Paraíba
Wealth Management

WHEEL INCOME STRATEGY

STRATEGY OVERVIEW

The strategy seeks to generate total returns from options premiums, dividends and gains from capital appreciation. This is a primarily large capitalization, concentrated stock strategy combined with an actively managed options wheel strategy to generate income and capture returns in rising, falling and flat markets, creating a methodical method for making steady gains.

The options wheel strategy is a combination of two options selling strategies which are performed repeatedly over time, alternating between each. It involves selling covered calls and cash secured puts over a long term time frame, and can be an alternative to the traditional "buy and hold" method. It is an income based strategy for making small but consistent returns, which is the opposite of gambling on long calls and puts. The options wheel's goal is to keep collecting premium and allow the option to expire worthless (or buying to close for a profit). Essentially, we are getting paid to open and close positions in stocks.

In addition to the options wheel strategy, the portfolio will invest in stocks and ETFs. Companies selected are those we believe have strong fundamentals and growth prospects but are trading at reasonable valuations.

For investors who have the capital required, this strategy can be used as part of their "core-satellite" investment, which is used by institutional investors. The strategy can also complement an overall portfolio's asset allocation by providing the flexibility to supplement the "buy and hold" method with tactical, short term opportunities or market trends, greater portfolio diversification and potential to enhance returns.

The strategy's benchmark is the S&P 500 Index.

INVESTMENT PROCESS

The strategy will invest a portion of the portfolio in selling covered calls and cash secured put options and invest a portion in US traded stocks and ETFs. The allocation amongst options and stocks and ETFs is determined by the portfolio manager and is based on the manager's view of where the opportunities and risks lies. Sector exposure is generally limited to 35% of the portfolio while individual holdings usually represent less than 10% of the portfolio.

The investment process involves constructing a portfolio based on a bottom up methodology in selecting high quality companies with sustainable, defensible and profitable businesses. Sector considerations are overlaid versus the list of stocks that pass our screens. Further analysis is conducted for optimised option trading by screening for implied volatility, liquidity and other factors. A stock will not be selected just because it has a high level of implied volatility in order to generate income.

The portfolio is rebalanced periodically to meet the strategy parameters as defined above. The end result is a concentrated, high conviction portfolio with 15 to 20 or more holdings.

OPTIONS WHEEL STRATEGY

The options wheel strategy is an income producing strategy involving selling put options, potentially owning stock, and selling covered calls until the shares are called away or the position is closed. The strategy is ideal for stocks we want to own at pre-determined price targets where we have a bullish bias in the short, medium or long term. The goal is to consistently take in credit by selling short put options to enter a stock position and selling covered calls while owning the stock.

The strategy consists of two main components:

1. Selling a cash secured put option
2. Selling covered calls if assigned stock

The strategy can then go back to step 1 to restart the "wheel" on the same stock or a different stock. The short put is used as a way to generate income and sell options at a price we believe is at a key technical support level. Selling the short put option receives a credit for the option contract's premium amount. In this way, we get paid to initiate a long equity position in the underlying security at a price we'd be happy to buy shares.

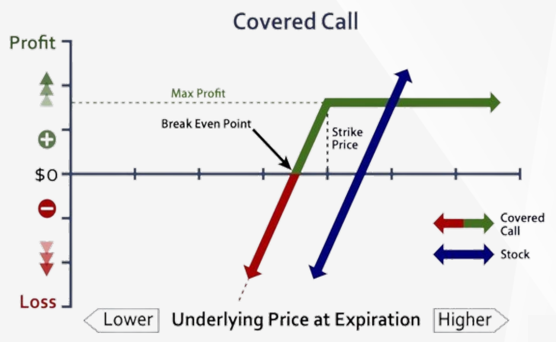
Put options are typically sold out of the money below the stock's current price and the strike prices will vary depending on the volatility environment. The strategy will repeat the process and adjust the strike price up or down based on the option contract's implied volatility and market conditions. If a put option is assigned, the underlying stock is purchased and covered calls will be written on the stock.

The strategy can sell covered calls against stock already held or recently purchased, which is a consistent way of generating income. If a covered call is assigned and the stock is sold, the proceeds can be used to resume the cash secured put strategy.

The options wheel strategy can be used to generate income before or during stock ownership whereby the premiums collected increases the profit or lowers the overall cost basis if assigned. The strategy may also use a rolling options strategy, which involves closing out an existing option position and opening a new one with a different strike price and/or expiration date. Rolling an option can be an effective way to potentially delay assignment while collecting more premiums.

