

5 T H A N N U A L
Financial Advisor
RETIREMENT SYMPOSIUM

Equity-Income Investing for Retirement

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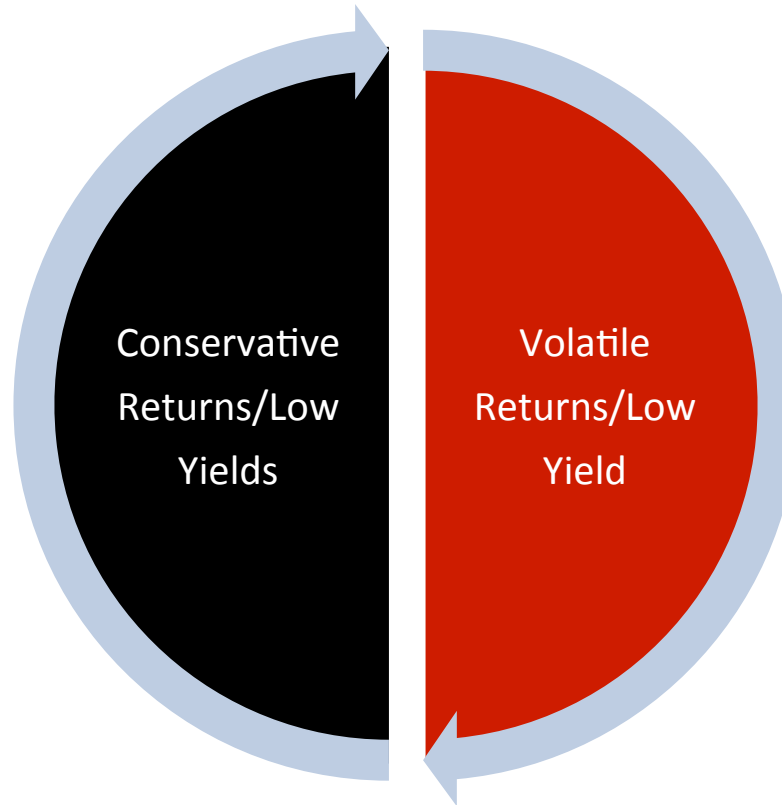


The Income Challenge

Where's The Yield?

Fixed Income

- Bonds and fixed income securities have been a lower risk asset class for investors, but offer very little yield with substantially increasing risk
- Also near historic highs in price



Equities

- Stocks offer higher risk/return profile than bonds but historically generate lower income
- Have risen more than 100% since 2008 lows*

- Fixed Income
- Equities

*Source: Bloomberg, as of May 31, 2013

The Need for Income

- **Investors generally need more income and less volatility as they transition through retirement years**
- **Currently, interest rates are very low and there are few income alternatives; some investors' portfolios may be exposed to the effects of a rise in interest rates**
- **Generating additional income from stocks can potentially enhance the income of the entire portfolio and reduce volatility relative to a stock-only portfolio**
- **In certain market conditions, such as range-bound markets, bear markets, and modest bull markets, a covered call strategy has the potential to generate a higher total return than a traditional buy and hold stock strategy**

Covered Call Strategies in Various Markets

How a typical out-of-the-money (OTM) covered call strategy may be expected to perform during various markets environments:

