

# Lyons Wealth Management

*Specializing in Hedged & Income Strategies for Concentrated Positions  
and Other Marginable Assets*



**Managed Financial Futures as a  
Potential Solution for Investors  
with Large Concentrated Positions**

**Lyons Wealth Management**

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# Lyons Wealth Management



- **Client Centric Focus**
- **Income and Hedging Strategies**
- **Long History of Developing Solutions**
- **Forward Thinking Approach**

# The Conventional Solution: Covered Calls

The traditional recommendation for enhancing income from a concentrated stock position has been to write (sell) call options, generating premium income. In this situation, the investor “covers” the call by pledging their stock, which offsets the risk of unlimited loss associated with selling calls. However, covering the call can produce undesirable results...



There is a time and place for covered calls, but not when the investor wants to avoid selling the stock or doesn't want to give up future upside gains while being subject to future losses.

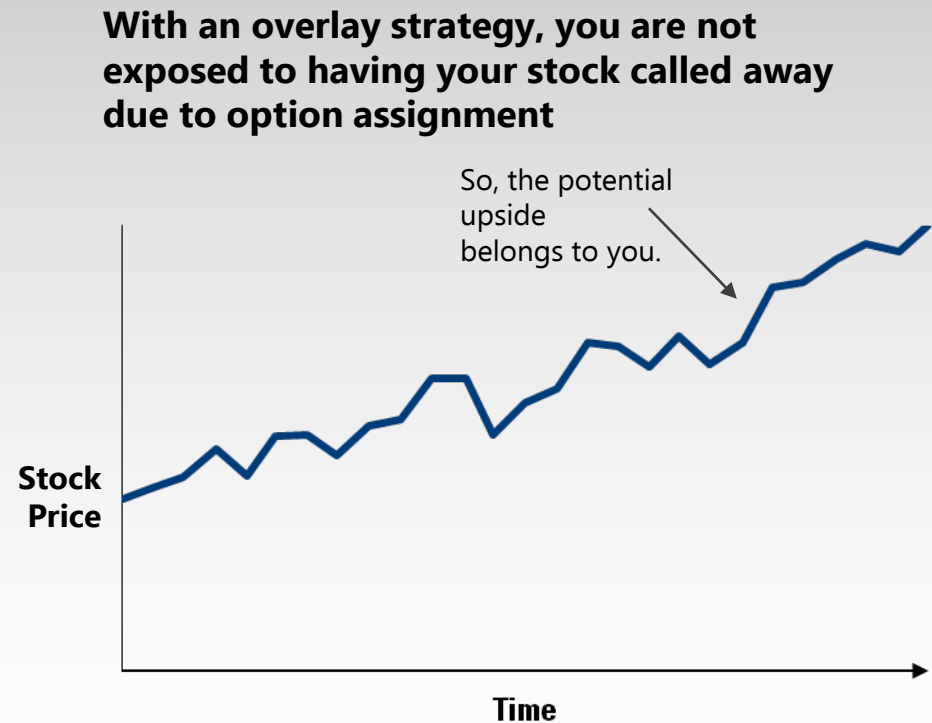
# A Potential Solution: Overlay Strategy

Structured to enhance returns without the drawbacks of covered calls

An overlay strategy offers these potential benefits:

**Augmented Income from Your Concentrated Stock**

**No Exposure to Option Assignment on Your Concentrated Stock**



# The Overlay: Structured Independently from Your Stock

Funded with the borrowing power of your stock position

Unlike covered call programs, An overlay strategy does not involve trading of your underlying stock portfolio—either directly or through options. Instead, you can use the margin borrowing capacity of your concentrated stock holding to fund the construction of the Overlay, which is built entirely from listed index futures.

