

MCD Daily Chart – Covered Call Example #1



NOTES ON McDONALD'S (MCD) Covered Call

1. Around June 2, 2003, MCD breaks out through a resistance level established back in late Nov. early Dec. 2002 after failing to break that resistance level in mid May 2003.
2. MCD climbs up from \$20.00 to the \$25.00 range in a slow gradual uptrend step like pattern. This type of pattern is an opportunity for buy-writers because this type of gradual rise normally brings about a decreasing implied volatility period which is great for premium selling.

3. Notice the size of the daily vertical lines during the period from mid-August 2003 to December 2003. The size of the lines represents the daily trading range of the stock. As you can see, the lines are very short which indicates that the stock does not move much intra-day. Again, this is an indication of decreasing volatility which is a positive sign for buy-writers.

Conclusion: The two most prominent and noticeable patterns both bode well for buy-writers. The covered call strategy does not need a lack of movement, as much as slow, consistent non-volatile movement.

So, in the case of McDonalds above, the slow trending movement of the stock brings about a decreasing volatility. Added to this is the contraction of intra-day movement, as shown by the decreasing range of daily trading.

These two factors each contribute to decreasing volatility and provide an opportune time to write a covered call. This is the type of pattern that offers both capital appreciation as well as premium returns.

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