P&G

RIVERPOINT
CAPITAL MANAGEMENT | INVESTMENT ADVISORS

STOCK COLLARS

Use this guide to understand stock collars, which is one way to protect against the risk of P&G stock price dropping rapidly, either just before exercising stock options or just after retirement and before you can diversify.

Terms Used In This Guide

- **Call:** A call is the right for someone else to call your stock away from you. For example, someone gives you $4 per share for the right to call your stock (buy it from you) at $62 per share. The current trading price is $56 per share. That person has the right to call your stock anytime in the next four months. While you hold the stock, you receive the dividends. If the price doesn't get to $62, that person does not buy your stock and you keep the $4 per share.

- **Put:** A put is the right to force someone to buy your stock at a prescribed price for a prescribed time period. You have the right to put the stock to them. For example, you pay $4 per share for the right to force someone to buy your stock for $50 per share anytime within the next four months. You keep the dividends. If the stock does not drop, that person keeps the $4. You do not force that person to buy the stock, and you are free to sell on the open market for the current trading price.

Example Of A Collar

Assume you have 1,000 shares of P&G stocktrading at $56 per share. You must sell these shares in the near future and you are afraid the market might drop. You can protect the stock by selling a call at $62. Thus, the most you will get is $62. You take the $4 call money and buy a put at $50 which costs $4. Thus, you have not used any out of pocket money. However, you have put a collar around the stock. You will not get any more than $62 per share, but more importantly, not less than $50 per share.

When To Consider Using A Collar

Consider using a collar on any block of stock that must be sold in the near term either as part of a diversification plan, for living expenses, or to limit risk on stock options coming due.