

OPTIONS

=====*and the*=====

FINANCIAL ADVISOR

The Financial Advisor's Use of Options: A Benchmark Study

THE USE OF exchange-listed options has been growing at a phenomenal rate. In the last ten years trading volume has increased by nearly 500%, with more than 3.8 billion contracts traded in 2010. So far the pace shows no signs of slowing down.

It is no surprise that financial advisors have contributed to this growth, but a national survey of financial advisors has proved just how instrumental their role has been. The survey was undertaken on behalf of The Options Industry Council (OIC), an educational organization sponsored by the U.S. options exchanges and OCC.

OIC has always included financial advisors in its outreach programs, but in 2009 it began a dedicated advisor program. As part of this initiative OIC wanted to create a benchmark measure of options usage among advisors, learn how, when and why advisors used options and compare the practices of advisors who use options with those who do not.

The Financial Advisor's Use of Options: A Benchmark Study was conducted by Bellomy Research in March 2011. A nationally representative sampling of 607 financial advisors completed a 10 minute online survey. Care was taken to insure there was a statistically significant group from each distribution channel.

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HOW OFTEN *and* WHY
ADVISORS ARE USING OPTIONS



Key Findings

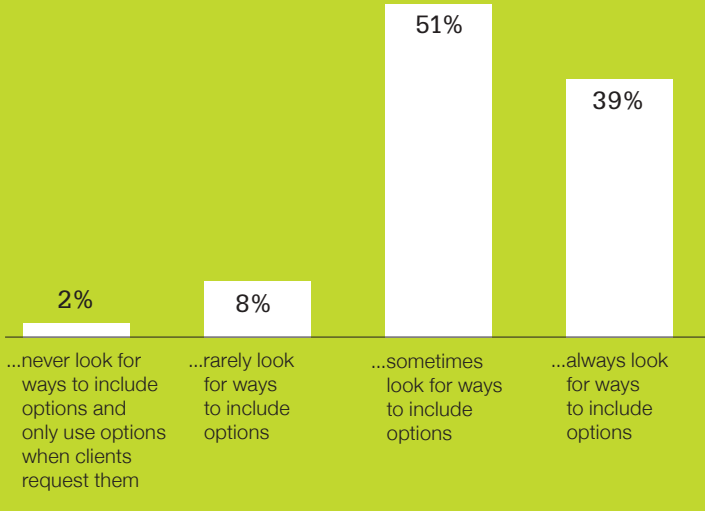
While the study achieved all of the objectives OIC sought, it also yielded some information that had not been anticipated:

- **OPTIONS have gone mainstream.** The survey found 48% of advisors reported using options at least once in a client account in 2010 and one-third planned to increase their usage going forward.
- **OPTIONS usage by advisors is broad and deep.** While covered call writing is the most popular options strategy, the majority of advisors are also using options to hedge client positions or to acquire stock for a client's portfolio at a specified price and time in the future.
- **CLIENTS are having a significant impact on their advisors' use of options.** Half of all advisors—users and non-users alike—have received requests about listed options from their clients during the past three years.
- **ADVISORS who use options have significantly more successful practices.** The survey found 85% of advisors with books over \$100 million use options while among advisors with books less than \$100 million, only 38% use options.

Although the benchmark question on the survey simply asked advisors if they had used options in a client account at least once in the past 12 months, the frequency with which advisors seek to use options is substantially higher. In fact, 90% of the advisors that use options say they always or sometimes look for ways to include options in their clients' portfolios.

Frequency with which Advisors Consider
Using Options in Client Portfolios

WHEN CREATING INVESTMENT STRATEGIES FOR MY CLIENTS, I...



Advisors who used options were also asked whether they currently were holding options positions in their clients' portfolios. Two-thirds reported that they were holding calls or covered calls, and more than half reported holding puts. One-third answered that they were using third-party managers or other advisors to manage options for their clients.

Asked which options they currently held based on a list of financial instruments, the study found the advisors had:

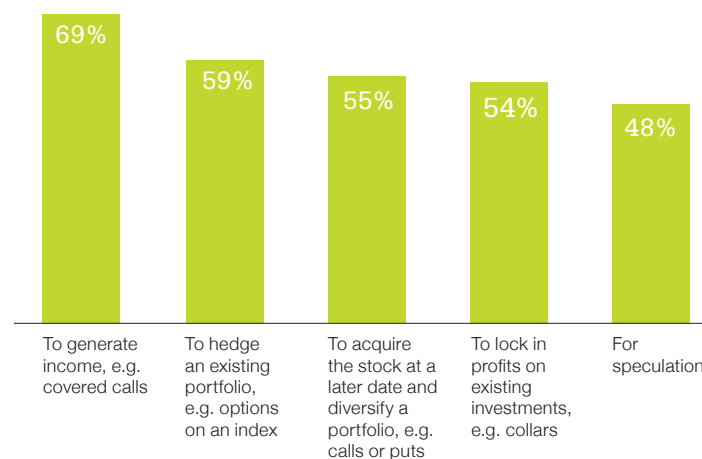
- 88% on individual stocks
- 59% on ETFs or indexes
- 53% on individual bonds
- 44% on futures or commodities

Among users of options, approximately 8% of their books comprised options, similar to the amount held in cash equivalents, ETFs, SMAs and fixed annuities.

