



Concentrated Wealth Strategies

Using Derivatives to Hedge a Concentrated Position

Many trustees, investors and fiduciaries are faced with the delicate task of protecting a concentrated public stock position. Whether the situation arises from an inheritance, savvy investing, a business sale or employer compensation plan, the considerations are the same: how to prudently manage the situation in a way that considers the risk, regulatory, emotional and tax implications. Common vehicles for managing these positions include [CRTs](#), [PVFs](#), [Exchange Funds](#), [10b5-1 Plans](#) and Derivatives Hedging strategies. Luminist Capital is an expert in crafting nuanced Concentrated Wealth Strategies using derivatives to manage a concentrated stock position. Luminist works with your tax and legal advisors to devise an effective means of expressing your risk appetite within the applicable tax and regulatory constraints.

Considerations

Evaluating the various means available to manage concentrated stock positions can be challenging. Stakeholders that value flexibility, efficiency and customization may see exchange traded derivatives strategies as an attractive solution to their concentrated wealth protection needs. No other vehicle matches the added income potential and ability to capitalize on changing market conditions than a derivatives hedging strategy. These strategies can be tailored to match virtually any investment outlook and can evolve with an investor's needs or market conditions.

Not all stocks and investor situations are good candidates for using options as a hedging vehicle. Luminist Capital recommends consulting a tax and legal advisor to explore the vehicles available. While Luminist does not offer tax or legal advice, we can help evaluate the merits of the various alternatives. If hedging with options appears to be the best avenue for you, Luminist will create a custom solution specific to your unique situation.

STRATEGIES AT A GLANCE

Common Vehicles for Concentrated Stock Positions:

Charitable Remainder Trusts (CRTs)

A trust that provides income to noncharitable and charitable beneficiaries for a specified period of time

Prepaid Variable Forward (PVFs)

A contract to sell a specific value of a security in the future. The number of shares to be delivered at maturity will depend on the shares' stock price at maturity

Exchange Funds

Private placement LPs or LLCs designed for investors with highly appreciated, restricted or concentrated stock positions

10b5-1 Plans

A plan allowing insiders of publicly held corporations to sell a predetermined amount of stock at a predetermined date

Derivatives Hedging

Exchange traded stock options offer exceptional flexibility for investors prioritizing managing risk over tax management

Strategies for Hedging with Options

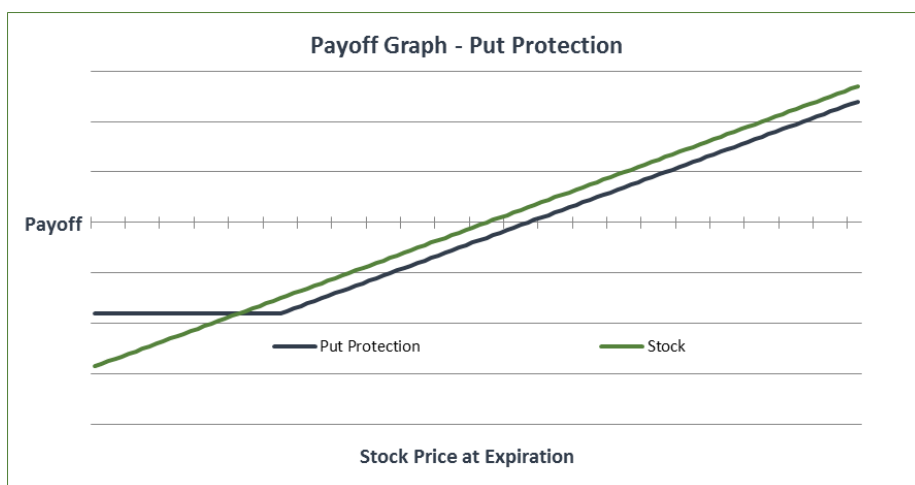
Put Protection - Investor pays premium for the right to sell stock at a specific price and date

Pros:

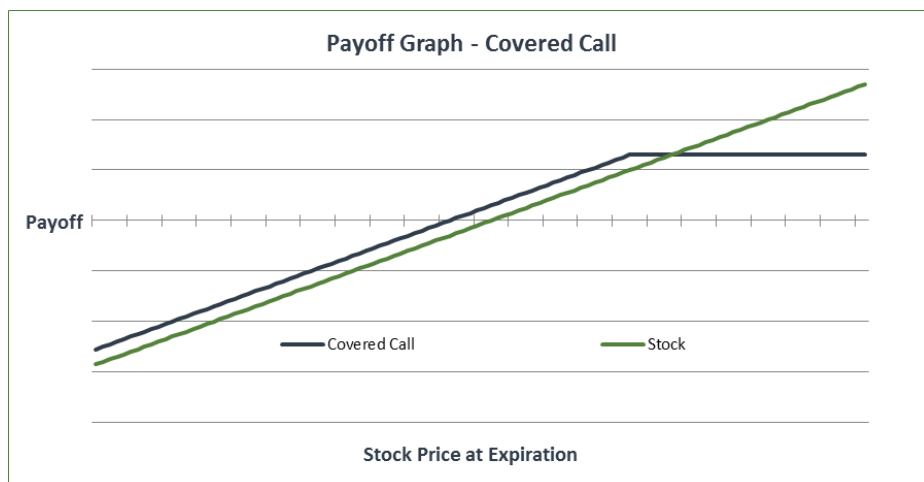
- Full downside protection at the put strike
- Full participation in stock appreciation
- Retain dividends
- Potential to defer taxes

