

4 T H A N N U A L

Innovative **ALTERNATIVE** **INVESTMENT STRATEGIES**

LIMITING DOWNSIDE RISK

WITH ALTERNATIVE OPTIONS-BASED STRATEGIES

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OIC The Options
Industry Council



International Securities Exchange.



NASDAQ OMX | NOM



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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*. 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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Innovative **ALTERNATIVE** **INVESTMENT STRATEGIES**

- Essential Concepts
 - Terminology and Mechanics
 - What is new in the Derivative space for 2013
 - Options Pricing
- Options Strategies
 - Calls and Puts
 - Buywrite and CSP's
 - LEAPS
 - Covered Calls and Collar Strategies
- Summary



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"Sweetie, "derivative" is not a nice word to say."

<http://pablohelguera.net/2009/02/artoons>

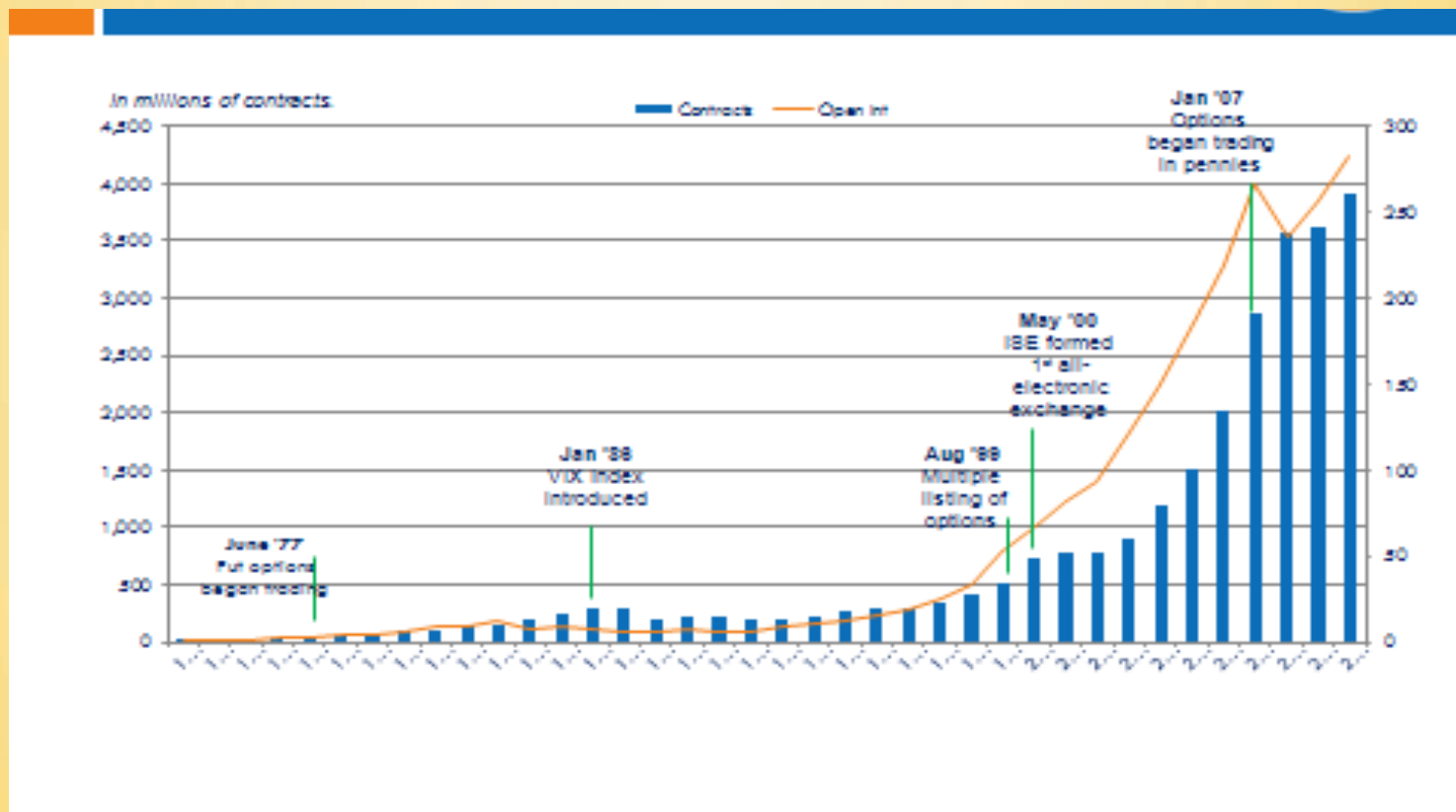


<http://pablohelguera.net/2009/02/artoons/>
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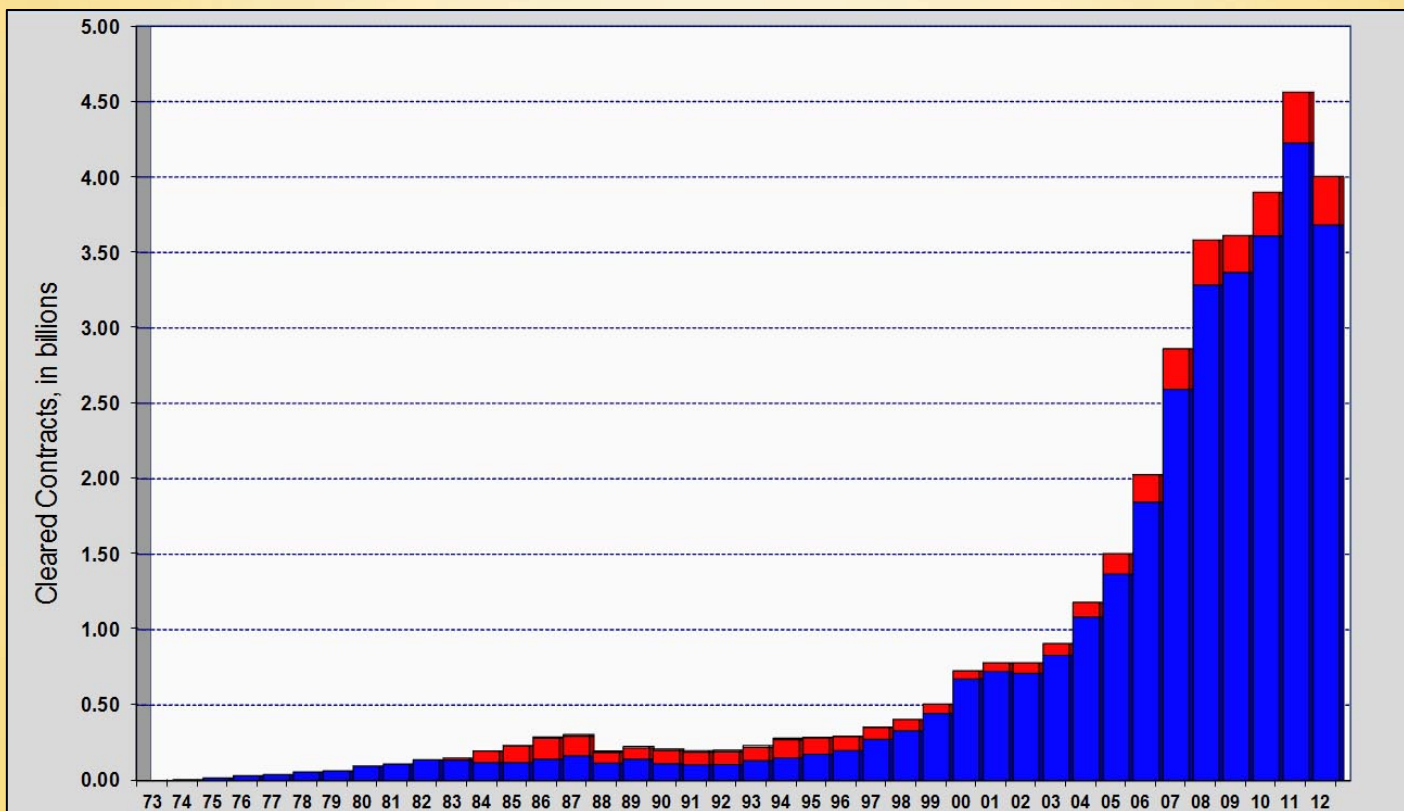
ANNUAL OPTION GROWTH SINCE 1973



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ANNUAL OPTIONS VOLUME 1973-2012



■ EQUITY ■ INDEX □ F.C.



