https://www.wsj.com/articles/when-failure-is-an-option-a-trading-strategy-soaks-investors-11589554807

**THE INTELLIGENT INVESTOR**

# When Failure Is an Option: A Trading Strategy Soaks Investors

Who doesn't love getting to YES? Turns out some UBS clients have regrets about the firm's Yield Enhancement Strategy.

*By*

*Jason Zweig*

May 15, 2020 11:00 am ET

The catchier an investment's name, the more you should ask: What's the catch?

Just consider YES. Offered to wealthy advisory clients of UBS UBS **-2.94%** ▼ Group AG, YES stands for Yield Enhancement Strategy. Who doesn't love getting to yes? And who wouldn't want to enhance yield?

YES, whose holdings peaked around $6 billion in mid-2018, effectively borrows against clients' holdings at UBS and uses the proceeds to trade options. The product is akin to a margin loan against existing holdings; losses could compel an investor to put in extra cash or securities.

Although clients say UBS financial advisers told them the strategy was conservative, in reality it often embedded risky bets that markets would stay placid—gambles on which many investors lost 20% or more. The Securities and Exchange Commission is looking into how it was marketed.

The SEC declined to comment. UBS didn't respond to questions about a regulatory inquiry.

YES, said a 2017 marketing brochure, "seeks to limit exposure to significant upside or downside market moves" and could "generate additional cash flow from lower yielding assets."

YES "has limited correlation with the market or a single stock position," so it could offer diversification, said the document. Using options strategies for protection, "we prepare for unexpectedly volatile market conditions."

In recent weeks, I've spoken with more than a half-dozen clients who say UBS financial advisers told them YES would deliver consistent income at minimal risk.

Anthony Di Benedetto, a retired entrepreneur and consultant in the renewable-energy industry, says he lost approximately 15% on YES between 2016 and 2019. UBS, he says, made the strategy seem "foolproof in its ability to protect the downside."

If he had been clearly told that YES could produce large losses when stocks stumble, "we would have run out the door," says Mr. Di Benedetto. "No way would we have risked losing a substantial amount of our capital just to make 3%."

Like every client I spoke with, he says UBS fostered the impression that YES would generate positive returns no matter how stocks performed.

UBS disputes that.

"To ensure that customers could bear the risks of the strategy, UBS generally limited participation in YES to investors with a net worth of $5 million or more," says a spokeswoman for the firm. "The benefits and risks of the YES strategy were clearly disclosed to our clients, and they acknowledged in writing that significant market movements could result in losses and that they should not participate in the strategy unless they were prepared for the potential of large losses."

YES is "aggressive and carries a high degree of risk," warns page two of the program's six-page account agreement, adding that clients could "lose the principal invested."

Nevertheless, "clients were all told in sales presentations and marketing materials that the product was hedged and protection was in place to minimize losses," says Jacob Zamansky, an attorney at Zamansky LLC in New York who represents more than 60 investors in arbitration cases involving YES. "They were told it was a conservative strategy with a consistent 3% to 4% upside, when in fact it had huge downside risk."

YES relied largely on an options technique known among traders as an "iron condor." If stocks don't lurch wildly up or down, it can generate positive returns.

When the market does swing sharply, however, iron condor and other options strategies can expose investors to severe losses, as UBS materials warned.

That's not all, says Craig McCann of Securities Litigation and Consulting Group Inc., a research firm in McLean, Va. Analyzing more than 50,000 YES trades, SLCG argues that they were often equivalent to bullish bets on stock—delivering steep losses when stocks went down.

A person familiar with how YES is managed says SLCG's interpretations are "inaccurate" and "false," tainted because SLCG provides expert-witness testimony against brokers and their firms. Had YES been fully exposed to stocks, says that person, it wouldn't have lost money in 2019's bull market.

MORE FROM THE INTELLIGENT INVESTOR

- The Huge Tax Bills That Came Out of Nowhere at Vanguard January 21, 2022
- How a Flood of Money Swamped Cathie Wood's ARK January 14, 2022
- The Best Investment for This Coming Crazy Year January 7, 2022
- What's Not to Like About a Fund With a 7% Yield December 17, 2021

Even if YES were run exactly as its marketing message implied, "no strategy like this can consistently make money in the long run," says Roy Haya, head of options strategies at Fort Point Capital Partners LLC, a San Francisco-based investment firm. "You're betting that the market won't move a lot in either direction, but if it does move violently in a very quick manner there's no way to hedge the trade."

In 2017, YES earned a smooth 2.7%. Then, in 2018, when the S&P 500 lost 4.4%, YES lost 18%.

In 2019, with the S&P 500 up 31.5%, YES lost 2%. As of Apr. 17, according to a UBS document, YES was down 15.5% so far in 2020.

Advisers at UBS liked YES because it enabled them to tell customers, "I'm going to earn you extra return on money that's already invested," says Jeffrey Erez, an attorney at Erez Law in Miami who represents several clients in arbitration cases over YES.

UBS charged up to 1.75% in annual fees on the full amount of YES borrowings—often a third to a half of a customer's holdings at UBS. If, say, a client authorized a $5 million maximum for YES, only $3 million of which was used, UBS would still charge the YES fees on the full $5 million. Those charges were layered on top of any fees clients may already have been paying on the underlying assets.

Jeffrey Kaplan, an attorney at Dimond Kaplan & Rothstein in Miami, says regulators from the SEC have recently interviewed several of his clients about whether UBS "understated the risks and oversold the safety" of YES.

In the end, the lesson of YES isn't "maybe." Whenever you hear an investment pitch that talks up returns and downplays risks, just say no.

*Appeared in the May 16, 2020, print edition as '.'*