STRATEGY EXAMPLE

The illustration below shows an example profit and loss diagram of a covered call options strategy utilized. The parameters of the actual options traded will be at the manager's discretion. Depending on the movement of each individual position, a mix of cash secured puts and covered calls may be used at any given time.



*This chart is for informational purposes only and does not represent actual performance. Past performance is no guarantee of future results.

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RISK MANAGEMENT

Positions are monitored on a daily basis and risk is managed through careful stock selection, diversification and adhering to a well defined trading and sell discipline. Holdings may be sold partially or realized in full for reasons including valuation targets achieved, deteriorating fundamentals, loss of management focus, or replacement due to a better opportunity.

The strategy has flexibility to defensively position ahead of market volatility and can hold a large cash or cash equivalent position. The portfolio manager can also implement a hedge component through the use of mutual funds and inverse ETFs.

OTHER CONSIDERATIONS

- The strategy does not use naked options strategies.
- Options writing involves transaction costs.
- The sale of the stock through an option assignment or the closing of an option position may produce a tax consequence. The strategy may have a relatively high turnover, which could lead to high taxes for a taxpaying investor in a taxable account.
- Certain in-the-money covered calls are deemed "unqualified" and carry certain tax consequences. You should consult your tax advisor for specific information regarding tax consequences of investments.
- Daily liquidity is available if a client wants to exit some or all of the strategy.

While writing covered calls can help provide some downside protection, the risks associated with covered call writing include:

- A covered call does not protect a stock from downside risk, just as is the risk of owning a stock. The loss for the investor could be the current price of the stock less the premium received for the call option.
- The writer of a covered call forgoes benefiting from an increase in the value of the underlying security above the option strike price if assigned.
- Option prices are driven by several factors, one of which is the price of the underlying security.
- If the price of the stock underlying an option increases or decreases, the value of the option contract may change. An increase or decrease in market and/or stock volatility is also likely to affect the price of an option contract.
- Assignment may occur at any time during the life of the option. If the call is assigned, the underlying security will be delivered.
- Systematic withdrawals may result in a declining portfolio value over time.

DISCLOSURES

Returns will be reduced by advisory fees and other expenses that may be incurred in the management of your account. The account minimum for the strategy is $500,000. Fees are based on the assets managed and are described in Paraiba Wealth Management's disclosure document.

This document is provided for informational purposes only and does not take into account any individual personal, financial, or tax considerations. It is not intended to be personal investment advice or a solicitation to buy or sell any security or engage in a particular investment strategy. There is no guarantee that the strategy will meet its investment objectives. Past performance is no guarantee of future results.

Exchange Traded Funds, trade like a stock and may incur brokerage commissions. ETFs may have underlying investment strategy risks similar to investing in stocks, bonds, real estate, commodities, international markets, currencies or specific sectors.

The S&P 500 Index is a market value weighted index provided by Standard & Poor's and is comprised of 500 companies chosen for market size and industry group representation.

Before engaging in the purchase or sale of options, clients should understand the nature and extent of their rights and obligations and be aware of the risks involved, including, without limitation, the risks pertaining to the business and financial condition of the issuer of the underlying security/instrument. Options investing, like other forms of investing, involves tax considerations, transaction costs and margin requirements that can significantly affect clients' potential profits and losses. The transaction costs of options investing consist primarily of brokerage commissions (which are imposed in opening, closing, exercise and assignment transactions), but may also include margin and interest costs in particular transactions. Prior to opening an options account you should receive and review the "Characteristics and Risks of Standardized Options" (ODD) booklet published by the Options Clearing Corporation. A copy of the ODD is available online at: http://www.theocc.com/about/publications/publication-listing.jsp

Options transactions may produce a tax consequence in taxable accounts. Nothing provided in this document constitutes tax advice. Prior to investing in Paraiba Wealth Management Wheel Income strategy, you should discuss with your tax advisor how option transactions and any sales of underlying stock will affect your tax situation.

Investments in securities entail risk and are not suitable for all investors. This document is not a recommendation nor an offer to sell (or solicitation of an offer to buy) securities in the United States or in any other jurisdiction.

Paraiba Wealth Management is a registered investment adviser with its principal place of business in the State of California, USA. Registration of an investment adviser does not imply a certain level of skill or training. For additional information please contact us at **contact@paraibawealth.com**

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