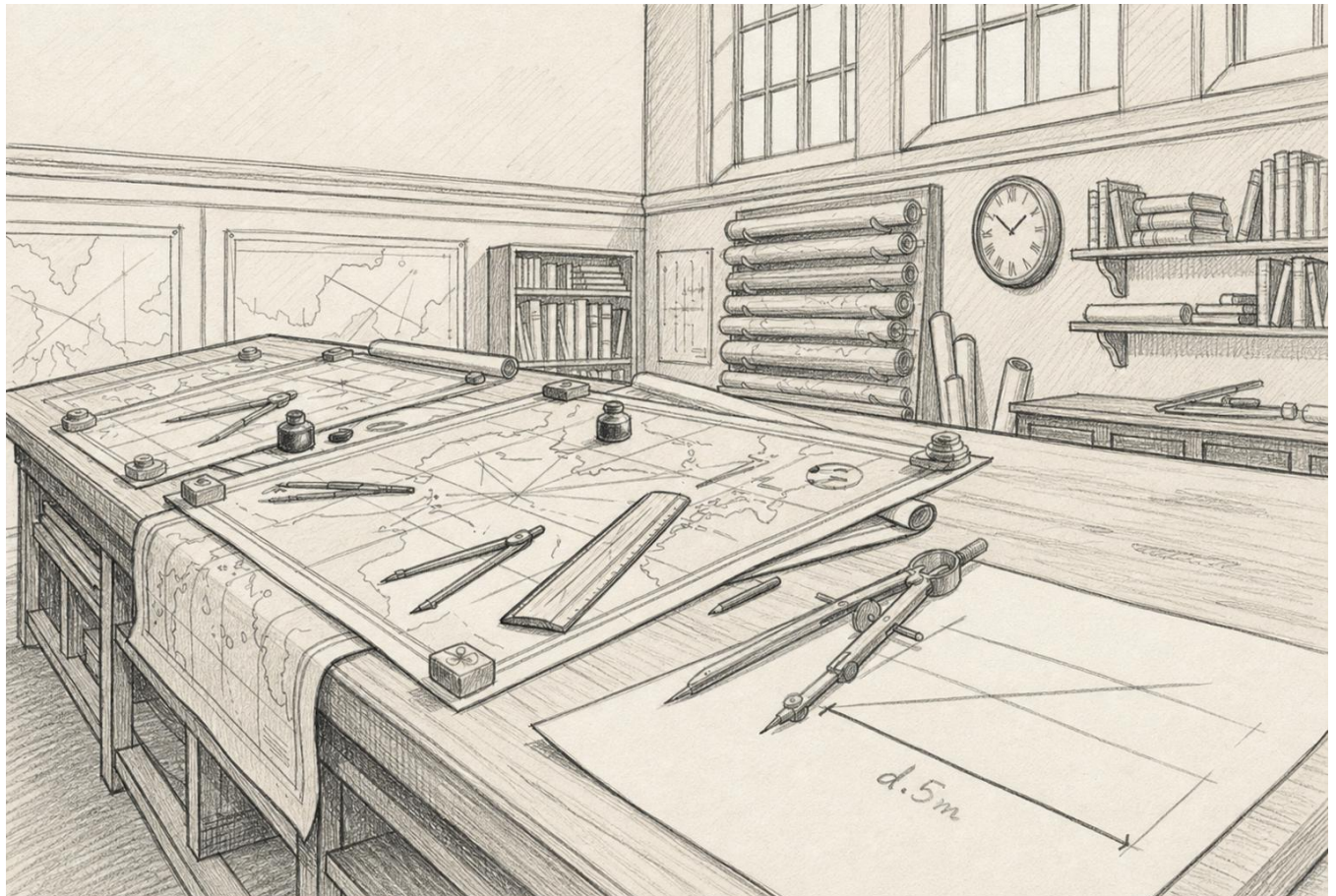


ALTERNATIVE FINANCING

# Portfolio Financing at Institutional Liquidity Rates.

*Options markets price capital at the institutional lending rate. Most investors don't know they can access it.*

*When a bank quotes you a borrowing rate, that rate includes their margin, their overhead, and their approval process. None of that reflects your actual credit risk. For investors with substantial portfolios, there is a structure that bypasses this intermediary entirely and accesses the rate institutions lend to each other, collateralized by your portfolio.*



