PROTECTING YOUR STOCK INVESTMENT:
THE PRIMARY OBJECTIVE OF PURCHASING A PUT

How one investor mitigated losses on long-held stocks with a protective put.

Olivia noticed that a stock she held was beginning to lose value, and research analysts were predicting the losing trend would continue. Olivia was hesitant to sell it outright because she felt that it may go up over the long term. Still, she didn't want to hold on to it so long that she lost her entire investment.

Her advisor told her about an options strategy called a protective put that allowed her to keep the stock and benefit from any upside, and at the same time, effectively protect Olivia's stock against a significant loss.

Olivia would pay a premium upfront in return for the right to sell the stock should its share price drop below a level of her choosing, called the strike price. If the stock price fell below the strike price before the put expired, Olivia could choose to exercise the put and the most she would lose would be the difference between the original cost of the stock plus the premium paid, and the strike price – a loss she felt she could tolerate. However, if the stock price were to go up, Olivia could keep the gains and her maximum loss would be the premium she paid for the option.

Two months later, the price of the stock indeed fell well below the strike price. Thanks to her protective put, Olivia was able to exercise her put, sell the stock and limit her losses.

> “A protective put allowed Olivia to benefit from any upside and protected her against a significant loss.*”

*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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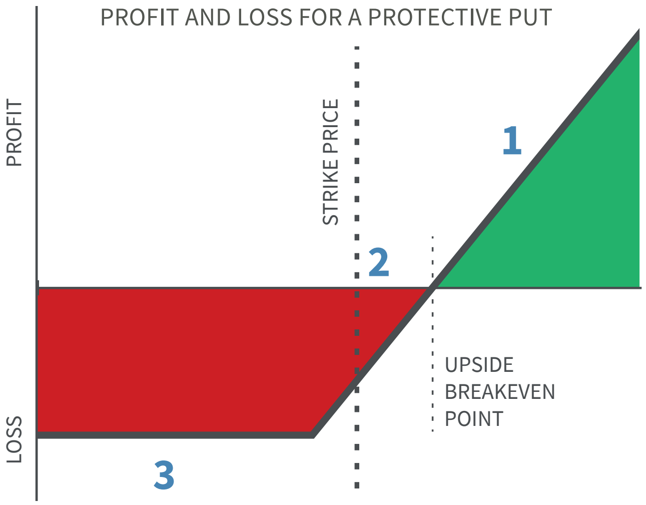
Taking the sting out of a bullish stock's temporary decline with a protective put

When you purchase a protective put, the premium you pay allows you to limit your losses should the stock's price fall below a certain point. Additionally, when you buy a protective put, you reserve the right up to a predetermined expiration date to sell the stocks (or, exercise the put) at a price you choose (called the strike price), even if the actual price of the stock is much lower.

Along with this downside protection, the protective put doesn't affect the stock's unlimited upside potential. Since you determine whether the put gets exercised or not, you could simply allow the put to expire and retain your shares.

So, like with most other types of protection, the best possible outcome with a protective put is not having to use it at all. But a protective put is an effective way to safeguard a portion of your portfolio, for a certain amount of time, from a downturn.



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.

With a protective put, your potential loss is fixed no matter how low the stock declines in value. Should the stock rise in value, you can participate in appreciation once you recoup the cost of the put.

HOW IT WORKS

With a protective put, there are three potential outcomes:

1 The underlying stock rises above upside breakeven so that you are able to recoup the premium you paid for the put. At expiration, the protective put is not exercised, and you keep the stock and its increased value minus premium paid for the put.

2 The underlying stock rises enough to allow you to recoup the premium you paid for the protective put. The breakeven point depends on the price of the underlying stock when the put was purchased.

3 The underlying stock falls below the strike price, prompting you to exercise the put. By triggering the sale of the stock at the strike price, you limit your losses. Please note, the put holder has the right to sell the put instead of exercising and therefore keeps the underlying stock if he or she chooses.

Talk to your advisor about protective puts

Buying a protective put can help you limit your losses and still participate in unlimited stock gains. Talk to your Raymond James advisor today to see if your portfolio could benefit from this options strategy.

Not all products and types of accounts are appropriate for all investors. Please discuss your individual situation and goals with your financial professional.

IMPORTANT PROTECTIVE PUT DEFINITIONS

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

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

Downside breakeven point – The strike price minus the premium paid.

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.

Expiration date – The date that an option and the right to exercise it cease to exist.

Married or protective put strategy – The simultaneous purchase of stock and 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 starting stock price plus premium paid.

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/Company-Information/Documents-and-Archives/Options-Disclosure-Document 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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