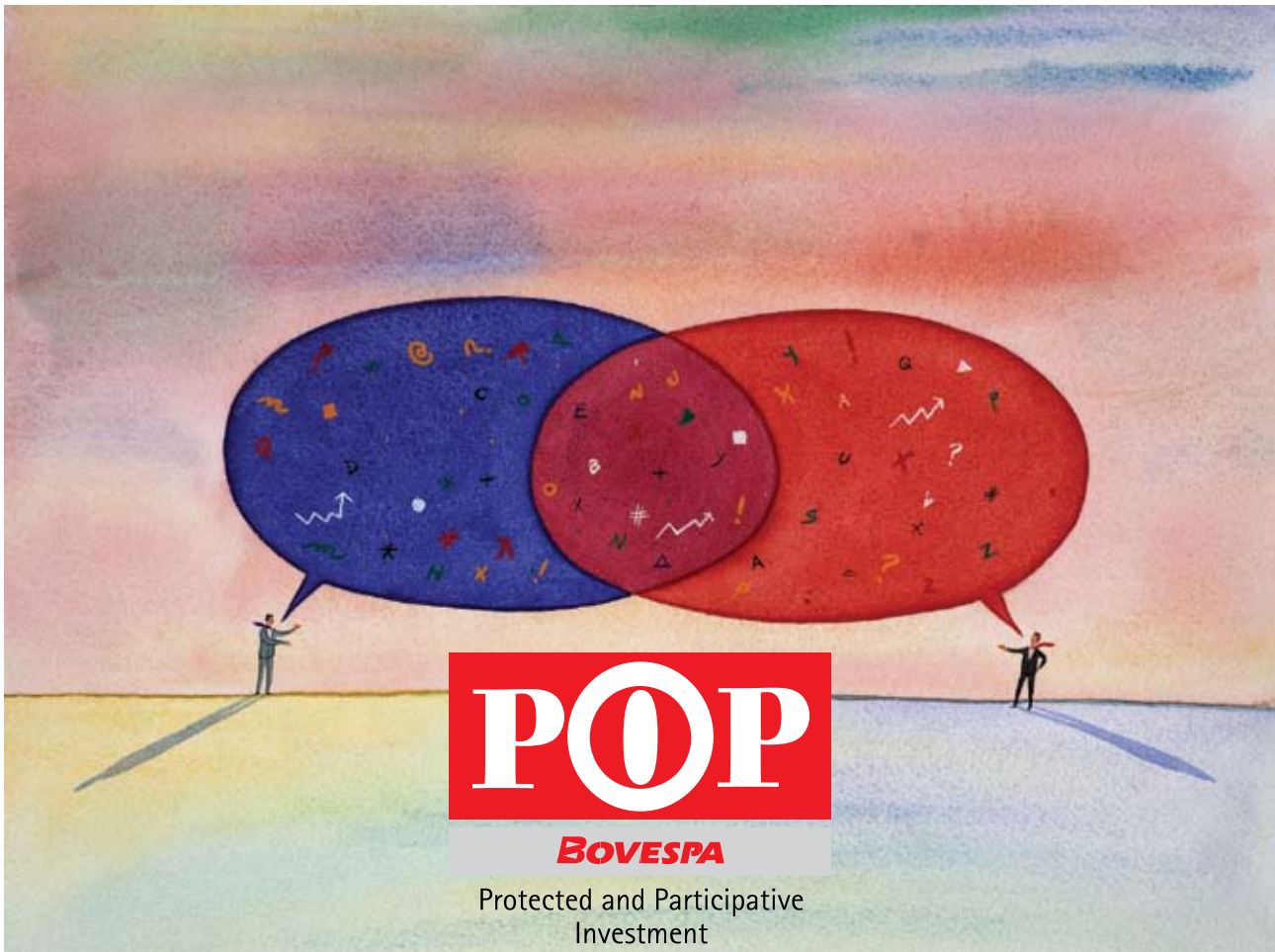


# Learn about this new way to invest in the stock market





# POP BOVESPA

## YOU CAN'T GO WRONG

Today, the São Paulo Stock Exchange - BOVESPA is the only stock trading center in Brazil and the largest stock exchange in Latin America. It is a democratic exchange and investors of all sizes can participate, regardless of whether they are large-scale institutions or people like you, an individual investor.

One of the main purposes of BOVESPA and its Brokerage Member Firms has been to offer a broader range of products and services that have been customized to suit the Brazilian investor profile. BOVESPA is committed to and concerned about enabling the needs of these investors to build up long-term assets, based on their broader understanding of the stock market.

Therefore, after a detailed description of the variable income, fixed income, derivative, indexed fund and other investment products available, BOVESPA has created POP, which combines the protection much desired by individual investors with the attractive possibilities of earning profits offered by the stock market.

