

MONEY MYTHS SERIES

Covered Call ETFs as a Paycheck: What the 50% to 100% Yields Really Are

Covered call ETFs like QYLD, TSLY and MSTY advertise 12% to 100% yields. Their own filings show return of capital, NAV erosion and how the payouts are taxed.

By Eric Ridley, attorney, Ridley Law · Updated September 2026 · Read online with live links: ridleylawoffices.com/covered-call-etf/

Part of our [money myths series](#), where we look at the money advice that spreads on Instagram, TikTok and YouTube and ask who gets paid when you follow it.

The pitch: "This ETF pays 50%, 80%, even 100% a year. Buy enough shares and live off the weekly paycheck."

The verdict: Most of that "yield" is your own money coming back. The funds' own notices estimate recent payouts at about 99% to 100% return of capital, and the share prices of two popular single-stock funds have fallen more than 80% since launch (YieldMax and Global X filings, 2026). A distribution you spend while the share price shrinks is a slow withdrawal, not a paycheck.

100.43%

MSTY's distribution rate, against a 0.96% SEC yield (Sept. 2026)

-88.7%

TSLY's split-adjusted share value, \$200.00 at its 2022 launch to \$22.70 (fund data, Oct. 2026)

98.76%

of QYLD's Sept. 2026 payout estimated as return of capital (19a notice)

**\$22,502 vs.
\$61,176**

\$10,000 in QYLD vs. the Nasdaq-100 over 10 years (QYLD annual report, 2025)

\$110 billion+

in derivative-income funds (Morningstar, 2025)

\$50.1 million

advisory fees QYLD paid its manager in one year (FY2025)

Who gets paid when you follow this advice

- **The fund manager, every year, whatever happens to you.** In fiscal 2025, QYLD paid \$50.1 million in advisory fees, MSTY \$32.0 million and TSLY \$10.8 million, according to their annual reports. The funds' expense ratios run 0.60% (QYLD) to about 1.03% and 1.07% (MSTY and TSLY), higher than a typical index fund.
- **The promoters.** Bloomberg reported in 2025 that YieldMax sponsored a finfluencer event at the Nasdaq and that its funds drew about \$5 billion of inflows in the weeks that followed.
- **The channel selling "income portfolios."** The videos showing a weekly payout screenshot sell memberships, courses and broker referrals. The payout screenshot doesn't show the share price.

Tidal, the adviser behind YieldMax, has said as much. Its co-founder told Bloomberg, "People who are only trying to get the upside should not buy YieldMax products."

How do covered call ETFs pay such high yields?

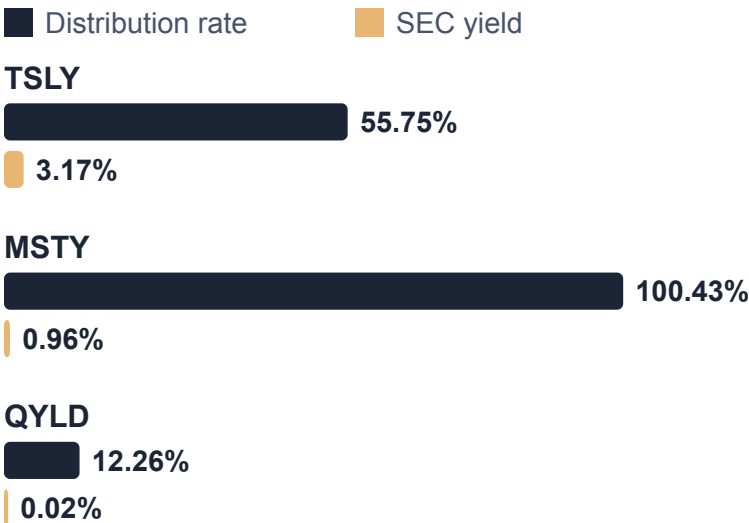
They sell call options on a stock or index and pay out the premiums, plus, when premiums fall short, part of your own investment; the payout isn't a yield in the usual sense (YieldMax and Global X disclosures).

A covered call trades away a stock's upside for cash now. The fund owns the stock, or a synthetic version of it, and sells someone else the right to buy it at a higher price. The buyer pays a premium. If the stock jumps, the fund's gain is capped. If the stock falls, the fund takes the loss, cushioned only by the premium. TSLY's own fund page says the strategy "will capture only a portion of its potential gains" if Tesla rises, while the fund stays exposed to Tesla's declines.