## **Based on Market Indexes**

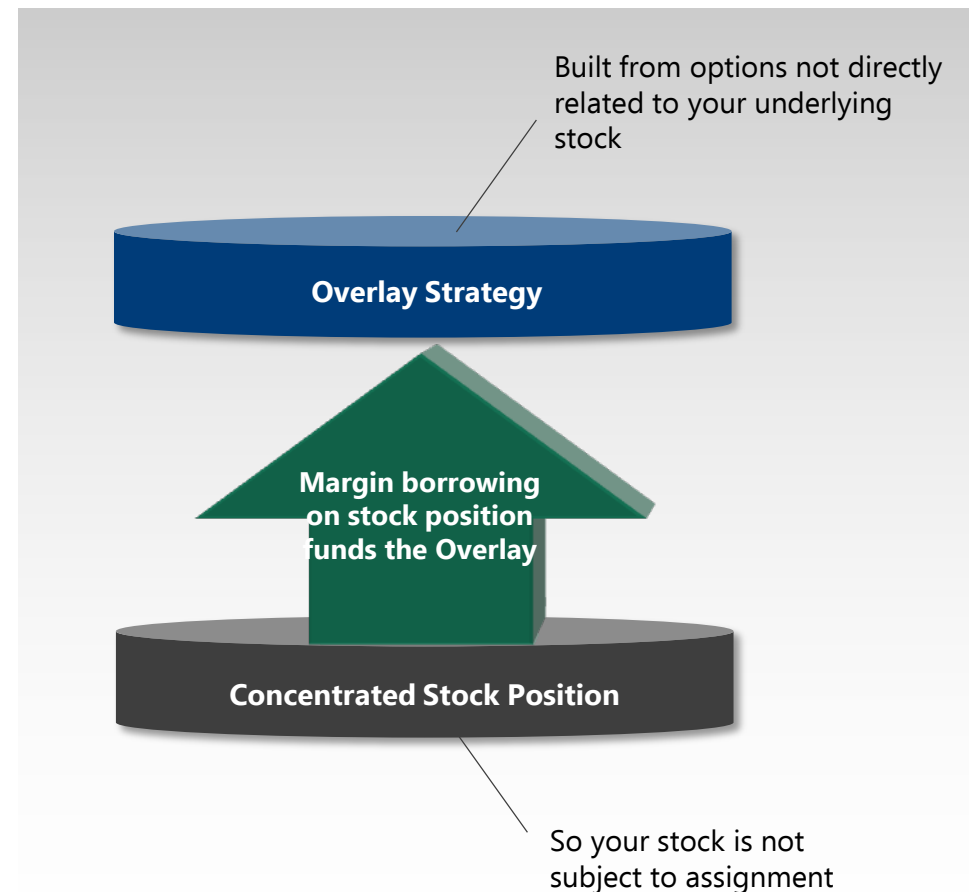
To build the Overlay you can use index futures, such as ES (S&P 500), NQ (Nasdaq), and RTY (Russell 2000) to keep individual company risk to a minimum.

## **Built with Moderate Borrowing**

In implementing the Overlay, you can use less than half of a your margin borrowing capacity. This may vary depending on each individual client's margin balance.

## **Directional Strategy**

You can seek to generate income regardless of market direction.



# The Overlay: Using Financial Futures

## Future and E-mini Contracts

- A futures contract is a legal agreement, to buy or sell a particular commodity or financial instrument at a predetermined price at a specified time in the future.
- Contracts are negotiated at futures exchanges, which act as marketplaces between buyers and sellers. The buyer of a contract is said to be the long position holder, and the selling party is said to be the short position holder. To mitigate risk, both parties lodge a margin deposit equal to the value of the contract.
- The E-mini is an electronically-traded futures contract on the Chicago Mercantile Exchange that represents a fraction of the value of standard futures. E-mini contracts are available on a wide range of indexes such as the Nasdaq 100, S&P 500, S&P Midcap 400 and Russell 2000.
- **Advantages of trading E-mini contracts** include high liquidity (and therefore tighter spreads), greater affordability for individual investors due to lower margin requirements as compared to the full-size contracts, and round-the-clock trading 23.25 hours a day from Sunday afternoon to Friday afternoon. Under U.S. tax law, E-minis qualify as 60% long-term gain and 40% short-term gain tax treatment.

Please note that E-mini futures contracts are generally more volatile than the comparable full futures contracts. The use of E-mini contracts can be expected to increase the rapidity of drawdowns and the volatility of performance.

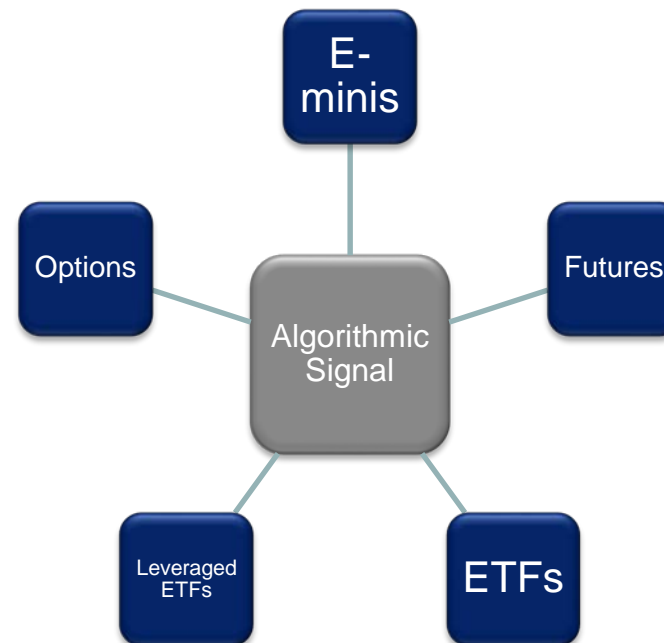
# The Overlay:

## Same Index Components, Different Margins

- When the algorithm sends a buy or sell signal, multiple instruments can be bought or sold and roughly equal each other...

