



Toledo  
Community  
Foundation

Inspiring and Connecting Thoughtful Giving

# "Giving" Advice

## Toledo Community Foundation

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### About Your Foundation

Since 1973, the **Toledo Community Foundation** has provided individuals, families and businesses interested in the well-being of our community with an *efficient, effective, low-cost, professionally managed* mechanism to achieve their charitable goals.

For philanthropists wishing to maximize the impact and life of their charitable gifts, the Foundation provides *resources for thoughtful giving*. Using its expertise and personalized services, **Toledo Community Foundation** helps donors transform their philanthropic impulse to measurable community impact. Beyond the gifting of assets, the Foundation helps donors identify issues of importance to them and *inspires engagement* with community organizations addressing these issues, thereby maximizing the impact of charitable gifts and creating a greater sense of fulfillment.

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## Addressing Market Risk

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### The New York Times

EVEN after a modest stock market rebound last year, the downturns of the last decade have left portfolios bruised.

Millions of investors protected themselves in the traditional -- and most often ill-timed -- way. They reduced their stock exposure by moving into bonds. While that provided a bit of a haven in 2008, if inflation comes back or interest rates rise, bond values will fall. Those people who have most of their money in corporate bonds or income mutual funds can lose principal. And many people time market moves badly.

Diversification also failed millions of people as United States and foreign shares, and real estate investment trusts, plummeted in lockstep during the financial crisis. Under modern portfolio theory -- the guiding principle behind modern money management -- this was not supposed to happen.

But a strategy used by professionals offers some basic portfolio protection. It uses stock options to "collar" stock market risks without giving up future gains.

Collar strategies limit losses when stocks drop while providing some upside potential. Options are commonly used derivatives listed on stock exchanges that are linked to specific stocks or indexes. The strategy basically involves buying a put and selling a call option on a stock that you own. The former sets a limit on how much you can lose, and the latter limits your gain if a stock rises above a certain price. Both have target or "strike" prices.

The easiest way to employ the collar options strategy is to buy a mutual fund. The Collar Fund, whose ticker is COLLX, and the Gateway Fund, whose ticker is GATEX, are good candidates. While these funds are certainly not immune to market downturns, they do provide a fairly effective hedge. The Gateway Fund lost about 14 percent in 2008, compared with the almost 18 percent loss of its peers. The broad-based Standard & Poor's 500-stock index lost 37 percent that year.

Michael Chamberlain, a fee-only certified financial planner based in Santa Cruz, Calif., uses the Collar Fund for his most risk-averse clients, who range in age from their 20s to 70s.

"Asset allocation used to be the primary way to limit risk," Mr. Chamberlain said, "but the Collar Fund seems like a reasonable way to decrease risk while providing exposure to the stock market."

With the Collar Fund, options are bought and sold on approximately 75 stocks, representing 300 of the largest United States companies. Although it is less than a year old, its managers, Summit Portfolio Advisors, have been managing money using collar strategies in separate accounts for years. The fund charges about 1 percent annually to investors for management fees and has a \$2,500 minimum investment.

Having employed options strategies since 1988, the Gateway Fund also focuses on risk-adjusted returns, but with a larger, more diversified stock portfolio. Instead of hedging a few stocks, it uses market indexes to get a bigger slice of the market.

Like many hedge funds, though, Gateway will lag the broader stock market on the upside. It rose about 6.6 percent last year, compared with a 16 percent gain for the S.& P. index. It carries a 5.75 percent sales charge (for A shares), 0.94 percent in annual expenses and a 0.25 percent 12(B)1 fee. The minimum investment is \$2,500.

Keep in mind that neither fund can completely suit your specific needs. If you want to tailor a collar strategy to your company stock position or your specific portfolio mix, you can buy and manage options yourself or hire an investment adviser to do it for you.

Collar strategies may not work as a long-term play over decades. They are most useful if you are in or near retirement and you need to hedge a large stock position. If you do not have confidence with options strategies -- or do not have a full understanding how they work -- the mutual funds offer a way to participate in this protective strategy.

"You need something customized to your needs," said Zvi Bodie, a financial economist at Boston University and a co-author of "Worry-Free Investing" (Financial Times Management, 2008). "Collar funds are a safe substitute for target-date mutual funds, which don't protect you at all from the downside risk."

PHOTO: SAFETY FIRST: Michael Chamberlain offers collar funds to the risk-averse. (PHOTOGRAPH BY RANDI LYNN BEACH FOR THE NEW YORK TIMES)

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