Roni Israelov and Lars Nielsen, writing in the Financial Analysts Journal, listed "covered calls generate income" among their covered-call myths. The premium is real cash, but it's payment for taking on a liability, not income in the sense a bond coupon is. They also showed that the higher premiums on volatile stocks don't mean a higher yield. They mean more risk.

What's the difference between a distribution rate and a yield?

The distribution rate takes the latest payout, annualizes it and divides by the share price; the SEC 30-day yield measures net investment income and excludes option income, and for TSLY in September 2026 they were 55.75% and 3.17%.



Sources: YieldMax fund pages and Global X QYLD fact sheet. The funds define the SEC yield as net investment income, which excludes option income.

Fund	Distribution rate	30-day SEC yield	As of
TSLY	55.75%	3.17%	Sept. 30, 2026
MSTY	100.43%	0.96%	Sept. 30, 2026
QYLD	12.26% (12-month trailing)	0.02%	Aug. 31, 2026

The funds define both terms on their own pages. YieldMax says its distribution rate "represents a single distribution from the ETF and does not represent its total return," and that its SEC yield "represents net investment income, which excludes option income." The influencer quotes the first number. The second one is closer to what the fund earned in income.

The SEC's staff has flagged this problem for years. A 2007 staff compliance alert warned that a high distribution rate made largely of return of capital might lead investors to conclude the fund's total return is high when it isn't.

What does return of capital mean on a covered call ETF?

It means the fund is handing back part of the money you invested; QYLD's September 2026 notice estimated 98.76% of that month's payout came from return of capital.

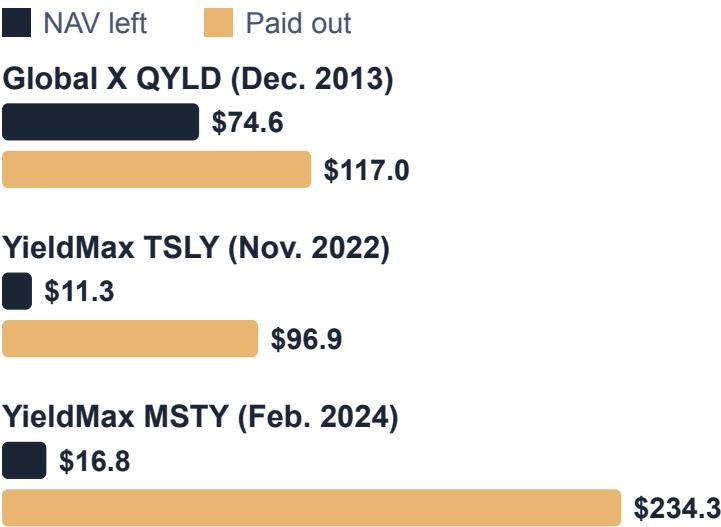
When a fund pays out more than it earns, federal law requires a written notice telling shareholders where the money came from (Investment Company Act section 19(a)). QYLD's notice says plainly that a return of capital "does not necessarily reflect QYLD's investment performance and should not be confused with 'yield' or 'income'." YieldMax's pages show the same thing for the single-stock funds: TSLY's September 30, 2026 distribution was estimated at 100.00% return of capital, and MSTY's at 98.87%.

The notices are estimates, and the final tax character can be very different. QYLD's own notice warns its figures "are only estimates and are not being provided for tax reporting purposes." For fiscal 2025, QYLD's audited report classified its \$2.21 of distributions per share as \$1.60 from net investment income, \$0.34 from capital gains and only \$0.27 as return of capital. You find out what you received on your 1099, not on the payout screenshot.

In July 2026 the SEC settled with Simplify Asset Management, finding that seven of its ETFs paid distributions that were largely return of capital without the required section 19(a) notices; one fund's distributions were 98.80% return of capital. Simplify agreed to a \$400,000 penalty without admitting or denying the findings.

Why does NAV erosion happen?

Because when the stock falls the fund takes the loss, when the stock soars the fund's gain is capped, and the payouts keep coming out of the share price either way; TSLY's split-adjusted share value fell from \$200 to \$22.70 between November 2022 and October 2026.



Sources: each fund's audited annual and semiannual reports on SEC EDGAR, Section 19(a) notices and fund web pages (accessed Oct. 7, 2026). TSLY and MSTY figures are adjusted for reverse splits as the funds report them. Distributions are a simple per-share total, without reinvestment or taxes.

