

Capitalizing on Volatility



Presented by:

[Arin Risk Advisors, LLC](#)

Protect Assets



Enhance
Returns



Discover
Solutions



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Sources: Goldman Sachs & Co, Inc., www.cboe.com, Willmott.com, Barclays Capital, Credit Suisse Derivatives Research, Jesse Phillips, Susquehanna Financial Group, BNY Mellon/Pershing

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A photograph of a wooden swing set against a sunset sky. The sky is filled with soft, orange and pink clouds, and the sun is visible as a bright, glowing orb. The swing set consists of a horizontal wooden beam supported by a central vertical post, with two wooden ropes hanging from the beam. The text "What if returns weren't enough?" is overlaid in white on a dark grey rectangular background in the center of the image.

What if returns weren't enough?

Then maybe make risk your **first** consideration.



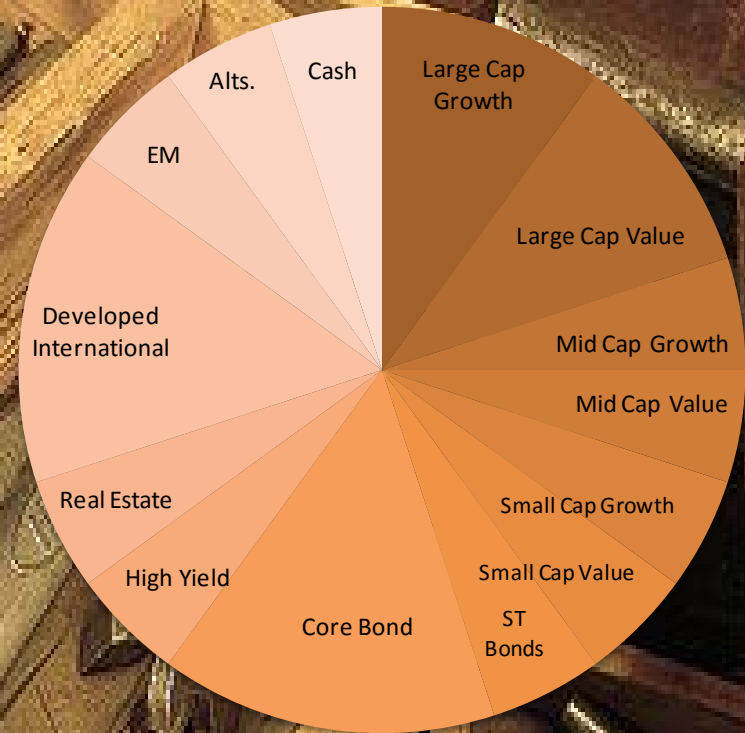
Risk

A long, straight asphalt road with a dashed yellow center line stretches from the foreground into the distance. The road is flanked by fields of dry grass and some green vegetation. The sky is filled with heavy, dark, grey clouds, with a bright light source breaking through the clouds in the distance, creating a dramatic, high-contrast scene.

Don't avoid risk.
Manage and monetize it.

But how?

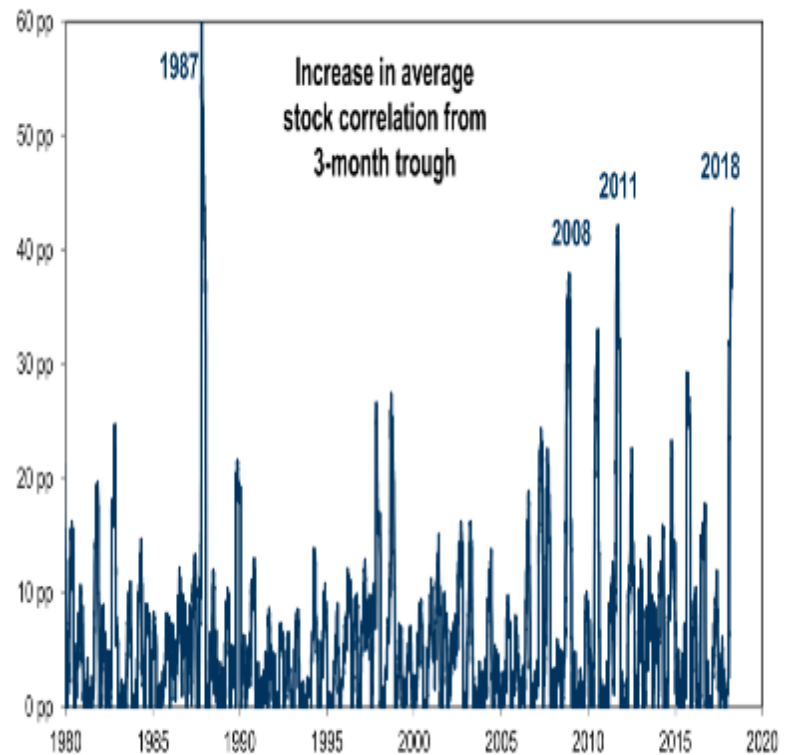
Most investors are focused on efficient outcomes...