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TERMINOLOGY AND MECHANICS



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VOLATILITY VS. BUYERS AND SELLERS

- Higher volatility = higher premiums
 - Option buyers pay more for more stock fluctuation.
 - Option sellers want more for increased risk.
- Lower volatility = lower premiums
 - Option buyers pay less for smaller fluctuation.
 - Option sellers take less for decreased risk.

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OPTIONS GREEKS

- **Δ (Delta)** represents the rate of change between the option's price and the underlying asset's price - in other words, price sensitivity.
- **Θ (Theta)** represents the rate of change between an option portfolio and time, or time sensitivity.
- **Γ (Gamma)** represents the rate of change between an option portfolio's delta and the underlying asset's price - in other words, second-order time price sensitivity.
- **Υ (Vega)** represents the rate of change between an option portfolio's value and the underlying asset's volatility - in other words, sensitivity to volatility.
- **ρ (Rho)** represents the rate of change between an option portfolio's value and the interest rate, or sensitivity to the interest rate.

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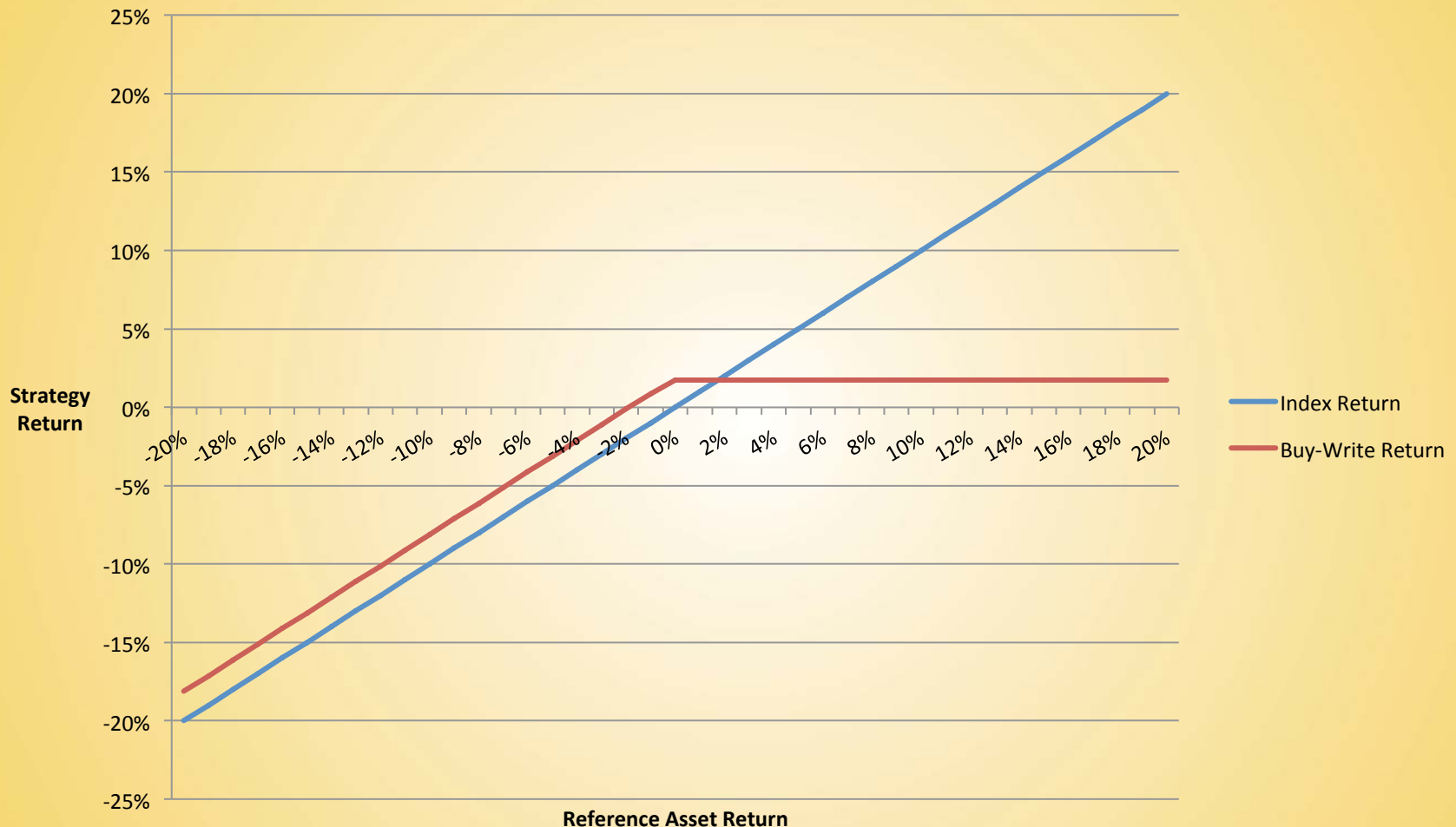
Buywrite & Cash Secured Put Option Strategies for Income Solutions

