GYROSCOPE CAPITAL

MANAGEMENT GROUP

Introduction to
Covered Call Transition Strategies

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Founded in 2006, Gyroscope Capital Management Group ("Gyroscope Capital") focuses on option strategies for high net worth and institutional clients. Gyroscope Capital provides concentrated stock hedging and transition services, along with two managed equity portfolios that incorporate a covered call overlay.

Gyroscope Capital is an Investment Advisory firm that has partnerships with some of the leading independent broker/dealers to provide our investment services and strategies to their clients.

Gyroscope Capital's investment team has over 65 years combined experience in the industry structuring option deals for High Net Worth clients. Our experience allows us to evaluate option fundamentals so that clients receive the best option value within our hedging and transition strategies and equity portfolios.

Gyroscope Capital provides investment portfolio management via partnerships with other advisory firms. By acting as sub-advisor, Gyroscope Capital becomes an integral piece of the client's overall portfolio. The advisor remains the client's main point of contact.

- A Covered Call Write is the purchase of stock and the simultaneous sale of a call option on that same stock. Or, it is the selling of a call option on stock you already own.

- Because the stock is already owned, the call option is considered "covered". The customer has chosen to accept income from the premium of the sale in lieu of any price appreciation above the strike price.

Example:

1. Purchase (or it may already be owned) 1,000 shares of XYZ @ $90.00
2. Sell 10(1) XYZ Nov 100 Calls @ $2.00
3. Days until expiration: 47
4. Dividend per share until expiration: $1.20

- In the example above, the customer is agreeing to sell their XYZ stock at $100. In return for this agreement, they receive 2.00 points or $200 per contract (for a total revenue of $2,000), less any commissions.

Note: (1) Normally, one option contract covers 100 shares of stock.

Covered Call Strategy - What are Covered Calls?

- Investors who consider covered calls:
  - Are comfortable with owning the underlying stock.
  - Believe that the stock price on the underlying shares will not be affected substantially by market volatility during the call option period.
  - View the stock they own as flat to slightly bullish.
  - Are prepared to sell their stock if the call is exercised.

- Covered calls can provide investors:
  - *Income*
    - The options are sold for premiums which are credited towards the client's account. In the example, the client would have received $2,000 less any commissions
  - *Upside Selling Price*
    - In return for the income, the investor agrees to sell the stock at the strike price. In the example, the stock would be sold at $100 per share. This strike price is 10 points above the current price of $90. The client would participate fully in any gains up to the strike price of the stock.
  - *Limited Downside Price Protection*
    - Income from the sale of the option can be seen as downside protection. In the example, the option was sold at $2.00 per share. That would mean the stock price would have to fall to $88 before losses would occur.
    - Because of this "protection", the strategy has less downside risk than an outright buy of the stock.

- The **Covered Call Transition Strategy** may be suitable for investors who would like a disciplined approach to gradually selling their concentrated stock at a price above the current market price while enhancing current income.

- The strategy has two parts:

  1. Tactical sales of covered call options are used to generate income on the client's concentrated stock position. As the concentrated stock price increases, the client delivers stock on a regular, disciplined basis, thus selling at successively higher prices
  2. Proceeds from the sale of calls and stock are invested in a separate account as determined by the advisor.

- Over an agreed upon period of time (e.g., 2 to 3 years), the concentrated position is liquidated via deliveries on call options.

Covered Call Transition Strategy - Process

Client determines they would like to utilize Covered Call Strategy	Client has 10,000 shares of stock ABC	
Moors & Cabot works with client to determine client goals and set a timeline and price goals for stock ABC. In this case, strike price X is 10% above the current price.	100 Covered Calls can be sold for 3 months away at Strike Price X	
The covered call strategy is monitored over time.	If the price of stock ABC rises above X in 3 months	If the price of stock ABC remains below X in 3 months
At the end of the contract for the call, the client will either retain their stock or be compensated for the purchase.	The options will be exercised and the client will be paid 10,000 times X for stock ABC	The options will go unexercised and the client keeps their stock
The goal is to eventually liquidate some portion of the concentrated position for allocation into diversified holdings	Premiums from the sale of the covered call and exercise of the option are sent to the client for reinvestment	Premiums from the sale of the covered call are sent to the client for investment

Covered Call Transition Strategy

Apple Inc. Example

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Ticker	**AAPL**
Shares	**20,100**
Date	**9/29/2014**

