Five Questions Before Buying a Covered-Call ETF

A practical retirement-income checklist from The Practical Retiree Lab. Covered-call income can look simple, but the option premium is a price, not a gift.

Why this matters

Many retirees are attracted to high advertised yields. The problem is that yield alone does not tell you total return, risk, tax cost, upside cap, or whether the fund is slowly giving back capital.

Ask these five questions

- **What is the total return after distributions?** A large monthly payout can still be paired with poor long-term growth or falling net asset value.
- **How much upside is being sold away?** A covered call collects premium partly because the seller gives up some future gain.
- **Is the distribution income, return of capital, or both?** The label matters less than the economics, but taxes and expectations matter.
- **What happens in a strong bull market?** The strategy may lag badly when the underlying asset rises quickly.
- **What happens in a serious bear market?** Option income may soften losses, but it does not eliminate market exposure.

Plain-English warning

Do not confuse cash flow with profit. A fund can send you money every month while the value of your investment fails to keep up.

A better comparison

Compare any covered-call fund with a simple alternative: Treasury bills, a bond ladder, a broad index fund, or a balanced retirement allocation. Ask what risk you are accepting for the extra yield.