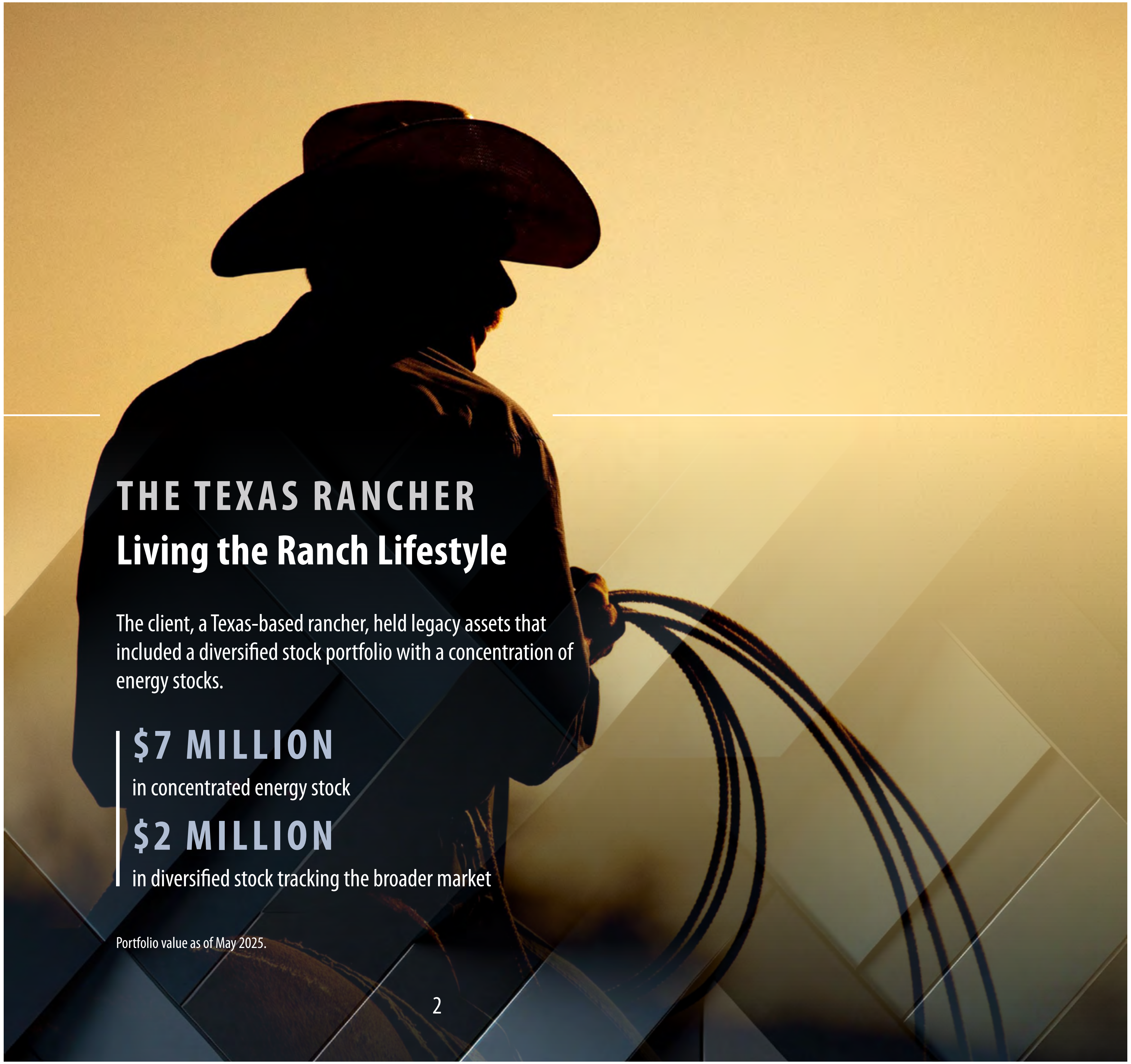
First Trust

MANAGING DEBT WITH LEGACY HOLDINGS

The Texas Rancher

A Case Study Featuring Custom Wealth Solutions provided by First Trust Advisors L.P.

First Trust's Custom Wealth Solutions offer tailored investment strategies designed to meet the unique needs of individuals with complex financial situations. First Trust Advisors has experience in creating solutions that help clients pursue their financial goals while maintaining the integrity of their legacy assets.



THE TEXAS RANCHER

Living the Ranch Lifestyle

The client, a Texas-based rancher, held legacy assets that included a diversified stock portfolio with a concentration of energy stocks.

