

# **Tax-Managed Options Strategies for High-Net-Worth Individuals**

**San Francisco Park Hyatt**

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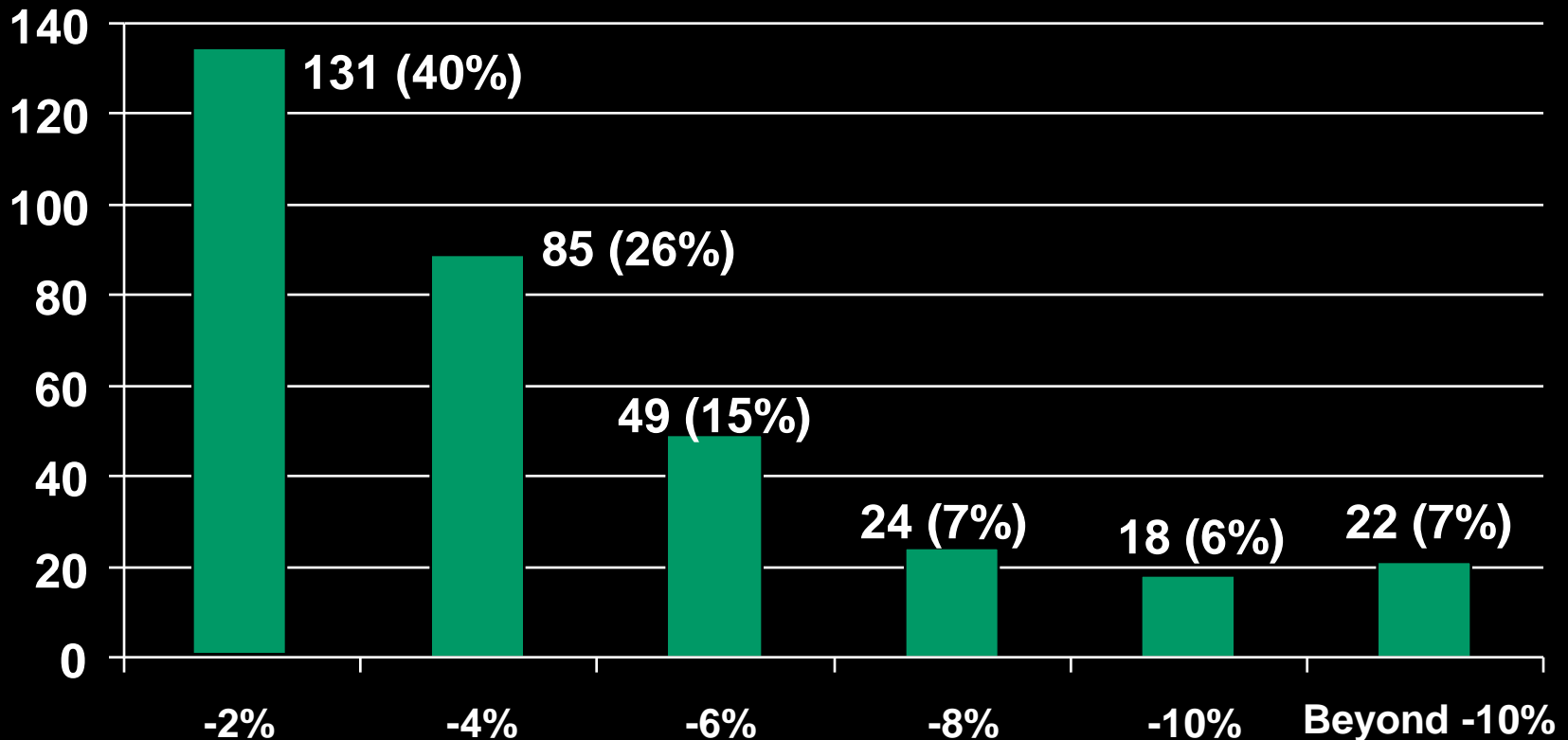
**Analytic Investors, Inc.**

