Webinar for CFP CE Credit

Risk Management with Collar Investing

"A New Investing Idea" NAPFA Advisor Magazine

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Investment Manager for Separate Accounts and *The Collar Fund*™ *(COLLX)*

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What is Collar Investing?

- Collar Investing has **nothing** to do with concentrated stock positions.
- Collar investing is the simultaneous purchase of a stock and a put option, along with the sale of a covered call option; the put contract protects the new stock while the covered call limits the stock's upside, but also finances the put premium.
- The art of Collar Investing is to find those combinations offering the greatest reward with the least risk.
- With Collar Investing, the focus shifts from stock selection to collar selection.

AAPL (Apple Inc.) protected with an Equity Collar*

The equity collar can be an effective and inexpensive way to limit risk in the stock market. This hedging tool places boundaries (or a collar) around a stock with listed options; a Put option is bought to limit risk (the lower boundary), and a Call option is sold to reduce costs (the upper boundary). While a stock is wrapped in the collar (such as for one or two years), any loss or gain is limited by the minimum and maximum price range of the collar, no matter how much the stock actually falls or rises. Generally, a collar is most attractive when potential gains under the collar substantially exceed potential losses, and the cost of the collar is minimal or zero.

For example, "AAPL" on 01/12/10 10:30 AM (NY time) was trading at $207.90. At that same moment, a collar trade could have been initiated which placed a lower boundary on "AAPL" at $190.00 and an upper boundary at $230.00 for the next 375 days. Based on the assumptions for this illustration, if "AAPL" closes above $230.00 on 01/22/11, the gain will be 10.7% or 10.4% annualized versus a loss of -8.5% or -8.3% annualized if the stock closes below $190.00.

This example is for demonstration purposes only and does not include relevant costs, including fees, commissions and interest charges (if applicable for margin accounts). These costs vary depending on a number of factors including the broker/dealer where trades are executed, the size of your account and frequency of trading. Where dividends are included, they are assumed to be collected at the current dividend rate. The annualized returns cited might be achieved only if the parameters described can be duplicated and there is no certainty of doing so. Different assumptions will lead to different results. Nothing in this example should be interpreted to state or imply that past results are indicative of future performance.

Before investing, you should carefully review all relevant costs and risks (*see footnotes). Options and other financial derivatives involve certain risks and are not suitable for all investors. Hedging strategies may be subject to IRS Tax Straddle regulations and other IRS rules, which might adversely impact tax treatment in your specific situation.

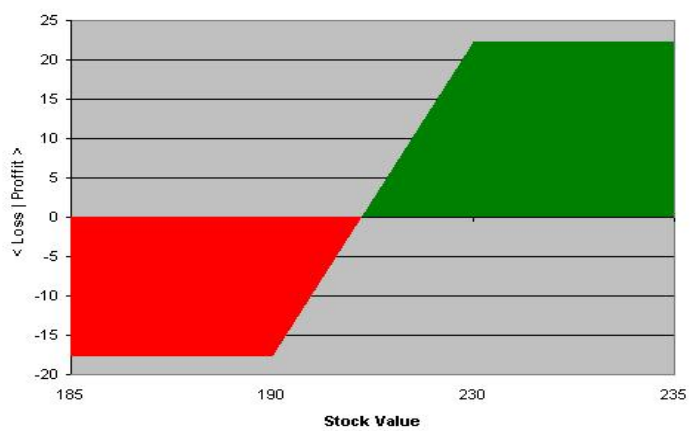
Equity Collar For AAPL			
Buy Put expire 01/22/11 @ $190.00	Minimum Stock Value		$190.00
Sell Call expire 01/22/11 @ $230.00	Maximum Stock Value		$230.00
Collar Example as of: 01/12/10 10:30 AM			
Buy Stock (Ask Price):			$207.90
Collar: Buy Put (Ask Price):		$20.95	
Sell Call (Bid Price):		-$21.15	
Net Collar Cost (Credit):		-$0.20	-$0.20
Less: Dividends assumed for 375 days:			$0.00
Stock Breakeven on 01/22/11:			$207.70
Upside per Share: (Stock sold at $230.00)			$22.30
Risk per Share: (Stock sold at $190.00)			-$17.70
% Gain for period: (375 days)			10.7%
% Loss for period: (375 days)			-8.5%
% Annualized Gain:			10.4%
% Annualized Loss:			-8.3%
Reward/Risk Ratio:			1.3 to 1