Learn more about this new investment by reading the following Questions and Answers section and learn how you can also be POP.



## What is POP?

Protected and Participative Investment, or POP for short, is a variable income product traded on the São Paulo Stock Exchange - BOVESPA, which affords certain protection against any losses (devaluation) on investments in stocks in exchange for sharing in the potential earnings of these investments. This is achieved on the basis of a combination of investments in stocks and in their derivative products.

## Why POP?

Because as we will see later on, you can increase protection of your investment or profit sharing of this investment and because this product is one more step provided by BOVESPA toward democratization and popularization of the Brazilian capitals market.



## Is POP a stock?

No. It is more than a stock; it is a combination of three financial instruments. POP is made up of a certain stock (1) on the cash market and its corresponding call option (2) and put option (3) on the options market. All of this is combined (1+2+3) in the appropriate quantities and proportions to simplify the life of the investor, who does not need a specialist to devise an investment protection strategy for earnings. BOVESPA has already done this for you by creating this new product, but even better, you only need to place one single order or instruction to purchase or sell it on the market.

## What are the cash market and the options market?

The cash market encompasses the purchase or sale of a given number of stocks at a price that has been determined on the trading session, while the options market includes that segment of the market in which the rights to buy or sell a stock lot are negotiated at predetermined prices and exercise terms. These rights – the options – may be used to help offset the risk of the investment made on the cash market. This is exactly what POP does; it is straightforward and simplifies the life of the investor.

## What can I do to understand how POP works?

It is all quite simple. Imagine that you want to invest your savings in a small business that yields good profits but that one could also result in some

losses. Since you cannot afford to lose all your savings, you generally tend to avoid investing in this new business. Now imagine that you have found a partner who can guarantee that a certain amount will be returned to you even if the new business does not work out. In exchange, you will give this partner a percentage of the profits if the business is successful. The new partner has thus taken care of your risk of loss in this small business.

POP has created a similar situation for the stock market investor.

### **How does it work exactly?**

Imagine that the investment in a given stock is a “new business” that can yield good profits but could also result in some losses. If you want to protect this investment against loss, you can find a counterpart or “partner” in the market who will sell you a POP. By buying a POP, you will be:

- First of all, buying a stock and enjoying its appreciation benefits, i.e., the “profits” from the “new business;”
- Secondly, you are also purchasing the option to sell the stock, which assures you a return of a certain amount, in the event that the stock does not provide the expected yield. This works as a type of “insurance” in the event that the “new business” does not work out;
- In third place you can sell the option to buy a portion of your investment in the stock which will assure your “partner” a share in the ap-



preciation of the stock. In other words you will be selling a share in the “profits” of the “new business.”

All of this has been organized in a very simple way by BOVESPA and provides guaranteed settlement by the CBLC - The Brazilian Clearing and Depository Corporation and you do not even have to know or choose this “partner.”

### **How does POP work in terms of numbers?**

Once again this is very simple. Suppose that stock X is quoted at R\$ 50.00 and that there is a POP on BOVESPA of this stock with capital protection of R\$ 45.00; 80% buyer percentage share and a term of six months. Also suppose that you bought 1,000 units of this POP at R\$ 49.00 per unit.

Therefore you have invested R\$ 49,000.00. In this event, you: a) bought 1,000 shares of X; b) you bought 1,000 put options of X; c) you sold 200 call options of stock X and the options have an exercise price of R\$ 45.00.

Imagine now two hypothetical situations on the maturity date of this POP, six months later:

- Stock X is quoted at R\$ 30.00. That is to say that it did not turn in appreciation initially expected (the “new business” did not work out). In this event you will get back the value of your protected capital, i.e., R\$ 45,000.00 ( $45.00 \times 1,000$ );

or

- Stock X is quoted at R\$ 70.00. That is to say that it turned in appreciation (the “new business” was successful). In this event, in addition to your protected capital, you will earn 80% of the yield, in other words will get back R\$ 65,000.00, resulting from  $\{1,000 \times [45.00 + 0.8 \times (70.00 - 45.00)]\}$ .

### **What is the difference between acquiring a POP and buying a stock directly?**

The main difference is the flexibility offered by POP, which is daring in its concept for belonging to the variable income group, and at the same time is a conservative type of investment, based on the fact that the investor can opt for the degree of security that best suits him/her.

Stocks are a variable income type of investment and this implies that the risk of this type of investment is contingent upon the appreciation or depreciation of a company's stock.

POP, although associated with a stock, can afford protection for a certain amount established in exchange for a portion of any profits that may result. This protection does not necessarily imply in additional costs to the investors, since they are the ones who will be relinquishing a certain part of any future profits. This is why, in the event that a stock appreciates sufficiently, the yield on a POP is less than that you would earn if you had exclusively invested in the stock.

