Why Fear Pays: The Case for Put Writing over Call Writing

Published October 2, 2025

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Key Takeaways

- Behavioral finance and historical data support put writing over call writing, with the Cboe S&P 500 PutWrite Index (PUT Index) outperforming the Cboe S&P 500 BuyWrite Index (BXM Index) by about 1% annually over the past decade.

- For investors seeking higher income and better rebound participation in volatile markets, the WisdomTree Equity Premium Income Fund (WTPI)'s approach to harvesting volatility premiums may offer a more compelling long-term alternative to covered call strategies.

Walk into the options aisle of the exchange-traded fund supermarket and you'll notice something striking. There's a wall of covered call funds, where over $60 billion in assets now sit, with new entrants popping up almost weekly.1 Looking at the Morningstar Equity Derivative Income category2:

- **In the first half of 2025**, Morningstar reports that **over $29 billion** flowed into *derivative income strategies*, making it **the top category** for active ETF flows in that period.
- **In May 2025**, **derivative income funds** recorded their **largest monthly net inflow ever**, **of more than $6 billion.**

The pitch is seductive in its simplicity: high potential income, lower potential volatility, capped upside. For many investors, it feels like a source of "free yield" without too much extra thought.

But simplicity can sometimes hide better opportunities. Years ago, WisdomTree asked a different question. Instead of following the herd into call writing, we launched one of the first option-income ETFs that sells **puts** instead of calls. It wasn't because it was easier to explain, or because it was trendy. It was because the data suggested it was the better way to deliver outcomes for investors.

And that brings us to a simple but powerful truth: over long periods, selling puts has historically produced more income and more return than selling calls.3 The reason why comes down to human behavior, market structure and the timeless tendency for investors to overpay for protection against the thing they fear most, a crash.

Why Investors Understand Covered Calls Instinctively

Covered calls feel natural. Many investors are already long stocks. Selling calls against those positions is easy to conceptualize: "I get paid a premium, I give up some upside and I smooth out the ride."

It's like renting out the attic of a house you already own. You collect rent, but if the tenant wants to buy the attic outright later, you don't get to live there anymore. Simple trade-off.

No wonder asset managers rushed in: it's easy to market, intuitive to explain and backed by billions in investor demand.

Why Put Writing Feels Foreign

Put writing, by contrast, sounds riskier and less familiar. If covered calls are renting out your attic, put writing is like selling insurance on your neighborhood. You get paid a premium every month from everyone who worries their house might catch fire. Most months, you pocket that premium with no issue. Occasionally, something bad happens and you pay out.

The twist? Because people fear fires more than they value attics, the insurance business is far more lucrative than the rental business.

That's the core of put writing: you are selling downside insurance to the market and insurance buyers consistently overpay.

The Behavioral Foundation: Fear Has a Premium

Investors chronically pay up for strategies that may provide downside risk mitigation. Institutions and portfolio managers buy puts to hedge equity portfolios. Individuals buy them for peace of mind.4 Insurance demand is relentless.

This creates what's known as a volatility skew, in that out-of-the-money (OTM) puts usually cost more, relative to equidistant calls. In other words, investors fear the downside more than they covet extra upside, so they'll pay a higher price to insure against it.

Behavioral finance explains this neatly: loss aversion. The pain of losing $1 is about twice as strong as the joy of gaining $1.5 Markets, being human at their core, reflect that asymmetry.

Put sellers capture that premium. Call sellers, by contrast, harvest less because demand for upside exposure is weaker.

The Data: Decades of Evidence

The numbers bear it out. The Cboe maintains benchmarks for both strategies:

- **Cboe S&P 500 PutWrite Index (PUT Index)** (cash-secured put writing, at-the-money):
  - 10-year annualized return: **7.2%** (through July 31, 2025)6
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- **Cboe S&P 500 BuyWrite Index (BXM Index)** (at-the-money covered call):

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That's about a **1% annual advantage** for put writing, remarkably persistent across decades. Longer studies also support this performance gap.8

One percent may not sound like much, but compounded over decades, it's the difference between an investment that feels "income-generating" and one that's genuinely wealth-compounding.

From Concept to Comparison

Understanding the behavioral and historical edge of put writing is step one. Step two is seeing how this plays out in practice. In the follow-up, we'll put the WisdomTree Equity Premium Income Fund (WTPI) side-by-side with another put-writing strategy to see how their income profiles and market performance differ.

1 Source: Morningstar.

2 Source: "Derivative Income Strategies Top Active ETF Flows in First Half of 2025"; "Derivative Income Funds See a RecordHigh $6 Billion Inflow in May," Morningstar, 2025.

3 Source: E. Szado & K. Black, "Performance Analysis of Options-Based Equity Mutual Funds, Closed-End Funds, and Exchange-Traded Funds," Journal of Wealth Management, Summer 2016.

4 Source: "Understanding the Volatility Risk Premium," AQR Capital Management, May 2018.

5 Source: D. Kahneman & A. Tversky, "Prospect Theory: An Analysis of Decision under Risk," Economet-rica, March 1979.

6 Source: Cboe Exchange, Inc. "Cboe S&P 500 PutWrite Index (PUT)," cboe.com, 7/31/25.

7 Source: Cboe Exchange, Inc. "Cboe S&P 500 BuyWrite Index (BXM)," cboe.com, 7/31/25.

8 Source: C. Shalen, "The BXM and PUT Conundrum," cboe.com, 2015.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. The Fund will invest in derivatives, including S&P 500 Index put options (“SPX Puts”). Derivative investments can be volatile, and these investments may be less liquid than securities, and more sensitive to the effects of varied economic conditions. The value of the SPX Puts in which the Fund invests is partly based on the volatility used by market participants to price such options (i.e., implied volatility). The options values are partly based on the volatility used by dealers to price such options, so increases in the implied volatility of such options will cause the value of such options to increase, which will result in a corresponding increase in the liabilities of the Fund and a decrease in the Fund’s NAV. Options may be subject to volatile swings in price influenced by changes in the value of the underlying instrument. The potential return to the Fund is limited to the amount of option premiums it receives; however, the Fund can potentially lose up to the entire strike price of each option it sells. Due to the investment strategy of the Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund’s prospectus for specific details regarding the Fund’s risk profile.