While the research found more advisors using options than anticipated, it also found that advisors were implementing options strategies for their clients in a variety of ways. The greatest percentage, two-thirds, reported placing options trades themselves. About half stated that they worked with a team member assigned to options trading and one-third used a small group of options traders in their firm.

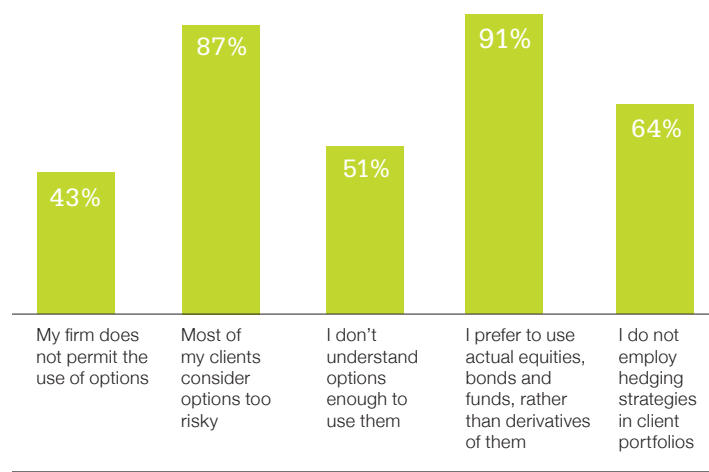
Study participants were also surveyed on the reasons they used options in their clients' portfolios. They could select as many reasons as they wished. As expected the most often stated reason was to generate income, however hedging, diversification, locking in profits and speculation are also common objectives when using options.

WHY ADVISORS RECOMMEND OPTIONS



Among those advisors who do not use options, the advisors' personal preference for other types of investments and their clients' risk profiles were the primary reasons. Firm limitations on options and lack of sufficient understanding when it came to options were impediments to use for only about half of these advisors.

OPTIONS NON-USERS — REASONS WHY NOT

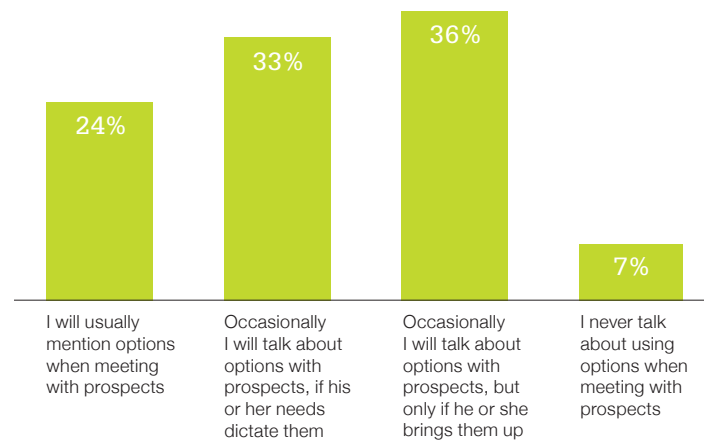


Advisors whose firms did not permit the use of options were also asked if they would use them if this restriction were lifted. Only one-third said they were likely to do so.

Recent research from Cerulli Associates* found that 64% of U.S. households with \$10 million in investable assets are working with four or more advisors, up from just 16% in 2008. This means that while advisors may find it harder to grow existing accounts, they are more likely to have an opportunity to go after high net worth business. More than ever they will need a way to differentiate their service.

Offering options is an excellent way for an advisor to stand out. Some advisors who use options are already making the most of this advantage, but many are not. Only one-quarter of advisors who use options usually mention options when speaking with prospects and one-third occasionally discuss them if the prospects' needs dictate them.

LIKELIHOOD OF ADVISORS DISCUSSING OPTIONS WITH PROSPECTS



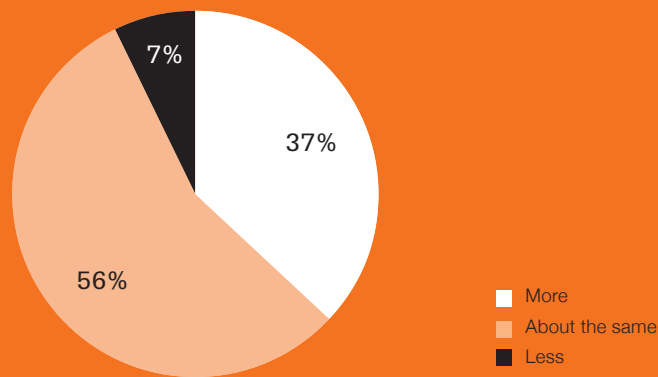
*Cerulli Special Quantitative Update: Investors in the High-Net-Worth and Ultra-High-Net-Worth Marketplace, 2011

WHY OPTIONS USE *is on* THE RISE



The study found that more than one-third of the advisors who used options increased their use during the past few years.

