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Private  
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# Innovative ALTERNATIVE STRATEGIES

HOW ADVISORS CAN ACHIEVE PORTFOLIO DIVERSIFICATION AND ALPHA

## Limiting Downside Risk With Alternative Options- Based Strategies

### MODERATOR

**Thomas Balcom**

Founder

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Director of Financial Advisor Education

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*ASTON/Anchor Capital Enhanced Equity Fund*

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# Disclosure

Options involve risks and are not suitable for everyone. Prior to buying or selling options, an investor must receive a copy of Characteristics and Risks of Standardized Options. Individuals should not enter into options transactions until they have read and understood the risk disclosure document, Characteristics and Risks of Standardized Options, available by calling 1-888-OPTIONS or by visiting [OptionsEducation.org](http://OptionsEducation.org).” Copies may be obtained by contacting your broker or The Options Industry Council at One North Wacker Drive, Chicago, IL 60606.

In order to simplify the computations, commissions, fees, margin interest and taxes have not been included in the examples used in these materials. These costs will impact the outcome of all stock and options transactions and must be considered prior to entering into any transactions. Investors should consult their tax advisor about any potential tax consequences.

Any strategies discussed, including examples using actual securities and price data, are strictly for illustrative and educational purposes only and are not to be construed as an endorsement, recommendation, or solicitation to buy or sell securities. Past performance is not a guarantee of future results.

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# Today's Overview

1

- Describe the allocation to option strategies

2

- Examples of investments utilized

3

- Examples of when this strategy worked well or when it did not work so well

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# Options Rights vs. Obligations

- Equity option contracts give...

	Call	Put
Long (buyer)	Right to buy	Right to sell
Short (seller)	Obligation to sell	Obligation to buy

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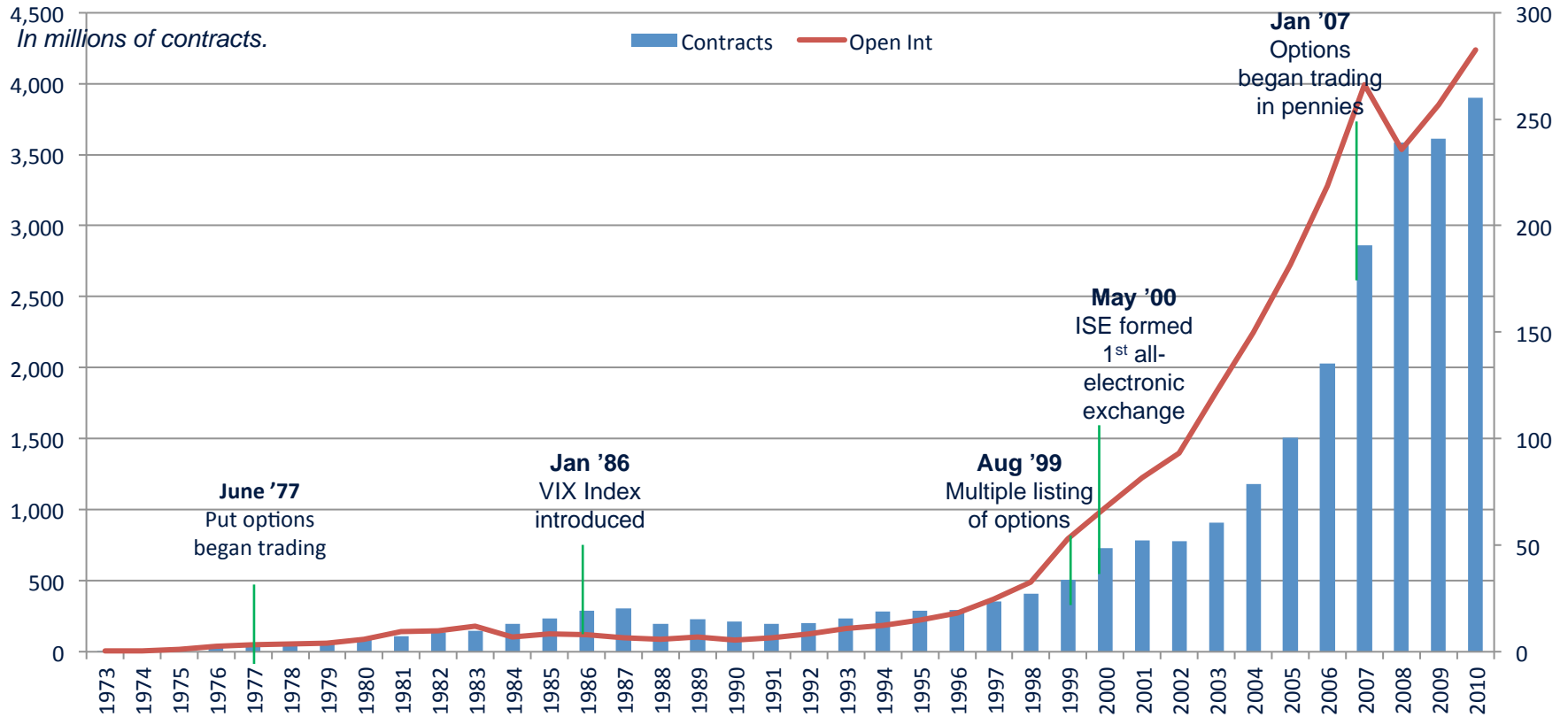