Stock Price	Yield	Dividend	EPS	Market Cap ($B)	$$ Value
$99.80	1.89%	$1.88	$6.19	$596.63	$2,005,980

# of Shares	Value	Expiration Month	Option Strike Price	Premium Income per Share	% Above Stock Price	Days to Expiration	Total Premium Income
4,300	$429,140	Nov	$110.00	$0.81	10.22%	54	$3,483.00
4,000	$399,200	Dec	$110.00	$1.23	10.22%	82	$4,920.00
3,400	$339,320	Jan	$111.43	$1.43	11.65%	110	$4,862.00
2,800	$279,440	Jan	$113.57	$1.11	13.80%	110	$3,108.00
3,100	$309,380	Apr	$115.00	$2.35	15.23%	201	$7,285.00
2,500	$249,500	Apr	$118.57	$1.79	18.81%	201	$4,475.00
20,100	**$2,005,980**	**Average:**	**$112.58**	**$1.40**	**12.80%**	**118**	**$28,133.00**

	Income	Yield
Premium Income - Initial Covered Call Option Sale:	$28,133.00	1.40%
Estimated Annual Premium Income - Assuming "Waves" of Options Sold Each Year:*	**$87,168.58**	**4.35%**
Estimated Annual Stock Dividend Income:	**$37,788.00**	**1.89%**
Total Annual Estimated Income (Option Premium and Dividend)	**$124,956.58**	**6.24%**
Potential Stock Appreciation - Stock Called Away	**$256,803.00**	**12.80%**
Total Proceeds (Stock Appreciation + Option Premiums + Dividends)	**$381,759.58**	**19.04%**

**Total estimated annual yield for options assumes that options go unexercised and options can be resold at same premium on an annualized basis of 365 days per year*

This illustration of potential cash flow from a covered call option writing program is not based on an actual portfolio and is for illustrative purposes only. Covered call option cash flow for any portfolio will vary depending on actual portfolio positions, option premium received, individual stock price volatility, and general stock market volatility. Positions covered by call options may be called away, creating realized capital gains or losses. There can be no guarantee that the owner of the call option will not exercise prior to GCMG's attempt to repurchase a sold option. Cash flow is not guaranteed over any period. More information may be found on GCMG's Form ADV. This illustration does not reflect commissions charges, which may be applicable or GCMG's advisory fee, which is applicable. Commissions, and fees will adversely affect the strategy.

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Stock:	Apple Inc.
Ticker:	AAPL
Current Price (as of 9/29/14):	$99.80
Dividend (Annual):	$1.88
Dividend Yield:	1.89%
52 Week High:	$103.74
52 Week Low:	$67.77
Max 52 Week % Change:	53.08%
EPS:	$6.19
P/E:	16.11
Beta:	0.96
Market Capitalization ($Billions):	$597.258

Options trading is not suitable for all investors. Contact Gyroscope Capital Management Group, LLC ("GCMG") at 4851 Tamiami Trail N, Suite 200, Naples, FL 34103 or visit http://www.cboe.com/Resources/Intro.aspx for a current options disclosure documents, "Characteristics and Risks of Standardized Options." This document discusses potential risks with options issued by the Options Clearing Corporation ("OCC"), which are typically listed on an exchange.

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Illustrations used in this document are hypothetical. The results achieved by individual clients will vary and will depend on a number of factors including the particular underlying investments and their dividend yield, option market liquidity, interest rate levels, implied volatilities, and the client's expressed return and risk parameters at the time the service is initiated and during the term. Investors should carefully consider executing any trade using options and be aware of all the risks, including, but not limited to, receiving back less value than they invested. Past performance is not a guarantee of future returns.

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Taxes, fees and commissions do have a direct and material impact on the options strategies, may reduce the effectiveness of some strategies, and may result in the investor not achieving his or her investment objectives. The examples presented above do not take into account the tax consequences or the impact on holding period. Investors should always seek professional tax advice before engaging in any of these strategies. Under new tax laws, certain in-the-money covered call writes are deemed "unqualified" and carry certain tax consequences. You should consult your financial or tax advisor for more information. GCMG does not provide tax advice.

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Cash flow is not guaranteed over any period. More information may be found on GCMG's Form ADV.

If the price of the stock declines by an amount greater than the premium received the position will have point-for-point loss. Therefore, this strategy should not be employed if you believe the price will decline considerably in value.

If the price of the stock increases by an amount greater than the strike price, the investor will forgo any price appreciation above the strike price. Therefore, this strategy should not be employed if you believe the price will increase considerably in value.