SHELTON CAPITAL MANAGEMENT

SEPARATELY MANAGED ACCOUNT

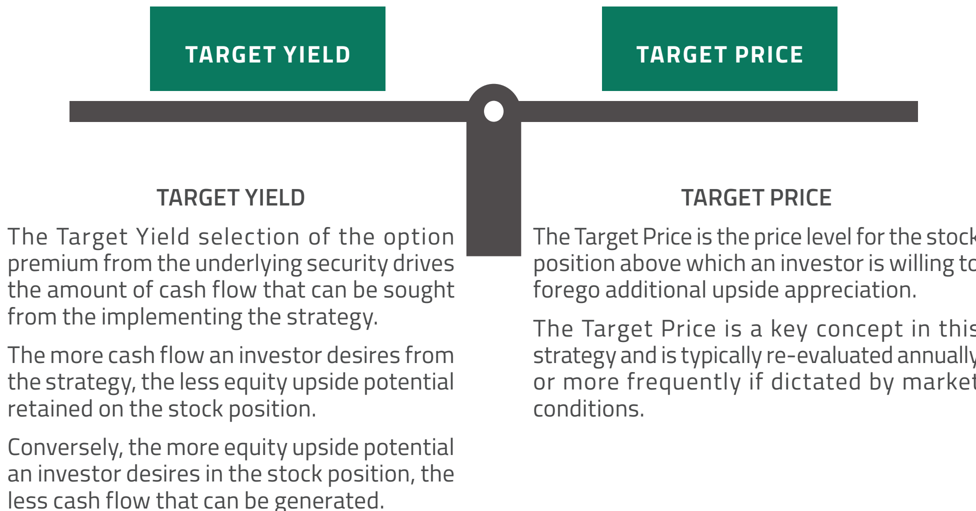
Shelton Option Overlay Strategy

Professionally managed covered call writing on a stock position.

Overview

Investors holding one or more concentrated stock positions should consider the Shelton Option Overlay Strategy if they are looking to:

- Generate cash flow
- Reduce risk
- Maximize liquidation value



TARGET YIELD

The Target Yield selection of the option premium from the underlying security drives the amount of cash flow that can be sought from the implementing the strategy.

The more cash flow an investor desires from the strategy, the less equity upside potential retained on the stock position.

Conversely, the more equity upside potential an investor desires in the stock position, the less cash flow that can be generated.

TARGET PRICE

The Target Price is the price level for the stock position above which an investor is willing to forego additional upside appreciation.

The Target Price is a key concept in this strategy and is typically re-evaluated annually or more frequently if dictated by market conditions.

Covered Call Writing Defined

- Covered call writing is either the simultaneous purchase of a stock and the sale of a call option, or the sale of a call option against a stock currently held by an investor.
- The options written are considered “covered” because the seller of the option owns the stock against which the options are written.
- Generally, one call option is sold for every 100 shares of stock.
- The writer receives cash for selling the call but will be obligated to sell the stock at the strike price of the call if the call is assigned to the writer’s account. In exchange for being paid, the investor may give up any increase in the stock price above the strike price.

Benefits

- With a customizable risk/return trade-off, the client has the potential to enhance cash flow (depending on the stock) making the holding more productive.
- Shelton Capital applies our expertise and options valuation technology to seek to identify the most favorable call writing opportunities based on client objectives.

FAQs

- **Are the projected annual cash flows or the Target Price guaranteed?**

  No. They are projections, which depend upon many assumptions, including stock price, implied volatility, and interest rates.

- **What happens if an early assignment occurs?**

  Although unlikely, early assignment may occur, at which you are required to surrender shares of the stock. It is the responsibility of the client to report the appropriate tax lot of the sale to the IRS.

- **What if the client wants to exit the strategy?**

  The ability to exit the strategy is always available but may have a negative financial consequence. If the client chooses to exit the strategy, we would have to repurchase the outstanding calls and this cost will vary, depending upon a multiple of factors.

The Approach

The strategy, employing the use of covered call writing, seeks to enhance cash flow and to improve the risk-adjusted total return on a stock position.