...but only use standard tools...

...that can leave you with a false sense of security.

Exhibit 1: S&P 500 average stock correlations have surged since January



Source: FactSet, Goldman Sachs Global Investment Research



And most investors use standard risk measures...

...that are based on
fleeting assumptions.

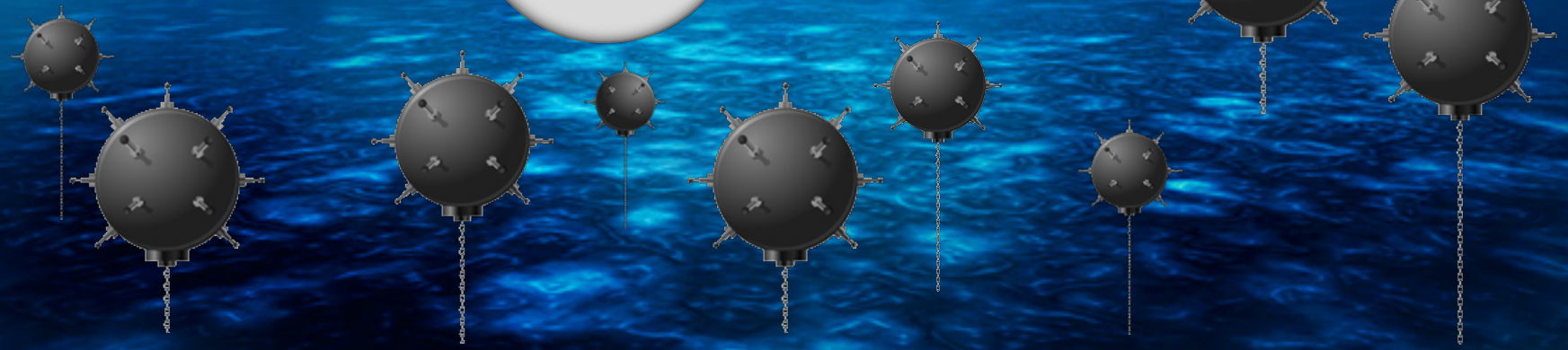
Overreliance on
average returns
while ignoring the
path of returns.

Future returns,
variances and
correlations
frequently bear little
resemblance to
history.

Mean-variance
optimization treats up
and down risk equally,
causing an over-
approximation of the
incremental reward
for additional risk.

Security returns
do not follow a
normal
distribution.

Subsequent security
returns and volatility
do not all follow the
same probability
distribution as
previous ones. (aka
"autocorrelation")





So diversification works.



Until one day, it doesn't.

A close-up photograph of a man's face, which is completely obscured by his hands. He is wearing a light blue button-down shirt. The background is a plain, light color. The overall mood is one of despair or helplessness.

Then nothing seems to work.

Pssst...even Harry agrees.



“We believe that a financial advisor will use the risk-return tradeoff curve of modern portfolio theory more effectively if the advisor knows, in general, the assumptions behind MPT...”

“...the inputs to an MPT analysis are **not supposed to be** historical average returns, volatilities and correlations. Rather, they should be forward-looking estimates.”

“While it is true that the well-advised investor may encounter unanticipated hardships, the **ill-advised investor courts almost certain disaster.**”

*-Dr. Harry Markowitz
Father of Modern Portfolio Theory*

Source: Research Magazine, August 1, 2011

Others have been less diplomatic.

