

OPTIONS AND THE FINANCIAL ADVISOR

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The Financial Advisor's Use of Options: 2014 Benchmark Study

The use of exchange-listed options by financial advisors has never been greater. The most recent quantitative benchmark study on usage found three out of five financial advisors had used options at least once in a client account over the past 12 months, a 13% increase since the inaugural study was conducted and released in 2011.

The survey was undertaken on behalf of The Options Industry Council (OIC), an educational industry cooperative sponsored by the U.S. options exchanges and OCC. The study examined how, when and why advisors used options and compared the practices of advisors who use options with those who do not. The study also looked at how advisors implement options and the differences they find between clients with options in their portfolios and those who do not have options.

The Financial Advisor's Use of Options: A Benchmark Study was conducted by Bellomy Research in March 2014. A nationally representative sampling of 637 financial advisors completed a 20-minute online survey. Care was taken to ensure there was a statistically significant group from each distribution channel.

Key Findings

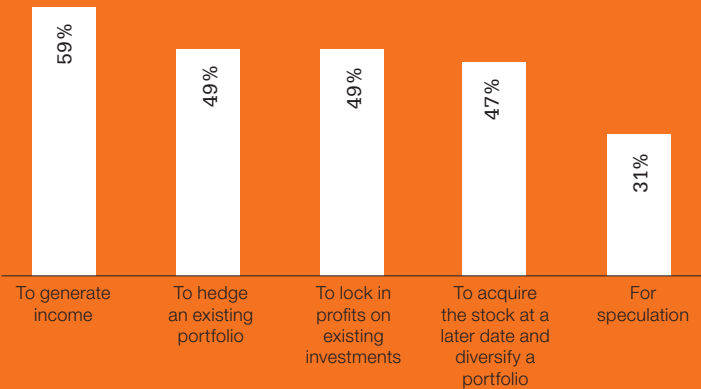
- **Advisors are using options with more of their clients.** In 2011 advisors reported using options with 37% more of their clients than they had in 2010. In 2014 they were using options with 52% more than they had in 2010.
- **Advisors expect their usage to accelerate.** In 2011 advisors expected to increase their use of options in the next 12 months by 33%. In 2014 they anticipated increasing their usage by 45%.
- **Advisors are employing a broad range of investment approaches when it comes to implementing options strategies.** They are almost as likely to outsource their options needs using a mutual fund, separate account or overlay strategy, as to do it themselves.
- **Advisors say clients who use options are among their most valuable relationships.** Half of the advisors who used options said these clients provided more referrals, were more knowledgeable about investing and were more receptive to advice.
- **Advisors who use options have larger, more successful practices.** In the 2014 survey 43% of users had books over \$100 million compared with only 14% of non-users. Eighty-four percent of users earned over \$100,000 versus only 50% of non-users.

WHY AND HOW ADVISORS ARE USING OPTIONS



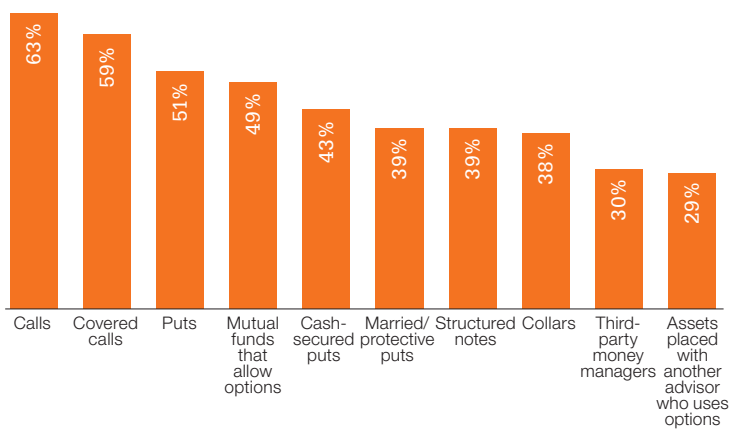
Advisors use options to address a broad range of goals. Study participants were given the following list and could select as many reasons as they wished for using options. As was the case in the original study, income generation and risk management topped the chart.

REASONS FOR USING OPTIONS IN PAST YEAR



The types of options and options strategies that advisors are using continue to grow, though calls, covered calls and puts still lead. Advisors were asked which of the following they presently had in their clients' portfolios.

CURRENTLY IN CLIENTS' PORTFOLIOS



One of the goals of the study was to gain more understanding of how advisors are implementing options strategies. For example, an advisor who would like to generate more income for a client through covered call writing could accomplish it through several of the approaches listed in the table on the following page. Advisors were asked to indicate how frequently, if at all, they undertook each of the strategies.

FREQUENCY OF IMPLEMENTING OPTIONS STRATEGIES

Action	Regularly	Occasionally	Never
Recommend stocks to clients that are suitable for options and buy or sell options as needs dictate	50%	44%	5%
Buy or sell puts or calls for individual clients based on specific situation	47%	48%	5%
Employ an options-based investment strategy offered by your firm	43%	50%	7%
Use a mutual fund with a covered call strategy	39%	48%	12%
Use a separate account that employs options	39%	47%	14%
Work with a third-party overlay strategy	34%	48%	17%

The findings indicate that for a significant portion of advisors, options strategies are an important part of their portfolio planning and allocation. Advisors most frequently indicated they took a direct approach, managing their client's options strategies on their own. Almost as often, advisors serve as general contractors, outsourcing the implementation to a third-party provider through mutual funds, separate accounts or an overlay strategy such as exchange-traded funds.