**BEAR
MARKET**



OUTPERFORMS

**RANGEBOUND
MARKET**



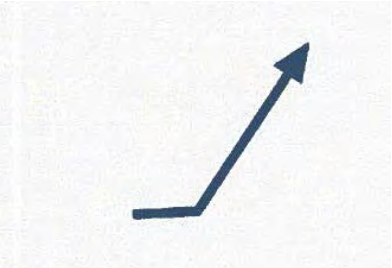
OUTPERFORMS

**MODEST BULL
MARKET**



OUTPERFORMS

**POWERFUL BULL
MARKET**



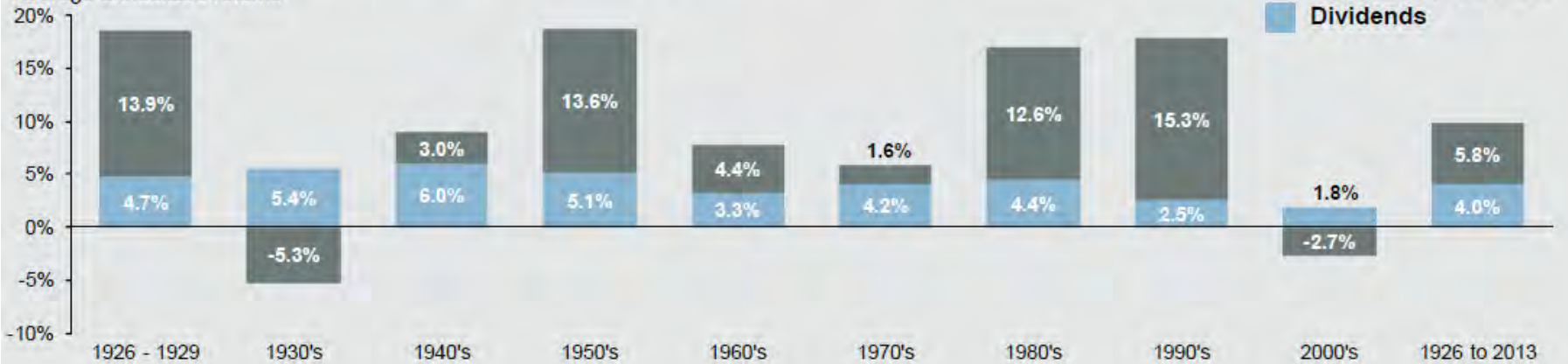
UNDERPERFORMS

For Illustration Purposes Only

Dividends Make a Difference