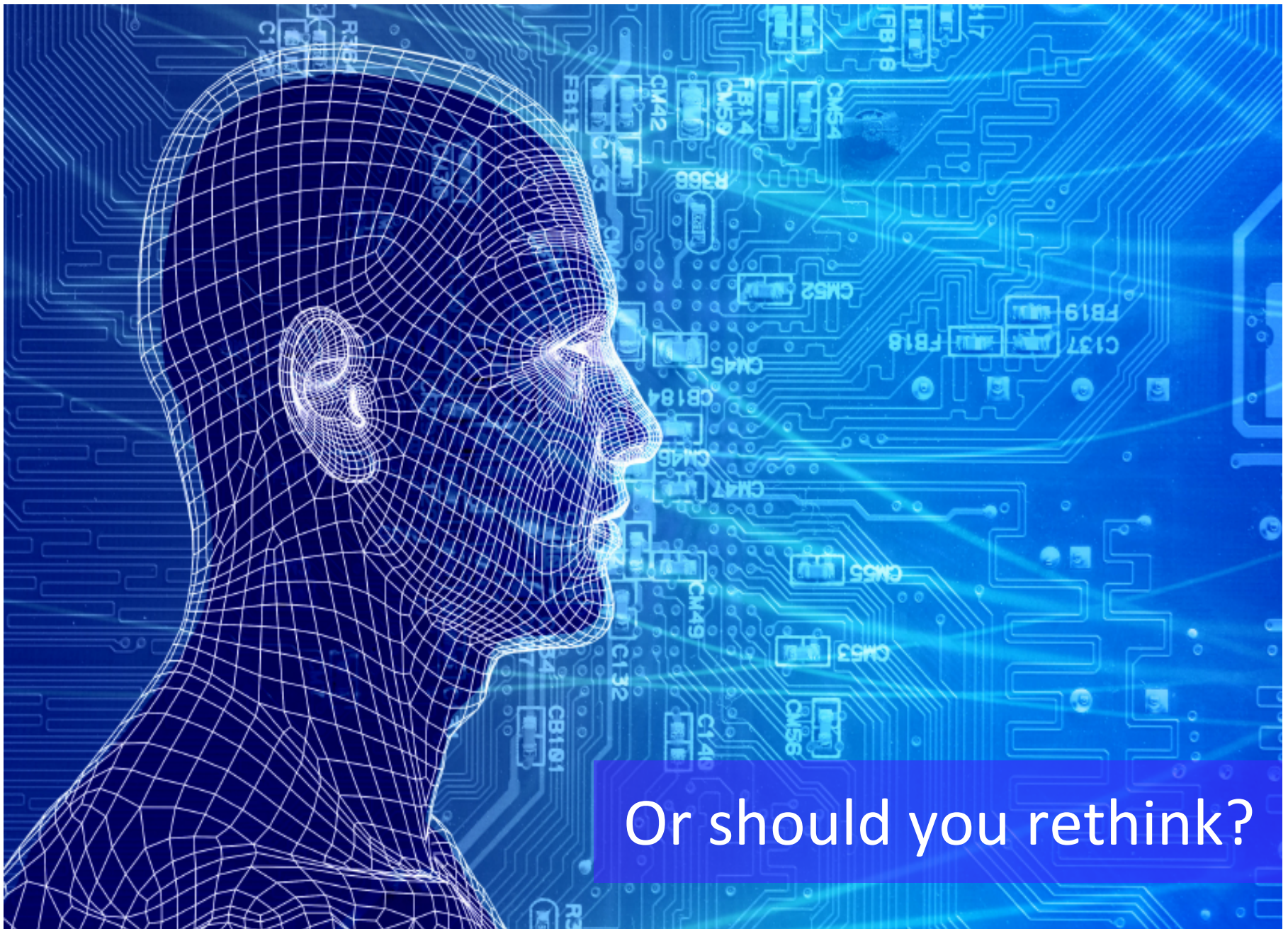


"Anything that relies on correlation is charlatanism."

