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BMO ETFs

Your Guide to Covered Call Investing

Erin Allen
VP, ETF Online Distribution
BMO ETFs

Zayla Saunders
Sr. Associate, ETF Online Distribution
BMO ETFs

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As with all investments, your capital is at risk

YOUR GUIDE TO ENHANCED CASH FLOW WITH COVERED CALL ETFs

ETF MARKET INSIGHTS

BMO Exchange Traded Funds

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TODAY'S SPEAKERS

Erin Allen

VP, Online Distribution, BMO ETFs

Zayla Saunders

Sr. Associate, Online Distribution, BMO ETFs

BMO Exchange Traded Funds ETF MARKET INSIGHTS

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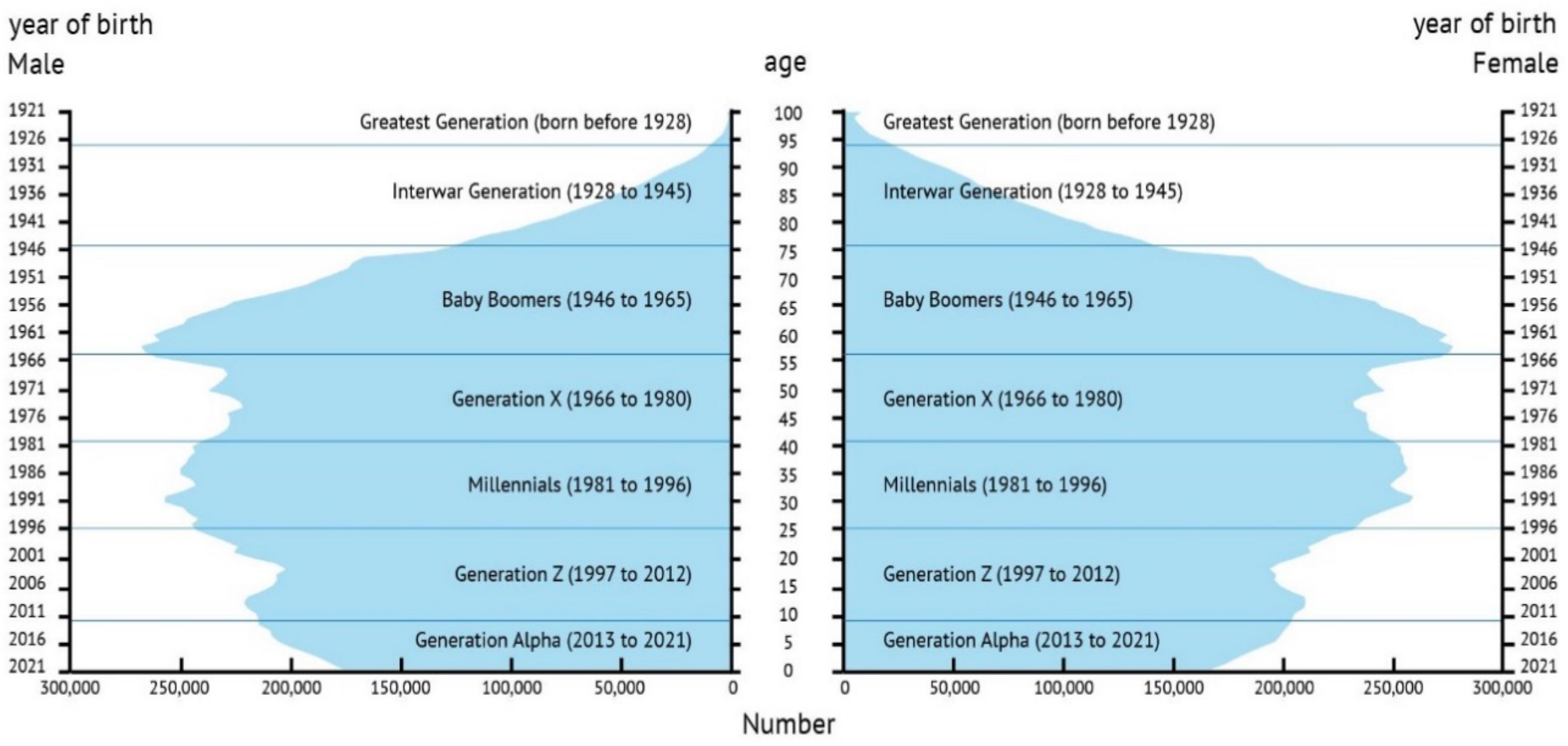
SHIFTING DEMOGRAPHICS & INCREASED NEED FOR CASH FLOW

