OPTIONS ENHANCEMENT STRATEGY

Highlights

- Great for concentrated positions, investors looking for extra income and those with existing positions they do not want to sell.
- Customizable to the client.
- Targets for the *typical* client are 3%-8% (*net* of management fees) of *additional* annual income above and beyond what is generated by core portfolio return. *More sophisticated or more aggressive clients may have higher expectations*.

Summary

Generates income above and beyond that of a core portfolio by trading options on quality stocks and indexes. Different strategies for trading said options are employed depending on the market environment. The core portfolio may consist of almost any suitable holding that will provide for the necessary margin release to trade the options (individual stocks and bonds, mutual funds, ETFs, a large concentrated position, etc).

Who is it for?

Clients who:

- Are interested in generating extra income
- Have concentrated positions (stocks, bonds, funds) but are not willing to sell
- Have a large tax-loss carry-forward
- Are interested in the diversification benefits of a strategy that tends to benefit from volatility and has a lower correlation to equities
- Have cash they do not wish to use to buy investments, but would like to use to generate income

Goals

- If clients desire, allow them to maintain control of their existing portfolio. This strategy can complement what they are already doing without changing it.
- Provide low volatility returns with a low correlation to the S&P 500 ($SPX).
- Use proprietary models to potentially capture option premium and mitigate downside risk.
- Provide clients with supplemental, current income in a repeatable and disciplined process without affecting the underlying assets.

Approach

- Existing positions are not required to be sold.
- Can be used in conjunction with most other WorthPointe strategies.
- Customized to fit individual client needs (i.e., limit exposure to certain sectors or stocks, etc.).
- Trades are designed to last 1 – 3 months, with the the vast majority closing in the 3 – 5 week range.
- Maintain broad market diversification.
- Actively managed. Has the ability to close trades early or let them run to expiration in an effort to maximize risk-adjusted returns.

Risk Management

- There is no mandate to trade with any frequency. In other words, we don’t trade just for the sake of trading and showing activity. If no trades can be found that meet our standards, no trades will be placed. Thus, clients can expect to see periods of low activity as well as high activity. Trading alone does not produce returns — good decisions and risk management do.
- Close positions if they achieve a large percentage of max return in a short timeframe.

FAQs

What if I want you to manage my assets and not just do options trading on positions that I don't want to sell?
That's the way most of our clients operate. We can manage all of it with or without options, *or* you can supply the assets you don't want us to sell and we can simply enhance them with options. We are very flexible!

I understand I don't have to sell my current investments, but is it also true that I still get to keep the returns they generate from price appreciation and dividends?
Yes, that is correct. Income from the options is designed to simply *enhance* what you are already getting.

What if I have a large position I don't want to sell all at once, but I might like to sell some over time. Can you help me with that?
Yes. This may require us to do some financial and tax planning with you before we come to any conclusions. We will seek to understand your unique situation and guide you on how to trim your position over time by balancing tax considerations, risk management, and opportunity costs.

I have a large position I'd like you to enhance, but I'm not sure whether or not I want to sell my position right now. Can you still help me get started now?
Yes. We can start enhancing your portfolio with options to create an income stream. Over time, you can make the decision on whether you want to sell some or all of it. We can help you make that decision as well, if you desire.

What if I'm interested in protecting the value of my portfolio more than I am interested in income?
We can do this. It's called a "hedging strategy." We'll seek to generate extra income, and then spend that income on protection. Ask us about it for more details!

Is this the same as doing covered calls?
No. There is a lot of misunderstanding about covered calls. All covered calls are options,

but not all options are covered calls! “Covered calls” is simply the name of *one* type of options strategy. There are pros and cons to a covered call strategy, and there are many other options strategies that are known by many different names that may be more or less appropriate either for your situation or for current market conditions. The strategies we typically use do not put your stock at risk or being sold or limit your upside.

Okay, but can you do covered calls?
Yes, we can. Our strategies can be customized. Covered calls will be appropriate for some clients at times — just probably *not* those clients who don’t want to sell their positions. The best thing to do is explain your situation to us and we will guide you on the best way to execute an options strategy for you.

Should I expect it to produce about the same return every month?
No. Many factors influence how much opportunity there is to trade options. Volatility in the market is usually the biggest factor. Months with higher than normal volatility *tend* to give us more and better opportunities to trade and produce higher returns. The inverse tends to be true for periods of lower volatility. Again, there are many factors, so this is not always true, but it is true more often than not.

What does it mean that you “target” 3% – 8% for the typical client?
This is not a guarantee, but it means you should expect somewhere in that range of returns during the majority of years if you have no special considerations on your portfolio. There is a range because risk is not linear over time; in other words, risk varies. For example, one month we may find plenty of trades that meet risk and return specifications, and other months we won’t find as many trades that meet our criteria. We have no mandate to trade just for the sake of trading. If our specifications aren’t met, we will sit out. We will not raise risk just to ensure trades get placed. When you understand this phenomenon, you understand our trading may be just as successful year-to-year *in risk-adjusted terms* even though the bottom-line performance number may vary. We are *not* a “fund.” Client accounts don’t all look the same, therefore a typical “track record” is impossible to report since so many individual factors influence how *your* account is traded.

Are options “risky”?
All investments contain risk, including the stocks and bonds people consider often “safe.” Options are no different, so a better question is “*How risky are options?”* It all depends on the specific trade we are considering and the expertise of the options trader; unfortunately, naive options traders who are trying to “learn as they go” often take on much more risk than they realized. To put that into context, the following is true: options can be traded with significantly *less* risk than the S&P 500, or with significantly *more* risk, and everywhere in between. The way we trade options for clients actually seeks to reduce the overall risk of their portfolio and provide a greater breadth of diversification.

