CALL OPTIONS – AN ADDITIONAL WAY TO ENHANCE YOUR INVESTMENTS

Important things to know. Any advice in this document is prepared without consideration of your personal objectives, financial situation or needs. Before acting on the advice, you should consider if it is appropriate to your objectives, financial situation or needs.

Call 1300 304 065
8am – 6pm (Sydney time), Monday – Friday
stgeorgemarginlending.com.au

St.George Bank – A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714.
9624/11898 12/10

THE OPTION TO MAKE YOUR INVESTMENTS WORK EVEN HARDER

Writing call options is an investment strategy that gives you the potential to earn additional income on the investments in your margin lending portfolio, and can be especially effective when share prices are static.

HOW DO CALL OPTIONS WORK?

When you write a call option on shares in your portfolio (generally in lots of 1,000) you are selling the right – but not the obligation – to the buyer of the call option to purchase those shares at a specified price within an agreed time. In return, you are paid a guaranteed premium.

The agreed selling price (the exercise or strike price) is available to the buyer of the call option, should they wish to proceed, at any time up to the agreed expiry date. If the share price remains around the same price as or slightly lower than the exercise price on or before the expiry date, the buyer is unlikely to exercise their right to buy your shares. This means you retain your shares while, at the same time, earning income from the call options premium – income that can help pay loan interest, reduce your loan balance or be re-invested in additional securities.

WHAT ARE THE RISKS?

Just as call options can enhance your potential for additional returns, they can also enhance the risks. If the buyer exercises their right to buy your shares, you will receive the exercise price of the shares and the premium, but will miss out on the benefits of an increase in the share price. Your financial adviser or accredited stockbroker can provide further advice on the risks involved as well as how to minimise these risks.

TWO OPTIONS FOR GROWING YOUR WEALTH

St.George Margin Lending offers you two call option strategies:

1. **Write call options** – when you write call options on shares you already own and hold in your margin lending portfolio.
2. **Buy and write call options** – when you buy shares and write the call option on those shares at the same time.

HOW CAN CALL OPTIONS HELP ME BUILD RETURNS IN A STATIC MARKET?

This example demonstrates a buy and write strategy, but can easily be applied to simply writing a call option where you already hold the shares as part of your margin lending portfolio.

Justin buys shares in Potential Corp on 1 June	
Quantity	5,000 shares
Price	$12.00 per share
Value*	$60,000
With St.George Margin Lending	
Gearing ratio	70%
Justin borrows	$42,000
Justin's equity	$18,000
Justin writes (sells) Potential Corp call options	
Expiry date	1 January
Exercise price	$13.00 per share
Premium	$0.50 per share

Justin's cash flow – at 1 January, with Potential Corp trading at $13.00 per share

	A Call options not exercised	B Call options exercised	C Shares sold (no call options)
Sale proceeds (5,000 x $13.00)	n/a	$65,000	$65,000
Cost of purchase	$60,000	$60,000	$60,000
Premium (5,000 x $0.50)	$2,500	$2,500	n/a
Loan interest (7 months x 8% p.a.)	$1,960	$1,960	$1,960
Return*	$540 ($5,000 unrealised gain)	$5,540	$3,040

The outcomes

A. With the call options not exercised, Justin retains the shares (meaning $65,000 investment is still available to him), while he has earned 3% on his initial investment.

Without call options, as long as the value of his shares remained static, they would not be providing Justin with any returns except, of course, share income such as dividends.

B. In this scenario, Justin was obliged to sell his shares. He has earned income through the call options premium plus the sale of shares. Clearly, in this case returns are considerably higher than if Justin had sold his shares with no call options (C).

C. If Justin had no call options on his shares, this scenario shows his returns if those shares were sold.

* Excludes transaction costs, brokerage and stamp duty as well as income generated from share ownership. Capital gains tax consequences are not considered. Any changes in assumptions could significantly change the results. You should also consider that investment returns are highly dependent on economic cycles and market volatility.

STEP UP YOUR WEALTH CREATION STRATEGY TODAY

To see how call options can maximise your returns, why not find out what we can do for you?

EXISTING ACCOUNTS

1. Writing covered call options

Once you've carefully read this brochure and the Terms and Conditions booklet, you will need to complete and return:

- The Call Options Application Form
- The ASX Clear Form of Acknowledgement.

You are also required to contact your broker to establish a separate call options trading account.

2. Implementing a buy and write strategy

The process is the same as above, except your broker will be purchasing the stock simultaneously. Please be aware that while the purchase is being processed, your broker must provide a percentage of the stock value as security to ASX Clear until the transaction is completed, which may be drawn down from your margin loan.

OPENING A NEW ST.GEORGE MARGIN LENDING ACCOUNT

1. How to open your account

Take time to read wthe St.George Margin Lending Margin Loan Product Disclosure Statement and the Guide to St. George Margin Lending. If you decide that St.George Margin Lending is the right strategy for you, simply complete the St.George Margin Lending Application Form accompanying that brochure.

2. Implementing a call options strategy

You will then need to read the Call Options Terms and Conditions and complete the specific Call Options Application Form.

Send your completed forms to St.George Margin Lending in the postage paid envelope provided or mail to:
St.George Margin Lending
Reply Paid 1467, Royal Exchange, NSW 1224.

Like to know more?

Speak to your financial adviser or accredited stockbroker, call St.George Margin Lending on **1300 304 065**, 8am – 6pm (Sydney time), Monday to Friday or visit **stgeorgemarginlending.com.au**