Age Pyramid of the Canadian Population (2021)



Source: Statistics Canada, Census 2021

THE COVERED CALL STRATEGY

THE BENEFITS

BMO'S STRATEGY

BALANCING INCOME & GROWTH

MARKET VOLATILITY

RESOURCES

DETAILS OF OPTIONS CONTRACT

> A call option is an agreement. It is a contract that gives an investor the **right**, but not the obligation, to **buy**:

- A specific underlying (stock, ETF, etc.)
- At a specified price
- Within a specific time period.

> To obtain this right, the buyer of the call option must pay a premium ($) to the seller of the option.

> If the buyer of the call option decides to **exercise** their right, the seller of the call option will have to sell the specified quantity of the underlying asset, at the specified price in the contract.

DETAILS OF OPTIONS CONTRACT

> **Type of option**
Call option or Put option.

> **Underlying**
Is the asset (stock or ETF) that must be delivered if call option is exercised.

> **Expiration date**
Is the last day that an options contract is valid. Most of the option contracts are ending on the Saturday following the 3rd Friday of the month.

> **Strike price**
Is the price at which a specific option contract can be exercised.

> **Premium**
Price of the option multiplied by the number of contracts multiplied by 100. ($5 x 2 x 100 = $1,000).

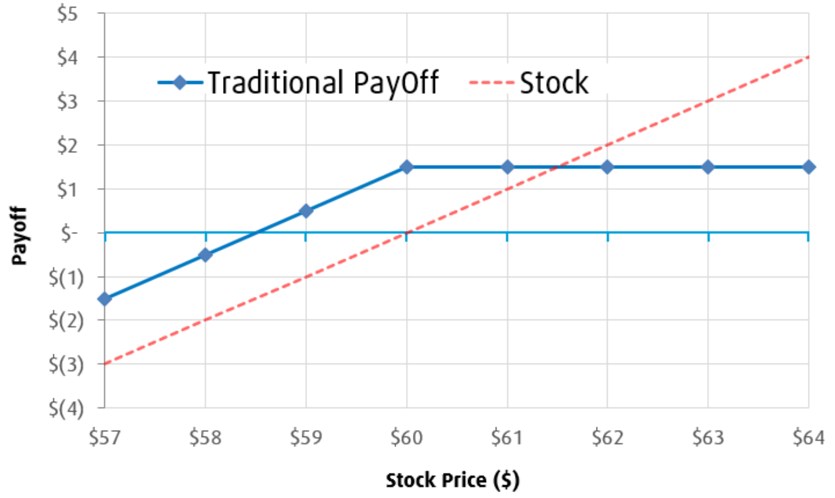
THE COVERED CALL STRATEGY

- Holding a stock and selling (writing) a call option on the underlying stock
- Selling a call option gives the buyer the ability to purchase a stock at a later date at an agreed upon price (the strike price)
- By selling the option, the portfolio receives a premium, providing additional cash flow

Covered call strategies are efficient solutions that can add yield to a portfolio without increasing equity risk

THE COVERED CALL STRATEGY

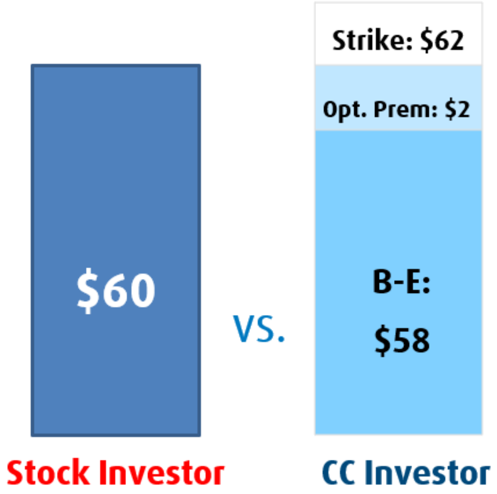
Example illustrating the payoff of a **traditional covered call strategy** vs. a **buy-hold strategy**



For illustrative purposes only

Step 1: Hold the stock

Step 2: Write a call option(s) on those shares.



THE BENEFITS

Generating consistent yield	• The extra option premium **enhances** yield on top of the stock dividends
Tax-efficient*	• The income generated from writing call options is taxed as **capital gains**
Lowers Volatility	• Additional income collected from the options market can **offset** potential losses on the stock position
Rinse and Repeat Monthly	• If the options are not exercised, you **keep** the shares and the premium. Rinse and Repeat.

