"Under Water" Doesn't Necessarily Mean "Drowned": A Review of StockOpter.com

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For the last year and a half, having one's money "in the market" has been like swimming against a rip tide. No matter what you do, you seem to get farther and farther away from safety and closer and closer to getting sucked under. Conventional wisdom tells us to "hang in there" because sooner or later the tide will change and we'll be fine.

For most of us, that's small comfort. For our clients who have employer stock options, it may seem even worse. Their incentive and non-qualified options are, in many cases, "under water" (i.e.: their strike price is higher than the current price of the employer's stock). Some of those options may never have been "in the money", but are a lot further away now. Others were "in the money", but their owners waited too long to exercise them (or couldn't exercise them because they weren't vested), and now they seem *worthless.*

That's not necessarily true, of course, but it can appear that way to many of our clients. Fortunately, there's a tool that can help us help them understand the *potential* value of these submerged assets – a subscription website called www.StockOpter.com (which, for purposes of this review, we'll call "*StockOpter*").

It's a very powerful tool. Like financial planning software, *StockOpter* allows us to *compute, analyze, model,* and *manage.* We can compute the current "in the money" (or "intrinsic") value of our clients' stock options and restricted stock and model their *potential* value, given hypothetical changes in stock price, stock price volatility, and interest and dividend rates. We can analyze the *leverage* inherent in these holdings, and demonstrate when that leverage may be getting uncomfortably large or unprofitably small. We can help clients manage vesting schedules and alert them to upcoming expiration dates.

But the real value of *StockOpter* lies not in its computational, analytical, and modeling capabilities (strong as they are) or in its capacity to manage data, but in its potential for managing one key *relationship.* First and foremost, *StockOpter* is a *relationship management* tool.

All financial planning software deals with relationships, but these programs typically demonstrate how one set of *data* relates to another (e.g.: how a client's current holdings relate to her projected retirement income or estate tax liability). By modeling changes in the nature of those holdings, and/or the rate of ongoing contributions to or distributions from them, we can "manage" the results (e.g.: in retirement income level or estate shrinkage).

But the key relationship, with *StockOpter*, isn't how our clients' incentive compensation relates to their overall financial well-being (although that's certainly important). What StockOpter.com helps us manage is even more crucial - the relationship of those clients to *us*, their financial advisors. *StockOpter* is a *counseling* aid. It enables us to *monitor* the intrinsic *and potential* values of our clients' options so that we can *alert* them to make appropriate and profitable decisions when those values change – as they surely will.

As a web-based tool, *StockOpter* offers access to *analysis, alerts,* and *insights* – both to us, as practitioners, and to our clients (if we allow those clients access to the website). Its *monitoring* and *alerts* function will notify us (by email) of critical changes in values (e.g.: stock price, risk/reward ratios, the level of our clients' concentration in employer stock & options) and of deadlines (upcoming vesting and option expiration dates), so that we can keep our clients fully informed – and advised.

There are several concepts which are unique to *StockOpter,* but two in particular can be of considerable value to clients. The first is "*Forfeit Value*". This is the potential value of equity compensation forfeited when an employee voluntarily leaves the employer prior to retirement. It is more than just the *"in the money"* value of the unvested options because options also have "*time value*" (by virtue of having a fixed exercise price and expiration date and because the price of the shares for which the options may be exchanged is not fixed). Stock option *forfeit value* is the sum of the remaining *time value* of the vested options and the full, or *Black Scholes,* value (in the money value + time value) of the unvested options. *Forfeit value* can often be a considerable sum – perhaps much greater than our option-holding clients realize. Our clients who may be considering a job change need to know what they might be leaving on the table.

The other concept unique to *StockOpter* – one that I like a lot, is "Insight Ratio" – the *time value* of a stock option divided by its *Black Scholes value*. Expressed as a percentage, *Insight Ratio* represents the remaining theoretical potential of an employer stock option, and can be used to determine whether it makes more sense to continue to hold that option or to exercise it now. For example, an *insight ratio* of 10% means that 90% of the option's value is "*in the money" value* – which is subject to loss if the stock price declines. It equates to *high risk and low further potential.* By contrast, a 90% *insight ratio* means that 90% of the option's theoretical value is *time value*, which will not be realized if it's exercised today. It equates to *low risk and high further potential.*

This concept provides an *insight* into a question that is – or should be – on the mind of every client who holds employer stock options – namely, *should I exercise now or wait?* By sharing this insight (and others that *StockOpter* provides) with our clients, on a *regular, ongoing basis* (facilitated by the monitoring and alerts functions of *StockOpter*) we add value to our *relationship* with them.

In today's climate of hugely depressed stock prices and rampant stock price volatility, this relationship is more critical than ever. Stock options now "under water" (which our clients may now regard as "worthless") may rise to the surface and beyond, perhaps *very* quickly. Options well "in the money" (with a low *insight ratio*) could plummet in value. Clients who are kept informed can profit by being so – and we, their advisors, who keep them informed, will profit as well.

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