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Sometimes It's Nice to Have Options

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For Daryl Liew, head of portfolio management at REYL Singapore, owning protective options has finally paid off.

Late last year, Mr. Liew started buying put options tied to the S&P 500 that guard against a limited drop in the U.S. index for clients who were worried about a pullback. He told those nervous clients that owning a hedge that pays out when stocks drop was a better way to protect their portfolios than getting out of stocks completely.

Put options grant the holder the right to sell a stock at a specific price by a certain time.

"We had been putting in hedges all the way from third quarter of last year. It was a cost," he said.

"Every month, you're just paying for hedges and nothing happened," he said.

But the plunge in stocks—the S&P 500 has lost 6.2% in the past three trading sessions, plunging it into negative territory for the year—has vindicated his decision to keep holding the protective options. "It's been a test for whether the hedges will work, and so far they've done well."

Now he is deciding whether to sell those put options and lock in profits from his hedges. Over a longer term, he expects strong economic growth to boost corporate earnings, which bodes well for stock-market gains this year.