S&P 500 Total Return: Dividends vs. Capital Appreciation

Average annualized returns



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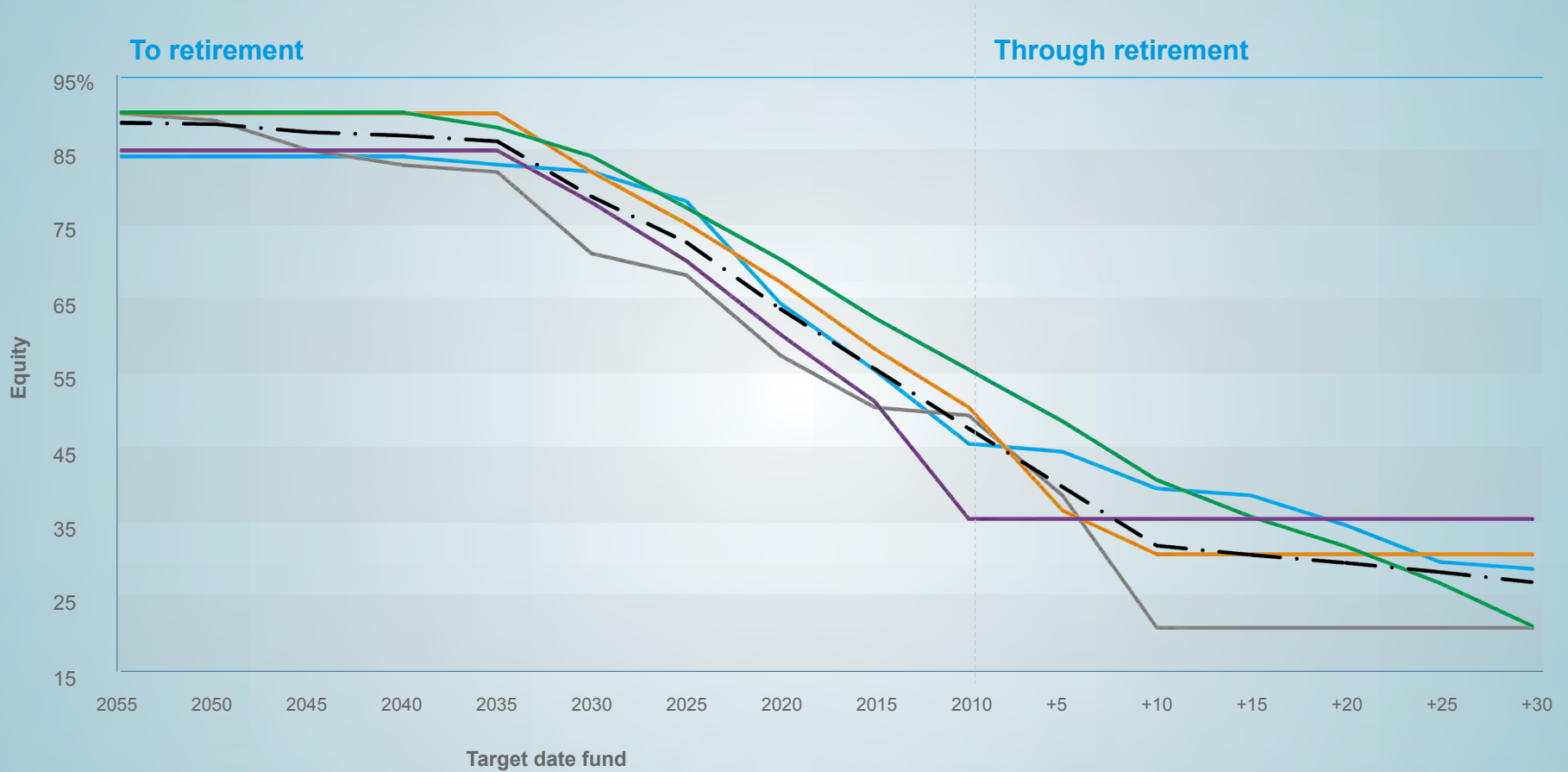
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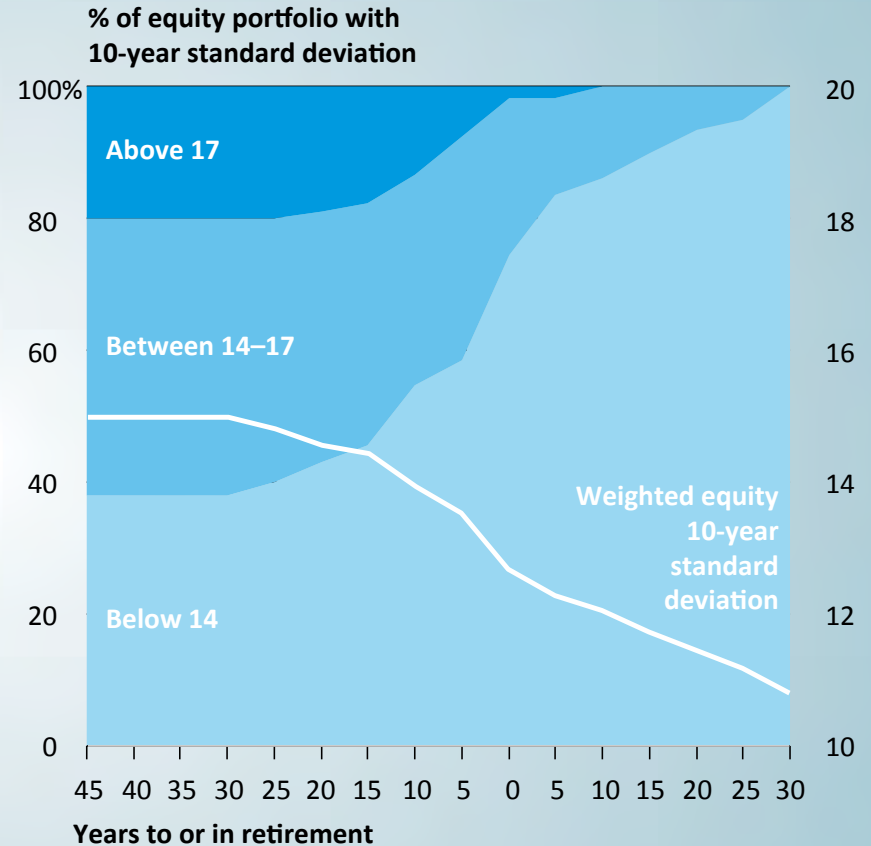
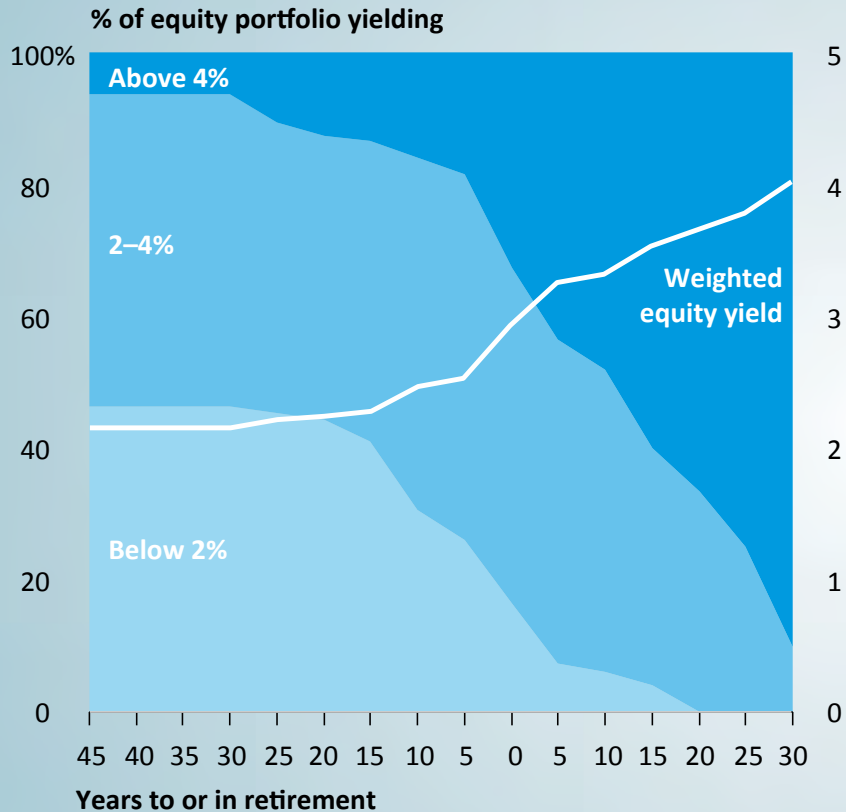