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# Annual Option Growth since 1973



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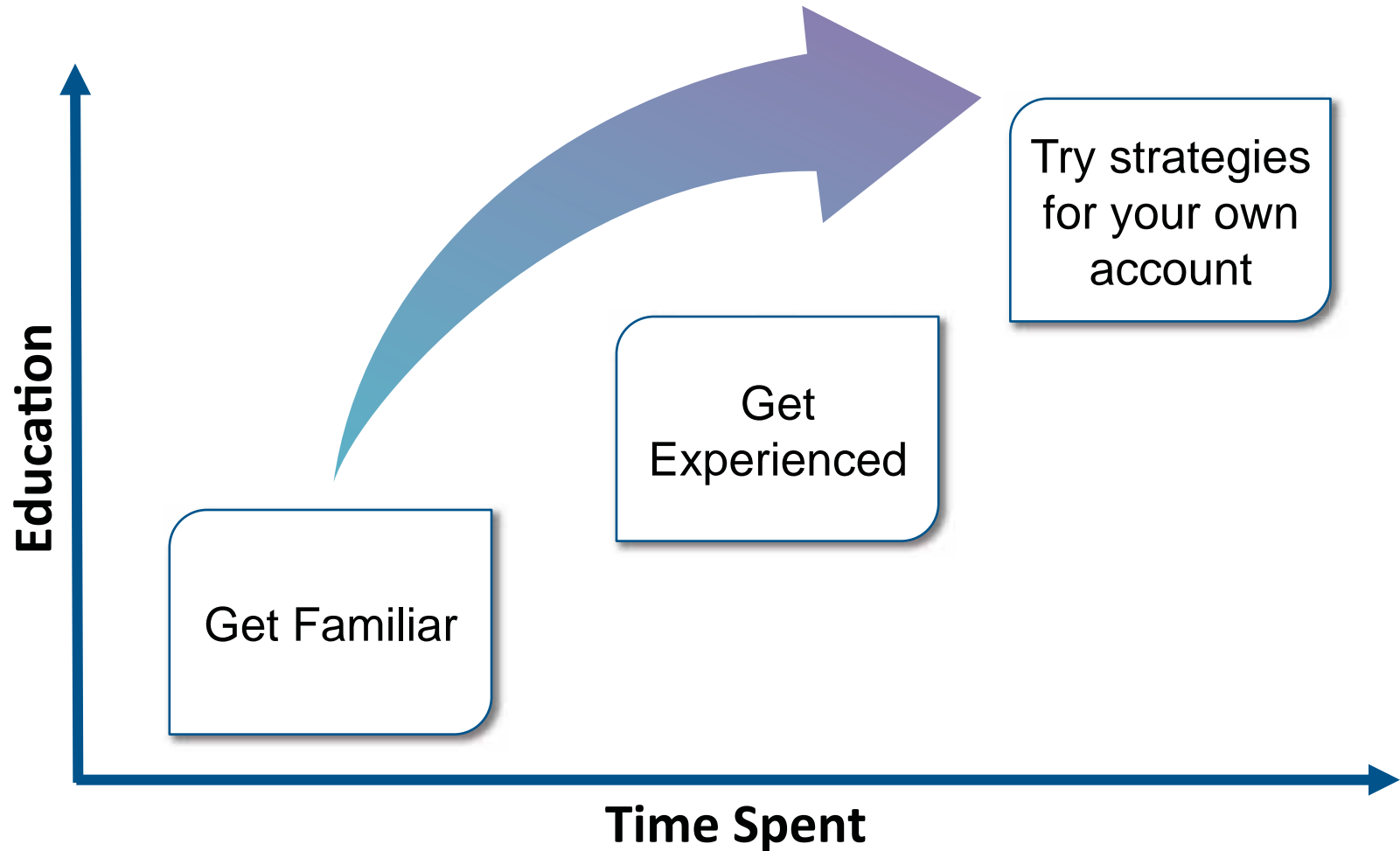


