

TD Ameritrade pushes options trading to custodial clients

For inexperienced advisers, risky offerings may be a 'hornet's nest'

By Dan Jamieson

October 10, 2010

TD Ameritrade Inc. wants financial advisers who hold assets in custody at the firm to do more options trading, using its thinkorswim options-trading platform.

In addition to generating more revenue for TD Ameritrade — it bought thinkorswim Inc. last year for \$606 million — the firm thinks that options trading can help advisers produce more client income and manage portfolio risk.

Options are considered to be risky securities used by transactional brokers and hyperactive traders. But despite some concerns that advisers, who typically have used long-term investment strategies, may not be adept at options trading, some say it is logical for TD Ameritrade to offer its sophisticated options valuation and trading technology to its registered investment advisers.

“It makes sense, given today's world,” said Ken Winans, president and founder of Winans International Inc., which has \$130 million under management, part of it at TD Ameritrade.

For TD Ameritrade, “it's obvious there's real big profit margins on this,” said Mr. Winans, who uses long-term options to gain market exposure as well as option straddles that profit from price swings in either direction.

But using options would be a “radical shift” for most RIAs, he said.

“It could be a hornet's nest if people get into it without knowing what they're doing,” said Marcy Burton, chief marketing officer at Partnervest Financial Group LLC, whose advisory unit, which has \$264 million under discretionary management, holds its assets at TD Ameritrade.

“TD is going in the right direction,” she said. “They just have to figure out a way to educate advisers.”

For now, the firm is focusing on educating them on using conservative options strategies, though at some point, it plans to roll out an options subadvisory service that will allow advisers to leave the labor-intensive process of managing options positions to thinkorswim.

“We recognize we're starting at the 101 level with most advisers,” Tom Bradley, president of TD Ameritrade Institutional, told a gathering of the firm's advisers recently.

“There are some very conservative strategies you can use that will make you look smarter than the guy down the street,” he said.

Options trading by advisers was up 142% at TD Ameritrade in the first quarter of this year, compared with the same quarter two years ago, before the thinkorswim acquisition, according to Mr. Bradley.

At a recent firm event, Don Kaufman, director of the trader group at TD Ameritrade, who came from the thinkorswim side, gave a preview of some of the strategies that TD Ameritrade would like to see advisers use.

“We really don't advocate buying options” since they decay with time, he said at a session for advisers.

Mr. Kaufman recommended selling calls with 23 days or more to expiration and with “deltas” of 0.3 to 0.4. That means the options have a 60% to 70% chance of expiring with no value at settlement, so the seller keeps the premium.

So-called index call spreads are similar to selling a call against an entire portfolio and can generate about 30 basis points a month in premium income without taking additional risk and without capping upside, Mr. Kaufman said.

Thinkorswim, through TD Ameritrade's adviser workstation, has begun offering option analytics. The two firms are still integrating their technology, but more analytics and trading support are coming, executives said.

“When you call [the trading desk] now, there's not a lot of depth with complex options strategies,” Mr. Kaufman told advisers.

The analytical product itself is “very high end,” said Dick Blakeley, founder of The Blakeley Group Inc. and a former Smith Barney broker. “This product is considerably more sophisticated than anything I've seen.”

Ms. Burton said that her firm uses a variety of hedging and call-writing strategies, and has dedicated employees to manage the options trading. Most advisers aren't set up for that process, she said.

But firm officials are still coy about discussing details about its plan to offer a subadvised options service to advisers.

“We're looking at that,” Mr. Bradley said.

“We have the expertise to do that,” he said. “[Subadvising] is pretty easy to do.”

Thinkorswim could offer advisers “a considerable amount of value [if they can figure out how to implement options strategies] across a large swath of clients,” said Mr. Blakeley, whose two-year-old firm holds its \$59 million in client assets at TD Ameritrade. “I'm actively thinking how to use it,” he said.

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