



## Strategic Liquidation



# Our Company

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SpiderRock Advisors is an asset management firm **focused on providing customized option overlay** strategies to investors.

Combining world-class technology with comprehensive derivative expertise, we are **making it easy for Institutions and Financial Advisors** to add option strategies to their investment portfolios.

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Year Founded:	2013
Full Time Employees:	31
Portfolio Management Team:	6
Firm AUM:	\$2.7 billion



# Our Company Portfolio Management

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**ERIC METZ, CFA**  
**President, Chief Investment Officer**

Eric oversees all investment strategies and portfolio management activities at the firm. Prior to joining SRA, Eric was the Derivatives Strategist and Portfolio Manager at RiverNorth Capital Management, managing both mutual fund and hedge fund assets. He began his career with the Chicago Trading Company on the floors of the Chicago Mercantile Exchange (CME) and the Chicago Board Options Exchange (CBOE). After the trading floors, Eric was a senior trader and partner at both Ronin Capital and Bengal Capital, proprietary trading firms specializing in volatility arbitrage.

Eric graduated, Magna Cum Laude, from the University of Michigan with a B.S.E in Industrial and Operations Engineering. He earned his M.S.E., with honors, in Industrial and Operational Engineering, and was enrolled in the program's PhD program. Eric is a CFA Charterholder, a member of the CFA Institute, the CFA Society of Chicago and a board member of the OIC Institutional Advisory Council.

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**FRED SLONEKER**  
**Deputy CIO, Chief Quantitative Strategist**

Fred joined SpiderRock Advisors in 2019 and now serves as Deputy Chief Investment Officer as well as Chief Quantitative Strategist. Prior to joining SRA, Fred was the Head Quantitative Trader for a series of volatility-focused proprietary trading funds in Chicago. He began his career as a Trader and Portfolio Manager for hedge funds JMG Triton Offshore and Claire Capital Management in San Francisco, specializing in convertible arbitrage strategies. He later created and managed a volatility strategy for Toronto Dominion (TD) Securities.

Fred graduated from the California Institute of Technology (Caltech) with a B.S. in Economics.

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# Problem

## The Problem

Investors often own low basis positions and may want to liquidate to diversify. However, they may be hesitant to sell due to the tax consequences that could be created.

### **What problems can be caused by holding a concentrated position?**

- 1) A single stock position may represent a disproportionate percentage of an Investors wealth, creating a significant concentration issue; or
- 2) An Investor may own a low cost-basis equity portfolio, and would otherwise prefer to transition into a different portfolio, but is hesitant due to the tax leakage created by making the transition.

# Solution

## The Solution

Strategic Liquidation is SpiderRock Advisors' (SRA) tax-loss harvesting strategy using listed options. SRA can sell calls on the low basis position, generating a new stream of income that may offset capital gains taxes associated with liquidating the positions. Investors can employ a strategy that allows them to transition assets without having to dip into their own pockets to pay capital gain taxes.

### **In this scenario, our Strategic Liquidation strategy solves multiple problems:**

- 1) It provides a solution for Investors in which they can liquidate and transition their position while remaining net cash neutral concerning taxes;
- 2) It enables Investors to reduce the risk of holding sizeable concentrated equity positions; and
- 3) It allows an Investor to transition into a potentially more appropriate portfolio.