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# Working Toward Implementing Option Based Strategies



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# Three Most Widely Used Option Strategies

	Sell Covered Calls	Buy Protective Puts	Collars
<b>Description</b>	Write (or sell) a call option against a stock position already owned by the investor	Purchase a put option to protect a stock position already owned by the investor	Simultaneously write (or sell) a call option AND purchase a put option against a stock position already owned by the investor
<b>Objective</b>	Generate income on an existing stock position	Protect unrealized gains or to limit additional losses in the existing stock position	To hedge a stock position by buying a put option and to help offset the premium for the put option by selling a call option
<b>Market Forecast</b>	Neutral to moderately bullish	Neutral to moderately bearish	Neutral or moderately bullish or moderately bearish
<b>Risk</b>	Limited	Limited	Limited
<b>Return</b>	1) Call option premium received and 2) potential stock price appreciate up to the call strike price	Potential stock price appreciation less put option premium paid	Protection of unrealized gains

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# BENCHMARK STUDY



*Study of Advisors' Use of Options*

*"Options and the Financial Advisor" has the highlights of the OIC's benchmark study which measured options usage among advisors, examined how, when and why they used them and compared the practices of advisors who use options with those who do not.*

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# Additional Resources:

Investor Services Desk: 1-888-OPTIONS  
[www.OptionsEducation.org](http://www.OptionsEducation.org)

**OIC** The Options  
Industry Council



**CBOE C2**



 **NYSE Amex Options.**

 **NYSE Arca Options**

**NASDAQ**  
OPTIONS MARKET

**NASDAQ OMX**  
PHLX

 **OCC**

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# Anchor Capital – Enhanced Equity Strategy

## An Intelligent Liquid Alternative

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Ronald L. Altman  
Senior Portfolio Manager

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# Anchor Capital Enhanced Equity Strategy

## Investment Objective

*Seek to outperform* the overall equity market over market cycle by *emphasizing current income plus appreciation & tactical hedging strategy* to help reduce downside risk.

- We target larger capitalization companies that *pay regular dividends*
- Stock selection based on *positive fundamentals and reasonable valuation criteria*
- Seek to add income by selling out of the money call options
- Lower potential portfolio risk by buying out of the money index puts

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# Anchor Capital Enhanced Equity Strategy

## Investment Process

### *Hedging Strategy - Calls*

- ❑ ***Seek to sell calls*** at a price equal to 4% of the market price of the stock – duration of 5 – 7 months
- ❑ ***Seek to set strike*** price at least 10% above the price of the stock at time of sale
- ❑ ***Reset strike prices and expiration dates*** to target maximum cash flow