What happens to the money I make?
It builds up in your cash balance over time. You can pull it out and spend it, use it to buy more investments, or just let it accumulate.

What if I want to be aggressive with options?
Our standard options enhancement strategy is more on the conservative side, but we can discuss taking more risk if it’s appropriate for you. For clients new to options, we recommend starting slowly. We find most clients are more than happy with what is produced from a conservative strategy.

Can I use this on both taxable accounts and tax-advantaged accounts such as IRAs and Roths?
Yes, but there are some limitations on tax-advantaged accounts (like IRAs and 401ks) because of the laws around them. In summary, we need to understand your situation before we can tell you how much benefit you can expect in a qualified account. It can range from all the benefits afforded to a taxable account to *none* of the benefits.

Tell me a little about your options trading, in general terms?
Our philosophy usually puts us into a category known as “premium sellers.” As premium sellers, time is on our side. Our trading doesn’t have to pick one of the typical “postures”: bullish or bearish. Instead, we can trade neutrally. In other words, we do not depend on market direction to generate a return. We employ a variety of different options trading strategies, depending on market conditions.

How come more firms don't offer options trading?
Options trading is a very niche specialty. The obvious reason is that it's very data- and technology-intensive, and extremely time-consuming. While most advisors tend to hold securities they purchase for clients for months or years, options trading is much more short term in nature. Trading options means *always* being ready to trade, but yet waiting patiently until the perfect setup becomes available — if it does at all. The constant state of readiness and need for analysis is very demanding and means a *lot* more work for the advisor. Even more work is necessary if the options are customized to individual client needs rather than exposing clients to the many drawbacks of trying to put short-term securities into a fund.

The less obvious reason has to do with the history of options. Options weren't even publicly traded and standardized until the 1970s, and by the 1990s they were still only the tools of the ultra-high net worth. Even then, they were enormously expensive to trade. It wasn't until the mid-1990s that technology blew up and options trading through online brokers made it feasible to even consider doing them for more than the ultra wealthy. Of course, it still took time for them to catch on.

Someone who finished his or her MBA or master's in finance in 2000 was still very unlikely to have any significant exposure to options, much less expertise! When you think about it, it makes sense. Why would educators spend significant time on such a tiny area of the market? During that time period, what was being taught was largely theory from the '60s and '70s, and that is still overwhelmingly true today! Options are still taught at a *definition level* rather than at the deeper levels of *application* and *integration*. As a result of all this, the vast majority of financial professionals actually have very little options understanding or experience in regard to options.

Traders in this niche overwhelmingly tend to be people who formerly worked on the floor of the exchange, or were fortunate enough to learn directly from them. It's a small circle that has not expanded quickly. Due to the complexity of options trading, it is very difficult for long-established professionals to attain the knowledge and experience later on in their careers while also maintaining their current practices. Most simply choose to ignore the options market entirely. Today, technology is advancing at lightning speed and investors can gain exposure to options in a very liquid and cost-effective manner through

discount brokerages. The problem is that expertise is not gained as fast as technology can progress, so most firms simply don't have the expertise to offer options.

Will I learn to trade options by hiring you? At a "definition level," you will learn some very basic options terms, if you desire. You will also learn how to understand a trade that has been placed and how to read it on your statement. You will not learn anything about trading or analyzing options trades. This strategy is appropriate for people who want to understand the big picture of what they are hiring us to do. It is not a good solution for people hoping to learn to trade options themselves, or who have a deep desire to learn about options trading intimately and want an expert with whom to discuss their education.

How are options taxed in taxable accounts? Most gains (like those on individual stocks) are taxed at your short-term capital gains rate. Accounts with $250,000 or more can also use index options, which have a favorable tax treatment: 60% long-term gain and 40% short-term gain. Differences like this are one reason why total returns can vary from client to client, and even account to account.

Where can I learn more about options and their risks?
We advise everyone considering options to familiarize themselves with their risks. The Options Clearing Corporation provides a free booklet available from your broker or by going to https://www.theocc.com/components/docs/riskstoc.pdf.

Important Notes & Legal Disclaimers

This brochure is for informational purposes only and should not be considered investment advice or a recommendation to trade options. Options trading is generally more complex than stock trading and may not be suitable for some investors. Before trading options, a person should review the document titled Characteristics and Risk of Standardized Options, which is referenced above. Return on Capital metrics differ between an IRA and a taxable account due to cash set aside differences between retirement accounts and Regulation-T margin accounts (taxable accounts.) Probability of profit is calculated using softwares provided by 3rd party brokers at the time of the trade. The calculation is based on an underlying historical average standard deviation within a similar time frame to contract expiration and, therefore, is not intended to imply that the account will be successful with a given trade on that specific basis. Risk management is necessary even when probabilities seem high. Accounts are traded by registered

investment advisors (RIAs). Registration does not imply a certain level of skill or training. Information pertaining to RIA advisory operations, services, and fees is set forth in the most current Form ADV Part 2 brochure, which is available upon request or at www.adviserinfor.sec.gov.

Due to the customized aspect of some strategies, performance data is often unavailable. Targets provided assume management fees have already been taken out — they are approximately *net* of fees. However, differences in account size, age of clients, risk tolerance, timing of transaction and market conditions prevailing at the time of investment may lead to different results and clients may lose money. Fees and expenses also may vary based on custodial relationships, trading costs, management fees, and other factors such as account size. Thus commissions and other expenses may not be fully considered in the results, and if all potential fees and expenses had been taken into account, the results may be lower. Targets are not guarantees. No representation is being made that any account will or is likely to achieve results similar to those shown. Actual results may significantly differ from expectations.

Contact Us

(800) 620-4232

options@wpwm.com