CHANGE IN FREQUENCY OF OPTIONS USE IN 2010

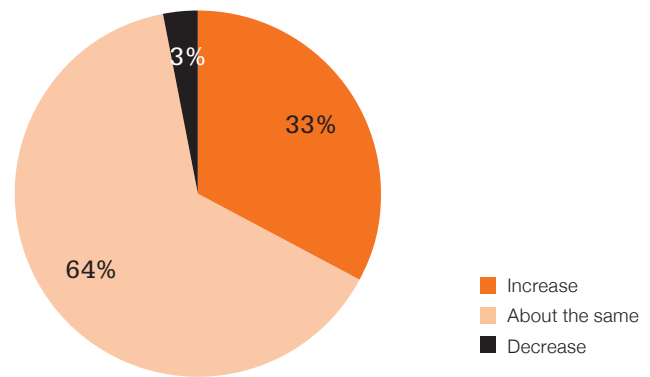


Market forces and client demand were cited as the primary reasons for the increase. Advisors said clients often expressed interest in reducing their exposure to market volatility. Some clients were responding to the portfolio losses they experienced in 2008 and 2009, while others were anxious to lock-in gains they had made in 2010.

These findings are consistent with other current research. A Met Life Poll, conducted in March 2011 of 1,000 investors over the age of 45, found participants concerned about market volatility and interested in exploring new investment approaches that offered the potential for steadier, more consistent returns.

With investors expressing these kinds of concerns, one-third of the advisors in the benchmark study said they expected their use of options to increase going forward.

CHANGE IN FREQUENCY OF OPTIONS USE EXPECTED IN FUTURE



WHY YOU NEED *to* OFFER OPTIONS



Almost every advisor in the business is interested in growing his or her book. While it can be done by serving a larger group of small accounts, most would prefer to achieve growth by serving fewer, wealthier clients.

As the chart below demonstrates, providing options strategies is practically required if you are seeking to reach the \$100 million mark. And clearly, advisors not offering options strategies are an even smaller percentage when AUM exceeds \$100 million.

ADVISOR BOOK SIZE AND OPTIONS USAGE

	Overall FAs	Options Users	Options Non-users
Advisor Book Size			
Less than \$10 million	31%	17%	45%
\$10 million to \$24 million	18%	17%	19%
\$25 million to \$99 million	26%	23%	29%
\$100 million to \$499 million	13%	21%	6%
\$500 million or more	12%	22%	1%

In some cases book size and profitability do not go hand in hand. But in the case of options, the study indicated there is a correlation between the use of options and an advisor's revenue.

ADVISOR PRODUCTION AND OPTIONS USAGE

	Overall FAs	Options Users	Options Non-users
Advisor Gross Commissions & Fees			
Less than \$100,000	35%	15%	55%
\$100,000 to \$199,000	23%	22%	24%
\$200,000 to \$499,000	18%	22%	15%
\$500,000 to \$999,000	13%	21%	4%
\$1 million or more	11%	20%	2%

The study uncovered some additional interesting differences between options users and non-users:

- Non-options users were more likely to have worked at one or two firms in their careers while options users were more likely to have worked at three or more.
- Non-options users were likely to be in either the first years of their careers or have 20 years of experience, while options users were more likely to be mid-career.
- Non-options users' books had twice as much in mutual funds and insurance products as options users, who were more likely to have individual stocks, bonds or alternative investments.
- Non-options users were much less likely to have account minimums. Two-thirds of non-users had no minimums at all while two-thirds of options users required at least \$250,000.

Differences in the Distribution Channels

In addition to comparing users and non-users, the study explored how advisors in the various distribution channels compared in terms of options usage. Although one in three options users are found in the independent broker/dealer channel, proportionately advisors in the wirehouse and regional broker/dealer channels are the most likely to use options.

