CASE STUDY:
FINDING OPPORTUNITY

Strategy capitalizes on a concentrated position

Our team turned a client's risky concentrated stock position into a covered call options strategy with a positive outcome.

VULNERABLE POSITION

Recently retired engineer Simon Gibson, 62, needed help with his investment portfolio. About half of his $10 million in investable assets was well diversified, but the other half was invested in one volatile Energy security. While the stock generates lucrative dividends, the concentrated position put a large portion of Simon's wealth at risk by tying it to the potential rise and fall of one stock.

Simon's advisors at Wealth Enhancement Group worked with our partners at SpiderRock to create a savvy options overlay strategy. The team put $4.1 million into a covered call strategy to capitalize on the positive market view of the stock. Within three months, the strategy had generated extra income for Simon while also reducing his risk. Our team invested the income into a moderate growth allocation for a more balanced portfolio.

The strategy also gives Simon added flexibility as our team develops a long-term plan, which might include selling the security in the future. When that time comes, we will be able to help him sell the stock in the most tax-efficient way possible. In the meantime, we can explore other options strategies, such as a collar designed to protect Simon on the downside.

FULL-SERVICE PLANNING

Simon contacted our team because of our tax and investment strategies, but he's learning more about our other services. For instance, he is talking with our team about trust and estate planning. We helped him see that because his adult children fall into different tax brackets, it will take wise strategic planning to leave each of them equal assets on an after-tax basis.

We will also help our client:

- Exercise his non-qualified stock options with tax efficiency in mind
- Support his philanthropic goals in a tax-smart way, such as the use of a Donor Advised Fund
- Plan for Roth conversions in the future

Through our team's extraordinary care and comprehensive planning capabilities, Simon is now considering additional planning aspects that hadn't occurred to him before. We will help him make the most of his assets to support his expenses now and build a legacy for his family in the future.

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GLOSSARY

Option
An option is a type of derivative. This means that its value comes from an underlying asset, like a stock. A stock option is an agreement that allows its buyer to buy (call) or sell (put) the underlying asset for a set of predetermined terms.

Call Option
The right to buy an underlying security.

Put Option
The right to sell an underlying security.

Covered Call
A strategy that allows the owner of a stock to sell call options to generate premiums. This is a popular approach for investors who don't think their underlying stock's price will change very much in the short term.

Protective Collar
This strategy combines various options tactics (covered calls and protective puts) to prevent large losses associated with a security. It also limits gains, however.

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