Eric Metz, CFA Portfolio Manager
RiverNorth Capital Management, LLC



Buy-Write Strategy Return Profile

Buy-Write Strategy Return

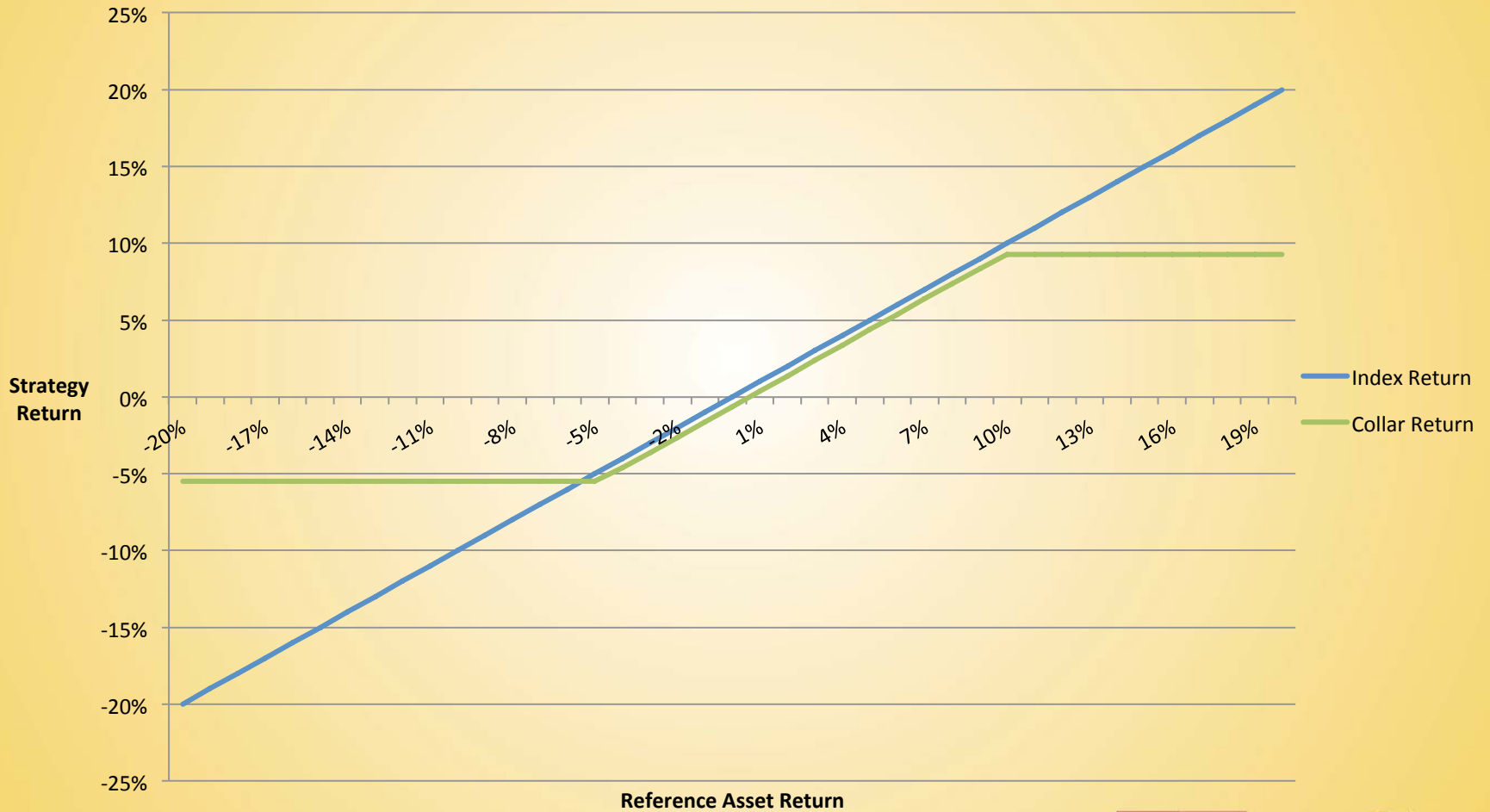


*Using 1Month ATM SPX Call Premium as of 6/21/2013



Collar Strategy Return

Collar Strategy Return Profile

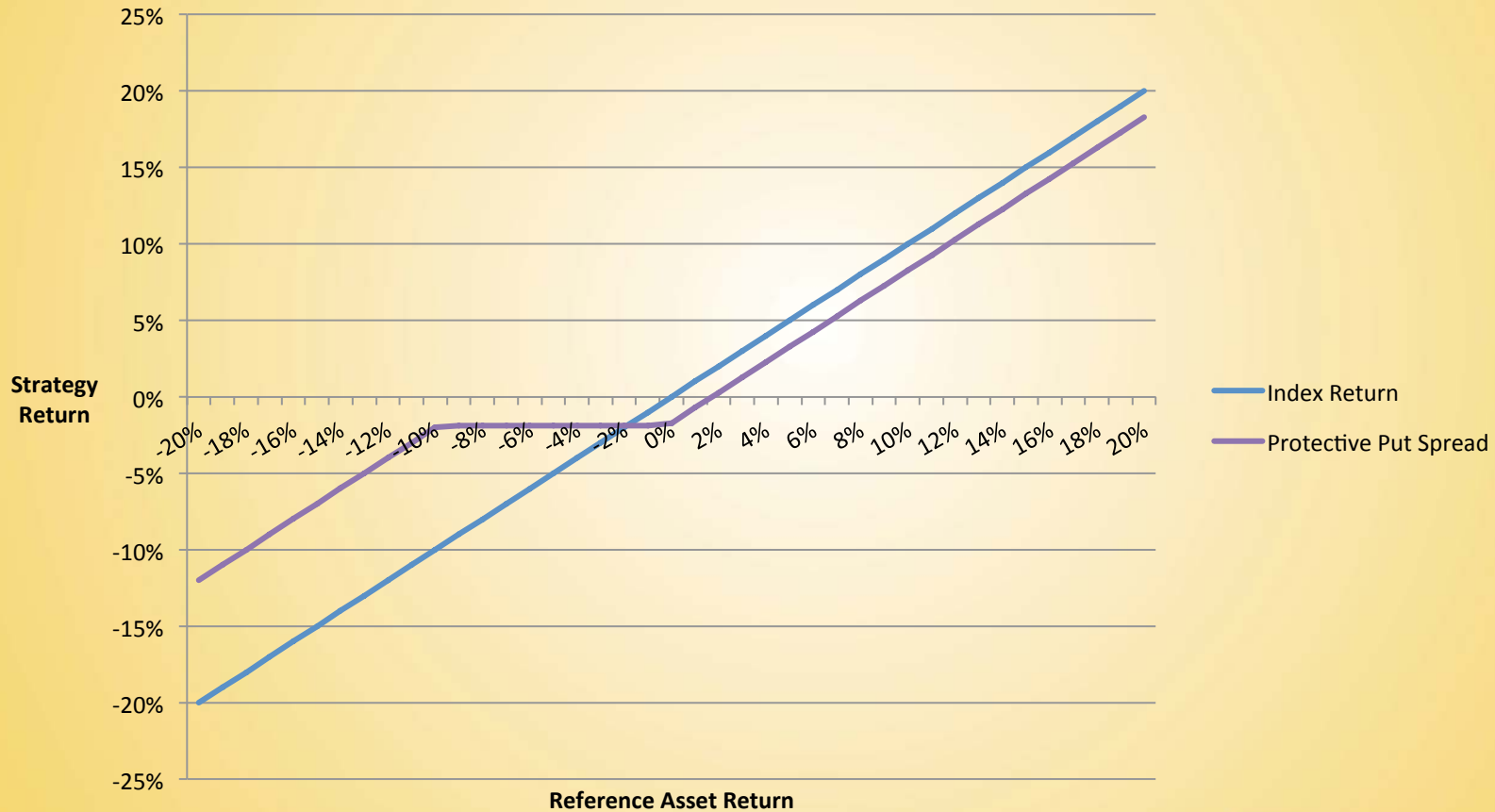


*Using 1Month SPX 105% Call Premium and SPX 95% Put Premium as of 6/21/2013



Protective Put Spread Strategy Return Profile

Protective Put Spread Return

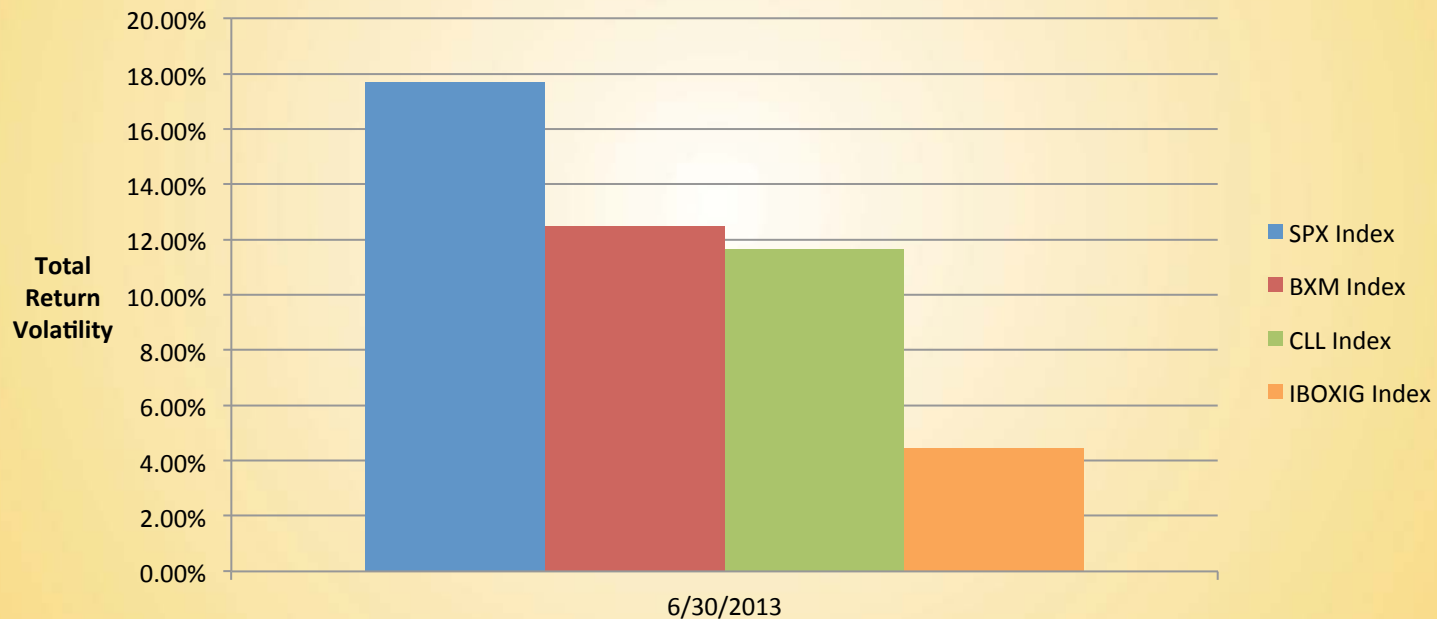


*Using 1Month SPX 100% Put Premium and SPX 90% Put Premium as of 6/21/2013



Option Strategies – Total Return Volatility

Total Return Volatility of Various Strategies 6/30/2009 - 6/30/2013



Past performance is not indicative of future results.

SPX Index: Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

BXM Index: The CBOE S&P 500 BuyWrite Index (BXM) is a benchmark index designed to track the performance of a hypothetical buy-write strategy on the S&P 500 Index.

