

Income and capital stability- how we do it

Are you seeking better than cash income?





Do you want to grow the value of your capital without fear?

Do you wish to have ‘insurance’ against losses in place at all times for peace of mind?

We buy and hold blue chip stocks and pass on the franked dividends. We simultaneously enter the ASX options market to hedge risk. We combine new technology with a proven investment model. Cost effective downside protection is always in place.

Business Model - how it is done

Business Model "How it is done"

 <p>Unit Trust</p> <p>Investors purchase units in "Gyrostat Capital Stability Income Fund".</p> <p>The fund net income is dividends and franking credits less expenses and the cost of protection.</p>	 <p>Stock Market ASX</p> <p>The fund simultaneously buys stock and enters ASX options market</p> <p>Stocks are "buy and hold" to generate dividends and franking credits</p>	 <p>Options Market ASX</p> <p>For hedging risk only we use calls and put options to grow your investment when markets rise, and protect your investment when markets fall.</p> <p>Daily management to restore risk-return profile from market movements</p>	 <p>Technology & Deregulation</p> <p>Software continuously monitors price movements to identify "least cost" alternatives to restore risk-return pay-off from market moves.</p> <p>Deregulation enables low cost transactions</p>
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Gyrostat buys and holds blue-chip high yielding stocks and generates income from dividends and franking credits. The stocks are never sold – they are held for yield. We then use stock and index options publicly traded on ASX to hedge the risk of losing capital if the stock prices drop. The option positions are actively managed to restore the risk-return profile from market moves.

We participate in the upside if markets rise, and protect the downside when markets fall.

Proven investment model

The theoretical knowledge on how to “insure” your portfolio has been around since 1973 when Fisher Black and Myron Scholes published a paper, the basis for which a Nobel Prize in Economics was awarded fourteen years later. Their work created one of the most important concepts in modern financial theory, the mathematical model for pricing derivative investment instruments, including options.

A put option gives you the right to sell a stock at a pre-defined price for a pre-defined period of time. You don’t have to sell the stock; you can sell the protection back into the market and receive the cash. It is like an insurance policy, but like all insurance it comes at a price.

The ASX offers investor education at their web-site for the “do it yourself” alternative.

<http://www.asx.com.au/products/equity-options.htm>

The issue for investors has been how to implement this strategy in a cost effective way.

Technology and deregulation are the enablers

The answer is to take advantage of two other great movements of the past 25 years – technology and deregulation.

Technology enables software systems to identify the ‘least cost’ put option alternatives available in the market at that time. There are many series to choose from. Gyrostat uses a variety of bought put options at a lower cost than the “do it yourself” approach.

To further lower the cost of protection, Gyrostat receives premiums in return for limiting some of the upside gains. This is achieved by selling call options. Again, there are many series to choose from.

With market movements, the “options” component needs to be actively managed. We participate in the upside if markets rise, and protect the downside when markets fall. On market rises, we lock-in the gains with more protection – on falls we are able to sell some protection which is no longer required.

Deregulation allows fund managers and individuals to make unlimited numbers of transactions at low cost without the requirement to use a full service broker or other third party. Sophisticated software allows instant monitoring of large numbers of price movements simultaneously.

From theory to mainstream

To achieve this cost effectively, Gyrostat has a systematic approach to risk-return, enabled by its software programs. Gyrostat first ensures maximum capital at risk is always within pre-defined limit which is reviewed and reported daily. We then consider the extent we wish to capture gains if the stock prices increase, which alters the cost of the protection. Our systems allow us to re-balance the portfolio daily with the market movements to restore the risk-return profile.

Sophisticated investors have been using the options market to protect their investments against equity market downturns. Indeed, 32 per cent of the Australian Stock Exchange’s revenue now comes from derivatives and options trading (exchange traded and over the counter) – more than its combined income from listings and issuer services and cash market trading.

Gyrostat has:

- A straight-forward business model with minimal capital at risk at all times
- A financially strong counter-party - the ASX - for hedging activities
- No leverage within the fund
- Transparent mark to market valuations
- Processes and strategies to ensure that it is robust in all market conditions
- The flexibility to use business judgment in determining risk-return trade-offs

Call us on (03) 9041 0970 to get further information on how to invest in our fund or to attend a briefing. You can now follow us on Twitter or Linked In.