ADA As Produced Script
[Music and various on screen images in background throughout] **On screen disclosures:** **Supporting documentation for any claims, comparison, recommendations, statistics, or other technical data, will be supplied upon request.** **Merrill, its affiliates and financial advisors do not provide legal, tax or accounting advice. You should consult your legal and/ or tax advisors before making any financial decisions.** Merrill Lynch, Pierce, Fenner & Smith Incorporated (also referred to as “MLPF&S” or “Merrill”) makes available certain investment products sponsored, managed, distributed or provided by companies that are affiliates of Bank of America Corporation (“BofA Corp.”). MLPF&S is a registered broker-dealer, member SIPC, and a wholly owned subsidiary of BofA Corp. Investment products: **Are Not FDIC Insured** | **Are Not Bank Guaranteed** | **May Lose Value** 3768672 On screen copy: Merrill® logo On screen copy: So why **do** people trade options? **On screen disclosure:** **NOTE:** The securities in this video are fictional. Everyone's situation is different, and this video is not financial advice. Do your own research. People trade options for a variety of reasons. One reason to trade options is to generate income. On screen copy: Generating Income Investors can sell options against shares they own and collect the premiums This is commonly done by selling call options against shares you own, and collecting the premiums from the buyers. This strategy is called a covered call. On screen copy:

A little background before we begin…

Before we explain how this strategy works, we would like to make you aware of some key concepts:

On screen copy:
Covered Call Strategy
Bullish
Bearish
Neutral

A covered call strategy can be bullish, bearish, or neutral.

On screen copy:
Call
Right to buy
1 Contract
100 Shares
Strike Price
Agreed price
Expiration Date
Time frame
The seller of a call is obligated to sell 100 shares at the strike price

A call represents the right to buy stock. The seller of a call is obligated to sell that stock. Each contract represents 100 shares, has an agreed upon price known as the strike price, and an expiration date, which is the seller's obligation period.

On screen disclosure:
Every example that we use is for illustrative purposes only and we do not include any commission and fees.

On screen copy:
OPTIONS CONTRACT
$50
XYZ Stock
100 Shares
Your Outlook — Long Term Bullish

Imagine you purchased 100 shares of XYZ at $50.00 a share. You feel bullish about this company long term, but you don't expect it to make any big moves in the near term. Based on this belief, you decide to sell a call, which is a type of option contract.

On screen copy:
Selling a Covered Call
PREMIUM $6.00
XYZ STOCK PRICE
YOUR PURCHASE PRICE $50.00
STRIKE PRICE $75.00
BREAK EVEN
TODAY
END OF OBLIGATION PERIOD

On screen disclosure:
For illustrative purposes only, not an actual investment. Example does not include trade commissions or other fees

When you sell the contract, you set an agreed upon price, called the strike price and an expiration date which is your obligation period. You immediately collect the premium for that contract.

On screen copy:
Selling a Covered Call
PREMIUM $6.00
XYZ STOCK PRICE
Break Even = $44.00 (stock purchase at $50.00 minus premium received of $6.00)
Max Gain = Premium ($6.00) + Strike Price ($75.00) - Stock Purchase Price ($50.00) = $31.00/Share
Max Loss = Purchase Price ($50.00) - Premium ($6.00) = $44.00/Share
YOUR PURCHASE PRICE
STRIKE PRICE $75.00
MARKET PRICE $70.00
BREAK EVEN
TODAY
END OF OBLIGATION PERIOD

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[Line graph shows market price staying under the strike price for the duration of the obligation period]

If the stock never goes above the strike price you set, the option expired worthless and the money you collected is yours to keep. You can think about it like a discount on your purchase of 100 shares.

On screen copy:

Selling a Covered Call
PREMIUM $6.00
XYZ STOCK PRICE
Break Even = $44.00 (stock purchase at $50.00 minus premium received of $6.00)
Max Gain = Premium ($6.00) + Strike Price ($75.00) - Stock Purchase Price ($50.00) = $31.00/Share
Max Loss = Purchase Price ($50.00) - Premium ($6.00) = $44.00/Share
YOUR PURCHASE PRICE
MARKET PRICE $80.00
STRIKE PRICE $75.00
BREAK EVEN
TODAY
END OF OBLIGATION PERIOD

On screen disclosure:
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[Line graph shows market price rising above strike price at the end of the obligation period]

If, however, the stock goes above that price, and the buyer chooses to execute, you will have to sell your shares at the strike. However, you still keep the premium.

This is why selling a covered call is one way option traders generate income.

On screen copy:
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[End of transcript]