Advantages:

-Limits risk of owning stocks
-Investment protection at reduced cost

Considerations:

-Limits maximum return
-Tax rules for hedging may apply



* This example was prepared by Summit Portfolio Advisors, LLC ("SPA"). It is intended to show how SPA may use an equity collar on a particular stock. The given materials are subject to change and, although based upon information that SPA considers reliable, are not guaranteed as to accuracy or completeness. This information is for educational purposes only. Neither this example nor any information derived from using this example constitutes tax, legal or accounting advice or an offer to buy or sell any security or other financial instrument. Neither this example nor any information derived from using this example should be the primary basis for any investment decision, and any such information is not guaranteed to be accurate or complete or applicable to your circumstances. You should consult your legal, tax and accounting advisors for assistance in analyzing your circumstances to determine how these transactions may impact you. For information on the uses and risks of options, your brokerage firm where your option account is custodied is required to provide you with a copy of Characteristics and Risks of Standardized Options. Nothing in this example should be interpreted to state or imply that past results are an indication of future performance. Neither SPA nor our information providers shall be liable for any errors or inaccuracies, regardless of cause, or the lack of timeliness of, or for any delay or interruption in the transmission thereof to the user. SPA is not affiliated with the company in this example and the information presented has not been reviewed or endorsed by this company.

Explaining Collar Investing

- **Stock A**
  - "A" trades at $100
  - "A" pays no dividends
  - $90 1yr Put trades at $6
- Conclusion: A & B perceived as having same risk.
  - $110 1yr Call trades at $8
- Conclusion: Investors more bullish on A than B.
  - Maybe an indicator
- Conclusion: "A" Collar has greater reward/risk:
  - Collar Cost=$98 (100+6-8)
  - Upside=$12 (110-98)
  - Downside=$8 (98-90)
  - Reward/Risk=1.5 to 1

- **Stock B**
  - "B" trades at $100
  - "B" pays no dividends
  - $90 1yr Put trades at $6
  - $110 1yr Call trades at $6
  - Collar Cost=$100 (100+6-6)
  - Upside=$10 (110-100)
  - Downside=$10 (100-90)
  - Reward/Risk=1 to 1

Collars vs. buying protective puts or selling covered call strategies

- Assume buy stock “A” at $100
  - Protective Put: Buy $90 1yr Put trades at $6
  - Covered Call: Sell $110 1yr Call trades at $8

	Buy Protective Puts Strategy	Covered Call Strategy	Collar Strategy
“A” drops to $50	$16 loss	$42 loss	$8 loss
“A” stays at $100	$6 loss	$8 gain	$2 gain
“A” rises to $150	$44 gain	$18 gain	$12 gain
Comments	Puts only strategy will erode returns	Calls only limits gains but still risky	Reasonable upside with limited risk

SUMMIT PORTFOLIO ADVISORS, LLC
"SPECIALISTS IN EQUITY COLLARS – A SAFETY NET FOR STOCKS"™

Sample Portfolio of Stocks Protected with Equity Collars *(as of 1/15/08 10:39 AM NY time)**

For investors seeking protection (*i.e. portfolio insurance*), the equity collar can be an effective and inexpensive way to limit risk in the stock market. This hedging tool places boundaries (or a collar) around a stock with listed options; a Put option is bought to limit risk (the lower boundary), and a Call option is sold to reduce costs (the upper boundary). While a stock is wrapped in the collar (such as for one or two years), any loss or gain is limited by the minimum and maximum price range of the collar, no matter how much the stock actually falls or rises. Generally, a collar is most attractive when potential gains under the collar substantially exceed potential losses, such as in the hypothetical portfolio of collared stocks listed below.

