

## **Sevens Report Alpha Webinar:**

### **Hedging with SpiderRock Advisors**

**Thursday, February 18<sup>th</sup>, 2020**

**Tom Essaye, President Sevens Report Research**

# SEVENS REPORT



## Strategy Types

High degrees of customization are available to clients in these three broad categories

### Hedging

Concentrated  
Single Name  
Security



Hedged Equity  
Concentrated  
Stock (HEC)

Hedge portfolio



Hedged Equity  
Portfolio (HEP)

Exchange Single  
Stock Risk for  
Market Risk



Exchange Fund  
Replication (EFR)

### Put Writing

Dynamically  
deploy cash at  
lower levels



Cash Secured Put  
(CSP)

Sell index puts  
collateralizing fixed  
income portfolio



Index Put Income  
(IPI)

Statically sell S&P  
500 puts against  
portfolio



CBOE S&P 500  
PutWrite Index  
Replication (PUT)

### Call Writing

Sell single name  
and index options



Opportunistic  
Yield Enhancement  
(OYE)

Sell index options



Managed Index  
Income (MII)

Statically sell S&P  
500 calls against  
portfolio

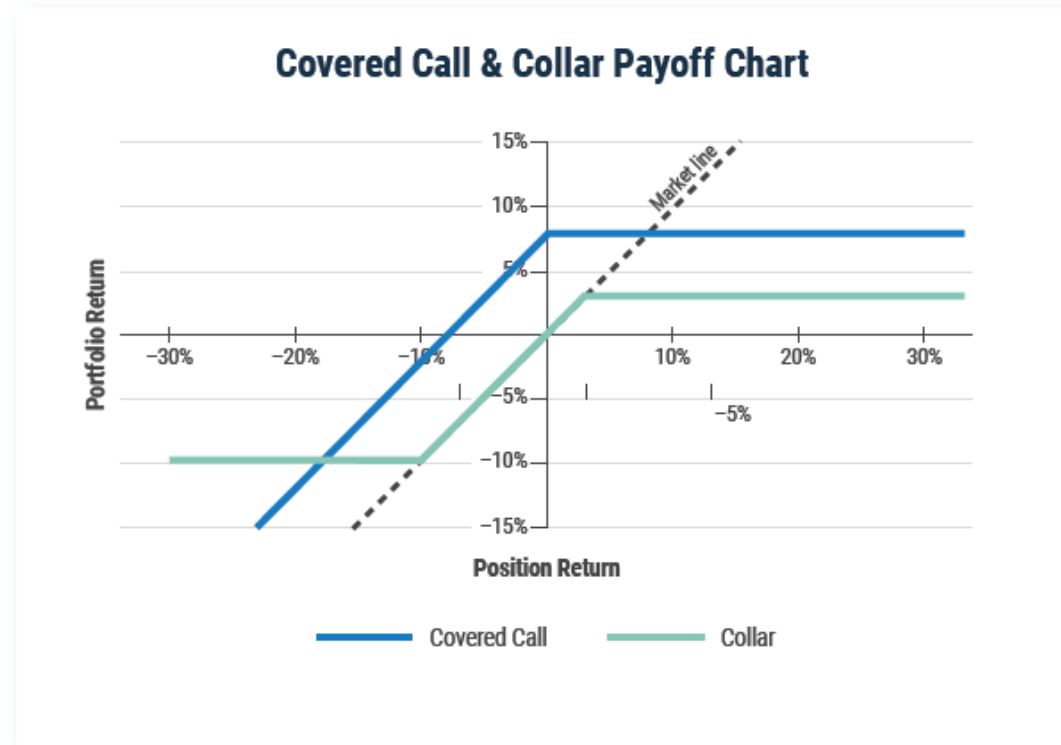


CBOE S&P 500  
BuyWrite Index  
Replication (BXM)

