

StockOpter Professional

By Joel P. Bruckenstein

StockOpter, an MS Excel-based program marketed by Net Worth Strategies Inc. (www.StockOpter.com) of Bend, Ore., has carved a niche for itself catering to financial advisors and CPAs who offer High Value Stock Option Planning (HVSOP) to middle- and upper-level corporate executives. While the program always has been capable of illustrating a single client's current situation very well, it had some weaknesses with regard to planning for the future, as well as some serious usability issues. A beta version of StockOpter Professional, a major upgrade of StockOpter version 2.53, corrects many of the program's most glaring weaknesses and firmly re-establishes the program's position as the leading comprehensive employee stock option planning tool on the market today.

Improved Navigation

StockOpter's improved navigation is readily apparent as soon as the program is launched. The old welcome screen, which contained little more than a link to the guided entry function, now contains six useful buttons. They are:

1. "New Client Case" button. This is the starting point for experienced StockOpter users. It takes you to the assumptions page and launches the assumptions wizard.
2. Guided Entry. It's similar to the way the previous versions worked. A second window opens at the bottom of the page with instructional text to guide data entry.
3. Tour. Just what it sounds like. Second window opens with explanatory text, and sample data is loaded.
4. Load Sample Data. Loads sample data without the tour.
5. Users Guide. Launches MS Word and opens the users guide
6. Overview. A quick explanation of the program's key features. An enhanced version of the Quick Start Guide included with previous versions.

Goal-Based Strategies

StockOpter has always included a strategies wizard that lets the user apply an exercise strategy across multiple grants, but the strategies included with the program were primarily geared to maximizing the terminal value of the options grants (assuming level, straight line appreciation of the underlying stock), minimizing taxes, or a combination of the two. There was no quick and easy way to illustrate and implement the type of goal-based diversification strategies that many financial advisors routinely recommend. StockOpter Professional remedies this situation with the "Goal-Based Strategies" tab. Goals can be expressed in either dollar or percentage terms, and a range of years can be specified to implement a strategy. The dollar goal allows advisors to specify a required after-tax cash flow. StockOpter will then

Financial Advisor Magazine

October 2002

execute the strategy by first selling stock and then exercising and selling options to meet the goal. As an alternative, advisors can use the Diversify % tab to set a minimum portfolio diversification target percentage. In either case, a configure tab allows the advisor to specify whether to sell high- or low-cost basis stock first. The advisor can also specify the order in which grants are acted upon to meet a goal.

Improved AMT Problem Solving

One common function users have always performed with StockOpter is what the company calls an "AMT Limit Strategy." Under this strategy, the planner solves for the maximum amount of Incentive Stock Options (ISOs) that can be exercised without triggering the Alternative Minimum Tax (AMT). In previous versions of StockOpter, this was done through the use of the MS Excel Goal Seek function. The process worked, but it was not particularly intuitive, especially for those who are not at least intermediate MS Excel users.

StockOpter Professional replaces the Goal Seek methodology with a quick, one-button alternative located under the "Goal-Based Strategies" tab. Now, when users instruct the program to execute a goal-based strategy, they are asked whether they wish to exercise ISOs to the AMT limit afterwards. Not only does the new method save time, it decreases the chance of errors when solving for the AMT limit.

Multiple Companies, Multiple Clients

Earlier versions of StockOpter assumed that only one company was issuing employee stock options to a client, even though it is possible that a client could be receiving grants from multiple corporations. Another limitation was that only one spouse's options could be modeled per case. StockOpter Professional does away with these limitations. Professional is capable of modeling multiple grants from multiple corporations for both spouses. An add/edit corporation wizard helps with multiple corporation set-ups.

The new Early Departure Strategy simplifies modeling the effects of an early retirement or other departure situation. This strategy eliminates the vesting schedule for future years and adjusts the number of unvested options accordingly.

Pre-Programmed Vesting Schedules

StockOpter Pro cuts down data entry time by including a number of the most common option vesting schedules, which can be entered with a single mouse click.

Improved Indexing of Investment Account

For modeling purposes, whenever options are exercised and the stock is sold, the proceeds go into a diversified portfolio called the "investment account." In StockOpter version 2.53, the advisor sets the rate of return for the investment account on the assumption page, and it's carried through to every year of every case for a particular client. Advisors can now set investment parameters on a per case and/or per year basis. Dividends, capital gains and

Financial Advisor Magazine

October 2002

appreciation are now accounted for individually, affording financial advisors greater flexibility in their models.

New Reporter

Using the new reporter feature, advisors can design custom report templates that draw information from client workbooks. The program includes two preformatted templates: a Diversification report and an Implementation Report.

One "Improvement" To Do Without

According to Net Worth Strategies, "To clarify confusion about the license agreement that accompanies StockOpter Pro, we have implemented a 'compliance' tab that is the initial view when a new StockOpter Pro workbook is generated." Personally, I found this feature a major pain with no benefit to the user or Net Worth Strategies Inc. If users are going to ignore the agreement, this tab is not going to change their behavior, but all honest users who are in compliance with the agreement will incur a time penalty. Imagine the time you would waste each day if you had to go through a screen like this every time you launched a program on your desktop. Hopefully, this foolish idea will not make its way into the production version.

Net Worth Strategies Inc. has taken a good product and made it much better. StockOpter Professional is capable of producing better financial models in less time when compared to version 2.53. It still requires a fair amount of practice and knowledge to master, but that's largely due to the complex nature of the subject matter.

There is still room for improvement on a few fronts, however. I'd like to see future versions include some sort of probability analysis. We all know how sensitive options planning is to small movements in the price of the underlying shares, but clients don't necessarily understand this critical fact. Yes, you can model multiple cases now with different price assumptions, but clients often underestimate the probability of negative stock returns at the company for whom they work. Probability analysis might be a better way to educate clients.

The new report templates are good, and we'd like to see more of them. Hopefully, as users offer their feedback, the company will see fit to expand their template offerings.

Other than the above, there's not a lot to criticize. If you need to perform detailed, year-by-year analysis of competing options exercise strategies, StockOpter Professional is the software package to buy.

Joel P. Bruckenstein, CFP, is co-author of the book *Virtual Office Tools for the High-Margin Practice: How Client-Centered Financial Advisers Can Cut Paperwork, Overhead, and Wasted Hours*. Visit www.virtualofficetools.net for ordering information.