Summit Portfolio Advisors, LLC has pioneered *Collar Investing*, which allows stock investment within a pre-determined range of risk and reward. The special features of this conservative investment approach are highlighted in these collar investing examples. For more information about Summit's investment management services ($100,000 minimum account size with annual fee normally 0.80%), click on www.CollarInvesting.com.

Advantages:
-Limits risk of owning stocks
-Portfolio Insurance at minimal or no cost

Considerations:
-Limits maximum return
-Tax rules for hedging may apply

Collar as of: 1/15/08 10:39 AM	AAPL	CMI	CTSH	JCP	MYGN	OMC	QCOM	RIMM	SPY	WFMI
Buy Stock at (Ask Price):	$176.05	$49.27	$27.47	$36.45	$47.39	$43.75	$39.01	$92.80	$138.68	$36.40
Collar: Put exercise price (Lower Boundary):	$170.00	$45.00	$25.00	$35.00	$45.00	$40.00	$35.00	$90.00	$125.00	$35.00
Call exercise price (Upper Boundary):	$210.00	$60.00	$35.00	$40.00	$55.00	$55.00	$45.00	$103.38	$150.00	$40.00
Put and Call options expire on:	01/16/10	01/16/10	01/16/10	01/17/09	01/17/09	01/16/10	01/16/10	01/17/09	12/20/08	01/17/09
Days to expiration:	732	732	732	368	368	732	732	368	340	368
Equity Collar Calculations:										
Collar: Buy Put Option at (Ask Price):	$40.50	$9.70	$4.80	$6.20	$8.60	$5.00	$5.70	$19.70	$7.00	$5.40
Sell Call Option at (Bid Price):	-$41.85	-$9.30	-$4.90	-$5.70	-$8.60	-$4.10	-$6.30	-$19.70	-$7.65	-$4.80
Net Collar Cost (Credit):	-$1.35	$0.40	-$0.10	$0.50	$0.00	$0.90	-$0.60	$0.00	-$0.65	$0.60
Less: Dividends assumed until expiration:	$0.00	-$2.00	$0.00	-$0.80	$0.00	-$1.20	-$1.12	$0.00	-$3.10	-$0.80
Stock Breakeven at Expiration:	$174.70	$47.67	$27.37	$36.15	$47.39	$43.45	$37.29	$92.80	$134.93	$36.20
Upside per share (Call Exercised):	$35.30	$12.33	$7.63	$3.85	$7.61	$11.55	$7.71	$10.58	$15.07	$3.80
Risk per share (Put Exercised):	-$4.70	-$2.67	-$2.37	-$1.15	-$2.39	-$3.45	-$2.29	-$2.80	-$9.93	-$1.20
% Gain for period (Call exercised):	20.2%	24.8%	27.9%	10.4%	16.1%	25.9%	20.1%	11.4%	10.9%	10.3%
% Risk for period (Put Exercised):	-2.7%	-5.4%	-8.7%	-3.1%	-5.0%	-7.7%	-6.0%	-3.0%	-7.2%	-3.2%
% Annualized Gain (Call exercised):	10.1%	12.4%	13.9%	10.3%	16.0%	12.9%	10.0%	11.3%	11.7%	10.2%
% Annualized Loss (Put Exercised):	-1.4%	-2.7%	-4.3%	-3.1%	-5.0%	-3.8%	-3.0%	-3.0%	-7.7%	-3.2%
Reward/Risk Ratio:	7.5 to 1	4.6 to 1	3.2 to 1	3.3 to 1	3.2 to 1	3.3 to 1	3.4 to 1	3.8 to 1	1.5 to 1	3.2 to 1

Caution: The above information is derived from raw data provided by our vendors. Though generally reliable, Summit Portfolio Advisors, LLC makes no assurances as to the accuracy of this information.