# Why Seek Portfolio Protection?

History shows markets can fall quickly and sharply:

**S&P 500 Monthly Declines, 1928-1999**

# of Months



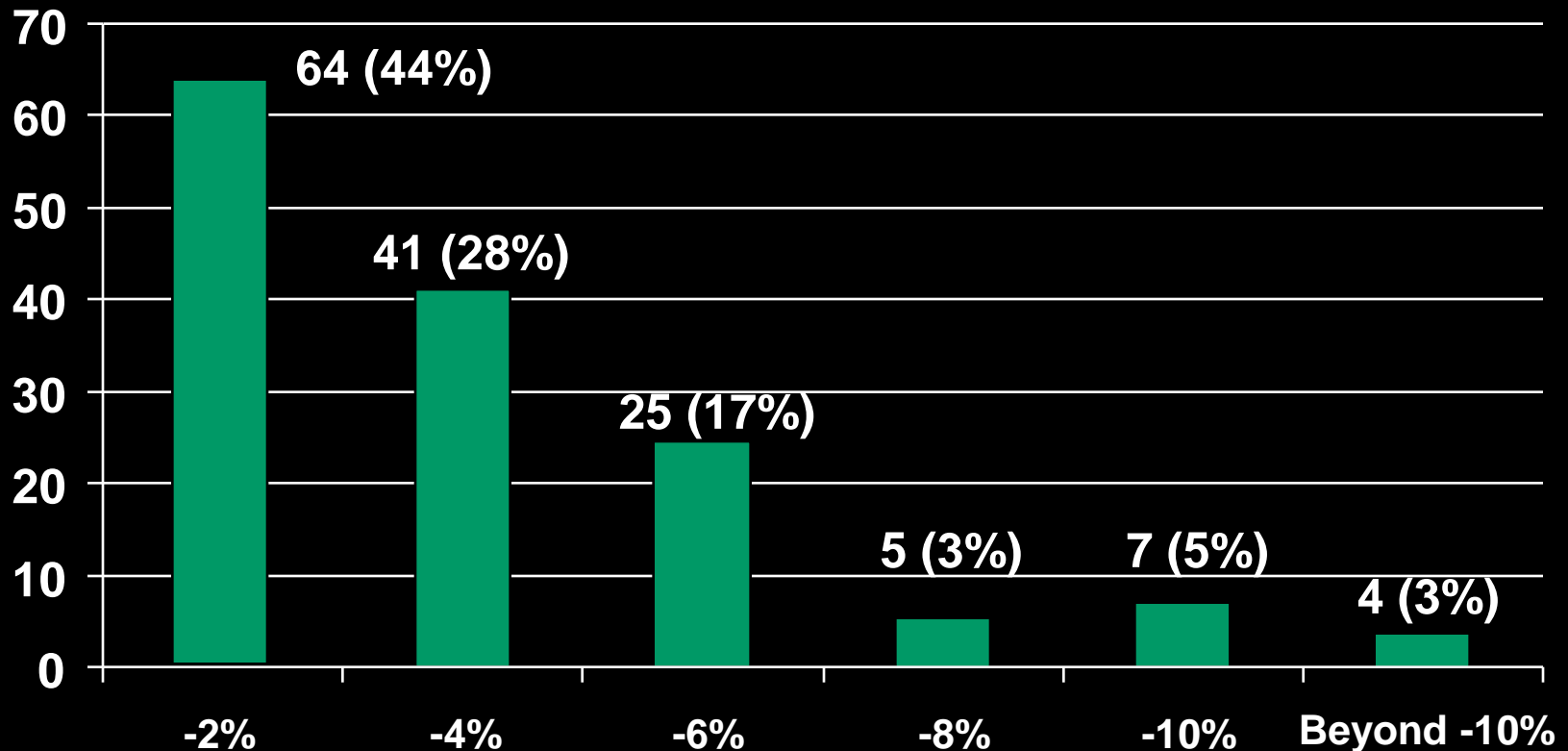
Source: Ibbotsen Associates, Total Return on S&P 500, Jan 1928 - Sep 1999

