Weatherly® Asset Management

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Option Strategies

Weatherly Asset Management has the ability to utilize multiple option strategies for our clients, dependent on their individual needs, financial situation and equity holdings. We implement covered call strategies for clients to generate additional income and add to the total return of portfolios. For clients with concentrated stock positions, we mitigate the downside risk with covered put options. We also employ covered collars, at either no cost or minimal cost to the client. Weatherly feels these strategies are valuable when the stock market or a particular equity holding is experiencing high volatility or trading at a range.

Covered Calls – Used to generate additional income for total return of portfolios

- Strategy – An individual writes (sells) a call option contract while at the same time owning an equal amount of shares of the underlying long equity position. The call option contact gives the buyer the right the purchase the shares at a set price and pays the seller a premium for this right.
- How we implement – We looks to generate 3-5% of annualized income premium using this strategy. We analyze positions on a weekly basis and generally write covered call contracts 10-15% above current market prices to allow our clients to enjoy a reasonable level of price appreciation; we write calls on only a portion of the position, so if the option is exercised, the portfolio still holds some of the stock. We use covered call positions to generate income in during periods of market volatility to capture income as prices fluctuate.
- Advantages –
  - Call options help generate income in uncertain times
  - Clients reap the benefits of owning the equity position (voting rights, dividends) unless the position is called
  - Covered calls allow for reasonable stock appreciation while adding cash to the portfolio to implement alternative buying opportunities
  - The client has the option of buying back the call option and retaining the shares before the strike price is met

Covered Puts – Used as a protective strategy for concentrated stock positions

- Strategy – An individual purchases a put option while at the same time owning an equal amount of shares of the underlying long equity position. The put contract gives the buyer the right to sell the shares at a set price and pays the seller a premium for this right.
- How we implement – We utilize covered puts as a method of providing protective portfolio insurance for clients with concentrated stock positions. This strategy helps to mitigate the effects of downside momentum and provides protection against loss of total return. We generally employ puts when a client has an unrealized profit accrued from the increase in value of the underlying stock and wants to limit the downside loss from any large decline in the stock price.
- Advantages –
  - There is no limit to the gain on the underlying stock
  - Upon reaching the expiration date, the client has the option of selling the contract to regain some of the premium paid
  - The put option guarantees the right to sell shares at the specified price, no matter how much the underlying stock declines in value

Covered Collars – Used as an alternative to covered puts for additional protection for concentrated stock positions, can be costless or obtained at a minimal cost

- Strategy – An individual writes (sells) a call option while simultaneously purchasing a put option on an equal amount of shares of the underlying long equity position.
- How we implement – We implement covered collar strategies on concentrated stock positions while considering cost basis and holding periods. The collar essentially places a floor on the stock price while simultaneously placing a ceiling on the appreciation, allowing us the ability to manage risk and reduce volatility for clients.
- Advantages –
  - There is a limit on the amount of capital gains the client can incur
  - The put option allows the client to retain any unrealized accrued gains
  - The covered call portion of the collar helps to compensate for the risk of downward price pressure