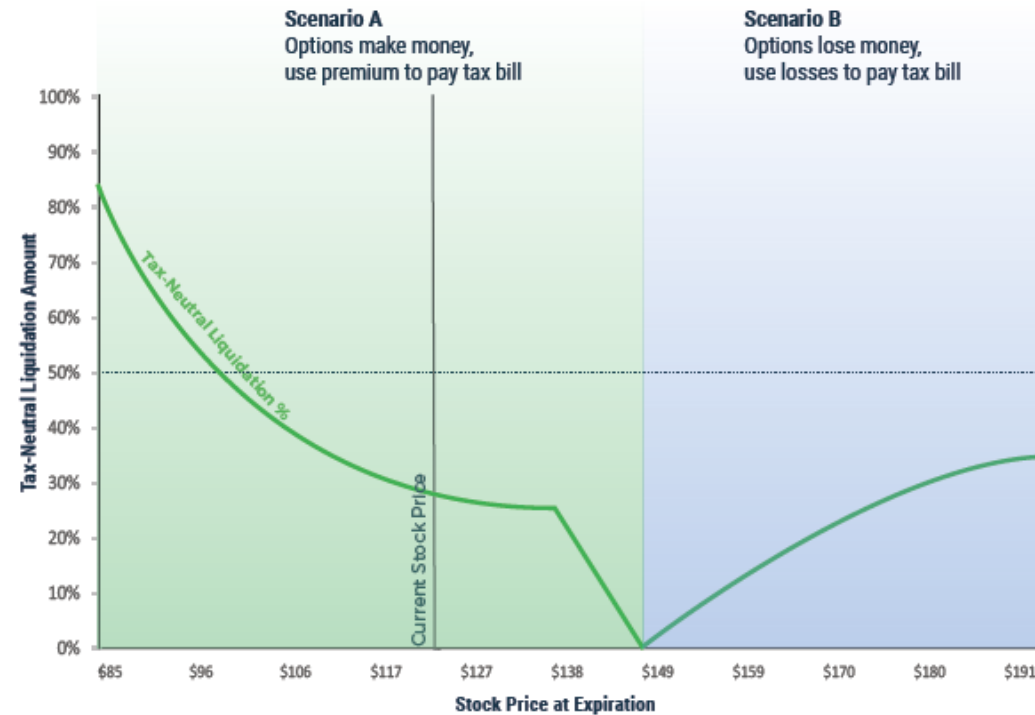
## Two Approaches

### Concentrated Stock Hedging

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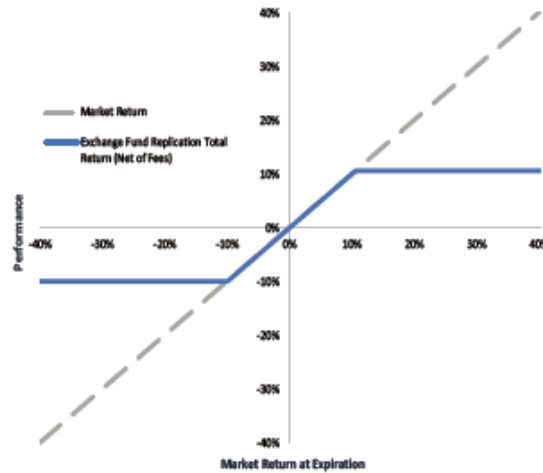


## Amount of Liquidation



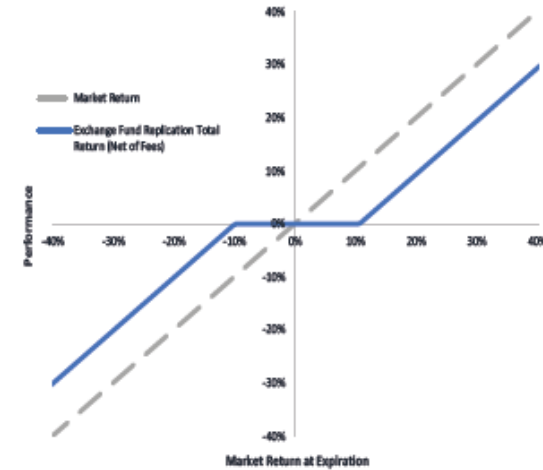
Source: SpiderRock Advisors  
 Option Key: June 2021 AAPL \$140 Strike Call  
 Embedded Capital Gains: 50%  
 Short/Long Term Tax Rate(s): 37.0%, 23.8%