# Why Seek Portfolio Protection?

Recent history has not been much different:

**S&P 500 Monthly Declines, 1968-99**

# of Months

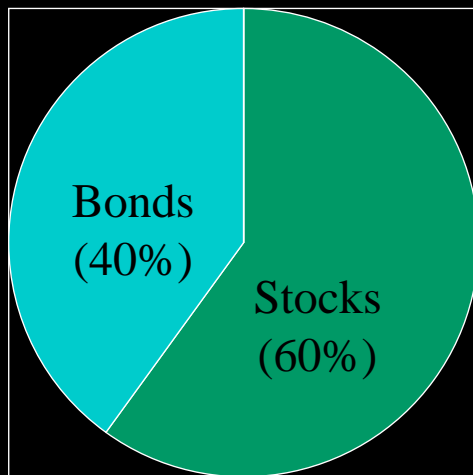


Source: Ibbotsen Associates, Total Return on S&P 500, Jan 1968 - Sep 1999

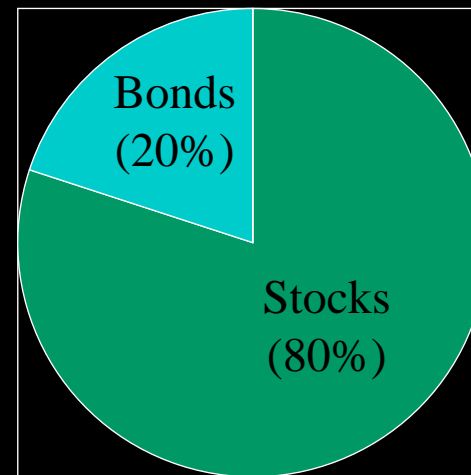
# Traditional Methods of Portfolio Protection

Managers Allocate to and from a “Bond Cushion”

## DEFENSIVE



## AGGRESSIVE



# Need Portfolio Protection? Consider Options

## WHY OPTIONS ARE BETTER THAN BONDS

**MARKET  
SENSITIVE**

**STOCKS ARE  
UNFETTERED**

**GENERATE  
INCOME**

**PERMIT MORE  
EXPOSURE TO  
STOCKS**

**NO NEED TO  
REBALANCE A  
“CUSHION”**

# Options-Based Portfolio Protection

I. Covered Calls (Call Overwriting)

II. Protective Puts

III. Collaring

# Option-Based vs. Traditional Protection

CONDITION	OPTION PROTECTION	BOND CUSHION
Stocks Fall	Increasing Protection	Constant Protection
Stocks Rise	Decreasing Participation	Constant Participation
Time Decay	Gain or Lose Money	Earn Bond Interest
Catastrophe Protection	Very Good	Limited
Stock Selection	Maintained	Disturbed

# Implementation Issues

Choices to be made when using options-based protection:

- ➔ Investment Horizon: protection for how long?
- ➔ Structure: puts, calls, or a collar?
- ➔ Strike Choice: how much protection?
- ➔ Implementation: active or passive?
- ➔ Hedging Focus: protect stocks or portfolio?