CLL Index: The CBOE S&P 500 95-110 Collar Index is a passive collar strategy that entails holding the stocks in the S&P 500 Index; buying three-month S&P 500 put options to protect this S&P 500 portfolio from market decreases; and selling one month S&P 500 call options to help finance the cost of the puts.

IBOXIG Index: The Markit iBoxx USD Liquid Investment Grade Index is designed to provide a balanced representation of the USD investment grade corporate market and to meet the investors demand for a USD denominated, highly liquid and representative investment grade corporate index.

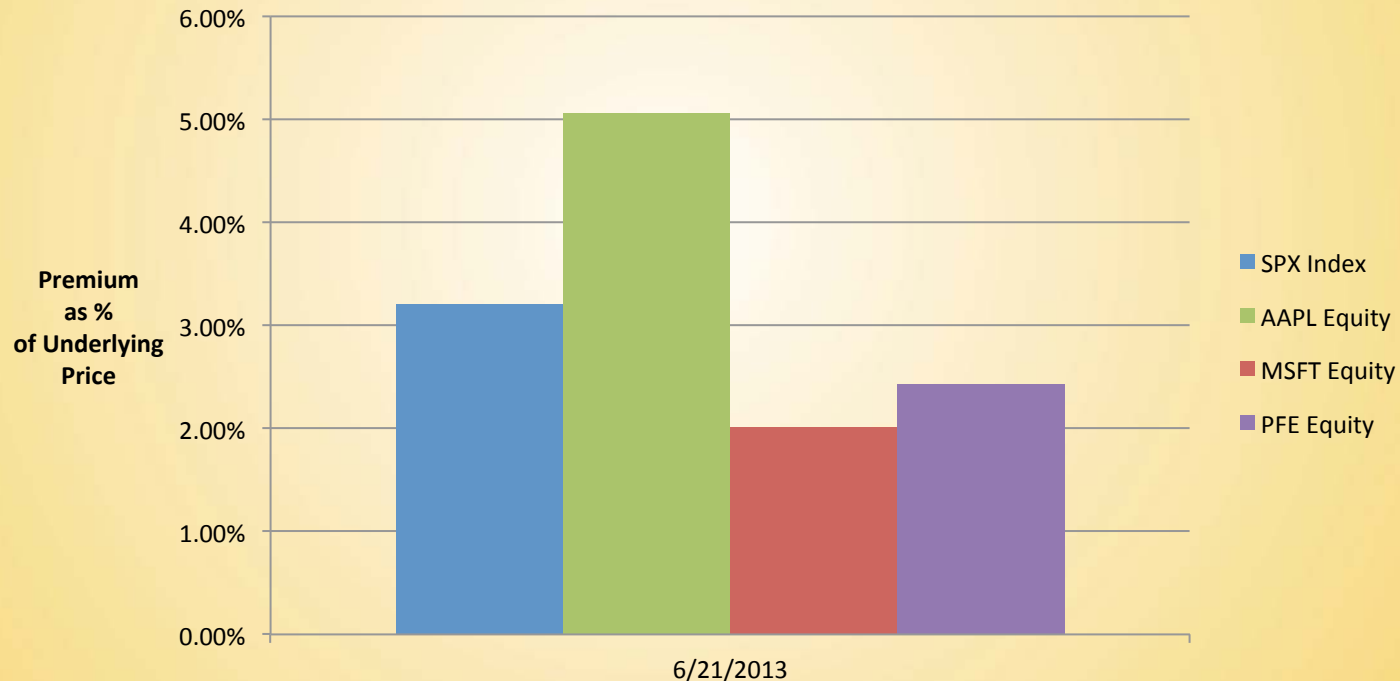


Option Strategies – 3rd Month

ATM Option Premium Yield

3rd Month At-The-Money Call Premium

As % of Underlying Price



SPX Index: Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

AAPL Equity: Apple Inc. Common Equity

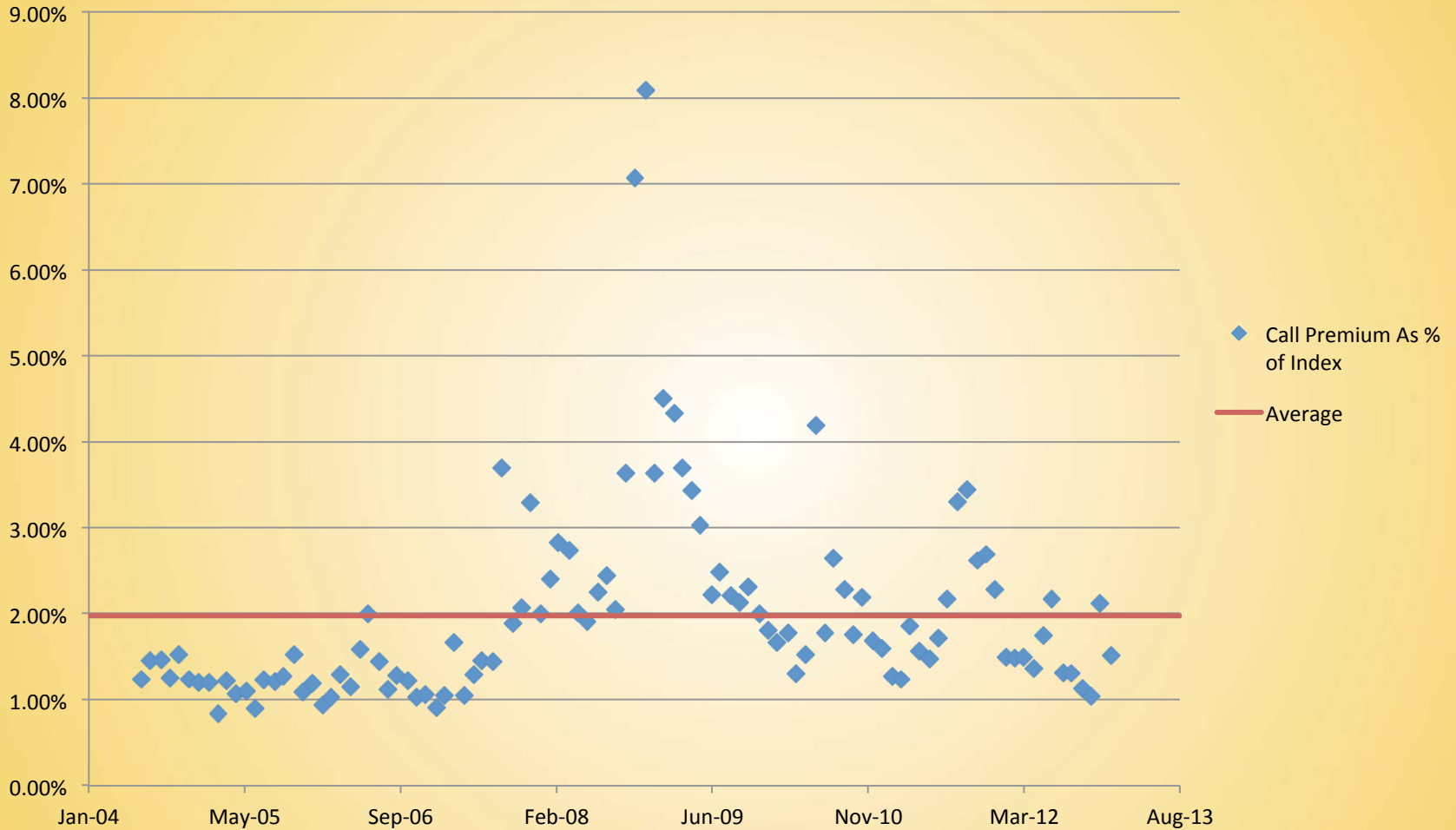
MSFT Equity: Microsoft Corporation Common Equity