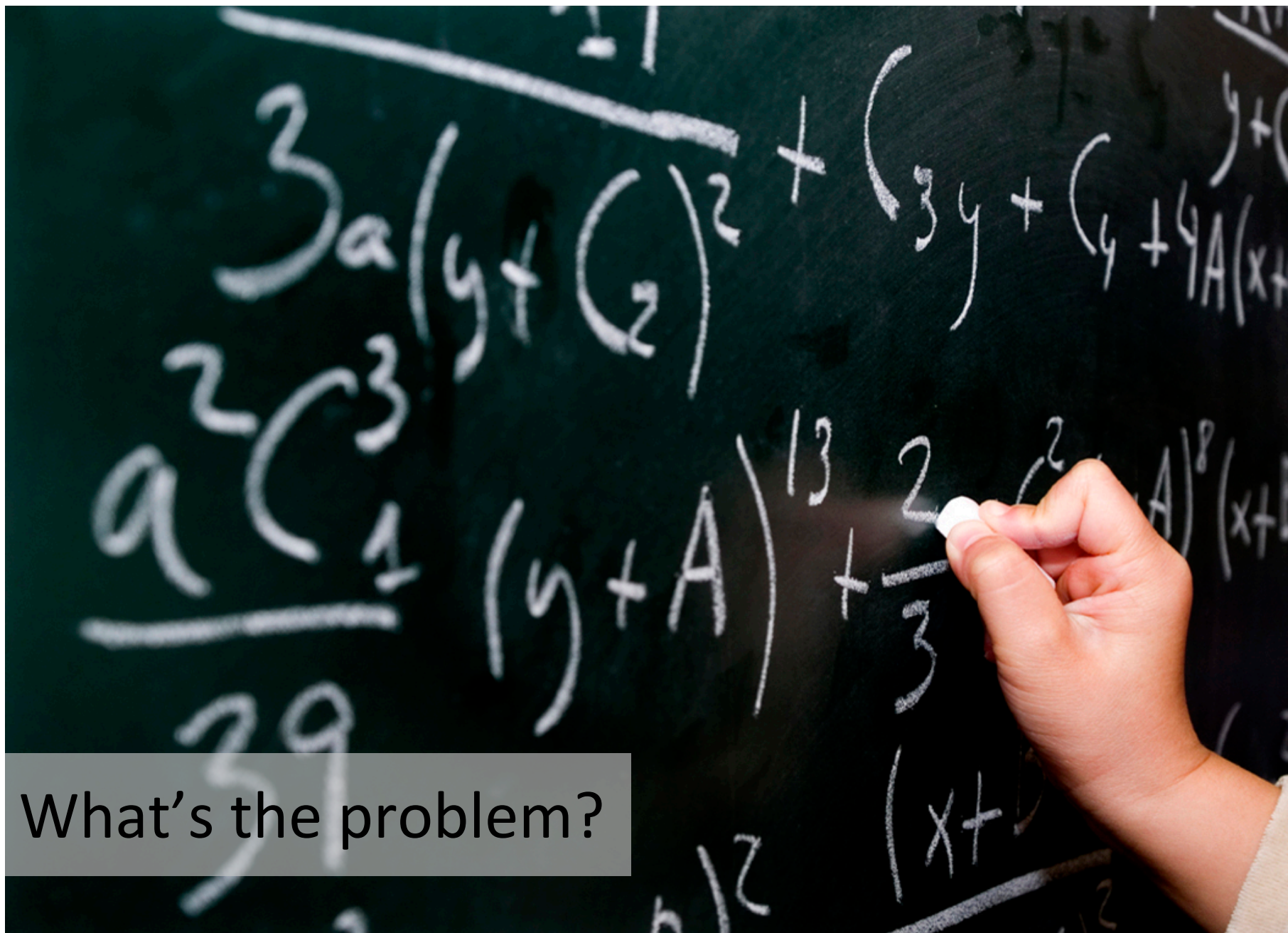
-Nassim Taleb
Author, *The Black Swan: The Impact of the Highly Improbable*



So should you stay the course?



Or should you rethink?



What's the problem?



All portfolios have it...



...but most investors simply
(mis-)measure and **accept** it...



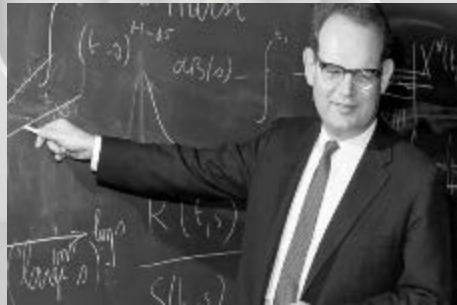


...rather than capitalize on it.