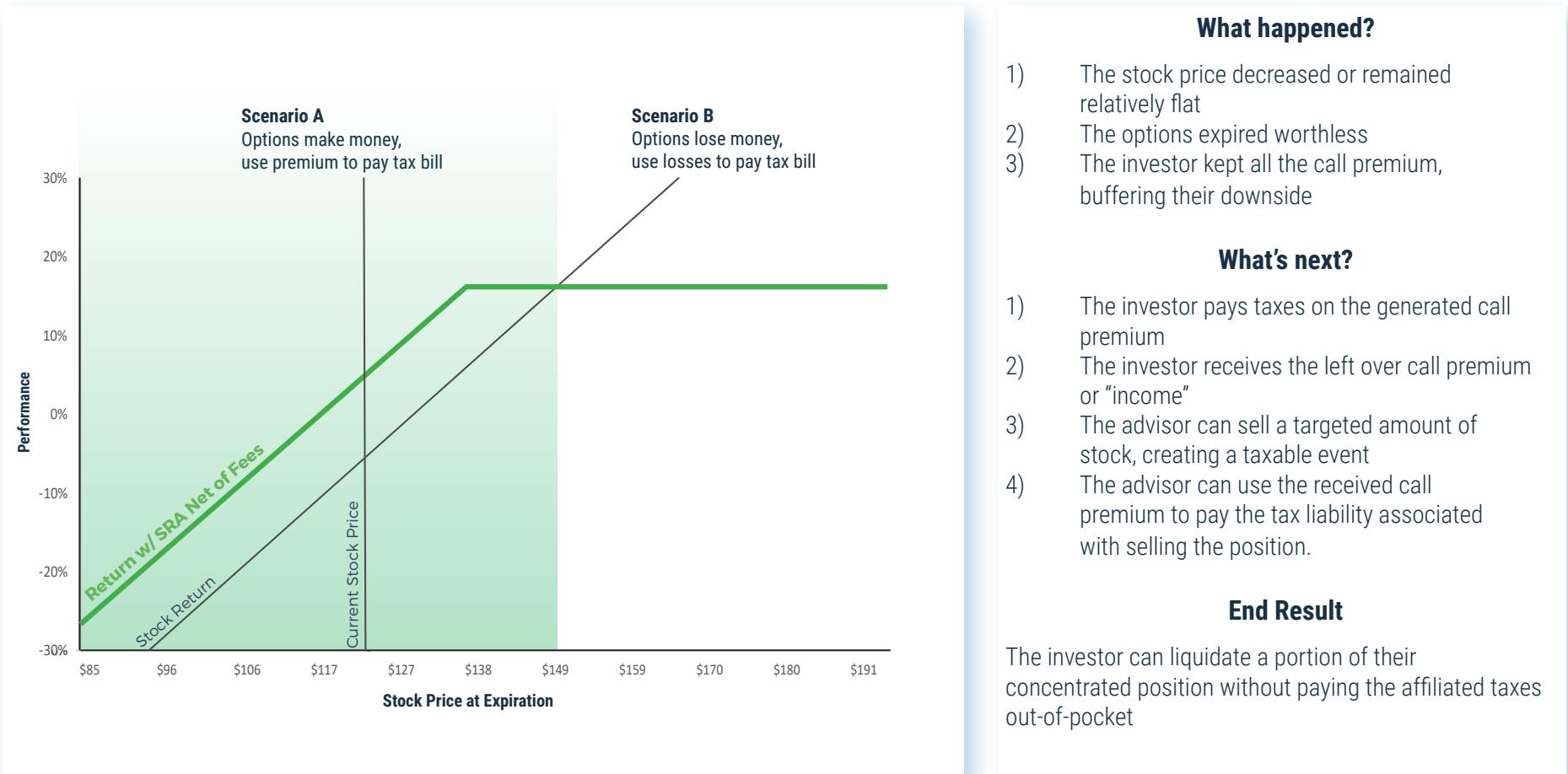
# Two Potential Scenarios

## Scenarios

There are two potential scenarios that can occur when writing call options and utilizing SRA's Strategic Liquidation strategy:

- 1) The stock declines – the Investor is buffered by the call premium generated and can use the premium to liquidate a portion of the stock; or
- 2) The stock increases through the strike price – the Investor keeps all the premium and repurchase the option at a loss.

