

Home ▶ All Journals ▶ Journal of Behavioral Finance ▶ List of Issues ▶ Volume 13, Issue 1 Behavioral Aspects of Covered Call Writi ....

Iournal of Behavioral Finance > Volume 13, 2012 - Issue 1

457 11

Views CrossRef citations to date Altmetric

**ARTICLES** 

# Behavioral Aspects of Covered Call Writing: An Empirical Investigation

Arvid O. I. Hoffmann & E. Tobias S. Fischer

Pages 66-79 | Published online: 14 Mar 2012

**66** Cite this article ▶ https://doi.org/10.1080/15427560.2012.657314



Full Article

Figures & data

References

**66** Citations

**Metrics** 

➡ Reprints & Permissions

Read this article

## **Abstract**

Various explanations for the popularity of covered call option strategies have been explored in the literature. According to Shefrin and Statman [1993], framing and risk aversion can help justify its attractiveness to investors. Applying prospect theory and hedonic framing, these authors predict that in a world of frame dependence an investor that is sufficiently risk averse in the domain of gains will prefer a covered call position vill be preferred despite

About Cookies On This Site identica

covered

complet

pron cash \

for a rela covered

covered

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our Privacy Policy

and Accept All idence to Essential Onlence for a h equal net Settings evidence ence for ion and

required.

Q Keywords: Behavioral finance Covered call writing Risk aversion Framing Options

## **ACKNOWLEDGMENT**

The authors would like to thank the editor, an anonymous reviewer and Hersh Shefrin for their constructive guidance and comments on earlier versions of this paper.

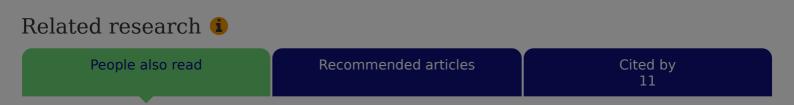
## Notes

with a s

- 1. The term covered call generally refers to overwrites, i.e. to short a call option on a stock that one already owns, as well as buy-writes, that is, to first buy a stock and then to short a call option on this stock (Figlewski, Silber and Subrahmanyam [1990]).
- 2. For more information about these products, see <a href="https://www.euronext.com">www.euronext.com</a>.
- 3. The BMX is a hypothetical buy-write strategy that entails the simultaneous purchase of the S&P 500 and the shorting of an at-the-money S&P 500 Index call option (ww.cboe.com).
- 4. While the Sharpe ratio measures return relative to upside and downside variability, the Sortino ratio measures return only relative to its downside variability. It is used as a measure of risk-adjusted return (Sortino and Forsey [1996]).
- 5. The Upside Potential Ratio is defined as the upside potential over the downside risk measure. As such, it is used to identify strategies with stable growth for a given

minimur About Cookies On This Site Accept All 6. We th e value We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised Essential Onl<sup>2</sup>]) may also function features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate drive oncur, but on the web or interact with us across devices. You can Settings choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect 7. DRCs ular bonds from you, please see our Privacy Policy

- 8. We thank an anonymous reviewer for noting that in case probabilities are small, not 50–50 as in Shefrin and Statman [1993] and here, investors may exhibit risk seeking in the domain of gains, even with concave utility.
- 9. We thank an anonymous reviewer for noting that our graphical display of the binominal case used by Shefrin and Statman [1993] may mask the true payoff pattern of covered calls (e.g., Figure 2). Future research should employ more realistic examples that also include intermediate payoffs.



### About Cookies On This Site



We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our <a href="Privacy Policy">Privacy Policy</a>

Accept All

Essential Onl

Settings

Information for

Authors

R&D professionals

**Editors** 

Librarians

Societies

Opportunities

Reprints and e-prints

Advertising solutions

Accelerated publication

Corporate access solutions

Open access

Overview

Open journals

**Open Select** 

**Dove Medical Press** 

F1000Research

Help and information

Help and contact

Newsroom

All journals

Books

## Keep up to date

Register to receive personalised research and resources by email



Sign me up











Copyright © 2024 Informa UK Limited Privacy policy Cookies Terms & conditions

Taylor & Francis Group an informa business

Accessibility

Registered in England & Wales No. 3099067 5 Howick Place | London | SW1P 1WG

### About Cookies On This Site



We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our <a href="Privacy Policy">Privacy Policy</a>



Essential Onl

Settings