Options Investing:
Important Disclosures for D.A. Davidson & Co. Clients

The following is important information regarding investments in “options,” which are a type of derivative investment, including information about the compensation that D.A. Davidson & Co. (“D.A. Davidson”) and our financial professionals (together, “we,” “us” or “our”) receive for buying and selling options, and the conflicts of interest those payments create.

If you have any questions about any of the topics discussed below, or option investing generally, we encourage you to reach out to your D.A. Davidson financial professional.

Overview of Options

Options are investment contracts that give the buyer (the owner) a right to either buy or sell an underlying asset at a particular price (called the strike price), on or before a particular date. Options are “derivative” investments because their value comes from that of the underlying asset. The underlying assets can be almost anything. For instance, there are options on individual stocks, bonds, commodities, currencies, and even whole markets and indices (for example, the S&P 500, which is an index of large company stocks).

While option investing can be complex, there are two primary types:

- “Call” options give the owner a right to buy a pre-determined amount of an underlying asset at the strike price on or before the option’s expiration.
- “Put” options give the owner a right to sell a pre-determined amount of an underlying asset at the strike price on or before the option’s expiration.

There are two parties to an options contract, and it is very important to understand the differences:

- The buyer (owner) pays a “premium” for the contract and gets the benefit of the rights in the contract. When you own an options contract, you have rights, but not obligations. Generally, a buyer/owner of an options contract will not lose more money than the premium paid.
- The seller (writer) collects the premium from the buyer in exchange for giving the buyer his or her contract rights. When you sell or “write” an options contract, you have the obligation to honor the contract if the buyer exercises the option. Specifically, you will either be required to buy or sell the asset at the strike price. These obligations can lead to large financial losses. For this reason, the risk of selling/writing options contracts is generally higher than buying/owning them.

In all cases, which party makes money on an options contract (and how much) depends on the price movement of the underlying asset. For a call option, the owner/buyer hopes the underlying asset will appreciate (go up in value) and the seller/writer hopes that it does not. For a put option, the owner/buyer hopes the underlying asset will depreciate (go down in value) and the seller/writer hopes that it does not.

To illustrate, consider an investor who believes that a particular stock will appreciate significantly, and buys a call option. If the investor is right, and the stock price increases before the option expires, he or she has the right to buy the stock at the (lower) strike price, even though the market price has since gone up. In other words, the options contract has value – this is sometimes referred to as “being in the money.” If the price difference is less than the premium paid, the investor will make a profit. The seller of the call option will lose
money, because he or she has to sell the stock to the buyer for less than its now-increased market value.

On the other hand, if the investor is wrong and the stock loses value or remains flat until the option expires, the option will expire with no value (“not in the money”). In this second case, the investor will not exercise the option, and will simply lose the premium paid to the seller.

There is also an option trading strategy referred to as “straddling.” Straddling means the buyer/owner simultaneously buys both a call and a put on the same asset, with the same strike price and expiration. In this case, the buyer/owner does not care whether the underlying asset appreciates or depreciates – the two options offset each other. Rather, the buyer/owner hopes the market price of the asset moves significantly one way or the other. Specifically, if the market price moves up or down from the strike price by more than the premiums paid, the buyer/owner will make a profit (either on the call or put). In short, the buyer/owner benefits from price volatility.

Investors use options for a number of reasons, and the primary risks associated with options depend on the specifics. Some options are used for speculation or income generation, while others are used to hedge portfolio risk. For example, an investor with significant stock investments might buy a put option on a stock index to help reduce his or her downside risk. If the stock index loses value, the investor would still have the right to sell at the (higher) strike price and reduce his or her losses.

If your D.A. Davidson financial professional recommends options for your account, he or she will discuss the specifics with you, including the goals and primary risks of the recommended option investments.

**Options – Our Compensation and Conflicts of Interest**

**Options in Brokerage Accounts.** D.A. Davidson charges commissions to your brokerage account when options are bought and sold. A percentage of those brokerage commissions are paid by D.A. Davidson to your financial professional, according to his or her “production” and our commission grid.

The maximum commission rates we charge on option trades, which depend on the dollar amount of the trade (the dollar value of each option contract multiplied by the number of option contracts), are the sum of the following. Please note that these rates are current as of the effective date set forth on the last page of this disclosure, and D.A Davidson reserves the right to change these commission rates at any time:

<table>
<thead>
<tr>
<th>Trade Principal (Amount)</th>
<th>Commission Rate (%)</th>
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<tbody>
<tr>
<td>First $1,000</td>
<td>5.00%</td>
</tr>
<tr>
<td>Next $4,000 ($1,000.01 - $5,000)</td>
<td>2.50%</td>
</tr>
<tr>
<td>Next $10,000 ($5,000.01 - $15,000)</td>
<td>1.50%</td>
</tr>
<tr>
<td>All additional amounts (above $15,000)</td>
<td>0.50%</td>
</tr>
</tbody>
</table>

PLUS

An additional $1.75 per options contract if priced less than $1.00, or an additional $3.00 per options contract if priced $1.00 or higher.

For a single options trade, the minimum commission we will generally charge under the above rate schedule is $75. However, there is an exception: If for some reason it became necessary to process a sale transaction from your account which is so small that the $75 commission would be more than the amount of the trade, we would reduce our commission as necessary to ensure that this would not occur.

