

# Options In Practice – NQCLRI™

## Nasdaq Investment Intelligence

### Introduction

An option collar is a strategy that sells a call option on a stock or index that an investor already owns, while simultaneously buying a put option on the same index. The primary purpose of the strategy is to ‘collar’ the potential value of the underlying investment or put a cap and a floor on the potential gain and loss of the index, while generating income, which may be a secondary benefit depending on the structure of the collar.

A [protective put strategy](#) can mitigate the downside of an investment, but it involves an ongoing cost in the form of premiums paid for put options. On the other hand, a collar strategy may, in certain situations, incur lower or no costs since the premium obtained from selling the call option can offset a significant portion of the premium paid for the put.

Collars can be employed to lock in profits once an asset has appreciated substantially or by investors holding a large position in a single stock or index to manage the risk of potential value loss. For instance, many investors have a significant portion of their wealth tied up in their employer’s stock. In such cases, an investor might utilize a collar strategy to retain some of the upside potential in their largest holding while limiting potential losses during a bear market. Additionally, a collar strategy can be an excellent fit for portfolios aiming to maintain equity exposure with a lower overall risk profile.

[For a brief explanation and example of a collar strategy, please see “Understanding Options Collars” in the further resources section below.](#)

The Nasdaq-100 Quarterly Collar 95-110™ Index (NQCLRI™) tracks the performance of a systematic rolling collar options strategy. At any point in time the strategy references the Nasdaq-100 Total Return™ Index, and a combination of long put options and short call options on the Nasdaq-100 Index®, which form a collar exposure. The put options are selected to be 5% out-of-the-money and call options are selected to 10% out-of-the-money.

### NQCLRI: Reducing Risk and Uncertainty in Long Equity Positions

Equity investing has long been one of the best ways to grow portfolio value over time, however the risk of a buy and hold investment in equities can be quite high. Examining the rolling one-year returns in [Figure \_], we can see that the Nasdaq-100® has dipped into negative territory a handful of times since mid-2010, with a drop to -40% in November of 2022. This drop was substantial, especially considering that the Index had been in positive territory for most of the first half of 2022. Such periods of decline can be challenging for long-term investors.