Going beyond “to” vs. “through”

Target date fund glide path construction: Equity allocation

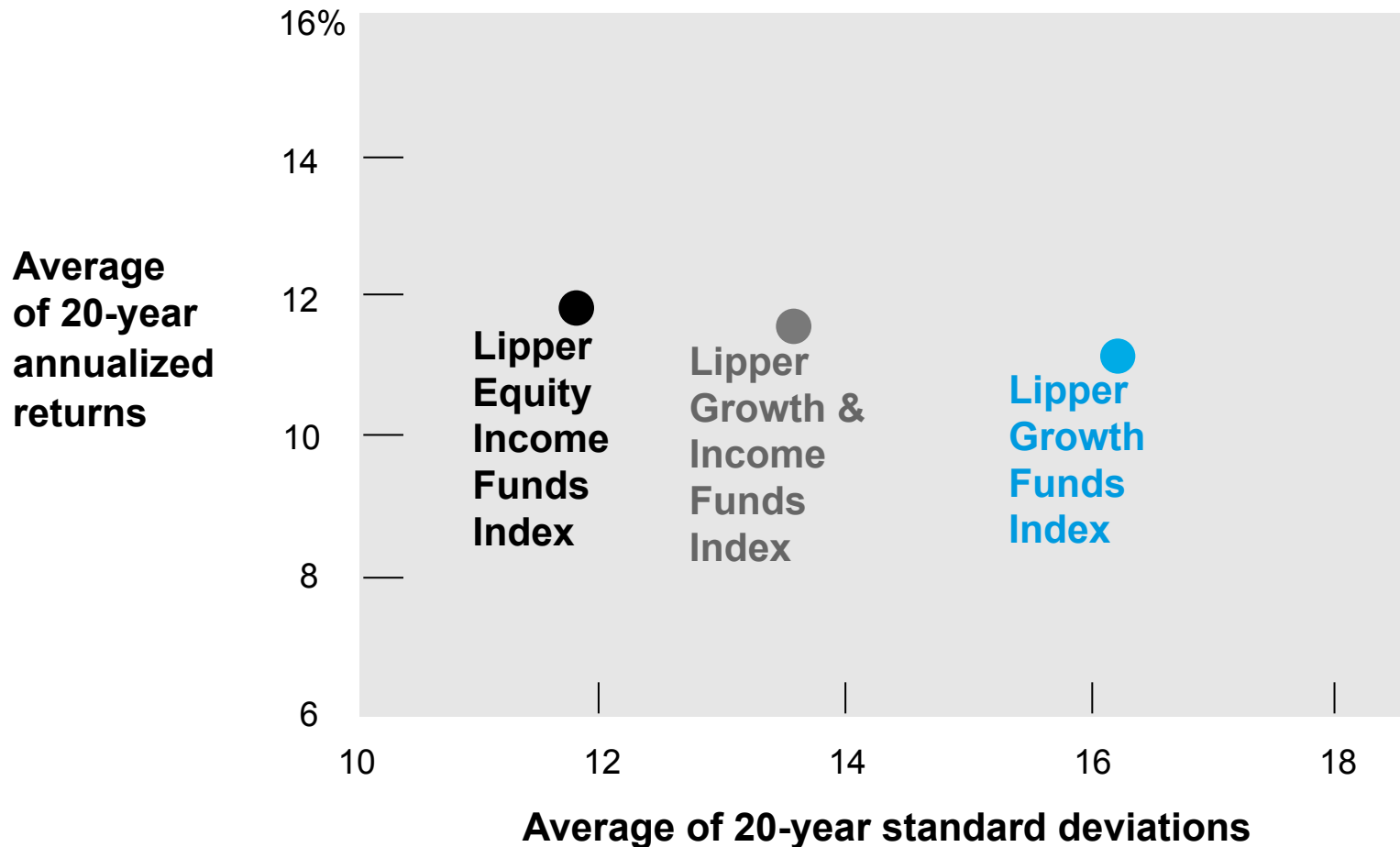


Recharacterization of equities in retirement



The standard deviation difference

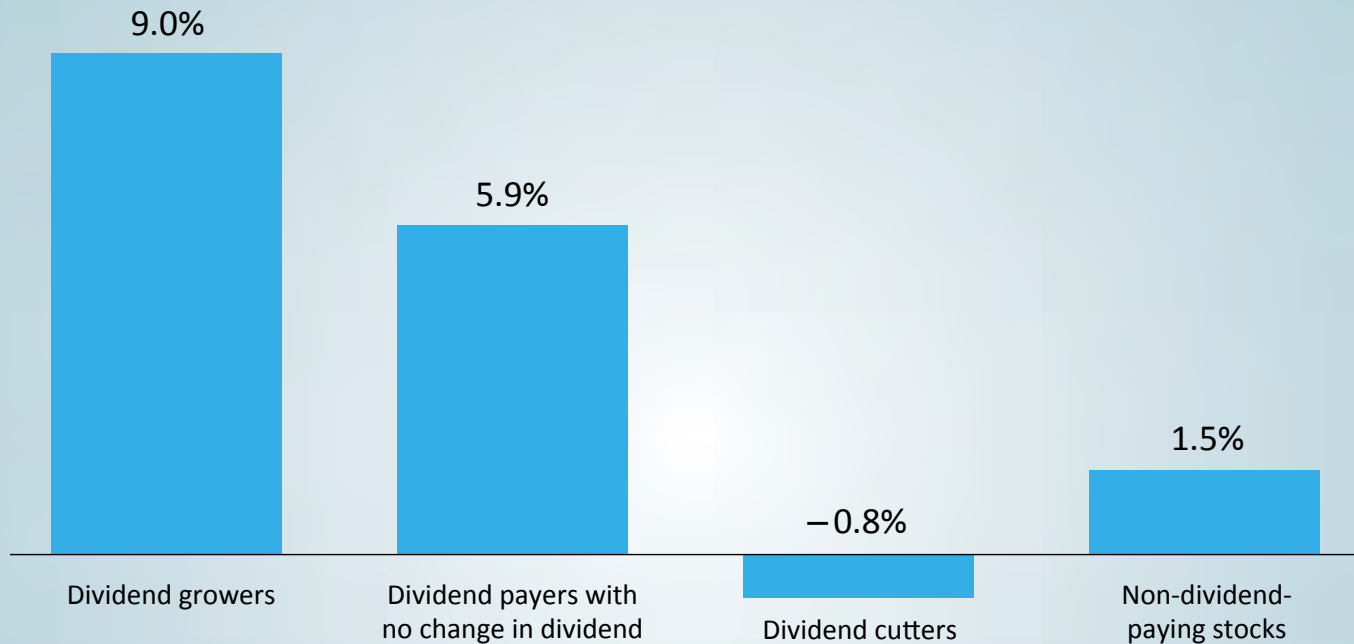
Average of annualized returns and standard deviations for the rolling 20-year periods from 12/31/70 to 12/31/13



Results are calculated by Lipper. Volatility is calculated at net asset value, using annualized standard deviation (based on monthly returns), a measure of how returns over time have varied from the mean; a lower number signifies lower volatility.

