Portfolio Case Study Information for Futures and Options Spring 2015

Background of the Portfolio Clients:

Your clients, living in Iowa, are a husband, age 64 and wife, age 61, who have a daughter age 30 in her third year of Medical school where costs are $75,000 a year, and the parents are committed to paying for all those costs of education. Outside of the portfolio you are looking at there are $12,000 of additional funds for next year's medical school budget in the daughter's educational trust fund.

Household income is $150,000, however, both hope to retire sometime in the next 3 years. You are to be given one portion of their holdings. Their entire portfolio consists of stocks, bonds, mutual funds and money market accounts. In addition, to investment assets, the couple has two permanent life insurance policies with face value $300K on each of them that can be used to pay off the loan in case of premature death , and that loan amount is $180K in a 15 year fixed rate mortgage at 3.25%. Their home is currently assessed at $289K. In retirement they plan to leave Iowa and live in one of the following areas: Fort Myers, FL; or Asheville, NC where the climate is a little warmer.

They have a moderate tolerance for risk in that they are willing to assume some risk for a better return if there is a very low probability for loss of principal and a good opportunity for return in excess of the 20 year long term US Government Bond Rate. The couple has a large cash/near cash position [$610K] going forward to take advantage of any possible increase in interest rates as the economy improves, or a 30% downward correction in the equity markets. They are willing to consider investments in bonds, stocks, mutual funds, ETFs and options. However, they are looking to you for advice on allocation among these buckets of investments and will only approve the use of options if it serves the purpose of reducing risk, and/or generating prudent return relative to risk without undue loss of principal to their holdings. Before embarking in any set of investments they would like for you to draw up two sets of investment guidelines: (1) one that identifies investment guidelines for managing the underlying portfolio positions and (2) another one that identifies investment guidelines that will be adhered to when employing options. They want you to develop a set of investment guidelines that encompasses each of these potential securities choices and provide, at their initial meeting with you, a package consisting of the guidelines, types of services provided, financial methods and metrics used to evaluate and make recommendations in the portfolio and a discussion of the current configuration of the portfolio and what are the strengths, weaknesses, opportunities and threats to creating value [i.e. SWOT analysis]. This couple is in the 31% tax bracket at the federal level and pays another 10% of income tax at the Iowa state level. For this couple, both sets of their parents have died so there are no other inheritances that will be received going forward. From a financial planning standpoint their greatest concern right now is adequate medical insurance coverage in retirement. You will need to research the different medical insurance options under Medicare/Medigap and/or the affordable health act for Florida, Iowa and North Carolina and make a recommendation consistent with your investment strategy going forward.

They have done their own inheritance planning and have taken advantage of setting up two marital trusts to equalize the estates with the bulk of their assets under that shelter. As far as asset allocation, they are 70% in equities against 30% in fixed income bonds and are willing to deviate from these percentages up to 15% up or down depending on market conditions. Both of your clients have extensive investment experience, but are seeking someone who can help manage this account if one of them were to move from this world to life eternal.