Also, where the total commission amount on a trade would be less than $75, your financial professional receives only a reduced percentage (as compared to our commission grid), or no share of the commission at all.
These payments (brokerage commissions) create conflicts of interest for us. In particular:

- **Volume of Option Trades.** Because we charge brokerage commissions for each trade, we have a financial incentive to recommend that you buy and sell options frequently. Likewise, the amount of the commission we will receive for a particular option purchase or sale will increase the larger the trade is. Generally, this means that we have a financial incentive to recommend larger trades over smaller trades. On the other hand, even though our total commission amount increases with the size of each trade, the incremental commission rate (in other words, the percentage rate charged for a portion of the trade) decreases. So, we have a financial incentive to recommend higher numbers of smaller trades over fewer numbers of larger trades.

- **Differential Compensation (Options vs. Other Investments).** The compensation we receive for buying and selling options will be more or less than we would receive for selling different investments. This creates an incentive for us to recommend investments that pay us more compensation over those that pay us less compensation, or no compensation.

To help manage these conflicts, D.A. Davidson has policies and procedures in place that prohibit our financial professionals from recommending a volume of trading (as to frequency, amount or both) that is excessive under the circumstances, as well as systems to help identify situations where this could be occurring. Recommending excessive trading volume in order to increase brokerage commissions is an abusive practice sometimes referred to as “churning.”

Likewise, D.A Davidson charges the same commission rates for all options that are available on our trading platform. This is intended to mitigate any incentive we might have to recommend particular option trades over others.

Finally, please note that D.A. Davidson imposes certain restrictions on option trading within client accounts, particularly with respect to trades for which the risk of large losses is deemed to be inordinately high (please refer to the discussion of “Primary Risks” below). Your D.A. Davidson financial professional will not recommend an option trade that D.A. Davidson does not allow; if you should request an option trade for your account that D.A. Davidson does not allow, we will discuss with you the reasons why.

In short, there are conflicts between our interests and those of our brokerage clients relating to option investments (and the other investments we make available to our brokerage clients). The policies summarized above are intended to help mitigate those conflicts.

**Options in Advisory Accounts.** Neither D.A. Davidson nor our financial professionals receive any commissions, as described above, on options purchased or sold through our wrap fee programs or other investment advisory accounts (accounts in which the client pays an asset-based fee, as opposed to commissions and other amounts that apply to each transaction). The value of options in an advisory account, like the value of other securities held in the account, is included in determining the asset-based fee.

If you have questions about the compensation D.A. Davidson or your D.A. Davidson financial professional receives from the purchase and sale of options, please contact your D.A. Davidson financial professional.

**Options – Primary Risks**

Trading options, like virtually all investing, carries certain risks. The risks associated with a particular option trade will always depend on whether you are the buyer/owner or seller/writer, and the underlying asset. Because options are derivatives of other assets, the potential categories of principal risks are extremely broad. Therefore, this discussion is not comprehensive, and we strongly encourage you to discuss the risks associated with option investments with your D.A. Davidson financial professional. However, generally speaking:

- **The Risk of Buying/Owing Options Contracts** is that the premiums paid can be lost. If an option expires having no value (“not in the money”), the entire premium paid by the buyer/owner (100% of
his or her investment) is lost. Of course, this could be a significant amount of money. For this reason, it would generally be inadvisable to use a significant portion of your investment portfolio to buy identical or similar options. However, the loss on buying/owning options contracts will not exceed the premium amounts paid – in this sense, the downside is manageable.

- **The Risk of Selling/Writing Options Contracts** is higher, because you can be obligated to buy or sell the underlying asset at the strike price. If you sell a put option, you will lose money as the underlying asset depreciates prior to expiration, which could go all the way down to zero ($0.00). If you sell/write a call option, the more the asset appreciates the more money you will lose. Because there is no limit to how high the market price for the asset could go, at least in theory, the potential loss of “writing calls” is limitless.

Even though the dollar amount of the economic loss (“on the books”) you could incur for selling/writing call options has no limit, in a more practical sense, the personal risk to you is more manageable if you own the underlying asset in your account. In other words, you can fulfill your obligation by delivering an asset you already own. This is called writing a “covered” call. Selling/writing call options on assets you do not own, which is called writing an “uncovered” or “naked” call, is riskier in the sense that you will have to fund your obligation.

Further, gains and losses associated with option trading can occur very quickly. Except where options are used to hedge risks as to other investments, option trading is generally not appropriate for investors who are passive and prefer to simply “buy and hold” investments over a long term.

For all of the above reasons (and others), D.A. Davidson will limit the types and strategies of option trading that we recommend to you, and allow you to perform, within your account.

Prior to buying or selling options, you will have to enter into our Option Application and Account Agreement and you will receive a copy of the “Characteristics & Risks of Standardized Options,” also known as the options disclosure document (“ODD”). **Investors should read a copy of the ODD prior to buying or selling an option.** The ODD contains required disclosure of the characteristics and risks of standardized option contracts.

If you have any further questions, please do not hesitate to ask your D.A. Davidson financial professional. More information about options trading, which we encourage you to read, is also available from the U.S. Securities and Exchange Commission (SEC) at sec.gov.

**June 30, 2020**