

CALL Option:

A CALL option is an option contract giving the owner the right, but not the obligation to BUY a specified amount of an underlying security at a specified price within a specified time period. In general, 1 contract controls 100 shares of stock.

PUT Option:

A PUT option is an option contract giving the owner the right, but not the obligation, to SELL a specified amount of an underlying security at a specified price within a specified time period. In general, 1 contract controls 100 shares of stock.

COVERED CALL:

A covered call is an options strategy whereby an investor holds a long position in an asset and writes (SELLS) call options on that asset in an attempt to generate an income from that asset. ("Covered indicates that you own the underlying asset vs. "naked" when you don't own it.)

In a covered call transaction, you would SELL to OPEN the call option of your choosing.

Risks:

When you purchased the underlying stock, you took the biggest part of the risk. When you sell a call against it, the biggest risk is the possibility of losing out on upside potential since you will be obligated to sell your stock at the designated strike price. When you've sold a call, you have actually offset your risk by the amount of the premium sold. This is an extremely conservative strategy and is the only option transaction that can be executed in retirement accounts.