The proposed rule to eliminate the use of listed options in IRA accounts is totally ridiculous.

Options are invaluable for hedging underlying stock positions. Just look at the stock market over several cycles (e.g. flash crash and even the 1,400 point loss in the Dow in three days just recently). Using put options to hedge long positions in stock prevents panic and helps to manage risk.

The use of options to sell against underlying stock positions (e.g. covered calls) allows the investor to lower the basis in the stock to once again manage risk.

Speculative option buying, both calls and puts allow the investor to once again manage risk. It's just as speculative to buy stock in a company and the losses from such investment can be huge whereas the investment in options clearly defines the risk at the beginning of the investment. Yes, there is a time component in options but investors can also use longer term options to hold positions over time just like they do with stock investments. Except the barrier to entry is much lower and the risk is limited to the cost of the option.

I don't know why the government, in its zeal to "protect the people from themselves" don't realize that options are wonderful in IRAs.

Investors are taking more risk sitting on stock, ETF and mutual fund positions because the chance of loss is much greater in those positions.

Does the government presume to tell us how to invest now?

Brokerages already qualify investors for different levels of options trading. Isn't that enough? Investors are trying to deploy their capital (and in many cases, not much capital to start with) to earn decent returns on their money. The use of options allows them even at lower capital bases to do that.

I think the government needs to actually understand how options are used before they go into "protect" mode.

One other glaring example is how options protected many traders in the 2008 meltdown. Those that didn't use options got hammered. Those that did managed to protect their capital. If the government actually wants to do something they should be promoting options trading as a means of hedging risk.

We have more risk in our 401K than we do in our IRAs. We happened to ball early on stock mutual funds) in 2007 and avoided the carnage from the 2008 meltdown. If we hadn't we would have suffered as many other investors did.

Similarly, before I started using options, I lost a significant amount of money investing during previous market meltdowns (or even individual company meltdowns). At least with options (whether using put options to protect underlying stock investments or buying options outright) I know what my maximum risk is when I put on the trade.

So, is the government going to allow investors to protect their capital or are they now going to throw more informed investors to the wolves by taking away a risk management tool?

Stop this micromanaging of investors and let them level the playing field and do what professional traders do every day.

I might add that 401Ks hold much more retirement assets and are subject to huge market swings WITHOUT the availability to use options. If the investor wants to protect capital in 401Ks, they must sell and go to "less risky" investment choices (like GICs).

As you know, particularly with events like the Flash Crash, selling would have resulted in major losses. Unhedged investors who held on got lucky because the market happened to come back. Similarly events like the Greece/EU and...
slowing growth in China produce losses to investments. While these losses might be short-lived, they are losses nonetheless. Panicked investors sell off markets or once again wait for luck to intercede. Options investors stay calm.

Is that what the government wants to promote? Luck?

Sincerely,

Michael Nunez