A yellow diamond-shaped sign with a black border, mounted on a black post. The sign features the text "Now what?" in a bold, black, sans-serif font. The background of the image is a clear blue sky with some light, wispy clouds.

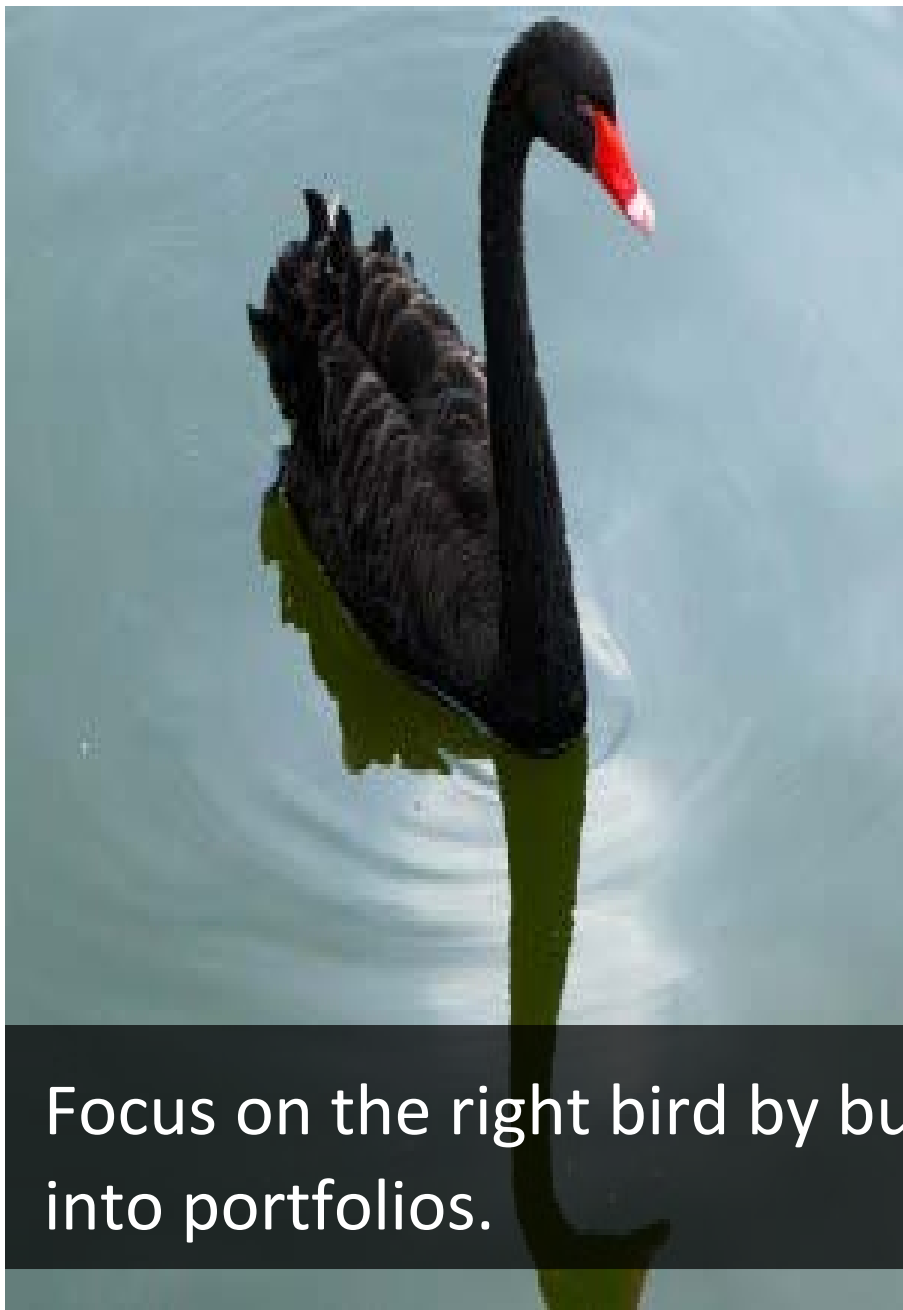
**Now
what?**

Contain Risk.



