COVERED COMBINATION OBJECTIVE: GENERATING INCOME BY SELLING A COVERED CALL AND A SECURED PUT WHILE ACQUIRING SHARES TODAY WITH THE OBLIGATION TO ACQUIRE ADDITIONAL SHARES.

How one investor received premiums while seeking to mitigate risk by acquiring shares today with the obligation to acquire additional shares at a future date.

A recent sale of part of her business left Taylor with motivation to reallocate assets into publicly traded companies that she felt had long-term potential. As an astute investor, Taylor always looks for efficient ways to potentially reduce risk when selecting entry points for any investment. Additionally, she wondered if there was a way to collect incremental income with the ability to purchase shares at a lower price than today. Taylor knew all too well that concerns of overpaying tend to cause risk aversion paralysis in even the savviest of investors.

To attempt to mitigate that risk, her advisor told her about the "covered combination" options strategy, where she could purchase half of her target number of shares today, then with her reserved funds, purchase the other half if the price were to drop below a specified level at a later date. In the meantime, she would earn two premiums by selling a covered call and a secured put that expired at the same time.

With the covered combination strategy, Taylor could benefit from any short-term gains in the value of the shares she owned, up to the call option strike price. If the price were to decrease below her put strike price, she would be obligated to buy shares at the strike price, which would be above the stock's current price, but that would complete her original acquisition goal. In either case she would receive two premiums upfront.

In Taylor's case, the stock price fell below the put option's strike price before her options expired and she used her reserve funds to fulfill her obligation and buy the other half of the shares, but now at the strike price, which was above the stock's current price.

> "In this example, Taylor's measured approach to acquiring shares at set price levels was realized when the stock's value dipped, triggering her obligation to purchase additional shares at the strike price, which was above the stock's current price, along with receiving associated option premiums.*"

*This is a hypothetical illustration and is not intended to reflect any actual outcome. Please review the "How it Works" section of this brochure for other possible outcomes when using this strategy.

RAYMOND JAMES

Strategically building a full position while attempting to reduce overall risk

While it might seem counterintuitive to initiate a long position in a company while being concerned about near-term price fluctuations, even fundamentally strong companies can face short-term pressures on share prices. For investors like Taylor who are eager to invest in a company and are looking for an income opportunity, the covered combinations strategy may be a suitable strategy.

By selling secured puts, investors can earn income with their reserved funds. By selling covered calls, investors can receive income with the shares they own.

A put is an options contract that can obligate the put seller to purchase shares at an agreed-to strike price. If the stock price goes below the strike price, they will likely be assigned and purchase the remainder of the shares they had aimed to purchase in the first place, but now at the strike price, which will be above the stock's current price.

A call is an options contract that can obligate the call seller to sell shares at an agreed upon strike price. If the stock price increases beyond the strike price, they will be obligated to sell the shares at the strike price, gaining from the original entry price for the stock up to the strike price, but missing any additional appreciation of the shares above the strike price.

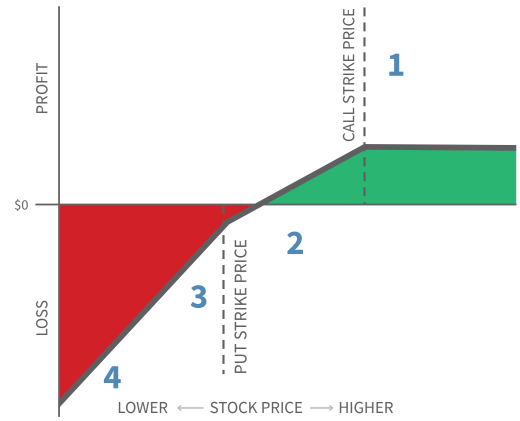
CREATING A COVERED COMBINATION

A covered combination is a strategy of three parts. The investor needs to:

1. Purchase half the shares they intend to buy in a company
2. Sell covered calls
3. Sell secured puts

If the share price falls below the put strike price, the investor is obligated to buy the stock at the put strike price. If the share price rises above the call strike price, the investor is obligated to sell their shares at the call strike price. By selling covered calls and secured puts, the investor will earn options premiums.

The covered call strike price places a maximum reward the investor could benefit from if the stock price rises, and the secured put sets the minimum price in which the investor would potentially buy the remainder of the shares.



Commissions, fees, and taxes have not been included in this example. These costs will impact the outcome of all stock and options transactions and must be considered prior to entering into any transactions.

HOW IT WORKS

With a covered combination, there are four possible outcomes:

1 The stock price exceeds the strike price of the covered call: In this case, the call will likely be assigned and you must sell your stock at the strike price. You keep the appreciation earned on the stock up to the strike price, as well as the premium from selling the covered call, but you will no longer own the position and will not benefit from additional gains. This sale due to assignment may result in a taxable gain.

2 The stock price stays between the put strike price and call strike price: Both the call and the put will likely remain unassigned. You keep the stock you purchased earlier in addition to the premiums earned by selling the covered call and the secured put.