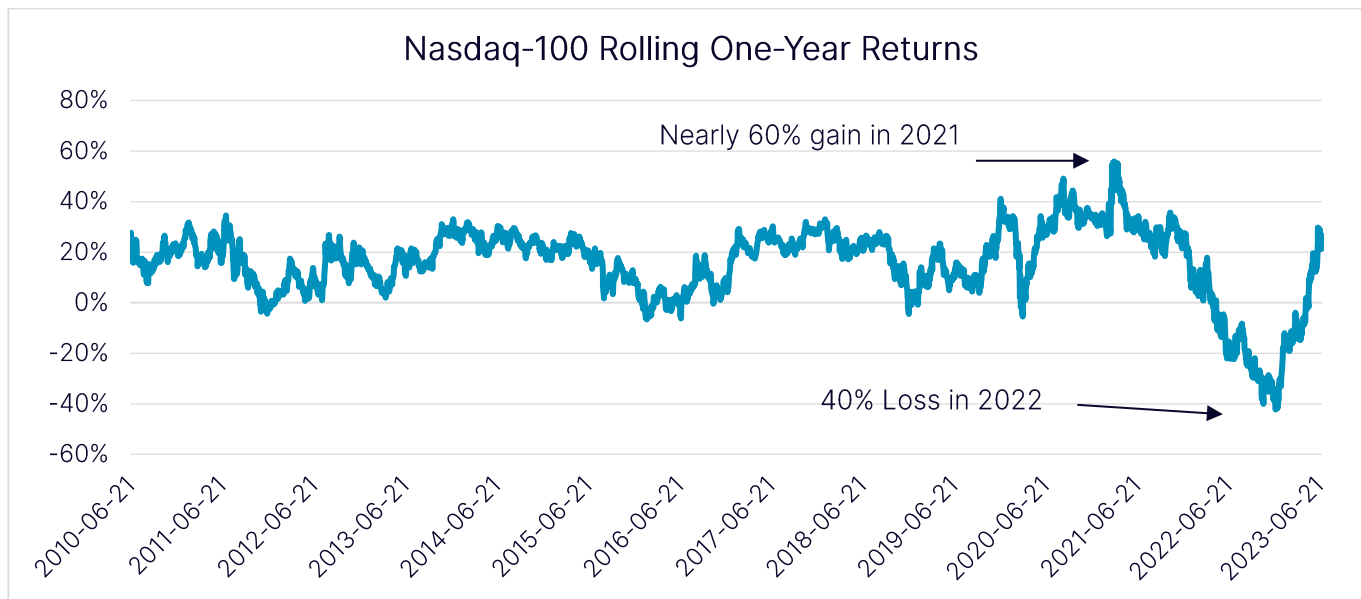


Figure 1: Rolling one-year returns. Source: Nasdaq

NQCLRI effectively limits both downside and upside potential for investors. It relies on quarterly European options, which can only be exercised on the expiration date. As mentioned earlier, the proceeds from selling the call option can often offset some or all of the costs associated with purchasing the put option, making this strategy potentially less burdensome than a pure hedging approach focused solely on establishing a loss floor.

In theory, this strategy should establish a floor of around 20% for annual losses (calculated as 4 quarters \* 5% out of the money = maximum 20% loss over 4 consecutive quarters) and a ceiling of 40% for annual gains (calculated as 4 quarters \* 10% out of the money = maximum 40% gain over 4 consecutive quarters). Indeed, when we analyze the rolling annual returns for NQCLRI, the lowest value observed is 20% in 2022. Please note that we have used the same scale for NQCLRI as we did for the Nasdaq-100 chart above, allowing for a more accurate comparison. Throughout most of its history, the rolling one-year return for NQCLRI has remained within a relatively narrow range of approximately -10% to +20%.

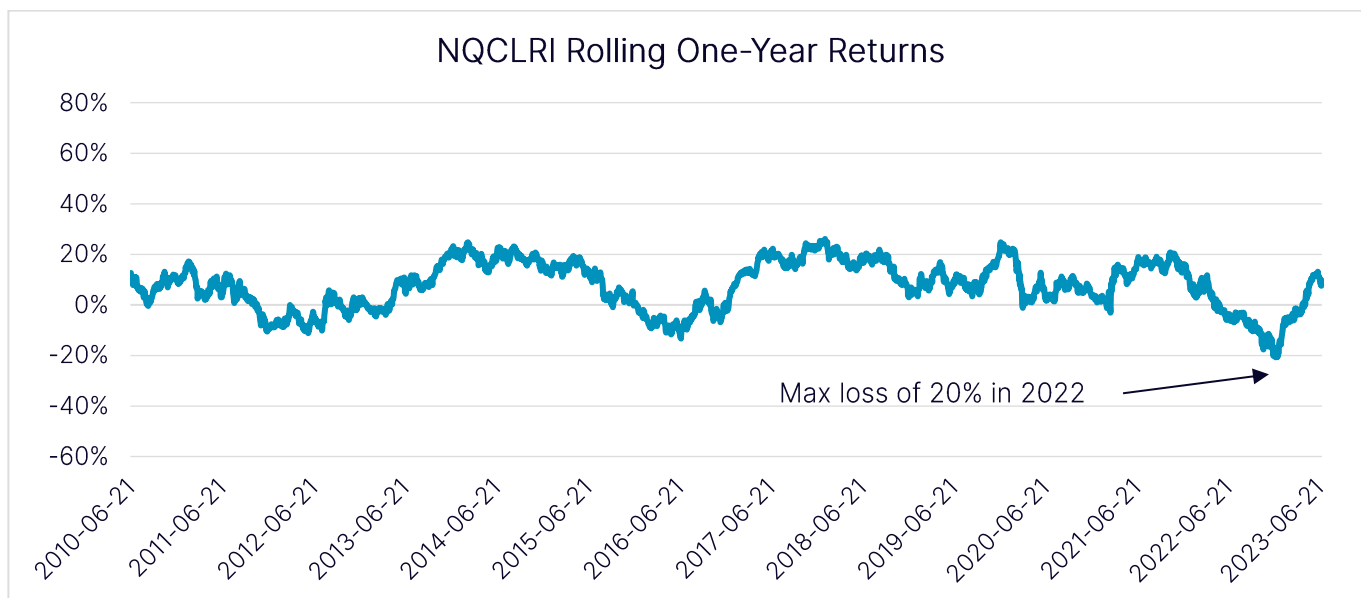


Figure 2: Rolling one-year returns of NQCLRI. Source: Nasdaq

## NQCLRI – An Excellent Addition to Low-Risk Portfolios

A collar strategy can serve two primary purposes. One is to strategically lock in gains after a significant increase in value, while the other is to gain exposure to a stock or index with lower volatility, which is particularly suitable for portfolios with lower risk thresholds. A stock collar doesn't explicitly target a specific level of volatility, but it effectively reduces volatility, in this case narrowing it to a range of approximately 8% to 15%.

