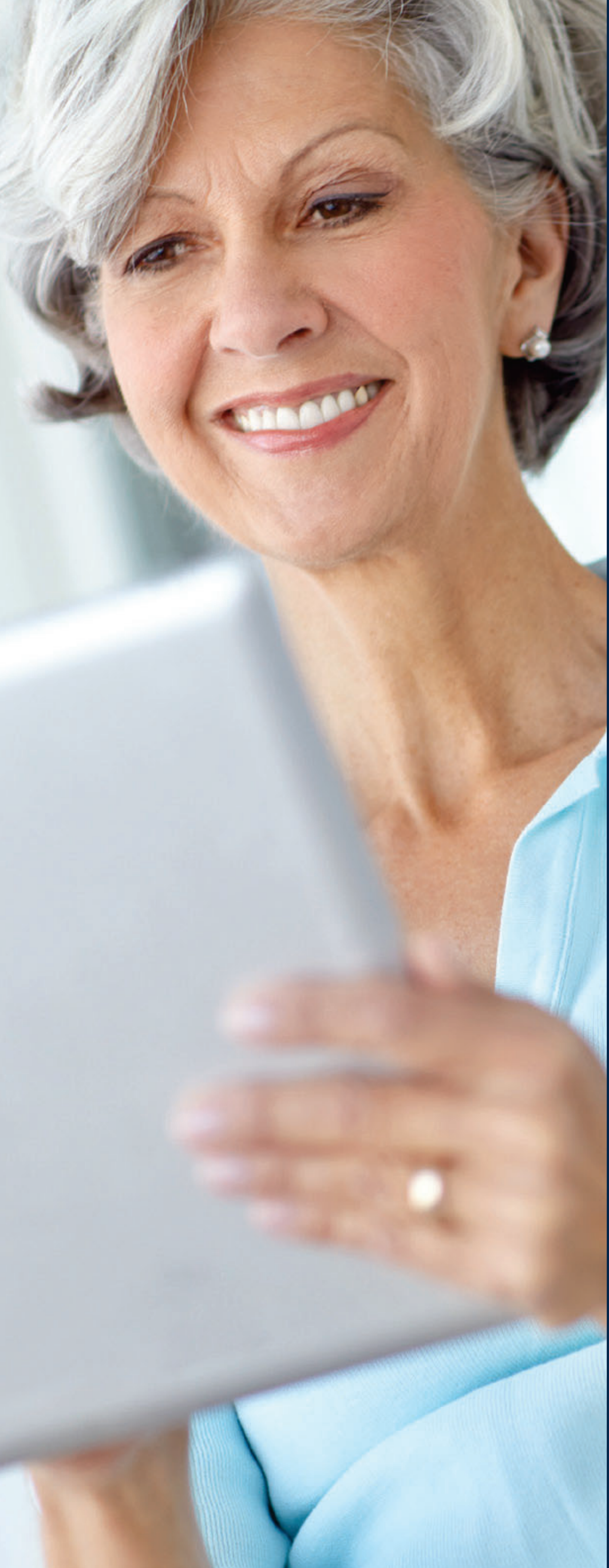

HEDGING YOUR LONG STOCK POSITION:
THE PRIMARY OBJECTIVE OF A PROTECTIVE COLLAR

How one investor preserved long-held stock at little to no cost

Suzanne purchased shares of her company's stock when she first started working there. Over time, the stock's value rose steadily. Suzanne wanted to protect the unrealized profit she had gained, especially since some research analysts were saying its price could start going down.

Her advisor told her about an options strategy called a protective collar. Suzanne could preserve her investment from a drop in the stock's price by purchasing a put below the stock's current price, and fully or partially offset the cost of the put by selling a covered call above the current price on the same stock. The put sets a limit on her losses should the stock price go down, while the covered call gives her the opportunity to profit, up to a certain point, should the stock continue to rise – thus creating a "collar." This collar provides protection by securing Suzanne's long-held stock between two prices.

Three months later, the price of the stock had indeed fallen, but only slightly, so Suzanne was able to let the put expire unexercised; naturally, the covered call also expired unassigned. The protective collar allowed Suzanne to help preserve her long-held stock during an uncertain period in the market.