“economics has not truly come to grips with the main difficulty,.....which is the inordinate practical importance of a few events”

-Benoit Mandelbrot



Focus on the right bird by building **resilience** into portfolios.



The fossil record of the Sand Hill Crane provides approximately 2.5 million years of **RESILIENCE!**

©2005 Will Cook

Make volatility
a **resource**
rather than a
burden.



Options **empower** investors to
capitalize on the volatility
that already resides in their portfolios.





In fact, options can **guide** you to answers to questions that seem unanswerable.

“How can I meet my income needs with interest rates so low?”

“What if interest rates rise?”

“How can I participate in up markets while avoiding down markets?”

“How can I reach my financial goals without weathering another storm like 2008?”

“I’m worried about the risk in my concentrated holdings but how can I diversify without generating a lot of taxable gains or taking on more interest rate risk?”



Protect Assets

Options can produce **resilient** returns that can **improve** the likelihood of achieving long term goals.



Enhance Returns

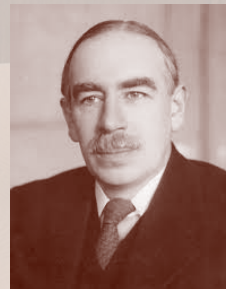
Options can be used to **enhance** returns by defining volatility and harvesting income.

Expand Your Solutions

Risk-Aware investment strategies can **strengthen** portfolio diversification by introducing a differentiated, low correlation return source from an inefficient market.

Commit to a **dynamic** approach.

Options require active management to stay on top of ever-changing risks and opportunities.



“When the facts change, I change my mind. What do you do, sir?”

-John Maynard Keynes

Options strategies don't have to be...



Scary



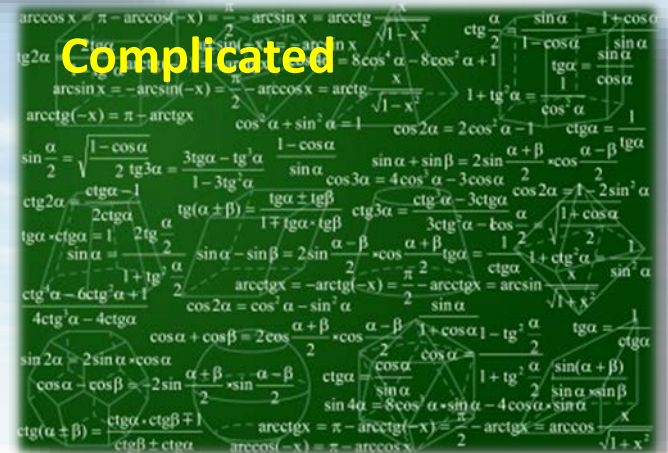
Expensive



Cumbersome



Tax Inefficient



Complicated

The experts agree...

“Investors may be able to take advantage of volatility and potentially receive a better risk-adjusted return, compared with a long-only equities portfolio.”