01 – THE FINANCING GAP

# The Cost of Conventional Borrowing at Scale.

*Hypothetical illustration: financing \$500,000 over three years, a 4-point rate difference represents \$60,000 in additional financing cost.<sup>1</sup>*

The rates at which large financial institutions lend to one another sit close to the Federal Reserve's benchmark rate. The rate at which conventional lenders extend credit to individuals sits materially above that. For most retail borrowers using lines of credit (LOC), that rate is appropriate: it reflects credit risk, underwriting cost, and the lender's margin.

For investors holding substantial investment portfolios, that retail rate is less clearly justified. Using your portfolio as collateral, the credit risk is well-defined and bounded to the portfolio's assets. The spread to market rates charged by conventional lenders is largely structural: a function of their costs of distribution, underwriting, and profit margins. The table below reflects prevailing rates across common borrowing structures as of June 2026.<sup>2</sup>

BOX SPREAD

~4.3%

FIXED 3-5YR  
TERM

PORTFOLIO LOC

~6.1%

VARIABLE RATE &  
TERM

BUSINESS LOAN

~10.0%

VARIABLE RATE &  
TERM

COMPARISON · JUNE 2026

UPDATED RATE COMPARISON AVAILABLE UPON REQUEST

FEATURE	BOX SPREAD	MARGIN (SBLOC)
Rate	~4.0% - 4.5%, fixed	~5.5% - 13%, often variable
Term	1 month to 5 years, set at inception	6 months to 10 years
Variability	No, fixed, financing cost set at inception	Yes, floating, resets with benchmark
Tax	Financing costs tax-deductible	Interest payments non-deductible
Approval & Administrative	No application, CBOE account set-up	Bank approval and credit review

<sup>1</sup>Actual savings will vary based on prevailing rates, term, and size at execution.

<sup>2</sup>Source: Schwab, Fidelity, Interactive Brokers, Bankrate, Lendio / PrimeRates (June 2026). Rates are illustrative midpoints. Actual rates vary by size, term, and timing. Box spread rate reflects typical execution range for qualified portfolios as of June 2026 and is not a guarantee of future availability. SBLOC rates reflect SOFR plus a tiered custodian spread. Current overnight SOFR is approximately 3.63% (Federal Reserve Bank of New York, June 3, 2026). Fidelity SBLOC rate reflects SOFR (~3.63% as of June 3, 2026, per NY Fed) plus a custodian spread of approximately 1.90%–3.10% (Fidelity) or 1.90%–4.40% (Schwab), producing an all-in rate consistent with the ~6.1% shown. SBLOCs are variable-rate demand loans; rate moves with SOFR and lender may call the line. Sources: NY Fed SOFR reference rate; Fidelity SBLOC disclosures; Schwab Pledged Asset Line disclosures; FINRA.



## 02 – THE MECHANISM

## How Box Spread Financing Works.

*The strategy uses the listed options market as the financing vehicle, the rate it produces reflects what institutions pay rather than what banks charge.*

### HOW IT WORKS

A box spread is a specific four-leg options position on a broad-based index such as the S&P 500 that synthetically replicates a fixed-rate loan. The structure consists of a bull call spread and a bear put spread at the same strike prices and expiration. Because the payoff at expiration is perfectly defined, the only variable the market prices at inception is the cost of time passing: the implicit interest rate. That rate reflects the cost of lending between institutions rather than a conventional lender's retail margin. Once set, it cannot be repriced, reset, or modified. The investor's relationship is with the market at execution, not with a lender managing their risk and relationship throughout the term.

For investors familiar with bridge financing in commercial real estate, the economic structure is comparable: a fixed-rate, fixed-term obligation secured by an asset, with settlement on a predetermined date. The distinction is the pricing mechanism. A bank prices a bridge loan at its retail rate. The options market prices a box spread at the institutional borrowing rate, with no intermediary extracting a spread.

### PRACTICAL APPLICATION

The clients for whom this structure is most relevant are those with a near-term liquidity need that does not warrant selling investments: a real estate closing, a business acquisition, a bridge between a liquidity event and its close, or a tax-efficient alternative to a distribution. The strategy preserves the portfolio's compounding potential, eliminates a taxable event, and accesses capital at a cost unavailable through conventional channels.