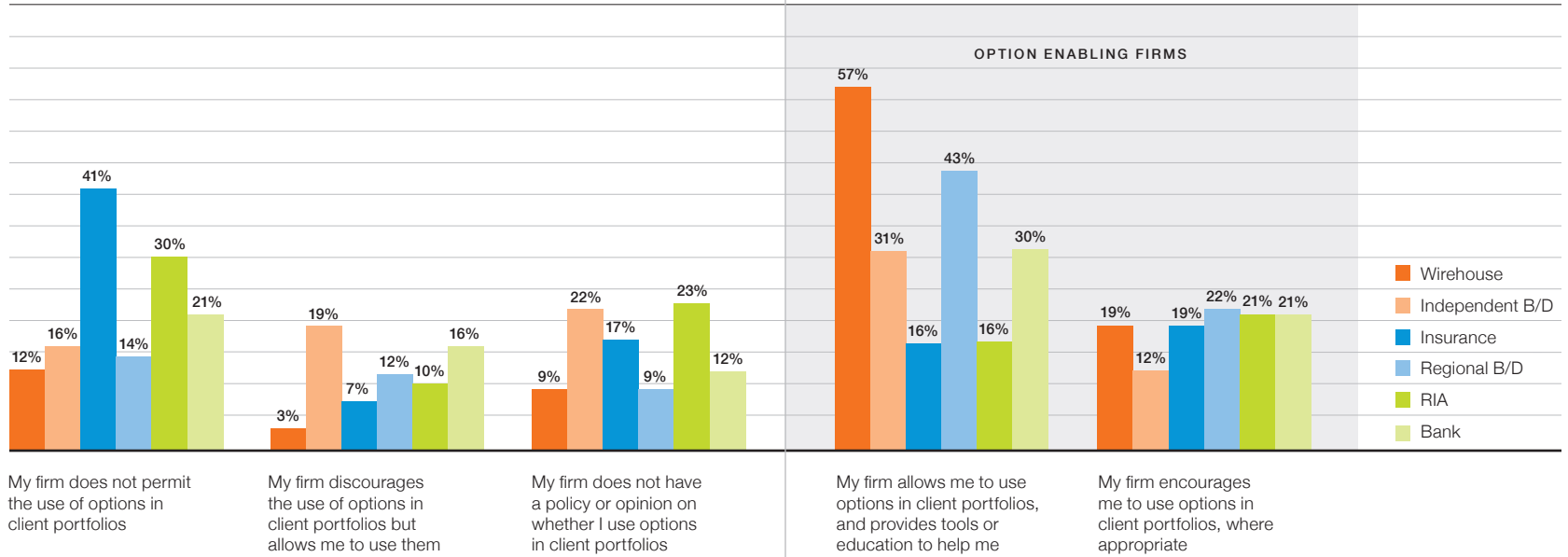
ADVISORS WHO USE OPTIONS BY DISTRIBUTION CHANNEL

	Overall FAs	Options Users	Options Non-users
Wirehouse	15%	21%	10%
Regional Broker/Dealer	11%	17%	5%
Independent Broker/Dealer	37%	32%	42%
RIA	7%	7%	7%
Insurance	19%	12%	26%
Banks	9%	10%	8%
Other	2%	1%	2%

While it was expected that the insurance and bank channels would lag behind the others in terms of options use, wirehouses, regional broker/dealers, independent broker/dealers and RIAs all focus almost solely on wealth management. Therefore, it was anticipated that they would show similar levels of usage.

What appeared to make the difference was the support provided in the wirehouse and regional broker/dealer channels. Advisors in those channels reported that their firms usually permitted or encouraged them to use options in client portfolios and provided tools and education to help them.

FIRMS' PERSPECTIVE ON OPTIONS USAGE



Perhaps as a result of their firms' efforts, advisors in wirehouses and regional broker/dealers turned out to be the most confident when asked about their ability to explain options to their clients. Those in the independent broker/dealer and insurance channels were the least confident.

Learn More about Options Today

As the research indicates, education and support builds confidence. OIC is committed to helping advisors who want to build their businesses by offering options strategies to their clients. Whether you are just getting started with covered calls or ready to tackle more complicated strategies such as straddles and spreads, OIC has a host of services including:

WEB SITE

At www.OptionsEducation.org/advisor, advisors can find resources and tools including:

- Online Classes, Webcasts and Podcasts
- Covered Call and Position Simulators
- Pricing Calculator and Strategy Screener
- Best Practices, Legislative Updates and Research
- Options News, Market Data and Quotes

INVESTOR SERVICES

Advisors can speak with an options specialist for assistance determining a strategy or a second opinion. Call 1-888-OPTIONS weekdays from 7:30 am to 5:00 pm CST.

ONLINE HELP

The web site offers live help from Investor Services, weekdays from 8-11 am and 1:30-4:00 pm CST. Advisors can also join OIC on Facebook, Twitter and LinkedIn.

EMAIL

Advisors can send their options questions to options@theocc.com. Most emails are returned within two business days.

TRAINING AND COLLATERAL

OIC has industry experts who can provide training to advisor groups. It also offers industry brochures and collateral materials that advisors can use with clients and co-brand with their company's name. Contact Investor Services to learn more.

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