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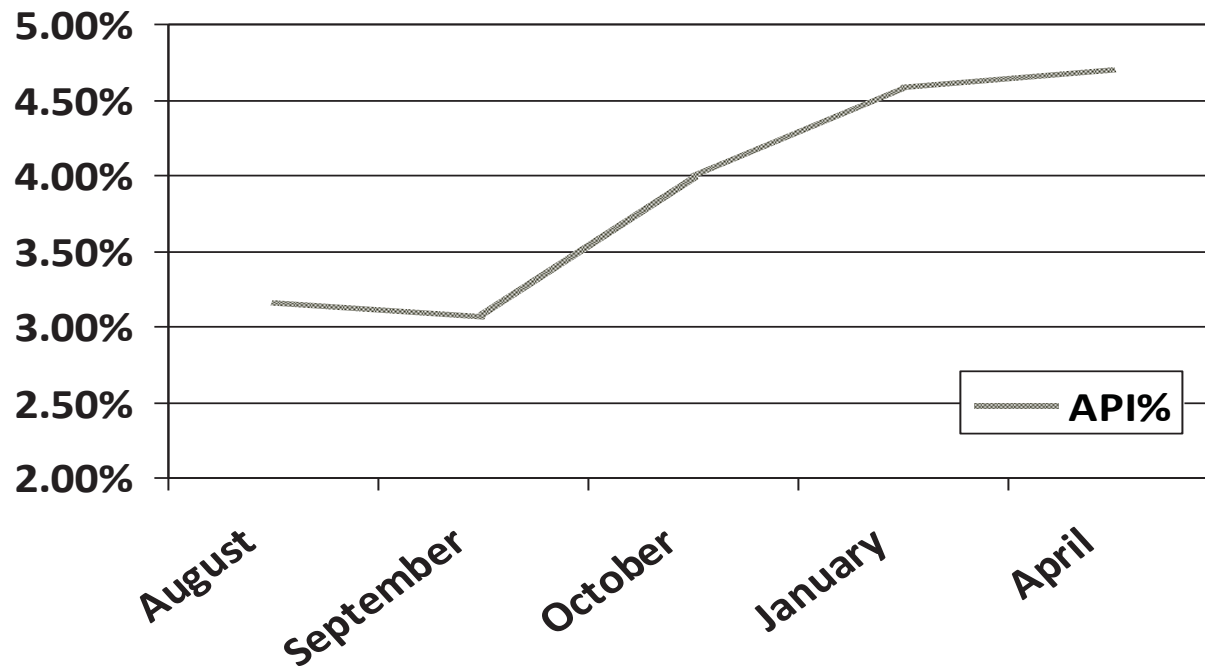
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Example - INTC – Calls – Strike Price: \$28



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# Anchor Capital Enhanced Equity Strategy

## Investment Process

### *Hedging Strategy - Puts*

- ❑ ***Seek to buy index puts*** approximately 10% out of the money, expiring between 1½ and 2½ months out:
  - ***Increase*** the percentage of the portfolio that is covered by puts as implied volatility (as measured by VIX) decreases
  - ***Decrease*** the percentage of the portfolio that is covered by puts as implied volatility (as measured by VIX) increases

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## Targeted Outcomes

- Gross cash on cash return of 7.5%
- 75 – 80% Upside Capture – Peak to Peak, Trough to Trough
- 45 – 50% Downside Capture – Peak to Peak, Trough to Trough

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Visit the Aston Booth 420

ASTON Advisor Line: 800.597.9704

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# Limiting Downside Risk With Alternative Options-Based Strategies

**James Herrell, CFA**

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Myth: Bonds are less risky than Stocks

Fact: Not all Bonds are created equal.

At times, even Treasury Bonds can be considered risky.

We feel this is one of those times...

## Risk Metrics: TLT, HYG and SPY

<u>Measure</u> : 1 Year (7/19/12)	<u>TLT</u>	<u>HYG</u>	<u>SPY</u>
Max Return	7.65%	5.71%	7.32%
Min Return	-3.95%	-4.02%	-7.15%
Volatility (30 day)	12.29	<b>7.47</b>	16.25
Downside Risk	12.52	<b>8.98</b>	15.71
8 week St.Dev.*	6.54%	<b>6.31%</b>	8.56%
12 Month Yield	2.76%	<b>7.03%</b>	1.98%
% Periods up	55.77	<b>61.54</b>	55.77
% Periods down	44.23	<b>38.46</b>	44.23

\*Rolling 8 week Standard Deviation of returns for the previous 5 years (6/30/07 – 6/30/12)

