Mariner
WEALTH ADVISORS

Utilizing Stock Collars to help Protect Against the Risk of P&G Stock Price Dropping Rapidly

Use this guide to help you understand stock collars, which is one way to protect against the risk of P&G stock price dropping rapidly, either just before exercising stock options or just after retirement and before you can diversify.

Terms Used In This Guide

Call - A call is the right but not the obligation to buy a stock at a specified price for a specified time period. For example, if PG is trading at $135 per share, you can sell a $145 strike call option on PG with an expiration four months from today for $1.35 per share. The call buyer has the right to call (buy) your stock at $145 per share. That person can buy the stock from you at anytime over the next four months while you hold the stock and continue to receive the dividends. If the price is not above $145 at expiration, then the call buyer will not exercise their right to buy the shares, and you keep the $1.35 per share.

Put - A put is the right but not the obligation to sell a stock at a specified price for a specified period of time. Buying a put gives you the right to put (sell) the stock to the put seller. For example, if PG is trading at $135 per share, you can buy a $120 strike put option on PG with an expiration date four months from today for $1.35 per share. As the put buyer, you have the right to sell your stock at $120 per share anytime over the next four months while continuing to receive the dividends. If the stock is not below $120 at expiration, then the put seller keeps the $1.35 per share, and you do not exercise your right to sell the PG stock. After the expiration, you are still free to sell the stock on the open market for the current trading price.

Example Of A Collar

Assume you have 1,000 shares of P&G stock trading at $135 per share. You are looking to sell these shares in the near future but are worried the stock might drop before you sell. You can protect the stock by selling a call at $145 and buying a put at $120. This collars the stock creating a ceiling on the max price you can receive at $145 per share and puts a floor under your stock of $120 per share. The stock is free to trade between these prices. You receive $1.35 per share for selling the call, and you pay $1.35 per share to buy the put so there is no money out of pocket to protect the position.

When To Consider Using A Collar

Consider using a collar on any portion of stock that you would like to protect until you are ready to sell the stock in the near future. This can be part of a diversification plan or to lock in a known value for a future expense or to limit risk before stock options are due.

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To simplify the illustrations used in the examples, commissions, fees, margin, interest and taxes have not been included. These costs will impact the outcome of any stock and options transactions and must be considered prior to entering into any transactions. Investors should consult their tax advisor about their personal situation.

Options trading involves a significant degree of risk and the risk of loss in trading options can be substantial. Clients and prospective clients should carefully consider whether such trading is suitable for them in light of their financial condition and individual risk tolerances. The high degree of leverage that is often obtainable in options trading can work against investors, as well as for them. More information on the risks of buying and selling options contracts can be found on the CBOE's website at www.cboe.com.

Diversification is a strategy used to manage risk. It cannot ensure a profit or protect against loss in a declining market.

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