*Where dividends are included, they are assumed to be collected at the current dividend rate until option expirations. Also, no commissions, fees or other costs have been included in these calculations, which are for demonstration purposes only. In addition, different assumptions will lead to different results. This example was prepared by Summit Portfolio Advisors, LLC ("SPA"). It is intended to show how SPA may use an equity collar on particular stocks. The given materials are subject to change and, although based upon information that SPA considers reliable, are not guaranteed as to accuracy or completeness. This information is for educational purposes only. Neither this example nor any information derived from using this example constitutes tax, legal or accounting advice or an offer to buy or sell any security or other financial instrument. Neither this example nor any information derived from using this example should be the primary basis for any investment decision, and any such information is not guaranteed to be accurate or complete or applicable to your circumstances. Options and other financial derivative instruments involve certain risks and are not suitable for all investors. Hedging strategies may be subject to IRS Tax Straddle regulations and other IRS rules, which might adversely impact tax treatment in your specific situation. You should consult your legal, tax and accounting advisors for assistance in analyzing your circumstances to determine how these transactions may impact you. For information on the uses and risks of options, you can obtain a copy of Characteristics and Risks of Standardized Options from the Option Clearing Corporation, One North Wacker Drive, Suite 500, Chicago, IL 60606, 1-888-OPTIONS. Nothing in this example should be interpreted to state or imply that past results are an indication of future performance. Neither SPA nor our information providers shall be liable for any errors or inaccuracies, regardless of cause, or the lack of timeliness of, or for any delay or interruption in the transmission thereof to the user. SPA is not affiliated with any of the companies in this sample portfolio and the information presented has not been reviewed or endorsed by any of these companies.

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Collar Investing as alternative to Bonds

- If investor needs coupon interest, bonds are preferred.
- Systematic (un-diversifiable) Risk
  - Both Collars and Bonds hedge systematic risk.
- Default risk
  - Collars may be safer than investment grade bonds.
    - Option Clearing Corp., rated AAA, backs listed options.
- Inflation risk
  - Short term bonds have low returns and long term bonds have significant risk if rates increase.
- Collars vs Bonds expected returns
  - JFSP article by Prof. D'Antonio, PhD
    - Collar expected returns=52%/48% mix of S&P 500/5 yr. Treasuries.

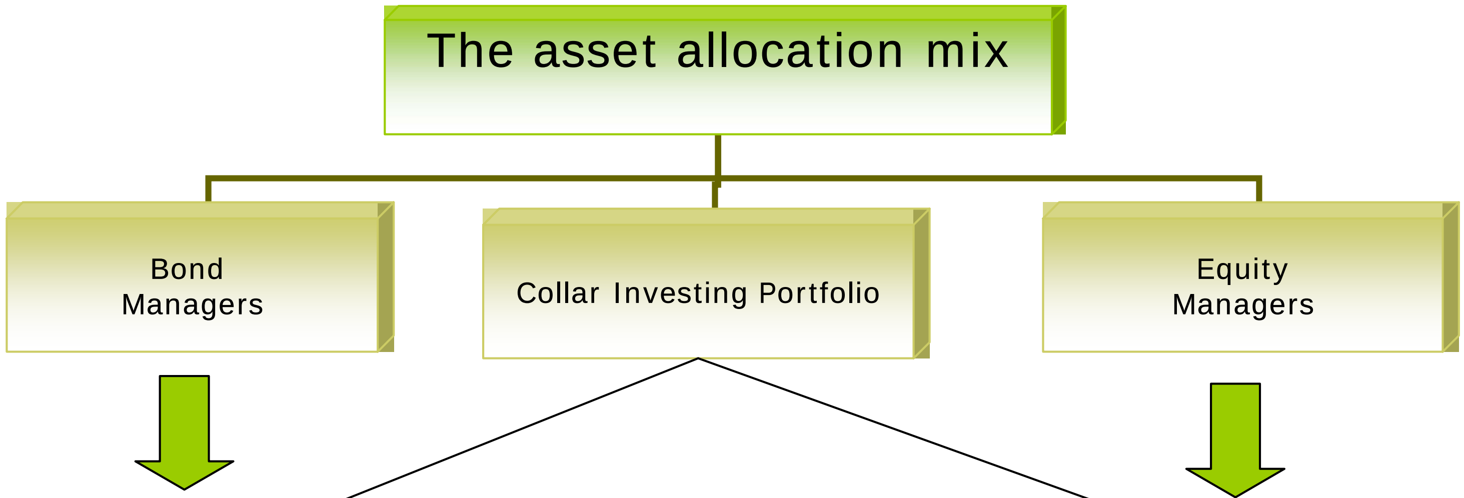
Collar Investing as alternative to equity-indexed annuities and equity-linked notes.