Advisors are also using options strategies with their institutional clients. Nearly 53% of advisors surveyed had institutional clients that used options. Advisors said they used options with corporations (70%), foundations (62%) and endowments (44%). Index hedging and covered combinations were by far the most widely used strategies.

Two-thirds of the advisors who use options indicated that low interest rates—and the thought of rising rates in the future—have driven their increased use of options. More than half the advisors were also concerned about the slow recovery of the economy as well as the unemployment rate.

THE IMPORTANCE OF OPTIONS EDUCATION



Two-thirds of options users (64%) said their confidence in their knowledge of options had increased in the past three years due to further education about options. The percentage was even higher—83%—among advisors that had increased their options use since 2010. And the one in 10 current options users who had not used them prior to 2010 also credited education as the main reason they were now using options.

Despite this increase, more than three-quarters of the advisors in the survey expressed interest in learning more about options. While OIC, the options exchanges and many firms offer options courses, webinars and podcasts over the Internet, online sources are not the advisors' first choice. They prefer their options education to come from colleagues (at their firm or another) or from their own firm's continuing education or options desk.

SOURCES ADVISORS WOULD TURN TO FOR OPTIONS INFORMATION

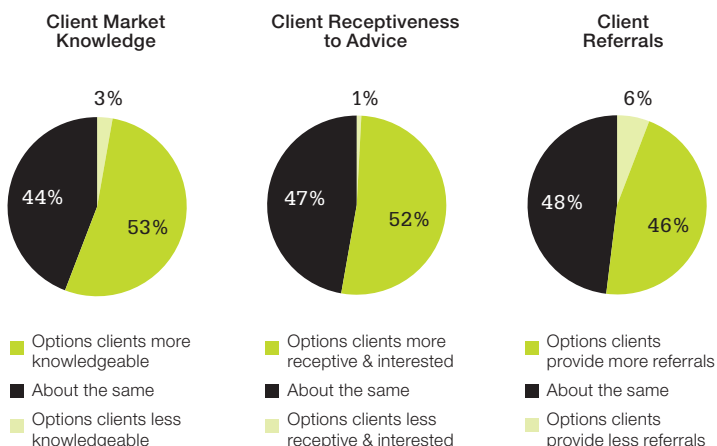
	Total	Options Users	Non-Options Users
Colleagues/team member	53%	56%	44%
Continuing education at firm	50%	48%	54%
Financial services websites	44%	43%	46%
Industry resources, like OIC	39%	41%	35%
Public finance websites	34%	36%	28%
Advisors at another firm	29%	35%	13%
Your firm's options desk	20%	21%	18%
Your asset custodian	13%	15%	8%

The Value of Options Investors

Since 1995, Harris Interactive, on behalf of OIC, has profiled investors on a regular basis. They have compared investors who use options in their portfolios with those who do not. Over the years the research has found that investors who use options are more likely to be college graduates, have higher incomes and have a higher value of liquid assets. They are also more open to new ideas and have a wider range of investments.

In the 2014 Advisor Benchmark Study the value of options investors was assessed from the financial advisor's perspective. Three key measures were selected: their market knowledge, their receptiveness to advice, and—perhaps the most important—the rate at which they provided referrals. Approximately half of the advisors who used options in their practice reported that their clients who used options were more knowledgeable, more receptive and more willing to provide more referrals. Of the advisors who said these clients provided more referrals, more than 50% said they received *twice* as many referrals.

