# Equity Options for Financial Advisers

The aging of baby boomers, growth of SMSFs and recent market fluctuations have created a tremendous need for financial advice. At the same time however, there is considerable competition to deliver it. Brokerage firms, independent advisers, banks, and even accounting firms are all fighting for a share of the wealth management business.

Meanwhile clients have become more demanding. They have access to more information and are better informed than ever before. As a result there is pressure on pricing and the need to have a more customized offering.

Options can help advisers meet these challenges in several ways:

### An options strategy provides real customisation

While many products and services are positioned as customised, sophisticated clients recognise that most of the time they are simply being offered a choice of alternatives. But an options strategy is built on a client's existing portfolio. As a unique plan for that investor alone, it provides the customisation that many wealthy clients seek.

### An options strategy moves the discussion from price to value

The most successful financial advisers compete on value. While an adviser's service and knowledge of his client provides value, it typically takes time for an adviser to demonstrate this to a client. In the client acquisition stage, when an adviser may be offering the same asset allocation, managed funds or SMAs as others, demonstrating value can be more difficult. A proposal from an adviser that includes an options strategy, while the others do not, immediately positions that adviser as offering greater value.

### An options strategy builds revenues

Every year the number of clients seeking to reduce their asset management fees increases. Information on fees has become more available, as wealthy clients band together to become more knowledgeable consumers of financial advice. They question what their advisers are doing to earn on-going fees and recognise that some services, such as rebalancing are automated. Implementing options strategies eliminates this discussion and may enable advisers to charge higher fees. For those portfolios managed on a commission basis, options can be a source of additional revenue.

## Three Reasons to Use Options

1. Protecting Portfolio Gains
2. Generating Income
3. Hedging a Position

### 1. Protecting Portfolio Gains

As clients approach retirement they should consider reducing their exposure to riskier assets like equities and increase exposure in safer assets like cash/bonds. However with current interest rates and the benefits franking credits provide through shares it is something that is seldom done. This leaves clients exposed to market corrections, a lesson learned the hard way for many during the GFC. Buying puts on an index that tracks clients portfolios helps to protect their retirement savings.

### 2. Generating Income

You can generate income for clients on an existing portfolio by writing covered calls (selling an option on stock they currently own). In exchange for earning a premium, the client agrees to sell the stock at a later date for a specific price. This strategy has proven to provide significant out-performance when markets are flat.

### 3. Hedging a Position

Options can be useful when a client has a large position in a single stock and you want to shield it from the market's ups and downs. By simultaneously selling covered calls and purchasing puts, you can form a "collar" around the stock to protect its price. A recent study has shown the benefit of this strategy in the Australian market.

## Where to from here?

ASX has a range of resources to help get advisers up to speed on employing options.

- Online Protect Your Shares Course
- Pre-recorded Seminars & Podcasts
- Strategy Guide

Visit www.asx.com.au/options for more information.

Alternatively you may want to arrange an in-house training session. If so, contact:

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