

## Title:

### Wavemakers: Jay Pestrichelli On Options & Single Stock ETFs

**Snippet:** ETF Think Tank's Head of Research Cinthia Murphy hosts a series about innovation, disruption and entrepreneurship in the ETF industry told first-hand by those who are leading the effort: ETF providers.

## Transcript with summary intro:

### Wavemakers: Jay Pestrichelli at Zega Financial

*The ETF industry has been in the business of disrupting and improving investor outcomes for 30 years. ETF issuers sit on the frontline of this innovation. Here they share the choices, the pivotal moments, the lessons and the battle scars that make up their journey into an industry that has democratized and revolutionized market access for investors everywhere.*

*Our guest this week is Jay Pestrichelli, co-founder and CEO of Zega Financial.*

*In this episode, Jay tells us that ETFs have made delivering value easier to a broader audience:*

- *Advisors are in the business of transacting in trust, which requires 'old world' discipline and a focus on relationship building and client service.*
- *The ETF wrapper has allowed Zega to democratize access to its unique expertise in options trading, as well as scale and streamline its business, but differentiation is key.*
- *The era of single stock options-based ETFs is just starting with much more product development and advisor adoption to come.*

**Cinthia Murphy: Hi Jay. Let's talk about Zega Financial. You talk a lot about the importance of risk management - the importance of hedging and the value of old world discipline. What does that mean in today's market context?**

**Jay Pestrichelli:** As an advisor, we are in the business of trust, and building and keeping that trust with our clients, whether it's an ETF client or a wealth management client, is really important to us. Our clients need to know that even though we're trading more complicated vehicles like options, that we're still going to stick to core principles of understanding the client's needs, communicating, being transparent, being there for them when things are inevitably not going so great, but also being there to celebrate the wins.

It's really about relationship building and how we can help them achieve their goals, which is a little different than what happens in some experiences today – no-touch service, do-it-yourself, do everything from an app on your phone. That doesn't really appeal to everybody all the time, especially folks that are looking for a trusted advisor.

So, when we talk about old world discipline, that's what we talk about. We talk about using a measured hand when we're investing - measuring risk, meeting client goals, but doing in a way where there's a focus on the relationship.

**Murphy: What's interesting about that we are always talking about the idea that financial advice and the role of the advisor is constantly being reinvented. And yet, the core principles are always the same. The tech may change the job a bit, but the value doesn't change. As an advisor, you are behind two families of ETFs, Zega ETFs and YieldMax ETFs. How has the ETF wrapper enabled you to share your expertise and deliver value?**

**Pestrichelli:** The ETF wrapper is such a matter of convenience for the end client. It removes things like high minimums that might be associated with an option strategy. We've been running individual option strategies for clients in individual accounts since 2010, and there are some constraints when it comes to using options. As you know, Zega is primarily an options-based advisor.

Every one of our strategies that we manage has some component of options in them. As such, there's additional disclosures and approvals and separate accounts that must be opened up. That was the universe we lived in up until a few years ago, but now with the advancement of ETFs, it's so much easier to deliver those strategies, and you don't have to be a high net worth client to have access to professional option management. You can buy an ETF for \$20 a share and get the experience of an investor who might come to us that has a large concentrated position and we're going to hedge it or we're going to sell options over it for income. ETFs help bring sophisticated, active management strategies to everyday investors, which is what Zega is about.

We wrote a book in 2010 called "Buy and Hedge: The 5 Iron Rules for Investing Over the Long Term" and it was meant to be a 'how to' book for the do-it-yourself options trader. But ETFs are now such a better vehicle to give that. You don't have to do it yourself.

**Murphy: Have ETFs brought any benefits to the business side of being an advisor? Like the ability to reach a broader audience or to scale, what comes to mind?**

**Pestrichelli:** From a business perspective, yes, it's better distribution, it's better adaptability. You don't have to go and sell every one of the accounts that you're bringing in. It's still important to communicate with the community that's using your funds. I communicate with YieldMax clients almost every day. It's one of those things where you can still be that trusted advisor, but using the ETF as a means of adoption.

Now, when it comes to Zega's business, yes, there's two things that I've found to help you be successful in this business. It's having a product that's differentiated and meets your client needs. So, it's product first. Second, it's awareness and distribution. The ETF allows you to check both of those boxes when you can create awareness around the product. You may be putting out the greatest ETF in the world, but if nobody knows about it, it won't matter.

**Murphy: How did you first get into the world of ETFs?**

**Pestrichelli:** There was some adoption and an advancement of regulations where it became easier to run option strategies that wouldn't really be possible 10 years ago. The advent of FLEX options and weekly options and things like that now make it possible to bring the nuances that we could run in a separately managed account or even in a hedge fund to ETFs. The industry has advanced from a product side, but also from the regulation side.

Take the YieldMax ETF family, for example. Having single stock ETFs whether it's over an individual stock or other ETFs where you can use options to create a very focused set of exposure and still meet all of the ETF guidelines is definitely new. I think we'll continue to see more advancement in this space.

The advancement of the both the industry, the options space, as well as regulators, all of those things are making it easier to get into the ETF business. As a money manager, you don't have to do all the hard things in a separately managed account any longer; you can do it in an ETF, which is great.

**Murphy: It's really cool how far we've come in the past 30 years from the original S&P 500 portfolio. It feeds the idea that ETFs aren't just an investment product, it's also a service where you can wrap different strategies for access.**

**Pestrichelli:** I like the idea of ETFs as a service, because, for me, to run some of these strategies for an individual, they would have to write some different agreements. They'd have to sign option agreements with their broker, separate accounts, disclosure documents. And then they'd have to figure out, okay, who's, you know, I have additional steps, right? When you can deliver the strategy in a much easier way for the end client, and then they get to choose when they want to enter and exit, it's a better service. But you always want to make sure that people understand the funds they're getting into. So you can provide the service of access with the ETF wrapper, but I still don't think it eliminates the benefit of having someone to talk to when you want to know more information about the ETFs.

**Murphy: Jay, let's do a round of rapid fire. Two questions: What's the toughest part of being in the ETF Business as an advisor and what's your favorite part of being in this business?**

**Pestrichelli:** The toughest part is when nobody knows your fund exists. Like I said, you could put out the greatest strategy in the world that nobody knows about. It's hard to have it distributed, so I think that's the toughest part about the ETF business. It's so competitive right now.

The best part is when an ETF really has some success, you start to create this awareness and it snowballs, and you get to be on great videos like this one. In all honesty, when you have something that strikes a good nerve with the investment community and see the success and how you're helping people. That to me is really the best success of all of this. It's why we're in the business in the first place.

**Murphy: Let's look to the future a little bit. What trends, whether that's in product development or investor adoption, do you find exciting today? What do you have your eye on?**

**Pestrichelli:** Obviously, the single stock ETF boom is just starting. There's definitely a land grab going on where you start to see whether it's leveraged or inverse or option strategies like YieldMax - I think we're going to see a lot more push towards that. It'll be probably similar to the thematic ETF adoption of five years ago where if you wanted to invest in that theme, boom, there's an ETF for that. As we go forward with single stocks, there's so many more individual stocks that you can run strategies for. I think we'll start to see that, and we'll see advisors adopting them. In the past, advisors would say, 'Maybe I don't want to use ETFs because then my clients can just go buy that ETF without me.' But clients still need help, knowing how to allocate to it, knowing when it's time to add to it, when it's time to take that out of the portfolio. That's where an advisor can provide value. I think that might start to be a very interesting dynamic where advisors start to use these ETF that are strategy-based vs. index-based or theme-based ETFs. We'll start to see more and more of that.