STAR™ Asset Management Platform

The Future Looks Bright

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A Different Approach for Challenging Times

It’s hard to think of a more difficult time to be an investor than today. Families hoping to save for college or grow their retirement accounts are faced with a lack of confidence in their investments and are uncertain about what to do. Even the professionals are stumped when it comes to knowing where the market is headed.

Our goal is to generate income and decrease exposure to market risk.

Partnervest’s STAR™ Asset Management Program offers investors a different approach. Using investments such as exchange traded funds (ETFs), we have created strategies designed for these times. Rather than avoid the markets’ ups and downs, we work to harness volatility by using options to generate income and help control risk. While options can be a tool for market speculation, it is more common for investors to use them for income generation and risk management.

We offer investors a rational, common sense approach which can be applied to a range of investment levels and risk tolerance.

Many of the strategies developed by our STAR™ investment team combine a globally diversified basket of ETFs with either covered calls, with maturities typically no longer than 90 days, or call spreads. And instead of trying to time the market, we structure portfolios based upon diversification and a targeted return.

Regain confidence in the markets through a disciplined approach to investing and managing risk.
Our disciplined investment approach is designed to work well in all market environments.

Behind Partnervest’s strategies are core beliefs that underpin our STAR™ Investment Philosophy:

**No one can predict with any accuracy what the markets will do.** Our strategies do not favor any asset class and are positioned to capture positive returns wherever they occur in the portfolio.

**No one can time the markets.** We do not attempt to time the market in any way and our option strategies are used for income generation and risk management.

**Most investors, including professional money managers, cannot beat the market.** Rather than try to beat a benchmark, our strategies seek to minimize downside risk and achieve consistency of returns.

**We work to achieve our goals by structuring a targeted outcome.** Covered call writing on a consistent basis on a global basket of ETFs is designed to generate dependable returns. The income from the premiums can be moved into money market or insured deposit accounts.

We offer strategies with actively managed ETFs, including:

- S&P 500
- Russell 2000
- Gold
- Emerging Markets
- Metals & Mining
- Natural Resources
- REITs
- More
Why we use ETFs in our strategies

Exchange Traded Funds (ETFs) are often described as a cross between index mutual funds and individual stocks. Like index funds, ETFs represent diversified portfolios of securities that track specific indexes. Like stocks they can be bought or sold throughout the day on an exchange.

The growth of ETFs has been phenomenal. The first ETF was introduced in 1993 and today there are close to 1,000, with assets in ETFs approaching the trillion dollar level. Their popularity is understandable; ETFs provide four important advantages over traditional mutual funds:

- **More transparency.** Investors know on a daily basis what is held in each ETF, unlike actively managed mutual funds.

- **Greater flexibility.** ETFs offer diversified market exposure and can be traded throughout the day on an exchange, unlike funds that are priced at the close of the market.

- **Typically, lower expense ratios.** ETF expense ratios are typically 0.25% to 0.75%, in some cases less than half that of mutual funds.

- **Option opportunities.** Options can be bought or sold on ETFs since they trade like securities. You cannot do this with mutual funds.

Seven Options Terms You Need to Know

**OPTION** An option is a contract to buy or sell a specific financial product. The contract establishes a specific price, called the **strike price**, at which the contract may be exercised, or acted on. It also has an expiration date. When an option expires, it no longer exists or has value.

**CALL** The purchase of a call gives the owner the right, but not the obligation, to buy the underlying security at the strike price on or before the expiration date. In turn, the seller of the call is required to sell the security at the strike price at the buyer’s request.

**PUT** The purchase of a put gives the owner the right, but not the obligation, to sell the underlying security at the strike price on or before the expiration date. In turn, the seller is required to buy the security at the strike price at the buyer’s request.

**COVERED CALL** A call written on a stock in an investor’s portfolio. Also known as an overwrite.

**PROTECTIVE PUT** The purchase of a put while holding shares of the underlying stock from a previous purchase.

**OPTION SPREAD** Holding a long position in a call and a short position in another call on the same underlying asset with a different strike price and/or expiration date.

**IN-THE-MONEY / OUT-OF-THE-MONEY**

When the strike price of an option is below the market price for the underlying security in the case of a call, and above it in the case of a put, it is considered in-the-money. When the strike price of an option is above the market price for the underlying security in the case of a call, or below it in the case of a put, it is considered out-of-the-money.
Why STAR™ Asset Management Platform uses Options to generate income and manage risk

Generating Income

Rather than attempt to predict a return, we seek to capture a return through a targeted approach through the use of options. One option strategy, covered call writing, gives another investor (the option buyer) the right to purchase a security you own at a specified future price. Option sellers are obligated to sell at a certain agreed price, in exchange for option premiums they receive up front. This is an accepted way to generate income for individual, trust or retirement accounts.