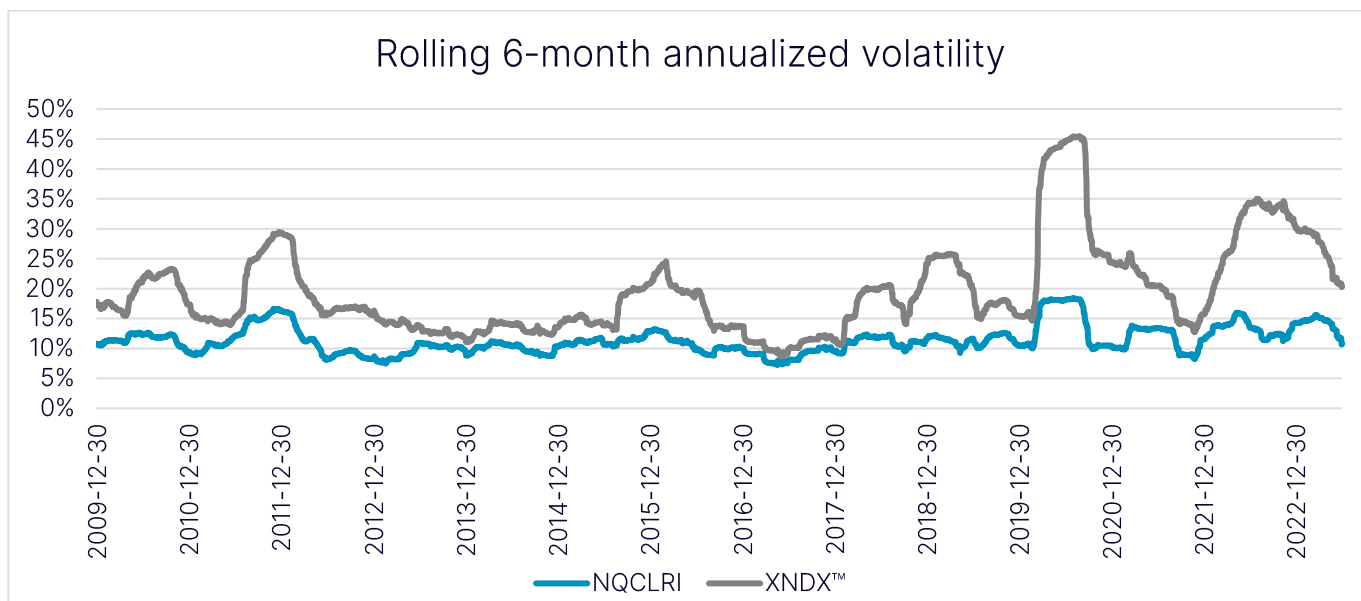


Figure 3: Rolling annualized volatility. Source: Nasdaq

This reduced volatility exposure, combined with a predetermined range of potential outcomes in the form of a 'corridor' for potential gains and losses, can offer risk-managed equity exposure that aligns well with lower-risk portfolios without entirely sacrificing gains or incurring substantial hedging costs.

## Conclusion

The Nasdaq-100 Quarterly Collar 95-110™ Index (NQCLRI™) tracks the performance of a systematic rolling collar options strategy. At any point in time the strategy references the Nasdaq-100 Total Return Index and utilizes a combination of long put options and short call options on the Nasdaq-100 Index to form a collar exposure. Investors may utilize this strategy to secure gains for a specific duration or, more significantly, to introduce the potential for equity growth within a defined corridor of possible returns to their portfolio.

## Notes and Further Resources

- Understanding Options Collars – Nasdaq Investment Intelligence
- Option-Strategy Indexes: A Powerful Tool for Improving Portfolios  
<https://jii.pm-research.com/content/early/2023/01/27/jbis.2023.1.031.abstract>
- Nasdaq-100 Education: <https://www.nasdaq.com/solutions/nasdaq-100/education>
- Nasdaq-100 Index Options: <https://www.nasdaq.com/solutions/nasdaq-100-index-options>
- Global X Nasdaq 100 Collar 95-110 ETF: <https://www.globalxetfs.com/funds/qclr/>

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