> "The put sets a limit on her losses should the stock price go down, while the covered call gives her the opportunity to profit up to a certain point.*"

*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.

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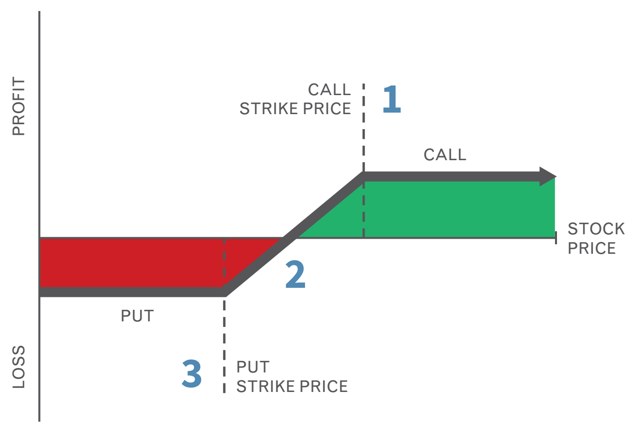
Reducing the impact of a long-held stock's temporary decline with a protective collar

A protective collar is a strategy designed to preserve the value on stock you already own. If you hold a stock that has made significant gains, you might want to protect them against a future drop in price, and lock in those gains, by purchasing a **protective put**. To fully or partially offset the cost of purchasing that put, you can also write a **covered call** on the same stock and collect a premium. (To learn more about protective puts and covered calls, ask for our brochure.) Doing so places a protective collar around your unrealized gains on long-held stock, at potentially little or no cost to you.

In most cases, a collar works best if you have a neutral or bearish market forecast for stock that has gone up in the past, leaving you with unrealized gains you'd like to protect.

PROFIT AND LOSS FOR A PROTECTIVE COLLAR



NOTE: 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 protective collar, there are three potential outcomes:

1 **The stock exceeds the strike price of the covered call at the expiration date, or possibly sooner.** In this case, the call will likely be assigned and you must sell your stock at the strike price. You keep the appreciation from the higher stock price, as well as the premium you received, minus the cost of the put. If the stock continues to rise past your strike price and the call is assigned, you are paid only the strike price and you will not participate in any additional appreciation of the stock. The sale of shares due to assignment may result in a taxable gain.

2 **The stock price remains between the strike prices of the protective put and the covered call.** You can let the put expire unexercised and the call will also likely go unassigned. You keep your stock and the premium you collected from selling the call, which covered most if not all of the cost of the put.

3 **The stock price falls below the strike price of your protective put**, prompting you to exercise your put. By triggering the sale of the stock at the put strike price that's above the price you originally paid for the stock, you've guaranteed a profit on the sale. Moreover, the covered call likely will expire unassigned, and the premium you collected likely covered the cost of, if not the entire cost of, insurance you purchased with the put. However, if the put is exercised prior to the expiration date, then you must purchase the call you sold on the stock to close the transaction. Please note, as the put holder, you have the right to sell the put instead of exercising and therefore keep the underlying stock if you choose.

Talk to your advisor about protective collars

A protective collar can help preserve the value of your long-held stock. Talk to your advisor today to see if your portfolio could benefit from this options strategy.

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

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

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 write – A position in which a call option is written (sell) against a long stock position.

Downside breakeven point – The put strike price net premium paid or received.

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

Married or protective put strategy – The simultaneous purchase of stock and the put options representing an equivalent number of shares. This is a limited risk strategy during the life of the puts because the stock can always be sold for at least the strike price of the purchased puts.

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.

Put option – An option contract that gives the owner the right to sell the underlying stock at a specified price (its strike price) for a certain, fixed period (until its expiration).

Strike – The price at which stock is traded upon exercise/assignment of an option contract. Some options have multiple underlying stocks. In these cases, the strike times the multiplier is the total price paid for all of the option's underlying securities.

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.

Upside breakeven point – The call strike price net premium paid or received.

Writer – If you sell an option to open a new position, you're a writer.

Options involve unique risks, tax consequences and commission charges 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," also known as the options disclosure document (ODD). Copies of the ODD are available from optionsclearing.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. Please consult a tax advisor for the tax implications involved in the use of options. Supporting documentation will be supplied upon request.

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