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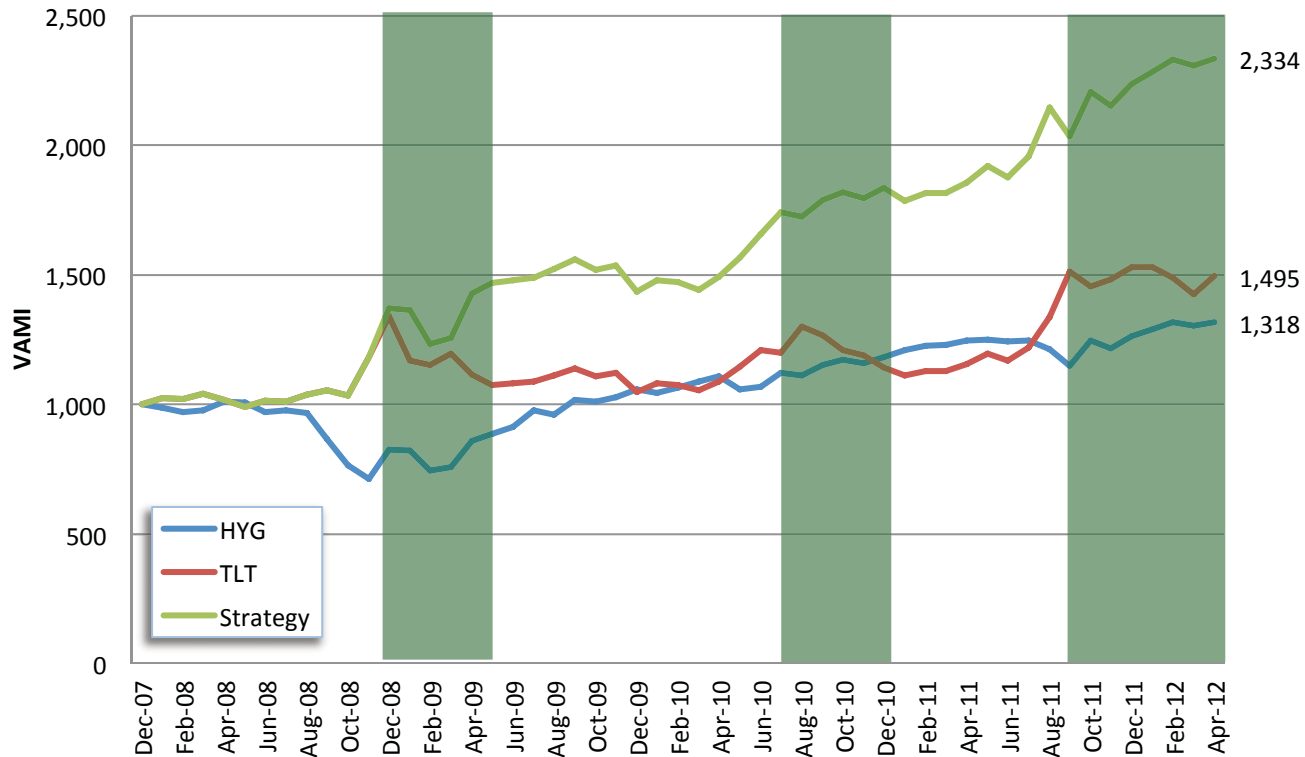
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**TLT, HYG and TLT with HYG**  
**Monthly Total Returns: ETFs only**



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## TLT with HYG: Adding Options

Trade Summary: 9/26/2011 - 5/11/12

	<u>Period</u>	<u>Annual Eq.</u>
TLT	2.58%	4.16%
Strategy	<b>11.56%</b>	18.50%

Adding an option overlay, in the form of covered calls and cash-secured puts, significantly improved the results of buying and holding TLT outright.

**Myth:** Sophisticated option strategies are only available to ultra high-net worth and institutional investors.

**Fact:** Actively Managed ETFs offer access to all investors.

There are several now available...