The case for dividend growers

S&P 500 geometric total returns (12/31/87–12/31/12)



Source: Ned Davis Research, Inc. (NDR). Copyright 2013 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers, refer to www.ndr.com/vendorinfo/. Dividend growers are companies that increased their dividend anytime in the past 12 months; once an increase occurs, the company remains classified as a grower for 12 months or until another change in dividend policy. Dividend payers with no dividend change are companies that maintained their existing indicated annual dividend for the past 12 months, i.e., companies that have a static, nonzero dividend. Dividend cutters are companies that have lowered or eliminated their dividend anytime in the past 12 months; once a decrease occurs, the company remains classified as a cutter for 12 months or until another change in dividend policy. Non-dividend-paying stocks are those whose indicated annual dividend is zero. Geometric total return, which is also known as compound annual growth rate (CAGR), measures an investment's performance and provides the average annual rate of return the investment earned over its total holding period. Although an investment may increase and decrease at different rates each period, the geometric return smooths out each period's return to provide a true return. Geometric return also considers compounding, which is the process of earning a return on an amount that includes returns from previous periods.



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Build A Portfolio From Cash

- #1 Buy ½ position such as Bristol-Myers (BMY)
Purchase 500 shares at \$51.78
 - #2 Write 5 September 55 calls @ \$2.20
 - #3 Write 5 September 50 puts @ \$2.90
-

Outcome

Stock goes up and is called away. Collect \$2.20 in call premiums, \$2.90 in put premiums, \$0.36 in dividends, \$3.22 in stock movement

Total Unanalyzed Return = 16.76%

Stock stays same and both put and call expire worthless. Collect premiums and dividend.

Total Unanalyzed Return = 10.55%

Stock goes down and the incremental ½ (500 shares) are purchased.

Net average cost per share is \$48.34



Disciplined Equity Money Market Alternatives

#1 Purchase SPY @ \$188.69 with an annual yield of 1.84%

#2 Write July \$189 calls @ \$4.75
Purchase July \$187 puts @ \$4.79

Outcome

SPY goes up and is called. Return is the \$0.868 dividend plus stock to strike \$.31

Total Return = 0.62%

Annualized Return = 2.5%

SPY stays the same. The return is based upon the dividend minus the 4¢ differential between the call income and put cost.

Total Return = 0.46%

Annualized Return = 1.85%

SPY goes down and the put is exercised. The return is -1.73 in points and differential plus the \$.868 dividend for a .45% loss.

Annualized Return = -1.81%



Retiree With Positions in Company Stock

- #1 Retiree is holding Disney (DIS) stock from which was his former employer
- #2 Disney is trading @ \$81.64 and pays out a dividend of \$0.96, a 1.05% yield
- #3 To increase cash flow to retiree, write July \$85 calls at \$2.41 premium

Outcome

Stock goes up and is called away. Return is \$2.41 in premiums and \$3.36 in stock to strike.
Total Unanalyzed Return = 7.07%

Stock stays same. Return is 2.95% and call can be rolled again.

Stock goes down and is protected to \$79.23



Capture Dividends With Hedge

- #1 Buy Bristol-Myers (BMY) at \$51.78
 - #2 Write the September 52.5 calls at \$3.20
 - #3 Harvest \$.36 dividends ex-date July 2
-

Outcome

Stock goes up and is exercised prior to ex-dividend date. Return is unanalyzed 7.5% from stock to strike and premium.

Stock goes up and is exercised after ex-dividend.

Total Unanalyzed Return = 8.3%

Stock stays the same. Return is dividend and premium.

Total Unanalyzed Return = 6.9%

Stock goes down and is hedged to \$48.22

