KLF KNOWLEDGE SYSTEM

FINANCIAL STEWARDSHIP LIBRARY

FS-006

COVERED CALLS

Picking Your Income

Version 1.0 • Available Now

Getting Paid to Make a Promise.

Stewarding Spirit. Body. Wealth.
Eat To Live Forever

KINGDOM LIFE FITNESS

Covered Call Income

FS-006 · Version 1.0

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CHAPTER 1

COVERED CALLS: PICKING YOUR INCOME

You are getting paid to make a promise.

You own 100 shares. Someone pays you a premium. In exchange, you agree: “If you exercise this option, I will sell you my 100 shares at the strike price.” That's a covered call.

This is picking your income — not finding it, not predicting it, choosing it. You already own the asset. The only decision is whether you're willing to sell someone the right to buy those shares from you at a price you choose, in exchange for premium right now.

Never choose a strike price at which you would be upset to sell the shares.

That rule matters more than anything else in this guide, and it returns in Chapter 5 once strike selection is covered in full.

IN PLAIN LANGUAGE

> *FS-003 already introduced call-writing as a mechanism — how options-income ETFs like YieldMax funds generate distributions by selling calls against their holdings. This guide is that same mechanism from the inside: a reader executing it directly, on shares they personally own, not evaluating a fund that does it for them.*

CHAPTER 2

THE LANGUAGE OF THE TRADE

A working vocabulary, not a glossary to skim — every later chapter depends on these terms being solid first.

Term	What It Means
Underlying	The stock or ETF the option is written against.
Contract	One options contract represents 100 shares.
Premium	The payment received for selling the call.
Bid	What buyers are currently offering for the option.
Ask	What sellers currently want for the option.
Mark (Mid)	The midpoint between the bid and ask — often used as a reference price.
Strike	The price at which shares would be sold if assigned.
Expiration	The date the contract ends.
OTM / ATM / ITM	Out-of-the-money, at-the-money, in-the-money — relative to the current share price.
Assignment	The buyer exercising their right to purchase the shares at the strike price.

Bid, Ask, and What You Actually Receive

The bid shows what buyers are currently offering for the option. Your actual premium is determined by the price at which your sell order fills — not necessarily the quoted bid. The two are usually close, but treating the bid as a guarantee, rather than a starting reference, is a common and avoidable mistake.

CHAPTER 3

HOW THE MONEY WORKS

Premium × 100 shares × number of contracts

- $1.62 × 100 = $162 gross premium for 1 contract.
- $1.62 × 100 × 5 contracts = $810 gross premium for 5 contracts — requiring 500 shares as collateral.

A Real Worked Example: JOBY

The same math, followed through a real position from shares owned to the obligation actually created:

900 JOBY SHARES OWNED
↓
9 CONTRACTS
↓
$20.50 STRIKE
↓
AUG 8 EXPIRATION
↓
$1.15 PREMIUM
↓
$1,035 GROSS CREDIT

$1.15 × 100 × 9 = $1,035

THE OBLIGATION

If assigned, 900 JOBY shares are sold at $20.50 per share.

Notice the graphic doesn't end at the credit. The income and the obligation belong together — that pairing is the entire lesson of a covered call. The quoted $1.15 premium multiplied out to $1,035 gross; the actual estimated credit shown at order entry may differ slightly (for example, $1,034.62) once fees and the real fill price are reflected, the same bid/ask/fill distinction from Chapter 2.

PREMIUM RECEIVED IS NOT GUARANTEED PROFIT.

The overall covered-call position can still lose money if the stock falls enough. The premium is credited immediately; whether the full position is profitable depends on what the stock does afterward — the same distinction FS-003 taught with distribution rate: a number arriving in the account is not, by itself, proof of profit.

CHAPTER 4

CHOOSING THE STOCK OR ETF

Before any strike or expiration decision, the underlying itself has to be something worth owning on its own terms — not just a vehicle for generating premium.

- Own something genuinely comfortable to hold, **and** genuinely comfortable to potentially sell at the strike — both outcomes are real possibilities, not just the one that feels more likely today.
- **Liquidity** — option volume and open interest matter; a thinly-traded options chain can mean a wide bid/ask spread and difficulty getting filled at a fair price.
- **Bid/ask spread** — a direct, practical consequence of liquidity, checked before entering any trade, not after.

IN PLAIN LANGUAGE

Stock XYZ trading with wide $0.40 bid/ask spreads on its options is a harder, more expensive place to trade than a liquid name with $0.02 spreads — the spread itself is a real, quiet cost.

CHAPTER 5

CHOOSING THE STRIKE

The income-versus-upside trade-off, made concrete.

- A strike closer to the current price generally means more premium, but a higher chance of assignment and less room for the stock to run before being called away.
- A strike further from the current price generally means less premium, but more room to participate in the stock's upside before assignment becomes likely.

Never choose a strike price at which you would be upset to sell the shares.