### **How can I visually compare the difference between a stock and a POP?**

To visually compare the difference between investing in a stock and a POP of the same stock, access the English version of the website [www.bovespa.com.br/pop](http://www.bovespa.com.br/pop).

You will find a POP x Stock Simulator there - Investment Comparison. It is the most practical way to understand how POP works.

### **Where do I get a POP?**

In order to participate in POP, you should seek the advice from one of BOVESPA Brokerage Firms. A POP may only be acquired by investors who sign a contract with their Brokerage Member Firms to trade on the options market.

The Brokerage Members can help you choose the best investment options that are most in line with your investor profile. By accessing the English version of the website [www.bovespa.com.br/pop](http://www.bovespa.com.br/pop), you can check the list of BOVESPA Brokerage Members.

### **What if I need to redeem my POP before its maturity?**

This is a commonplace operation. A POP, just like stocks is an asset that can be bought or sold at any time in any amount (in compliance with the minimum trading lots). If you are interested, you just have to give your Brokerage Firm an order to sell and the corresponding amount will be made



available in your bank account. In this event, you will receive the market value of the POP at the time of the sale. You should remember that you will be assured the amount of the protected capital only upon the maturity of the POP.

### **What happens on the maturity date?**

Two things can happen on the POP maturity date:

One of them is that you can receive the protected amount of capital in cash corresponding to the stocks acquired with the POP, in the event that this stock did not appreciate as expected;

The other one is that in the event that a stock has sufficiently appreciated, you can receive in cash the protected amount of capital from that portion of stocks extended to your counterpart (profit sharing) and keep the stocks that remain. However, it should be kept in mind that from then on, you must sell these stocks and purchase a new POP to continue benefiting from POP protection.

Remember that on maturity, your put option must be exercised through your Brokerage Firm and therefore, you must inform it of your decision. Your Brokerage Firm will also assist you in this choice.

### **What do you mean by exercising an option?**

Remember that POP offers protection to your investment, based on a put option of the stocks it contains. Upon maturity, if the stock does not yield the appreciation expected at the onset, you can

choose to receive the amount of your protected capital instead of keeping the stock itself. This choice is referred to as exercising your option, which you must notify to your Brokerage Firm to be executed on the market. Based on this choice, you can sell the stocks contained in POP to your “partner” at the value of the protected capital.

### **Can you give me an example of POP redemption on its maturity?**

It is very simple. Let’s look at what happens in the example provided in the page 5:

If a stock is quoted at R\$ 70.00 (the “new business” was successful), you will receive in cash R\$ 9,000.00 (45.00 x 200) for the stocks extended to your “partner” (its profit sharing) and will keep 800 stocks of company X, which are worth R\$ 56,000.00. All together you will have R\$ 65,000.00;



If a stock is quoted at R\$ 30.00 (the “new business” was not successful) you will receive in cash the amount of your protected capital, i.e., the amount of R\$ 45,000.00.

### **How much does a POP cost?**

The price of a POP will depend on a combination of the amount protected and the yield percentage. However, the price of a POP may be lower or higher than the price of the stock, which is used as a reference. Additionally, POP quotations will depend on their terms, volatility\* of the reference stock and the prevailing market interest rate.

*(\*) Intensity and frequency of asset quote fluctuations, index, note or security.*

### **How can I monitor POP quotations?**

Investors can obtain daily information about POP as well as other assets or instruments traded on the Exchange through their Brokerage Members or the financial sections of newspapers, specialized media programs (radio and TV), news agencies and by accessing the English version of the website [www.bovespa.com.br/pop](http://www.bovespa.com.br/pop).

### **What are the expenses involved in trading POPs?**

The BOVESPA and CBLC rates are the same as the ones used in stock trading on the cash market. Consult your Brokerage Firm regarding the brokerage fees.

## What happens to the dividends paid out by companies?

Whenever you purchase a POP, you are buying the respective stock. Therefore, you are entitled not only to the dividends paid out by the stock issuing company but to all other benefits extended to shareholders as well (interest on shareholders' equity, subscription rights, bonuses, etc.). But you should also remember that these instances the value of the protected capital will be adjusted to reflect these prior earnings.

## What are the advantages of taking part in a POP?

There are number of advantages:

**Protection:** Offers the protection sought-after by conservative or moderate investor profiles, while on the other hand providing profit sharing at a previously acknowledged percentage.

**Liquidity:** Given its mixed composition, POP offers liquidity at any time that can be negotiated as part of the "package" or between the parts. However, your capital will only remain protected if the POP remains unchanged.