3 The stock price falls below the strike price of the secured put: The put will likely be assigned when the price falls below the strike price, meaning you will be obligated to buy the stock at the strike price, which will be above the stock's current price. You will now own the shares in addition to the shares you purchased earlier.

4 The stock falls to zero value: You should be comfortable with the put strike price as an acceptable long-term acquisition price. If the stock were to plummet, you could buy to close the short put option position. This would realize losses, but potentially limit them. If you take no action, the put option is likely to be assigned, obligating you to purchase the stock at the strike price. Therefore, if this worst-case scenario were to transpire, the maximum loss would occur when the put writer is assigned, obligating the purchase of a worthless stock at the strike price.

Talk to your advisor about covered combinations

Acquire stock today with the potential of selling shares above current market value while being obligated to buy more at the put's strike price, with the benefit of receiving premiums. Talk to your Raymond James advisor to see if your portfolio could potentially benefit from this stock acquisition options strategy.

IMPORTANT COVERED COMBINATION DEFINITIONS

Ask – The disseminated price at which exchanges indicate options can be bought.

American-style – An option that can be exercised/assigned at any point before expiration. Equity options are American-style.

Assignment call – Writers of American-style call options can be assigned at any time. Upon assignment they receive cash from the option owner and must deliver the underlying securities.

Assignment put – Writers of American-style put options can be assigned at any time. Upon assignment they deliver cash to the option holder and must receive the underlying securities.

Bid – The disseminated price at which exchanges indicate options can be sold.

Breakeven point – The initial stock price minus the premium(s) collected from selling the equity option(s).

Call option – An option contract that gives the owner the right but not the obligation to buy the underlying security at a specified price (its strike price) for a certain, fixed period (until its expiration). For the writer of a call option, the contract represents an obligation to sell the underlying product if the option is assigned.

Covered-call – An option strategy in which a call option is written against an equivalent long stock position.

Covered combination – An option strategy in which one call and one put with the same expiration, but different strike prices, are written against each 100 shares of the underlying stock. In actuality, this is not a fully covered strategy because assignment on the short put requires purchase of additional stock.

Decay – A term used to describe how the theoretical value of an option erodes or declines with the passage of time. Time decay is specifically quantified by theta.

Delta – A measure of the rate of change in an option's theoretical value for a one-unit change in the price of the underlying stock.

Exercise – To invoke the rights granted to the owner of an option contract. In the case of a long call, the option owner buys the underlying stock. In the case of a long put, the option owner sells the underlying stock.

Holder – Any person who has made an opening option purchase transaction and has a long position in their brokerage account.

In the money/In-the-money option – A term used to describe an option with intrinsic value. For standard options, a call option is in the money if the stock price is above the strike price, a put option is in the money if the stock price is below the strike price.

Intrinsic value – The in-the-money portion of an option's premium.

Options contract – One options contract typically represents 100 shares of stock.

Premium – The price you pay if you're an option buyer, or the amount you receive if you're an option writer. Option premium consists of intrinsic value (if any) plus time value.

Put option – An option contract that gives the owner the right but not the obligation to sell the underlying security at a specified price (its strike price) for a certain, fixed period (until its expiration). For the writer of a put option, the contract represents an obligation to buy the underlying product if the option is assigned.

Secured put – An option strategy in which a put option is written against a sufficient reserve to purchase stock if the short option is assigned.

Short put option position – The position of an option seller (writer) that represents the obligation to buy stock (in the case of a put) at a specified price (strike price) at or before some date in the future (the expiration date). This position results from an opening sell transaction (short put).

Strike – The price at which stock is traded upon exercise/assignment of an option contract.

Theta – A measure of the rate of change in an option's theoretical value for a one-unit change in time to the option's expiration date.

Time decay – The decline in value of your option as the expiration date approaches.

Time value – The perceived and often-changing value of the time left until an option's expiration.

Underlying – The cash or securities that are delivered upon exercising an option. Most options deliver 100 shares of a single stock.

Writer – Any person who has made an opening option sell transaction and has a short position in their brokerage account.

Options involve risk and are not suitable for all investors. When appropriate, options should comprise a modest portion of an investor's portfolio. Prior to buying or selling an option, a person must receive a copy of "Characteristics and Risks of Standardized Options" (ODD). Copies of the ODD are available from https://www.theocc.com/about/publications/character-risks.jsp or by contacting Raymond James at 880 Carillon Parkway, St. Petersburg, FL 33716. The information in this document is provided solely for general education and information purposes and, therefore, should not be considered a complete description of listed options. No statement within this document should be construed as a recommendation to buy or sell a security or to provide investment advice. There is no guarantee a secondary market will exist for options. Please consult a tax advisor for the tax implications involved in the use of options. Supporting documentation will be supplied upon request.

RAYMOND JAMES®

INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER
880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863 // RAYMONDJAMES.COM