A call option gives the buyer the right to buy the underlying security at a specific price (called the strike price) on or before the option’s expiration date. In return the buyer pays the writer a premium. Writing covered calls on a consistent basis can produce a reliable stream of income and help offset a drop in value in the security.

Generally, the greater the volatility, the higher the option premiums; while in stable markets, the potential for price appreciation on the underlying ETF investments is greater. If the price of the security rises above a specific price, and the buyer executes the call, the investor can lose any additional appreciation the security may have had.

Managing Risk and Protecting Principal

Options also offer several ways to manage investment risk. One way to protect a portfolio from a drop in price is by purchasing a put. If the purchaser is holding shares of the underlying stock it is known as a protective put.

Puts give an investor the right to sell a security at the strike price, no matter how low the market price drops, before expiration. With the cost of the option’s premium, the investor has been insured against a loss in stock price.

Alternatively, an investor may want downside protection, and potential for price appreciation. Under this scenario an option strategy can be implemented which purchases a long term call while selling another short term call on the same security. This strategy allows the investor to profit when the underlying asset is flat or moderately up. In exchange for this reduction in risk the investor is limiting the potential for maximum profit.
Harnessing the power of Volatility

One of the key factors that affects the price of option premiums is volatility. Generally, the greater the volatility, the higher the option premiums.

The Chicago Board Options Exchange (CBOE) Volatility Index® (VIX®) often referred to as the fear index, is a key measure of market expectations of volatility over the next 30 days. To measure it they use Standard and Poor’s (S&P) 500 stock index option prices.

In periods of uncertainty such as 9/11, the technology bubble in 2002 and the financial crisis in 2008, the market’s volatility increased, while the S&P 500 decreased (see graph below). Volatility can be a useful hedge against all kinds of unfavorable market conditions.

How we add Volatility to our managed accounts

We use a covered call writing strategy that seeks to harness volatility by generating a steady uncorrelated income stream. Generally, the greater the volatility, the higher the option premium income. When volatility is lower, generally the market is flat or moving in a positive direction and benefit from price appreciation of the underlying security.

Volatility plays an important role in our investment strategy. It is the pace at which stocks and the stock market move higher or lower over time. More rapid movement means more volatility.
Meet Our STARs

**VEGA** seeks consistent repeatable returns across all market cycles by investing in a diversified global ETF portfolio with a covered call writing strategy that can generate a steady uncorrelated income stream. To protect against price declines of 20% or more, the portfolio may purchase protective puts.

**VEGA ENHANCED** is the same as VEGA, with an additional cash management feature for the accrued option premiums. Elections for accumulated premiums may be reinvested in a VBR™ program (Volatility Based Reinvestment), fixed income such as Treasuries (TLT’s), or both.

**ALPHA** builds downside protection up front with potential for market appreciation by combining three non-correlated ETFs, Treasuries, S&P 500 and Gold. A majority of the assets are placed in a fixed income security. An overwrite strategy on the portfolio may be used and is designed to generate income and reduce interest rate risk.

**ALPHA-Q** is the same as Alpha, however some execution of trades will vary based upon custodial requirements.

**VEGA CORE PLUS** is designed to minimize costs, reduce volatility, and consists of a non-traditional “core” the STAR Global Buy/Write ETF (NYSE: symbol VEGA) managed by Partnervest. A select group of actively managed satellite investments are tactically used to take advantage of opportunities beyond that of the core ETF.

**CONSERVATIVE INCOME PORTFOLIO** strategy seeks to maximize short term current income, consistent with preservation of capital and need for liquidity.

Harnessing the Benefits of Volatility with Options

*The Future Looks Bright*
Today, very few money managers use conservative options strategies for income and risk management. Partnervest believes that investors can regain confidence in the markets through this type of disciplined approach to investing.

What you can expect in an individually managed account:

• Professional active management
• Transparency
• Control
• Global diversification and rebalancing
• Potential tax advantages, and
• Comprehensive quarterly performance reports

Why a STAR™ Managed Account could be right for you

Headquartered in Santa Barbara, California, Partnervest Advisory Services is an SEC registered investment advisor and has been independently owned and operated by its founders since 2001. The firm was created to provide innovative investment solutions for advisors and their clients. The principals have over a century of combined experience in all aspects of investment management, specializing in alternative assets, particularly hedged and absolute return strategies. We are committed to treating advisors and investors with integrity and take a strictly ethical approach to advising, investing and managing assets. Our firm is proud of its flawless reputation, creative thinking and entrepreneurial spirit.

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Past performance is not indicative of future returns and does not constitute tax, legal or accounting advice. Not all strategies are appropriate for all clients. An advisor’s registration with the SEC does not mean that the SEC endorses the advisor.

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