**Investment diversification:** POP is an alternative for those people who want to diversify their investments because it includes trading on the cash and options markets. Therefore it reflects an opportunity for the investors to become acquainted with more than one market, besides learning how analyze their course of action in relation to the stock market, expanding trading possibilities and opening the doors to new investment combinations.

**Accessibility:** Investors can invest small amounts than the usually required by complex structures, at lower and convenient prices. It should be kept in mind, however, that POP operations are subject to minimum trading lots. Consult your Brokerage Firm to receive further information, including POP brokerage fees.

**BOVESPA Trading:** POP has been approved for BOVESPA trading and can be bought or sold the same way as any listed stock, i.e., through the intermediation of a Brokerage Firm. The technology, experience and credibility that BOVESPA offers assure transparency of trading operations involving POPs.

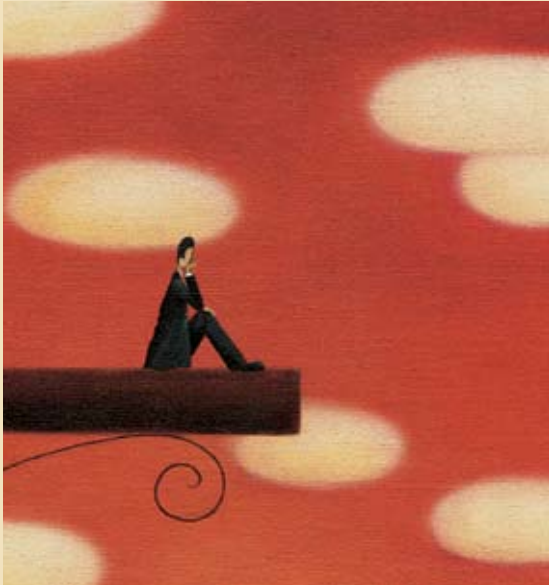
## Is there Income Tax liable on POP?

Yes, you should keep in mind that whenever you buy or sell a POP you are in fact buying and selling its three components (the stock itself and the two options). Therefore, the same regulations that apply to stock and options markets operations also apply to POPs. For further information on this subject access the English version of the website homepage: [www.bovespa.com.br](http://www.bovespa.com.br), and follow the path Investor > Treatment for International Investors.

## What happens if I "break up" a POP?

POP's operations and those involving their risk/return features, as well as protection to the capital, are only valid if it remains unchanged. If you sell or purchase any of the three instruments comprising a POP you will be changing the structure of the product and thereby invalidating the protection your capital affords. Therefore, before "breaking up" a POP and forfeiting your protection, you should consult your Brokerage Firm to examine any risks that might occur.

## BE SURE TO REMEMBER:



The amount you establish as protected capital can be less than the amount invested (the price you paid for the POP).

The amount protected will be assured only until the maturity of the POP. Trading a POP prior to its maturity is conducted at market prices.

At maturity, if the value of the stock is less than the protected capital, you can choose to receive this amount instead of keeping the stock itself. This choice is the exercise of your option to sell the stock which you

should inform to your Brokerage Firm to be executed on the market.

At maturity, if the value of the stock is greater than the protected capital, you can choose whether you want to keep the stock without any protection or acquire a new POP to continue enjoying the protection to your capital. You need to inform this choice to your Brokerage Firm.

POP provides a certain amount of protection to the capital you invest in exchange for a share in any earnings on the stock investment. However, when the stock appreciates sufficiently, the yield on the POP will be less than that you would earn if you had invested exclusively in the stock. This is the cost of the protection afforded by the POP.

Protection to the capital offered by POP is owed to the put option contained in it and not because of the purchase of insurance or other type of guarantee.

Finally, a POP can only be acquired by investors who sign a contract to trade on the options market with their Brokerage Firms. Decide whether a POP matches your investor profile and level of stock market experience. Also assess your objectives for choosing a POP. Consult your Brokerage Firm.



**WOULD YOU LIKE TO LEARN MORE?**  
Clear up any doubts you may have with your  
Brokerage Firm.  
Or, if you would rather, access the English version of  
the website [www.bovespa.com.br/pop](http://www.bovespa.com.br/pop), where you will  
also find the Simulator POP x Stock.

**To invest in the stock market, always consult a BOVESPA  
Brokerage Member.**

### **WARNING**

This text is not an investment recommendation.  
For further understanding we suggest that you read other pamphlets  
published by BOVESPA.  
Talk to your Brokerage Firm, who can help you weigh any potential  
risks and benefits involved in securities trading.  
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This material has been made available for individual investors who have  
a conservative or moderate investor profiles and who wish to learn more  
about stock market investment strategies.  
The contents of this publication are solely for information and promotional  
purposes and do not reflect a public offer extended by BOVESPA or its  
Brokerage Firms.



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