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Advisor Profile: Steve Sherman



Options have played a significant role in the life of Steven Sherman, President of CS Advisors in Boca Raton, Florida. In graduate school at the State University of New York at Binghamton, his master's thesis focused on the technical evaluation of the derivative pricing of highly correlated assets.

"Basically, I looked at pairs of stocks that were highly correlated, but had different standard deviations (volatility), I evaluated their relative option prices, and then calculated the probability of putting on a spread between the options that would be profitable," Steven explained.

After graduation in 1986, the thesis on options turned out to be his ticket to a career on Wall Street. "I met an option specialist on the American Stock Exchange (AMEX) who had a seat on the New York Futures Exchange (NYFE) that he was not using. He was intrigued by the strategies in my thesis paper and was willing to back me in what turned out to be a successful partnership. I became a market maker on the floor of the NYFE where I traded futures options."

From the NYFE he moved to the AMEX where he traded index and equity options. "Typically, traders are either net buyers or sellers of options, but my strategies allowed me to profit from volatility. It didn't matter to me whether the market went up or down," he said. "With this strategy I would lose a little in premium erosion, which I would then try and make up for in daily trading. I found the risk was better defined and could be managed successfully."

In 2002 he decided to become a financial advisor. "I thought I could bring value to my clients with my approach to managing money. The typical advisor depended almost solely on asset allocation and rebalancing. I wanted to move beyond a two dimensional approach and apply option overlay techniques to traditional asset management," Steven said. "With my background I knew I would be able to provide more effective risk management and performance strategies for clients, to help them protect their portfolios and enhance income."

Today he utilizes option strategies with over 30% of his clients. "As an example, based on the profile and objective of the client, I will use option strategies on Exchange-Traded Funds (ETFs) to create collars to control tail risk or – when we purchase an ETF – develop a buy-write strategy to enhance cash flow. I also have clients for whom I purchase put spreads and sell call spreads to reduce the volatility of their market exposure. My goal," he said, "is to temper the downside without giving up too much potential on the upside."

"With other clients, I have been able to employ strategies that replicate structured products offered by institutional firms at a much lower cost to my clients" he said. "For example, if a client needs exposure to U.S. equities but does not want to have the risk that it entails, I will use certificates of deposit (CDs) going out three or five years and buy index call spreads. Simplistically, you purchase a three-year CD paying 3% (roughly 9% over three years) and then I use the income from the CD to buy call spreads in the S&P 500," he explained. "This gives the client liquidity (since he can access the money in his CDs) and we've provided the upside potential and eliminated counterparty

risk. Clients sometimes see these strategies as a form of insurance, where the client is foregoing some upside in order to protect their principal."

Although options are not well understood by many investors today, Steven points out "I have found as I educate my clients on the benefits of options, more and more clients understand the importance of integrating them into an overall asset allocation strategy.

"Options bring a lot to my business. Being able to offer a variety of proven option strategies to my clients enables me to differentiate my service from that of other advisors," Steven said. "And options give me an important tool in managing my client's risk. Most financial advisors approach risk management from the same vantage point and share a sales and advisory background. I believe I can better manage risk, regardless if it's portfolio or asset class risk, coming from a background of trading options."

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