Labor Secretary Thomas Perez
U.S. Department of Labor
200 Constitution Ave. NW , Washington, DC 20210

August 24, 2015

Subject: Your Proposed IRA

Restrictions - Options

Dear Mr. Secretary:

I am a retiree urging you NOT to do anything to restrict my freedom to trade options in my IRA's. In a painfully low interest rate economy, I safely trade options to achieve:

INSURANCE PROTECTION – the only way I can protect my stock investments from market declines is by buying put options (no other insurance is available).

100% SAFE INCOME GENERATION – I risk nothing by selling call options on stocks I own in my IRA's while continuing to receive the dividends.

ABILITY TO BUY STOCKS AT A LOWER PRICE – I sell cash-secured out-of-the-money puts, generating immediate income while allowing me to buy stocks at a lower price.

My entire savings are in IRA's into which I contributed, thinking that in retirement I would be able to earn 5% annual interest. There is a misperception that options are dangerous when, in fact, they are safer than stocks because they allow one to define the risk without incurring unlimited downside risk. Please do not take this vital part of my retirement income away from me and my family.

Sincerely,

Thomas E. Walther

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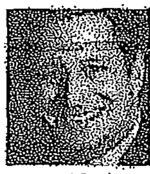
6 Tasman Sea, Newport Coast, CA 92657

Striking Price
Options

A Plea to the President

by Steven M. Sears



An open letter to President Barack Obama and Labor Secretary Thomas Perez:

DEAR MR. PRESIDENT AND Mr. Secretary:

The Labor Department is considering a proposal that would, in effect, bar investors from using options in individual retirement accounts. While I support the proposal's intent of safeguarding investors from being unduly influenced to buy inappropriate investments, the change, which could become effective by January, may well produce more harm than good.

The measure, part of a broader Conflict of Interest proposal from the Labor Department for retirement investments, would effectively ban the use of options in IRAs, where they are now allowed. In my view, the ban would deprive investors of an important tool for protecting their portfolios. I hope that options were simply overlooked in your proposal and banning them is not a key goal.

I know that you have been extensively petitioned by the options industry, but official communications sometimes miss the point. To put it simply: Current market conditions offer a compelling case study on why you should allow the use of options in IRAs.

At this moment, many investors fear that the stock market is at a dangerous crossroads. The Standard & Poor's 500 index plunged 6% last week from near a historical peak. Some investors, as we advised, hedged their portfolios in advance of the selloff. Without options, investors would have great difficulty protecting their accounts.

More turmoil is likely. Later this year, the Federal Reserve is expected to raise interest rates. China, the world's second-largest economy, is troubled. Risks to investors are mounting. This is when options are needed most—they can preserve the value of a stock or an entire portfolio.

At Goldman Sachs, strategists are advising clients to sell calls against their stocks. This "overwriting" strategy usually entails selling a call that expires in three months and has a strike price 5% to 10% higher than the current share price.

Consider Wal-Mart Stores (ticker: WMT), which recently reported mixed earnings. The stock is idling. Shareholders who think it is unlikely to advance can boost returns and reduce the risk of it falling by selling calls. With the stock at $67, investors can sell the October 70 call for $1.61, or the October 72.50 call for 60 cents. The money received for selling the call offsets a decline in share price. Should the stock rise and cross the strike prices—$70 or $72.50—investors will benefit from some gain, though they'll be obligated to sell the stock or buy back the call. The strategy is fairly simple, and it's one of many examples of how options are used to reduce rather than increase risk.

Options, when properly used, do reduce risk and can help investors better navigate the stock market. They can hedge portfolios when they are afraid, or sell options against stocks to hedge or increase returns.

Options aren't the real danger here. The real danger, as always, is the tendency of investors to buy and sell at the wrong times. They are perpetually out of sync with the market's natural cycles. If not for inflation and dividends, which account for about 50% of historical stock returns, most investors would have sharply smaller portfolios.

The government should amend the proposal so it doesn't keep investors from using options. Major investment firms, including Blackrock, Goldman Sachs, and Pimco, say that volatility, the essence of options, is an asset class just like stocks and bonds.

To truly protect people from themselves, as well as Wall Street's bad elements, consider implementing a national investor-education program. Since the credit crisis harmed so many investors, I have urged the government to appoint an investor laureate to lead a national investing dialogue. Teaching people how to invest responsibly could change the outcome for many people. ■

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