- Reasons why Collar Investing may be better.
  - More favorable reward/risk for investor.
  - Greater transparency.
  - Greater liquidity.
  - With collars, you get the dividend.
  - Ph,D.s McCann and Luo studies critical of equity-indexed annuities and equity-linked notes.
  - Question: Why are annuity companies buying small banks to qualify for TARP money???

Collar Investing Suitability

- Baby Boomers and retirees who can't take big risks.
- Bond alternative for longer term investors such pension plans, endowments, and foundations.
- Investors worried about total market collapse.
  - A Contingency Disaster Recovery Plan (CDRP) for investors.
    - If a total collapse did occur, collared stocks should keep most of value and represent source of liquidity.
- Tax sheltered accounts (ie. IRA Rollover, etc.) preferred.
  - Collar Investing is <u>not</u> a tax-efficient strategy.

Where does Collar Investing fit?



Collar Investing as Bond Alternative

•For Long term investors who do not need current income from bonds.

- •Pension plans?
- •Younger investors?

Collar Investing as Equity Alternative

•For investors seeking equity exposure with limited risk.

- •Retirees and Baby Boomers?
- •Nervous Investors?

Collar Investing versus Asset Allocation

In 2008, asset allocation did not adequately hedge risk.

- Why Asset Allocation is Failing article: Non-equity assets correlate 35% in strong up markets and 85% in sharply down markets.
    - i.e. REITs do not correlate the same in normal and extreme markets.

- Assume client requests max loss of 10%.
    - If using asset allocation, past experience would require 18%/82% stock/5yr treasuries allocation (based on 1931).
    - No assurance that 1931 is worst case scenario.

- Collars provide absolute certainty of downside risk.
    - Adding Collar Investing to the asset allocation mix should facilitate better risk management for the overall portfolio.

Collar Investing Benefits

- Equity exposure with limited risk.
- Protection at low cost.
- More effective risk management tool than asset allocation.
- Perhaps a good alternative to bonds, annuities, and structured notes.
- Possibly a new asset class.
  - Lower *Beta* but higher R^2 to equities.

Final Comments

- To be more aggressive, either widen the collars or increase the allocation.
- *The Collar Fund™,* COLLX, a no-load mutual fund is now available.*

**Investors should consider The Collar Fund's investment objective, risks, charges, and expenses carefully before investing. This and other information about The Collar Fund is contained in the fund's prospectus, which can be obtained by calling 1-888-5-COLLAR (1-888-526-5527). Please read the prospectus carefully before investing. The fund is distributed by Northern Lights Distributors, LLC, member FINRA/SIPC.*

*Mutual Funds involve risk including possible loss of principal.

*The Fund may invest in small, less well-known companies, which may be subject to more erratic market movements than large-cap stocks; foreign securities, which are subject to currency fluctuations and political uncertainty; and derivative securities, which may carry market, credit, and liquidity risks. These risks may result in greater share price volatility.

Exam – True or False

1. Asset allocation has proven to be the best way to manage risk. T or F
2. Collar Investing is mainly intended for aggressive investors. T or F
3. Collar Investing is most profitable when stocks are unchanged. T or F
4. Collar Investing is most suitable in taxable accounts. T or F
5. A “zero cost” collar means no commissions are charged. T or F
6. A stop loss order ensures sale of a stock at a certain price. T or F
7. In a strong up market, Collar Investing will beat the market. T or F
8. You will never lose money with Collar Investing. T or F
9. Collar Investing, like bonds, provides steady income. T or F
10. A portfolio with options is always riskier than stocks alone. T or F

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For CE Credit, email the following to: **tschwab@summitportfolioadvisors.com**

- First, Middle, Last Name
- Your CFP Registration ID
- Last four digits of your SS#
- Exam Results
- Should we email a COLLX prospectus and fund fact sheet to you? Yes or No
- Include comments or suggestions, or call me: 808-874-9537 (my direct line in Hawaii).

A warm aloha and thank you. Tom Schwab