HEDGING

A hedging strategy will allow you to retain the stock position and any ownership rights through options and other types of derivative securities. This approach also can help protect against downside risk by allowing you to specify the amount of risk you're willing to accept. You may then control that risk for a fixed premium.

PROTECTIVE PUTS

One common way to hedge the downside risk of a large holding is to buy "put" options. A put option gives you the right to sell the underlying stock at a predetermined strike price on or before a specified maturity date. This can provide you with protection in the event that your stock trades below the predetermined strike price.

This strategy limits potential losses while preserving upside potential. However, this strategy can be expensive. Contracts must be renewed continually, and you can lose the full premium in a short period of time. This strategy raises the breakeven price on the underlying security by the amount of the put premium. You should also be mindful of whether the holding period on the stock is short term or long term, as certain put purchases will have an impact on that holding period.

LOW COST COLLARS

Collaring the stock position is one strategy that can be used to offset some of the costs associated with purchasing protective puts. A collar involves the purchase of a protective put and the sale of a covered call. When selling a call option you receive an upfront premium, and are obligated to sell the stock at a predetermined strike price. If the stock appreciates above the strike price, it may be sold, thus limiting your potential upside in the stock and triggering capital gains taxes. You can use the premium received from selling the call to pay for some, or all, of the premium required to purchase the protective put. Collaring can hedge downside risk in a stock without incurring the full cost associated with a protective put.

Be aware that collars executed in the listed options market may incur significant transaction costs since they involve multi-leg option strategies. When selling covered calls, you should be mindful that using certain in-the-money calls may trigger a taxable sale or affect qualified dividend income.

OPTIONS CONSIDERATIONS

While one or more hedging alternatives may be appropriate to help decrease the risk associated with a concentrated position, it is important to remember that options themselves incur risk and are not suitable for all investors.

Options may be executed in the listed or over-the-counter ("OTC") markets. Often, investors with larger positions (greater than $1 million) who meet certain net worth requirements can benefit from the customization of the OTC market. However, OTC options are exposed to the credit risk of the counterparty on the trade.

You should obtain a copy of a current Options Disclosure Document from your financial advisor or from the address on the back cover of this brochure before choosing these types of strategies. Supporting documentation for any claims (including claims made on behalf of our options programs or our options expertise), comparisons, recommendations, statistics or other technical data is available upon request.

FEES

Fees vary by transaction and are generally 3% or less. The size, duration and structure of the collar impact the fee, which is built into the structure and may affect the calculated floor and/or ceiling values of the OTC collar.

Sample OTC Collar Transaction	
Number of shares	100,000
Current price	$50
Total value	$5,000,000
Put (floor) price	85% ($42.50)
Call (ceiling) price	110% ($55.00)
Net premium*	0% ($0)
TERM	12 MONTHS

SHARE DELIVERY

Closing Price	Client's Value	Client's Total Value	Value Protected	Profit Participation
$25	$42.50	$4,250,000	$1,750,000	$0
$37.50	$42.50	$4,250,000	$500,000	$0
$42.50	$42.50	$4,250,000	$0	$0
$50	$50	$5,000,000	$0	$0
$51	$51	$5,100,000	$0	$100,000
$55	$55	$5,500,000	$0	$500,000
$75	$55	$5,500,000	$0	$500,000

This example is for illustrative purposes only and does not reflect the performance of any specific investment.

*Net premium may vary based on the terms of the structure.

SELECTED U.S. COMPANIES DECLARING BANKRUPTCY: 1987 – PRESENT

Adelphia Communications

Bank of New England

Bethlehem Steel

Boston Chicken

Burlington Industries

Charter Medical

Circuit City Stores

Columbia Gas Systems

Conseco

Delphi Corporation

Delta Airlines

Drexel Burnham Lambert

Eastern Airlines

Enron

Federated Dept. Stores

Financial Corp. of America

Fruit of the Loom

General Motors

Global Crossing

IndyMac Bancorp, Inc.

Kmart

Lehman Brothers Holdings, Inc.

Magellan Health Services

Montgomery Ward

Nortel Networks

Pacific Gas & Electric

Polaroid

Refco Inc.

Rockefeller Center Properties

Spiegel

Sunbeam

Texaco

Texas American Bancshares

Tribune Company

Tropicana Entertainment, LLC

UAL (United Airlines)

Washington Mutual, Inc.

Winn-Dixie Stores

WorldCom

The table above is meant for illustrative purposes only and not designed to represent a complete list of all bankruptcies. Source: bankruptcydata.com