$7 MILLION

in concentrated energy stock

$2 MILLION

in diversified stock tracking the broader market

Portfolio value as of May 2025.

THE CHALLENGE

Liquidity Constraints with Legacy Holdings

The Texas Rancher faced a cash flow crunch due to an outstanding line of credit used to purchase a ranch. There was a pressing need to generate meaningful cash flow to service the ranch debt and also avoid a forced sale of the Texas Rancher's legacy holdings. The challenge: find a way to pay down the line of credit without disrupting the client's lifestyle or the portfolio's long-term growth potential.

GOALS

- GENERATE INCOME
- PRESERVE LEGACY ASSETS
- PAY DOWN DEBT
- MINIMIZE TAX IMPACT

For illustrative purposes only, not indicative of all clients' results or experiences. There is no guarantee the client's goals have been or will be achieved. Customization may not result in improved performance or outcomes.

OUR CUSTOM STRATEGY

A Tailored Dual-Income Overlay

First Trust's Custom Wealth Solutions team implemented a dual strategy to address the cash flow needs of the Texas Rancher:

- Sell options with 2-3 month expirations on a rolling basis on the concentrated energy stock positions to generate a customized income stream while setting defined risk parameters.
- Generate additional cash flow through weekly S&P 500® Index calls on the diversified portfolio, while engaging in tax loss harvesting to offset and minimize taxable gains.

ROLLING OPTIONS
on the concentrated energy stock

+

WEEKLY INDEX CALL OPTIONS
on the diversified portfolio

TAX LOSS HARVESTING

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Built Around the Client, Backed by a Process

First Trust's Custom Wealth Solutions team collaborated closely with the Texas Rancher's financial professional to define acceptable call risk levels for each energy stock that would align with the rancher's risk tolerance and financial goals. They then calculated the weekly overwrite on the diversified holdings needed to hit a specific income target to service the line of credit. This unique approach combined single-stock calls with weekly index calls (via First Trust's **Premium Direct Indexing™ - Target High Income Strategy**) within a single Separately Managed Account (SMA), providing a tailored, income-focused solution.

1. DEFINE CALL RISK WITH FINANCIAL PROFESSIONAL

2. CONSTRUCT CASH FLOW MODEL

3. IMPLEMENT SMA STRATEGY WITH DUAL OVERLAY

OUTCOME

Turning a Liability Into an Asset

The dual strategy implemented by the First Trust Custom Wealth Solutions team aims to generate an annual cash flow intended to support the continued paydown of the line of credit without disrupting the Texas Rancher's lifestyle or portfolio. The cash flow is further bolstered by ongoing tax loss harvesting efforts, which seek to add value to the overall financial plan.

Purposeful debt management was made possible through the strategic use of legacy asset holdings, turning a financial burden into a strength.

Achieve Goals Through Strategy

Through a combination of targeted income generation and tax-aware investing, the Texas Rancher is able to preserve both lifestyle and legacy. The strategy is designed to empower—not restrict—the client, turning personal goals into actionable outcomes.

$250k/YEAR
income target

NO LIQUIDATION
of holdings

PAY DOWN LINE OF CREDIT
over time

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This case study is based on unique experiences of implementing a specific strategy for an advisory client where First Trust Advisors L.P. ("FTA") is the investment adviser or sub-adviser. No cash or non-cash compensation were provided to the client for using the case study described herein. Keeping in mind that no two clients' situations or experiences are exactly the same, this case study should not be construed as any assurance that the client's goals were fully satisfied and that FTA may be able to help any client achieve satisfactory experience or results. Investing involves risk, including the possible loss of principal and fluctuation of value. **Past performance is no guarantee of future results.**

Options trading strategies include substantial risk and are not appropriate for all investors. There can be no assurance that a strategy will achieve its investment objectives.

Risk Considerations

This summary is not intended to be tax or legal advice. This summary cannot be used by any taxpayer for the purpose of avoiding tax penalties that may be imposed on the taxpayer. This summary is being used to support the promotion or marketing of the transactions herein. The taxpayer should consult an independent tax advisor.

Investors or financial professionals should consult with a tax professional regarding the potential application of loss deferral regimes, such as wash sales and straddles, to these securities and potential transactions along with other securities and transactions in the broader portfolio.

For additional information, please refer to First Trust Advisor L.P.'s Form ADV Part 2A.

This is not an offer to buy or sell any security and does not include a complete list of all securities purchased or sold in the period or for all clients. Actual holdings will vary and there is no guarantee that any client will hold any mentioned positions. No security or discipline is profitable all the time and there is always the possibility of loss.