Fund (start date)	Starting NAV per share	NAV Oct. 6, 2026	NAV change	Distributions paid per share
Global X QYLD (Dec. 2013)	\$25.00	\$18.66	-25.4%	\$29.24
YieldMax TSLY (Nov. 2022)	\$200.00	\$22.70	-88.7%	\$193.71
YieldMax MSTY (Feb. 2024)	\$100.00	\$16.77	-83.2%	\$234.33

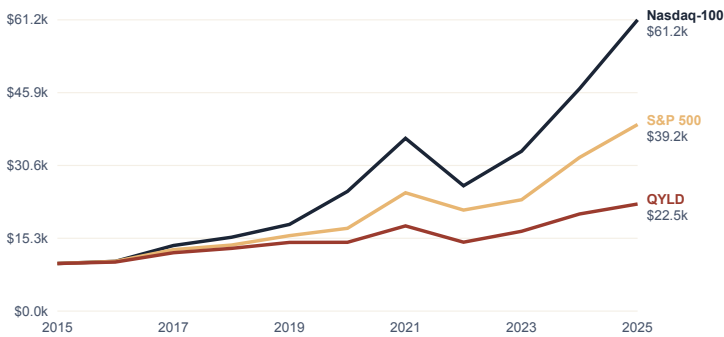
These numbers come from the funds' own audited reports and current fund pages. TSLY and MSTY have each done reverse stock splits, which make the share price look healthier than the per-share history. TSLY did a 1-for-2 split in February 2024 and a 1-for-5 split in November 2025, according to its annual report.

Someone who bought MSTY at launch and reinvested every payout was up 88.13% through September 2026, ahead of the S&P 500's 58.76% over the same stretch, per the fund's page. TSLY returned 62.26% in fiscal 2025. Total return depends on when you bought and whether you reinvested. MSTY's one-year return through September 2026 was negative 47.13%.

The trouble starts when you treat the payout as a paycheck. Bloomberg calculated in September 2025 that \$100,000 put into MSTY, with every distribution spent, had shrunk to less than \$73,000 of fund value, and reported on an investor who had added about \$30,000 of margin loans to his YieldMax holdings. An ETF analyst told CNBC in 2026 that a distribution rate near 100% implies almost equivalent erosion of the fund's net asset value.

Do covered call ETFs beat just owning the index?

Over long periods, usually not: \$10,000 in QYLD from October 2015 grew to \$22,502 by October 2025, while the Nasdaq-100 it writes calls on grew to \$61,176 (QYLD annual report).



Source: Global X Funds Form N-CSR (filed Jan. 9, 2026), QYLD tailored shareholder report, growth of \$10,000 with distributions reinvested.

October	QYLD	Nasdaq-100 total return	S&P 500 total return
2015	\$10,000	\$10,000	\$10,000
2016	\$10,305	\$10,462	\$10,451
2017	\$12,266	\$13,776	\$12,921
2018	\$13,178	\$15,522	\$13,870
2019	\$14,416	\$18,213	\$15,857
2020	\$14,446	\$25,137	\$17,397
2021	\$17,898	\$36,306	\$24,862
2022	\$14,465	\$26,334	\$21,230
2023	\$16,766	\$33,563	\$23,383
2024	\$20,409	\$46,716	\$32,272

October	QYLD	Nasdaq-100 total return	S&P 500 total return
2025	\$22,502	\$61,176	\$39,196

The underperformance is built in. The fund's own sponsor says the upside is capped if the stock appreciates. The broader covered-call record is gentler but points the same way. Cboe's BXM index, which writes calls on the S&P 500, returned 8.6% a year since 1986, against 11.2% for the S&P 500, though with lower volatility and smaller drops. A Wilshire study for Cboe found buy-write strategies lag in rising markets and should be sized "thoughtfully, with investment goals in mind." Morningstar says that for long-term investors these funds are unlikely to outperform the market as a buy-and-hold strategy.

How are covered call ETF distributions taxed?

It depends on the fund: return of capital isn't taxed when paid but lowers your cost basis, index-option gains get 60/40 treatment, and option premium from single-stock options isn't a qualified dividend (26 U.S.C. §§ 301, 1256, 1(h)(1)).

- **Return of capital** reduces your basis in the shares and isn't taxed until your basis reaches zero; beyond that it's taxed as capital gain (26 U.S.C. § 301(c)(2), (3); IRS Publication 550). MSTY's Form 997 reported its fiscal 2025 distributions as 100% nondividend distributions. TSLY's reported 91.49% for fiscal 2023.
- **Index options.** Broad-index options, the kind QYLD writes on the Nasdaq-100, are section 1256 contracts, taxed 60% long-term and 40% short-term regardless of holding period (26 U.S.C. § 1256; IRS Publication 550).
- **Single-stock options** are equity options, not section 1256 contracts. The IRS treats a writer's gain on an expired call as short-term capital gain (Publication 550). A fund can pass through as qualified dividends only the qualified dividends it receives (26 U.S.C. § 854(b)), so option-driven payouts generally don't get the lower qualified-dividend rate. Bloomberg reported the same point in 2025.

