MARCH 2021

Concentrated Portfolio

Disciplined Management of Concentrated Stock

A Case Study

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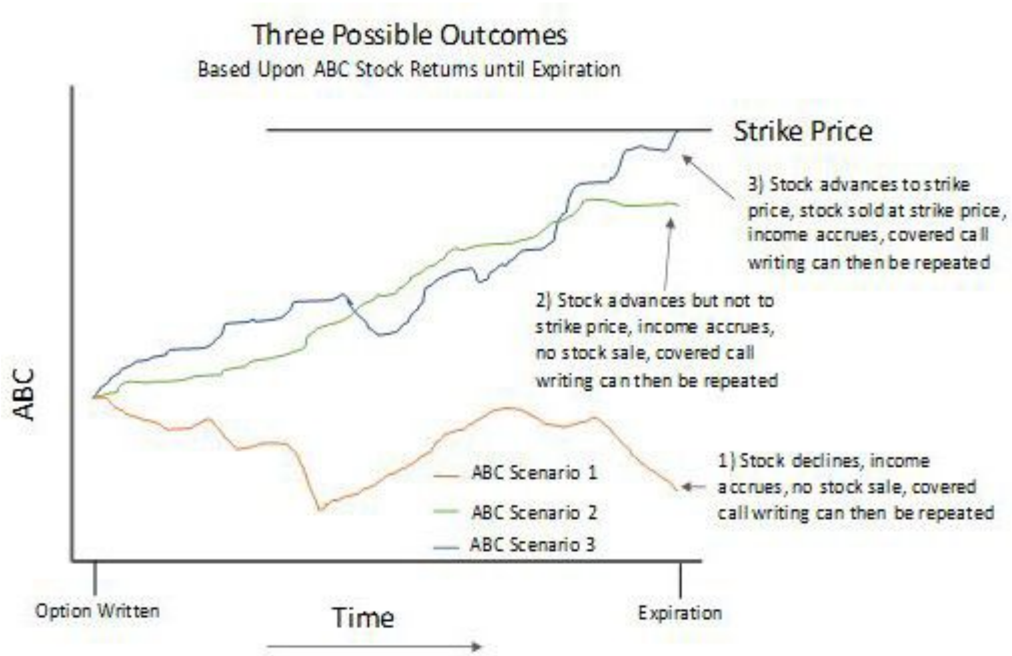
A recently retired chief executive officer has a large position in his former company's stock.

Rather than just selling his stock at various times and prices, the executive has committed to a covered-call strategy that entails selling upside call options to potentially sell 10,000 shares at higher-than-current prices. If the stock is above the call strike price at expiration, the stock is sold at an effective price that equals the strike price plus income received for selling the call. If the stock is not above the strike price at expiration, the retired CEO keeps the options premium and repeats the process.



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Result:

When the stock was at $100, the retired CEO sold call options, with strike prices 10% above the current stock value, that expire in one month. The call sale generated additional income of 0.8% for the month. If the stock moved slightly above the strike price (i.e., stock price rose 10.1%) at expiration, the shares would be sold due to the exercise of the call options. The total monthly return on the position would have been 10.8% vs. 10.1% in that month if calls were not sold. If the shares stayed below the strike price, the retired CEO would have kept the call option premium and could have repeated the process by selling more call options.

If the same process was repeated for one year with no calls being exercised, the retired CEO's return would be about 9.6% better than if the calls had not been sold.

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