Covered-call expiry cap

Option arithmetic | Original synthetic example | Edition 2026-11-26

Holding one underlying unit and selling one call against it caps the combined expiry proceeds above the strike. The premium cushions only part of a decline in the underlying.

FORMULA P/L = min(expiry price, strike) - stock entry + premium

SCENARIO 01: Synthetic expiry scenario; reference strike 100



WORKED EXAMPLE

Stock entry 100, call strike 110, premium 3: expiry profit caps at 13 per unit. No fees or settlement frictions.

COMMON MISTAKE

Calling the premium protection against all downside ignores the remaining stock loss.

BEFORE YOU USE THE CALCULATION

1. Match covered quantity.
2. Include the original stock basis.
3. Distinguish capped upside from downside exposure.

COMPARE TWO MORE INPUT SETS

Scenario 05: Synthetic expiry scenario; reference strike 140. Stock entry 140, call strike 150, premium 5: expiry profit caps at 15 per unit. No fees or settlement frictions.

Scenario 10: Synthetic expiry scenario; reference strike 190. Stock entry 190, call strike 200, premium 7.5: expiry profit caps at 17.5 per unit. No fees or settlement frictions.

Background context: Options Industry Council: Strategy education

Synthetic values are not historical market data. Educational material; trading can result in substantial losses.