There's an estate planning wrinkle that cuts in the investor's favor. Return of capital lowers your basis, which builds up a deferred gain. If you hold the shares until death, your heirs generally take a basis equal to the shares' value on the date of death (26 U.S.C. § 1014(a)), so that deferred gain is never taxed. That only helps if there's still value left in the shares to inherit.

Can a trustee or retiree use covered call ETFs for income?

A small, deliberate allocation can be defended; a trust portfolio built around 50% to 100% "yields" is hard to square with California's prudent investor rule (Prob. Code, §§ 16047, 16048).

California tells a trustee to consider "the expected total return from income and the appreciation of capital," not the payout alone, and to diversify unless it's prudent not to. A trustee who buys a single-stock option fund for the current beneficiary's income may be spending the remainder beneficiaries' principal. That's the classic setup for a

breach of fiduciary duty claim, and it's a conflict our trustee vs. beneficiary guide covers. Reuters reported in 2025, citing Morningstar data, that derivative-income funds hit a record \$145 billion and that the biggest demand comes from retirees and conservative allocators, the investors with the least room to lose principal.

Morningstar also says these funds may suit investors with sizable short-term cash needs. A diversified index-based covered-call fund, sized as a slice of a portfolio, is a different thing from a single-stock fund paying 100%. The trade-off is upside for cash now, and you should know that's the trade.

Covered call ETF "paycheck" vs. a total-return withdrawal plan

	High-yield covered call ETF as a paycheck	Diversified index fund with planned withdrawals
Where the cash comes from	Option premium plus, often, your own capital (19a notices)	Shares you choose to sell, plus dividends
Upside	Capped by the calls sold (fund disclosures)	Full market return
Downside	Mostly kept, cushioned by premium	Full market downside
Cost	0.60% to about 1.07% a year (fund pages)	A disclosed expense ratio; compare it with the income fund's
Tax character	Mix of ordinary income, capital gain and return of capital, known only at year end	Qualified dividends and long-term gains you control
Fit for a trust	Hard to defend as a core holding (Prob. Code, § 16047)	Fits the total-return standard

What should you do instead?

- 1 Look at total return, not the payout**

Every fund page lists total return at NAV next to the distribution rate. Compare it with the stock or index the fund writes options on.
- 2 Read the 19(a) notice**

If most of the payout is return of capital, you're being paid back your own money, and the share price will show it.
- 3 Never borrow to buy income funds**

Margin turns a shrinking NAV into a margin call.
- 4 Build a withdrawal plan**

A diversified portfolio with a planned withdrawal rate gives you a paycheck you can see the source of, and lets your heirs inherit what's left with a stepped-up basis.

5 Put the plan in writing for your family

If someone else will manage your money when you can't, your trust should say how. See our [successor trustee guide](#).

Frequently asked questions

Are covered call ETFs a scam?

No. They're registered funds that do what their prospectuses say. The problem is the marketing: presenting a distribution rate made mostly of return of capital as a yield or a paycheck.

Why does QYLD keep going down?

QYLD caps its upside by selling Nasdaq-100 calls and pays out most of what it collects. Its share value fell from \$25.00 at its 2013 launch to \$18.66 in October 2026, while it paid \$29.24 per share in distributions.

Is MSTY's 100% yield real?

The payout is real cash, but MSTY's SEC yield was 0.96% in September 2026, and its latest distribution was estimated at 98.87% return of capital.

Is return of capital bad?

Not by itself. It isn't taxed when paid and lowers your basis. It becomes a problem when it's your principal coming back while the share price falls, and you spend it as income.

Are covered call ETF distributions qualified dividends?

Generally not when they come from option premium. A fund can pass through as qualified dividends only the qualified dividends it receives, under 26 U.S.C. § 854(b).

Can I live off covered call ETF income?

Only if you accept that you may be spending principal. Bloomberg's 2025 MSTY example shows \$100,000 shrinking to under \$73,000 of fund value when every payout was spent.

This page is general information about the law and the funds' own published data. It isn't legal, tax or investment advice for your situation, and it isn't a recommendation to buy or sell any fund.

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Questions about your own plan?

Ridley Law helps California families with trusts, wills, trust administration and probate from Port Hueneme, serving Ventura, Santa Barbara and Los Angeles counties. The first call is free and runs 30 minutes.

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