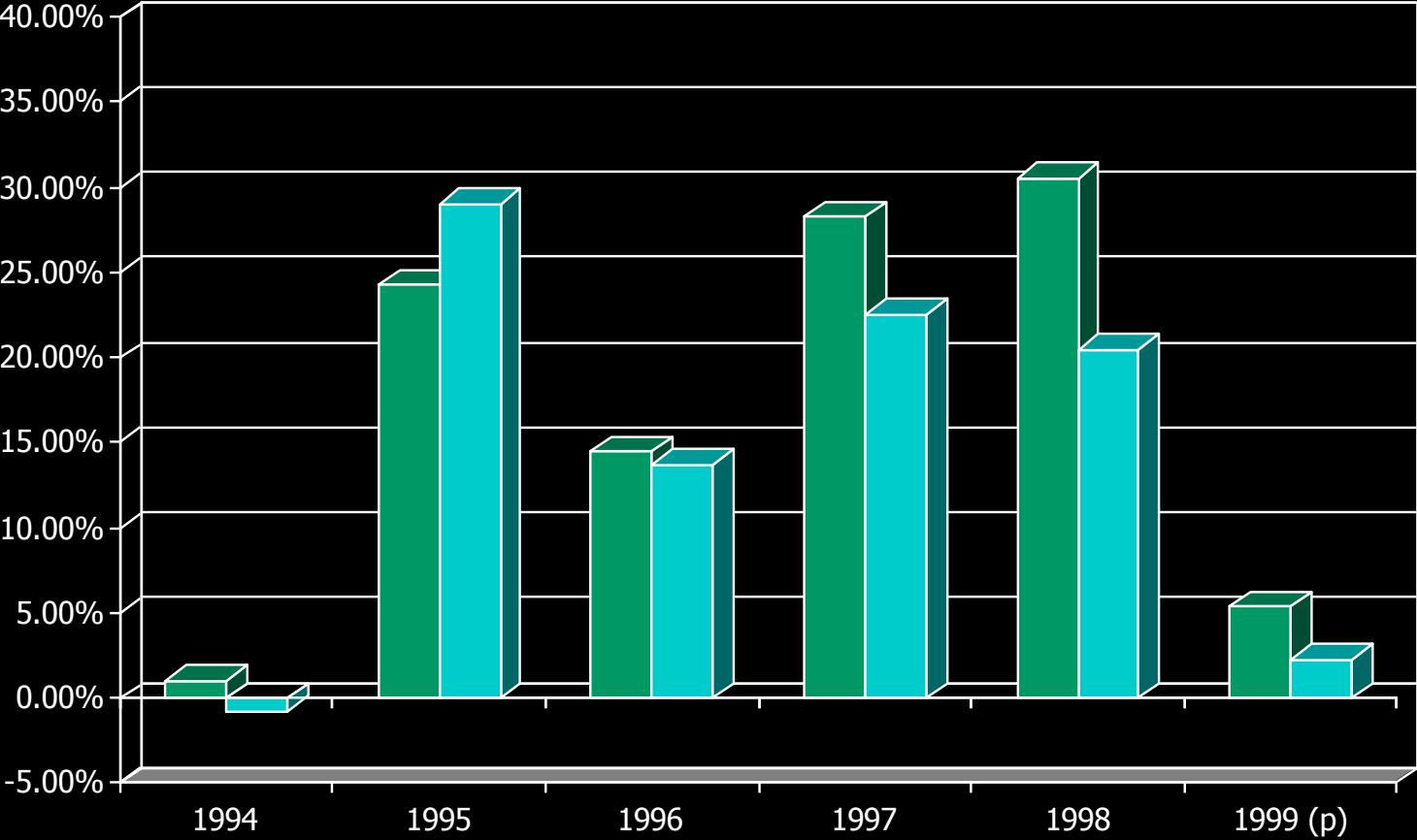


# Case Study: Option Hedging

## The Defensive Equity Strategy of Analytic Investors

- ➔ Portfolio Holdings: 100% Large Cap Stocks
- ➔ Management Style: Active Management
- ➔ Option Use: Short Calls and Long Puts
- ➔ Mix Equivalent: 60% Stocks/40% Bonds
- ➔ Hedging Focus: Hedge Market, Not Stocks

