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Generate Income From Stocks You Own: Exploring the Benefits of Covered Calls

The quest for both income and capital appreciation can feel like a balancing act. The covered call strategy can help, as it's an investment technique using commonly-traded derivatives that offers the potential to enhance portfolio returns while managing risk. Here are four reasons why incorporating covered calls could be a compelling addition to your investment strategy:

Enhancing Returns With Income: If you're looking to gain some additional income from shares of stock you currently own, a covered call strategy may work for you. In a covered call, you sell (or "write") a call option on shares you currently own. The call option grants the buyer the right (not the obligation) to purchase your shares at a specific price, called the strike price, by a certain date (expiration date). Regardless of the stock's price movement, you keep the premium received for selling the option, effectively generating an additional income stream while maintaining exposure to potential capital appreciation.

Navigating Volatility With a Strategic Level of Protection: If you're worried about market downturns, covered calls can provide a buffer. Even if the stock price dips, you've made some money by selling the call — the option premium helps to mitigate potential losses. This risk-mitigation benefit is particularly valuable for income-oriented investors seeking stability alongside growth potential.

Is a covered call strategy right for you?

Consider a covered call strategy if you're seeking:

- Enhanced income generation from existing holdings
- Strategic risk management during market volatility
- Control over your risk-reward profile through flexible strike prices and expirations

Talk to a qualified financial advisor about how you can add covered calls to your portfolio.

Tailored Risk Management and Controlled Gains: Unlike some options strategies, covered calls offer granular control. By carefully selecting the strike price and expiration date, you can tailor the strategy to your risk tolerance and investment goals. A lower strike price translates to higher upfront income but limits potential capital gains (because you may have to sell the stock at the strike price). Conversely, a higher strike price and longer expiration date offer greater upside potential but lower immediate income. This flexibility allows you to strike a personalized balance between income generation and growth.

A Straightforward Approach, With Some Nuances: While options strategies can be complex, covered calls are relatively straightforward. Their core mechanics are easily understood, allowing you to actively manage your portfolio and strategically generate income. However, it's crucial to recognize that covered calls involve specific risks and tax implications. A qualified financial advisor can help you navigate these nuances and help ensure the strategy aligns with your overall investment plan.

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Remember, no investment strategy is without its drawbacks:

Capped Upside Potential: The tradeoff for generating income is potentially limiting your gains. If the stock price surges beyond the strike price, you may have to sell the stock at the strike price — and you miss out on those additional profits.

Early Assignment Risk: The option buyer may choose to exercise their right to purchase your shares before the expiration date, forcing you to sell even if you didn't intend to.

Tax Implications: Covered calls have unique tax consequences, requiring careful consideration and potentially professional guidance.

Remember, thorough research, a clear understanding of the risks involved, and potentially consulting a financial advisor are crucial before implementing any options strategy. By strategically incorporating a covered call strategy, you can potentially unlock hidden income potential within your portfolio while maintaining control over your risk exposure.

To determine if this Fund is an appropriate investment for you, carefully consider the Fund's investment objectives, risk factors, and charges and expenses before investing. This and other information can be found in the Fund's prospectus, which may be obtained by calling 800.994.0755. Please read the prospectus carefully before investing.

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