### THREE STEPS

#### 01

##### PROCEEDS POST TO THE ACCOUNT

Lakewood executes the strategy and proceeds settle to the client's Schwab account within the standard settlement cycle. The funds are available for any purpose.

#### 02

##### THE RATE IS FIXED AT EXECUTION

The financing cost is locked the moment the trade is executed. It does not change with Federal Reserve policy, benchmark rates, or market conditions during the term.

#### 03

##### OBLIGATION SETTLES AUTOMATICALLY

On the date established at outset, the position clears through the clearinghouse. If the financing need extends, the position can be rolled forward without requalifying.



## 03 – THREE APPLICATIONS

## When Box Spread Financing is the Right Solution.

*The financing gap is most consequential when the alternative to borrowing is selling an appreciated position, missing a time-sensitive opportunity, or drawing on liquid reserves.*

This solution is not universally appropriate. It is most effective in a specific circumstance: the investor has a near-term, defined liquidity need, a well-diversified portfolio to serve as collateral, and a preference for preserving the portfolio's compounding potential. What follows are the three situations where the structure creates the most measurable difference.

### 01 / LIQUIDITY BRIDGE

A business sale, real estate closing, or private equity distribution is pending but has not yet settled. The investor needs capital now and will have the proceeds to repay within a defined window.

#### OUR APPROACH

When timing is the constraint, the financing structure has to match it. A box spread executes and settles within the standard cycle, with proceeds available immediately. The capital is there when the closing requires it. The portfolio stays intact until it does not need to be.

## BRIDGE CAPITAL

No liquidation required

### 02 / TAX-EFFICIENT ALTERNATIVE TO DISTRIBUTION

A concentrated or appreciated portfolio has accumulated enough gains that selling to raise cash would trigger a significant tax event. Borrowing against the portfolio preserves the cost basis and defers the gain.

#### OUR APPROACH

The decision is not about borrowing, it is about the cost of accessing your own capital. Selling an appreciated position to raise cash converts a paper gain into a taxable event. Borrowing against the same position preserves the cost basis, keeps the compounding potential, and produces a financing cost that, under Section 1256 mark-to-market treatment, accrues as a deductible capital loss rather than an after-tax cash outflow.

## PRESERVE BASIS

Defer the taxable event

### 03 / CAPITAL DEPLOYMENT WITH TAX OFFSET

An investor deploying capital into a business, real estate, or other opportunity wants a cost-efficient solution. The Section 1256 capital losses generated annually can be used against existing capital gains in the same year.

#### OUR APPROACH

The financing rate is the starting point, not the ending point. When a box spread is executed on a broad-based index option, the borrowing cost accrues annually as a Section 1256 capital loss under mark-to-market rules. For an investor with capital gains in the same year, that loss offsets dollar for dollar.

## OFFSET GAINS

Borrowing cost is deductible



## 04 – IMPLEMENTATION

## Execution Diligence.

*The gap between understanding the strategy and being equipped to execute and manage it well is significant. Lakewood implements these positions directly in client portfolios. No third-party wrapper.*

A box spread must be executed diligently: the strike prices, expiration date, and sizing must all align to produce the desired financing term and rate. Lakewood's partners have executed complex options structures on institutional equity derivatives trading desks and at financial advisory firms for over 15 years. That background is the distinction.

This capability sits inside Lakewood's standard advisory relationship at no incremental fee. The only cost to the client is what the options market prices at execution: the difference between what the investor receives and what the investor repays at maturity. There is no advisory markup, no product wrapper, and no additional management fee.

### LAKEWOOD'S CAPABILITY

## 01

## DERIVATIVES PRACTITIONERS

All three Lakewood partners built their careers in institutional equity derivatives. This is not a strategy the firm learned from a third party. Expertise is foundational, not supplemental.

## 02

## EXECUTED IN-HOUSE

No intermediary between the client and the market. Lakewood executes, sizes, and monitors the position directly within the client's Schwab account, with full transparency.

## 03

## NO INCREMENTAL FEE

This capability is included within Lakewood's standard advisory relationship. The only cost to the client is what the options market prices at execution. There is no separate charge.