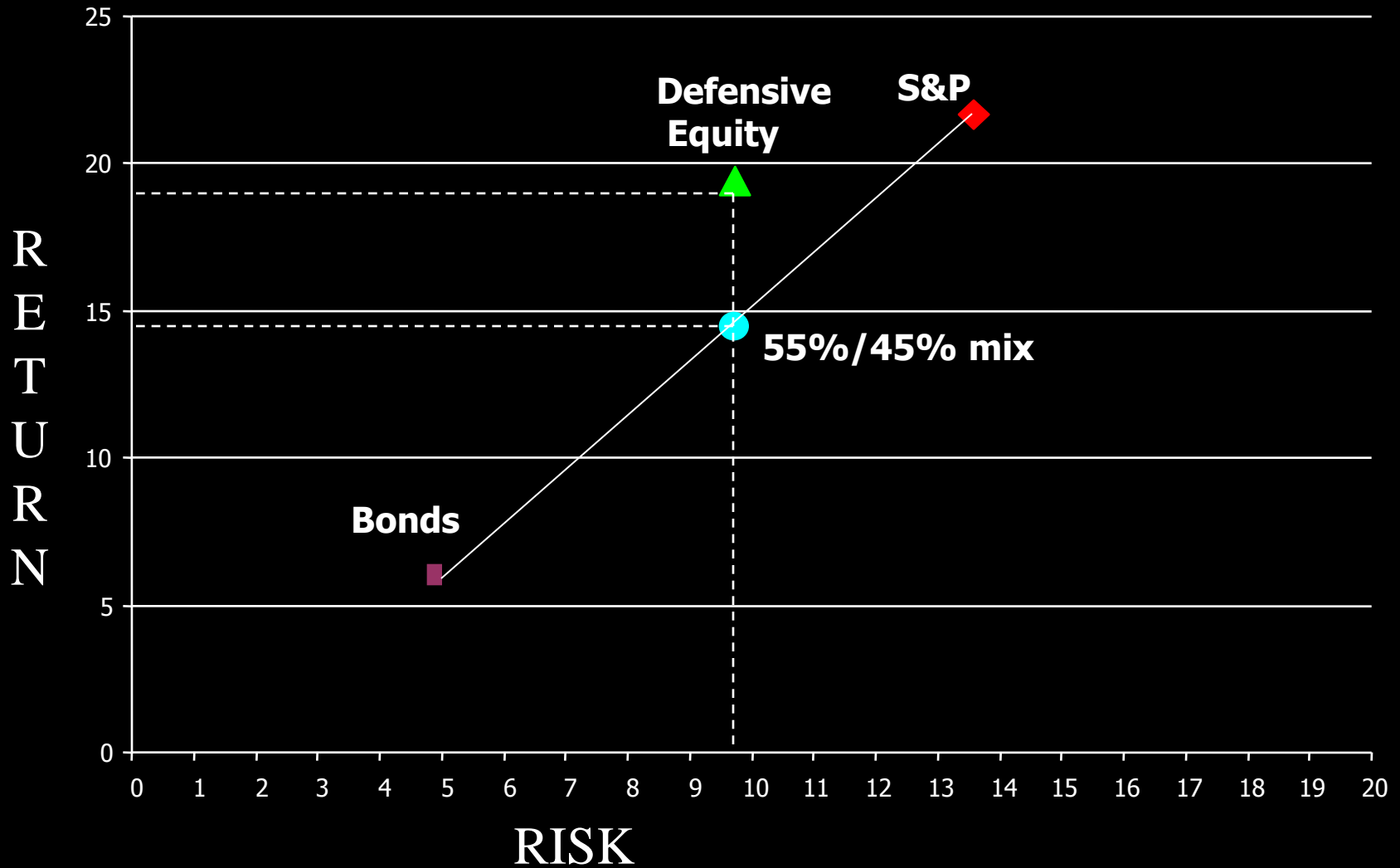
# Performance vs. Comparative Benchmark



■ Defensive Equity ■ 55%/45% Mix

Defensive Equity: 19.5%  
55%/45% Mix: 14.9%

# Defensive Equity Risk Comparison: 1994 - 1999



# CONCLUSION?

Analytic Investor's Defensive Equity Strategy  
Shows the Power of Option Hedging

**STOCK GAINS  
SHINE  
THROUGH**

**100%  
EXPOSURE TO  
STOCKS**

**GENERATES  
INCOME IN  
FLAT MARKETS**

**HEDGING DOES NOT  
INTERFERE WITH STOCK  
SELECTION**