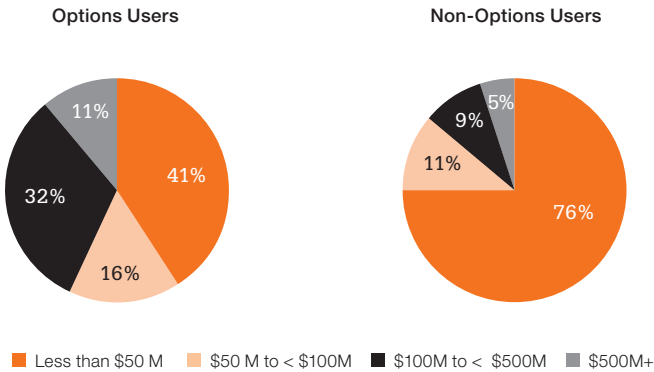
COMPARISON OF CLIENTS WHO USE OPTIONS VS. NON-USERS



The Impact of Options on the Advisory Business

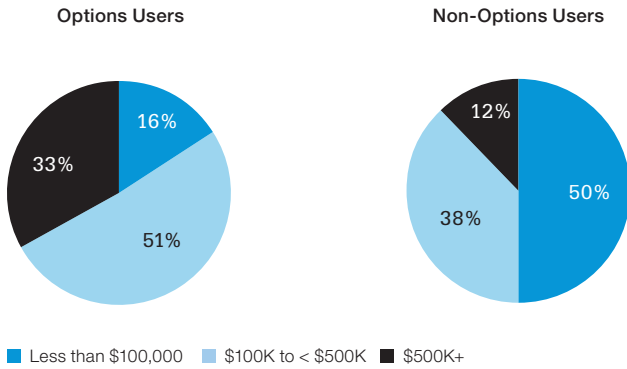
Advisors who use options in their practices are likely to have larger books than their colleagues who do not. In fact, the study found users are twice as likely as non-users to have books of \$500 million or more. On the flip side, if an advisor does not use options there is a 75% chance his or her assets under management are \$50 million or less.

OPTIONS USAGE BY BOOK SIZE



Book size and profitability are not always correlated, but advisors who use options have larger books *and* earn more. Accordingly, 33% of options users were found to earn \$500,000 or more in fees and commission versus just 12% of non-users. At the other end of the spectrum half of all non-users earn less than \$100,000 while only 16% of non-users are in this group.

**COMMISSIONS AND FEES FOR ALL PRODUCTS SOLD
IN THE PAST 12 MONTHS**



While 40% of non-users said their firms do not permit the use of options, less than half of those advisors said their firms' restriction was their particular reason for not using options. The primary reasons for not using options were a preference for using actual equities, bonds and funds rather than derivatives (88%), that their clients considered options too risky (84%), and that they did not employ hedging strategies in client portfolios (67%). Despite a lack of interest in using options, about half of the non-users who had said they did not understand options expressed an interest in learning more about them.

An unexpected finding was that 6% of options users worked at firms that did not permit the use of options. Asked how they implemented options if their firms did not permit them, the participants said they either received exemptions or used a third-party.

Differences in the Distribution Channels

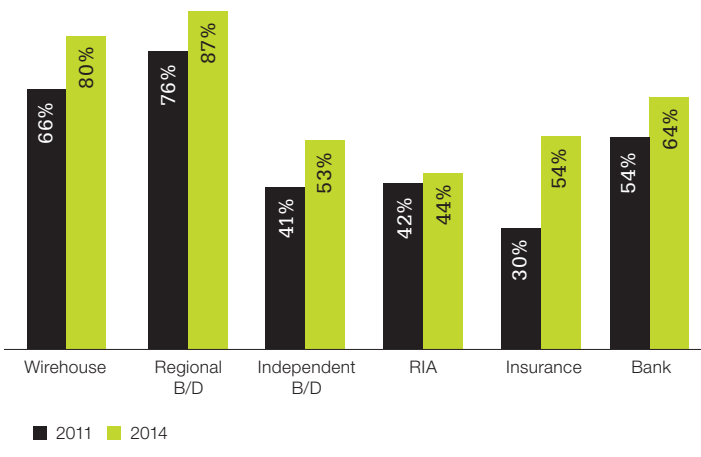
In addition to comparing users and non-users, the study explored how advisors in the various distribution channels compared when it came to options usage. While in terms of penetration the independent broker/dealer channel lagged behind the wirehouse and regional broker/dealer channels, in sheer numbers it dominated. One in three options users works in the independent broker/dealer channel.

DIFFERENCES IN DISTRIBUTION

	2011			2014		
	Total	Options Users	Non-Options Users	Total	Options Users	Non-Options Users
Wirehouse	15%	21%	10%	14%	18%	7%
Regional Broker/Dealer	11%	17%	5%	9%	13%	3%
Independent Broker/Dealer	37%	32%	42%	38%	34%	46%
RIA	9%	7%	7%	8%	4%	9%
Insurance	19%	12%	26%	18%	16%	21%
Bank	9%	10%	8%	14%	14%	12%
Total Respondents	607	298	309	637	394	243

From 2011 to 2014 more advisors in almost every distribution channel started using options. The biggest jump in penetration was in the insurance channel followed by the wirehouses and then the independent broker-dealer channels.

OPTIONS USAGE BY CHANNEL



Learn More about Options Today

As the research indicates, education 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:

WEBSITE

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

- Online Classes, Videos and Podcasts
- Covered Call and Position Simulators
- Pricing Calculators and Strategy Section with Dynamic Filters
- Advisor Brief, White Papers and Research
- Options News, Market Data and Quotes

INVESTOR SERVICES

Advisors can speak with an options professional for assistance understanding a strategy or for educational information. Call 1-888-OPTIONS weekdays from 7:30 a.m. to 5:00 p.m. CT.

LIVE CHAT

Chat live with Investor Services via the website, weekdays from 8:00 a.m. to 11:00 a.m. or 1:30 p.m. to 4:00 p.m. CT. Advisors can also join OIC on Facebook, Twitter and LinkedIn.

EMAIL

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

TRAINING AND COLLATERAL

OIC has industry professionals who can provide training to advisor groups. OIC also offers brochures and collateral materials that advisors can use with clients and co-brand with their firm's name. To learn more about these resources contact Eric Cott, Director of Advisor Education, at ecott@theocc.com.

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