## Exchange Fund Replication



### How to reduce concentrated risk

- 1) Sell call options on concentrated position
- 2) Purchase put options on concentrated position
- 3) Result = position is collared, premium neutral

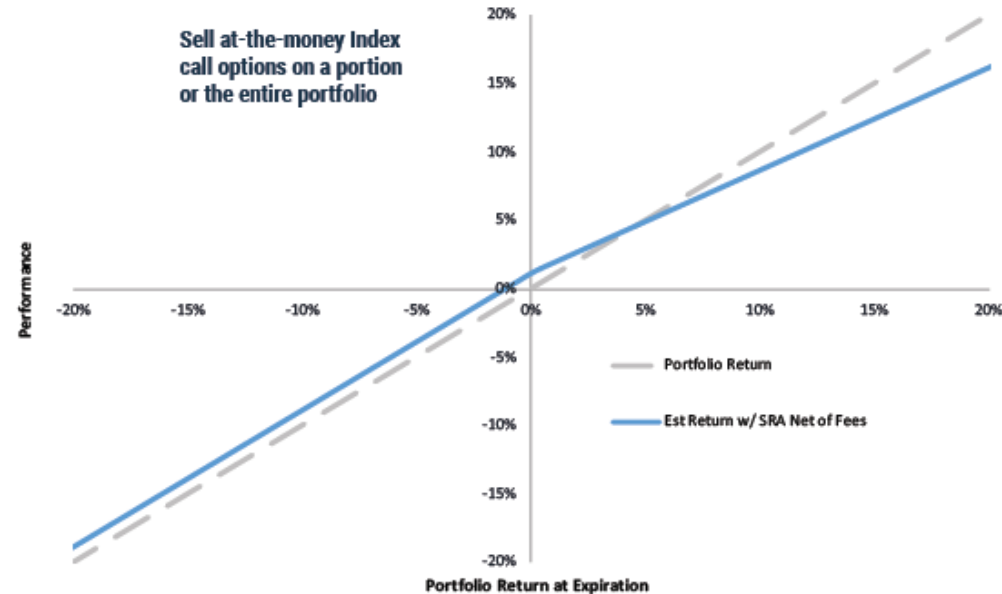


### How to transition to market risk

- 1) Sell put options on the S&P 500
- 2) Use put premium to purchase call options on the S&P 500
- 3) Result = concentrated equity exposure is transitioned to market equity exposure, premium neutral

## Index Call Write Managed Index Income

- The Index Call Write's level of protection is determined by the amount of premium collected from selling calls.
- The strategy's level of upside participation is limited by the amount of overwrite.
- In a flat market, the strategy's PnL will be positive.
- Portfolio dividends are preserved.



