MC AUREATE
CONSULTING SERVICES

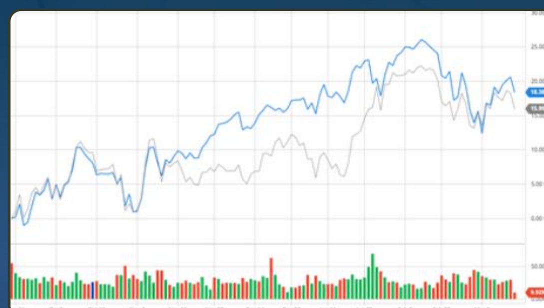
MC AUREATE PORTFOLIO PROTECTION

CONCENTRATED SINGLE STOCK POSITIONS

Many investors might find themselves with a large position in a single stock, whether through association with or loyalty towards a particular company. Outsized or concentrated positions in a single stock can expose an investor to significant risk. Even blue chip stocks can lose their attractiveness abruptly, as occurred in the airline industry at the onset of the COVID-19 Pandemic. Price declines are especially devastating when so much of your portfolio relies on the performance of a single stock .MC Aureate's option protection strategy mitigates this risk .

Finding Proxies for Your Stock

Many investors with outsized single stock positions may be restricted and subject to holding periods. MC Aureate's strategy subverts such constraints by finding proxies for your stock and using these to hedge your position. Exchange Traded Funds (ETFs) can be a great way to mitigate concentrated position risk. Often ETFs and their constituent stocks move in correlated ways. An application of this is shown through using the QQQ ETF, a portfolio of the largest non-financial stocks on the NASDAQ, to hedge an outsized position in Microsoft, which represents 9.5% of the index. The enclosed graph shows the similar trading pattern of QQQ versus Microsoft stock. QQQ and its options could be considered a potential proxy for Microsoft stock.



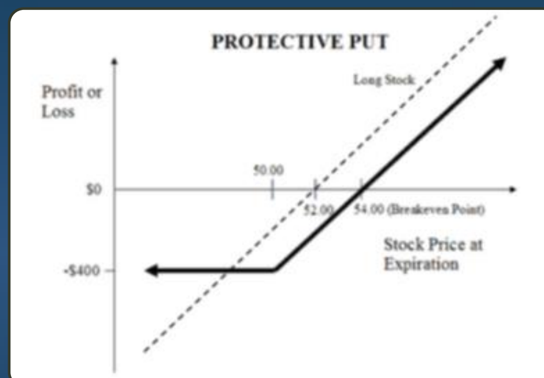
QQQ Performance vs Microsoft (Last 6 months)

Stock Market Crash Frequency?

Over the last 50 years, we have seen 26 S&P 500® Index losses of 20% or more, approximately one every two years. During the Financial Crisis from October 2007 to March 2009, the US Stock Market lost 53%

Use of Options for Value Protection

MC Aureate's option protection strategy mitigates the downside risk of an outsized single stock position by purchasing out of the money put options on the stock. Put options grant the investor the right to sell stock at a particular specified price for a fixed period of time. Through purchasing put options, the investor is protected from sudden and significant declines of the stock that they hold. Regardless of the size of the decline in the price of the investor's stock, they will still receive the agreed-upon price for the stock as outlined in the put option contract. The value of the stock is thus capped at a particular minimum value, reducing the extent to which the investor will suffer from price declines. This is shown in the enclosed graph. Further, in times of significant stock declines, the investor can reinvest returns from put options into the market. This "buy low" tactic will help the investor capture more of the market gains when the downturn subsides and create a more diverse portfolio, as revenues generated from put options can be used to purchase other stocks.



Protective Put Option Limits Losses During Stock Price Declines

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