There is no assurance that a separately managed account ("SMA") will achieve its investment objective. Accordingly, you can lose money investing in an SMA. SMAs are subject to market risk, which is the possibility that the market values of the securities in an account will decline and that the value of the securities may therefore be less than what you paid for them. The value of investments held by the strategy may increase or decrease in response to economic, financial, and political events (whether real, expected, or perceived) in the U.S. and global markets. It is difficult to predict the timing, duration, and potential adverse effects (e.g., portfolio liquidity) of events.

An SMA strategy with significant exposure to a single asset class, country, region, industry, or sector may be more affected by an adverse economic or political development than a broadly diversified strategy.

High portfolio turnover may result in higher levels of transaction costs and may generate greater tax liabilities for shareholders.

While SMAs can be customized, accounts with smaller balances may struggle to achieve optimal diversification across multiple asset classes due to the higher cost of individual securities.

Fees associated with SMAs can be higher than mutual funds and ETFs that include manager, service, and advisory fees. Being able to withdraw cash from an SMA may be delayed due to the amount and type of positions to be sold. Withdrawals may negatively impact the SMA's performance.

Writing and buying options are speculative activities and entail investment exposures that are greater than their cost would suggest, meaning that a small investment in an option could have a substantial impact on performance. The use of call and put options can lead to losses because of adverse movements in the price or value of the underlying stock, index, or other asset, which may be magnified by certain features of the options. These risks are heightened when options are used to enhance a client's return or as a substitute for a position or security. When selling a call or put option, a client will receive a premium; however, this premium may not be enough to offset a loss incurred by the client if the price of the underlying asset is above or below, the strike price, respectively, by an amount equal to or greater than the premium. The value of an option may be adversely affected if the market for the option becomes less liquid or smaller and will be affected by changes in the value or yield of the option's underlying asset, an increase in interest rates, a change in the actual or perceived volatility of the stock market or the underlying asset and the remaining time to expiration.

Writing a call or put option can lead to an assignment upon an exercise of a call or put option. In the case of a short call, an assignment can lead to a forced sale of the underlying security being held as collateral. Being short a put can lead to a forced purchase of the underlying security for which additional capital may have to be contributed by the account holder (i.e., "margin call"). Such involuntary sale and purchase transaction may occur at inopportune market times, which could result in losses to an account.

In the case of an option purchase (long call or long put), a client's entire initial investment of premium can be lost. In the case of a covered option short sale (short call or short put), upside gains can be limited by the sale of a short call against an underlying stock position and a forced purchase of stock can occur in the case of a short cash covered put sale. In the case of a naked call or put sale (a call with no underlying stock position and a put with no cash to cover the possibility of a forced stock purchase) there is the risk of unlimited loss in the call position and substantial loss in the put position.

Options trading is not appropriate for all investors. Please refer to Characteristics and Risks of Standardized Options, also known as the options disclosure document (ODD), which discusses potential risks of options issued by the Options Clearing Corporation (OCC), which are typically listed on an exchange. **Visit https://www.theocc.com/Company-Information/Documents-and-Archives/Options-Disclosure-Document.**

Scan to View

Options Disclosure Document

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

Kevin Erndl is the portfolio manager for the first Trust Advisors L.P. custom options investment strategies. Mr. Erndl is also registered with an unaffiliated investment advisor, CWA Asset Management Group, LLC ("CWA"). Mr. Erndl is allowed to remain an investment adviser representative with CWA in order to service his current CWA client accounts ("CWA clients") during a transition through the end of 2025 ("transition period"). Mr. Erndl receives compensation from CWA in exchange for providing his CWA clients advisory services through CWA during the transition period. Mr. Erndl will not seek any new CWA clients. In addition, during this transition period, Mr. Erndl's activities, as they relate to his CWA clients, will be limited to providing financial planning and guidance on asset allocation. He will not make any investment decisions on behalf of his CWA clients. The assets of Mr. Erndl's CWA clients invested in a custom options investment strategy managed by Mr. Erndl will be deducted from strategy assets under management when calculating advisory fees so that CWA clients will not be charged twice for advisory services.

Definitions

An **option** is a contractual obligation between a buyer and a seller. The buyer of a call option has the right, but not the obligation, to purchase an agreed upon quantity of an underlying asset from the writer (seller) of the option at a predetermined price (the strike price) within a certain window of time (until the option's expiration).

A **premium** is the income received by an investor who sells the option contract to another party.

Tax-loss harvesting can be used in taxable accounts to minimize tax liabilities by strategically selling capital assets that have experienced a capital loss. By realizing these losses, investors can offset capital gains and potentially reduce their overall taxable income.