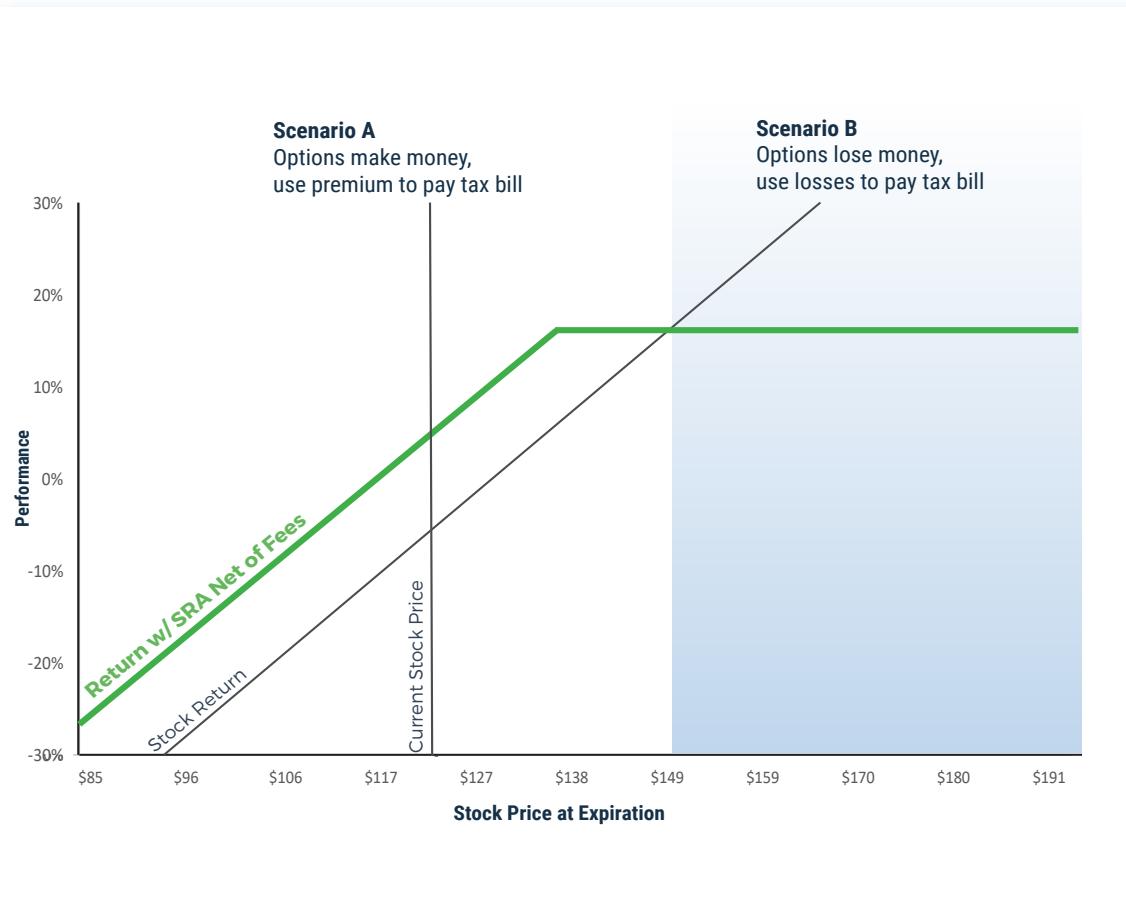
# Strategic Liquidation Scenarios



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# Strategic Liquidation Scenarios



## What happened?

- 1) The stock price increased through the strike price
- 2) The investor kept all the call premium but the equity's upside was truncated

## What's next?

- 1) The options are bought back at a loss
- 2) This loss allows the investor to liquidate a targeted amount of stock, essentially "tax free"
- 3) The targeted amount of stock is based on the value of the offsetting capital loss created, i.e. the higher the stock rises, the more you can liquidate

