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ARTICLES

Behavioral Aspects of Covered Call Writing: An Empirical Investigation

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Abstract

Various ... e been explored ... g and risk aversion ... heory and hedonic ... e an investor that is s ... all position over a s ... erred despite identical ... and cove ... vidence to compl ... ence for a pronoun ... h equal net cash flo ... evidence for a rel ... ence for covered ... ion and covered ... required.

Keywords:

Behavioral finance Covered call writing Risk aversion Framing Options

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Notes

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 www.cboe.com or www.euronext.com.

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.cbo

4. While ... variability, the Sorti ... is used as a measure

5. The U ... wnside risk measure ... iven mini

6. We th ... e value function ... 9]) may also drive inv ... oncur, but an inves

7. DRCs ... ular bonds with a short put option on stocks (Breuer and Perst [2007]).

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.