template). The language used is easy to understand, yet some parts are very descriptive, and some information and details are omitted for the reader under the assumption that the reader is fully familiar with them.

Overall evaluation and suggested questions for the discussion during the defense

Tomáš worked on his thesis independently and only needed a few hints from my side. The topic as such is beyond the standard curriculum at IES, and I, therefore, requested that the basics of option contracts be also covered, and some parts would be described in more detail to show the understanding of the topic as well as for the sake of transparency and replicability of the analysis.

I have two remarks that are reflected in my evaluation and would improve the thesis:

- One shortcoming of the thesis is not using the knowledge described in the literature review in the conclusion, where the results of the thesis would be put into the framework of existing literature.
- Since the results show that some percentage of out-of-the-money options could improve the portfolio performance (page 31, 5% has a higher return and lower volatility than SPY), is there

Report on Bachelor / Master Thesis

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

some "optimal" level of share of OTM options in the portfolio? (Using just these two measures, I am aware that the distribution is another issue.)

During the defense, I would suggest that Tomáš elaborates on how his results extend existing academic literature and what his advice to retail investors would be based on the results presented in the thesis.

The results of the Urkund analysis do not indicate significant text similarity with other available sources.

In my view, the thesis fulfills the requirements for a bachelor thesis at IES, Faculty of Social Sciences, Charles University, I recommend it for the defense and suggest a grade B.

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

CATEGORY	POINTS
<i>Contribution (max. 30 points)</i>	25
<i>Methods (max. 30 points)</i>	25
<i>Literature (max. 20 points)</i>	18
<i>Manuscript Form (max. 20 points)</i>	16
TOTAL POINTS (max. 100 points)	84
GRADE (A – B – C – D – E – F)	B

NAME OF THE REFEREE: Petr Polák

DATE OF EVALUATION: 30. 8. 2023

*Digitally signed (30. 8. 2023)
Petr Polák*

Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Overall grading:

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F