Quick Facts

- Minimum Account - $500,000
- Position Size Minimums:
  - $100,000 for Covered Calls
  - $500,000 for Collars
- Access to the Portfolio Managers
- Comprehensive reporting

About Shelton Capital Management

Founded by Richard Shelton in 1985, Shelton Capital is a privately owned investment management firm. The firm offers its investment management through a series of open-end mutual funds and separately managed accounts (SMAs).

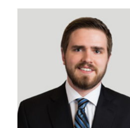
Barry Martin, CFA
Lead Portfolio Manager

Barry Martin, CFA, joined the firm in 2008 and is a Portfolio Manager for Shelton Capital Management’s Option Overwrite Strategies. Prior to joining Shelton Capital, Barry was Senior Vice President of portfolio management for an investment management firm specializing in option strategies and has been managing options for over 20 years.

Nick Griebenow, CFA
Portfolio Manager

Nick Griebenow, CFA is a Portfolio Manager for Shelton Capital Management’s Option Overwrite Strategies. Mr. Griebenow has extensive knowledge in option strategies and was previously a Senior Derivatives Trader for a large national brokerage firm. He received a B.A. from Colorado State University.

Jason Goldenberg
Investment Operations Analyst



Jason Goldenberg is a Trading Operations Analyst. Mr. Goldenberg has five years of industry experience and previously worked at ALPS Fund Services. He earned a B.B.A. from the University of Colorado, Boulder.

Considerations and Risks

- Covered call strategies limit up side potential for underlying security appreciation and will typically underperform in strong markets.
- Covered call strategies do not protect an underlying security from downside risk. The loss for the client could be the current price of the underlying security less the premium received for the call option.
- Put strategies used for hedging purposes carry the risk of losing the entire premium paid to purchase the option.
- Shares of underlying securities with an option strategy held in a margin account run the risk of being sold if the option(s) is exercised or the need arises to close a losing position.
- Withdrawals, such as systematic withdrawals as part of an income strategy, may result in a declining portfolio value over time.
- The sale of the stock will produce tax consequences for U.S. taxpayers. Each option transaction also produces a tax consequence – when closed.
- An option writer may be assigned an exercise at any time during the period the option is exercisable.
- The writer of a covered call forgoes the opportunity to benefit from an increase in the value of the underlying interest above the option price, but continues to bear the risk of a decline in the value of the underlying interest.
- An option writer may be assigned an exercise that is made based on news that is published after the established exercise cut-off time and that the writer may not have an effective remedy to compensate for the violation of the option market's rules.
- In a strong market advance where the buyback involves an in the money (i.e., an option with a strike price less than the current level of the benchmark index) option, and volatility levels have declined, there may be a "debit" roll, whereby the cash needed to close out the option position exceeds the new sale's proceeds.

IMPORTANT NOTES

Shelton Option Overlay Strategy is a discretionary call writing investment service of Shelton Capital Management. This brochure is intended to describe generally how the Shelton Stock Strategy service works, but it is not a complete description of the strategy or how Shelton Capital Management performs its investment management responsibilities.

All analysis and projections depicted herein are for illustration only, and are not to be representations of generalized Shelton Option Overlay Strategy performance or expected results. Past performance is not a guarantee of future results. Supporting documentation for any claims, comparisons, recommendations, statistics or other technical data will be furnished upon request to Shelton Capital Management.

The upside potential of fully written call option positions is limited to the strike plus the premium received. Unless the position is closed, the client relinquishes any upside potential above the call strike price. The downside protection afforded by call writing is limited to the amount of the premium received. If the stock held by the client declines significantly, the only protection will be the premium received.

Clients subscribing to the Shelton Option Overlay Strategy Portfolio service must be willing to sell all of the stock at the Strike Price. *The Strike Price is the price at which a specific option contract can be exercised. The sale of stock will produce tax consequences for U.S. taxpayers. Each option transaction also produces a tax consequence. Prior to investing in the Shelton Option Overlay Strategy, you should discuss with your tax advisor how the option transactions and any sales of underlying stock will affect your tax situation. Shelton Capital Management does not provide tax advice.*

Option trading is not suitable for all investors. Prior to buying or selling an option, a person must receive a copy of Characteristics and Risks of Standardized Options. Copies of this document may be obtained from your Investment Advisor, from any exchange on which options are traded or by contacting The Options Clearing Corporation, One North Wacker Dr., Suite 500, Chicago, IL 60606 (1-800-678-4667).