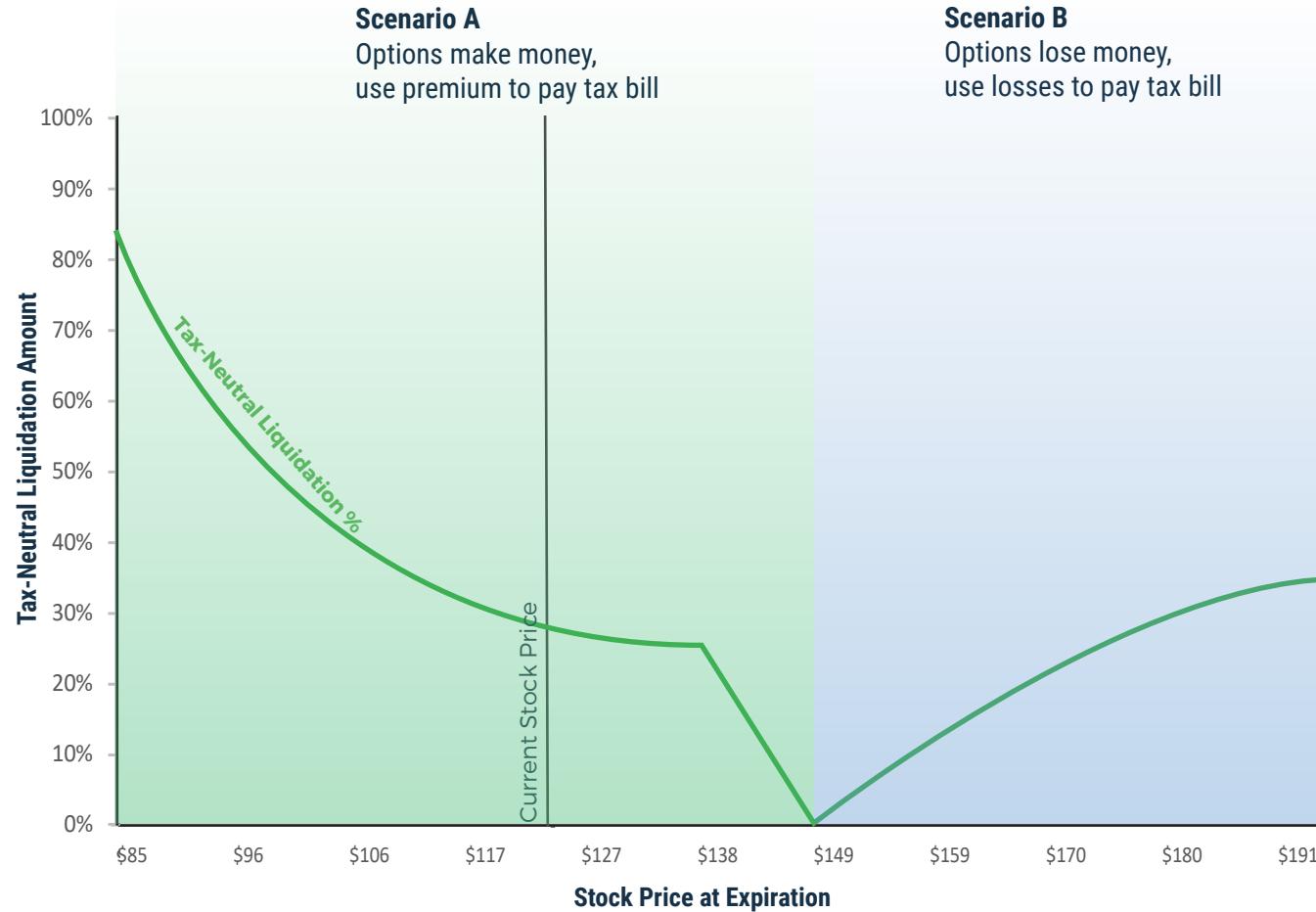
## End Result

The investor can liquidate a portion of their concentrated position without paying the affiliated taxes out-of-pocket

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# Amount of Liquidation



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# Hypothetical Strategic Liquidation Forecast

Clients can use SRA's Strategic Liquidation to exit a low-cost position in a tax-efficient manner.

Year	Beginning Stock Price	Beginning Shares	Stock MV	Strike	Option Premium (%)	Option Premium (\$)	Hyp. Stock Performance	Ending Stock Price	End of Year Market Value	After-Tax Options Gain/(Losses)	Shares Available to Sell Tax-Neutral	Stock Sold Tax-Neutrally
1	\$100.00	100,000	\$10,000,000	105.0%	7.0%	\$700,000	20%	\$120.00	\$12,000,000	(\$800,000)	11,429	\$1,371,429
2	\$120.00	88,571	\$10,628,571	105.0%	7.0%	\$744,000	-15%	\$102.00	\$9,034,286	\$468,720	37,873	\$3,863,077
3	\$102.00	50,698	\$5,171,209	105.0%	7.0%	\$361,985	15%	\$117.30	\$5,946,890	(\$155,136)	2,305	\$270,394
4	\$117.30	48,393	\$5,676,497	105.0%	7.0%	\$397,355	20%	\$140.76	\$6,811,796	(\$454,120)	5,004	\$704,296
5	\$140.76	43,389	\$6,107,500	105.0%	7.0%	\$427,525	-20%	\$112.61	\$4,886,000	\$269,341	18,076	\$2,035,469