If the strike price wouldn't feel like an acceptable sale price for those shares, it's the wrong strike — regardless of how attractive the premium looks. This is Chapter 1's rule, and it governs this decision more than any formula does.

CHAPTER 6

CHOOSING THE EXPIRATION

Options lose time value as expiration approaches — working in the seller's favor, since the call written is the one losing value.

- Shorter-dated contracts generally decay faster, in percentage terms, and require more frequent management.
- Longer-dated contracts commit the shares for longer, with less frequent decision-making required.

IN PLAIN LANGUAGE

30–45 days to expiration (DTE) is an example some traders use as a starting point, not a KLF rule. The right timeframe depends on volatility, the underlying, and how actively you want to manage the position.

CHAPTER 7

WHAT CAN HAPPEN NEXT

Three real outcomes — none of them a failure.

Expires Worthless

The stock stayed below the strike. The premium is kept in full, and the shares are still owned, free to write another call.

Assignment

The stock rose above the strike and the shares are sold at the strike price. Not something going wrong — one of the outcomes already agreed to when the call was sold.

Buy-to-Close / Rolling

Closing the position early, or rolling it to a new strike and expiration, if circumstances change before expiration.

CHAPTER 8

RISK & TRADE-OFFS

- **Capped upside** — if the stock rises well above the strike, the seller doesn't participate in gains beyond that price; the shares are sold at the strike regardless of how high the stock goes afterward.
- **Stock downside remains** — the premium provides some cushion, but it is a partial cushion, not protection. A significant decline in the underlying can still mean an overall loss, even after collecting premium.
- **Early assignment and dividend considerations** — assignment can, in some cases, happen before expiration, particularly around dividend dates.
- **Taxes** — premium income and any resulting sale of shares can carry different tax treatment; this is a place to consult a qualified professional, not a rule to memorize here.

CHAPTER 9

COVERED VS. NAKED CALLS

Short, and deliberately unambiguous.

Covered Call	Naked Call
Written against shares already owned.	Written without owning the underlying shares.
If assigned, shares already on hand are simply delivered.	If assigned, shares must be acquired on the open market — potentially at a much higher price.
Risk is defined by owning the stock.	Risk is theoretically unlimited.

KLF teaches the covered strategy only. This chapter exists to draw the boundary clearly, not to teach naked-call mechanics.

CHAPTER 10

THE KLF COVERED CALL FRAMEWORK

Underlying → Shares → Expiration → Strike → Bid/Ask → Premium → Assignment Test → Decision

- 1. Underlying — is this something I want to own and am willing to sell? (Chapter 4)
- 2. Shares — do I hold enough shares, in multiples of 100, to cover the contracts? (Chapter 3)
- 3. Expiration — what timeframe fits my management style? (Chapter 6)
- 4. Strike — income or upside — and would I be upset to sell here? (Chapter 5)
- 5. Bid/Ask — is the spread reasonable, and what will I actually receive? (Chapter 2)
- 6. Premium — what's the real, calculated credit — not the guaranteed profit? (Chapter 3)
- 7. Assignment Test — am I genuinely comfortable with every outcome in Chapter 7?
- 8. Decision — sell the call, or don't — documented, not just decided in the moment.

The Final Decision Test

Would I be comfortable owning these shares if the stock falls — and comfortable selling them at this strike if the stock rises? If either answer is no, that's information needed before selling the call, not after.

IN PLAIN LANGUAGE

> *Don't choose the premium first and rationalize the rest afterward. Start with the asset, understand the obligation, then decide whether the income is worth the trade-off.*

The underlying I'm considering:

____

What the framework revealed:

____

KLF PRINCIPLES

UNDERSTAND THE OBLIGATION

- Income is the result of accepting an obligation — understand the obligation before collecting the premium.
- Premium received is not guaranteed profit.
- Assignment is an outcome you agreed to, not a mistake to regret.
- Never choose a strike you'd be upset to sell at.
- KLF teaches covered calls only — the obligation is always backed by shares already owned.

APPENDIX

GLOSSARY

Term	Definition
Covered Call	Selling a call option against shares already owned, in exchange for premium.
Strike Price	The price at which shares would be sold if the option is assigned.
Premium	The payment received for selling the call; not the same as guaranteed profit.
Assignment	The buyer exercising their right to purchase the shares at the strike price.
DTE	Days to Expiration — how much time remains on the contract.
Time Decay	The loss of an option's time value as expiration approaches, generally favoring the seller.
Naked Call	A call sold without owning the underlying shares; carries theoretically unlimited risk. Not taught by KLF.

KNOWLEDGE SYSTEM

Continue Your Long-Term Stewardship

KLF KNOWLEDGE SYSTEM

NEXT RECOMMENDED MODULES

After completing FS-006: Covered Call Income, continue with:

FS-007 — Precious Metals

FS-008 — Building Generational Wealth

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