### CPA COORDINATION

Lakewood coordinates the financing and tax decision simultaneously. The determination of whether a box spread is the right solution for a given liquidity need is not a standalone investment question. It depends on the investor's existing capital gains position, their marginal rate on ordinary income, their carryforward loss balance, and their broader tax planning calendar. These variables rely on coordination with a client's tax advisor.

Lakewood coordinates directly with a client's accountant and tax advisor before any position is established. We deliver annual reporting according to the timeline required by the client's tax advisor. We join tax planning calls alongside the CPA. The goal is for the financing architecture and the tax plan to be built together, not reconciled after the fact. For clients approaching a liquidity event, that coordination is where the strategy's full value is captured.



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## A Rigorous Look at Both Sides.

*A complete picture of this strategy compared to traditional bank lending, and how we manage it.*

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Below is a complete accounting of the attributes and constraints of implementing box spread financing.

### ATTRIBUTES

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- Typically, among the lowest available borrowing costs for a qualified investment portfolio
- Rate is fixed at execution and cannot change during the term
- No credit application, bank approval, or lender relationship required
- No monthly payment obligation; financing cost settles at maturity
- Preserves the portfolio's compounding potential and avoids a taxable liquidation event
- Capital losses from borrowing cost deductible annually under Section 1256 mark-to-market rules

### CONSTRAINTS

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- Requires an options-approved brokerage account and CBOE trading account
- Less flexible than a revolving credit facility if plans change mid-term
- A sharp portfolio decline can trigger a collateral maintenance requirement
- Transaction costs and bid/ask spreads apply at execution
- Best suited to sizable, diversified portfolios; minimum effective size applies
- Capital loss from borrowing cost offsets gains only; ordinary income offset limited to \$3,000 per year

### COLLATERAL RISK<sup>3</sup>

A 30% portfolio decline during the financing term, comparable to the drawdown observed in the first quarter of 2020, would reduce the collateral value securing the position. Depending on the outstanding loan-to-value, additional collateral could be required. Lakewood sizes these positions conservatively relative to total portfolio value, monitors collateral levels on an ongoing basis, and structures each position within a comprehensive plan.

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<sup>3</sup>Collateral requirement based on hypothetical 30% portfolio decline scenario for illustrative purposes. Actual margin requirements vary by portfolio composition and broker policy. Lakewood monitors collateral levels on an ongoing basis.



## Section 1256, Explained.

*Box spread financing is not simply a cheaper financing rate. When executed on broad-based index options, the tax treatment under IRC Section 1256 changes the economics in ways a conventional borrowing rate does not capture.*

When a box spread is executed on a broad-based index option such as the S&P 500 or Nasdaq 100, it is generally classified as a Section 1256 contract. That classification triggers two distinct tax rules that distinguish it from every other form of borrowing an investor might use.

### HOW IT WORKS

The first rule is mark-to-market. Unlike a conventional investment that generates a gain or loss only when sold, Section 1256 positions are treated as if closed at fair market value on the last trading day of each tax year. This means the financing cost accrues and becomes deductible annually, even before the position matures.

The second rule is the 60/40 blended rate. Gains and losses on Section 1256 contracts are assessed 60% as long-term and 40% as short-term, regardless of how long the position has been open.

### INTEREST DEDUCTION

With a conventional loan using a portfolio as collateral, the cost of borrowing is paid as interest and may be deductible depending on how the proceeds are used. With a box spread, the borrowing cost is tax deductible. The investor receives cash immediately and pays back a higher fixed amount at expiration. That difference is the financing cost, and under Section 1256, it accrues as a capital loss in the options account rather than an interest expense.

The practical consequence: the borrowing cost may be deducted annually, even though the actual repayment does not occur until maturity. For investors with existing capital gains, this is a direct offset. For investors without offsetting capital gains in a given year, up to \$3,000 may offset ordinary income, with the remainder carrying forward to future tax years.<sup>4</sup>

### IMPORTANT QUALIFICATION

The favorable Section 1256 treatment applies specifically to broad-based index options such as the S&P 500 and Nasdaq 100. Box spreads executed on individual equity options or ETF options may not qualify, and different holding-period rules, wash-sale considerations, and tax treatment could apply. State tax laws also vary in how they treat Section 1256 capital gains and losses. The architecture Lakewood uses is designed specifically around S&P 500-listed contracts to preserve the federal tax treatment.<sup>5</sup> All tax implications should be reviewed with a qualified tax advisor before any position is established.