### Risk Reduction:

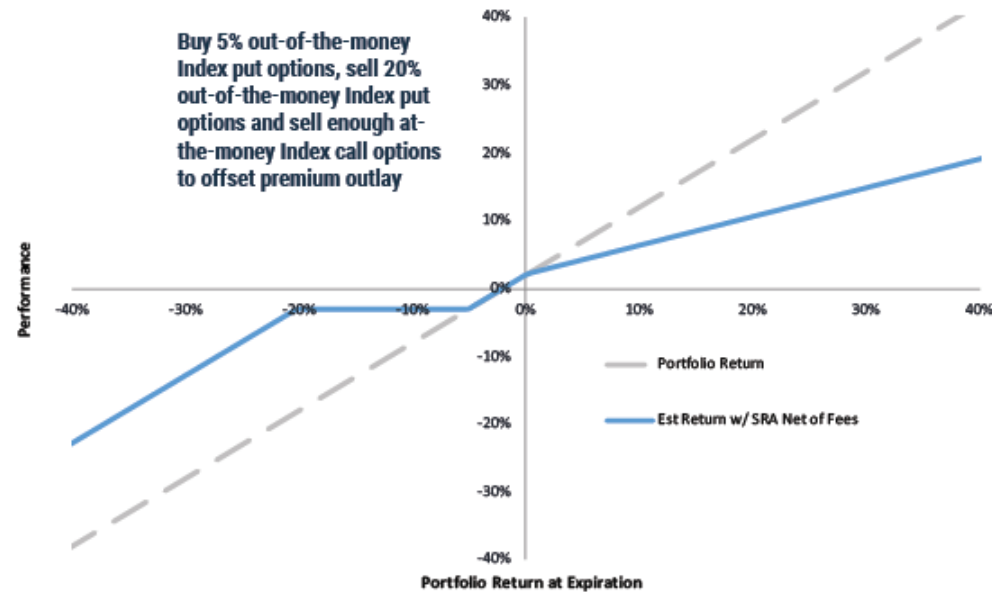


Up to 2-8% annually (call premium generated\*).

\* 25% overwrite in illustration to reduce equity beta by 12.5%. Premiums will vary with market conditions.

## Index Put Spread Hedged Equity Portfolio

- The Index Put Spread will provide protection between -5% and -20% while allowing for partial upside participation.
- The strategy's level of upside participation is slightly mitigated.
- In a flat market, the strategy's PnL will be slightly positive.
- Portfolio dividends are preserved.



**Risk Reduction:**



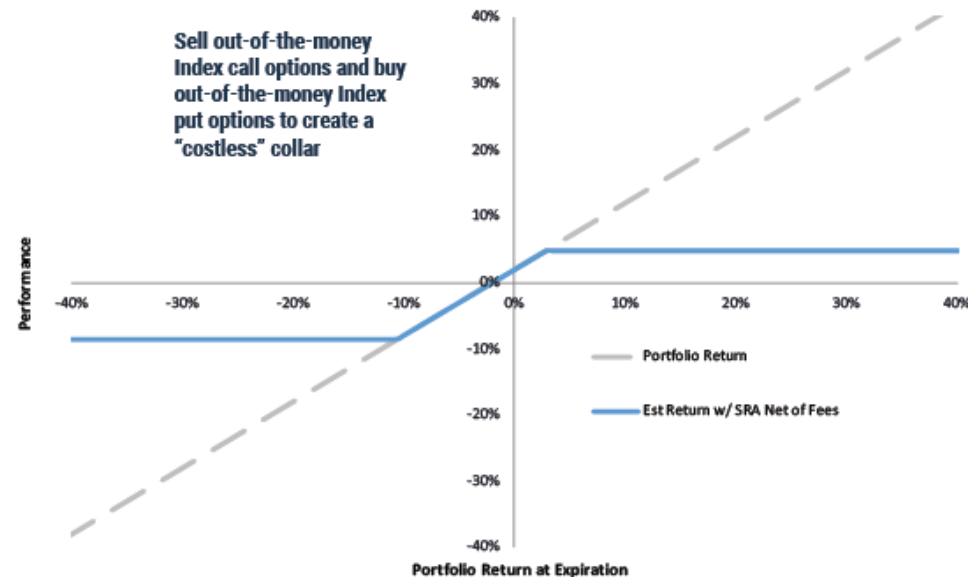
Full equity protection between -5% to -20%.

The above example illustrates a 100% allocation.



## Index Collar Hedged Equity Portfolio

- The Index Collar protects the underlying portfolio from large downside moves, while preserving a portion of the upside.
- In a flat market, the strategy's PnL will be zero or slightly positive.
- Portfolio dividends are preserved.



### Risk Reduction:



Full downside equity protection beginning at -10%.

The above example illustrates a 100% allocation to reduce beta by up to 70%.

## Contact Us

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