*As compared to an investment that generates an equivalent amount of interest income

THE COVERED CALL STRATEGY

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DIY vs. ETF?

- ✓ ETF SAVES TIME
- ✓ ETF SAVES MONEY – COST EFFICIENCIES
- ✓ ACCESS TO EXPERIENCED PMs

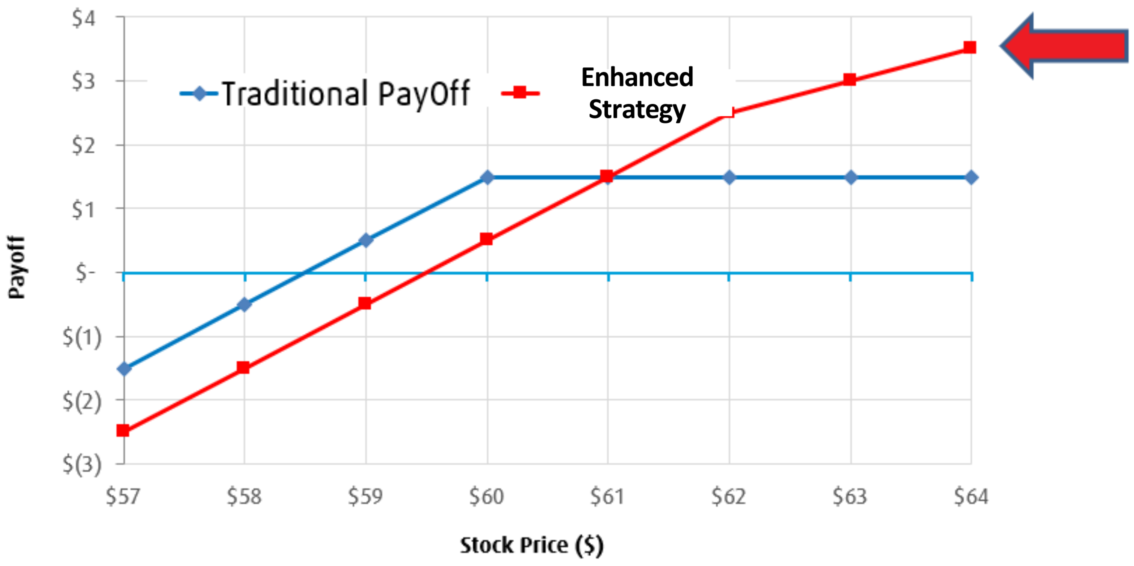
BMO Exchange Traded Funds

ETF MARKET INSIGHTS

AN EFFECTIVE STRATEGY

Comparing Strategies:
An Example of Traditional vs. Balancing Cashflow and Growth

- 50% of the portfolio is covered
- Use Out-of-The-Money (OTM) options
- Use Short- Term options (1 to 3 months)



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THE COVERED CALL STRATEGY
THE BENEFITS
AN EFFECTIVE STRATEGY
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WHY THE STRATEGY IS EVERYTHING

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- 50% of the portfolio is covered
- Use Out of The Money (OTM) options
- Use Short- Term options (1 to 3 months)

Option Yield Scenario Table

		Implied Volatility			
		10%	15%	20%	25%
OTM	2.0%	2.1%	4.9%	8.0%	11.3%
	3.0%	1.1%	3.4%	6.2%	9.3%
	4.0%	0.6%	2.3%	4.7%	7.5%
	5.0%	0.2%	1.5%	3.5%	6.1%
	6.0%	0.1%	0.9%	2.6%	4.8%
	7.0%	0.0%	0.6%	1.9%	3.8%

Source: BMO AM, Black-Scholes option pricing model assuming 50% portfolio coverage; *OTM = Out of the money