PFE Equity: Pfizer Inc. Common Equity



BXM Monthly Premiums - Call Premium as a % of Spot

SPX Call Premium As % of Index



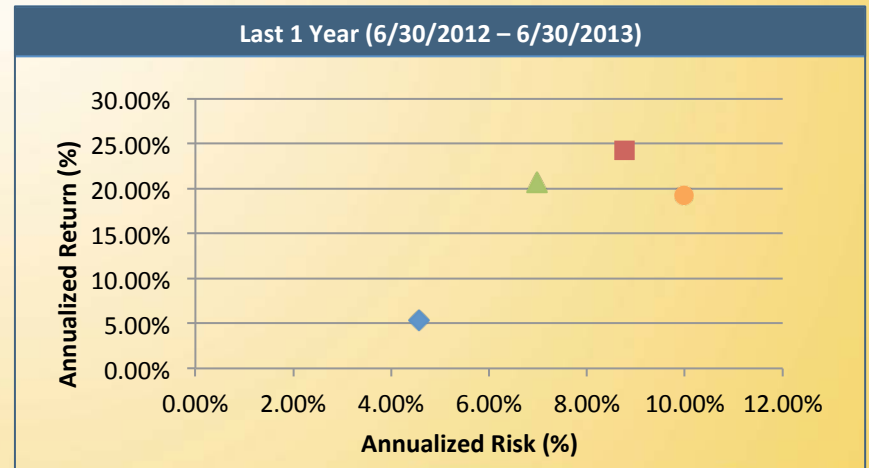
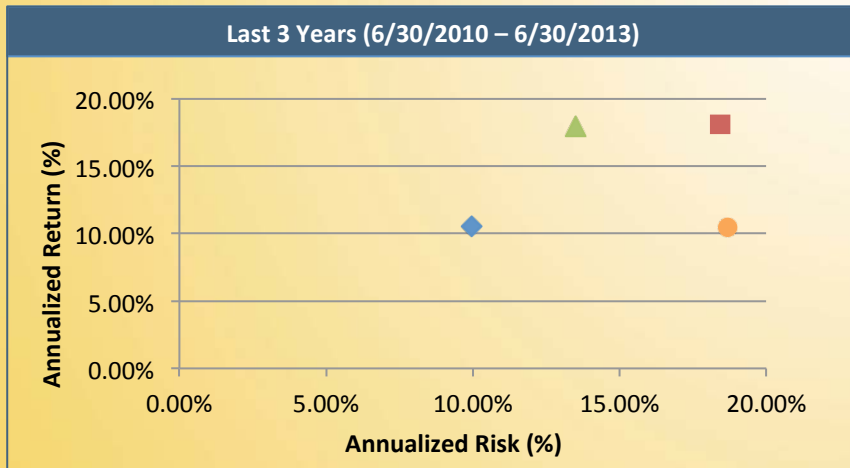
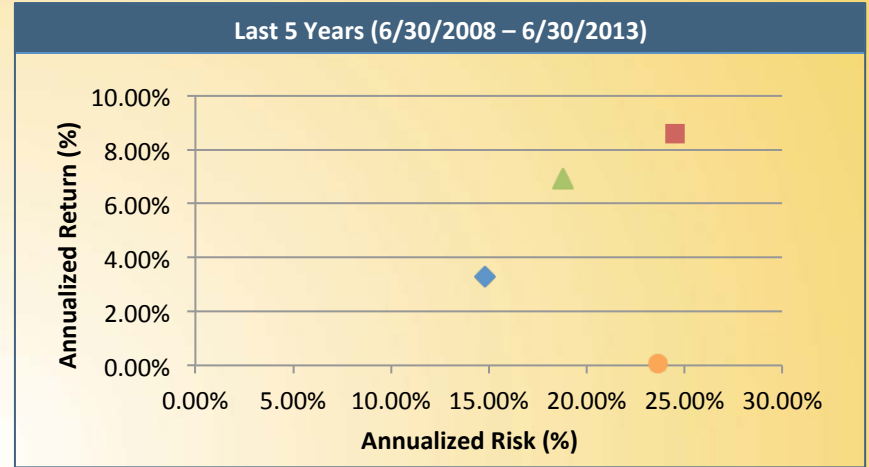
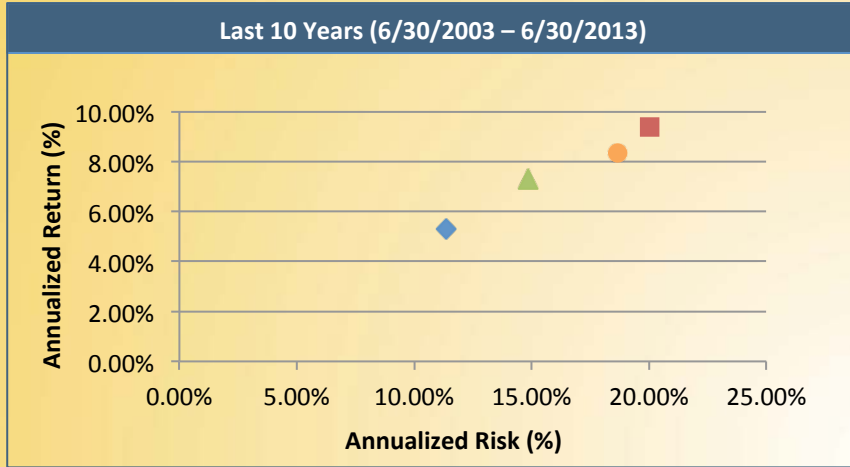
Implied and Realized Volatility



Sources: Bloomberg, RiverNorth Capital Management, LLC



Risk / Reward



◆ BXM ▲ S&P 500 ■ Russell 2000 ● MSCI EAFE

Source: Bloomberg and Pertrac
Past Performance is not indicative of future results.



Options' Strategies to Supplement/Replace Traditional Portfolio Allocation

Variable Weight Allocation



Sources: Bloomberg, RiverNorth Capital Management, LLC



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Collars, Straddles and Strangles

Randy Swan

President

Swan Wealth Advisors Inc.



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Two Questions

1) If you could reduce losses in your investment portfolio, would you? You insure your home, health, car, life, personal possessions, etc...

Why not your investments?

2) What are you doing about Risk?