<sup>4</sup>IRC Section 1256 treatment applies to broad-based index options including SPX and NDX. Single-stock or ETF options may not qualify. Tax outcomes described are illustrative and depend on individual facts, timing, and circumstances. The 60/40 rule applies regardless of holding period. Consult a qualified tax advisor before establishing a synthetic loan structure.

<sup>5</sup>All box spread positions described in this document are implemented on SPX (S&P 500 Index) options, which qualify as broad-based index contracts under IRC Section 1256. Individual client positions are confirmed with a qualified tax advisor prior to execution.



TAX SUMMARY<sup>6</sup>

TAX FEATURE	DETAIL
Classification	Section 1256 contracts (broad-based index options such as the S&P 500)
60/40 Rule	60% of gains and losses treated as long-term, 40% short-term, regardless of holding period
Borrowing cost character	The "interest" paid on a box spread is realized as a capital loss, not an interest expense
Annual deductibility	Capital losses can be deducted annually, even before the position matures
Usage limitation	Capital losses offset capital gains; up to \$3,000 per year may offset ordinary income
Carryforward	Unused losses carry forward to future tax years indefinitely
Index Requirement	Favorable treatment applies to broad-based index options only; single-stock or ETF options may not qualify
State Tax	State tax treatment varies, federal standardization does not automatically apply at the state level

<sup>6</sup>Capital losses generated by box spread financing offset capital gains dollar for dollar. Up to \$3,000 per year may offset ordinary income. Unused losses carry forward indefinitely. State tax treatment varies. This information is illustrative and does not constitute tax advice. Source: IRS Publication 550; IRC Section 1256.



## The Partners.

### THE NEXT STEP

If you are nearing a liquidity need or want to evaluate whether box spreads are the best solution for your situation, this is the time to have a discussion. We are currently having this conversation with clients and their advisors. We are ready to have it with you.

[www.lakewoodfg.com](http://www.lakewoodfg.com) · (724) 989-2142 · [kline@lakewoodfg.com](mailto:kline@lakewoodfg.com)

### FIDUCIARY OVERSIGHT

Fee-only. No commissions. Every recommendation is evaluated on its after-tax merit to your situation.

### REGULATORY FRAMEWORK - MANAGED WITHIN THE STRATEGIES

Box spread financing involves options margin positions. Under IRC Section 1259, certain structured positions can trigger constructive sale treatment on underlying appreciated securities if configured improperly. Lakewood structures these positions specifically to avoid that outcome.<sup>7</sup> All positions are executed within the client's Schwab account with full transparency. Clients should review their specific circumstances with a qualified tax advisor prior to implementation.

### LAKEWOOD'S PARTNERS

#### Jon Kline

Managing Partner, Advisory  
Former Executive Director,  
JPMorgan Equity Derivatives  
Carnegie Mellon, BS Finance  
[kline@lakewoodfg.com](mailto:kline@lakewoodfg.com)

#### Panos Grivakis

Managing Partner, Advisory  
Former Executive Director,  
JPMorgan Equity Derivatives  
Michigan State, BA Finance  
[panos@lakewoodfg.com](mailto:panos@lakewoodfg.com)

#### Alex Lippitt, CFA

Managing Partner, Portfolio Management  
Former Derivatives Trader,  
Transamerica Multi-Asset Trading  
University of Chicago, MS Financial Mathematics  
[alippitt@lakewoodfg.com](mailto:alippitt@lakewoodfg.com)

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<sup>7</sup>IRC Section 1259 provides that certain offsetting positions in appreciated financial positions may be treated as constructive sales, triggering immediate gain recognition. Lakewood structures box spread positions specifically to avoid constructive sale treatment by ensuring the options positions do not constitute substantially all of the risk of loss and opportunity for gain in the underlying portfolio. Clients should confirm the application of Section 1259 to their specific holdings and circumstances with a qualified tax advisor prior to implementation.



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