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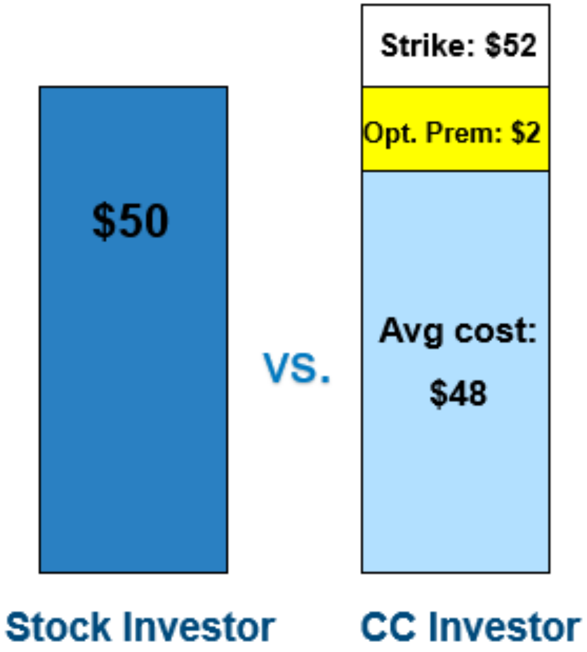
ETF MARKET INSIGHTS

MARKET ENVIRONMENT MATTERS

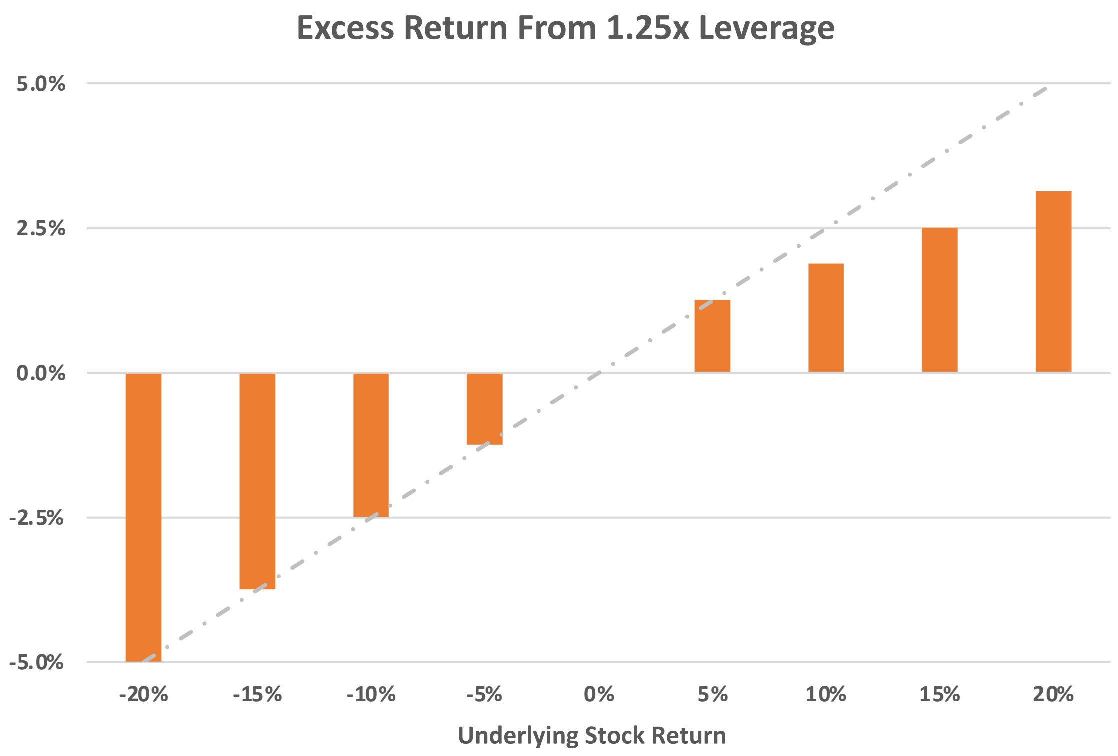


Market Condition (Hypothetical: share price)	Stock Investor	CC Investor
Down Market ($49)	Underperform	Outperform
Sideways Market ($50)	Underperform	Outperform
Rising Market ($51)	Outperform	Outperform
Strong Risk Market ($55)	Outperform	Underperform

For illustrative purposes only.

WATCH OUT FOR…

- **Leveraged covered calls**
  - Applying leverage to a deleveraged strategy is inefficient
  - Due to upside capping, leveraged exposure is asymmetric to the downside
  - Higher interest rates (cost of borrowing) leaves little yield advantage
- **Double fees on certain funds-of-funds**
  - Also need to keep an eye on TER (trading efficiency)
- **Lack of transparency**
  - One of the primary benefits of ETFs



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Quickly find ETFs that meet your needs using a comprehensive search of all Canadian listed ETFs.

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Proposal Generator

Create customized portfolios using BMO ETFs

GET STARTED

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