**Stock Selection, Market Timing
and Asset Allocation
do not solve the Risk problem**



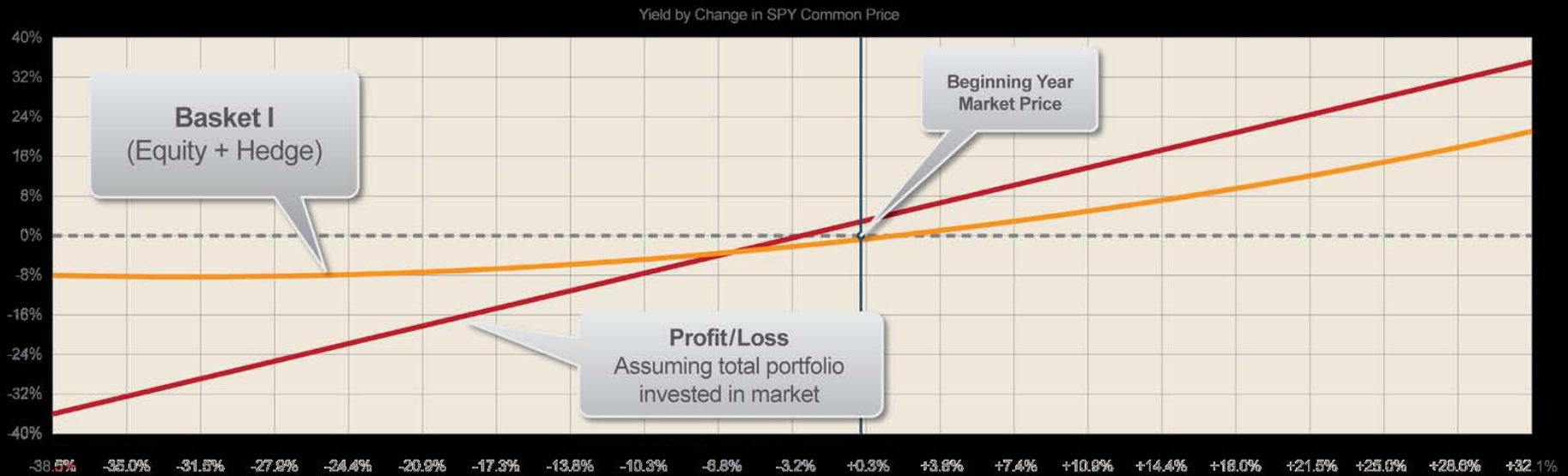
Market Capture

“If you don’t lose money during downturns, you only have to capture roughly 30 percent of the upside move of a bull market to beat buy and hold.”

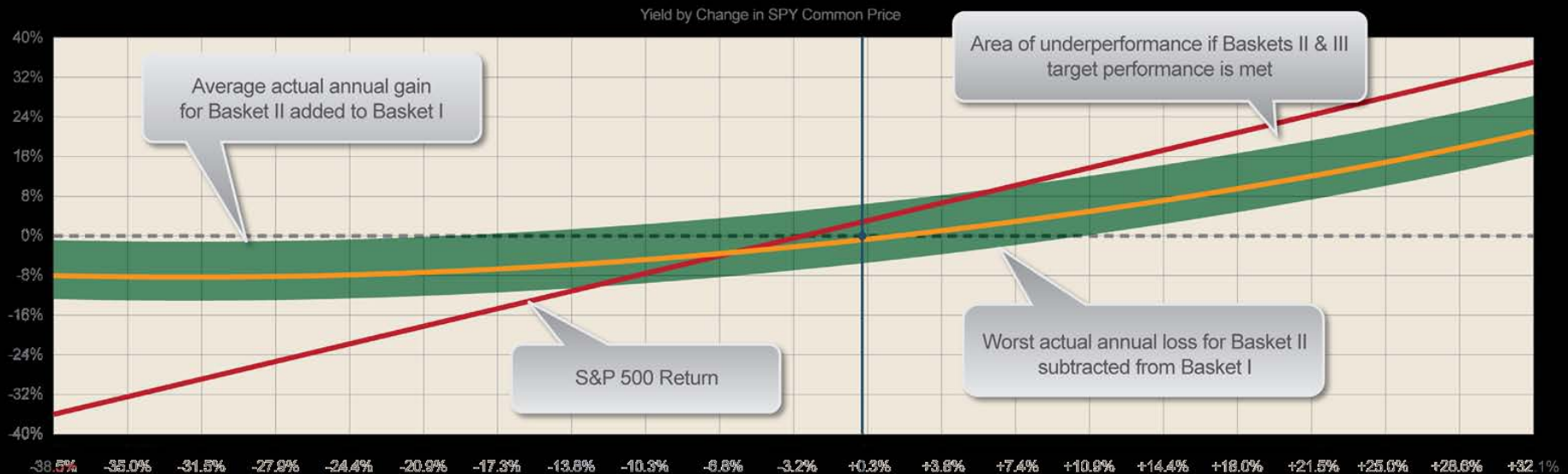
– John Nyaradi, *Super Sectors: How to Outsmart the Market Using Sector Rotation and ETF*



Targeted Return Band - Hedged Equity



Targeted Return Band - Hedged Equity Plus Option Income



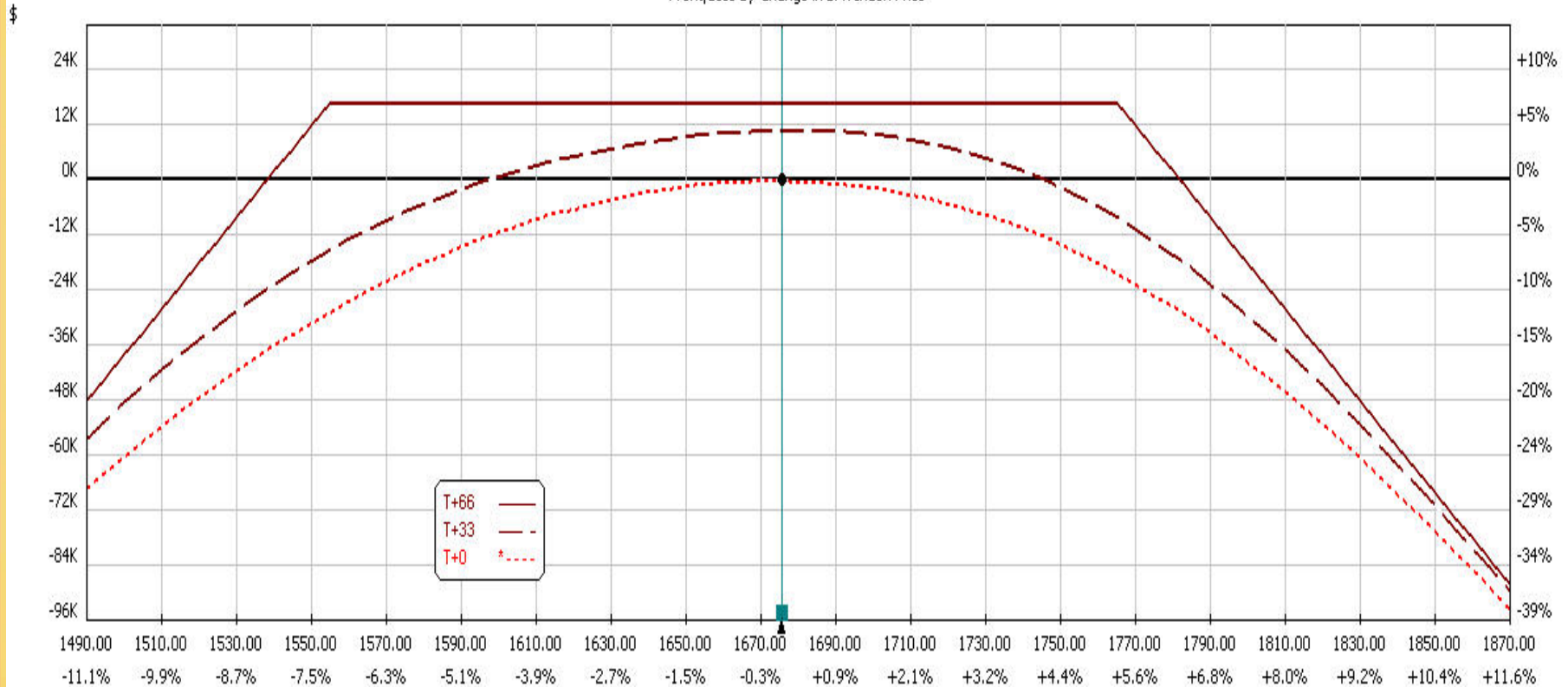
Examples of Market Neutral Option Income Strategies