ES = SPX = SPX options = SPY = SPY options = UPRO

E-mini = Future = Future option = ETF = ETF options = Leveraged ETF





# The Overlay: Tax Benefits

## Tax Benefits for \$1 Million Profit on Short Term Trading Strategies

### **Tax Treatment on Equities:**

Trading Profit = +\$1,000,000

Short-term Tax (39.6%) = -\$396,000

State Tax (6%) = -\$60,000

Total Profit = **+\$544,000**

### **Tax Treatment on Futures:**

Trading Profit = +\$1,000,000

40% Short-term Tax (39.6%) = -\$158,400

60% Long-term Tax (20%) = -\$120,000

State Tax (6%) = -\$60,000

Total Profit = **+\$661,600**

**Tax Benefits on Futures = +\$117,600**

# Next Steps



## We invite you to...

- Request a customized proposal addressing your portfolio needs.

# Disclosure

This material was prepared exclusively for information and discussion purposes and to indicate preliminarily the feasibility of a possible investment opportunity. The material is not meant to be nor shall it be construed as an attempt to define all terms and conditions of any transaction or to contain all information that is or may be material to an investor. Lyons Wealth Management is not soliciting any action based upon this material, and this material is not meant to be nor shall it be construed as an offer or solicitation of an offer for the purchase or sale of any security or advisory or other service.

No current or prospective client should assume future performance in any specific investment strategy will be profitable or equal to past performance levels. All investment strategies have the potential for profit or loss. Changes in investment strategies, contributions or withdrawals may cause performance results of your portfolio to differ materially from the reported composite return. Different types of investment involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for a client's investment portfolio. Historical performance results for market indices and/or categories, generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment-management fee, the incurrence of which would have the effect of decreasing historical performance results. Economic factors, market conditions, and investment strategies will affect the performance of any portfolio and there are no assurances that it will match or outperform any particular benchmark.

The Lyons Algo Overlay is intended for holders of large equity or other concentrated holdings who seek to earn option premium income over and above the dividends or interest payments generated from their existing underlying holdings. The strategy utilizes the available margin capacity of such holdings to purchase options on indices, exchange-traded funds or listed equity options that are different from the client's underlying holdings.

THE RISK OF LOSS IN TRADING COMMODITIES CAN BE SUBSTANTIAL. YOU SHOULD THEREFORE CAREFULLY CONSIDER WHETHER SUCH TRADING IS SUITABLE FOR YOU IN LIGHT OF YOUR FINANCIAL CONDITION.

THE HIGH DEGREE OF LEVERAGE THAT IS OFTEN OBTAINABLE IN COMMODITY TRADING CAN WORK AGAINST YOU AS WELL AS FOR YOU. THE USE OF LEVERAGE CAN LEAD TO LARGE LOSSES AS WELL AS GAINS.

IN SOME CASES, MANAGED COMMODITY ACCOUNTS ARE SUBJECT TO SUBSTANTIAL CHARGES FOR MANAGEMENT AND ADVISORY FEES. IT MAY BE NECESSARY FOR THOSE ACCOUNTS THAT ARE SUBJECT TO THESE CHARGES TO MAKE SUBSTANTIAL TRADING PROFITS TO AVOID DEPLETION OR EXHAUSTION OF THEIR ASSETS. THE DISCLOSURE DOCUMENT CONTAINS A COMPLETE DESCRIPTION OF THE PRINCIPAL RISK FACTORS AND EACH FEE TO BE CHARGED TO YOUR ACCOUNT BY THE COMMODITY TRADING ADVISOR ("CTA").

THE REGULATIONS OF THE COMMODITY FUTURES TRADING COMMISSION ("CFTC") REQUIRE THAT PROSPECTIVE CLIENTS OF A CTA RECEIVE A DISCLOSURE DOCUMENT WHEN THEY ARE SOLICITED TO ENTER INTO AN AGREEMENT WHEREBY THE CTA WILL DIRECT OR GUIDE THE CLIENT'S COMMODITY INTEREST TRADING AND THAT CERTAIN RISK FACTORS BE HIGHLIGHTED. THIS DOCUMENT IS READILY ACCESSIBLE AT [WWW.LYONSWEALTH.COM](http://WWW.LYONSWEALTH.COM). THIS BRIEF STATEMENT CANNOT DISCLOSE ALL OF THE RISKS AND OTHER SIGNIFICANT ASPECTS OF THE COMMODITY MARKETS. THEREFORE, YOU SHOULD PROCEED DIRECTLY TO THE DISCLOSURE DOCUMENT AND STUDY IT CAREFULLY TO DETERMINE WHETHER SUCH TRADING IS APPROPRIATE FOR YOU IN LIGHT OF YOUR FINANCIAL CONDITION. YOU ARE ENCOURAGED TO ACCESS THE DISCLOSURE DOCUMENT BY CONTACTING KERRY MEERIGAN AT (407) 951-8710. YOU WILL NOT INCUR ANY ADDITIONAL CHARGES BY ACCESSING THE DISCLOSURE DOCUMENT. YOU MAY ALSO REQUEST DELIVERY OF A HARD COPY OF THE DISCLOSURE DOCUMENT, WHICH ALSO WILL BE PROVIDED TO YOU AT NO COST. THE CFTC HAS NOT PASSED UPON THE MERITS OF PARTICIPATING IN THIS TRADING PROGRAM NOR ON THE ADEQUACY OR ACCURACY OF THE DISCLOSURE DOCUMENT.

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