**Ending Values:** **25,314** **\$2,850,531** **\$2,630,864** **12.6%<sup>1</sup>** **\$8,244,664**

## Assumptions

LT Tax Rate: 23.8% Cost Basis (Per Share): \$50  
 ST Tax Rate: 37.0% Cost Basis (Total): \$5,000,000  
 Starting Number of Shares: 100,000

<sup>1</sup>Annualized 12.6%

<sup>2</sup>After-Tax Dollars

## Disclosures

This analysis is provided for illustrative purposes only. It is not based on the actual performance of any account or specific stock position, nor is it a result of a backtest. Any actual performance or estimated after-tax gains or losses for a live mandate will differ. This example is based on a hypothetical Hedged Equity Concentrated Stock – Covered Call program. Option Strike and Premium are simplifying examples and do not account for the fact SRA will generally actively manage such a program.

Nothing in this analysis should be considered tax advice. Clients are encouraged to seek qualified tax counsel, as SpiderRock Advisors does not provide tax guidance.

## Summary Statistics with SpiderRock Advisors

Number of Shares Sold:	74,686
Percent of Stock Sold:	75%
Taxes Offset by Option Gains / Losses:	\$1,073,464

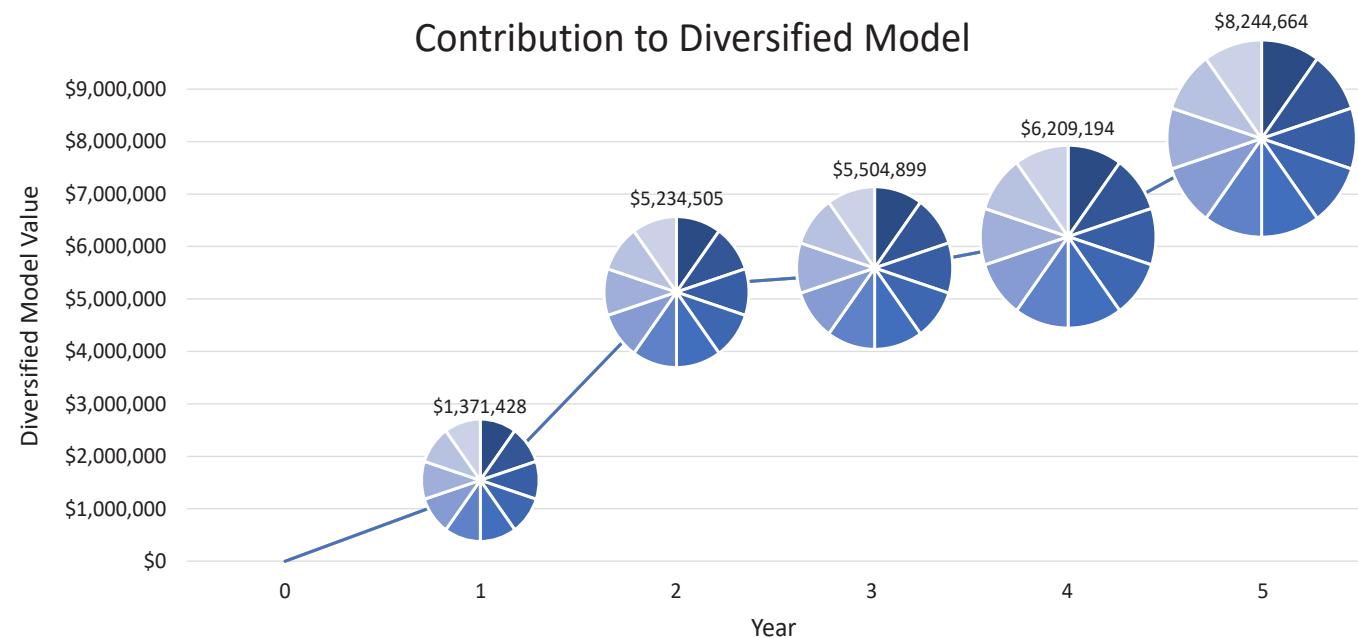
**Cash Available to Invest:** **\$8,244,664**



# Hypothetical Portfolio Value Growth

In this example, the client systematically sells out of their concentrated stock position at a level where option premiums or losses offset the capital gains bill triggered by selling shares, and then reallocates at the end of each year into a diversified model.

The illustration assumes no growth in the diversified model, and uses the example returns on page 1 for the concentrated stock.



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