- Strangles – Selling OTM Calls and Puts
- Butterfly – Sell ATM Puts & Calls, Buy OTM Puts & Calls
- Calendar - Sell Shorter Duration Options (e.g. Aug), Buy Longer Duration Options (e.g. Sep)

Example of Strangle

Strangle

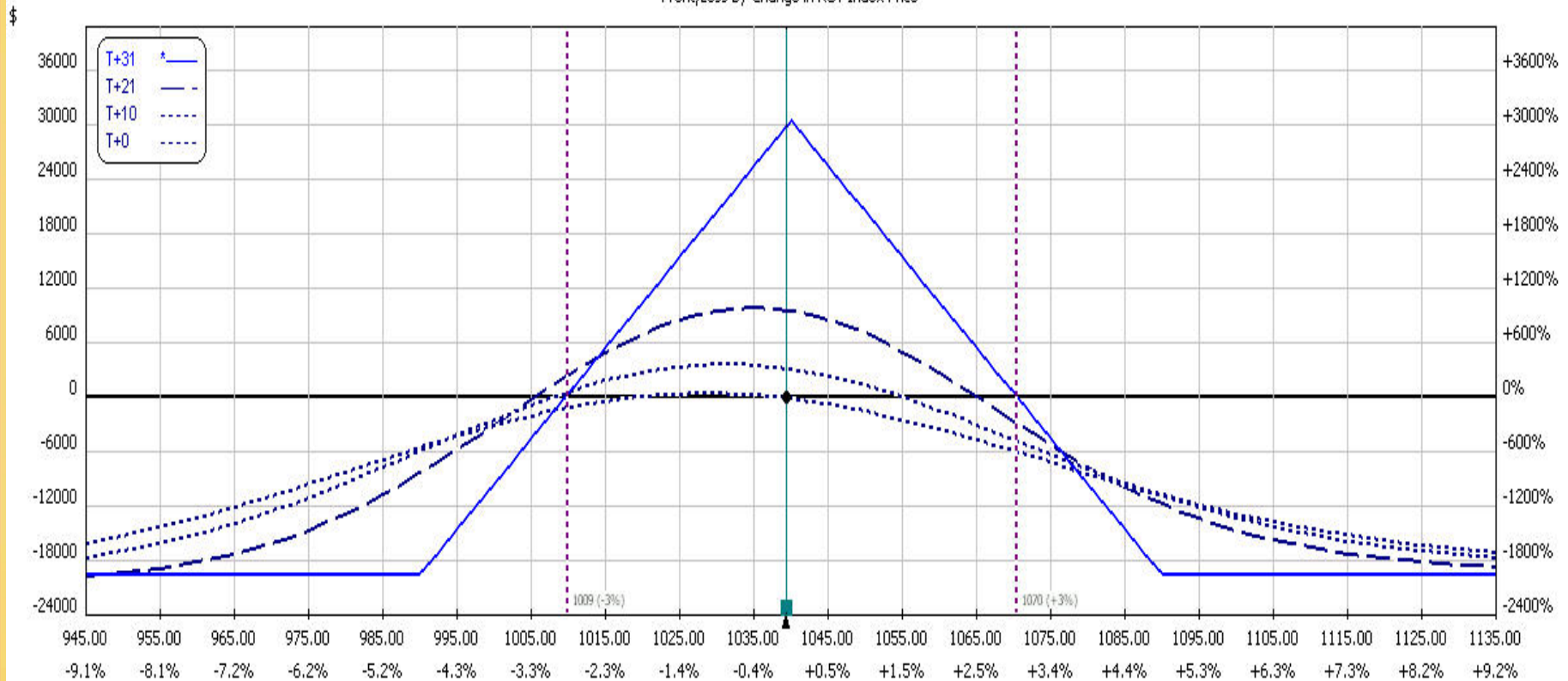
Profit/Loss by Change in SPX Index Price



Example of Iron Butterfly

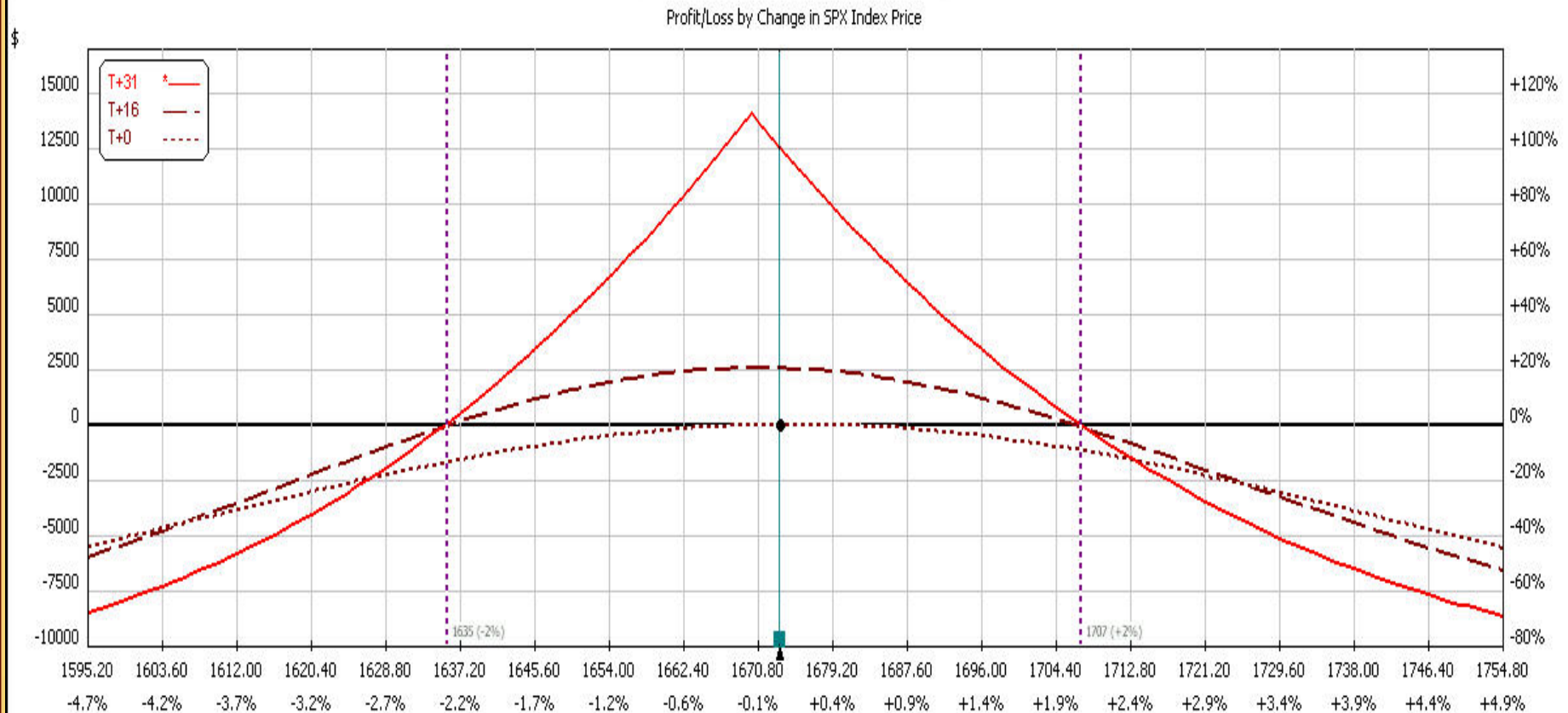
Iron Butterfly

Profit/Loss by Change in RUT Index Price



Example of Calendar

Calendar Spread



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LEAP Options as Stock Alternatives

Joe Mazzola

Senior Strategist, Institutional Trading Education

TD Ameritrade Institutional



Disclosures

Options are not suitable for everyone as the special risks inherent to options trading may expose investors to potentially rapid and substantial losses. Investors must consider carefully all relevant factors including their own personal financial situation before investing in options. Prior to engaging in trades involving options, you should carefully read *Characteristics and Risks of Standardized Options*, please read the previously provided copy or the hard copy provided today. This important document is also available at the registration desk, at www.tdameritrade.com or by contacting TD Ameritrade Institutional at 800-451-3500.