Nadia Papagiannis
Strategist, **Morningstar**

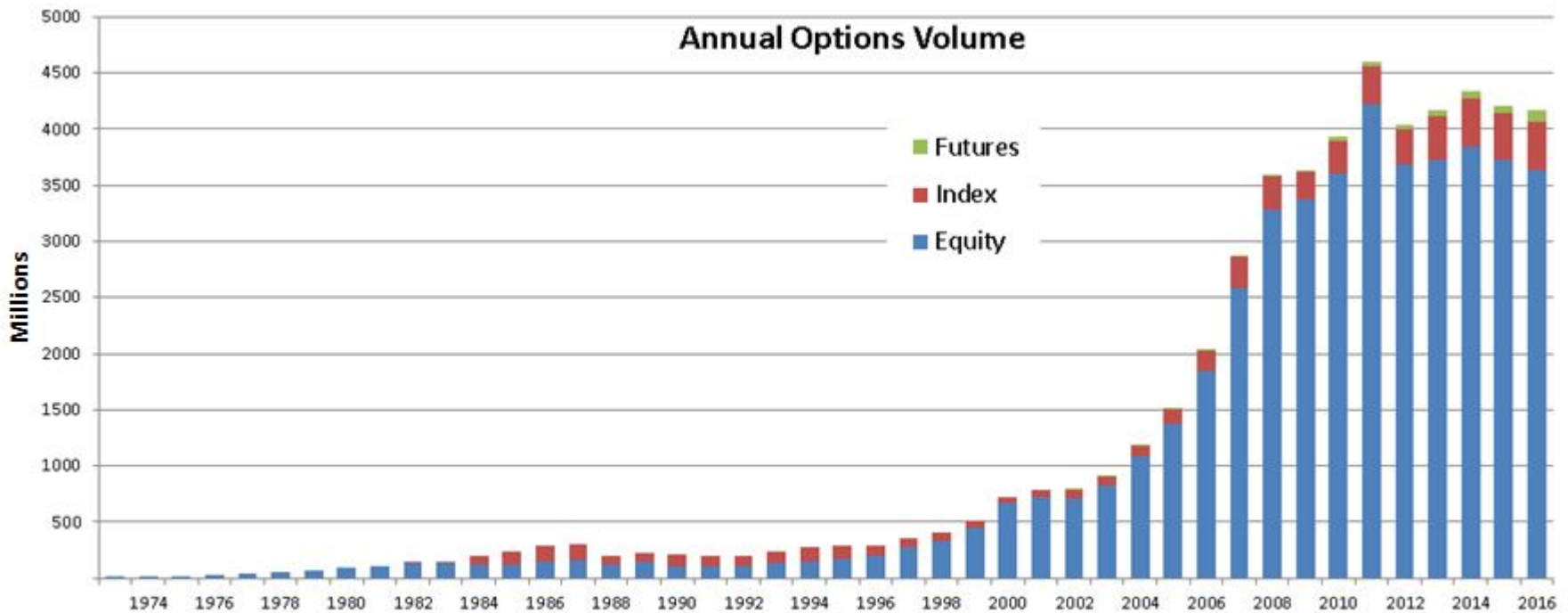
“Option premiums...harness volatility, with premiums that can be monetized, sold and removed from the portfolio when they're no longer attractive.”

Eric Metz
Financial Advisor Magazine

“For nervous investors who still want equity exposure, puts and calls are a good way to hedge risk”

Jeff Benjamin
Senior Editor, **Investment News**

...and industry growth confirms.



Source: Options Clearing Corp.



FREQUENCY OF OPTIONS USE BY OBJECTIVE, 2017			FIGURE 1
OBJECTIVE	PRACTICES WITH ≥ \$500M AUM	PRACTICES WITH < \$500M AUM	ALL ADVISORS
Income generation	51%	57%	55%
Downside risk protection/hedging	57%	37%	38%
Portfolio diversification	39%	25%	26%
Create an entry or exit point	14%	29%	26%
Alpha generation	21%	26%	25%
Preserve capital	18%	24%	22%
Stock alternative/substitute	13%	23%	21%
Short-term speculation	21%	20%	19%
Replacement of a limit order	8%	15%	14%

Source: Cerulli Associates
Analyst Note: Represents advisors who frequently use options to achieve each objective.

Stay **competitive** by embracing proven methods of managing risk and meeting clients' long term planning goals.



Plug into experts.

Arin Risk Advisors, LLC is an SEC-registered¹ investment advisor that focuses exclusively on volatility-linked, risk-controlled investment strategies.

Since 2009, we have partnered with fellow fiduciaries (RIAs, family offices, bank trust departments) with diverse objectives, outlooks and risk tolerances to co-produce results that meet the needs of clients.

Our team represents a unique mix of complementary skills, bringing together the knowledge and expertise of former options market makers and proprietary traders with strategists that produce the solutions our clients expect.

¹ Merely being registered with the SEC does NOT imply any skill or expertise with investments or advice.



We are in the **solutions** business.

Everyone seems to have a “solution” these days. But these aren’t just words to us.

We recognize that our expertise will only be valued if it is applied to producing a solution for our clients.



Let's Huddle.

We would welcome the chance to learn more about you and your clients.

[Contact us](#) to schedule a 30-minute “**Solution Huddle**” with one of our strategists.

On the call, we can discuss a specific investment or risk management topic of your choice and offer ideas on how risk-aware solutions could help your clients and your practice.

No sales pitch.

No product push.

Just an informal discussion on what we all do for a living—creating solutions.

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