Cons:

- Put premium can be substantial
- May be subject to tax-straddle rules
- May require cash-flow management



Covered Call - Investor receives premium in exchange for granting counterparty the right to buy stock at a specific price and date



Pros:

- Generate income with upfront cash
- Some participation in stock appreciation
- May retain dividends
- Potential to defer taxes

Cons:

- Full exposure to downside moves
- Limited appreciation
- Income potential dependent on volatility

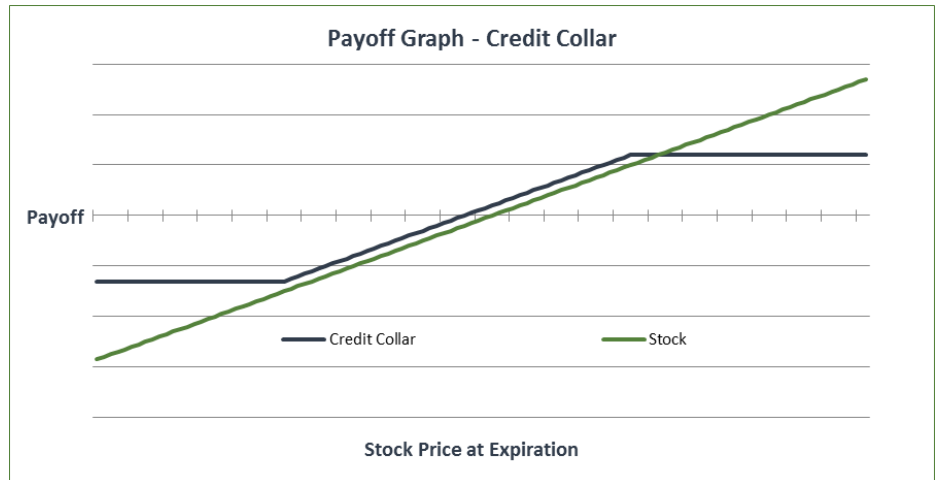
Credit Collar - Combination of a purchased put and a sold call that results in a slight premium credit

Pros:

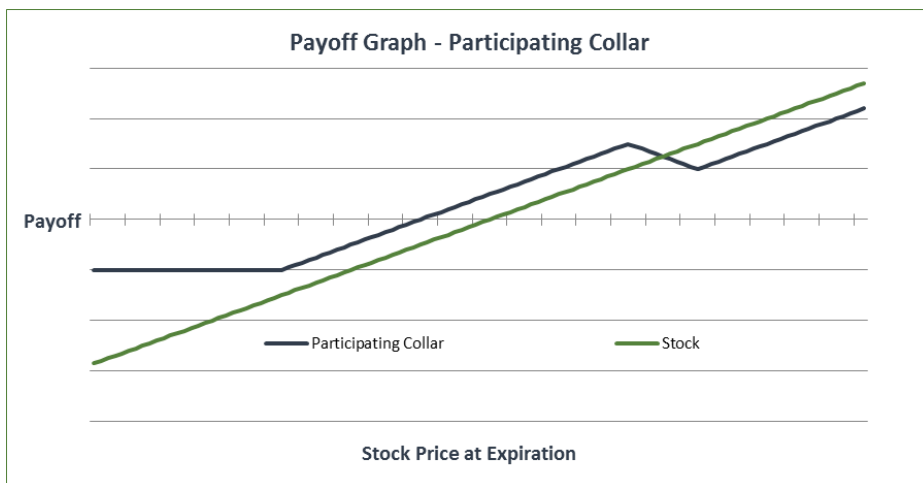
- Full downside protection at the put strike
- Some participation in stock appreciation
- May retain dividends
- Potential to defer taxes

Cons:

- Limited appreciation
- May be subject to tax-straddle rules
- May require cash-flow management



Participating Collar - Combination of a purchased put and a sold call spread that results in a slight premium credit and upside participation



Pros:

- Generate income with upfront cash
- Unlimited participation in stock appreciation
- May retain dividends
- Potential to defer taxes

Cons:

- Requires several option legs
- Income potential dependent on volatility
- Requires a liquid option market

Other Strategies:

Staged Distribution - Defined schedule of sold calls that result in a partial divestment of stock. Usually combined with another strategy

Hybrid - Combination of two or more of the strategies above

For Discussion Sake only. These topics and hypothetical projections should not be considered a solicitation to buy or sell any asset. This is not investment advice. Hypothetical projections are for illustrative purposes only and contain many assumptions, including but not limited to assumed growth rates, transaction costs and tax laws. They do not reflect any specific asset. A minor variance in any of these variables may materially affect these hypothetical projections.

LUMINIST CAPITAL

6757 Cascade Rd. SE #50 Grand Rapids, MI 49546

616.929.8817 | info@luministcapital.com | www.luministcapital.com