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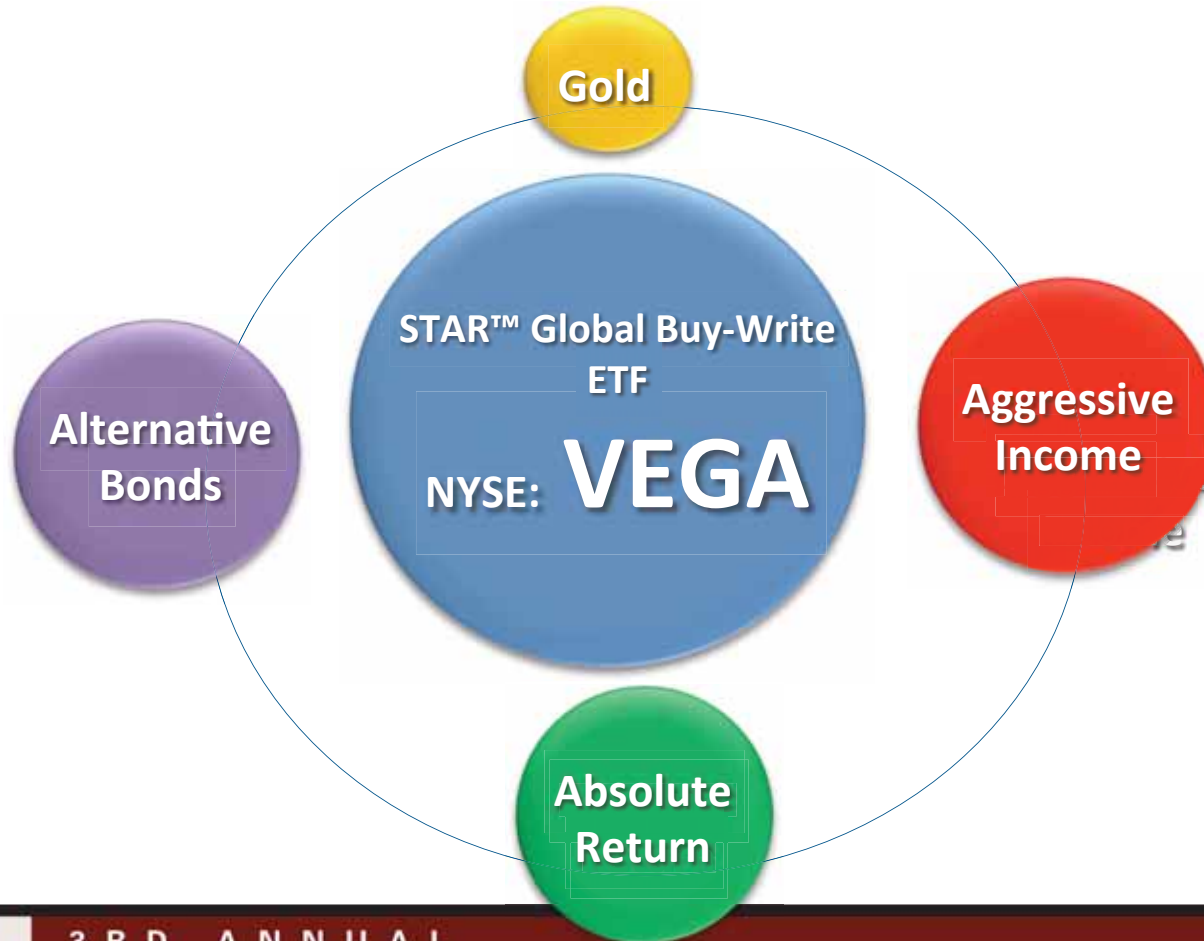
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## STAR Global Buy Write ETF • Symbol VEGA • Launch Date September 5, 2012



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<p>Core International</p> <p><b>FWDI</b></p> <p>Madrona International</p>	<p>Sustainable</p> <p><b>GIVE</b></p> <p>Global Echo</p>	<p>Core Domestic</p> <p><b>FWDD</b></p> <p>Madrona Domestic</p>	<p>Long/Short</p> <p><b>GRV</b></p> <p>Mars Hill Global Relative Value</p>	<p>Core Income</p> <p><b>FWDB</b></p> <p>Madrona Global Bond</p>
<p>Long/Short</p> <p><b>SSAM</b></p> <p>Rockledge SectorSAM</p>	<p>Core Tactical</p> <p><b>MATH</b></p> <p>Meldel Tactical Advantage</p>	<p>Core Income</p> <p><b>HYLD</b></p> <p>Peritus High Yield</p>	<p>Short</p> <p><b>HDGE</b></p> <p>Active Bear</p>	<p>Core Tactical</p> <p><b>GTAA</b></p> <p>Cambria Global Tactical</p>
<p>Core Alternative</p> <p><b>VEGA</b></p> <p>STAR™ Global Buy-Write</p>	<p>Core Domestic</p> <p><b>TTFS</b></p> <p>TimTeb Float Shrink</p>	<p>Core International</p> <p><b>AADR</b></p> <p>WCM/BNY Mellon Focused Growth ADR</p>	<p>Core International</p> <p><b>ACCU</b></p> <p>Accuvest Global Opportunities</p>	<p>Core Tactical</p> <p><b>DENT</b></p> <p>Dent Tactical</p>

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*Returns are presented net of fees, however a client's costs may materially deviate from others in the strategies due to size, timing and frequency of investments and withdrawals. Any single past transaction presented is not provided for purposes of demonstrating performance, rather it is presented to describe the methodology of the strategy. Thus the results of the single transaction should not be taken as representative of what other transactions produced which could be materially worse than that shown by the single transaction. Past performance is not indicative of future returns and does not constitute tax, legal or accounting advice. Moreover, investments are **Not FDIC insured – May Lose Value – and Have No Financial Institutional Guarantee**. Investment Management services provided through Partnervest Advisory Services LLC.*

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# Q&A Period

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