Options trading privileges in an account subject to TD Ameritrade review and approval. Not all account-holders will qualify.

Spreads and other multiple-leg option strategies can entail substantial transaction costs, including multiple commissions, which may impact any potential return. These are advanced option strategies and can involve greater risk, and more complex risk, than basic options trades.

Examples presented in this session are for educational and illustrative purposes only. Real and/or hypothetical securities depicted are specifically not solicitations or recommendations to trade a specific security or to engage in a particular trading or investing strategy.

Supporting documentation for any claims, comparison, statistics, or other technical data, will be supplied upon request.

Because we offer several different commission schedules, the examples contained in this webcast do not take commissions into account. However, transaction costs (commissions and other fees such as contract fees, exercise and assignment fees, etc.) are important factors and should be considered when evaluating any trade.



Disclosures

Investors should consider contacting a tax advisor regarding the tax treatment applicable to options transactions.

Probability analysis results are based on historical data, theoretical in nature, not guaranteed and do not reflect any degree of certainty of an event occurring. Past performance of a security or strategy is no guarantee of future performance or investing success.

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LEAP Options as Stock Alternatives



*source: <http://www.123rf.com/stock-photo/bullish.html>

LEAPS

LEAPS (Long-Term Equity Anticipation Securities) are similar to regular call or put options, with the exception that they have an expiration date from nine months to as much as three years away.

LEAPS are designed for investors who have a comfortable risk appetite for trading options and want the potential leverage available from options. This strategy may be suitable for investors who have a long-term view of the market or stock they are investing in. There are two types of LEAPS: equity and index.

LEAPS always have an expiration date in January and must have more than six months left before expiration to be considered LEAPS; otherwise they are just a regular option contract.



LEAP Options Considerations

LEAPS gives the investor the following advantages:

1. Extended potential time horizon for an option
2. Time decay at a much slower pace
3. Interest rate increases potentially benefit LEAP calls
4. Volatility increases potentially benefit LEAP calls
5. Leverage typically means less capital outlay
6. Potential for increased returns on portfolio or stock holdings
7. Defined risk
8. Potential reduced overall expense for covered call strategies

LEAPS also have some disadvantages and risks to consider:

1. As with regular options, you can lose all of your investment
2. For a LEAP covered call, the short option can be assigned at any time, leaving potential for short stock in the account
3. For a LEAP covered call, downside protection is limited to premium received



Covered Call Comparison

Buy 1000 Shares \$52.65
 Sell 10 Oct. 55 calls \$1.60
 Net Cost **\$25,525** (assuming 50% margin on stock)

Price	Oct Call Strike	Call Premium	Max Profit	Max Loss	Funds Required
52.65	55.00	1.60	\$3950	\$51,050	\$25,525

Buy 10 Jan. 2015 45 calls \$10.23
 Sell 10 Oct. 55 calls \$1.60
 Net Cost **\$8,630** (8.63 x 10 spreads x 100)

Jan 2015 45 LEAP Price	Oct Call Strike	Call Premium	Max Profit	Max Loss	Funds Required
10.23	55.00	1.60	\$2700	\$8630	\$8630



Traditional Covered Call



Price	Oct Call Strike	Call Premium	Max Profit	Max Loss	Funds Required
52.65	55.00	1.60	\$3950	\$51,050	\$25,525

- This comparison does not address the kinds of rolling of the short calls or writing of additional short calls once Oct call expired.
- Example does not include any transaction costs, which affect overall return



LEAP Covered Call



Jan 2015 45 LEAP Price	Oct Call Strike	Call Premium	Max Profit	Max Loss	Funds Required
10.23	55.00	1.60	\$2700	\$8630	\$8630

- This comparison does not address the kinds of rolling of the short calls or writing of additional short calls once Oct call expired.
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SUMMARY



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ADVISOR RESOURCE GUIDE

Adding Options to Your Practice in Seven Simple Steps

7 }

Income generation, risk management, diversification; there are many compelling reasons to include options in your business. In fact for many advisors the question is not whether to use options, but how to begin. If you find yourself in this group here is a roadmap to get started.

One note of caution: before you begin be sure you are familiar with your firm's policy on options. Some firms stipulate the type and length of options that can be used. Also, be certain you have the basics down. You can check the information on the other side or visit The Options Industry Council at www.optionseducation.org/advisor.

1

STEP ONE:

Identify Options Prospects Almost every advisor has clients that could benefit from options. Prospects may include retirees seeking additional income, clients looking to lock-in gains, or those holding large single stock positions.

2

STEP TWO:

Select Your Three Best Opportunities While need is a key determinant, there are other factors to consider. Many advisors focus on qualified accounts, where there are no tax consequences. Others focus on their most loyal clients, who may have the most confidence in the advisor and as a result are more likely to stay the course. You may also want to consider your clients' education level and comfort with new ideas since research indicates that options users are more educated and more willing to consider a wider range of investment opportunities than other investors.

OIC The Options Industry Council

www.OptionsEducation.org

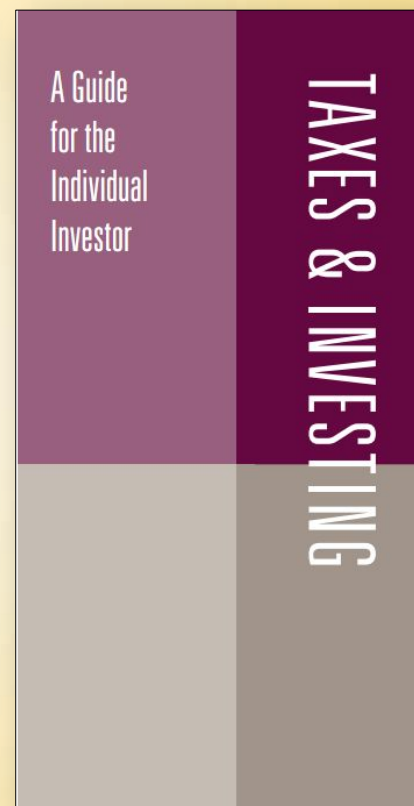


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TAX TREATMENT OF OPTIONS

The OIC offers a link to the Taxes & Investing brochure that was developed by Ernst & Young at the request of the exchanges



[HTTP://OPTIONSEUCATION.ORG/RESOURCES/LITERATURE/FILES/TAXES AND INVESTING.PDF](http://optionseducation.org/resources/literature/files/taxes_and_investing.pdf)



Innovative **ALTERNATIVE** **INVESTMENT STRATEGIES**

THREE POPULAR STRATEGIES

	Sell Covered Calls	Buy Protective Puts	Collars
Description	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
Objective	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
Market Forecast	Neutral to moderately bullish	Neutral to moderately bearish	Neutral or moderately bullish or moderately bearish
Risk	Limited	Limited	Limited
Return	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



THANK YOU

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